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Foreign Direct Investment and the UK Economy

A UK Powerhouse report, Spring/Summer 2022

Foreword

About the report

Foreword

Welcome to the latest edition of UK Powerhouse.

In our latest report we examine the latest trends in Foreign Direct Investment (FDI) into the UK and highlight the importance it has on job creation and economic productivity.

The study analyses data from both the Office for National Statistics and the Department for International Trade.

Although it paints a mixed picture in terms of FDI during the pandemic, it's clear the UK is emerging from this period and continues to be attractive for overseas investment.

In addition to a review of where the FDI is coming from, and to which areas and industries it's moving into, our study looks ahead to the end of next year and assesses which local economies are expected to perform the strongest in terms of jobs and output.

I'm pleased to say that by the end of next year, economists at Cebr predict that the growth path for the economy as a whole, and indeed individual cities, is expected to have normalised.

The economy is still expected to face some turbulence, but we're already seeing some optimism return.

We're certainly witnessing a growth in FDI activity, driven by an increase in client referrals including from our global network, First Law International, and other international connections, including the Commonwealth Enterprise and Investment Council.

The London and the South East continue to drive a significant amount of this but, as a national law firm covering the length and breadth of the UK, I'm encouraged that activity is spread across much of our national footprint, with many foreign companies and individuals recognising the huge opportunities that exist here.

I hope you find this report to be of interest and please do get in touch if we can be of any assistance with any queries around investment into the UK.

Irwin Mitchell is a powerful UK law firm, and we're proud of the strength of our global reach.

If you are a UK business, or an individual looking to have interests outside the UK, we'd also be delighted to hear from you.

Bryan Bletso
Head of International at Irwin Mitchell

About the report

Official economic data sources for the UK's cities are often subject to a time lag, meaning it's difficult to obtain an up-to-date snapshot of economic performance.

To estimate recent economic activity, Cebr's used a range of more timely indicators to create a nowcast of gross value added (GVA) and employment for Irwin Mitchell's 50 UK Powerhouse cities.

Cebr also models the economies of these cities to produce a forecast of their performance in the years ahead. The latest outputs of this analysis give us a picture of how the regional economies of the UK performed in Q4 2021 and how they're expected to perform in Q4 2023.

This report also considers the UK's foreign direct investment (FDI) landscape. The volume of FDI in the UK has been growing over time, and has become more important to the country's economic performance.

FDI is expected to be crucial to the UK's economic recovery, following the severe disruptions caused by COVID-19 and the barriers to trade and investment that arose due to Brexit.

Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The views expressed herein are those of the authors only and are based upon independent research by them.

London, May 2022

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The State of the UK Economy

How the economy is faring as it strives to reach pre-pandemic output levels

The State of the UK Economy

The UK economy continued its recovery in the second half of 2021.

From Q2 2021 onwards, the economy saw a general shift towards a more optimistic outlook, supported by the return of spending opportunities as COVID-19 restrictions gradually lifted. Output increased by 0.9% in Q3, before the rate of growth accelerated to 1.3% in Q4. This faster growth rate in the final months of the year came despite the headwinds brought by the rapid spread of the Omicron variant.

This growth left GDP just short of pre-pandemic levels in the final quarter of the year, being just 0.1% lower than the value recorded in Q4 2019.

Sector overview

Considering performance across sectors, the service sector shows a relatively strong position. Service sector output in Q4 2021 was 0.9% above the levels seen before the pandemic. But construction and production are still seeing activity below pre-pandemic levels, falling short by 1.8% and 3.0%, respectively. The stronger position of services masks some divergence in performance across subsectors. Human health & social work activities, wholesale & retail, information & communication, and professional, scientific & technical activities are amongst the subsectors to show output above pre-pandemic levels.

Meanwhile, accommodation & food services, finance & insurance, education, and transport & storage continue to show output levels below those seen in Q4 2019.

Figure 1 – UK GDP, quarterly index, Q4 2019 = 100

Source: Office for National Statistics, Cebr analysis

Further impacts of recovery

Other economic indicators have also improved in line with the economy as a whole. The labour market has shown particular strength, managing to navigate the potential headwinds posed by the end of the furlough scheme.

The unemployment rate dipped below pre-pandemic levels on the most recent reading, at 3.8% in the three months to February 2022. Meanwhile, the number of payrolled employees has reached record highs in recent months, standing at 29.7 million in February.

There are some downsides to the labour market that are masked by these statistics. The increase in economic inactivity shows the extent to which individuals withdrew from the workforce during the pandemic.

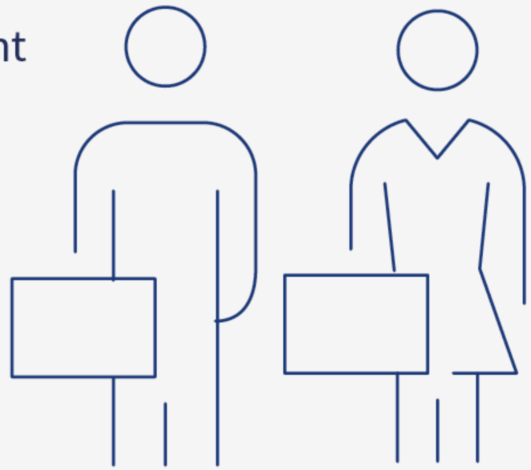
Wage growth has also shown a considerable slowdown from the peak levels seen almost a year ago, with the impact of this being worsened by the mounting inflationary landscape putting downward pressure on real living standards of households.

Looking ahead, GDP growth is expected to slow in 2022. In addition to the statistical effect from comparing a higher base, the slowdown in growth will be driven by several emerging macroeconomic trends.

Key amongst these will be the cost-of-living crisis, which is set to adversely impact consumption, and the impacts of the conflict in Ukraine, which will disrupt the economy through the supply chain channel as well as through general uncertainty.

3.8%

The unemployment rate dipped below pre-pandemic levels on the most recent reading, at 3.8% in the three months to February 2022.



Expert Opinion - The Cost Of Living Crisis

The cost of living crisis is set to be the dominant domestic issue facing business and political leaders over the coming year.

As the cost of food, fuel and energy continues to rise, so too does the cost of hiring staff and manufacturing and transport goods around the world.

The causes are complex and global in nature. From the rebound in demand following the ending of Covid restrictions to the Russian invasion of Ukraine, inflationary pressures have cumulated throughout the international supply chain. These issues have been compounded by subsequent delays, product shortages and hikes in shipping costs.

The consequences for the UK economy are equally multifaceted. The red flags are already starting to appear, pointing to a weakened consumer confidence, reduced spending power and potential recession. The steep increase in the cost of living will undoubtedly hit certain groups harder than others.

Younger people, those with variable rate mortgages and those on lower incomes who spend proportionally more of their money on essentials will be impacted most. As consumers reign in on discretionary spending, it will be a challenging time for businesses. Many are still recovering from two years of lockdown and struggling with labour shortages; this crisis may delay their recovery further.

