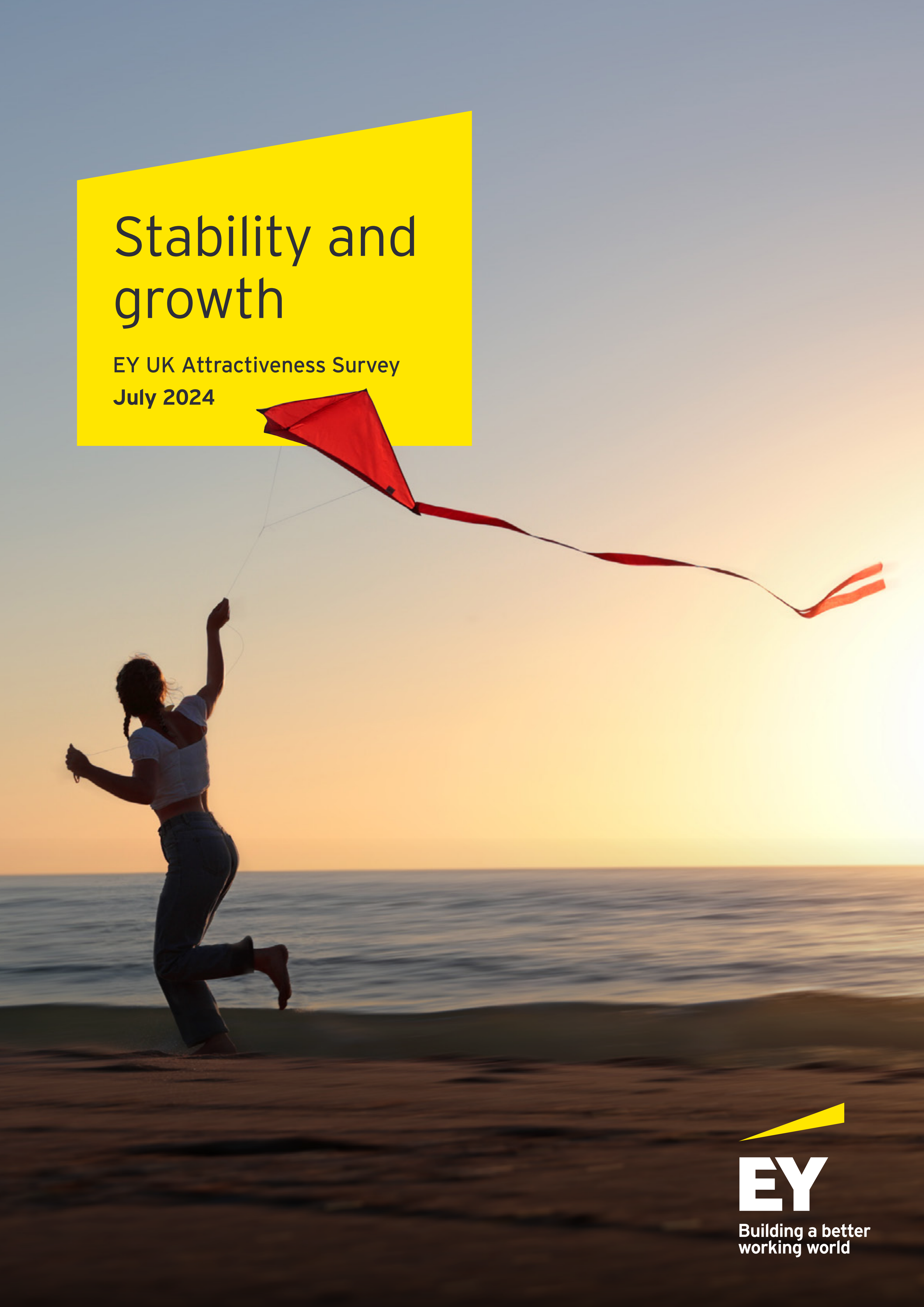
Stability and growth

EY UK Attractiveness Survey

July 2024



Building a better working world

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Foreword

EY's 2024 UK Attractiveness Survey

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We are delighted to introduce the EY UK Attractiveness Survey 2024, our latest annual research report examining the performance and perceptions of the UK as a destination for foreign direct investment (FDI).

EY has now been publishing this study for over two decades. During that time, it has become an indispensable reference point for business leaders, investors, and policymakers seeking to understand the drivers of inward investment and the UK's relative performance in an ever-changing landscape.

Political change is in the air

This report comes at an important time for the UK, and indeed for Europe when it comes to FDI. Political change is in the air – we have recently seen the Labour Party return to power after 14 years with a significant majority and an opportunity to 'reset' international perceptions in respect of the UK after several years of political instability. Across Europe, the ramifications of recent EU and national elections are being felt, while the whole world looks forward to the US elections later this year.

The global economy has faced numerous challenges in the last few years, but it is arguably the geopolitical environment that is proving most impactful in respect of policy. After decades of globalisation and an increase in trade openness, we have seen a return to more protectionist environment when it comes to trade and investment. The key question for the UK and Europe is how they continue to compete and attract inward investment in such a complex and challenging world. In this context what does our analysis tell us?

The UK bucks the trend of a decline across Europe

The UK saw total projects increase by 6% to 985 in 2023 up from 929 in 2022, this contrasted with the 4.5% decline across Europe as a whole, with key rivals France and Germany also witnessing declines. The UK also came top in terms of total numbers of jobs delivered – with 50,000 jobs associated with those projects. The UK's stronger performance reflected a more stable political environment in 2023 compared to 2022 (we did of course only have one prime minister and one chancellor compared to a respective three and four in 2022), while economic headwinds from the energy price shock had significant ramifications for economic growth across the continent.

Although performance needs to be put in context of what increasingly looks like a structural decline in FDI since 2017 – this is also true of Europe as a whole

However the performance needs to be put in context, the UK's project numbers are still well below its record high of 1205 achieved in 2017, and it remains in second place in the lead table to France – having lost first place in the table in 2017. Interestingly FDI project numbers into Europe also peaked in 2017 and have yet to recover to pre-pandemic levels, so there is a fundamental question as to whether the global forces mentioned above mean we are seeing structural declines in FDI or whether they just reflect the challenges European economies have faced in dealing with COVID-19 and the war in Ukraine. The UK of course has had to deal with Brexit – that both introduced barriers to trade between the UK and EU and led to significant political turmoil and uncertainty – which investors hate.

The UK continues to attract investment into areas where it has comparative advantage

The UK is most successful at attracting investment into areas where it has comparative advantage – it tops the European League table in attracting investments on digital, financial services and business services, reflecting its world leading strengths as a services 'super-power' – only the US exports more services than the UK. A lot of this is driven out of London – which saw a significant rebound in digital investments in 2023 seeing its project numbers rising to 359 – up 20% from 299 in 2022 and regaining its position as the number one region for digital inward investment in Europe – pushing Île-de-France (Paris) back into second place.

This holds a key message for the new Government – London and the sectors that drive its growth are essential for the future of the UK economy and thereby its mission on increasing economic growth. As ever the challenge remains how to best harness London's strengths to enable investment and growth across the rest of the regions and nations in the UK.

London is not the only regional success story – Scotland continues to do well – and had another record year, with 142 projects up from 126 last year – retaining its place as the number one destination outside of London. When it comes to FDI, Scotland should act as a clear role model for other regions and nations – it has a clear sectoral offer across digital, utilities, manufacturing and financial services, with a particular focus on clean energy investments, plus resources invested in building relationships with prospective investors. The West Midlands also had a record year in 2023 – leveraging off the 'soft power' impact of the 2022 Commonwealth games and importantly using that to ensure appropriate resources were put in place to ensure a business legacy off the back of the games.

Reasons to be positive about the future but no room for complacency

When it comes to the future – there are reasons to be positive. While investors tell us that the UK is only the third most attractive place to invest in Europe, behind France and Germany – there is still significant positive sentiment, with 69% of investors surveyed indicating an intention to invest in the UK in 2023. The UK also ranks highly when looking at comparisons across its traditional strengths – investors rating the quality of its legal and regulatory environment (cited by 50% as an important factor when choosing to invest in the UK), the liquidity of its financial markets and availability of capital (48%), and the strength of its domestic market (33%). When looking at barriers to investment, interestingly the top two were interest rates and inflation – and given inflation now looks reasonably under control, and interest rates are expected to fall through 2024 into 2025 – there should be some upside for UK businesses.

Change is a chance to reset

As mentioned above – the new administration also has the opportunity to reset international perceptions of the UK. To be fair to the outgoing administration – a lot was achieved in 2023 to calm investor nerves after the instability of 2022 – and the relationship with the EU post the Windsor Framework also improved the UK-EU relationship. The new Labour government has an opportunity to continue to build on this progress across three main areas – providing stability and certainty to investors on the regulatory and policy environment, further improvements to the working relationship with the EU, and in delivering on its manifesto promises and stated objectives of unblocking and accelerating the UK planning system – so often a barrier to investment and ultimately growth. The key risk remains the wider geo-political environment – and how the UK and EU respond to an uncertain world and its associated headwinds for globalisation. Here, there is also scope for the UK to play to its historical strengths – as an open, outward-looking advocate for greater global cooperation and champion for the free flow of goods and capital.

Executive summary

A challenging landscape for FDI into Europe
Following a small 1.4% increase in the number of Foreign Direct Investment (FDI) projects in Europe in 2022 to 5,962 projects, total European FDI projects declined by 4.5% in 2023 to 5,694. This was Europe's lowest project count since the pandemic-affected year of 2020, and 959 projects fewer than the high point of the decade recorded in 2017. France was Europe's biggest recipient of projects for the fifth successive year, despite its projects falling by 5% to 1,194, ahead of the UK on 985 and Germany on 733.

… as the UK bucks the trend …
Against the background of decline in European FDI projects, the UK saw its project count rise in 2023 by 6% to 985. With projects into third-placed Germany also down by 12% year-on-year, this showing consolidated the UK's position in second place in Europe, and saw the UK's market share of all European projects increase to 17.3% in 2023 from 15.6% in 2022. However, despite this increase, the UK's 2023 share of 17.3% was still below its decade-long average share of 17.9%.

The UK has also performed well on FDI jobs …
However, project numbers only tell part of the story – the economic value of a project is more driven by the scale of the capital invested and the extent and nature of employment generated. This has led to a policy shift by UK national and regional government agencies in recent years, with a focus on securing greater value from FDI rather than chasing the largest volume of projects. This value can be difficult to measure, but the job creation numbers announced by some projects do provide a reasonable guide. The UK securing the highest FDI jobs total in Europe, at 52,211, ahead of second-placed Spain with 42,450 and France on 39,733.

Sectors: digital technology remains top in the UK, following a solid year …
Digital remained the leading sector generating FDI projects in the UK, buoyed up by a 9% rise from 234 in 2022 to 255 projects in 2023. This was the highest total of any country in Europe, giving the UK a 26.7% share of all European digital technology projects. In second place was the finance sector, up by 42.1% to 108 projects, followed by business services and utility supply, both with 92 projects. These leading sectors reflect the UK's heavily services-orientated economy and traditional strength in technology and financial services, plus its leadership in renewable energy generation particularly in offshore wind.

Activities: business services still leads, followed by sales and marketing…
The most common activity for UK FDI in 2023 remained business services in all forms – including call centres, shared-service centres and testing and servicing facilities, as well as education and training, contact and internet data centres. Projects in this category increased by 35.6% in 2023 to 392, meaning the UK secured 21.1% of all European business services projects. Sales and marketing projects were the UK's second largest type of FDI activity in 2023, with these projects increasing by 67.5%, compared to 2022, to 206, giving the UK a European market share of share of 24%.

