



UK Business Confidence Monitor Report

Q4 2016 Wales

Key highlights

In the Q4 2016 ICAEW UK Business Confidence Monitor (BCM), 60 senior business professionals in Wales were interviewed and record a **Confidence Index score of -7.2**. Confidence therefore remains negative.

Fig. 1 BCM confidence index trend in Wales

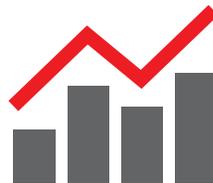


Business confidence in Wales



depressed

Overall sales growth



weak

Capital investment growth



set to slow

Key points

The Business Confidence Index in Wales is negative for the third consecutive quarter in Q4 2016.

Sales growth is sluggish, both domestic and exports, although companies expect some improvement in 2017.

Capital investment, Research and Development and staff development spending are all expected to slow over the next 12 months.

Weak confidence and slow sales hurt investment plans

Business confidence in Wales remains low. At -7.2 in Q4 2016, the Business Confidence Index is little changed on the previous two quarters and notably below previous positive readings.

One factor weighing on business sentiment may be uncertainty about the future of Tata Steel's Port Talbot site. The plant's future was put in jeopardy earlier this year, and at present the situation appears no closer to a resolution. However, a broader concern for businesses in Wales is likely to be the lack of growth in market demand. This difficulty has been apparent throughout 2016, and in the current quarter domestic sales are only 3.3% up on a year ago, while exports are just 2% higher.

A consequence of that sluggishness in sales growth is that companies have limited scope to raise their prices. Over the last few years selling prices in Wales have increased very slowly, and they are up just 0.3% year on year in Q4 2016, the same rate as a year ago.

In contrast, input prices in the present quarter are 1.3% higher than a year earlier. Higher fuel and commodity prices present particular challenges in Wales, with its high dependency on manufacturing and farming, and its relatively small service sector. In Wales, 12% of the workforce is employed in the manufacturing sector, compared to just 8% on average in the UK.

The result of this imbalance between trends in input and selling prices is that profits are being squeezed: up just 3% in the year to Q4 2016. That rise is less than the growth in sales, indicating a reduction in margins.

Nevertheless, Welsh companies do see opportunities ahead. Businesses expect sales to grow a little faster over the coming year than they have done in 2016, both in domestic (3.8%) and export markets (3.2%). The main reason is likely to be that the lower pound should make them more competitive, helping to offset, at least in part, the downwards pressure on consumers' real spending growth that is likely to come from higher inflation in 2017.

Even so, companies appear cautious. Manifestations of that include projections of continuing slow growth in employment (up 1.9% in the year to Q4 2016, followed by 1.8% in the year ahead) and also in salaries (up 1.5%, after a modest 1.6% rise to Q4 2016).

In addition, investment intentions are very subdued. Capital spending has been growing at an historically strong rate of 3.7% a year, but this pace is expected to ease back to just 1% over the next 12 months. The story is similar for Research and Development budgets: expanding by 2.5% year on year to Q4 2016, but predicted to rise by only 1.2% over the next 12 months. So too for spending on staff development, with a 2.1% rise in the year to date, but only 1.3% in 2017.

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ICAEW
ICAEW Wales PO Box 2531 Cardiff CF23 0HA UK

T +44 (0)29 2002 1481
icaew.com/wales

 [linkedin.com](https://www.linkedin.com) – find ICAEW
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