European Investment Bank
The EU bank

United Kingdom

Overview

EIB INVESTMENT SURVEY

2017

EIB Group Survey on Investment and Investment Finance Country Overview: The United Kingdom

About the EIB Investment Survey (EIBIS)
The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of some 12 300 firms. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all 28 member States of the EU, as well as for firm size classes (micro to large) and 4 main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support to development and implementation by Ipsos MORI. For more information see: http://www.eib.org/eibis.

About this publication
This Country Overview is one of a series covering each of the 28 EU Member States, plus an EU-wide overview. These are intended to provide an accessible snapshot of the data. For the purpose of these publications, data is weighted by value-added to better reflect the contribution of different firms to economic output. Contact: eibis@eib.org.

About the Economics Department of the EIB
The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 40 economists, is headed by Debora Revoltella, Director of Economics.

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Ipsos Public Affairs

EIBIS 2017 – COUNTRY OVERVIEW

The United Kingdom

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of some 12 300 firms that gathers information on investment activities by both SMEs and larger corporates, their financing requirements and the difficulties they face.

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and sustainability across all 28 EU Member States.

EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

This country overview presents selected findings based on telephone interviews with 600 firms in the United Kingdom in 2017 (carried out between April and July).

Key results

Macroeconomic Context:	**The economy is slowing down:** The upcoming departure from the EU weighs on the economic performance, as growth is slowing, inflation is outpacing wage growth and the post-Brexit conditions remain uncertain.
Investment outlook:	**More firms increased than reduced investment in the last financial year**, but the share of firms that expect to increase investment in the next financial year has fallen, while short term factors driving investment are expected to deteriorate across the board.
Investment activity:	**86% of firms invested in the last financial year**, a slight increase compared to the previous wave (83%). Among all firms, almost four in ten developed new products, processes or services as part of their investment activities, with 6% claiming the innovation to be a global innovation. At the same time, some 13% of firms foresee no investment over the next 3 years.
Perceived Investment gap:	**12% of firms report investing too little over the last three years**, similar to the EU average, but slightly lower than last year (15%). The average share of state-of-the art machinery and equipment in firms is below the EU average (32% versus 45%). This is also the case - though to a lesser extent - for building stock satisfying high efficiency standards (33% versus 39% across the EU).
Investment barriers:	**Barriers to long term investment have increased.** As in the EU, uncertainty about the future and availability of staff continue to be perceived as the main barriers, but high energy costs are also noteworthy for UK firms.
External finance:	**UK firms are more often using internal funds than before**, but the increased reliance is not considered problematic by firms. The share of finance constrained firms remained low at 6%.
Firm performance:	**Firms' productivity is broadly comparable to the EU** as the performance of the most productive firms has fallen. Larger firms with 250+ employees make a greater contribution to value added than in the EU.

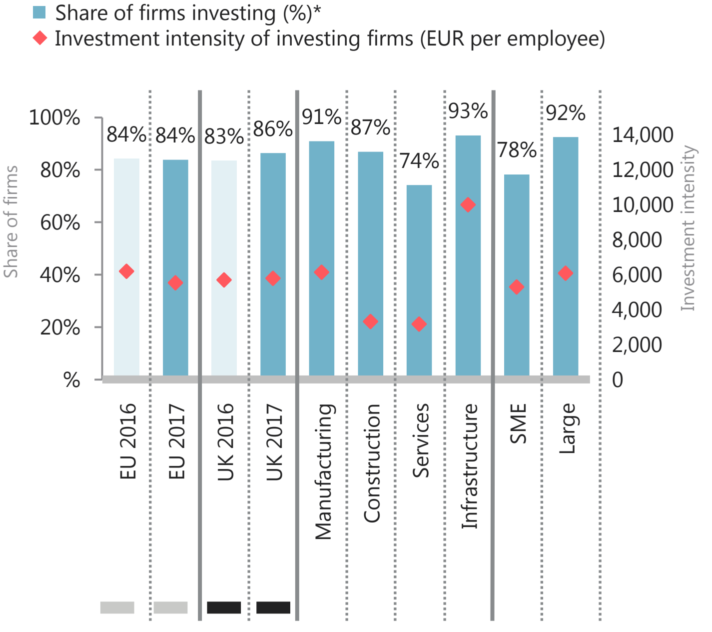
INVESTMENT DYNAMICS

INVESTMENT ACTIVITY IN LAST FINANCIAL YEAR

Six out of seven firms in the UK invested in the last financial year (86%, up from 83% in the previous wave). The proportion that invested is similar to the EU average (84% in both waves).

Firms in the infrastructure and manufacturing sectors (93% and 91%) were more likely to invest than those in the service sector (74%).

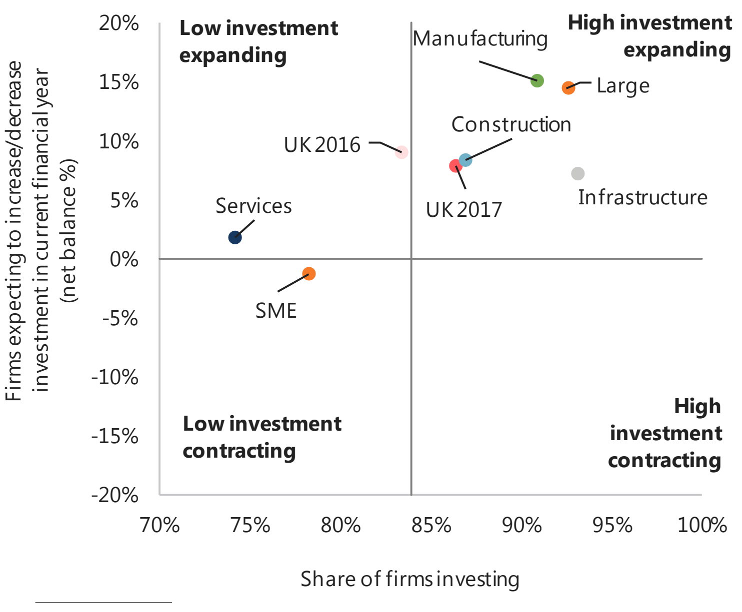
SMEs were less likely to invest than larger firms. (78% versus 92%).



**The blue bars indicate the proportion of firms who have invested in the last financial year.*
A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
Investment intensity is the median investment per employee of investing firms.
Investment intensity is reported in 2015 values (using the Eurostat GFCF deflator).

Base: All firms (excluding don't know/refused responses).

INVESTMENT CYCLE



The firms' investment activity this wave places the UK in the 'high investment expanding' quadrant on the investment cycle.

Larger firms and those in the manufacturing sector show relatively high levels of investment and plan to expand in the current financial year.