Targeted support for those most in need will be required from government. So too will investment in data, analytics and digital technology to enhance logistical operations, reinforce supply chains, increase product choice and deliver flexible payment options. These investments will improve the overall ‘experience’ consumers are looking for and encourage spending and economic recovery.

Although the labour market remains resilient, there is no easy shortcut to avoid the tough times ahead. Consumer sector businesses should instead focus on what they do best: being innovative, listening to customers, collaborating with partners and adapting quickly to change.

Faye Bargery
Market Lead, Sales and Business Development

City Growth Tracker

The performance of 50 UK Powerhouse cities, based on indicators of productivity

City Growth Tracker

Key findings

The UK's regional and city economies also saw a strong economic recovery with the lifting of COVID-19 restrictions in 2021 and the subsequent return of economic activity.

But this has varied across cities, both in terms of output and employment. Our previous UK Powerhouse report provided a forecast for GVA and employment growth in Q4 2021.

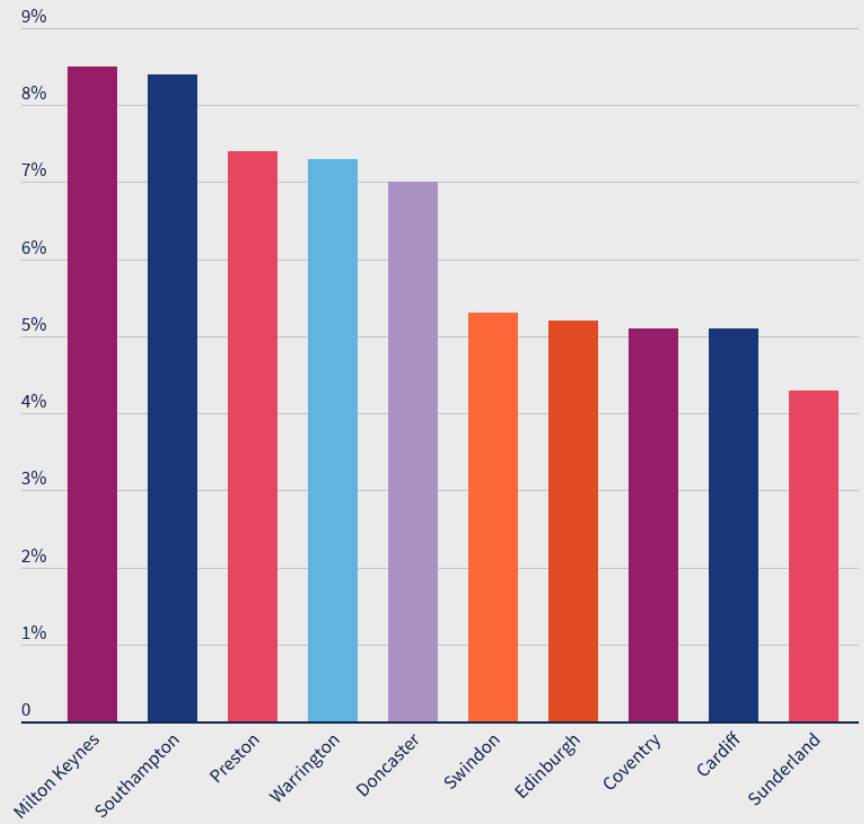
Using a nowcast, we can see that the growth rates for all cities are slower than previously forecasted.

This slower growth reflects the emergence of the Omicron variant and subsequent downward pressure on economic activity in the final months of 2021. Omicron hadn't emerged when the last report was published.

City economy performance in Q4 2021

Annual GVA growth rates in Q4 2021 were high across the board, and generally higher than in Q3 2021. This was partially driven by differing base effects. Economic activity in Q4 2020 was subject to downward pressure, reflecting the nationwide lockdown measures in place in November and the regional measures in place for much of December. This provided significant scope for annual growth in activity in Q4 2021, despite the headwinds brought about by the Omicron variant.

Figure 2 – Top and bottom five cities by annual GVA growth, Q4 2021



Source: Cebr analysis

Annual GVA growth was highest in Milton Keynes, amounting to an uptick of 8.5%. Milton Keynes is uniquely located within the Oxford-Cambridge Arc, a region identified as being of global importance for innovation and business activity.

Its growth is also supported by its high productivity levels and prevalence of business start-ups. The economy is also heavily driven by services, accounting for 86.4% of total employment in 2021, meaning the city has benefitted from the fact that services activity now stands above pre-pandemic levels.

Southampton's growth was a close second place, with an annual increase of 8.4%. Transport and storage is one of the city's largest industries, reflecting its position on the coast and large port infrastructure.

This has allowed the city to benefit from the recovery in global trade volumes since the start of the pandemic, fuelling its growth.

Nevertheless, this trend could reverse over the coming year, with continued supply chain disruption, and the impacts of the Ukraine conflict and subsequent sanctions, likely to impact the global trade environment. This is highlighted by Southampton's relative fall down the rankings when considering growth in Q4 2023, when output is forecasted to pick up by just 2.2%.

Recent government announcements suggest that Southampton's growth prospects could pick up again in the longer term, with the city expected to be at the forefront of the rapidly developing hydrogen economy following the receipt of large-scale funding.

Employment disparity

In terms of employment, Oxford saw the fastest increase with a 5.7% annual uptick in Q4.

As with Milton Keynes, Oxford is a key source of innovation and business growth. The city saw particularly strong employee growth in financial services in the year to Q4 2021.

Oxford's growth was followed by Solihull, where an annual employment uptick of 5.3% was witnessed. Solihull's employment growth was particularly driven by the construction sector.

One possible factor behind this is the swathe of infrastructure projects taking place across the West Midlands, such as the construction of HS2.

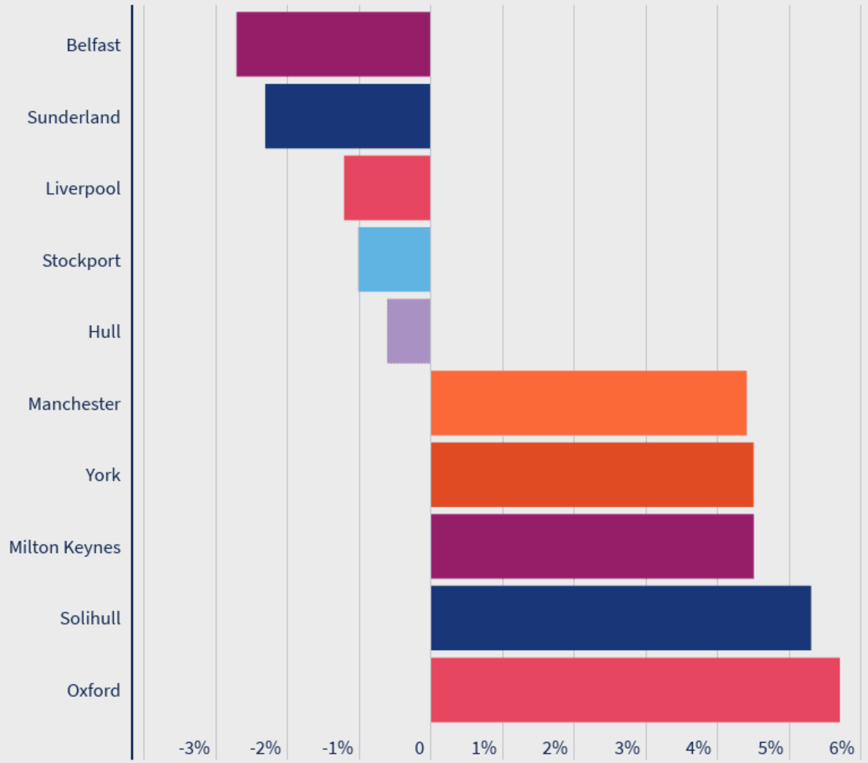
The construction of housing projects in the region would also suggest a growing real estate sector.

