

Statistical bulletin

Business investment in the UK: October to December 2020 provisional results

Estimates of short-term indicators of investment in non-financial assets, business investment, and asset and sector breakdowns of total gross fixed capital formation.



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Notice

30 March 2021

Business investment estimates for 2020 have been subject to more uncertainty than usual as a result of the data collection challenges we have faced in the current conditions. More information can be found within this bulletin.

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1 . Main points

- Business investment increased by 1.3%, in volume terms, between Quarter 3 (July to Sept) 2020 and Quarter 4 (Oct to Dec) 2020; however, business investment was 10.3% below Quarter 4 2019 levels, before the impact of the coronavirus (COVID-19) pandemic.
- All assets, except intellectual property products, contributed positively to the quarter-on-quarter growth in business investment; transport equipment made the largest positive contribution.
- Between 2019 and 2020 business investment fell by 10.7%; by comparison, during the 2008 global economic downturn business investment fell by 15.3% between 2008 and 2009.
- Gross fixed capital formation (GFCF) increased by 2.1%, in volume terms, between Quarter 3 2020 and Quarter 4 2020; the level of GFCF was 3.5% below where it was at the end of 2019.
- All assets, except intellectual property products, contributed positively to the quarter-on-quarter growth in GFCF; transport equipment made the largest positive contribution.
- Between 2019 and 2020 GFCF fell by 8.7%; by comparison, during the 2008 global economic downturn GFCF fell by 15.3% between 2008 and 2009.

2 . The impact of uncertainty on UK business investment

The coronavirus (COVID-19) pandemic had far-reaching social and economic effects, as the first national lockdown in March 2020 restricted economic activity. This led to a 22.1% fall in business investment, between Quarter 2 (Apr to June) 2020 and Quarter 3 (July to Sept) 2020. Excluding the effects of a re-classification in 2005, this was the largest quarterly fall on record. The easing of lockdown restrictions in Quarter 3 (July to Sept) 2020, brought with it a 14.5% growth in business investment which, aside from the impact of the 2005 reclassification, represented the largest quarterly increase on record. This growth has continued into Quarter 4 (Sept to Dec) 2020, albeit at a much slower rate of 1.3%. Though investment has grown since its record fall, it is still 10.3% below where it was at the end of 2019, before the impact of the coronavirus (COVID-19) pandemic. The higher levels of economic uncertainty are potentially having a more pronounced effect on the willingness of firms to undertake investment.

More about economy, business and jobs

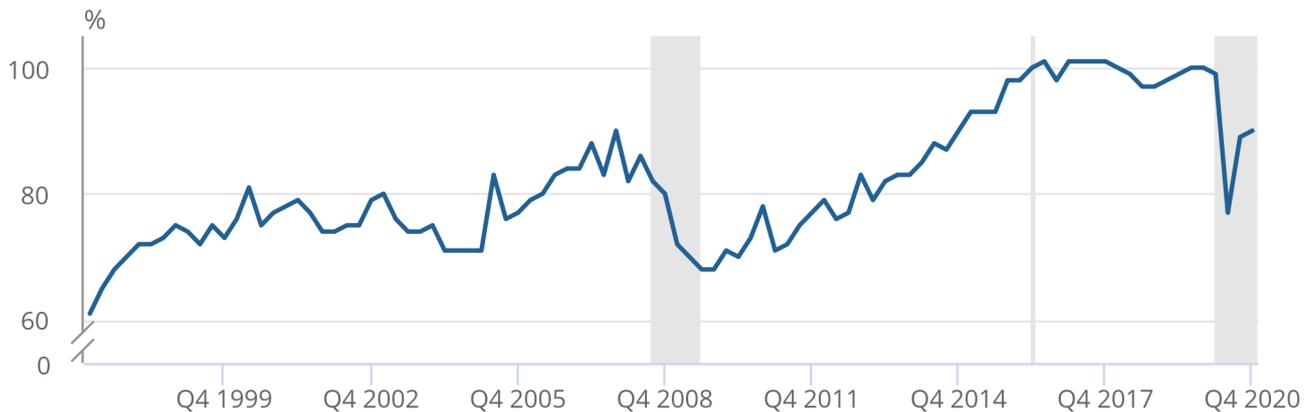
- All ONS analysis, summarised in our [economy, business and jobs roundup](#).
- Explore the latest trends in employment, prices and trade in our [economic dashboard](#).
- View [all economic data](#).