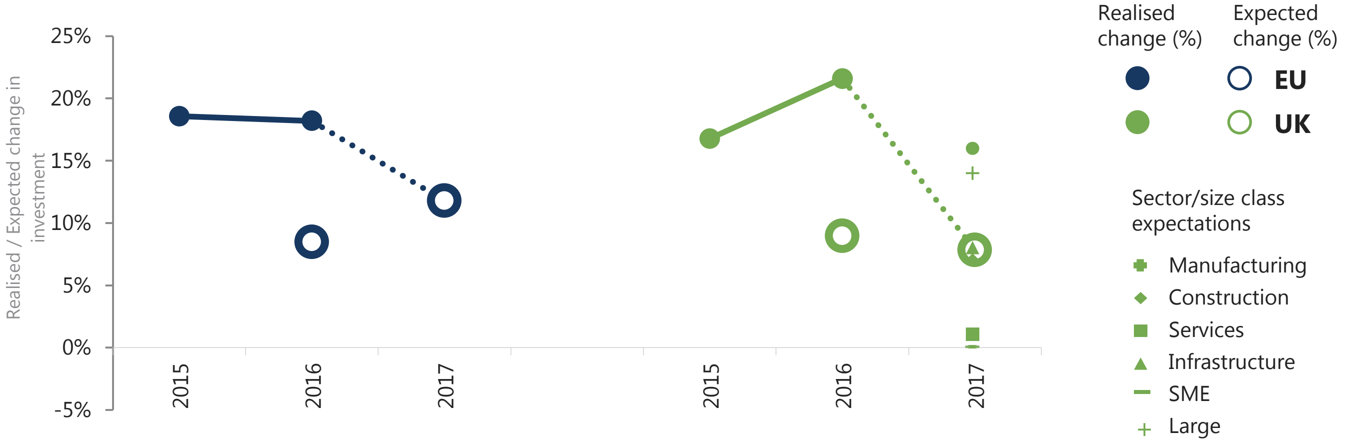
Around the same share of SMEs and firms in the service sector expect to increase as decrease investment.

Base: All firms
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.
The y-axis line crosses x-axis on the EU average for 2016.

INVESTMENT DYNAMICS

EVOLUTION OF INVESTMENT EXPECTATIONS

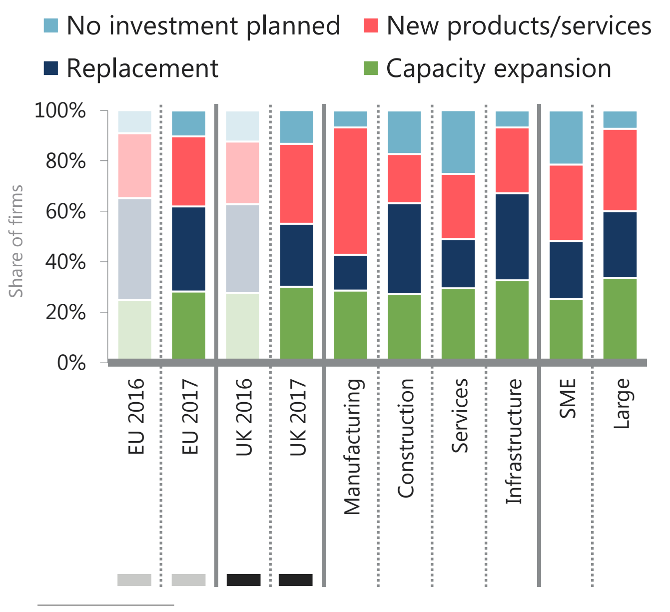
More firms in the UK increased than reduced their investment activities in the last financial year. The share of firms investing exceeded expectations in the previous wave. In the current year, this positive outlook is expected to continue but to a lesser extent. The manufacturing sector is most likely to expect more investment and the service sector the least likely to anticipate this.



Base: All firms

'Realised change' is the share of firms who invested more minus those who invested less; 'Expected change' is the share of firms who expect(ed) to invest more minus those who expect(ed) to invest less.

FUTURE INVESTMENT PRIORITIES



Looking ahead to the next 3 years, investment in new products and services is most commonly cited as a priority (32%), closely followed by capacity expansion for existing products and services (30%). Replacing existing buildings, machinery, equipment and IT has the lowest share this year (25% compared to 35% in 2016).

In the manufacturing sector investment in new products and services continues to be the priority with around twice as many firms reporting this than other sectors (50%).

Some 13% of firms do not foresee any investment. The share is higher in the service sector, in construction and among SMEs.

Base: All firms (excluding don't know/refused responses)
Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing existing buildings, machinery, equipment, IT; (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes, services?

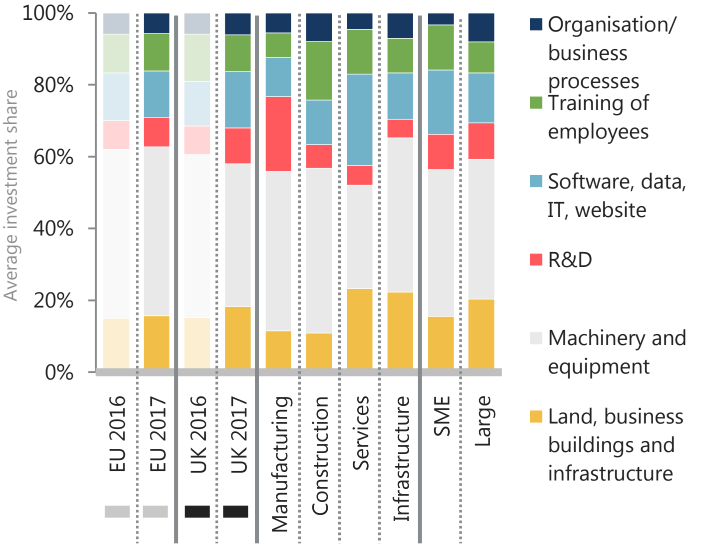
INVESTMENT FOCUS

INVESTMENT AREAS

Of the six investment areas asked about, most investment in the UK is in machinery and equipment (40%), followed by land, business buildings and infrastructure (18%) and software, data and IT (16%). While the pattern is similar to the 2016 and EU-wide findings, there has been a fall in the proportion investing in machinery and equipment (45% in the previous wave).

The manufacturing sector has the highest share of investment in Research & Development (21% in the UK compared to between five and seven per cent in the other sectors).