These trends will have also supported growth in Birmingham, which saw relatively strong GVA and employment growth of 6.9% and 3.7%, respectively, in Q4 2021.

Meanwhile, accelerated digitisation and adoption of technology at the aggregate level presents an opportunity for places with a substantial tech presence, including Manchester.

Fast annual growth was also seen amongst the city's distribution, transport, and accommodation and food services businesses.

Figure 3 – Top and bottom five cities by annual employment growth, Q4 2021



Source: Cebr analysis

Growth here was likely supported by base effects, especially for transport and hospitality businesses, given that these sectors were amongst the most starkly impacted in the earlier stages of the pandemic.

Sheffield's growth was at the weaker end of the scale in Q4 2021, amounting to an annual uptick of 6.1% for GVA and just 1.9% for employment.

The city's economy has traditionally been centred around industry, with a much larger proportion of the city's workforce employed in manufacturing than other similarly sized and located cities, such as Leeds, Liverpool and Manchester.

The importance of manufacturing to the city is one factor behind its slower growth in Q4 2021, with manufacturing output remaining below pre-pandemic levels.

A large share of the Yorkshire city's workforce is employed in public administration and in health. These sectors were less adversely impacted by the pandemic in comparison to others, particularly those in the private services sector. This provided less scope for faster growth in these sectors in 2021.

The relatively greater importance of manufacturing means Sheffield's growth in Q4 2023 is also set to be on the weaker side. The city's GVA is forecasted to pick up by 1.5%, while employment growth is expected to be 1.4%.

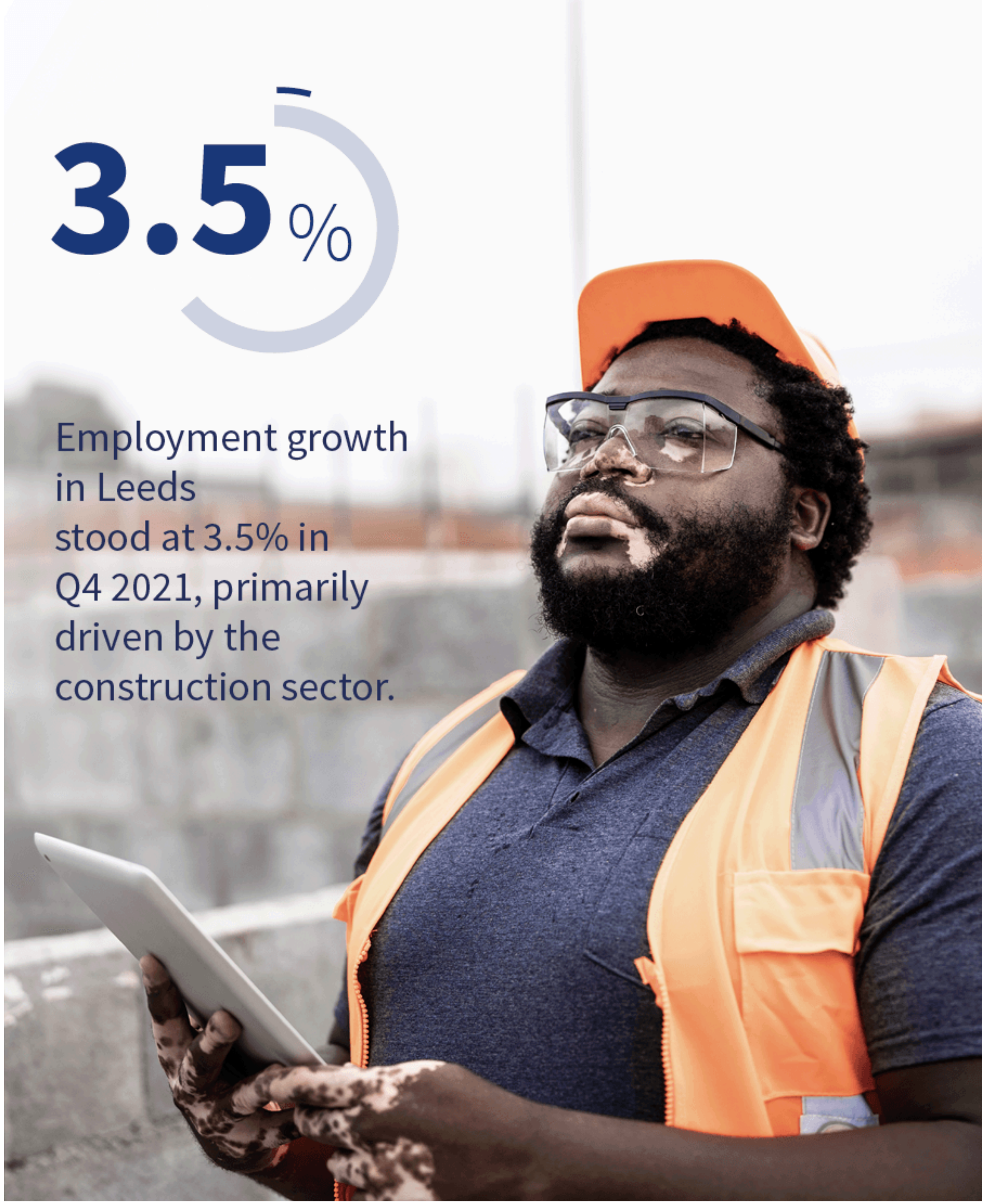
Leeds performed similarly to Sheffield in Q4 2021 in terms of GVA, with an annual uptick of 6.2%. But Leeds' employment growth was much faster than Sheffield, amounting to an annual increase of 3.5%. Employment growth was driven by the construction sector.

As with the cities in the West Midlands, this likely reflects an increase in the number of infrastructure projects in Leeds and in wider West Yorkshire.

Examples include the development of student accommodation and office space in Leeds city centre and the redevelopment of the British Library facility in nearby Boston Spa.

