



United
Kingdom

EIBIS 2016

EIB Group Survey on
Investment and
Investment Finance 2016

Country Overview

EIB Group Survey on Investment and Investment Finance Country Overview: 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 12,500 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 30 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.

About Ipsos Public Affairs

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 2016 – COUNTRY OVERVIEW

United Kingdom

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of 12 500 firms that gathers quantitative 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 601 firms in United Kingdom in 2016 (July-October). All interviews were carried out after the UK referendum on EU membership. **Note:** The results are weighted by value-added, reflecting firms' contribution to the economy.

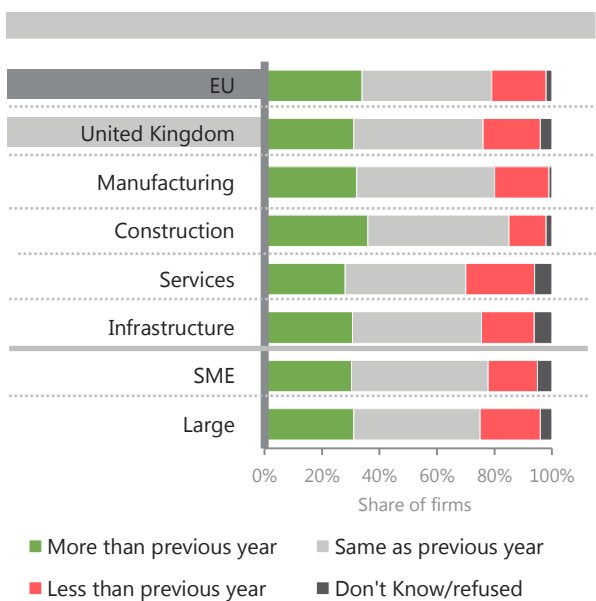
Key results

| | |
|-----------------------------|---|
| Investment outlook: | Low investment expanding: the share of firms investing in the last financial year is similar to the EU average; SMEs have a more negative outlook than large firms for the current financial year, but, as in other EU countries, more firms plan to increase than decrease investment in the next financial year. |
| Investment activity: | 83% of firms invested in last financial year, with an intensity (investment per employee) similar to the EU average. |
| Investment gap: | 15% of firms report having invested too little over the last three years, in line with the EU average; the average share of state-of-the-art machinery and equipment in firms is well below the EU average, while the average share of building stock meeting high energy efficiency standards is also lower. |
| Investment barriers: | Political and regulatory climate is perceived to be the main barrier to implementing investment, as is the case for the EU on average. |
| External finance: | 6% of firms are finance constrained (i.e. the proportion of firms dissatisfied with the amount of finance obtained, had an application rejected, thought borrowing costs would be too high or were discouraged from applying). |
| Firm performance: | Firms' productivity is comparable to the EU average; large firms make a larger contribution to value added. |

INVESTMENT DYNAMICS

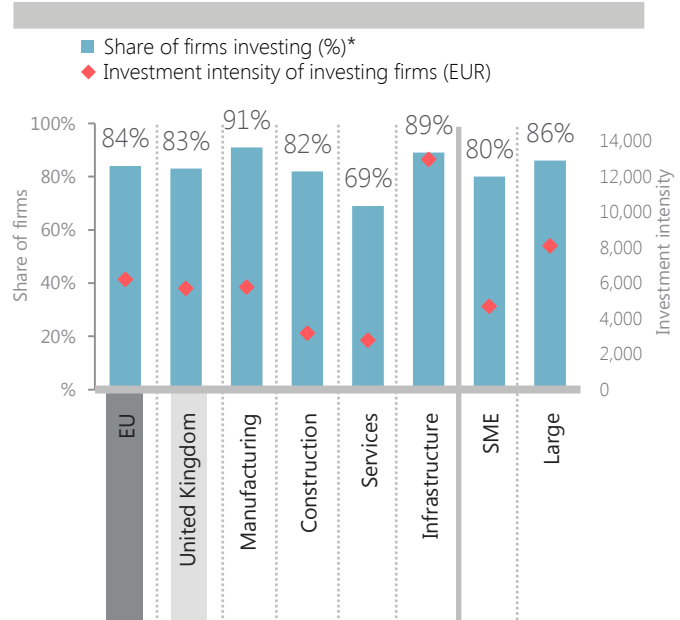
- Overall 83% of firms in the UK invested in the last financial year – in line with the EU average (84%).
- Firms in the manufacturing and infrastructure sectors are more likely to have invested in the last financial year.
- The intensity of investment (investment per employee) in the UK is similar to the EU average. Within the UK, the intensity of investment is highest in the infrastructure sector.

Investment activity in last financial year compared to previous



Base: All firms who invested in the last financial year
Q. Overall was this more, less or about the same amount of investment as in the previous year?