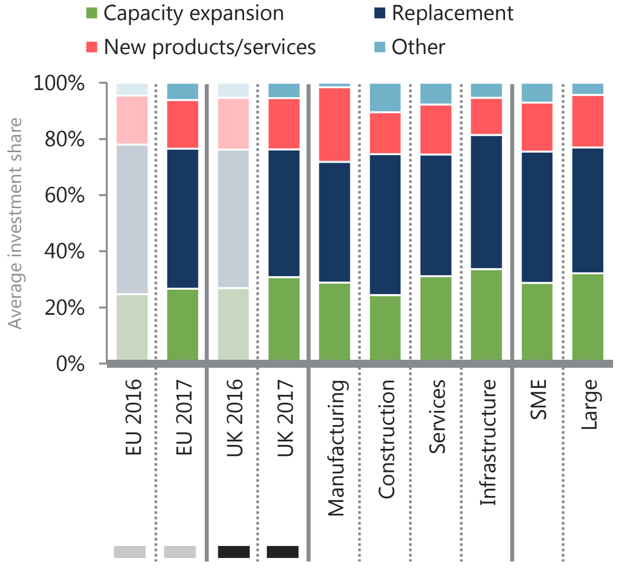
The service sector has the highest share of firms investing in software, data and IT (25% compared to between 11% and 13% elsewhere).



Base: All firms who have invested in the last financial year (excluding don't know/refused responses)

Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR



The largest share of investment in the UK is driven by the need to replace existing buildings, machinery, equipment and IT (46%), in line with the pattern across the EU and investment priorities reported in the previous wave.

Investment in replacement is highest in the construction sector (50%).

Base: All firms who have invested in the last financial year (excluding don't know/refused responses)

Q. What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

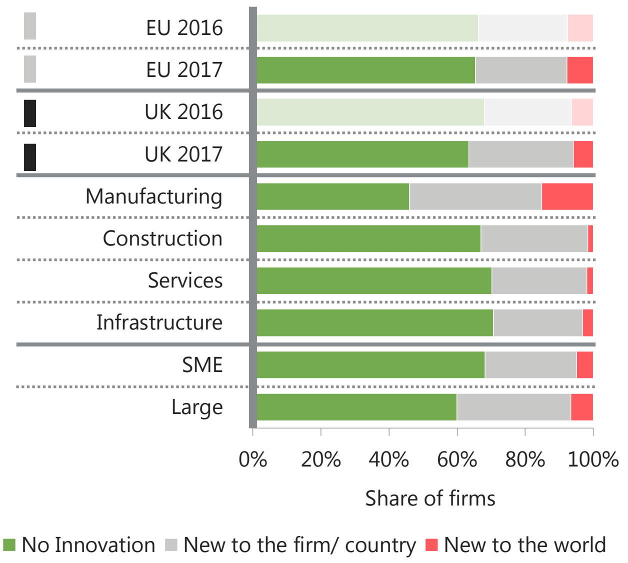
INVESTMENT FOCUS

INNOVATION ACTIVITY

Among all firms, almost four in ten developed or introduced new products, processes or services as part of their investment activities. This includes 6% who claimed the innovations were new to the global market.

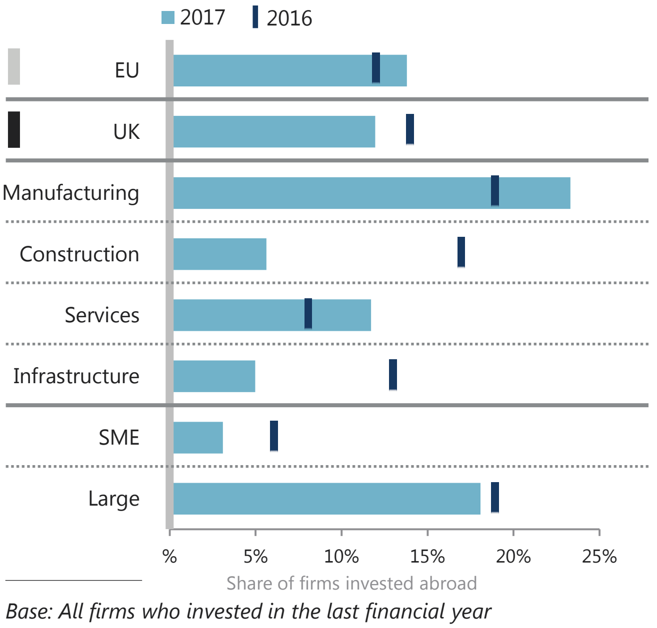
Firms in the manufacturing sector were more likely to exhibit high levels of innovation (39% said the products, processes or services were new to the firm or country and a further 15% new to the world).

SMEs were less likely than larger firms to have innovated.



Base: All firms (excluding don't know/refused responses)
Q. What proportion of total investment was for developing or introducing new products, processes, services?
Q. Were the products, processes or services new to the company, new to the country, new to the global market?

INVESTMENT ABROAD



Among firms that invested in the last financial year in the UK, 12% had invested in another country, lower than in the previous wave (16%) and the EU average (14%).

Larger firms and those in the manufacturing sector are more likely to have invested abroad (18% and 23% respectively).

Only 3% of SMEs have invested in another country.

Base: All firms who invested in the last financial year
Q. In the last financial year, has your company invested in another country?

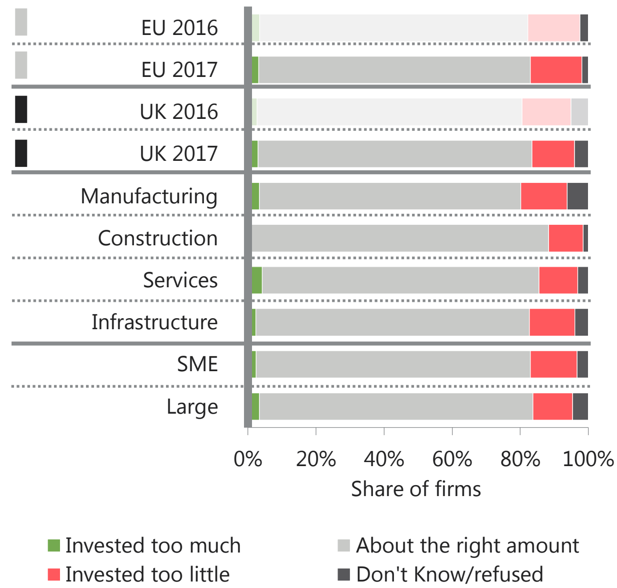
INVESTMENT NEEDS

PERCEIVED INVESTMENT GAP

Eight in ten firms believe their investment over the last three years was about the right amount (80%).

Twelve per cent report investing too little, slightly below last wave (15%). The findings are similar to the EU average.

