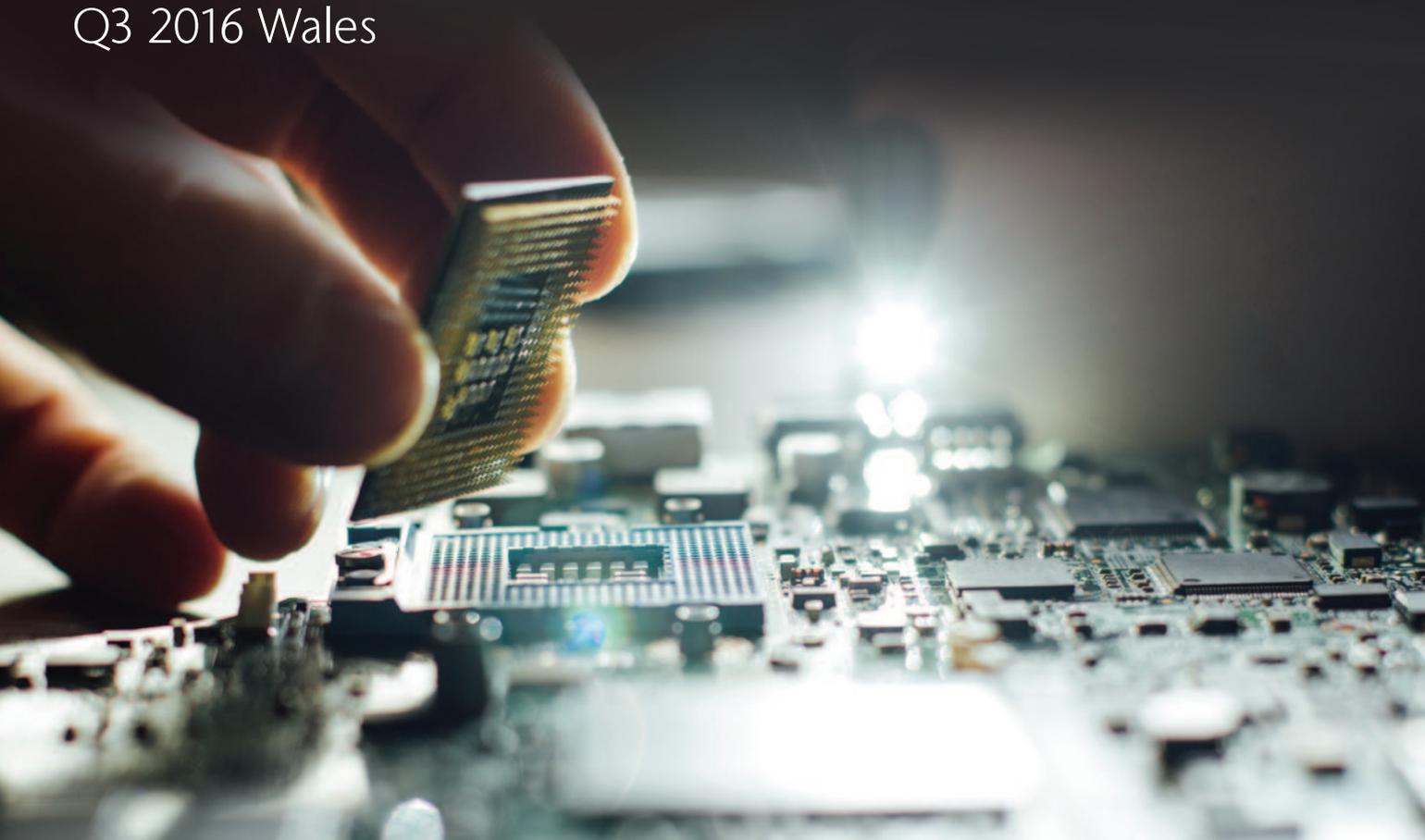




UK Business Confidence Monitor Report

Q3 2016 Wales



Key highlights

In the Q3 2016 ICAEW UK Business Confidence Monitor (BCM), 60 senior business professionals in Wales were interviewed and record a **Confidence Index score of -13.1**. This is the second negative reading in a row and continues the downward trend.

Fig. 1 BCM confidence index trend in Wales



Business confidence in Wales



increasingly negative

Overall sales growth



weak

Capital investment growth



expectations flat

► Key points

Confidence was on a diminishing trend before Brexit and it dropped further in Q3.

Domestic sales growth has been slow throughout 2016, and Q3 2016 export sales growth was the weakest since 2009.

Capital spending growth is predicted to be close to zero over the year ahead, against a backdrop of falling confidence.

Weakness in the economy over the last year impacting on investment plans

The ICAEW Business Confidence Index for the region dropped further to -13.1 in Q3 2016, after turning negative last quarter. Although the EU referendum decision will doubtless have played a role in pushing confidence further down in the current quarter, the underlying trend was already evident.

This can be partly explained by sluggish sales growth in Wales over the last 12 months. Domestic sales increased by 2.7% year on year in Q3 2016 and, more generally, the pace throughout this year has been slower than was the case at any time during 2015. Export growth is particularly subdued this quarter; a 0.5% rise over the last 12 months is the most restrained performance since Q4 2009, when the UK was only just out of recession.

Weak sales growth is partly, but not solely, the cause of the modest rise in profits. At 2.2% year on year in Q3 2016, profits are rising at their slowest pace since 2012. The other factor affecting profits growth has been a gradual squeeze on margins, with input and labour costs outpacing selling prices. In recent quarters Welsh companies have consistently seen very little growth in their selling prices, with year-on-year growth reported flat in Q3 2016. Businesses have nevertheless experienced continued increases in input prices and wages, as well as employment levels. The pace of each is

similar to last year, at 0.9%, 2.1% and 1.7% respectively in the 12 months to Q3 2016.

The rise in employment also helps explain why the unemployment rate in Wales has fallen over the last year. The International Labour Organization's measure of unemployment has dropped from 6.6% in the three months to May 2015, to 4.6%, bringing it below the UK average.

The biggest casualty of the disappointing trends in confidence, sales and profits growth may turn out to be investment. Companies increased their capital spending by 2.2% over the year to Q3 2016, but their expectations are for no growth at all (in fact, a marginal 0.1% decline) over the coming 12 months.

As with weaker capital investment intentions, Research & Development is predicted to grow by just 0.4% in the next 12 months compared to the 3.4% achieved in the year to Q3 2016. By contrast, staff development budgets have been protected a little more and are expected to match the rate of job creation, at 1.2% year on year. This could be in response to skill shortages. Approximately a fifth of Welsh companies are citing the availability of skills as a growing concern, a proportion of which is some way above the long-term average for Wales.

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