Investment activity in last financial year

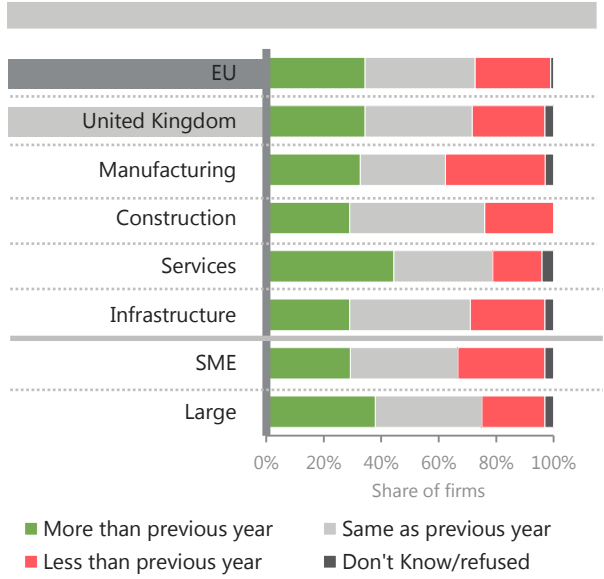


Base: All firms (excluding don't know/refused responses)
*The blue bars indicate the proportion of firms who have invested in the last financial year.
A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
Investment intensity is the median investment per employee of investing firms.

- Firms increasing their investment compared to the previous financial year were more numerous than those decreasing investment (31% versus 20%); just under half of firms in the UK invested the same amount (45%).
- Overall, investment activity of UK firms is similar to the EU average.

- Around two in five firms in the UK expect their investment in the current financial year to be the same as the last one (37%); other firms are more likely to expect an increase rather than a decrease (34% versus 25%).

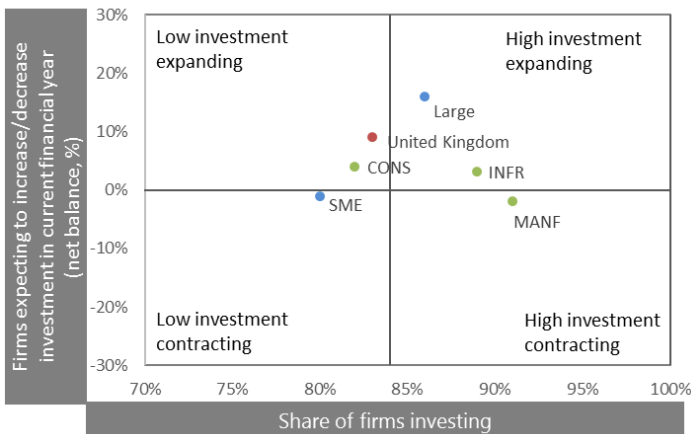
Expected investment in current financial year compared to last one



Base: All firms

Data is derived from two questions: firms who had invested in the last financial year were asked if they expect to invest more, around the same amount or less than last year; firms who had not invested in the last financial year were asked if they had already invested, or expect to invest in the current year

Investment cycle



Base: All firms

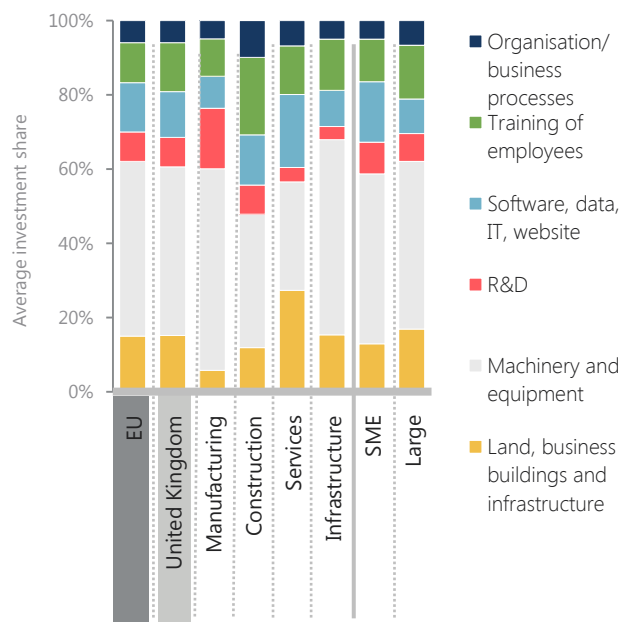
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

- The firms' investment activity places the UK in the 'low investment; expanding' quadrant on the investment cycle.
- While the construction sector shows relatively low levels of investment activity, it plans to expand in the current financial year, along with the infrastructure sector.

INVESTMENT ACTIVITY

- Of the six investment areas asked about, most investment in the UK is in machinery and equipment, followed by land, business buildings and infrastructure and software, data and IT. The pattern is similar to the EU as a whole.
- The manufacturing sector has the highest share of investment in research and development.