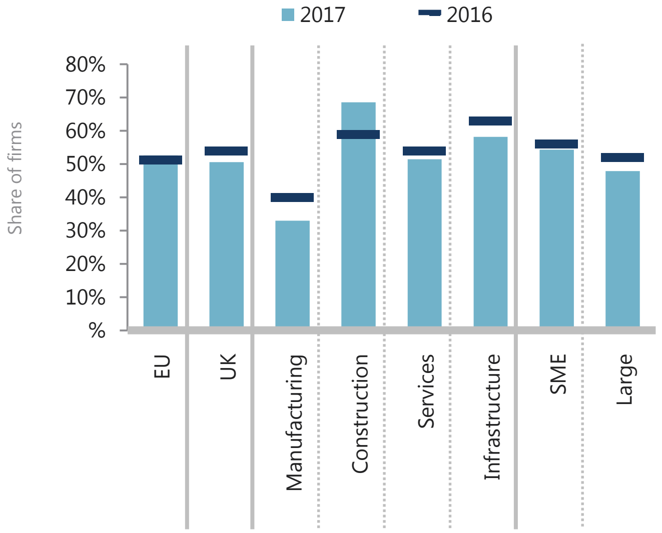
Firms in the construction sector in the UK are more likely to report investing the right amount (88%).



Base: All firms (excluding 'Company didn't exist three years ago' responses)

Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

SHARE OF FIRMS AT OR ABOVE FULL CAPACITY



Half of firms in the UK report operating at or above maximum capacity in the last financial year (51%), slightly below the previous year (54%).

The findings are similar to the EU average.

Firms in the construction sector are more likely to report operating at or above full capacity (69%).

Base: All firms

Full capacity is the maximum capacity attainable under normal conditions e.g. company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

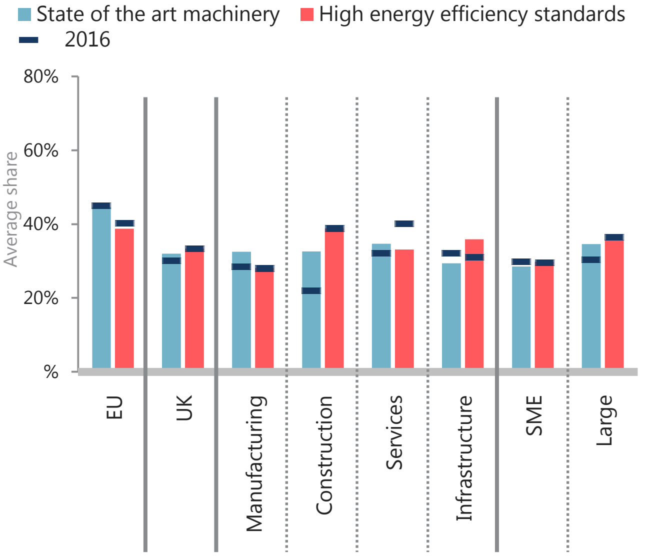
INVESTMENT NEEDS

SHARE OF STATE OF THE ART MACHINERY AND BUILDING STOCK MEETING HIGH ENERGY EFFICIENCY STANDARDS

The average share of state-of-the-art machinery and equipment in firms is below the EU average (32% versus 45%).

On average a third of firms' building stock in the UK satisfies high efficiency standards compared to the EU average of 39%.

The findings are generally in line with the previous wave although firms in the service sector now report a lower proportion with high efficiency standards (33% compared with 40% in 2016).

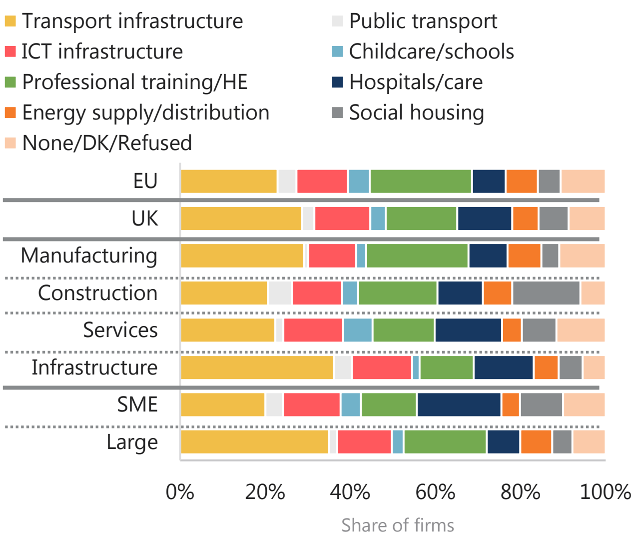


Base: All firms

Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

PUBLIC INVESTMENT PRIORITIES



Around three in ten firms considered transport infrastructure to be the main investment priority over the next 3 years (29%), followed by professional training/HE (selected by 17%) and hospitals/care and ICT infrastructure (both 13%). All other areas were selected by less than one in ten firms.

Opinion across the EU was more divided: around a quarter perceived professional training/HE and transport infrastructure to be priority areas (24% and 23% respectively).

Unsurprisingly, UK firms in the infrastructure sector were most likely to prioritise transport (36%), while those in the construction sector were most likely to select social housing (16%).

Base: All firms

Q. From your business' perspective, if you had to prioritise one area of public investment for the next 3 years, which one would it be?

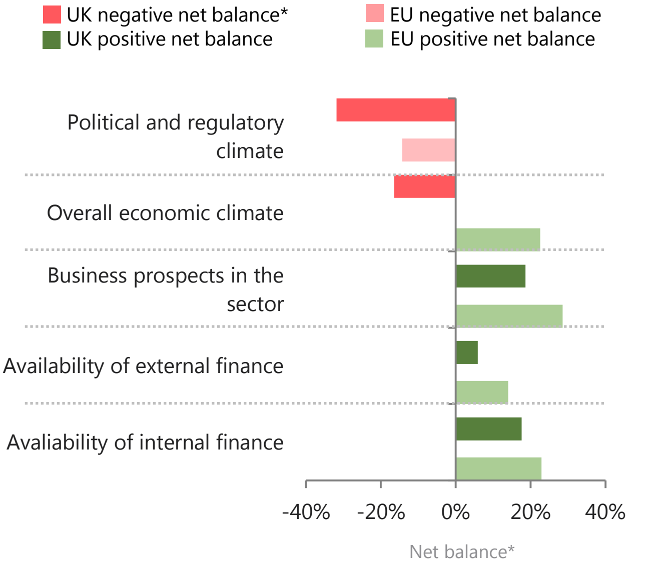
DRIVERS AND CONSTRAINTS

SHORT TERM INFLUENCES ON INVESTMENT

Firms expecting the political and regulatory climate to deteriorate in the next 12 months outnumber those that expect it to improve, reflecting the trend across the EU.

