

Statistical bulletin

# Business investment in the UK: July to September 2020 revised 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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# 1 . Main points

- Business investment increased by 9.4%, in volume terms, between Quarter 2 (Apr to June) 2020 and Quarter 3 (July to Sept) 2020 – the largest quarterly increase on record, aside from the impact of a 2005 reclassification; however, the level of business investment in the UK is still 19% below where it was at the end of 2019.
- All assets, except intellectual property products, contributed positively to the quarter-on-quarter growth in business investment.
- When compared with the same quarter a year ago, business investment has fallen by 19.2%.
- Gross fixed capital formation (GFCF) increased by 17.9%, in volume terms, between Quarter 2 (Apr to June) 2020 and Quarter 3 (July to Sept) 2020 – this is the largest quarterly increase on record; however, the level of GFCF is still 9.8% 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; dwellings made the largest positive contribution, with record quarter-on-quarter growth.
- When compared with the same quarter a year ago, GFCF has fallen by 11.3%.

## 2 . How survey comments tell the story behind uncertain times for business investment

When the significant economic and social impact of the coronavirus (COVID-19) pandemic became clear, we began to explore new ways to understand how the pandemic was affecting businesses' investment decisions.

Our business surveys, unsurprisingly, saw response rates fall as the first UK-wide lockdown closed countless UK businesses and many adapted to staff working from home. However, what told us more than the data alone and allowed us to hear first-hand businesses' experience, were the comments that respondents had taken the time to leave, explaining changes in their investment behaviour.

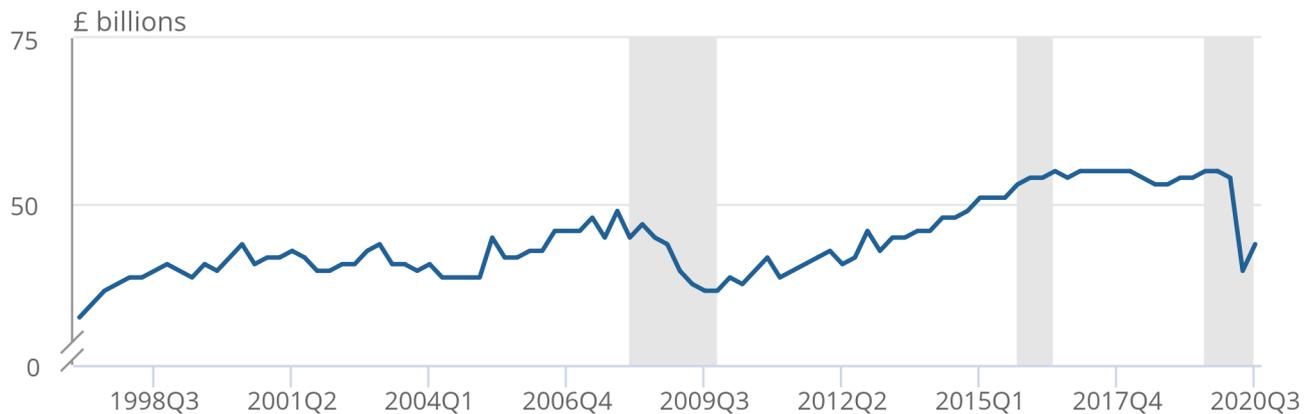
As shown in Figure 1, business investment experienced its largest quarterly fall on record between Quarter 1 (Jan to Mar) 2020 and Quarter 2 (Apr to June) 2020. Analysing the qualitative comments from businesses gave a unique insight, building a detailed picture of what lay behind the data as the full impact of the pandemic took hold.

**Figure 1: Business investment: comparing the severity of the coronavirus pandemic with the 2008 to 2009 economic downturn**

Business investment, UK, chained volume measure, seasonally adjusted- excluding British Nuclear Fuels (BNFL) in Quarter 2 (Apr to June) 2005

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Source: Office for National Statistics – Business Investment revised results

The main business investment data source, the Quarterly Acquisition and Disposal of Capital Assets Survey (QCAS), like many Office for National Statistics (ONS) surveys, is an online questionnaire. This means we can more easily extract businesses' comments and, using code, identify common words, phrases and themes for analysis over time, continually adapting this as the pandemic develops and Brexit's potential impact is felt.

**What has the analysis shown us so far?**

After analysing businesses' comments for words associated with uncertainty, the relationship between these and the recent business investment profile with its record Quarter 2 (Apr to June) 2020 fall becomes clear. In a completely unknown economic environment, uncertainty and lockdown weighed heavily on business confidence.