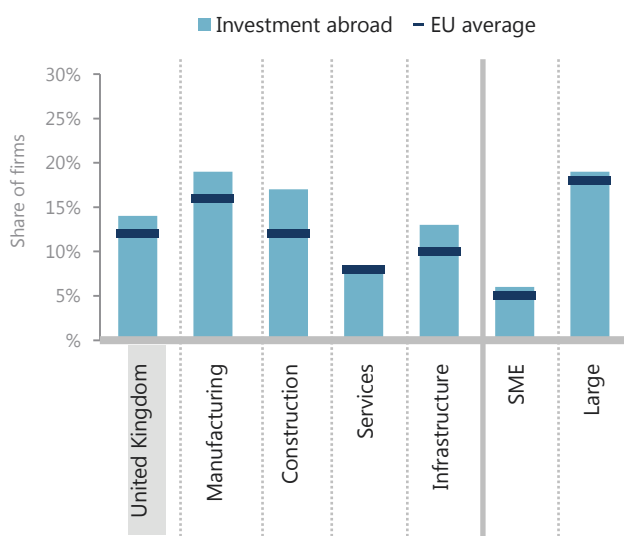
Investment areas



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?

Investment abroad

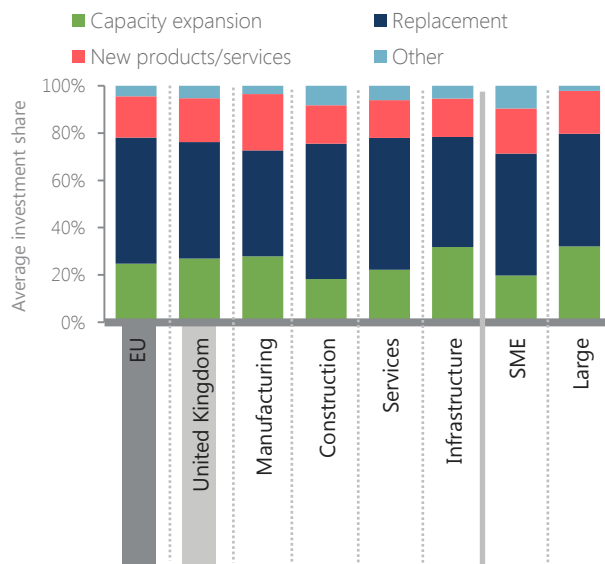


Base: All firms who invested in the last financial year
Q: In the last financial year, has your company invested in another country?

- Fourteen per cent of firms in the UK have invested in another country.
- Around one in five large firms in the UK have invested abroad (19% compared to 6% of SMEs).

- Most investment in the UK is driven by the need to replace existing buildings, machinery, equipment and IT, in line with the pattern across the EU.
- Larger firms are more likely than SMEs to invest in capacity expansion for existing products and services (32% versus 20%).

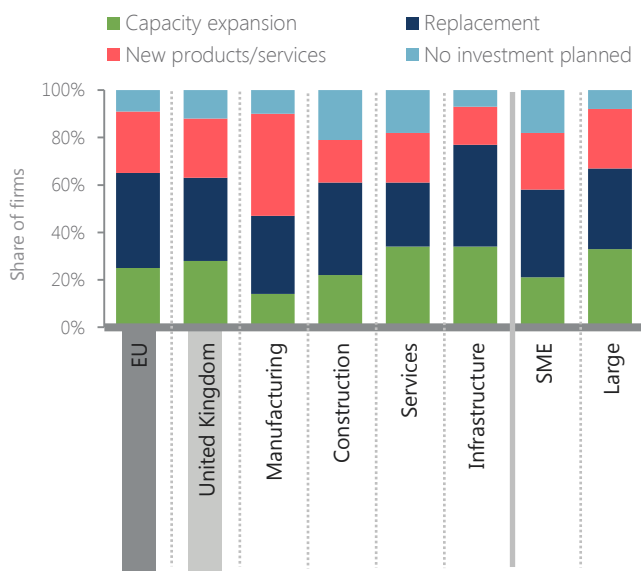
Purpose of investment in last financial year



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

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

Future investment priorities



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

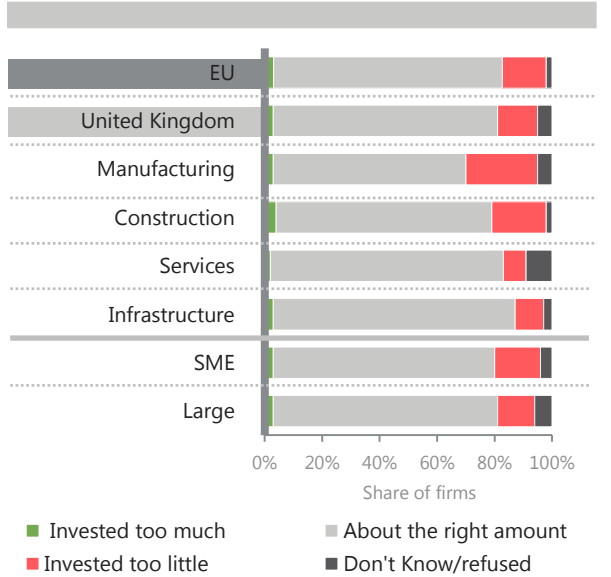
Q. Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

- For 35% of firms, the investment priority in the next three years is replacing existing buildings, machinery, equipment and IT.
- In the manufacturing sector investing in the development of new products is a priority for 43% of firms.