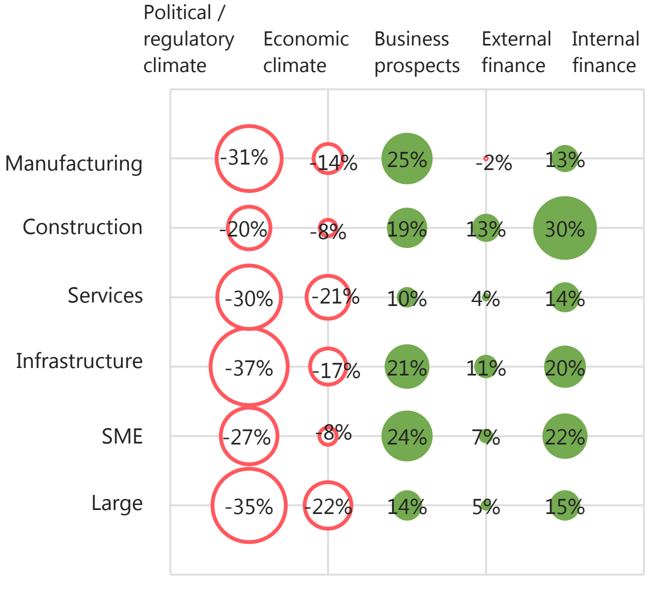
In the UK, firms are also pessimistic about the overall economic climate although this is not the case for EU firms overall.

**Net balance is the share of firms expecting improvement minus the share of firms expecting a deterioration*



Base: All firms
Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

SHORT TERM INFLUENCES BY SECTOR AND SIZE (NET BALANCE)



Larger firms and those in the infrastructure sector are even more likely to be negative about the political and regulatory climate.

There are some key differences by sector. For example, significantly more firms in the construction sector expect an improvement in the availability of internal finance compared to firms in the manufacturing sector.

Base: All firms
Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

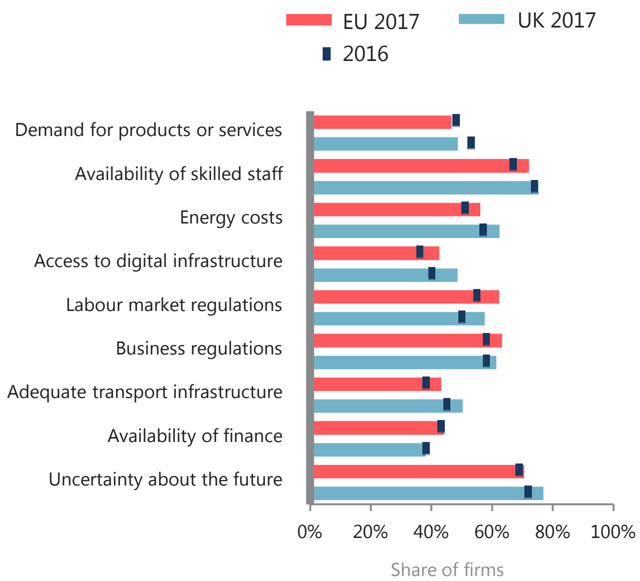
DRIVERS AND CONSTRAINTS

LONG TERM BARRIERS TO INVESTMENT

According to the firms, the extent of almost all long-term barriers has grown compared to the last wave. Over three-quarters of firms consider uncertainty about the future and the availability of skilled staff as obstacles to investment activities (77% and 75% respectively). High energy costs are also noteworthy for UK firms (63% compared with 56% across the EU).

Availability of finance is less likely to be perceived an obstacle in the UK than the other factors (38%).

Business regulations are perceived to be an obstacle for 77% of firms in the infrastructure sector compared with 46% in manufacturing.



Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)
Q. Thinking about your investment activities in the UK, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

LONG TERM BARRIERS BY SECTOR AND SIZE

	Demand for products / services	Availability of skilled staff	Energy costs	Digital infra-structure	Labour regulations	Business regulations	Transport infra-structure	Availability of finance	Uncertainty about the future
Manufacturing	47%	76%	64%	39%	51%	46%	39%	28%	77%
Construction	47%	82%	47%	44%	51%	65%	37%	34%	72%
Services	47%	75%	70%	61%	61%	55%	57%	42%	82%
Infrastructure	53%	76%	61%	49%	62%	77%	59%	46%	76%
SME	49%	70%	62%	44%	54%	63%	45%	43%	72%
Large	49%	80%	64%	53%	61%	60%	55%	35%	82%

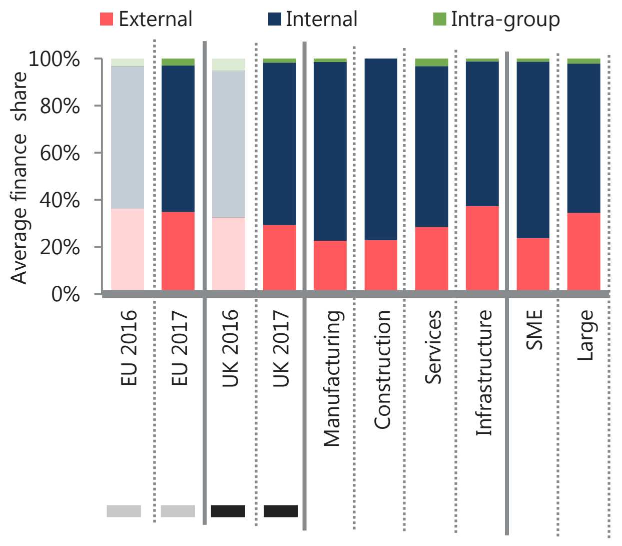
Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)
Q. Thinking about your investment activities in the UK, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

INVESTMENT FINANCE

SOURCE OF INVESTMENT FINANCE

Internal funds account for the highest share of investment finance (69%). This is above the EU average and the share reported in the UK in the last wave (both 62%).

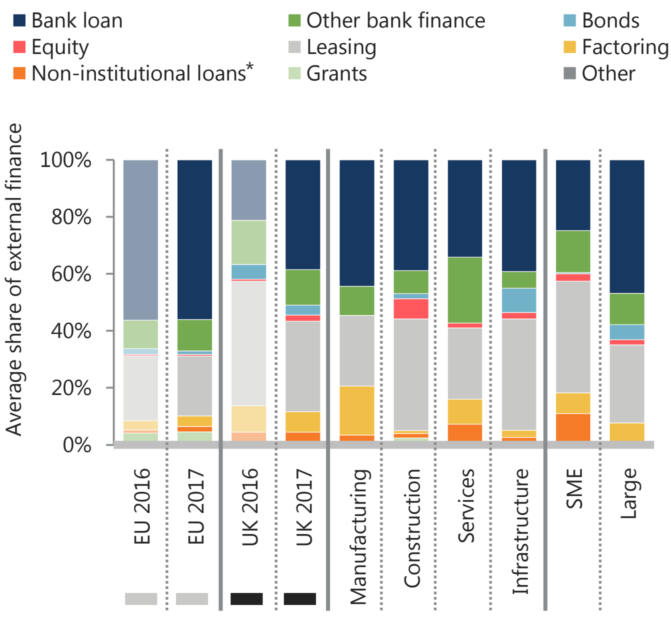
Larger firms have a higher share of external finance than SMEs (35% versus 24%). This is also evident among infrastructure firms (37%) compared with those in the manufacturing and construction sectors (both 23%).



