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Business investment – the Brexit effect



In his monthly column, Professor Frank Peck, of the University of Cumbria's Centre for Regional Economic Development, looks at how uncertainty is effecting companies' decisions

There has been comment recently on the effects of Brexit on a range of business indicators, including its impact on inventory, sales growth and levels of business investment. On the latter, the British Chambers of Commerce has recently published its economic forecasts for 2019, in which the outlook for investment is weak.

Analysts suggest that business investment is likely to contract in 2019 by 1.3 per cent, with a marginal recovery in 2020 of only +0.4 per cent.

The reasons for this belief are self-evident – Brexit uncertainties accompanied by exchange rate

volatility and an uncertain outlook in many UK export markets.

Official data from the Office of National Statistics for 2018 reveals that there was indeed a fall in the level of business investment and it is highly likely that Brexit was a major factor inducing this trend. Business investment – investments in non-financial assets in the UK by private and public corporations – fell in every quarter during 2018.

Comparing the fourth quarter of 2018 with the same quarter in 2017, business investment fell from £47.9 billion to £46.7 billion, a drop of around 2.5 per cent. This pattern is certainly unusual, though not unprecedented. Looking back over this time series, the last time the UK

'There was indeed a fall in the level of business investment and it is highly likely that Brexit was a major factor'

economy experienced four successive quarterly declines in business investment was during the financial crisis in 2008-09.

The data on business investment can be disaggregated by type of investment. The assets that contributed most to the 2018 fall in business investment were ICT equipment and other machinery and equipment and transport equipment. Comparing the fourth quarter of 2018 with the same quarter in 2017, business investment in these categories was down 10 per cent and 8.8 per cent respectively.

By comparison, investment in buildings and structures and intellectual property products remained relatively stable. It would seem that Brexit worries during 2018



caused businesses to be more cautious about investment in large ICT projects and spending on capital equipment.

The immediate impact of this decline in investment during 2018 should perhaps not be exaggerated. The level of decline in each quarter was relatively small – less than one per cent in each case.

In the past 10 years, by comparison, there have been 10 quarterly falls over one per cent and several of these have been above four per cent. Business investment is also inherently “lumpy” and sharp rises and reversals can occur due to the effects of investments in major capital-intensive industries (such as vehicles, aerospace or chemicals).

It should also be pointed out that the absolute levels of investment during 2018 were historically fairly high and comparable with those experienced in 2015 and 2016 prior to the Brexit vote. However, what is clearly of concern is the trend – the persistence of decline and its implications for the future.

Provisional estimates of business investment for the first quarter of 2019 have been released however, and these indicate a possible recovery – an increase of 0.5 per cent. If this is confirmed, it poses questions for analysts.

Some clues as to what this might mean can be found in evidence compiled by the Bank of England Agents’ Summary of Business Conditions, reporting on discussions held with at least 700 business around in UK regions.

The report, published in March, indicated that in the first quarter of the year, investment intention fell sharply in manufacturing where companies responded to Brexit by building up stocks or cash reserves. Investment in services, however,

Business investment in Cumbria: specific examples reported January-June 2019

	Clark Door	Carlisle	£3m factory & office extension, including research and development
	Cavendish Nuclear	Whitehaven	£400,000 refurbishment of labs
	Tweddle Engineering	Wigton	Major expansion of premises after securing contracts valued over £1m
	Windermere Lake Cruises	Windermere	Investment in new 300-seater vessel
	Kingmoor Park	Carlisle	£1.3m investment in ModVillage Business Park
	Hydro Hotel	Bowness	Major refurbishment of hotel
	Lloyd Ltd	Penrith	Relocation to new premises on Eden Business Park
	Carlisle Lake District Airport	Carlisle	Culmination of £15m investment
	Pirelli	Carlisle	Expansion of premises creating 40 extra jobs
	Kimberley-Clark	Barrow	Investment to improve efficiency – but jobs may be lost
	Waterhead Hotel	Coniston	Major refurbishment of hotel with 18 extra rooms and parking space
	Deanpark Resorts	Windermere	£950,000 invested in new cottages, facilities and jetties
	Nestle	Dalston	£70m investment in developing new products and upgrading hall
	Lingholm Estate	Near Keswick	Expansion of self-catering accommodation
	Farrers Coffee	Kendal	Warehousing and packaging facility, specialist equipment

‘The absolute levels of investment during 2018 were historically fairly high’

remained positive with continued expenditure in IT and digital capability. There were some reports of investment in the logistics sector but investment in retailing has remained weak.

Significantly, agents reported that even in manufacturing, companies continue to invest in replacement of essential equipment and projects with short payback periods.

This seems to suggest that business owners can only hold off committing investment for a limited time without risks to the business.

This is perhaps why investment may show slight recovery as businesses make strategic decisions

to focus on investments that either address short-term needs or improve assets that are essential for longer-term competitiveness.

Business investment data is not published routinely for sub-regions like Cumbria. However, there are clear examples on strategic business investments of companies operating in Cumbria that have been reported in the past six months.

We should not overlook the fact that there have been closures and cutbacks that have had negative consequences for some communities (eg disinvestment at GSK Ulverston and continued announcements of closures of high street retail stores and retail banking services). But the list of new investments is significant, including reinvestment at multi-national sites (Nestle, Pirelli, Kimberley-Clark), investments in new facilities in specialist engineering and manufacturing (Clark Door, Cavendish Nuclear, Tweddle Engineering), a range of investments in tourist attractions and accommodation and, of course, the culmination of investment at Carlisle Lake District Airport, which opens this month.

UK Business investment by quarter during 2018 in £ million (and quarterly change)

	BUSINESS INVESTMENT	TRANSPORT EQUIPMENT	ITC EQUIPMENT/ MACHINERY	BUILDINGS & STRUCTURES	INTELLECTUAL PROPERTY
Q1	47,668 (-0.6)	5,421	12,633	14,796	14,818
Q2	47,459 (-0.4)	4,949	12,786	14,987	14,737
Q3	47,171 (-0.6)	4,450	12,531	15,411	14,778
Q4	46,749 (-0.9)	4,445	11,994	15,580	14,731

Source: Office for National Statistics Business Investment series (chained volume measure)