INVESTMENT NEEDS

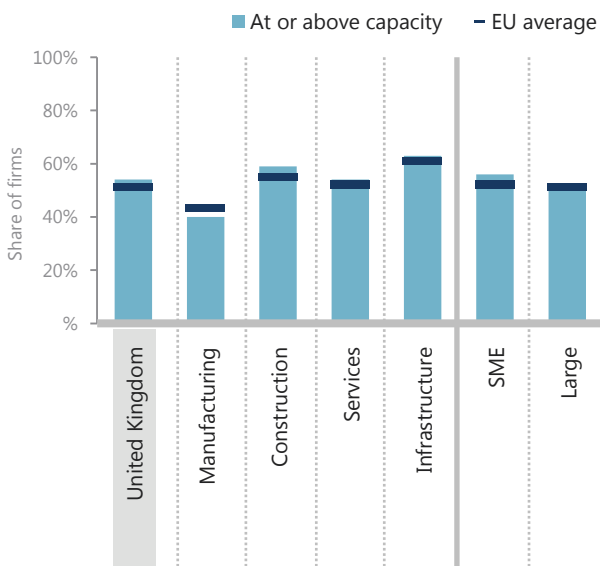
- Around four in five firms in the UK believe their investment over the last three years was about the right amount (78%).
- Fifteen per cent of firms report investing too little, similar to the EU average (14%).

Perceived investment gap



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 to ensure the success of your business going forward?

Share of firms at or above full capacity



Base: All firms (data not shown for those operating somewhat or substantially below full capacity)

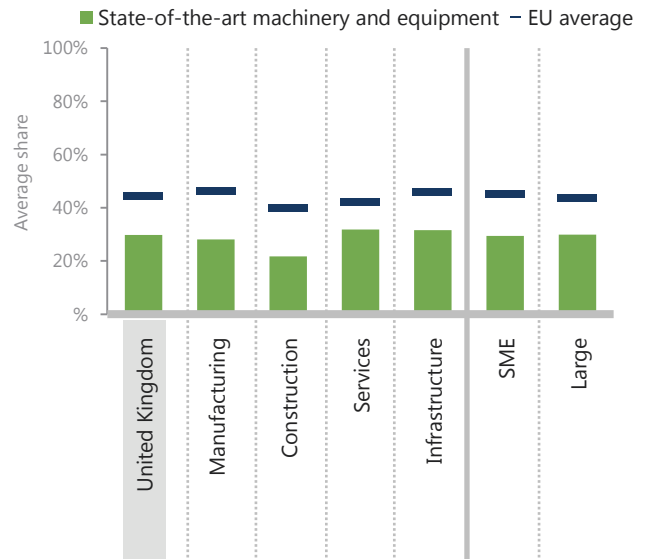
Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

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

- Slightly more than half of the firms in the UK report operating at or above full capacity (54% compared with 51% across the EU as a whole).
- Firms in the infrastructure and construction sectors are more likely to report operating at or above full capacity.

- The average share of state-of-the-art machinery and equipment in firms is below the EU average (30% in the UK versus 44% for the EU).
- The construction sector in the UK has the lowest share of state-of-the-art machinery and equipment (22%).

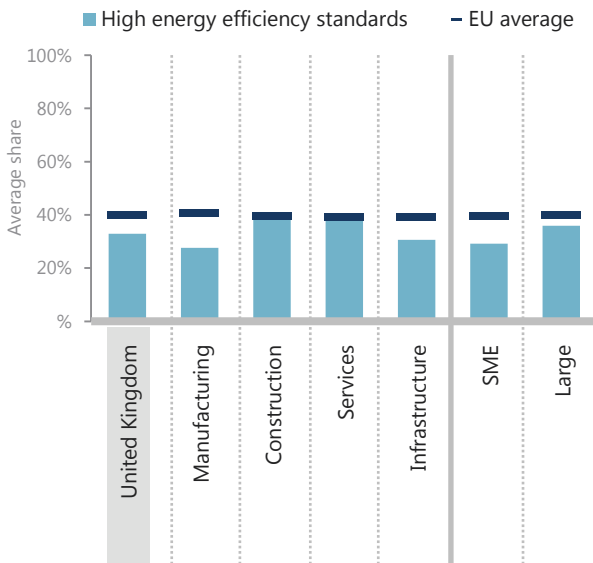
Average share of state-of-the-art machinery and equipment



Base: All firms

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

Average share of building stock meeting high energy efficiency standards



Base: All firms

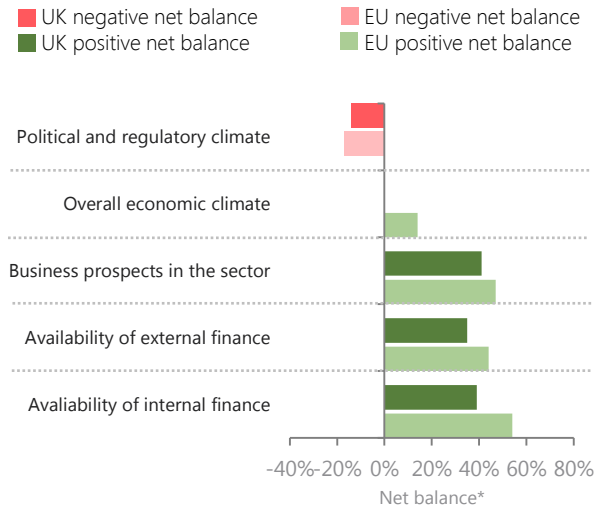
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

- On average 33% of firms' building stock in the UK satisfies high efficiency standards compared to the EU average of 40%.
- Larger firms in the UK have a higher average share of energy efficient buildings (36%), which is just below the EU average (40%).