Base: All firms who invested in the last financial year (excluding don't know/refused responses)

Q. What proportion of your investment was financed by each of the following?

TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES



Bank loans account for the highest share of external finance (39%), followed by leasing (32%). This differs to last wave when double the share of external financing was made up by leasing than bank loans (44% and 21% respectively).

Overall a very small proportion of external finance comes from equity (2%), although this is more common in the construction sector (7%).

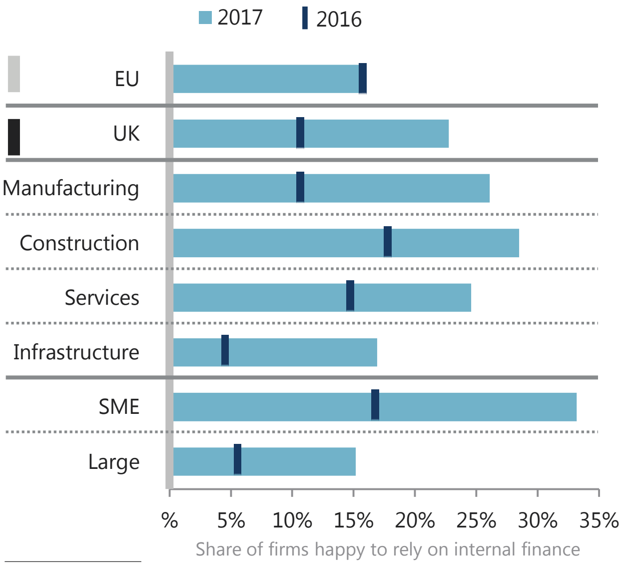
Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. Approximately what proportion of your external finance does each of the following represent?

**Loans from family, friends or business partners*

INVESTMENT FINANCE

SHARE OF FIRMS HAPPY TO RELY EXCLUSIVELY ON INTERNAL SOURCES TO FINANCE INVESTMENT



Around two in ten of all firms in the UK report the main reason for not applying for external finance was because they are happy to use internal funds or did not have a need for it (23%). Over twice as many SMEs as larger firms cite this (33% compared to 15%).

Across the EU, fewer firms are happy to rely exclusively on internal sources to finance investment (16%).

The findings suggest there has been a rise since the last wave of firms in the UK happy to use internal funds or not having a need for external finance.

Base: All firms

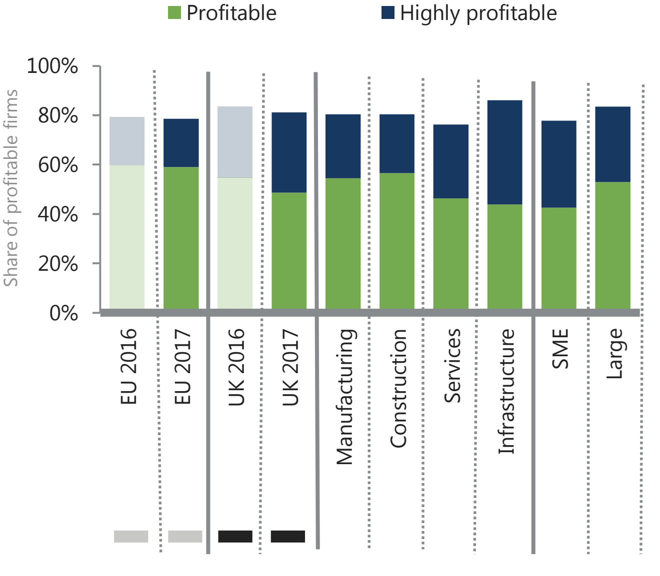
Q. What was your main reason for not applying for external finance for your investment activities? Was happy to use internal finance/didn't need the finance

SHARE OF PROFITABLE FIRMS

Around three in ten firms in the UK report being highly profitable (32% compared to 29% last wave).

The EU has a smaller share of highly profitable such firms (20%).

Highly profitable firms in the UK are more likely to be in the infrastructure sector (42%). There is no significant difference by size of firm.



Base: All firms (excluding don't know/refused).

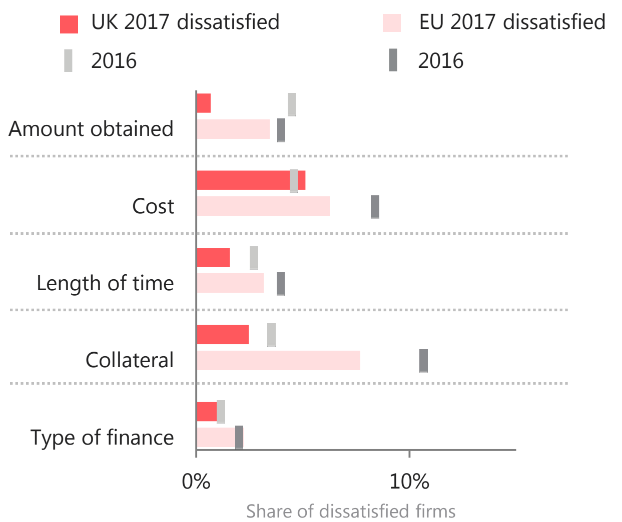
Q: Taking into account all sources of income in, did your company generate a profit or loss before tax, or did you break even? Highly profitable is defined as profits/turnover of 10% or more.

SATISFACTION WITH FINANCE

DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED

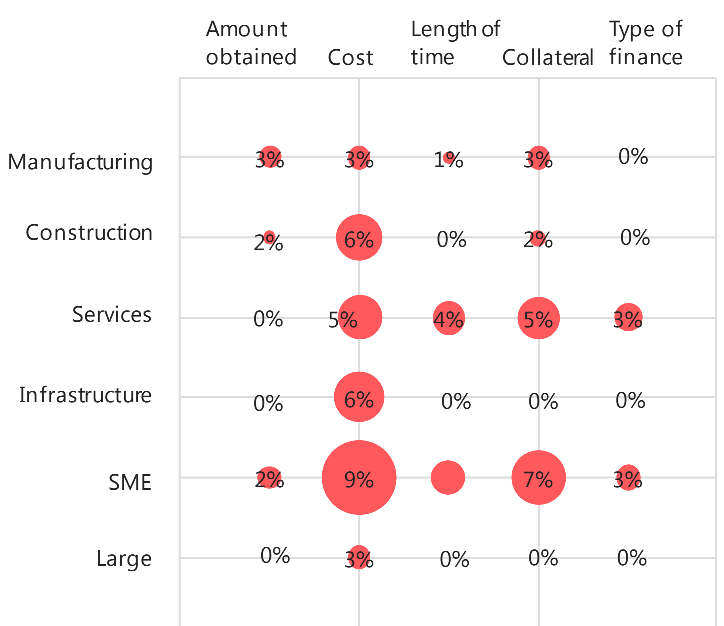
Firms that used external finance are on balance satisfied with the amount, cost, maturity, collateral and type of finance received.