… as manufacturing, industrial and HQ activities show a decline …
By contrast, other activities recorded declines in UK projects in 2023 compared to the previous year. Manufacturing projects fell by 14.3%, resulting in the UK recording a market share of 8.6% in 2023 compared to a decade-long average share of 9.9%. Logistics projects slipped by 4.8% from 82 in 2022 to 78 in 2023 after a strong few years post-Brexit and during the COVID-19 pandemic. And the number of HQ projects in the UK fell by 33.8% in 2023, with the 88 HQ projects recorded being the UK's lowest figure since 2018. However, the number of HQ projects fell more quickly across Europe as a whole, meaning the UK's market share increased to 39.5% – its highest share of HQ projects since 2016. Disappointingly, the sharpest annual decline among UK project activities in 2023 was in R&D, where projects fell by 44% year on year.

… calling for a renewed pivot towards strategic investment to open up opportunities for the future
Up to 2022, the recurring evidence of higher job creation in the UK, as well as the trending of activity towards HQ, manufacturing, R&D and logistics projects while moving away from less embedded sales and marketing activity, indicated a pivot towards strategic investment. However, while FDI job creation has remained strong in 2023, many of the trends in terms of project activity have slipped into reverse. To ensure this is just a blip, a key policy goal will be reinvigorating R&D investment and ensuring it feeds through to larger industrial projects and high value investment downstream.

Origins of investment into the UK: the US still leads for the UK, while India remains second …
The United States is still the UK's biggest inward investor, contributing 218 projects accounting for 20.6% of all UK projects in 2023. US projects into the UK have now fallen four years in succession, but still account for a higher share than in Europe overall, where 18.6% of projects originate from the US. And while US investments into Europe as a whole are on a downward path, the UK is continuing to attract a disproportionately large share. India, for the second year running, was the second largest country of origin into the UK – contributing 76 projects in 2023. The UK secured an impressive 55.1% of all Indian projects into Europe reflecting strong cultural and historical links, with the India currently one of the global economies star performers, the continued strengthening of this relationship bodes well for the future.

London rebounds to strengthen its lead as the leading UK destination for FDI …
Looking across the UK's devolved administrations and regions, Greater London has historically been the leading destination for FDI projects. This year was no exception, with the UK capital securing 359 projects, a rise of just over 20% from the 299 it recorded in 2022. While London's total in 2023 was far short of its high point of 538 projects in 2019, it was still higher than every European country apart from France, Germany, and Turkey.

… as some UK regions narrow the gap on London, but others show a mixed performance …

With project numbers in London returning to growth, FDI performance across other areas of the UK was mixed, with strong showings from Scotland (up by 12.7%), the West Midlands (up by 71.6%) and the South West (up by 22.9%). The latter two of these locations outpaced the growth seen in London. With the number of projects located in the South East of England remaining unchanged in 2023 at 67, the remaining six out of 11 UK regions or devolved administrations outside London saw a declining number of projects in 2023. The sharpest fall was in Wales, whose projects fell by 51.6% from 31 in 2022 to 15 in 2023, the lowest figure in the past decade.

… and Birmingham surges to the top of the ranking for UK cities outside London.

After London, the UK's most successful FDI city in 2023 was Birmingham, whose projects leapt by 139% from the level in 2022 to 67 projects in 2023 – the city's highest figure of the decade and more than double the total for any other UK city outside London during the year. Edinburgh slipped into third place with its project numbers falling by 20% year on year to 32. Projects into Manchester also declined to 31, causing it to slip from first outside London in 2022 to third in 2023, its lowest ranking of the past decade. Glasgow (fourth), Bristol (fifth), Cambridge (sixth) and Leeds (seventh) all increased their numbers of projects secured in the year, with Cambridge recording a decade high.

Investor perceptions: while short-term measures of the UK's attractiveness has slipped …

When we asked respondents to our global investor survey which three European countries they believe will be the most attractive for foreign investment in 2024, the UK was cited by just 25% of executives compared to 32% in 2023 and 44% in 2022. This deterioration means the UK remains in third place behind France on 34% and Germany on 29%, with all three countries seeing their attractiveness score decline year on year in 2024. Germany's rating slumped by more than half, resulting in France leapfrogging it into top spot as Europe's most attractive FDI location.

… the UK still leads Europe on attractiveness in some key FDI sectors …

Despite the continued decline in the UK's overall perceived attractiveness in 2024, a breakdown of investors by sector shows that executives in key industries for FDI like financial services (40%) and business services (31%) still view the UK as having a very attractive FDI offering. Indeed, the UK leads Europe in terms of perceived attractiveness within those particular sectors.

… and investors' intention to invest in the UK has never been stronger …

Equally positively, and again in contrast to the downturn in short-term sentiment, an impressive 69% of investors surveyed said they were planning on making an investment in the UK in 2024 – a figure that's up from 65% last year and is the highest ever recorded in this research. Meanwhile, expectations of the UK's attractiveness over the next three years have also improved, with 59% believing the UK's attractiveness will increase either significantly or slightly, compared to 48.6% in 2023.

When making investment decisions, the perceived risks differ between the UK and Europe …

When investors are asked to cite the main risks that they foresee affecting the UK over the next three years, economic factors dominate – with the two biggest perceived risks by a wide margin being high interest rates (59%) and high inflation (56%). By contrast, when they're asked about the main economic risks to investments across Europe, rising regulation heads the list (cited by 41%), followed by volatile energy prices and/or supply issues (34%) and political instability in Europe (33%). This could be interpreted in a positive manner for the UK – if macro-conditions begin to stabilise, we could see a rapid improvement in sentiment.

… and the UK is still favoured on several key investment criteria.

The UK remains favoured by investors on important criteria including the quality of its legal and regulatory environment (cited by 50% as an important factor when choosing to invest in the UK), the liquidity of its financial markets and availability of capital (48%), and the strength of its domestic market (33%). Aspects of the UK that are less favoured include the agility and pragmatism of local authorities, the tax environment, its national stimulus packages, and its conduciveness to R&D and innovation.

Investors believe supporting R&D-intensive and high-tech industries will boost UK competitiveness …

Asked where the UK government should focus its efforts to maintain the UK's competitive position in the global economy, investors point strongly to support for high tech industries and innovation, a policy goal highlighted by 46% of respondents. With investors also signalling the need for support for SMEs (37%) and a focus on R&D (33%), it's clear that policymakers should explore which options are feasible – beyond blanket transactional support through funding – to drive activity in these areas.

London's biggest competitors are other major global cities …

While investors remain very open to investing outside the capital within the UK, London's biggest competitors are other major global cities. The solid recovery in London FDI projects in 2023, largely driven by a rebound in tech investments, is reflected in our investor survey data, with London emerging as the clear UK preference for investors both as a city and region, and 52% of investors seeking to establish or expand operations there in the next 12 months. By sector, and on the global stage, the tech sector highly favours Hong Kong, New York, and Paris as competitors to London, while the finance sector favours Dublin and New York. Overall, New York (51%) and Paris (38%) rank as the biggest rivals to London in investors' eyes.

… while Scotland remains second to London for investment intentions within the UK …

Outside the UK capital, Scotland remains in clear second place for attractiveness in our 2024 investor survey, with 26% of investors seeking to establish or expand operations there in the next 12 months. This mirrors Scotland's position as the UK's biggest FDI location behind London in 2023. Wales ranks third, with 18% of respondents planning to invest there during the coming year. In terms of UK cities, the top three for investment intentions are all capitals – with London on 52% followed by Edinburgh on 23% and Cardiff 16%.

… and reasons for investing in UK locations outside London have become more transactional.

When we asked investors to cite their criteria for considering investing in UK locations outside of London, we found –for the second successive year – that they're taking a highly transactional approach. Access to grants and incentives continues to lead as an investment rationale at the regional level, cited by 38% of investors in 2024 – a leap of 16% since last year. This rise is probably a function of the national-level priority of accessing liquidity and capital, supplemented by the much bigger role governments are playing in funding investment across Europe. The availability and skills of the local workforce comes a close second, highlighted by 35% of investors, followed by the availability of business partners and suppliers on 34%.

The UK continues to enjoy a strong reputation for its sustainability credentials …

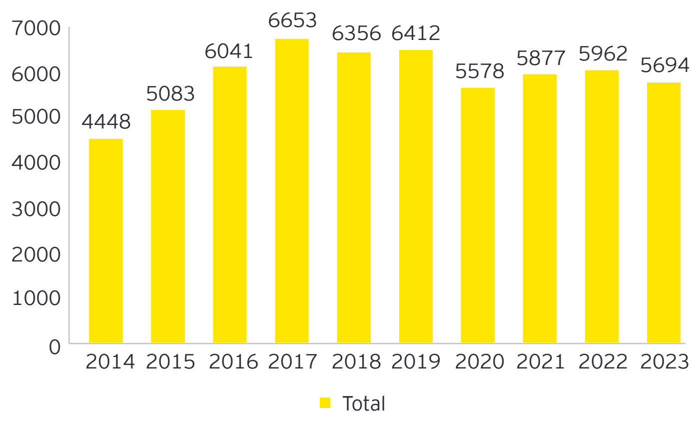
Executives in our study felt the UK ranked better on sustainability than many European neighbours. For example, 60% believe the UK does better than other European FDI locations on the proportion of renewables in the power supply, second only to Lithuania on 64%. The UK also performs strongly on having an ecosystem of cleantech and sustainability businesses, with its score of 42% putting it among the top countries in Europe. The UK also polls strongly on funding to finance sustainability projects, with 46% believing the UK does better than its European peers in this area, second only to Luxembourg on 48%.

The UK's FDI performance in 2023: a strong year for investment projects – but still room for improvement

The UK remains second in Europe for FDI, with a rebound in project numbers ...

In 2023, the number of FDI projects recorded across Europe fell by 4.5%, from 5,962 in 2022 to 5,694 in 2023. Our global survey of executives indicates that this decline largely reflected the challenging economic environment that continues to be overshadowed by the war in Ukraine, which sparked an inflationary spike and has boosted geopolitical uncertainty. As a result of these factors, the number of direct investments into Europe is still below pre-pandemic levels, down from the 6,412 projects secured in 2019.

Figure 1: Total European projects, 2014-2023

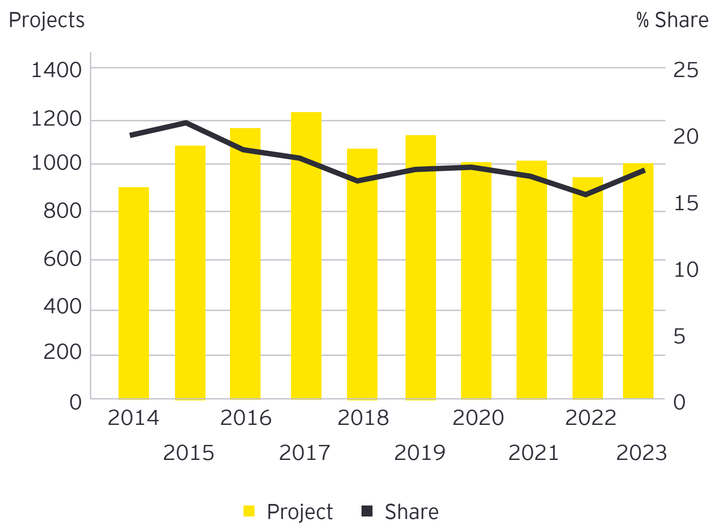


Source: EY European Investment Monitor (EIM), 2014-23

The 2022 investment figures also show that France has retained its position as Europe's leading FDI destination, attracting 1,194 projects in 2023. While this figure represented a decline of 65 projects (or 5.1%) on its 2022 total, France remained ahead of second-placed UK. France has now secured the largest number of FDI projects in Europe for five successive years and, in 2023, the gap between France and the UK was 209 projects (down from 330 projects in 2022). The third-largest destination for FDI in Europe was Germany, which recorded 733 projects in 2023.