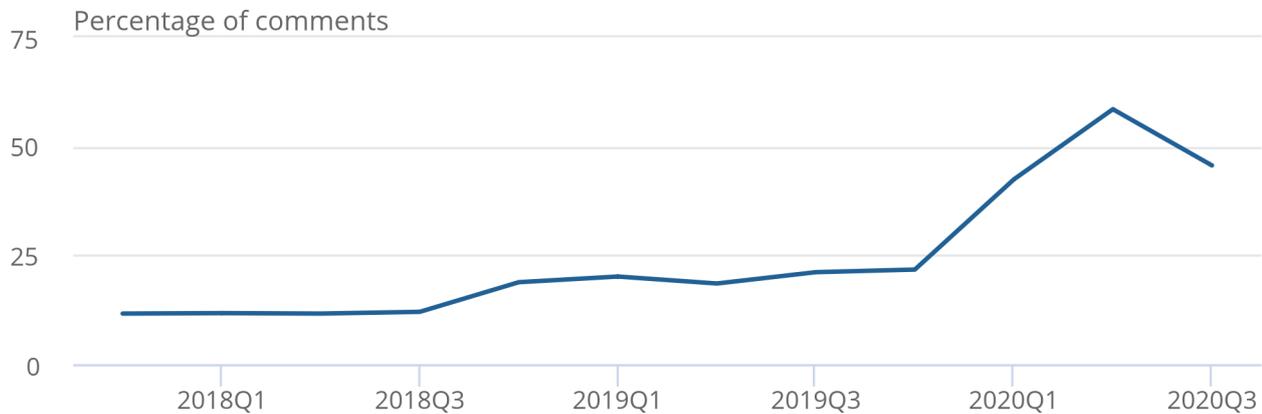
Many businesses stated they rapidly re-prioritised investment decisions to preserve cash flows. As UK-wide lockdowns eased in Quarter 3 (July to Sept) 2020 and businesses reopened, some of that uncertainty fell away but only to a similar extent as the partial recovery in business investment.

## Figure 2: The coronavirus has led to growing uncertainty among UK businesses

Percentage of comments reporting words associated with uncertainty among UK businesses

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#### Notes:

1. Quarter 4 2017 was the first quarter of large-scale comment collection on our QSS and QCAS surveys.

So how has that uncertainty manifested itself so far in 2020? Predominantly where investment was stopped, businesses told us that those investment decisions were being delayed rather than cancelled. There was a sharp increase in “delayed” comments in Quarter 1 (Jan to Mar) 2020 peaking in Quarter 2 2020 at around 30% of all comments, before falling back slightly in Quarter 3 2020. Conversely, investment cancellations, though present, feature much less.

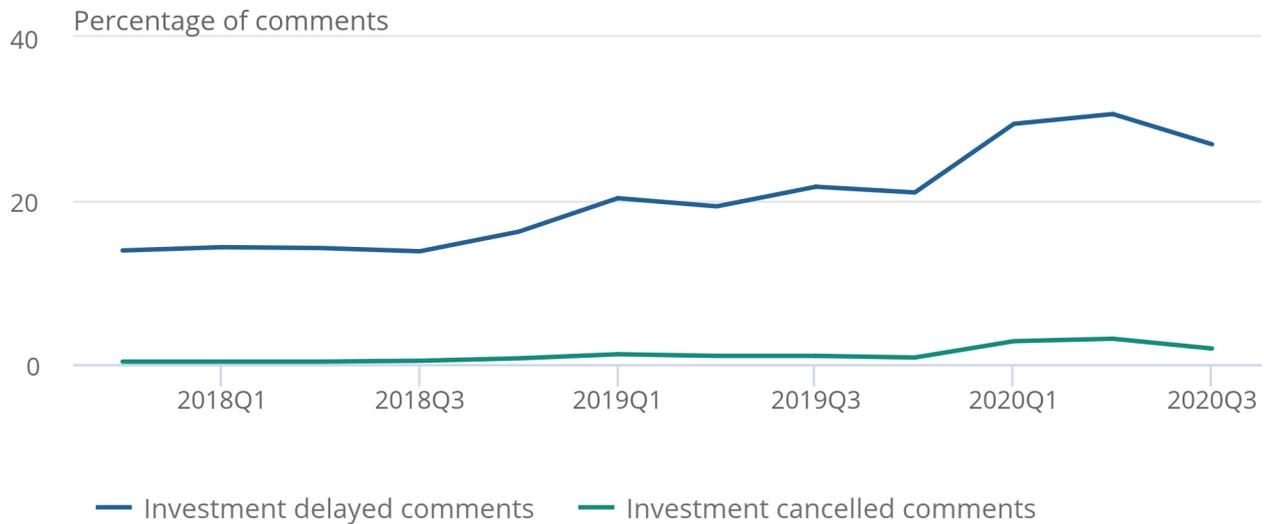
It is worth noting though that the percentage of businesses reporting investment as being delayed has been steadily increasing since mid-2018, possibly with Brexit becoming a factor, though 2020 saw the sharpest increases.