INVESTMENT CONSTRAINTS

- The political and regulatory climate is cited as the main barrier to carrying out planned investment in the current financial year, as is the case for the EU on average.

Short term influences on investment

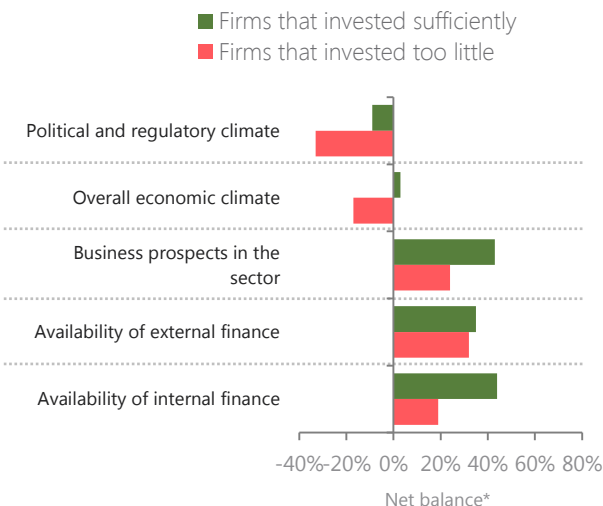


Base: All firms who have planned to invest in the current financial year

Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

*Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect

Short term influences by investment performance



Base: All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses)

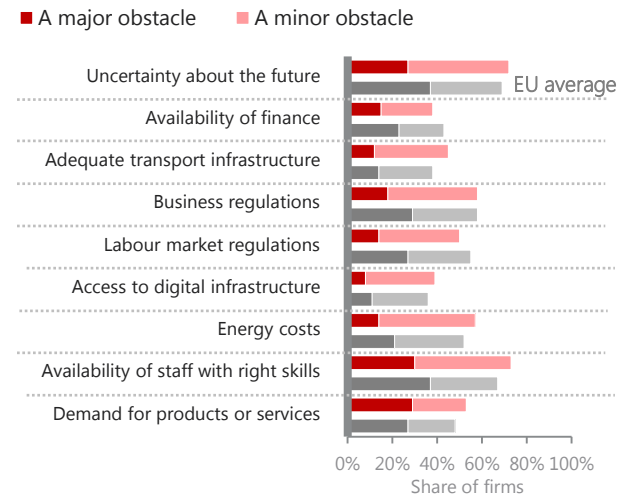
Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

* Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect

- As in the rest of the EU, firms that reported investing too little in the last financial year are more likely to experience barriers than those who reported sufficient investment.

- Firms consider uncertainty about the future, availability of staff with the right skills, business regulations and energy costs as the main structural barriers to investment in the UK over the longer term.
- Although obstacles are perceived as frequently as in the rest of the EU, their intensity is generally less severe.

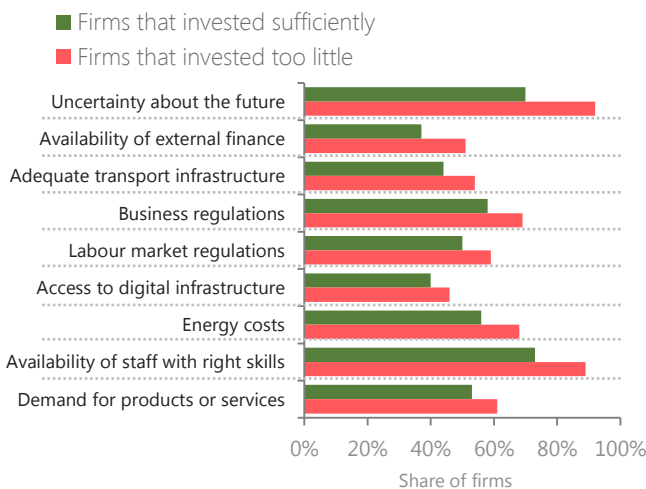
Long term barriers to investment



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 investment performance



Base: All firms who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), data shown for firms who said each was a major or minor obstacle

