

Date: 14th November 2002
Time: 9.30am - 12.30pm
Location: Committee Room 1, National Assembly for Wales, Cardiff Bay
Title: Prospects for Welsh business – a presentation by CBI Wales

National Assembly for Wales: Economic Development Committee meeting 14th November 2002

About CBI Wales

1. The CBI is the UK's foremost business representative body dealing principally with cross-sector issues which affect the business environment in which all companies operate. The CBI's strength lies in its breadth of membership, which includes companies of every size, including 160 trade associations and academic institutions, and from all sectors of the economy – manufacturing, construction, retailing, financial services, e-commerce, leisure, transport and so on. The CBI represents about 50% of the private sector workforce in Wales.

Purpose of this paper

- Examine the outlook for Welsh business
- Identify public spending priorities in support of business survival and growth
- Highlight areas of concern in terms of Assembly programmes

CBI economic forecast

2. The protracted recovery in international demand has weakened the outlook for the UK economy into 2003.
3. The CBI's GDP forecast for the UK has been downgraded to 1.5% for this year from 1.7% in May 2002.
4. The UK economy is expected to expand by 2.7% in 2003, although the CBI will shortly be reviewing this forecast.
5. Improved export demand for manufactured goods is expected during 2003.
6. Household consumption is expected to slow into 2003, due to high debt levels and a possible modest increase in interest rates during the second half of the year.

7. Domestic demand is expected to be supported by increased Government consumption.
8. The ILO measure of unemployment is projected to rise to 1.65m in 2002 Q4, but fall again to 1.58m in 2003 Q4.
9. Job losses in manufacturing industry have been a feature of CBI Quarterly surveys for some time and look set to continue.
10. Welsh output has held up recently but is predicted to decline over the next four months. An upturn is not predicted for 12 months.
11. Business finances are significantly under pressure. This partly reflects the difficult economic climate, but policy-driven cost increases, including business tax rises, have also played a key role e.g. CBI Wales member employing 250 people will have seen an increase in costs of £500,000 just as a result of the Climate Change Levy, the packaging regulations, and national insurance contribution rises – the equivalent of £2000 per employee. Business profitability in 2002 is predicted to be the lowest since 1993.
12. Unsurprisingly, Welsh industry investment intentions are weak, except in respect of training where a modest increase is forecast.
13. Government revenues are certain to be lower than forecast when public spending plans were made earlier in the year. With business tax increases already in the pipeline, there can be no further government-imposed business cost rises of any kind.
14. Whilst increasing borrowing is a short-term option, it is essential that a firm grip is maintained on public finances. Efficient and effective delivery of public services, helped by private sector involvement will help ensure that the promised quantity and quality of public services and infrastructure can be delivered without yet more cash expenditure.

Devolved spending priorities: business view

15. In July 2002 CBI Wales undertook a survey of its members to ascertain business priorities at the devolved level. The top five priorities identified were:
 - Telecommunications
 - Transport – principally roads
 - Education and training
 - Business rates – where Wales is yet to start work on a Business Improvement District model
 - Planning – where we are unclear that business demand for sites and premises has been

mapped in the context of the proposed spatial plan.

16. Access to finance and business support were generally considered unimportant.

Additional issues

17. From a business perspective there have been many positive Assembly announcements in 2002, including the establishment of the Wales Social Partners Unit, the Wales Trade International strategy and the decision not to go ahead with a supplementary business rate. It is worth raising here, however, some specific issues relevant to the work of EDC.

18. **Finance Wales** – apparent confusion amongst businesses about the support it can offer and anecdotal evidence of difficult experiences.

19. **Structural funds** – there is concern that the programme, as currently funded, will not deliver increased GDP. There appears to be an oversupply of business support services.

20. **Business support gateway** – when will business be informed of the new working arrangements, including structures, recruitment policies, service profile, targets and performance monitoring arrangements?