United Kingdom
Overview

EIB INVESTMENT SURVEY
2017
EIB Group Survey on Investment and Investment Finance Country Overview: The United Kingdom
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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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Disclaimer
The views expressed in this publication are those of the authors and do not necessarily reflect the position of the EIB.

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Ipsos Public Affairs works closely with national governments, local public services and the not-for-profit sector, as well as international and supranational organizations. Its c.200 research staff in London and Brussels focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methodological and communications expertise, helps ensure that our research makes a difference for decision makers and communities.
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 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).

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.

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.

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

EIB Group Survey on Investment and Investment Finance 2017 Country overview: The United Kingdom
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.

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.

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*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.

**Share of firms**

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 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).

_INVESTMENT FOCUS_

_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%).
**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.

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**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.

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**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 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?
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).

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?
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 as 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

<table>
<thead>
<tr>
<th></th>
<th>EU 2017</th>
<th>UK 2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand for products / services</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Availability of skilled staff</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Energy costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Digital infrastructure</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Labour regulations</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Business regulations</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transport infrastructure</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Availability of finance</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Uncertainty about the future</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**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?**
**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%).

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**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%).

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*Loans from family, friends or business partners*
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.
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.

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 ....?

DISSATISFACTION BY SECTOR AND SIZE

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount obtained</th>
<th>Cost</th>
<th>Length of time</th>
<th>Collateral</th>
<th>Type of finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>3%</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Construction</td>
<td>2%</td>
<td>6%</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Services</td>
<td>0%</td>
<td>5%</td>
<td>4%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0%</td>
<td>6%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>SME</td>
<td>2%</td>
<td>9%</td>
<td>7%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>0%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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 ....?
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.

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.
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.

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

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) by institutional sector. The data has been indexed to equal 100 in 2008. Source: Eurostat.

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.
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.

<table>
<thead>
<tr>
<th>EU</th>
<th>UK</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
<th>EU vs UK</th>
<th>Manufacturing vs Construction</th>
<th>SME vs Large</th>
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<td>(12338)</td>
<td>(600)</td>
<td>(176)</td>
<td>(133)</td>
<td>(152)</td>
<td>(134)</td>
<td>(470)</td>
<td>(130)</td>
<td>(12338 vs 600)</td>
<td>(133 vs 176)</td>
<td>(470 vs 130)</td>
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<td>10% or 90%</td>
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<td></td>
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<td></td>
<td></td>
<td>1.1%</td>
<td>2.9%</td>
<td>5.0%</td>
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<tr>
<td>30% or 70%</td>
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<td>1.6%</td>
<td>4.5%</td>
<td>7.6%</td>
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<td>50%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.8%</td>
<td>4.9%</td>
<td>8.3%</td>
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</table>

**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.
## EIB 2017 – COUNTRY TECHNICAL DETAILS

### BASE SIZES

<table>
<thead>
<tr>
<th>Base definition and page reference</th>
<th>EU 2016/2017</th>
<th>UK 2016/2017</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
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<tbody>
<tr>
<td>All firms, p. 2, 3, 6, 7, 8, 11, 14</td>
<td>12483/12338</td>
<td>601/600</td>
<td>176</td>
<td>133</td>
<td>152</td>
<td>134</td>
<td>470</td>
<td>130</td>
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<tr>
<td>All firms (excluding don’t know/refused responses), p. 3</td>
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<td>581/583</td>
<td>168</td>
<td>132</td>
<td>147</td>
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<td>456</td>
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<td>579/582</td>
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<td>439/471</td>
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<td>107</td>
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<td>107</td>
<td>368</td>
<td>103</td>
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<td>494/506</td>
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<td>389</td>
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<td>601/600</td>
<td>176</td>
<td>133</td>
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<td>470</td>
<td>130</td>
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<td>12483/12338</td>
<td>601/600</td>
<td>176</td>
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<td>130</td>
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<td>377/402</td>
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<td>331</td>
<td>71</td>
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<td>12162/11513</td>
<td>579/548</td>
<td>158</td>
<td>119</td>
<td>139</td>
<td>127</td>
<td>431</td>
<td>117</td>
</tr>
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