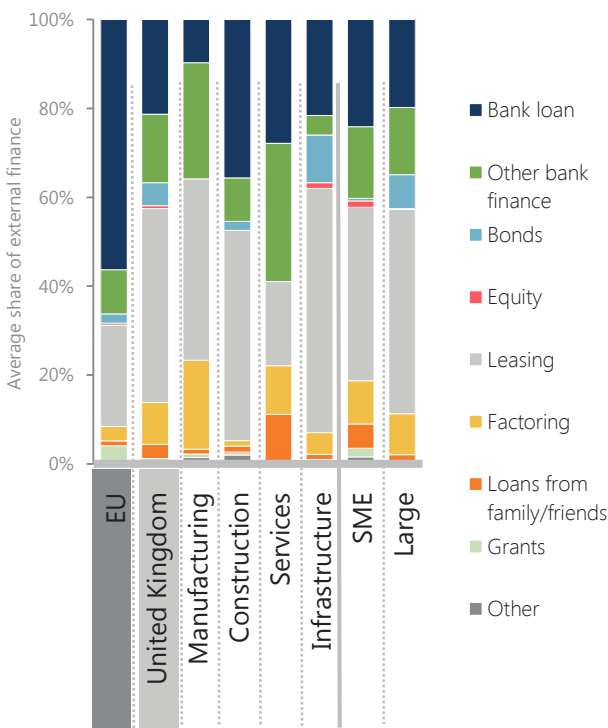
Q. Thinking about your investment activities in the United Kingdom, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

- Firms that report investing too little in the last financial year are more likely to consider all of the aspects asked about as barriers over the longer term (for example 92% believe uncertainty about the future is an obstacle compared to 70% of firms that invested sufficiently).

INVESTMENT FINANCE

- Internal funds account for 62% of all investments in the UK, in line with the EU average of 60%.
- Leasing is the most common source of external finance, especially for infrastructure companies.
- Firms that used external finance are largely satisfied with all aspects asked about.

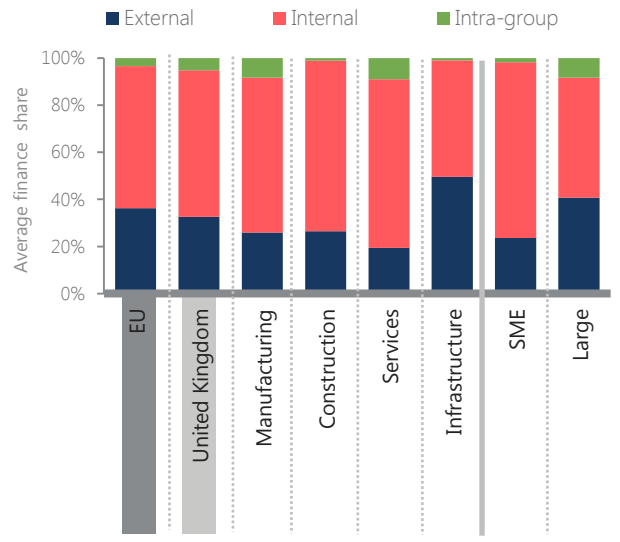
Type of external finance used for investment activities



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?

Source of investment finance



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

Q. Approximately what proportion of your investment in the last financial year was financed by each of the following?

Satisfaction with external finance

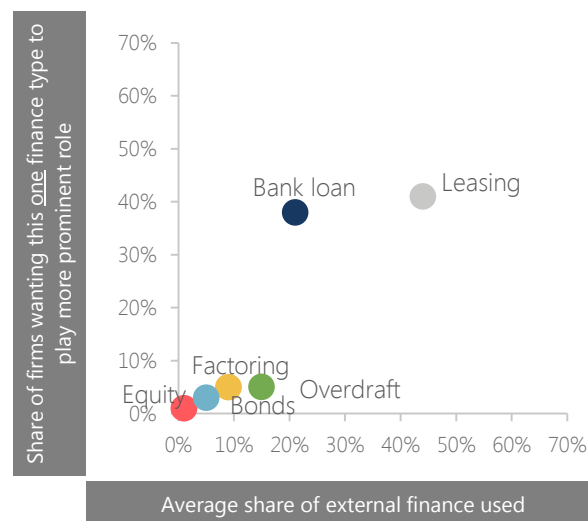


Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. How satisfied or dissatisfied are you with ...?

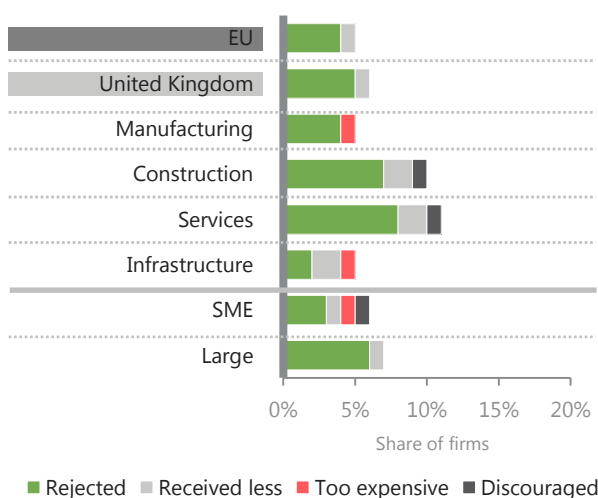
- Firms in the UK generally want more of the type of external finance they are already using, namely leasing and bank loans. A notable exception is overdrafts - firms would like to use a lower share of this type of external finance.
- Six per cent of firms can be considered finance constrained, similar to the EU average (5%).