Figure 1: Comparing the severity of the coronavirus (COVID – 19) pandemic with the EU referendum and the 2008 economic downturn

UK business investment, chained volume measure, seasonally adjusted-excluding British Nuclear Fuels (BNFL) in Quarter 2 (Apr to June) 2005; indexed to Quarter 4 (Oct to Dec) 2019 pre-pandemic reference period

Figure 1: Comparing the severity of the coronavirus (COVID – 19) pandemic with the EU referendum and the 2008 economic downturn

UK business investment, chained volume measure, seasonally adjusted-excluding British Nuclear Fuels (BNFL) in Quarter 2 (Apr to June) 2005; indexed to Quarter 4 (Oct to Dec) 2019 pre-pandemic reference period



Source: Office for National Statistics – Business Investment provisional results

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).
2. Index is referenced to Quarter 4 (Oct to Dec) 2019.

The period of the 2008 economic downturn provides the closest comparisons to the quarterly decreases seen in 2020. Volatility in business investment commenced in 2007, with several quarter-on-quarter falls between Quarter 4 2007 and Quarter 3 2009, the largest of which was 9.6% in Quarter 1 (Jan to Mar) 2009. By the end of 2009, business investment was 24.2% lower than pre-economic downturn levels. The relationship between heightened uncertainty and lowered investment was prominent throughout this period. The Bank of England’s [Monetary Policy Report](#) suggested that uncertainty rapidly increased during the downturn as the long-term economic outlook became unsettled. It took three years after the economic downturn until Quarter 4 (Oct to Dec) 2012 for business investment to regain half of its losses before fully regaining its pre-downturn levels in Quarter 1 (Jan to Mar) 2015. In contrast, it has taken one quarter, thus far, for investment to recoup half of Quarter 2 (April to June) 2020 losses, when the impact of the pandemic was first observed.

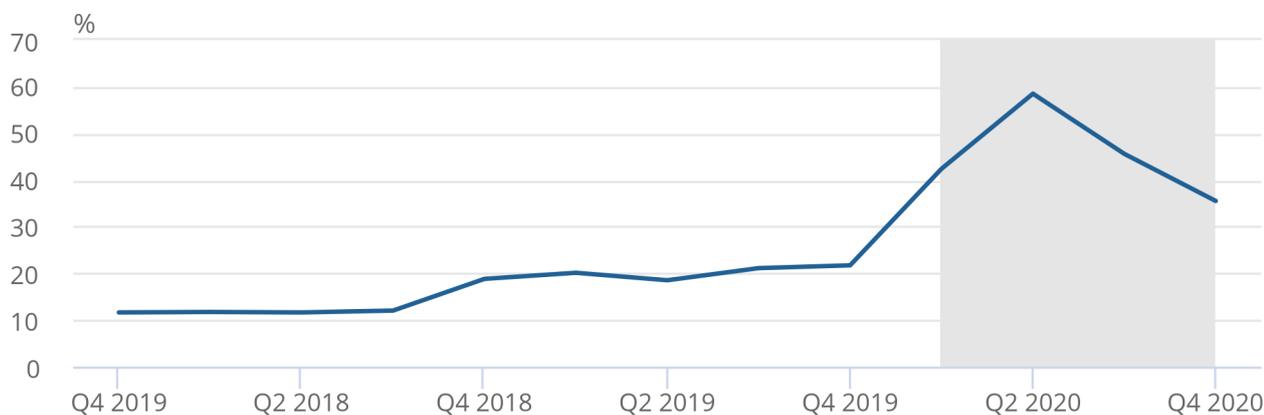
The recovery in business investment continued until the EU referendum of 2016. The UK's decision to leave the EU and the subsequent negotiations also created substantial uncertainty for UK businesses. Post-referendum investment saw muted growth when compared with the preceding quarters. According to the Bank of England's Decision Maker Panel, this muted growth can be explained by the fact that [Brexit uncertainty had continued for longer than expected \(PDF, 683KB\)](#), with "many unknowns that were difficult for businesses to quantify." Recognising that uncertainty appears to have impacted recent investment movements, we have explored respondent comments to our main business investment data source, the Quarterly Acquisition and Disposal of Capital Assets Survey (QCAS) for reference to uncertainty.