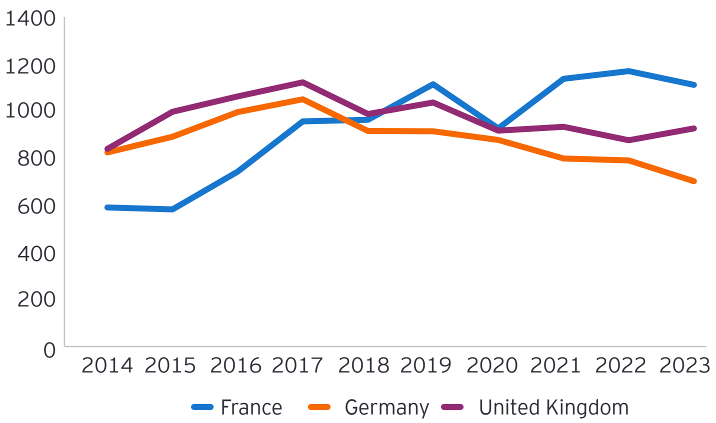
While projects into Europe fell back in 2023, the number secured by the UK rose by 6% to 985 from 929 in 2022, consolidating the UK's position in second place in Europe for FDI projects. The increased number of projects in the UK coupled with the decline across Europe resulted in the UK's market share increasing to 17.3% in 2023 from 15.6% in 2022.

Figure 2: Total UK projects and European market share, 2014-2023



Source: EY European Investment Monitor (EIM), 2014-23

Figure 3: Evolution of Top 3 destinations for FDI into Europe, 2014-2023



Source: EY European Investment Monitor (EIM), 2014-23

The UK continues to perform well on project value, delivering the highest FDI jobs total in Europe for another year running …

In 2023, the UK extended its lead on FDI employment creation, with its total new jobs created rising by 12% to 52,211. Spain remained second for FDI jobs, increasing its total by 9% to 42,450, while third-placed France rose by 4% to 39,773 job announcements. While the fall of 57% in fourth-placed Germany's FDI jobs total looks dramatic, it's important to note that it followed an even bigger rise of 58.2% in 2022. In a similar vein, the decline of 74% in Irish FDI jobs followed a 21.4% increase the previous year.

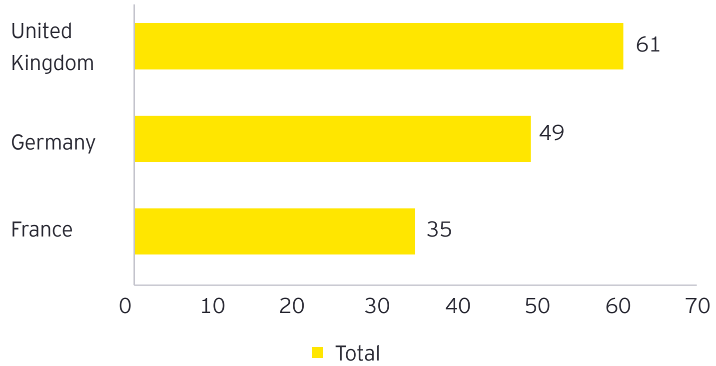
Figure 4: Total jobs announced in five largest investment countries, 2022-2023

Country	2022	2023	Change 2022-2023
United Kingdom	46,779	52,211	+12%
Ireland	23,371	6,070	-74%
Spain	39,104	42,450	+9%
France	38,102	39,773	+4%
Germany	33,548	14,261	-57%

Source: EY European Investment Monitor (EIM), 2022-23

When broken down to a per-project level and compared across countries, the job announcement figures again appear to reflect – as they did last year – the impact of value-over-volume strategy being pursued by the UK and Germany. The average jobs per project in the UK was 61, some way ahead of Germany (49) and much higher than France (35). In the past few years, this has been a particular strength in UK investment projects – with the UK consistently posting strong job announcement figures year on year.

Figure 5: Average jobs announced per project in Europe's three largest FDI countries, 2023



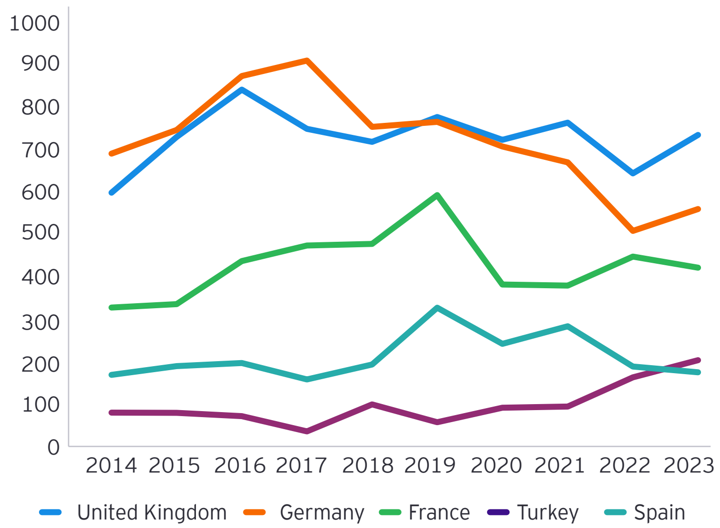
Source: EY European Investment Monitor (EIM), 2023

… and maintains its lead in securing 'new' projects

As well as leading on FDI jobs in 2023, the UK also secured Europe's highest number of 'new' investments by first-time investors, as opposed to expansions of existing operations. The UK has now led Europe on new projects for the past five years, after taking over that position from Germany. During 2023, the UK attracted a total of 736 new projects – a rise of 13.9% from 646 in 2022. The UK's continued strength in attracting new projects is a reflection of its ability to attract a dynamic and new investor base.

A comparison of Europe's five largest recipients of new projects in 2023 confirms the strong performance of the UK. With new projects in the UK rising by 13.9% in 2023 and those in Germany increasing by a slower 10.2%, the UK secured 173 more new projects than Germany during the year, up from a gap of 135 projects in 2022. Meanwhile, France retained third place for new projects despite suffering a decline. And in common with the destinations of projects as a whole, Turkey overtook Spain for new projects in 2023 to become the fourth-largest recipient of new investments.

Figure 6: Largest five recipients of new projects in 2023 – results from 2014-2023



Source: EY European Investment Monitor (EIM), 2014-23

Sectors for UK FDI: UK sector strengths perform in a year of difficult investment across Europe

Europe's services sectors see investment drop while industrials are resilient …

At the European level, the top sectors by number of projects in 2023 were digital technology (software & IT services) with 954 projects, a 19% decline on 2022; business services and professional services with 556, a 27% decline year-on-year; and transportation and logistics with 457 projects, a 10% increase. Both machinery and equipment and metals and minerals had a very strong year, each registering a rise of 15% in projects. Despite digital tech and business services and professional services occupying the top two places, the overall pattern was one of declining projects in service industries and a resilient showing in industrial sectors.

Figure 7: Top 15 sectors by FDI projects in 2023 — ranking, number of projects and jobs, change 2023 vs. 2022

#	Country	Number of Projects 2023	Number of projects 2022	Change 2022/23	Number of jobs in 2023
1	Digital technology	954	1,182	-19%	42,214
2	Business services and professional services	556	765	-27%	24,028
3	Transportation and logistics	457	417	+10%	26,414
4	Transportation manufacturers and suppliers	445	470	-5%	51,472
5	Machinery and equipment	424	368	+15%	23,090
6	Finance	329	292	+13%	12,675
7	Electronics	316	276	+14%	30,332
8	Utility supply	302	277	+9%	16,597
9	Agri-food	266	291	-8%	12,654
10	Chemicals, plastics and rubber	255	249	+2%	13,379
11	Pharmaceuticals	226	234	-3%	13,064
12	Metals and minerals	160	139	+15%	6,165
13	Construction	157	142	+11%	3,799
14	Furniture, wood, ceramics, and glass	137	133	+3%	4,234
15	Medical devices	123	122	+1%	6,196
	All others	587	605	-3%	33,610
	Total	**5,694**	**5962**	**-4%**	**319,923**

Source: EY European Investment Monitor (EIM), 2022-23

... while in the UK, digital is way ahead — with finance experiencing a strong year in 2023 ...

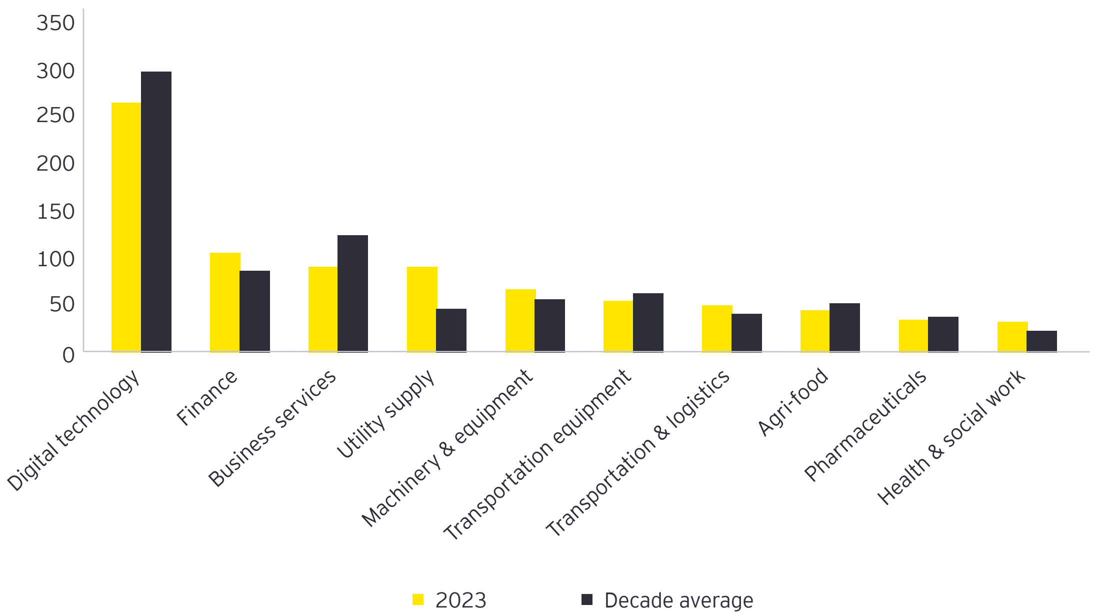
As in Europe, the leading sector for projects within the UK in 2023 was once again digital technology – a sector that has generated the largest number of FDI projects of any sector both for Europe and the UK in every year of the last decade. In 2023, digital technology generated 255 projects in the UK, a rise of 9% on 2022. This meant the UK secured more than one in four of all projects from the sector across Europe during the year. However, the total number of UK digital tech projects in 2023 was still 11.3% lower than the sector's decade-long UK average of 287.6 projects annually.

The finance sector retained second place for UK projects in 2023, generating 108 projects during the year, a rise of 32 projects (42.1%). This, the sector's second-highest UK total in the decade, behind only the 112 projects recorded in 2018, meant that the UK secured 32.8% of all European finance sector projects. Across Europe, the finance sector ranked only eighth for FDI projects in 2023.

Equal-third place in terms of UK projects in 2023 went to business services and utility supply. In the UK, over the past decade, business services has generated the second-largest number of projects and have been placed second in eight of the 10 years. The 92 business services projects recorded in 2023 were 26.5% lower than the sector's decade-long average. By contrast, the utility supply sector's 92 projects were more than double the sector's average per annum (45.7). The UK secured 16.7% of all business services projects into Europe and 30.5% of projects from the utility supply sector.