Types of finance used versus the one type of finance firms want to use more



Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
Data is derived from two questions: firms were first asked about the types of external finance used in the last financial year and then which one type of external finance they would want to have a more prominent role over the next 3 years

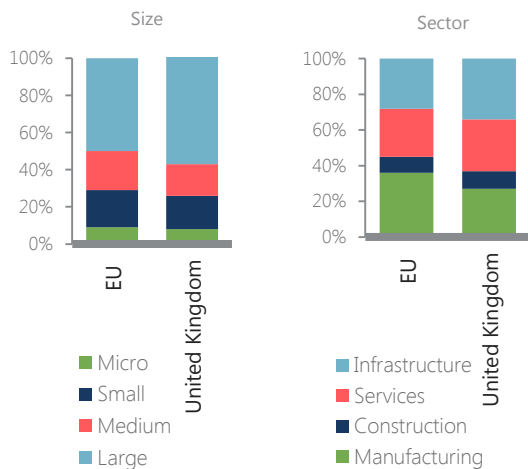
Share of finance constrained firms



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)

PROFILE OF FIRMS

Contribution to Value-Added

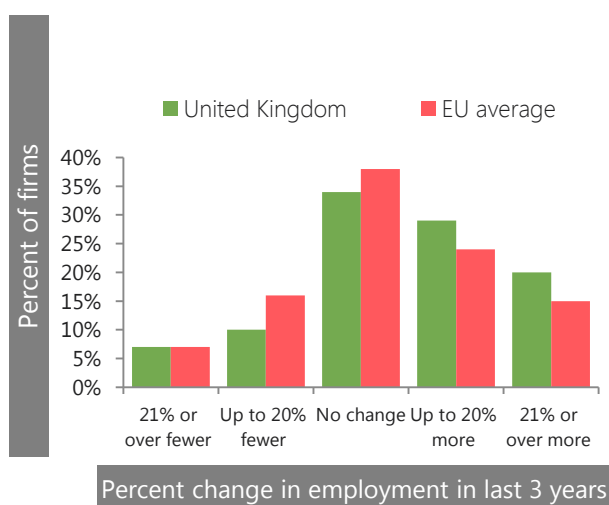


- In terms of the weighted size distribution, large firms make a larger contribution to value-added than in the EU (58% versus 50%).
- Productivity of firms in the UK is broadly the same as in the EU. Compared to their EU peers, the infrastructure and construction sectors have a relatively high share of firms in the highest productivity class.

Base: All firms

The charts reflect 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+.

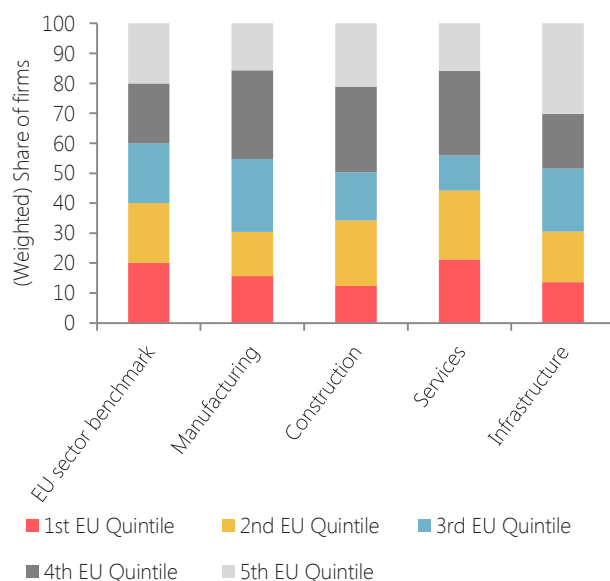
Employment dynamics in last 3 years



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?

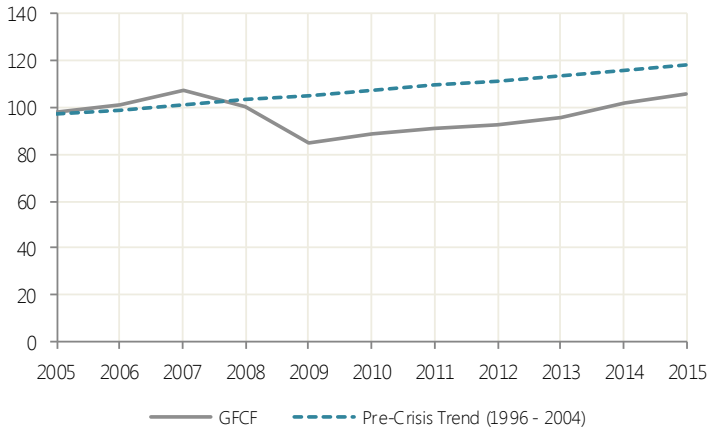
Distribution of firms by productivity class



Share of firms by productivity class (Total Factor Productivity). Productivity classes are sector specific; they are defined on the basis of the entire EU sample (for a particular sector).