### Figure 3: The coronavirus has led to many businesses delaying or cancelling their investment

Percentage of QCAS comments referring to business investment delayed or cancelled, Quarter 4 (Oct to Dec) 2017 to Quarter 3 (July to Sept) 2020

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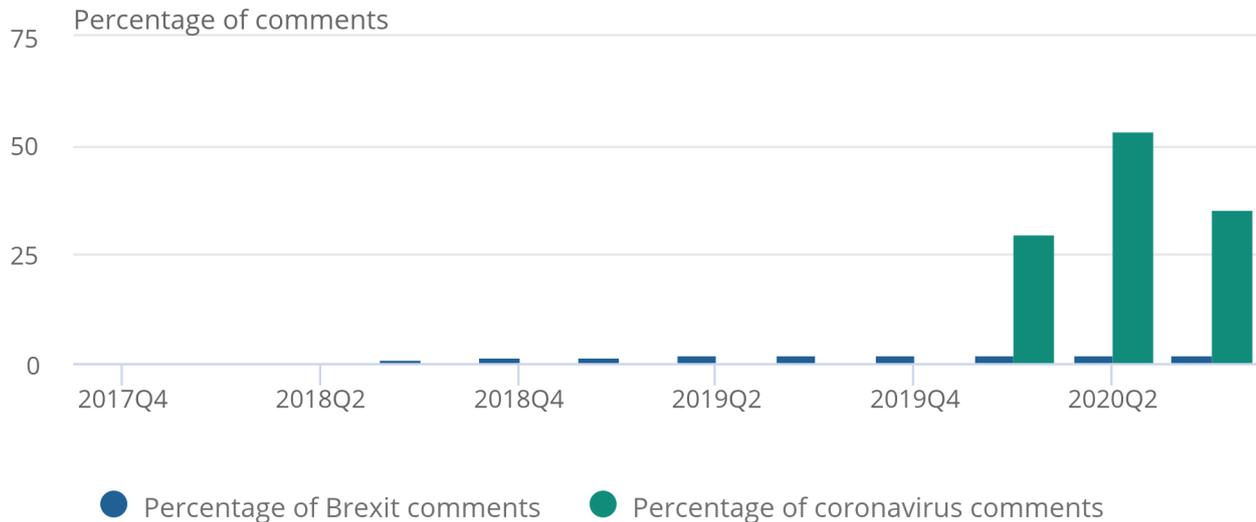
The coronavirus (COVID-19) has understandably dominated businesses comments during 2020, with around 5,000 individual comments received to date, but this is not the only source of uncertainty. We also isolated comments referring to Brexit. These continued to build during 2018 and 2019 but since then, they have remained steady at around 2% of all comments. With the transition period ending on December 31 2020, we will explore how businesses have reacted to Brexit in their investment decisions in Quarter 4 (Oct to Dec) 2020.

## Figure 4: The coronavirus has dominated business comments during 2020, but it is not the only source of uncertainty

Percentage of comments referring to Brexit or the coronavirus, Quarter 4 (Oct to Dec) 2017 to Quarter 3 (July to Sept) 2020

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Percentage of comments referring to Brexit or the coronavirus, Quarter 4 (Oct to Dec) 2017 to Quarter 3 (July to Sept) 2020



Source: Office for National Statistics – Business Investment revised results

## Where next?

Quarter 4 2020 has seen greater regional and national lockdowns as COVID-19 cases rose but also positive news regarding the rollout of a vaccine, which markets reacted strongly to. We will continue to listen to what businesses say in our surveys as future uncertainty is likely to continue.

For more information on how we are using survey comments, see our experimental textual analysis dataset: [Quarterly Stocks Survey \(QSS\) and Quarterly Acquisitions and Disposals of Capital Assets Survey \(QCAS\) textual data analysis](#).

## 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 22 December 2020

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 22 December 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.

All data related to business investment are available on the [Related data page](#).

## 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 the [GDP quarterly national accounts, UK: July to September 2020](#).

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

In Quarter 3 (July to Sept) 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 71.4%. This compares with an average response rate of 82% during 2019.

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: July to September 2020](#)

Bulletin | Released 22 December 2020

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: July to September 2020](#)

Article | Released 22 December 2020

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