The planned HS2 connection to the city has been scrapped, which will be a blow to the construction industry. It also means that the city will miss out on the future benefits of improved transport connectivity across the country.

When considering growth in Q4 2023, Leeds ranks towards the weaker end of the scale in terms of GVA, with an expected uptick of 1.7%, while employment growth is stronger, at 2.0%.



London's growth was at the weaker end of the scale in Q4 2021. GVA in the capital picked up by 5.9%, while employment increased by 2.1%. There was some divergence between areas in the capital, with Outer London's GVA growth of 6.2% outweighing the 5.8% growth seen in Inner London.

Conversely, Inner London outperformed Outer London on employment growth, with rates of 2.6% and 1.2%, respectively. Inner London suffered significantly during the early stages of the pandemic.

The lack of consumer footfall during the lockdown periods adversely impacted consumer-facing services, with the centre of the capital

London's main comparative advantage lies in financial services and, though the sector transitioned to mass remote working relatively smoothly, there was a slight fall in employment in the capital in 2021.

The sector has also faced some turbulence as a result of the end of the Brexit transition period and will likely face more competition from financial hubs on the continent in future.

Inner London is set to be one of the strongest cities for GVA and employment growth in 2023 despite this potential headwind, with annual upticks of 2.3% for the former and 2.2% for the latter.

Expert Opinion – Growth in Manchester

It's perhaps no surprise that economic growth in Manchester in Q4 2021 was fuelled by the financial services sector.

The professional services are a long-standing cornerstone of the Greater Manchester economy.

The strength of the sector has been demonstrated by a series of recent announcements. This includes the launch, by PWC, of its tech hub in the heart of Manchester's financial district. The city's also been recognised as Europe's fastest-growing tech hub following substantial financial investment.

As well as being home to companies such as The Hut Group, BooHoo and NCC, Manchester has been crowned the City of tech Start-Ups.

The city has been hailed for its excellent market conditions for new businesses.

There have also been a number of high profile relocations and studio expansion announcements into the city region. These have come from businesses in the tech and creative industries, including games development company, Cloud Imperium.

This follows the moves by Team 17 and Sumo into the city region in recent years. Together, these have made the region a leading video games and interactive entertainment

Growth and investment in the sector continued despite the pandemic and is set to continue during the rest of 2022.

Laura J Harper
Partner, Commercial

A focus on Manchester

Manchester was one of the strongest performers in Q4 2021, for both GVA and employment.

In central Manchester, GVA picked up by 6.9% year-on-year, while employment growth amounted to 4.4%. Greater Manchester's growth rates were slightly slower, at 6.4% for GVA and 2.1% for employment, suggesting that the uptick in activity was weaker in the surrounding areas than in the centre of the city.

Manchester possesses the largest financial services industry outside of the capital, and it was this sector that drove growth in employment in the year to Q4 2021. Strong GVA growth was seen in the city's business services, reflecting the number of businesses setting up in or relocating to the city, as well as its status as an emerging tech hub. Several large employers, including EY, are set to ramp up their operations in Manchester. This will further fuel employment and GVA growth amongst business services.

Looking ahead to Q4 2023

By Q4 2023, the impacts of the pandemic are expected to have been overcome. But the economy is still expected to face some turbulence between now and then, notably through volatility in commodity prices, supply chain pressures, and the emerging cost-of-living crisis domestically.

All of these factors are set to impact growth both at the aggregate level and, to a varying extent, within individual cities.

As with growth in Q4 2021, Milton Keynes is expected to be the fastest growing city in Q4 2023, with annual GVA growth of 2.6%. This will reflect further investment in the Oxford-Cambridge Arc and the continuation of innovation and start-up trends within Milton Keynes specifically.

Oxford and Cambridge will benefit from these trends, with the former ranking as the fourth fastest-growing city in Q4 2023, with a GVA uptick of 2.3%, and the latter ranking as the fastest-growing city when considering employment. Peterborough, Reading, Brighton and Inner London all feature in the fastest growing cities by GVA, with respective annual growth rates of 2.4%, 2.4%, 2.3%, and 2.3%, in Q4 2023.

Each of these cities is home to a cluster of tech businesses, a sector that has driven of the UK's growth in recent years. The slower-growing cities are home to declining industries. Aberdeen's oil-based economy is set to grow by just 1.3% in Q4 2023, while the former industrial hotbed of Wolverhampton and port cities of Belfast, Hull, and Plymouth are each expected to grow by just 1.4%.

Levelling up?

Eight of the top ten fastest-growing cities in the year to Q4 2023 are expected to be in the South or East of England.

Just Birmingham in the West Midlands and Edinburgh in Scotland buck this trend. Warrington, in 20th place on the Q4 2023 UK Powerhouse table for GVA, is expected to be the fastest-growing city in the North.

Meanwhile, over half of the bottom 25 UK Powerhouse cities by GVA growth are expected to be in the North of England.

This comes despite the Government's new levelling up policies, aimed at reducing regional economic disparities.

With more financial backing over time, we may start to see the effects of more investment in Northern regions, but, in the meantime, the UK Powerhouse economies in the South continue to benefit from their dominance in fast-growing industries.

For Northern regions to succeed, targeted investment in flourishing sectors such as life sciences would boost regional output and support local economies.

Powerhouse tables, Q4 2021

	GVA Q4 2021, £mn (annualised, CVM constant prices)	Growth (YoY)
Milton Keynes	13,500	8.5%
Southampton	7,200	8.4%
Preston	4,200	7.4%
Warrington	7,100	7.3%
Doncaster	5,400	7.0%
Manchester	22,600	6.9%
Birmingham	26,000	6.9%
Bristol	14,200	6.8%
Oxford	21,300	6.8%
Stoke-on-Trent	5,600	6.8%
Cambridge	18,800	6.5%
Liverpool	12,500	6.5%
Reading	8,300	6.5%
Nottingham	9,800	6.5%
Solihull	9,500	6.5%
Greater Manchester	69,000	6.4%
Peterborough	6,200	6.4%
Northampton	11,400	6.4%
York	5,800	6.4%
Exeter	5,300	6.4%
Newcastle	18,600	6.3%
Wakefield	7,400	6.3%
Leicester	8,400	6.2%
Winchester	5,100	6.2%
Portsmouth	5,600	6.2%
Leeds	25,100	6.2%

	GVA Q4 2021, £mn (annualised, CVM constant prices)	Growth (YoY)
Aberdeen	15,600	6.2%
Belfast	12,200	6.2%
Outer London	135,900	6.2%
Sheffield	12,000	6.1%
Derby	6,900	6.1%
Rotherham	4,500	6.1%
Glasgow	20,500	6.1%
Wolverhampton	4,800	6.0%
Chelmsford	4,700	6.0%
London	429,400	5.9%
Stockport	6,300	5.9%
Plymouth	5,300	5.8%
Swansea	5,200	5.8%
Inner London	293,600	5.8%
Hull	5,700	5.6%
Huddersfield	7,200	5.6%
Brighton	8,100	5.6%
Bradford	9,200	5.6%
Bournemouth	9,800	5.4%
Swindon	8,800	5.3%
Edinburgh	22,300	5.2%
Coventry	9,200	5.1%
Cardiff	12,700	5.1%
Sunderland	6,500	4.3%