MACROECONOMIC INVESTMENT CONTEXT

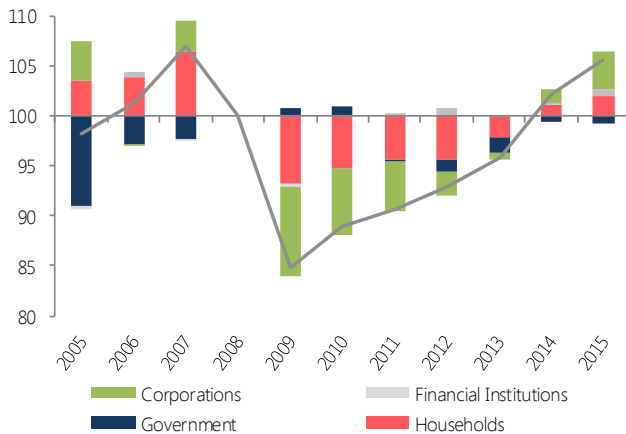
Investment Dynamics over time



- Investment is slowly catching up with its long-term trend.
- Corporations, households and financial institutions have higher investment levels (in real terms) than in 2008.

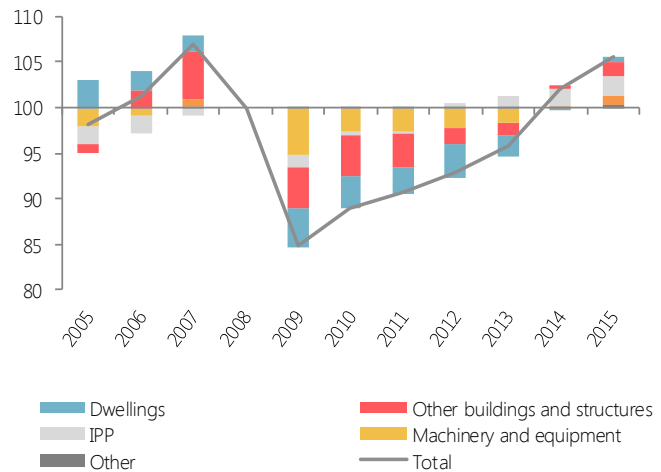
The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend'. The data has been indexed to equal 100 in 2008. Source: Eurostat .

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 .

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

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

Approximate sampling tolerances applicable to percentages at or near these levels

| | EU | United Kingdom | Manufacturing | Construction | Services | Infrastructure | SME | Large | EU vs Country | Manufacturing vs Construction | SME vs Large |
|------------|---------|----------------|---------------|--------------|----------|----------------|-------|-------|----------------|-------------------------------|--------------|
| | (12483) | (601) | (163) | (124) | (154) | (158) | (477) | (123) | (12483 vs 601) | (163 vs 124) | (477 vs 123) |
| 10% or 90% | 1.0% | 2.9% | 5.2% | 6.1% | 5.8% | 5.3% | 2.5% | 4.7% | 3.1% | 8.0% | 5.3% |
| 30% or 70% | 1.5% | 4.4% | 7.9% | 9.3% | 8.9% | 8.1% | 3.8% | 7.1% | 4.7% | 12.1% | 8.0% |
| 50% | 1.7% | 4.8% | 8.6% | 10.1% | 9.7% | 8.8% | 4.1% | 7.8% | 5.1% | 13.3% | 8.8% |

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. |

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

Base sizes

| Base definition and page reference | EU | United Kingdom | Manufacturing | Construction | Services | Infrastructure | SME | Large |
|---|-------|----------------|---------------|--------------|----------|----------------|-----|-------|
| All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13 | 12483 | 601 | 163 | 124 | 154 | 158 | 477 | 123 |
| All firms (excluding don't know/refused responses), p. 2 | 11838 | 540 | 148 | 111 | 135 | 145 | 434 | 106 |
| All firms (excluding those who have no investment planned/don't know/refused responses), p. 5 | 12159 | 581 | 157 | 122 | 147 | 153 | 463 | 117 |
| All firms (excluding 'Company didn't exist three years ago' responses), p. 6 | 12453 | 601 | 163 | 124 | 154 | 158 | 477 | 123 |
| All firms (excluding don't know, refused and missing responses), p. 13 | 12162 | 579 | 159 | 119 | 144 | 155 | 464 | 114 |
| All firms who invested in the last financial year, p. 2 | 12281 | 593 | 162 | 122 | 151 | 156 | 470 | 122 |
| All firms who invested in the last financial year, p. 4 | 10881 | 494 | 139 | 101 | 114 | 138 | 386 | 107 |
| All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4 | 10060 | 439 | 124 | 92 | 102 | 119 | 350 | 88 |
| All firms who have invested in the last financial year (excluding don't know/refused responses), p. 5 | 9682 | 413 | 120 | 87 | 91 | 113 | 324 | 88 |
| All firms who invested in the last financial year (excluding don't know/refused responses), p. 10 | 9093 | 377 | 99 | 80 | 92 | 105 | 313 | 64 |
| All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), p. 8 | 10536 | 475 | N/A | N/A | N/A | N/A | N/A | N/A |
| All firms who used external finance in the last financial year (excluding don't know/refused responses), p. 10, p. 11 | 4344 | 156 | 42 | 31 | 25 | 57 | 116 | 40 |

Percentage rounding


Percentage with value of less than 0.5 but greater than zero has not been displayed in the charts.


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