The highest proportion of dissatisfaction in the UK is with the cost of finance (5%). Across the EU, more firms are dissatisfied with the collateral required.



Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
Q. How satisfied or dissatisfied are you with ….?

DISSATISFACTION BY SECTOR AND SIZE



SMEs are more likely than larger firms to be dissatisfied with all the aspects asked about, although still the overwhelming majority are satisfied.

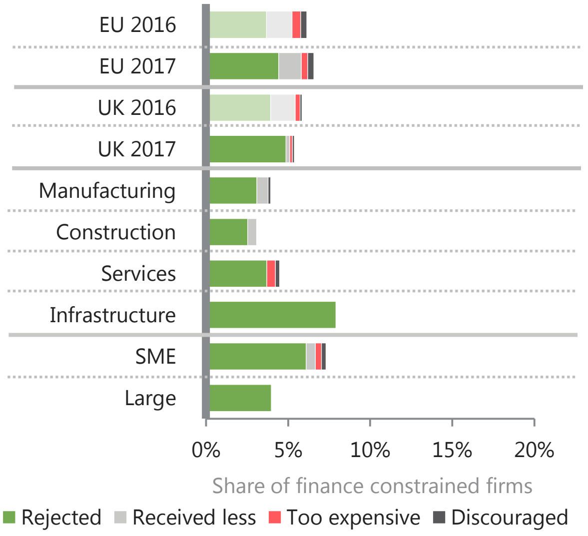
Infrastructure firms only recorded dissatisfaction with the cost of finance (6%).

Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
Q. How satisfied or dissatisfied are you with ….?

SATISFACTION WITH FINANCE

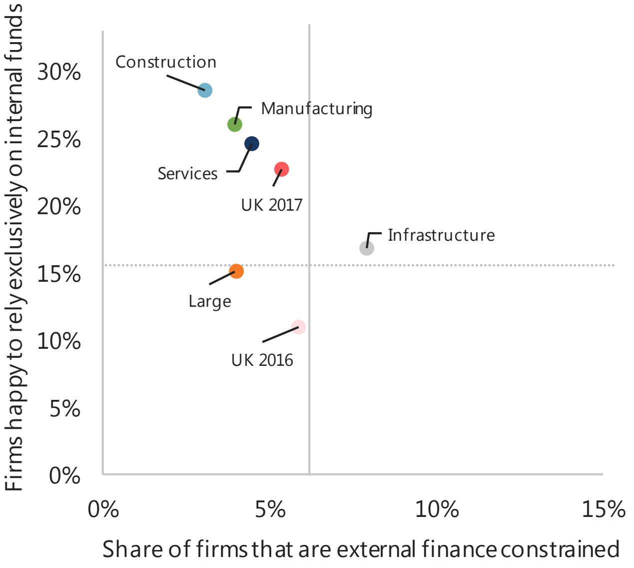
SHARE OF FINANCE CONSTRAINED FIRMS

Five per cent of all firms can be considered finance constrained, somewhat lower than the EU average (7%). This share slightly increases to 6% of firms that invested in the last financial year.



Base: All firms
Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)
**Financing constraints for 2016 among non-investing firms estimated*

FINANCING CROSS



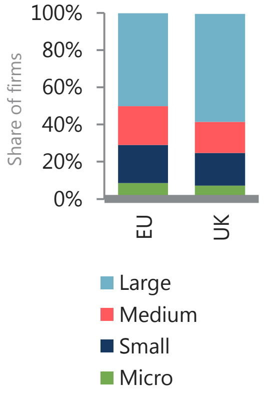
UK firms are less likely to be finance constrained and more likely to rely exclusively on internal funds than the EU average.

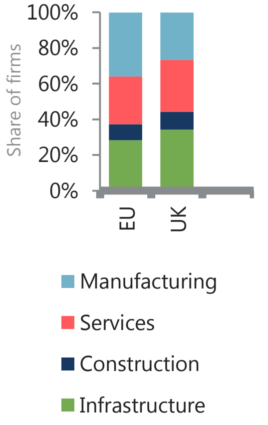
Within the UK, there are some differences by size and sector. Construction sector firms are less likely to be finance constrained and more likely to be happy to rely on internal funds compared to infrastructure sector firms. SMEs are more likely to be happy to rely only on internal funds than large firms.

Base: All firms
Data derived from the financial constraint indicator and firms indicating main reason for not applying for external finance was 'happy to use internal finance/didn't need finance'
The x- and y-axes lines cross on the EU average for 2016.

PROFILE OF FIRMS

CONTRIBUTION TO VALUE ADDED





In terms of the weighted size distribution, larger firms account for the greatest share of value-added (58%), above the EU average (50%).

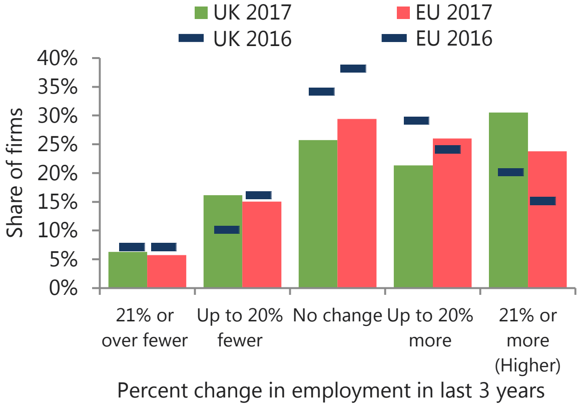
Employment dynamics over the past three years are favourable in the UK with more firms expanding than contracting.

Productivity of firms across the UK is broadly the same as in the EU, as the performance among the most productive firms has fallen. The construction sector has a relatively high share of firms in the highest productivity class.