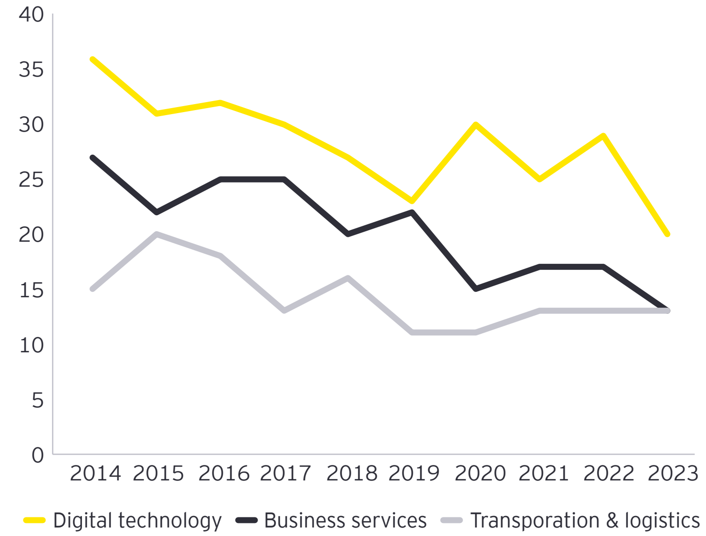
Of the other sectors generating the largest numbers of investment projects for the UK, machinery and equipment (67 projects), transportation and logistics (51), and health and social work (33) all recorded project numbers above their sector averages for the decade. In the case of health and social work projects, the UK secured almost half of the projects made into Europe (47.1%).

Figure 8: UK Investment projects by sector 2023 and decade-long average projects per annum



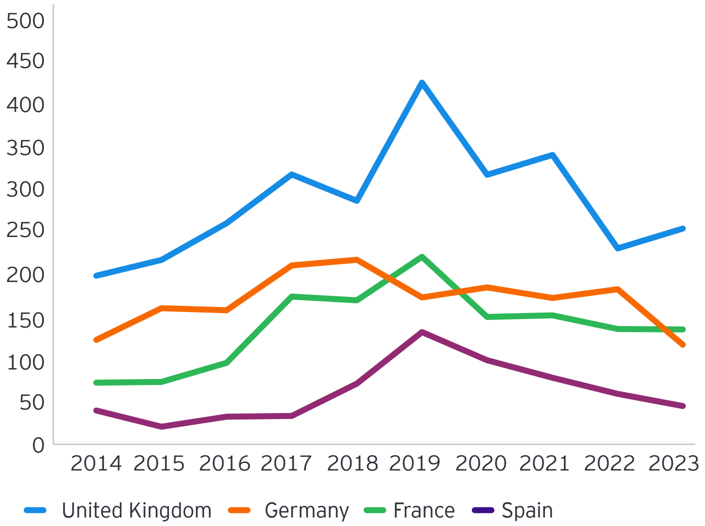
Source: EY European Investment Monitor (EIM), 2014-23

Figure 9: UK market share of the three leading sectors generating projects for Europe 2014-2023



Source: EY European Investment Monitor (EIM), 2014-23

Figure 10: Leading country destinations of digital technology projects 2014-2023



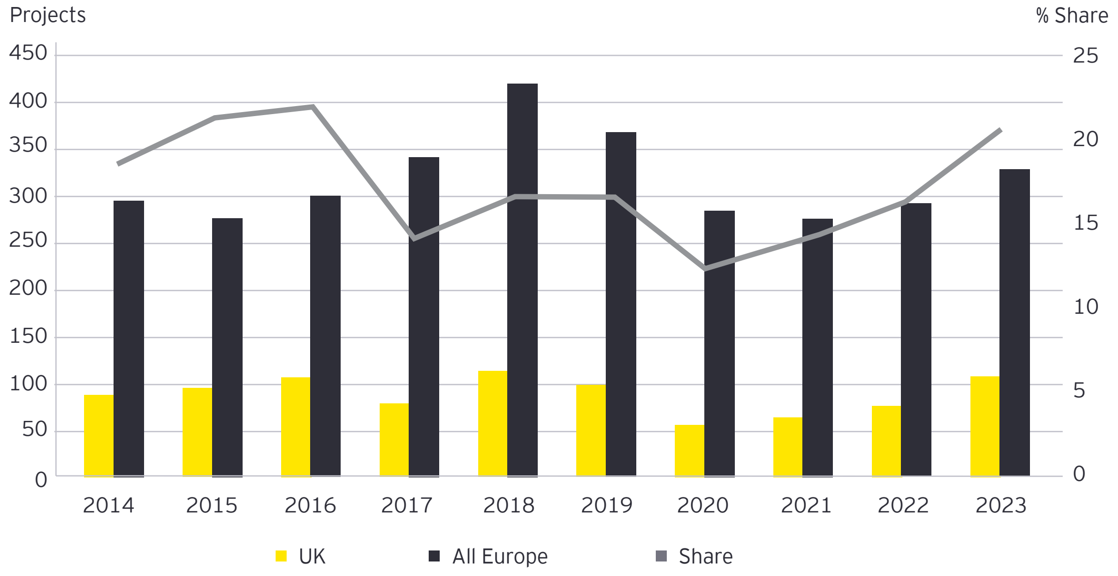
Source: EY European Investment Monitor (EIM), 2014-23

A comparison between the European countries that rank highest for digital technology investments shows that in 2023 the UK saw its project count increase to 255 from 234 in 2022, while France, Germany and Spain all saw modest year-on-year declines. The increase in the UK's project count was driven by a sharp rise in digital technology projects into London, which rose from 107 in 2022 to 133 in 2023, following a plunge from 194 to 107 in 2022. Digital technology investments also tend to centre on the capital cities in some other countries — notable examples include Berlin in Germany and Lisbon in Portugal.

UK financial services FDI maintained its strong run of recent years in 2023, with the UK's 32.8% share of all finance project announcements made across Europe representing a significant increase on its 26% share in 2022. Looking back over the past decade, the UK saw a relatively sharp dip in finance sector investments in 2017, but even then it retained the top spot in Europe. The UK's 2023 share of finance projects was its highest since 2016 (35.1%), which was the high-point of the decade.

With the rise in 2023, UK finance projects have returned to very close to their pre-pandemic level, with the total of 108 projects being just a whisker below the decade high of 112 recorded in 2018. By contrast, finance projects across Europe in 2023 were still well below their pre-pandemic high, also recorded in 2018, albeit seeing a recovering trend. Against this background, the UK's resurgent market share since 2020 seems to underline the stability of the banking sector in the UK.

Figure 11: Financial services projects and UK market share 2014-2023

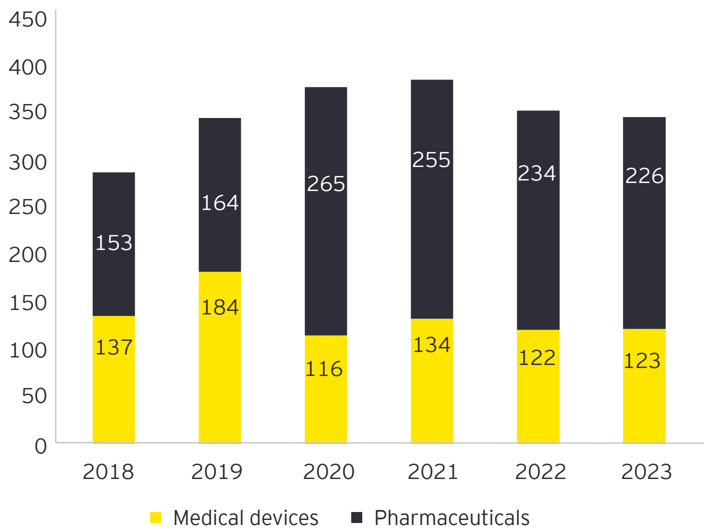


Source: EY European Investment Monitor (EIM), 2014-2023

... and the UK's health-related and pharmaceutical FDI remains resilient, despite declines

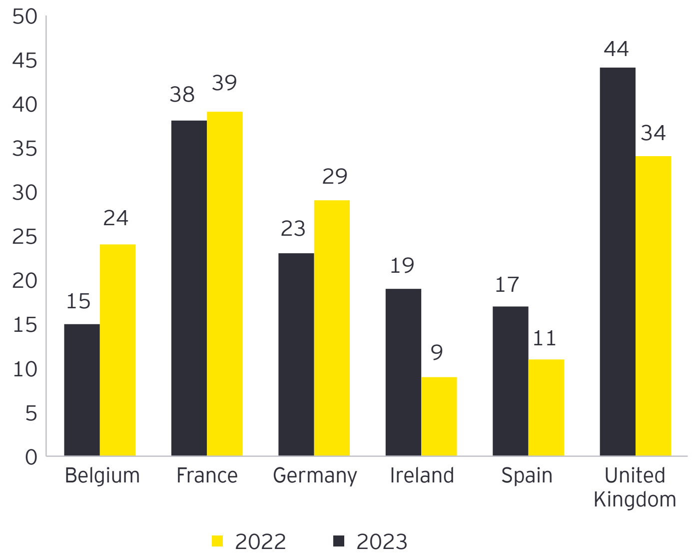
The UK saw its pharmaceutical projects decline by 23% from 44 in 2022 to 34 in 2023, and its medical devices projects fall by 13.6% from 22 to 19. While the UK remains a force in European health sector FDI, these declines saw it lose its top spot in European pharmaceuticals projects to France, and slip from second to third for medical devices investments. The lower project counts in these sectors in 2023 also saw the UK's market share of pharmaceuticals projects fall to 15% from 19% in 2022, and its share of medical devices projects fall to 15.4% from 18%. That said, the UK's strengths in life sciences are still globally recognised – and in the context of an ageing population, a continuing focus on attracting FDI into life sciences will remain important for UK policymakers. This can also be set against the context of health and social care sector within the UK which sees much more investment in the UK than other European countries.

Figure 12: Number of foreign investment projects in the pharmaceutical and medical devices sectors across Europe, 2018-2023



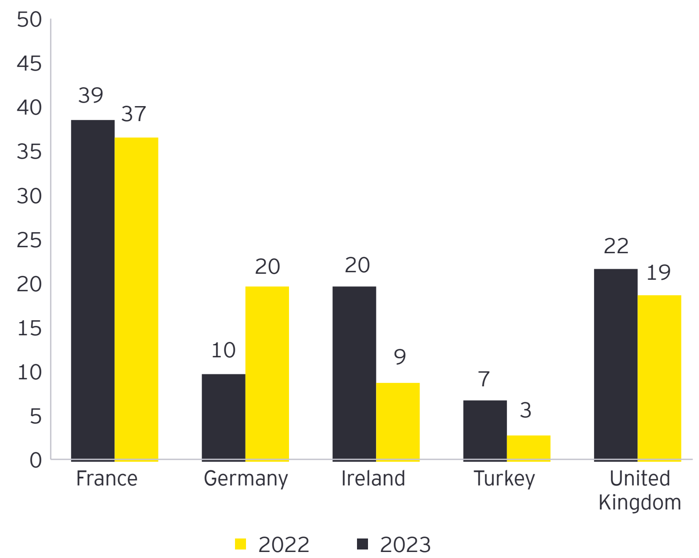
Source: EY European Investment Monitor (EIM), 2018-2023

Figure 13: Top five countries with the most projects in the pharmaceuticals sector 2022-2023



Source: EY European Investment Monitor (EIM), 2022-2023

Figure 14: Top five countries with the most projects in the medical devices sector 2022-2023



Source: EY European Investment Monitor (EIM), 2022-2023

Activities behind UK FDI: a return to front office activity in 2023

Services activity has historically led in the UK — but 2023 saw a reversal of the rising activity in high-value R&D, manufacturing, and logistics projects recorded in 2022

In addition to logging projects by sector, we also categorise them by activity undertaken: for example, a food business may establish a HQ or a new manufacturing plant. Like the changes observed at the sectoral level, there have been clear shifts over recent years in the mix of activities to which investors commit their resources. Up to 2022, the underlying trend in UK projects was towards higher-value activities such as manufacturing plants, research and development (R&D) facilities, and logistics installations, with a corresponding fall in the number of business services and sales functions. However, in 2023 these trends were reversed, with manufacturing, R&D and logistics projects all declining, and business services and sales investments showing a rise.