Powerhouse tables, Q4 2021

	Employment Level, Q4 2021	Growth (YoY)
Oxford	145,100	5.7%
Solihull	114,100	5.3%
Milton Keynes	185,400	4.5%
York	128,000	4.5%
Manchester	506,500	4.4%
Chelmsford	86,900	4.1%
Swansea	132,600	4.0%
Birmingham	635,700	3.7%
Leeds	494,300	3.5%
Southampton	177,200	3.0%
Nottingham	244,000	2.9%
Doncaster	134,100	2.8%
Aberdeen	181,200	2.7%
Cardiff	248,000	2.7%
Wolverhampton	132,200	2.6%
Inner London	3,533,300	2.6%
Edinburgh	367,300	2.6%
Glasgow	478,600	2.5%
Swindon	118,700	2.5%
Exeter	110,200	2.4%
Huddersfield	159,700	2.4%
Coventry	196,900	2.3%
Cambridge	150,100	2.2%
Stoke-on-Trent	127,700	2.2%
Greater Manchester	1,340,400	2.1%
London	5,312,100	2.1%
Warrington	130,500	2.1%

	Employment Level, Q4 2021	Growth (YoY)
Winchester	61,000	2.0%
Bradford	233,300	1.9%
Sheffield	308,300	1.9%
Newcastle	231,800	1.9%
Portsmouth	119,300	1.8%
Wakefield	157,900	1.6%
Plymouth	149,900	1.5%
Derby	158,600	1.2%
Outer London	1,778,800	1.2%
Reading	131,800	1.1%
Brighton	141,900	1.0%
Leicester	227,900	0.9%
Northampton	189,500	0.6%
Peterborough	111,800	0.3%
Bournemouth	192,100	0.2%
Bristol	371,000	0.0%
Rotherham	109,600	-0.1%
Preston	104,800	-0.3%
Hull	160,600	-0.6%
Stockport	112,800	-1.0%
Liverpool	328,800	-1.2%
Sunderland	120,400	-2.3%
Belfast	122,900	-2.7%
Winchester	61,000	2.0%

Powerhouse tables, Q4 2023

	GVA Q4 2023, £mn (annualised, CVM constant prices)	Growth (YoY)
Milton Keynes	14,100	2.6%
Peterborough	6,500	2.4%
Reading	8,700	2.4%
Oxford	22,200	2.3%
Brighton	8,400	2.3%
Inner London	305,200	2.3%
Birmingham	27,000	2.3%
Edinburgh	23,200	2.2%
Southampton	7,500	2.2%
Swindon	9,100	2.2%
Winchester	5,300	2.2%
Bournemouth	10,200	2.1%
Solihull	9,900	2.1%
London	445,800	2.1%
Cambridge	19,600	2.1%
Portsmouth	5,800	2.1%
Exeter	5,500	2.0%
Bristol	14,700	2.0%
Derby	7,100	2.0%
Warrington	7,400	1.9%
Glasgow	21,200	1.9%
Manchester	23,300	1.9%
Outer London	140,600	1.9%
Coventry	9,400	1.8%
Stoke-on-Trent	5,800	1.8%
Preston	4,300	1.8%

	GVA Q4 2023, £mn (annualised, CVM constant prices)	Growth (YoY)
Northampton	11,800	1.8%
Stockport	6,500	1.8%
Leicester	8,700	1.7%
Chelmsford	4,900	1.7%
Nottingham	10,100	1.7%
Leeds	25,800	1.7%
Greater Manchester	70,900	1.7%
Newcastle	19,100	1.6%
Sunderland	6,700	1.6%
Huddersfield	7,400	1.6%
York	6,000	1.6%
Liverpool	12,800	1.6%
Wakefield	7,600	1.5%
Sheffield	12,300	1.5%
Doncaster	5,600	1.5%
Cardiff	13,000	1.5%
Swansea	5,300	1.4%
Bradford	9,400	1.4%
Rotherham	4,600	1.4%
Plymouth	5,400	1.4%
Hull	5,800	1.4%
Belfast	12,500	1.4%
Wolverhampton	4,900	1.4%
Aberdeen	16,100	1.3%

Powerhouse tables, Q4 2023

	Employment Level, Q4 2023	Growth (YoY)
Cambridge	157,800	2.5%
Oxford	152,200	2.5%
Stoke-on-Trent	133,500	2.2%
Inner London	3,690,300	2.2%
Chelmsford	90,500	2.0%
Leeds	513,500	2.0%
Birmingham	659,900	2.0%
Cardiff	257,700	2.0%
Edinburgh	381,300	2.0%
Manchester	524,200	1.9%
London	5,505,900	1.8%
Exeter	114,200	1.8%
Wolverhampton	135,900	1.5%
Sheffield	317,000	1.4%
Swindon	121,700	1.4%
York	131,100	1.4%
Glasgow	490,900	1.3%
Liverpool	337,900	1.3%
Bristol	380,700	1.2%
Milton Keynes	189,100	1.2%
Warrington	133,700	1.2%
Aberdeen	185,900	1.2%
Nottingham	249,500	1.2%
Newcastle	237,200	1.2%
Derby	162,200	1.1%
Southampton	180,800	1.1%
Coventry	200,800	1.1%

	Employment Level, Q4 2023	Growth (YoY)
Greater Manchester	1,368,100	1.1%
Brighton	145,000	1.1%
Outer London	1,815,600	1.0%
Winchester	62,200	1.0%
Solihull	115,800	1.0%
Peterborough	113,900	0.9%
Northampton	193,100	0.9%
Plymouth	152,400	0.9%
Bradford	236,600	0.8%
Preston	106,600	0.8%
Doncaster	136,100	0.8%
Rotherham	111,400	0.8%
Swansea	134,200	0.8%
Leicester	231,300	0.7%
Portsmouth	120,900	0.7%
Bournemouth	195,000	0.7%
Huddersfield	161,600	0.6%
Hull	162,700	0.6%
Reading	132,900	0.4%
Sunderland	121,500	0.2%
Wakefield	158,200	0.2%
Stockport	112,500	-0.2%
Belfast	120,700	-1.6%

Foreign Direct Investment into the UK

Where FDI is coming from, and the UK regions and sectors benefitting from it most.

Foreign Direct Investment into the UK

Foreign Direct Investment (FDI) refers to cross-border flows where an investor establishes a lasting interest in a subsidiary located in a country that is not their own.

Typically, 10% or more of the organisation's voting power should be controlled by the foreign investor for this to represent a lasting interest, according to the OECD.

FDI takes place in a variety of forms. Greenfield FDI is where a new establishment is created, while mergers & acquisitions (M&A) refers to investments where the investor takes over an existing enterprise.

