New insights on regional capital investment in the UK, 1997 to 2019

A key driver of productivity levels and growth rates is the availability of capital assets. Capital can be both substitute and complement to other factors of production, notably labour – for instance, capital assets can enable automation and replacement of workers, and/or greater availability of capital assets per worker can enable more efficient production. Understanding regional variation in productivity is therefore enhanced by regional data on capital assets.

This research explores new data published by the Office for National Statistics (ONS) about the capital investment done in different parts of the UK. The ONS developed these new estimates as part of their Subnational Statistics Development programme. The research explores the investment intensity and composition of investment across the UK, and how these change over time.

The Subnational Development dataset

The Subnational Development dataset estimates offer more detailed industry, asset and geographical breakdown of regional capital investment than the existing Regional Accounts estimates.

It contains a breakdown of investment by type of asset, such as buildings, machinery, and intangible assets, which were previously not available. This new dataset, which remains relatively unexplored and is classified by the ONS as "experimental", is intended to support delivery of the Government Statistical Service subnational data strategy and support locally targeted policy making, such as the Levelling Up agenda.

This research includes a comparison of methods, data sources and results, between existing Regional Accounts estimates and the new Subnational Development estimates, which seem to use better methods and are better correlated with other economic variables. ONS intend to develop these estimates further subject to user feedback.

Findings

- **Capital investment is unequally distributed across the UK**, in a similar fashion to economic activity and employment. There is significant variation both between high-level regions of the UK, and within those regions.
- Investment per hour worked is typically higher in areas that have higher levels of labour productivity, and that is strongest for ICT equipment and intangible assets. **More productive regions also tend to have a larger proportion of their total investment in intangible assets**. The share of investment on intangible assets tends to be higher in the South East and East of England, and to a lesser extent, London.
- We also developed regional price indices for capital investment, reflecting as far as possible the industry and asset mix of investment in each region, but using national prices data. Using these, we show how **investment growth slowed across most of the UK after 2016**.
- For other findings, details and analysis, read the full paper.

To read more about the research synthesised in this Executive Summary, please read *New insights on regional capital investment in the UK, 1997 to 2019* Productivity Insights Paper 016, The Productivity Institute, by Michael Becker and Josh Martin.