As in the previous two years, the biggest activity for projects in the UK in 2023 was business services. This was the focus of a total of 392 projects, when all types of business services activity are taken into account, including call centres, shared service centres and testing and servicing facilities, as well as education and training, contact and internet data centres. On this basis, the UK's overall number of business services activity projects increased by 35.6% in 2023, meaning the UK secured 21.1% of all European business services activity projects during the year.

Projects involved in sales and marketing represented the UK's second largest type of FDI activity in 2023. These projects increased by 67.5% compared to 2022 to 206, giving the UK a European market share of 24% in this activity.

By contrast, the remaining project activities all recorded declines in 2023 compared to the previous year. Manufacturing projects fell by 14.3%, resulting in the UK recording a market share of 8.6% in 2023 compared to a decade-long average share of 9.9%. The number of HQ projects in the UK fell by 33.8% in 2023, with the 88 HQ projects recorded being the UK's lowest figure since 2018, when just 48 projects were recorded. However, the number of HQ projects fell more quickly across Europe as a whole, meaning the UK's market share increased to 39.5% – its highest share of HQ projects since 2016.

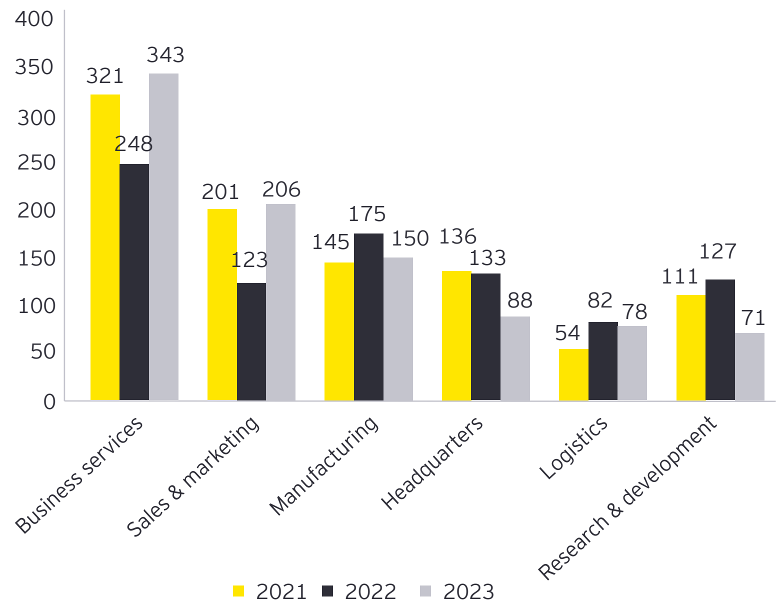
The sharpest annual decline in the activities undertaken by investment projects was in R&D. The total of 71 R&D projects secured in the UK in 2023 represented a 44% reduction on the figure in 2022. This was also the UK's lowest number recorded since 2016 – when 68 R&D projects were secured – and the second-lowest total in the decade. As a result, the UK secured just 14.7% of all European R&D projects in 2023, down from 22.2% in 2022. Restoring the UK's traditional strength in attracting R&D projects should be a key focus for UK policymakers. The precise reason for the decline in R&D among FDI projects is not known, but research conducted the House of Commons Library in the UK suggests that there is cyclical and sectoral element to R&D spend that may be a partial explanation when observing the composition of UK FDI[1]. For example, not only does domestic business make up the lion's share of all R&D spend in the UK, but the tech sector comprises 23% of net R&D expenditure in 2021 – and given the dip in overseas tech investment observed in 2022, it's perhaps unsurprising that R&D activity has taken a dip also.

1. Research and Development Spending, House of Commons Library, September 202. Link: SN04223.pdf (parliament.uk)

… which means that while the UK has always held a strong headquartering share in Europe, policymakers will want to refocus efforts to secure strategic activity
Historically, the UK has secured its highest market share of European project activities in headquarters investments. The UK's share of headquarters projects peaked at over 50% in 2015, but this was an outlier. The 39.5% share of headquarters projects recorded by the UK in 2023 represented a significant increase on 202, indicating that the UK's strength in HQ projects still holds firm when HQ projects across Europe are declining. The UK's rising share of business services, logistics and sales and marketing projects across Europe in 2023 was also welcome news.

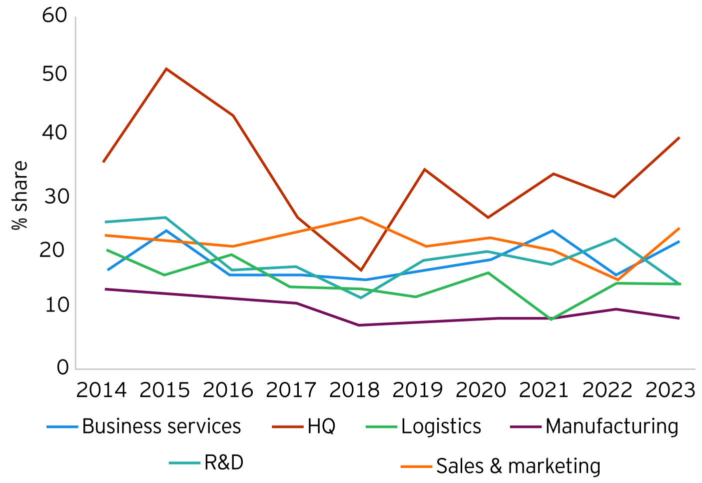
However, other developments need to be considered carefully by policymakers. Despite the UK's total number of projects increasing in 2023, the declines in both absolute numbers and European market share for UK manufacturing and R&D projects are concerning. These are strategically important, high-value activities that the UK is seeking to seed highly throughout its supply chains. Policymakers will need to refocus their efforts to ensure that opportunities to capture high value-adding investments further downstream are capitalised on.

Figure 15: Performance of leading activities for UK FDI projects, 2021 - 2023



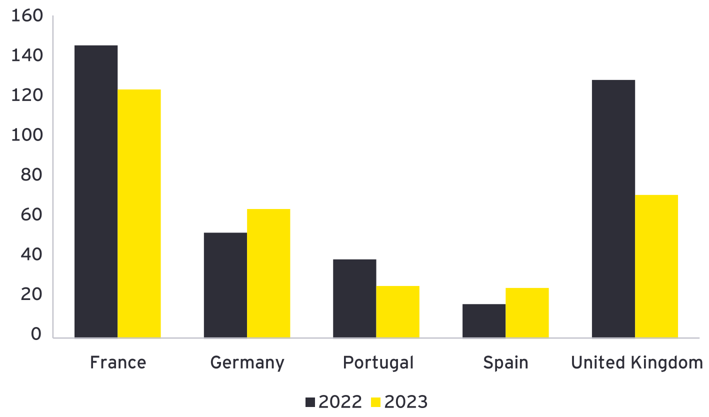
Source: EY European Investment Monitor (EIM), 2021-2023

Figure 16: UK's share of European FDI projects by activity, 2014-23



Source: EY European Investment Monitor (EIM), 2014-2023

Figure 17: Top five European countries with the most R&D projects in 2023 vs 2022



Source: EY European Investment Monitor (EIM), 2022-2023

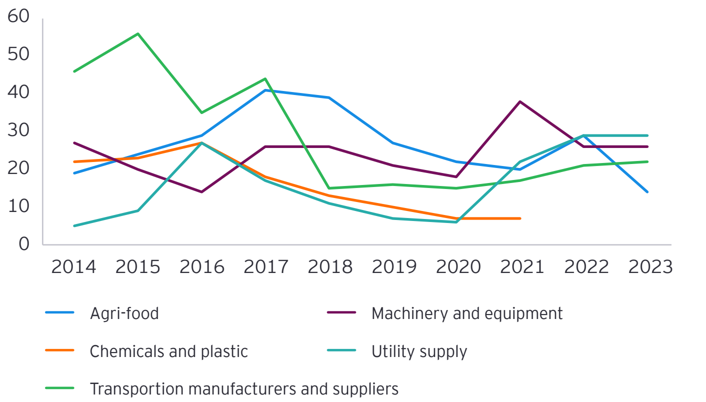
R&D activity remains concentrated in the 'Big 3' in Europe, but this year has seen a decline across most of the continent …
The early stages of developing technology and clustering R&D centres tend to create relatively small numbers of high-value jobs; but to deliver jobs at scale, the UK – and Europe more widely – also need to build those technologies further down the supply chain. There are strategic advantages for countries in being able to do both, although financial considerations have typically propelled manufacturing projects to lower-cost territories. The UK performed poorly in R&D projects in 2023, with its total of 71 R&D projects secured – a 44% reduction on 2022 – representing a European market share of just 14.7%, down from 22.2% the previous year. That said, the UK was far from alone in experiencing a drop in R&D projects numbers in 2023: the total number of R&D projects across Europe during the year fell from 573 in 2022 to 484 in 2023, a 16% decline. That said, some countries — notably Germany and Spain — managed to buck the trend by increasing their complement of R&D project secured during the year. Given the composition of investment into both Germany and Spain, it seems likely that these shifts in R&D activity in other European countries compared to the UK are likely down to the concentration of sectoral strengths in each respective country responding to cyclical and sectoral-specific headwinds in recent years.

… while the UK needs to refocus efforts aimed at capturing manufacturing investment in a globally competitive and transactional environment …
The decline of 4.5% in all projects across Europe in 2023 was reflected to a lesser degree in European manufacturing investments, which fell by 1% from 1,756 projects in 2022 to 1,743 in 2023. Against the background of this marginally declining European position in manufacturing, the UK recorded a much sharper fall, seeing its haul of manufacturing projects decrease in 2023 by 14.3% to 150. This UK project count of manufacturing investments resulted in the UK recording a market share of 8.6% in 2023, compared to a decade-long average share of 9.9%.

The UK's subdued performance in securing manufacturing projects in 2023 marked a continuation of a long-term trend that has seen its share of manufacturing FDI across Europe remaining relatively low. The effects of sweeping legislation like the Inflation Reduction Act in the USA, which is redefining the industrial and manufacturing base in large swathes creates a competitive challenge for UK policymakers – and in less-than-ideal timing when the UK is barely in its post-Brexit trading infancy and has dealt with comparatively high energy costs acting as a barrier in the past two years when stacked against our European neighbours.

Within the UK market, manufacturing has undoubtedly faced a high degree of uncertainty in recent years, against the backdrop of a challenging regulatory and political landscape. Given these conditions, it's interesting to drill down into which sectors have seen a decline or increase in manufacturing activity. Among the top sectors, a clear shift in manufacturing activity can be seen: manufacturing activity in transportation dominated the landscape up to 2017, when it recorded 44 projects, before seeing a sharp decline followed by a period of relative stability and then a steady recovery in the past three years. Meanwhile, manufacturing projects in machinery and equipment and agri-food have been relatively volatile, peaking in 2017 and 2021, respectively. A marked trend since 2020 has been a rebound in manufacturing projects in utility supply (including renewables), which represented the UK's biggest FDI manufacturing activity in 2023.