Base: All firms

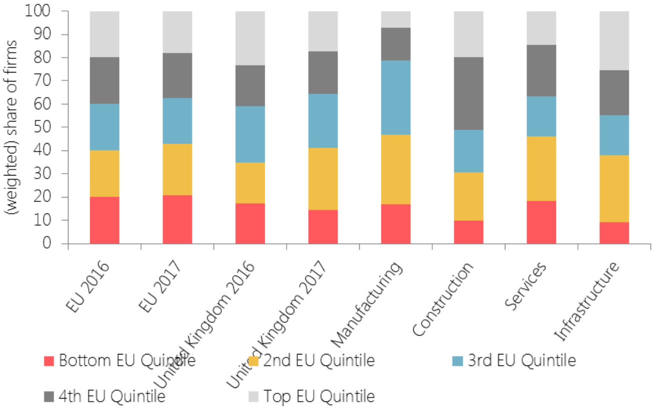
The charts reflects the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: 250+.

EMPLOYMENT DYNAMICS IN LAST THREE YEARS



Base: All firms (excluding don't know, refused and missing responses)
Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

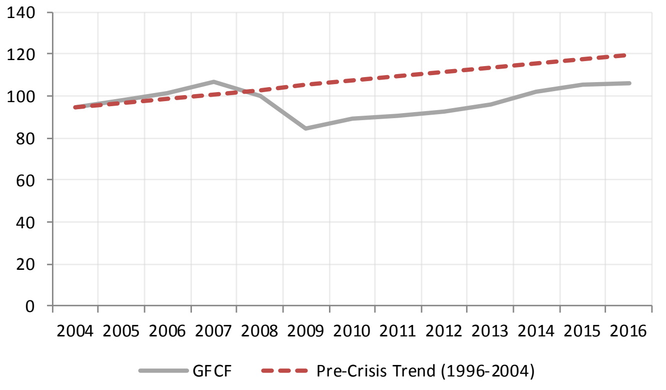
DISTRIBUTION OF FIRMS BY PRODUCTIVITY CLASS



Share of firms by productivity class (Total Factor Productivity). Productivity classes are defined on the basis of the entire EU sample.

MACROECONOMIC INVESTMENT CONTEXT

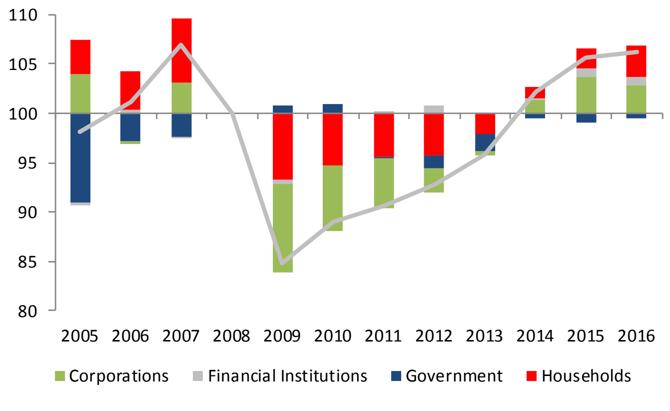
Investment Dynamics over time



The investment gap vis-à-vis the long-term trend has widened recently, but investment is back at pre-crisis levels.

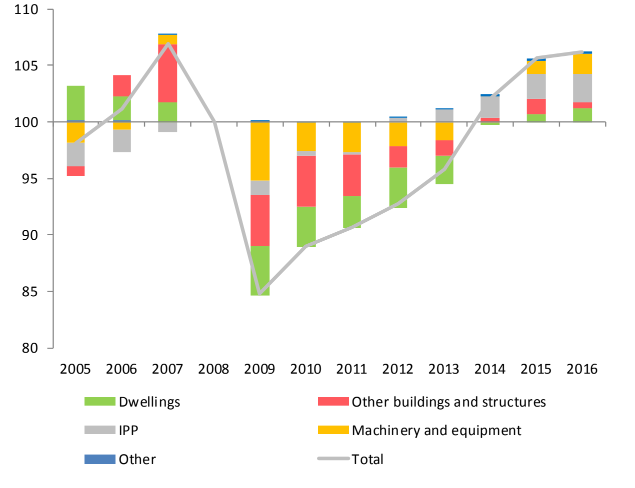
The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend. The data has been index to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Institutional Sector



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by institutional sector. The data has been indexed to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Asset Class



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by asset class. The data has been indexed to equal 100 in 2008. Source: Eurostat.

EIB 2017 – COUNTRY TECHNICAL DETAILS

SAMPLING TOLERANCES APPLICABLE TO PERCENTAGES AT OR NEAR THESE LEVELS

The final data are based on a sample, rather than the entire population of firms in the United Kingdom, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

	EU	UK	Manufacturing	Construction	Services	Infrastructure	SME	Large	EU vs UK	Manufacturing vs Construction	SME vs Large
	(12338)	(600)	(176)	(133)	(152)	(134)	(470)	(130)	(12338 vs 600)	(133 vs 176)	(470 vs 130)
10% or 90%	1.1%	2.7%	4.7%	5.7%	5.5%	5.1%	2.5%	4.4%	2.9%	7.4%	5.0%
30% or 70%	1.6%	4.2%	7.2%	8.8%	8.5%	7.7%	3.8%	6.7%	4.5%	11.3%	7.6%
50%	1.8%	4.6%	7.8%	9.6%	9.2%	8.4%	4.2%	7.3%	4.9%	12.3%	8.3%

GLOSSARY

Investment	A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings.
Investment cycle	Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.
Productivity	Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of an industry-by-industry regression analysis (with country dummies).
Manufacturing sector	Based on the NACE classification of economic activities, firms in group C (manufacturing).
Construction sector	Based on the NACE classification of economic activities, firms in group F (construction).
Services sector	Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).
Infrastructure sector	Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).
SME	Firms with between 5 and 249 employees.
Large firms	Firms with at least 250 employees.

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BASE SIZES

Base definition and page reference	EU 2016/ 2017	UK 2016/2017	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 2, 3, 6, 7, 8, 11, 14	12483/12338	601/600	176	133	152	134	470	130
All firms (excluding don't know/refused responses), p. 3	12159/12020	581/583	168	132	147	131	456	127
All firms (excluding don't know/refused responses), p. 5	12071/12073	579/582	171	129	148	129	458	124
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060/10321	439/471	148	107	106	107	368	103
All firms who invested in the last financial year, p. 5	10881/10889	494/506	155	112	119	116	389	117
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453/12306	601/600	176	133	152	134	470	130
All firms (data not shown for those who said not an obstacle at all/don't know/refused), p. 9	12483/12338	601/600	176	133	152	134	470	130
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 10	9093/9131	377/402	116	93	99	91	331	71
All firms (excluding don't know, refused and missing responses), p. 14	12162/11513	579/548	158	119	139	127	431	117

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United Kingdom

Overview

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