Research has identified inward FDI as a key factor in promoting the domestic economy. FDI has the potential to raise productivity and facilitate the transfer of technology.

The COVID-19 pandemic represented one of the most significant disruptions to economic activity on record, with the inflow of foreign capital being in a position to contribute to the post-pandemic economic recovery.

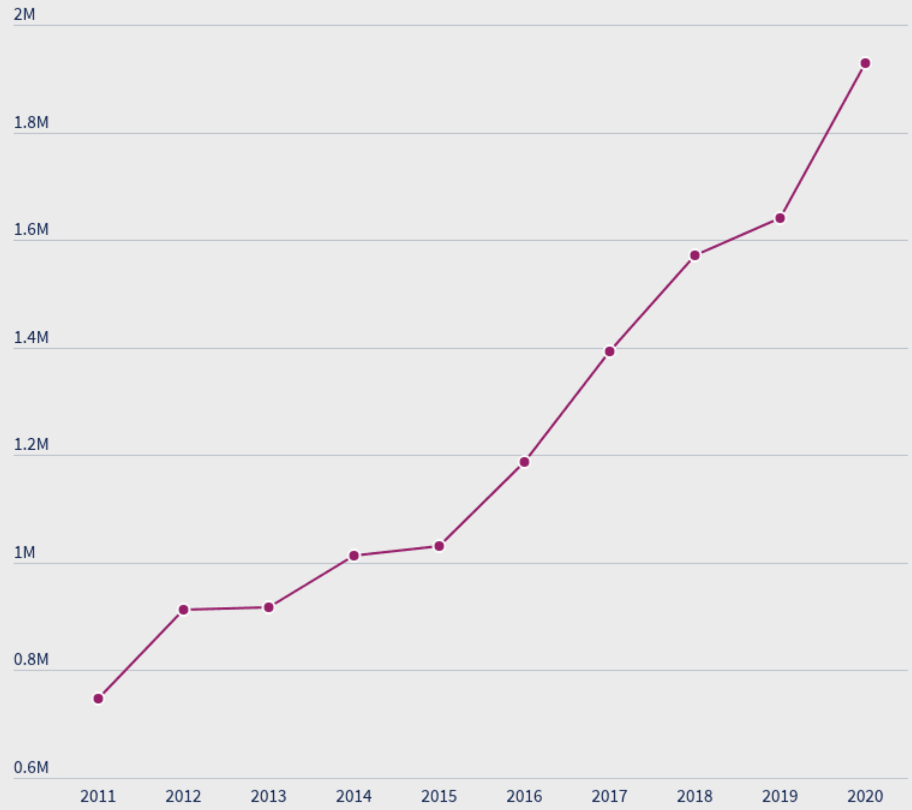
Data from January 2022, provided by the UN, shows a strong recovery of FDI over the course of 2021. The data tells us that FDI in developed economies grew by 199% in 2021, compared to 2020. The global investment volume returned to around £596bn in 2021.

Despite this, FDI growth in the EU, which was just 8% between 2020 and 2021, remained below the rates observed in other developed economies. In contrast, North America saw investment volumes increase by 120%.

This section looks at inward FDI in the UK from foreign investors in organisations located in the UK.

In 2020, the UK's inward FDI position stood at £1,929 billion, a significant uptick from the £1,640bn recorded in 2019. This is according to data released by the ONS. Values from 2020 and 2019 may not be directly comparable due to methodological changes. Nonetheless, the stock of FDI in the UK held by foreign entities in 2020 was 17.6% higher than in 2019.

Figure 4 – Stock of FDI in the UK controlled by foreign companies, £m



Source: Office for National Statistics, Cebr analysis

Where FDI is coming from

Table 1 lists the ten countries holding the largest stocks of FDI in the UK in 2020 and the changes relative to 2019.

As was the case in past years, the largest investment position was held by the USA. Around £479bn worth of investment is attributable to investors from the USA. The bulk of investment from the USA is in the financial services industry, with £233bn, or 49% of the total USA investment volume, being attributable to that sector.

Following finance, the information and communication sector received 11% of the total US investment volume. Professional, scientific & technical services received a further 8% of US FDI. Financial services firms including Goldman Sachs and JP Morgan have large offices based in London, contributing to the significant value of investment from the US in this industry.

The next four largest investment positions are all held by countries from the European Union.

The Netherlands holds the second-largest investment stock, worth £200bn in 2020. Dutch investments are more diversified than investments from the USA. While financial services again contribute for the largest share of total FDI, they make up only 16.5% of all Dutch FDI in the UK.

Table 1 – FDI International investment positions in the United Kingdom analysed by country, top ten countries in 2020

	2020, £m	Annual change, £m
USA	479,210	19,158
Netherlands	200,310	31,905
Belgium	200,310	7,637
Luxembourg	200,310	-35,796
Germany	106,633	62,601
Japan	102,307	12,060
Switzerland	91,717	9,010
France	69,147	-5,978
Spain	49,210	4,348
Canada	40,653	10,851

Source: Office for National Statistics, Cebr analysis

The German investment position in the UK increased to £107bn in 2020. The retail sector attracted the most investment, making up 15% of the reported investment position from Germany – although this was down from 21% in 2019.

This was followed by the manufacturing and professional, scientific & technical services sectors. Some of the largest German companies investing in Britain include Siemens, Deutsche Bank and Lidl.

Meanwhile, FDI from France was primarily focussed in the manufacturing, retail and financial services sectors, making up 21%, 13% and 11% of the investment positions in the UK, respectively.

The share of FDI in all of these sectors has increased compared to 2019. Many French companies have a large UK presence.

For example, Pernod Ricard has 10 distilleries in Scotland. In the retail sector, LVMH has investments in the UK across its various brands. Generally, investments from Europe are less concentrated in the financial services industry.

Of the more than £1 trillion of European FDI, only around a quarter is invested in financial services. The disproportionally large concentration of US investments in financial services is likely the result of the activities of US banks in London.

The remaining three-of-the-five largest countries of origin of FDI are Belgium, Luxembourg, and Germany, with investment stocks of £131bn, £114bn, and £107bn.

Japan is the Asian country with the largest stock of FDI in the UK, worth £102bn. Unlike investments held by Western firms, the majority of Japanese FDI in the UK is in the professional, scientific, and technical services sector. This is worth around £39bn.

Looking at FDI from India in 2020, 12% went into the professional, scientific & technical services sector, just slightly ahead of the 11% share invested in the UK's financial services sector.

Information and communication took up a further 6% of the Indian investment position in the UK. Examples of ways Indian companies have invested in the UK include Indian IT firms Infosys and Wipro having UK operations.

Investment into sectors

Table 2 shows the breakdown of inward FDI in the UK by industry. By far the largest position can be found in financial services, with £588bn attributable to that industry. This is equal to around 30.5% of all inward FDI in the UK.

The professional, scientific, and technical services industry boasts the second-largest stock of inward FDI.
The total stock of investment in that sector amounts to £228bn, less than half the investment stock found in the financial services industry.