Figure 18: Top five sectors by manufacturing activity in the UK, 2014-2023



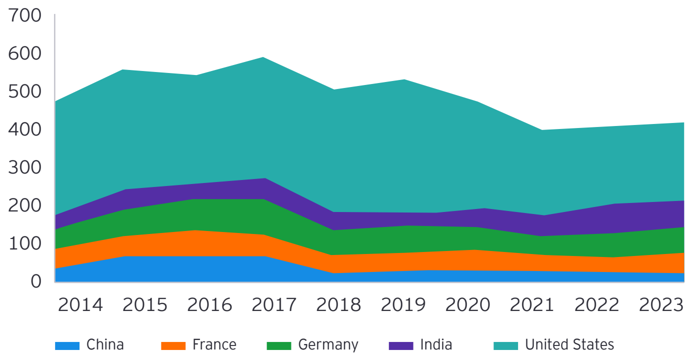
Source: EY European Investment Monitor (EIM), 2014-2023

Origins of UK FDI projects: the UK captures a large share of the US's declining investments across Europe — and attracts a wide range of non-European origins

The US remains the UK's biggest investor despite reducing its investment across Europe — while India stays second and project flows from other Commonwealth countries continue

The top five countries investing in the UK in 2023 were the United States (with 218 projects), India (76), Germany (70), France (51), and Australia (35). This ranking continued the previous year's trend of India outpacing Germany as the UK's second-biggest investor, while Australia has entered the top five since 2022, replacing the Netherlands in fifth place.

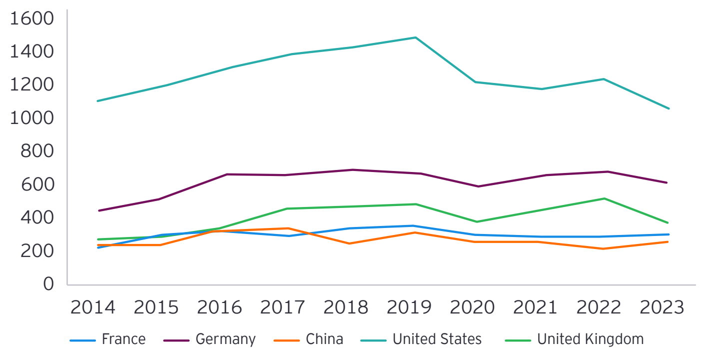
Figure 19: UK project count over the past decade of 2023's top five countries of origin into the UK



Source: EY European Investment Monitor (EIM), 2014-2023

At a European level, most FDI projects in Europe originated from European-based companies in 2023, compared with 18.6% from US investors, down from 20.8% in 2022. The US remains the leading origin of projects both into the UK and into Europe as a whole — a position it has held in in every year since the EIM data was first recorded. However, US projects into Europe have been on a largely declining trend for four years, apart from a modest uptick in 2022. At 1,058, the total number of US projects into Europe in 2023 was 28.7% lower than the high point in 2019.

Figure 20: Top five leading countries of origin into Europe over the past decade — time-series analysis 2014-2023



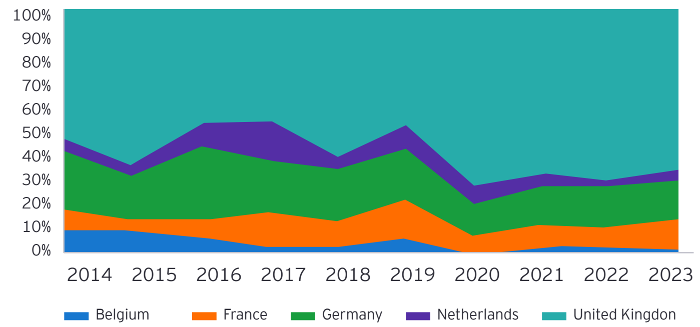
Source: EY European Investment Monitor (EIM), 2013-2022

Also, in keeping with previous years, the US is a larger proportionate investor into the UK than into Europe as a whole. In 2023, the UK secured 218 projects from the US, a figure that represented 22.1% of all UK projects recorded - although the total number was lower than the annual average for the decade of 299.8 projects. The UK secured 20.6% of all US projects into Europe. Projects into the UK from the US have now fallen four years in succession, and in 2023, they were 42% lower than the high point in the decade of 2019, when the UK secured 376 projects.

The overall picture is that US investments into Europe as a whole are on a downward path, but that the UK is continuing to attract a disproportionately large share. In recent years, US investments into the UK (and by extension Europe) have been impacted by several geopolitical and geo-economic shifts — much of which we are seeing filter through in FDI activity and our investor survey. Factors ranging from the war in Ukraine to political uncertainty and popular protests across numerous European countries are potentially affecting US perceptions of investing in Europe. More broadly, US economic and trade policy is tending to favour more domestically fuelled industries, with the subsidies and incentives on offer under the Inflation Reduction Act (IRA) being a case in point.

The rise of Indian investment in the UK continues to represent a real success. The UK secured 76 projects of Indian origin in 2023, although this was a 7.3% decline on 2022. Remarkably, the UK secured 55.1% of all Indian projects into Europe - and while India is the UK's second largest origin of projects, it ranks only 18th across Europe as a whole. This is perhaps unsurprising given the historic and cultural ties the UK has with India, its position as a fast-growing economy and the historically more global nature of the UK investor base compared to the rest of Europe — a position of relative strength that regions within the UK should seek to capitalise on.

Figure 21: Top five destinations for Indian investment by market share into Europe, 2014-2023



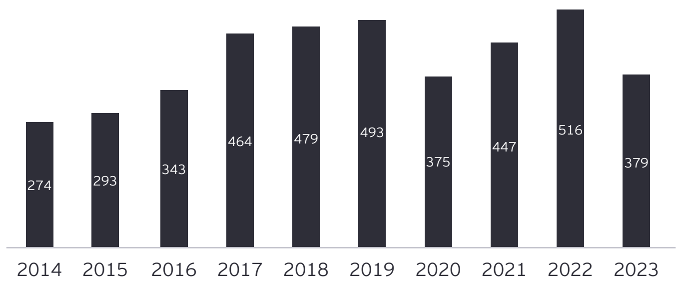
Source: EY European Investment Monitor (EIM), 2014-2023

As the UK seeks to broaden its trading ties with other major multilateral trading blocs post-Brexit — witness the new trade deals signed in the past couple of years with a number of countries and groupings such as the Trans-Pacific Partnership (CPTPP) — it's worth noting that the UK's leading seven sources of FDI projects in 2023 included three countries from outside Europe. This leading grouping includes Australia and China as well as India, with Commonwealth countries (including Canada) continuing to be important sources of UK projects. In 2022, the UK secured 55.6% of all Australian investment projects into Europe — and while Australia was only the 27th-largest origin of investment projects into Europe as a whole, it ranked fifth for the UK with 35 projects. Overall, of the top 10 origins of UK projects in 2023, four did not feature in the top ten at a European level — India, Australia, Spain and Turkey.

... while UK outbound investment showcases UK businesses investing significantly in Europe, this has slipped back to 2016 levels

Outbound projects from the UK jumped initially after the Brexit referendum, before falling back in the pandemic-affected year of 2020. Since then, they had been increasing year on year. However, this rising trend went into reverse in 2023, when UK outbound projects declined by 26.7%. Many UK companies made outbound investments into Europe to prepare for, and deal with the consequences of Brexit, and it could be that this trend has run its course, hence explaining the dip in outbound UK investment this year. A challenging global economic environment will also have acted as a headwind to UK investors.

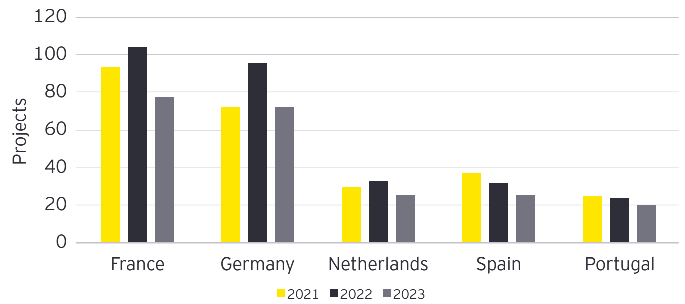
Figure 22: Number of UK outbound projects 2014-2023



Source: EY European Investment Monitor (EIM), 2014-2023

France and Germany – as usual – occupied the top two places for UK outbound investment projects in 2023, the following three positions were filled by the Netherlands, Spain and Portugal. However, the ranking outside the top two tends to change year on year. For example, Belgium was the UK's third-largest destination for outbound projects in 2021, and Italy ranked as the fourth largest in 2022.

Figure 23: Top destinations of UK outbound investment 2021-2023



Source: EY European Investment Monitor (EIM), 2021-2023

Summary: the UK investment marketplace is experiencing divergent trends to the rest of Europe — and these appear set to stay

Our analysis indicates that UK FDI is undergoing some strategic shifts. Although 2023 has seen the UK perform largely in line with the decade-long average in its traditionally strong sectors such as digital technology, finance, and business services, the data on the activities driving investment tells a story that's quite different from the previous year. While inbound project flows in 2022 appeared to indicate a move away from formerly dominant activities like sales and marketing and towards R&D, manufacturing, and logistics, these trends were reversed in 2023 – with business services and sales and marketing projects rising strongly, and manufacturing, logistics and R&D projects all falling back. Policymakers will be eager to restore the UK's momentum in high value-adding activities like R&D and manufacturing projects, as these will be key to maintaining economic dynamism and growth in the shifting and disrupted global markets of the future. The world is changing – and the UK's approach to attracting FDI must change and evolve with it. We will look at what's needed in policy terms later in this report, drawing on our global survey of executives.

UK regional performance: mixed results outside the capital

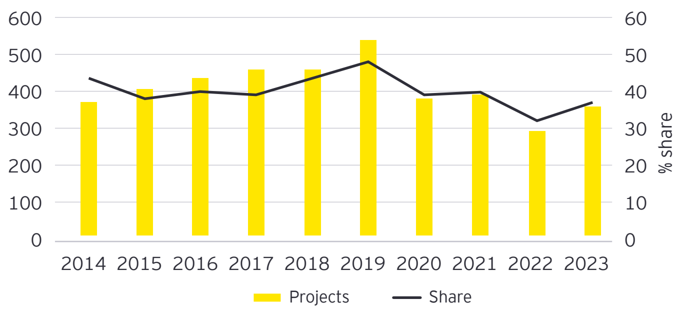
After a difficult 2022, London records a return to normality, leading Europe — and the UK — in projects and digital investment …

Of all the UK's regions and devolved administrations, Greater London has consistently secured the largest number of investment projects in every year that this research has been conducted. 2023 has been no exception. During the year, the UK capital secured 359 projects, a rise of just over 20% from the 299 it recorded in 2022. The rise in London projects in 2023 represents something of rebound after a subdued year in 2022, when London's project count fell by 24.1% to its lowest level in the decade. However, despite the resurgence in 2023, the number of projects in London remained low by historical standards, well below the decade-long average of 412 projects a year.

The recovery in London was driven by a rebound in digital technology projects, which 133 in 2023, up by 24.3% compared with 2022. However, this figure was still well short of London's decade-long annual average of 171.5 digital technology projects. That said, London remains dominant by market share of technology projects both within the UK and as the leading European city for projects in this sector. The overall rise in London projects in 2023 was also supported by a healthy increase in finance projects during the year.

