
Downloaded from: http://insight.cumbria.ac.uk/id/eprint/5450/

Usage of any items from the University of Cumbria’s institutional repository ‘Insight’ must conform to the following fair usage guidelines.

Any item and its associated metadata held in the University of Cumbria’s institutional repository Insight (unless stated otherwise on the metadata record) may be copied, displayed or performed, and stored in line with the JISC fair dealing guidelines (available here) for educational and not-for-profit activities provided that

- the authors, title and full bibliographic details of the item are cited clearly when any part of the work is referred to verbally or in the written form
- a hyperlink/URL to the original Insight record of that item is included in any citations of the work
- the content is not changed in any way
- all files required for usage of the item are kept together with the main item file.

You may not

- sell any part of an item
- refer to any part of an item without citation
- amend any item or contextualise it in a way that will impugn the creator’s reputation
- remove or alter the copyright statement on an item.

The full policy can be found here. Alternatively contact the University of Cumbria Repository Editor by emailing insight@cumbria.ac.uk.
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 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, 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.