Other services, which includes real estate or hospitality services, record the third-largest investment position in 2020, at £169bn.

The UK FDI landscape is dominated by services sectors. Only two industries engaged in production are among the ten sectors with the largest investment positions.

These are mining and quarrying and the production of metal and machinery products, at £98bn and £62bn, respectively.

Table 2 – FDI International investment positions in the United Kingdom analysed by sector, top ten sectors by 2019 level and 2019-2020 annual change

	2020, £m	Annual change, £m
Financial services	587,957	123,390
Professional, scientific & technical services	228,260	53,180
Other services (including real estate, hospitality, health and education)	169,040	26,133
Retail & wholesale trade, repair of motor vehicles & motor cycles	159,537	28,672
Information and communication	148,256	6,019
Mining & quarrying	98,231	20,722
Transportation & storage	80,414	-5,725
Food products, beverages & tobacco products	74,416	4,450
Electricity, gas, water and waste	72,349	6,722
Metal and machinery products	62,343	17,787

Source: Office for National Statistics, Cebr analysis

Investment into projects and job creation

The Department for International Trade (DiT) uses a different method to quantify FDI-related activities in the UK and their impact. It measures the number of projects related to FDI and the number of jobs either created or supported by these projects. This is especially crucial in the context of the methodology changes highlighted earlier in this section, which make comparing the financial volumes of FDI positions between 2019 and 2020 more difficult.

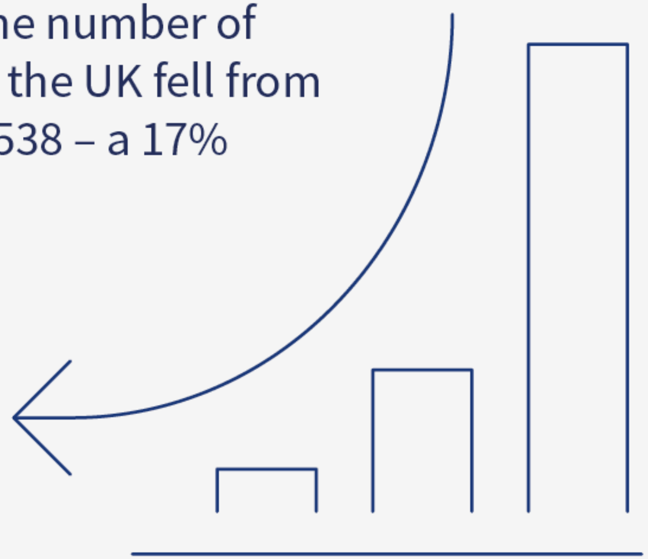
Between 2019/20 and 2021/21, the number of projects fell from 1,852 to 1,538 – a 17% reduction. This paints a significantly more negative picture than the earlier analysis of financial investment positions.

Some of this is likely to stem from COVID-19 disruption, but there is a downward trend, with the number of FDI projects decreasing by 727 since 2016/17 – a decline of almost one third.

There was a stark decrease of 22.9% in the number of new investments compared to 2019/20. Only 888 new investment projects were completed in 2020/21, compared to 1,153 in the prior financial year. There were also 477 expansions and 173 M&A projects recorded in the same period, down by 5.3% and 11.3%, respectively.

17%

Between 2019/20 and 2021/21, the number of projects in the UK fell from 1,852 to 1,538 – a 17% reduction.



Expert opinion - Corporate M&A

Following the initial shock caused by the COVID-19 pandemic, the UK M&A market rebounded strongly in 2021, starting 2022 in a healthy position.

There are a number of issues that could impact on numbers over the coming months. These include the complications of the ongoing pandemic, the crisis in Ukraine, increasing costs of doing business or the supply chain issues being faced by businesses globally. Nevertheless, we expect this positive trend to continue.

Opportunities for M&A and in the UK will continue to grow as the market wrestles with the lifting of COVID support measures, digital disruptors, and increasing costs.

For many businesses, acquiring smaller, fast-growing competitors and disruptors will be an attractive alternative to creating their own propositions in-house and from the ground up.

For others, the wider economic challenges and their impact on the market will provide opportunities to acquire distressed assets, consolidate positions, and grow portfolios.

Nick Dawson
Partner, Corporate

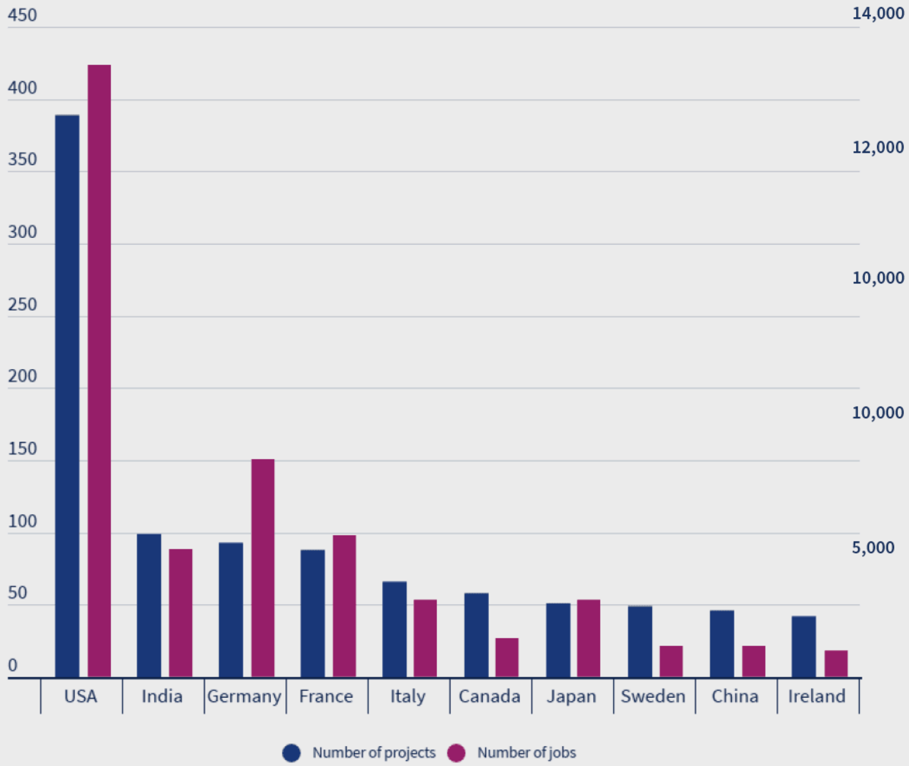
Like with financial volumes of FDI positions, the USA is the largest source of foreign investments, with the 389 projects originating from the States amounting to 25.3% of all projects.

This high number of projects brings a significant number of associated jobs, and 19,301 new jobs have been created as a result of FDI originating from the USA. Additionally, 3,942 jobs have been safeguarded.