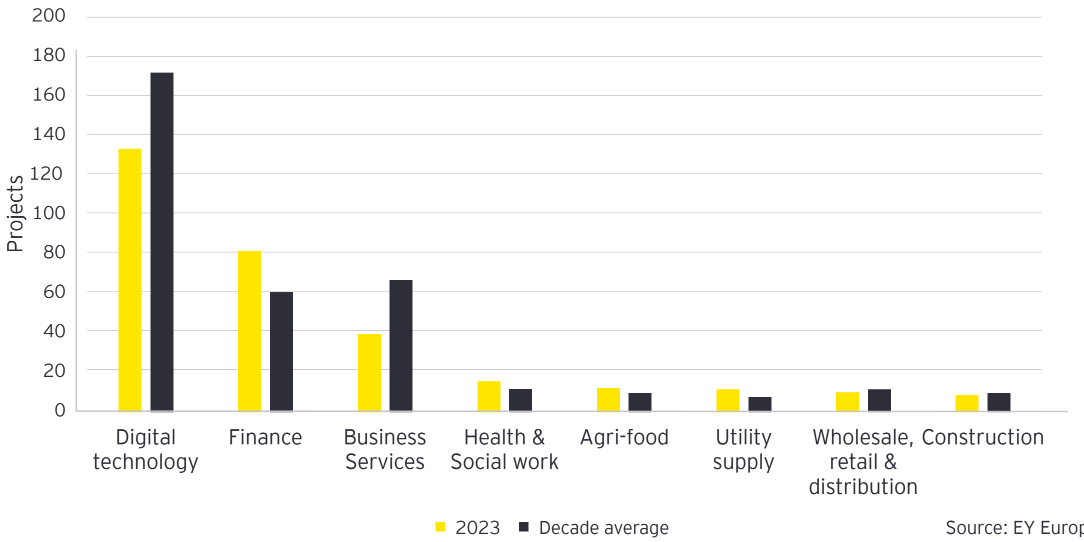
London also secured more projects than every European country apart from France, Germany, and Turkey. The increase in London's projects in 2023 also saw the UK capital's market share of all UK projects rise from 32.2% to 36.4%, partially reversing a fall in its market share the previous year.

Figure 24: London projects and market share of all UK projects 2014-2023



Source: EY European Investment Monitor (EIM), 2014-2023

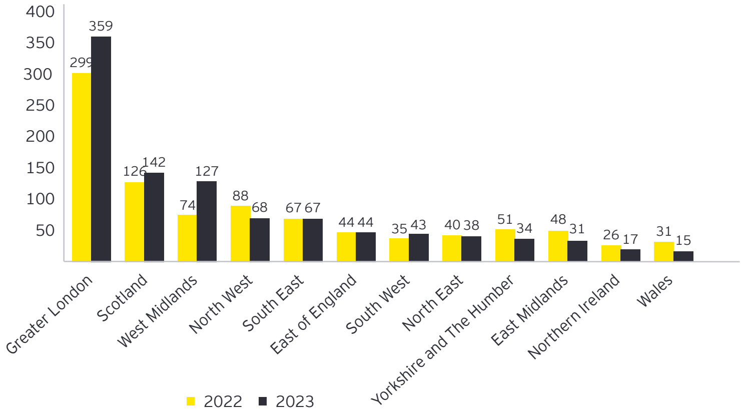
Figure 25: Leading sectors for investment in Greater London 2023 and the decade average



Source: EY European Investment Monitor (EIM), 2014-2023

The FDI performance across other areas of the UK was mixed, with strong showings from Scotland, the West Midlands and South West offset by declines in many other regions and devolved administrations. Despite the overall increase of 6% in UK projects in 2023, six of the eleven UK regions or countries outside London recorded decreases in 2023.

Figure 26: Projects across all UK regions, 2022-2023



Source: EY European Investment Monitor (EIM), 2022-23

Figure 27: Top 10 regions by FDI projects in 2023 — ranking, number of projects and jobs, change 2023 vs. 2022

#	Region	Number of projects in 2023	Number of projects in 2022	Change 2022/23	Number of jobs in 2023
1	Greater London	359	299	+20%	13,627
2	Île-de-France	300	326	-8%	8,339
3	North Rhine-Westphalia	197	277	-29%	3,773
4	Auvergne-Rhône-Alpes	167	154	+8%	4,163
5	Flemish Region	145	160	-9%	4,293
6	Scotland	142	126	+13%	6,650
7	West Midlands	127	74	+72%	6,784
8	Bavaria	126	150	-16%	792
9	Grand Est	119	95	+25%	5,576
10	Catalonia	118	83	+42%	7,506
	All others	3,894	4,218	-8%	258,420
	Total	**5,694**	**5,962**	**-4%**	**319,923**

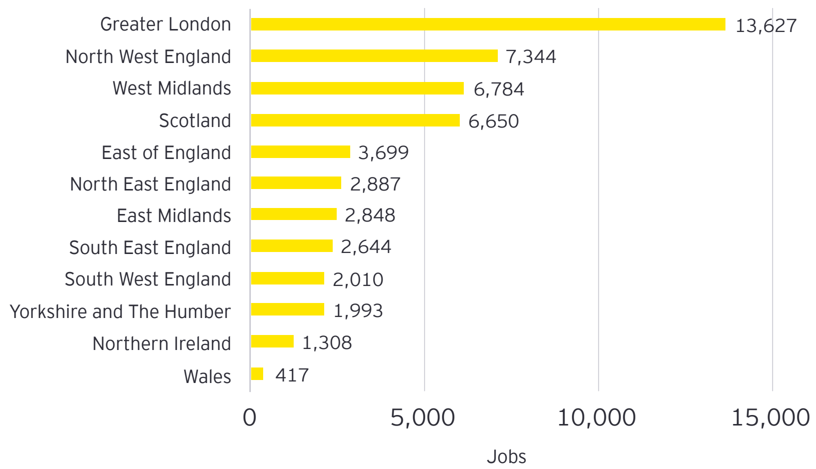
Source: EY European Investment Monitor (EIM), 2022-23

With three UK regions punching into the European top tables for projects and job announcements...

Greater London's preeminent position in Europe's inward investment landscape is further underlined by a comparison with other leading FDI regions and centres across Europe. The 20% rise in London projects in 2023 saw the UK capital extend its lead over second-placed Île-de-France, whose projects fell by 8%. London also garnered the highest number of FDI jobs of any European region by a wide margin. Further down the ranking, the strong performances of Scotland and West Midlands are reflected in their rankings of sixth and seventh respectively among Europe's leading FDI regions.

Turning to employment secured from FDI, projects locating in London in 2023 announced 13,627 jobs. This represented a 43.6% increase on 2022, when London projects announced 9,489 jobs. The second-placed region for FDI employment was the West Midlands, despite being placed only third for project numbers secured. The West Midlands recorded 6,784 jobs, a rise of 9.2% on 2022. Scotland, the second-placed region for projects, was ranked third for employment. It recorded 6,650 jobs in 2023, a rise of 27.8% on the previous year. The South West was ranked fourth for FDI job creation in 2022 as a result of the announcement of the Tata giga-factory in Somerset, which alone created 4,000 jobs. The South West's total of 6,010 jobs in 2023 was the region's largest total for FDI employment in the past decade.

Figure 28: Employment announced by FDI project by UK region



Source: EY European Investment Monitor (EIM), 2022-2023

In last year's report, we analysed the sharp drop in digital technology projects into London in 2022. And we noted that 2022 appeared to have been a year in which the sector decided that Europe's larger and more dominant digital locations – with the exception of Berlin – were not necessarily the best choice of investment destination. Instead, technology companies seem to be switching their focus to smaller centres, such as Lisbon and Porto in Portugal. By contrast, 2023 has seen something of a reversion to the norm, with London emerging as the main beneficiary among Europe's established digital hubs.

As these shifts indicate, London remains Europe's location of choice for digital investment – while others are seeking to close the gap. As in previous years, the key question for UK policymakers is what policy levers can be pulled to maintain London's competitive edge. One obvious option is improving the competitiveness of the regulatory environment in a sector that consistently prioritises this issue in its investment decisions. A regulatory environment that is open to innovation and fosters technological innovation while providing ready access to capital will be crucial to maintaining London's top spot in digital FDI.

Figure 29: Leading European cities for digital technology investment in 2023 and their year-on-year performance

Rank	City	2022	2023	% Change
1	London	108	132	22
2	Paris	46	47	2
3	Berlin	75	34	-55
4	Lisbon	56	44	-21
5	Munich	28	19	-32
6	Dublin	26	14	-46
7	Madrid	20	11	-45
8	Barcelona	18	22	22
9	Amsterdam	16	13	-19
10	Milan	20	18	-10
11	Düsseldorf	15	13	-13
12	Porto	29	18	-38
13	Frankfurt	16	9	-44
14	Vilnius	13	5	-62
14	Edinburgh	18	6	-67
16	Warsaw	15	21	40
17	Vienna	16	6	-63
18	Belfast	11	3	-73
19	Helsinki	12	6	-50
20	Stockholm	12	2	-83

Source: EY European Investment Monitor (EIM), 2022-23

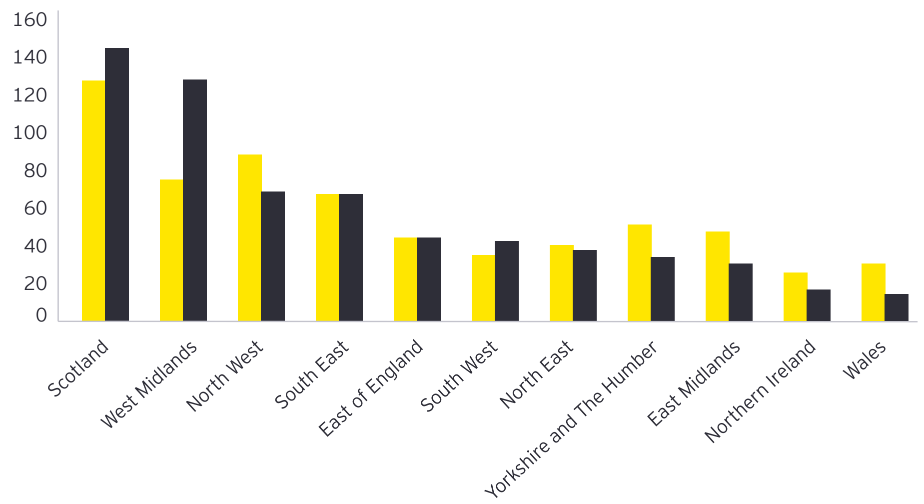
... some UK regions narrowed the gap on London in 2023, but the results across many parts of the UK were mixed

Looking beyond the dominance of London, the UK's remaining regions and devolved administrations put in a wide range of performances in securing FDI in 2023. However, there were stand-out showings from three parts of the UK: Scotland, which further consolidated its established position as the UK's most attractive FDI location after London; the West Midlands, which experienced a meteoric rise in investment projects off the back of the Commonwealth Games; and the South West, which was boosted by the announcement of the Tata giga-factory in Somerset. The latter two regions outpaced London's rise of 20%, narrowing the gap on the UK capital.

Scotland saw its number of projects rise by 12.7% in 2023 to 142, its largest total in the past decade. This continued a run of success that has seen Scotland secure the second-largest number of projects behind London in each of the past ten years apart from 2014. The biggest regional increase in projects in 2023 was achieved by the West Midlands, whose projects surged by 71.6% to 127, again the highest project haul in the last decade. The other UK region that delivered an increase in projects in 2023 over the previous year was South-West England, with its 43 projects secured representing an increase of 22.9% over the total recorded in 2022.

With the number of projects located in South-East England remaining unchanged in 2023 at 67, the remaining six out of 11 UK regions or devolved administrations outside London saw a declining numbers of projects in 2023. The sharpest fall was in Wales, whose projects fell by 51.6% from 31 in 2022 to 15 in 2023, the lowest figure in the past decade.

