

# Keeping calm and carrying on British business marches cheerfully into the unknown

[economist.com/britain/2017/09/09/british-business-marches-cheerfully-into-the-unknown](https://www.economist.com/britain/2017/09/09/british-business-marches-cheerfully-into-the-unknown)

Firms may dislike the prospect of Brexit, but so far it isn't curtailing their investment plans



## Print edition | Britain

Sep 9th 2017

IT WAS sure to slump. Following the Brexit referendum of June 2016, many economists expected that shrinking investment would push the economy into recession. Some saw investment falling by nearly a tenth in 2017, similar to when the financial crisis hit in 2008-09. Foreign direct investment (FDI) was also expected to dry up, especially after Theresa May, the new prime minister, promised a "hard Brexit", leaving the EU's single market.

Try telling that to David King of Makar Technologies, a small electronics manufacturer near Inverness. The firm has just one site but in the next 12 months will open new ones in Edinburgh, near Exeter and near Cambridge. It plans to employ 40 people, up from 12 today. Asked how Brexit affects his expansion plans, Mr King's response is simple: "It doesn't."

His is not the only company pressing on with its investments. In July Amazon, the online-retailing behemoth, announced that it would take all 15 storeys of the Principal Place building in Shoreditch as it hires more people to work in research and development. On September 5th Aveva, a software group based in Cambridge, unveiled a merger with the software arm of France's Schneider Electric. Across the economy in the past year, both business investment and FDI have held up. Given that Remainers and Leavers alike agree that the prospect of Brexit has left Britain in a state of considerable uncertainty, why do firms of all shapes and sizes seem so chipper?

Each year in Britain the private sector invests about four times as much as the government, in everything from new buildings to computers. Investment is at the root of improvements in productivity and, hence, pay-packets. FDI can be especially useful. Research suggests that when American multinationals take over British firms they bring better technology and management, lifting productivity by as much as 10%. Foreign-owned companies also appear to spend more on R&D than comparable British ones.

Since the financial crisis, business investment in Britain has been lacklustre. In the decade before the crisis it was worth on average 10.7% of GDP; that has since fallen to 9.3%. FDI has been up and down.

By these underwhelming standards, the period since the referendum hardly seems like a disaster. In the second quarter of this year, real-terms business investment was about as high as it was in the same period last year, before the vote. It may be the case, as Peter Mandelson, a Labour peer, argues, that Britain is missing out on additional investment that would have been made in the event of a Remain vote. That is unknowable. Yet it is hard to find much evidence to support the idea. Exclude investment in the extraction of raw materials, which has collapsed because of low oil prices (see next story), and business investment rose by 1.5% last year.

It is a similar story with FDI. Statistics from Dealogic, a data provider, suggest that foreign mergers and acquisitions of British firms this year represent a tenth of the global total, which is in line with the long-term average. Inward FDI hit an all-time high in the fourth quarter of 2016. Some fear that foreign

moneymen are using sterling's depreciation as an opportunity to asset-strip British firms. Yet there is not much sign of this. Oxford Intelligence, a consultancy, tracks FDI into offices, factories, R&D facilities and the like. In 2016 the number of projects rose slightly on the year before.

## Steady as she goes

---

Leavers might claim that the relative strength of investment shows enthusiasm for Brexit among businesspeople. This is hard to square with the surveys before the referendum showing that a majority of British companies of all sizes, as well as virtually all big foreign ones, backed Remain. A recent attempt by the government to get leading British firms to sign a letter backing its Brexit strategy was rebuffed.

Other factors are at play. Wear and tear means that some investment is due each year. If a builder's van breaks down it needs replacing, Brexit or no. The rate of replacement may have increased as more investment goes into computers and software, says Jonathan Haskel of Imperial College London, because this sort of capital needs updating frequently.

Some projects captured by official statistics reflect decisions taken long before the referendum. Tottenham Hotspur's gigantic new football stadium, which is due to open next year, represents an investment of hundreds of millions of pounds that received planning permission in 2011.

The external conditions facing firms have also encouraged investment. Borrowing is dead cheap. For the first time since the crisis a cyclical upswing in the global economy is under way. Investment intentions have picked up across the world, as Mark Carney, the governor of the Bank of England, pointed out in a recent speech. FDI projects have risen across Europe too.

Nonetheless, with Britain's future relationship with the EU so unclear, it remains puzzling that more firms have not adopted a wait-and-see approach. Since the referendum, one closely watched measure of economic uncertainty, constructed through analysis of newspaper articles, has been well above its post-crisis average.

Yet that measure of uncertainty is uncorrelated with capital investment, according to research by Kristin Forbes, formerly of the Bank of England. Manufacturers in Inverness may not be animated by the same issues as journalists in London. Nine out of ten small and medium-sized firms do not export, so they may not much care whether Britain reaches a trade deal with the EU, or replaces the 50 or so others that it will lose on leaving. Bosses have more urgent things to do than to keep up with the latest twists in the Brussels soap-opera.

Perhaps more surprisingly, it is not just small firms that seem unswayed by Brexit. According to our analysis, eight out of ten company filings made by FTSE 100 firms this year do not even mention Brexit (or related phrases such as "single market"). "There is a huge difference between the political thinking about Brexit as opposed to what takes place in the more practical world of business," says Karina Luper of Oxford Intelligence.

Foreign investors also seem more interested in other things. Chandru Iyer works for Kingston Smith, a firm which has been helping Indian companies set up shop in Britain since the 1980s. He says that Indian investors like Britain's corporation-tax rate, which at 19% is the lowest in the G7. For many foreign investors, Britain is still seen as a safe-ish haven. America has a volatile president, Hong Kong's moneymen are concerned about Chinese meddling and there is turmoil in the Middle East.

The question is how long firms will remain on autopilot. Even those that are not changing their behaviour because of the prospect of Brexit will be affected by its reality in 18 months. The adoption of a restrictive post-Brexit immigration policy, of the sort outlined this week in a leaked document from the Home Office, or the failure to reach any kind of trade deal with the EU, would deprive companies of the people and products they rely on. The resulting economic crunch would affect all firms, including those that feel insulated from the EU. The slump may merely have been deferred. For now, though, British business marches cheerfully into the unknown.