This was especially crucial during the pandemic, when unemployment peaked at 5.2% in Q4 2020. India is the country with the second-highest number of FDI-projects, at 99. But the 4,830 new jobs related to these projects is comparatively low, equating to around 49 jobs per project.

This is lower than the roughly 60-jobs-per-project FDI from the USA brings, and significantly lower than the 89 jobs per German FDI project. Germany is the source of 93 FDI-projects, with an additional 88 having their source in France.

Figure 5 – Top 10 countries/areas conducting FDI in the UK by number of new projects, 2020/21



Source: Cebr analysis

Figure 4 shows the number of inward FDI projects and the associated number of jobs in the UK by sector.

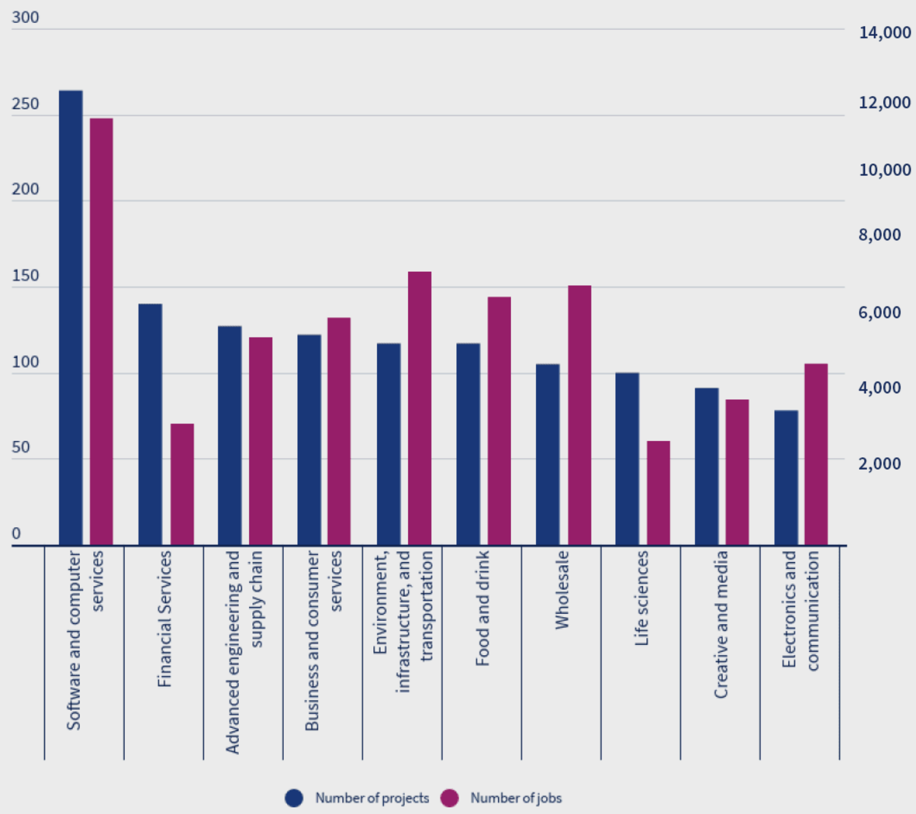
Software and computer services is the industry with the most FDI projects, with 264. This is followed by financial services, with 140 projects, and advanced engineering and supply chain, with 127 projects. The number of jobs supported by financial services projects is relatively low, at 23.

On the other hand, the wholesale sector, which received investment in 105 projects, saw around 68 jobs created per project.

Meanwhile, the number of projects in the life sciences sector fell slightly from 103 in 2019/20 to 100 in 2020/21.

This moderate reduction is likely a result of an elevated interest in vaccines and drugs that have the potential of alleviating the immediate impact cause by COVID-19. FDI in this sector supports around 2,840 jobs.

Figure 6 – Top 10 sectors for FDI projects in the UK, 2020/21



Source: Cebr analysis

Table 3 shows the number of projects supported by FDI by UK region. The bulk of FDI projects can be found in London, with the capital recording 492 projects, or 32% of the UK's FDI projects, in 2020/21.

The second-largest number of projects, 163, can be found in the South East, with England as a whole accounting for 87.5% of all UK FDI projects.

Financial services companies are especially concentrated in the capital, which partially explains the large number of projects in London. Furthermore, software and computer services have a strong footing there.

Table 3 – Number of FDI projects in the UK by region, 2019/20 level and annual change

	Number of FDI projects in 2020/21	Annual change
London	492	-23%
South East	163	-23%
West Midlands	145	-8%
North West	139	-10%
Scotland	92	-24%
Yorkshire and The Humber	86	-17%
South West	76	-11%
East Midlands	72	-9%
East of England	72	-1%
Wales	72	3%
North East	51	-18%
Northern Ireland	29	-28%

Source: Department for International Trade, Cebr analysis

Expert Opinion – Indian Foreign Direct Investment

The attractiveness of the UK market for Foreign Direct Investment from India remains high.

This reflects a strong ongoing commercial relationship between the fifth and sixth largest economies in the world. With 99 FDI projects, India only ranks behind the United States as a source of foreign investments into the UK.

As such, the role of Indian investment into the UK, in boosting both employment and contributing to the national economic rebound, is considerable.

The latest report by Grant Thornton UK LLP and the Confederation of Indian Industry in their collaborative 2022 edition of the “India meets Britain Tracker” identifies 900 Indian owned corporates with £5m+ turnover headquartered or operating (via branches or subsidiaries) in the UK.

This is up from 850 in 2021, with combined revenues of £54.4 billion, up by £4 billion from the previous year. Together they employed 141,005 people up by around 25,000 in 2021.

With the ongoing free trade negotiations between the UK and Indian governments, UK trade and investment with India and the wider subcontinent should not be under-estimated.

British businesses continue to look to Indian markets as a source of growth. A reduction of tariffs on exports, easing of regulatory barriers to trade and allowing advisory firms opportunities to guide clients onshore are particular areas of interest.

The free trade discussions, with the hope of a Free Trade Agreement, present an opportunity to improve cross-border investment and collaboration in the expanding UK-India corridor.

Akhil Sharma
Partner, Banking and Finance

Regional disparity

Between 2019/20 and 2020/21, all regions, with the exception of Wales, saw their number of FDI projects decline by an average of 15.6%. In Wales the number of projects increased by 3%. The largest decline was in Northern Ireland, where the number of FDI-supported projects fell by 28%. Northern Ireland is also the region with the lowest number of projects, at 29, as was the case in 2019/20. Investors in the region face special bureaucratic and regulatory barriers due to special provisions with regard to Brexit.

The dominance of London and the South East when it comes to FDI levels highlights the continued contrast in economic outcomes between the South and North of England.

FDI brings potential for higher productivity and improved economic output, and the regions which benefit most from investment from abroad are likely to see more growth and job creation in the coming years. With the West Midlands and North West placing third and fourth for regional FDI, there's hope that these regions may level up to see the investments that their southern counterparts currently attract.

Thank you for reading

UK Powerhouse – Foreign Direct Investment and the UK Economy

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