Figure 2: References to uncertainty peak during Quarter 2 (Apr to June) 2020 at a time when record falls in investment were observed

Percentage of comments reporting words associated with uncertainty among UK businesses

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Percentage of comments reporting words associated with uncertainty among UK businesses



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Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).
2. Quarter 4 2017 was the first quarter of large-scale comment collection on our QSS and QCAS surveys.

The relationship between uncertainty and the recent business investment profile, with its record Quarter 2 (Apr to June) 2020 fall, becomes clear after analysing respondent comments for words associated with uncertainty. When placed in an unknown economic environment, uncertainty weighs heavily on business confidence. After major events which included the 2008 economic downturn, EU referendum and coronavirus pandemic – when the outlook was unclear, uncertainty was observed, and investment fell.

In the most recent period, coronavirus and Brexit have had a significant impact on the level of uncertainty amongst UK businesses and their investment decisions throughout 2020. Looking ahead to 2021, uncertainty is likely to remain a factor in investment intentions. The UK government's vaccine roll-out and businesses adjustment to post-Brexit trading are both likely to be strong determinants in how quickly business confidence and with that, investment, recovers.

3 . Business investment data

[Business investment by asset](#)

Dataset | Released 22 December 2020

Detailed breakdown of business investment by asset, in current prices and chained volume measures, non-seasonally adjusted and seasonally adjusted, UK.

[Gross fixed capital formation - by sector and asset](#)

Dataset | Released 12 February 2021

Sector and asset breakdowns of gross fixed capital formation (GFCF), including business investment and revisions, in current prices and chained volume measures, non-seasonally adjusted and seasonally adjusted, UK.

[Annual Gross fixed capital formation - by sector and asset](#)

Dataset | Released 21 October 2020

Annual sector and asset breakdowns of gross fixed capital formation (GFCF), in current prices and chained volume measures, non-seasonally adjusted and seasonally adjusted, UK.

[Quarterly Stocks Survey \(QSS\) and Capital Assets Survey \(QCAS\) textual data analysis](#)

Dataset | Released 12 February 2021

The indicators and analysis in this dataset are based on qualitative responses from comments left by responding businesses to both our Quarterly Acquisitions and Disposals of (QCAS) and Quarterly Stocks Survey (QSS).

4 . Measuring the data

Quality and methodology information on strengths, limitations, appropriate uses, and how the data were created is available in the [Business investment QMI](#).

Changes to this bulletin

As of June 2020, we have changed the format for the Business investment in the UK statistical bulletin.

The latest estimates of business investment and gross fixed capital formation are discussed in more detail in [GDP first quarterly estimate, UK: October to December 2020](#).

The impact of the coronavirus (COVID-19) on our estimation methods

In Quarter 4 (Oct to Dec) 2020, the Quarterly Acquisitions and Disposals of Capital Assets Survey, one of the largest data sources for gross fixed capital formation (GFCF) and business investment, had a response rate of 54.6%. This compares with an average response rate of 82% during 2019 at provisional results.

To mitigate against that reduced response, we reviewed survey imputation methods to address particular areas of non-response and reviewed and, where necessary, changed our seasonal adjustment parameters where outliers were identified.

Coronavirus (COVID-19) data

Our latest data and analysis on the impact of the coronavirus (COVID-19) on the UK economy and population is available on a [coronavirus page](#). This is the hub for all special coronavirus-related publications, including the fortnightly Business Impact of Coronavirus (COVID-19) Survey (BICS).

The Office for National Statistics (ONS) has released a [public statement](#) on COVID-19 and the production of statistics. Specific queries should be directed to the [Media Relations Office](#).

5 . Related Links

[GDP quarterly national accounts, UK: October to December 2020](#)

Bulletin | 12 February 2021

Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

[Quarterly economic commentary: October to December 2020](#)

Article | 12 February 2021

Economic commentary for the latest quarterly national accounts, prices and labour market indicators.

[Quarterly Stocks Survey \(QSS\) and Capital Assets Survey \(QCAS\) Textual Data Analysis](#)

Dataset | 12 February 2021

The indicators and analysis in this dataset are based on qualitative responses from comments left by responding businesses to both our Quarterly Acquisitions and Disposals of (QCAS) and Quarterly Stocks Survey (QSS).