Figure 30: FDI projects into the UK outside London, 2022-2023



Source: EY European Investment Monitor (EIM), 2022-2023

Cities outside London have played musical chairs in 2023 – with tech investment taking a dip in Manchester and Edinburgh slipping despite wider Scottish success

Turning to the UK's leading city locations for FDI, the stellar performance of the West Midlands in securing a decade-high number of projects in 2023 fed through to an even stronger showing by Birmingham. The West Midlands city recorded a rise of 139% on 2022 to a record 67 projects in 2023. This was the city's highest figure of the decade, second only to London and more than double the total achieved by any other UK city.

Elsewhere, Edinburgh retained its position as the UK's second-largest recipient of projects by cities outside of London, despite its project numbers falling by 20% year on year. Projects into Manchester fell even more sharply to 31, causing it to slip from first outside London in 2022 to third behind Edinburgh and Birmingham in 2023, its lowest ranking of the past decade. Glasgow (fourth), Bristol (fifth), Cambridge (sixth) and Leeds (seventh) all increased their numbers of projects secured in the year, with Cambridge recording a decade high.

Figure 31: Largest UK city recipients of investment (excluding London) 2019-2023

Rank	City	2019	2020	2021	2022	2023
1	Birmingham	30	26	17	28	67
2	Edinburgh	22	36	31	40	32
3	Manchester	34	34	31	45	31
4	Glasgow	23	23	25	23	25
5	Bristol	15	12	19	13	17
5	Cambridge	10	12	14	9	17
7	Leeds	20	16	15	15	16
8	Aberdeen	16	13	14	15	13
9	Warwick	1	2	12	10	12
10	Newcastle	3	–	6	11	11
11	Belfast	22	25	24	15	10
11	Coventry	8	10	6	4	10
11	Reading	14	6	8	5	10
14	Cardiff	10	5	8	9	9
14	Liverpool	8	8	3	7	9
15	Milton Keynes	6	4	9	5	8
16	Leicester	–	–	2	7	7

Source: EY European Investment Monitor (EIM), 2019-2023

Investor perceptions of the UK in 2024: grounds for optimism despite an overall decline in perceived attractiveness

Investor perceptions of the UK are down again this year, keeping it in third place behind Germany and France – but sentiment towards the UK remains strong in financial services and business services ...

When we asked executives which was the most attractive location in Europe, our findings showed that the perceived attractiveness of Europe's larger FDI 'countries of choice' declined significantly between 2023 and 2024, with the attractiveness scores of top-placed France, second-placed Germany and third-placed UK all down sharply year on year. For the UK in third place in 2024 on 25%, down from 32% in 2023, the year-on-year decline marked the second successive annual fall from 44% in 2022.

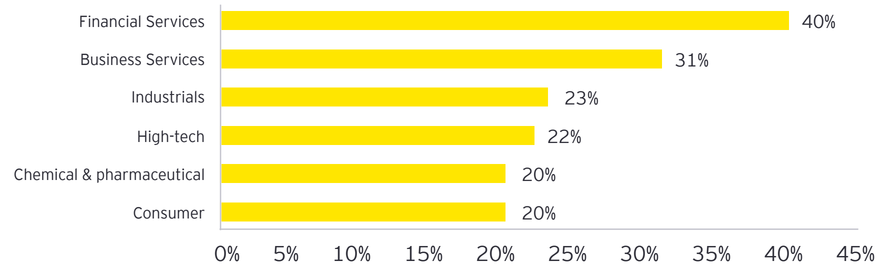
While the decline in the UK's score probably reflects some of the political and economic headwinds the country has continued to face in the past year, the decline in Germany's perceived attractiveness in 2024 was far sharper. International executives in key sectors like financial services (40%) and business services (31%) still view the UK as having a very attractive FDI offering, meaning it leads Europe in terms of perceived attractiveness within those particular sectors. This bodes well for the future.

Figure 32: Which European countries will be most attractive for foreign investment in 2024?

Most attractive (%)	2021	2022	2023	2024
Germany	28%	42%	62%	29%
France	31%	47%	49%	34%
UK	43%	44%	32%	25%
Belgium	11%	19%	23%	6%
Italy	26%	20%	20%	11%
Spain	20%	17%	19%	17%

Source: EY UK Attractiveness Survey 2024

Figure 33: Breakdown of investors by sector favouring the UK as the most attractive location when considering where to invest.



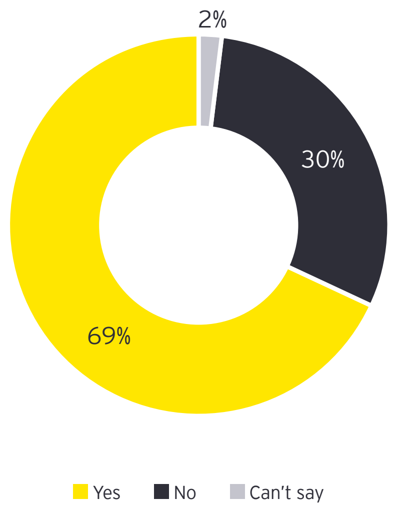
Source: EY UK Attractiveness Survey 2024

... and a higher share of investors are reporting plans to invest in the UK in the next year than was recorded last year ...

Several other findings also cast a more positive light on the outlook for the UK. Despite the declining perceptions both of the UK and of Europe's other leading FDI locations in 2024, our findings on investment intentions and plans paint an improving picture for UK investment. Asked whether they're planning to establish or expand operations in the UK over the next year, some 69% of the C-Suite investors polled said yes. This figure represents an increase of 4% year on year from the 65% recorded in our 2023 study, which was already the highest level ever in this research.

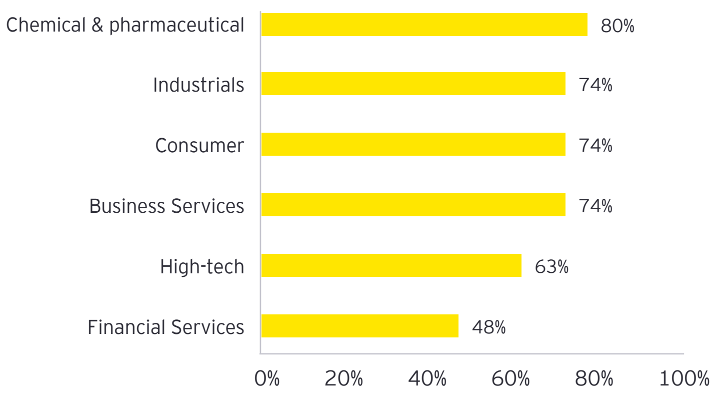
Interestingly, when we segment the investors by sector, we find that those industries where the UK has traditionally performed better actually have a smaller cohort saying they are intending to establish or expand operations here. For example, only 48% of financial services investors are planning to establish or expand their UK investments in the coming year. This is in stark contrast to sectors such as chemical and pharmaceutical, where an overwhelming 80% of investors indicated an intention to establish or expand.

Figure 34: Does your company have plans to establish or expand operations in the UK over the next year?



Source: EY UK Attractiveness Survey 2024

Figure 35: Breakdown of investors by sector planning to establish or expand operations in the UK over the next year



Source: EY UK Attractiveness Survey 2024

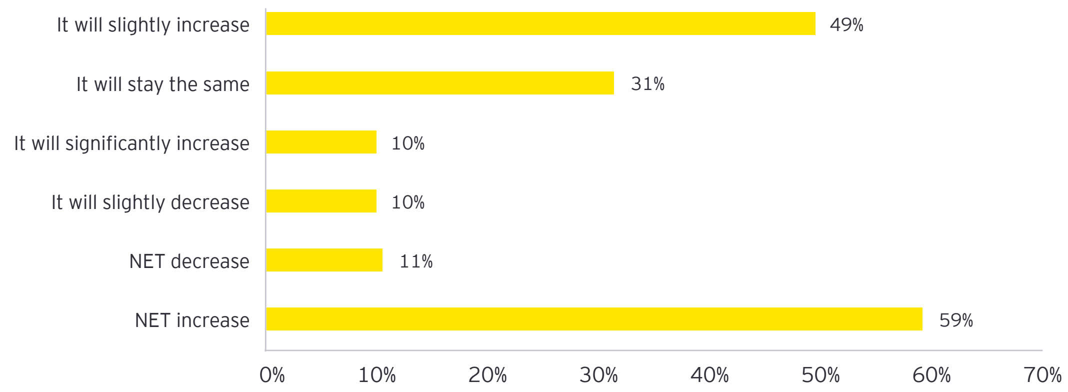
...with expectations rising that the UK's attractiveness will improve over the coming three years...

Expectations of how the UK's attractiveness will change over the next three years also signal an improving trend. Ten per cent of executives believe the UK's attractiveness will 'significantly increase', up from 6.1% last year. And almost half – 49% – expect it will 'slightly increase', compared to just 42.5% last year. This gives a net 59% anticipating an improvement in the UK's attractiveness, compared to 48.6% last year. By comparison, only a net 11% of our 2024 interviewees expect a deterioration.

Breaking down the findings on the UK's evolving attractiveness by sector, we find industrial companies are the most positive, with 71% expecting it to improve. The consumer, and chemical and pharmaceutical sectors also over-index on expecting an improvement, with the proportion anticipating a net increase (at 61% and 60%, respectively) exceeding the global figure of 59% in both industries. Financial services respondents are the least positive, with only a net 30% expecting an increase, and a large middle grouping (43%) thinking things are likely to remain about the same. These findings appear to mirror the relatively low proportion of financial services investors planning to establish or expand operations in the UK in the coming year.

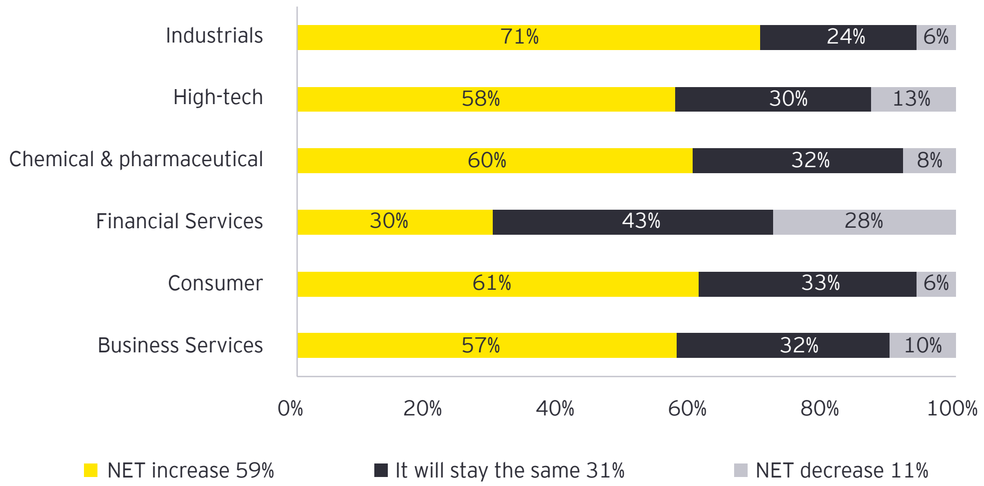
When looking to the medium-term, the message seems that those sectors that already enjoy a sectoral strength in the UK – such as financial services – see less scope for improvement in its attractiveness than companies in some sectors that have featured less prominently in the past as contributors of FDI. Meanwhile, in the high-tech sector, despite a rebound in UK digital and tech projects in 2023, it seems that investor sentiment about the near-term and medium-term investment environment remains about the same as in last year's survey. Given that the high-tech sector is one of the overriding strengths of the UK economy, a key focus area for policymakers going forward should be understanding the relatively more pessimistic perceptions among these investors despite the recovery in project numbers.

Figure 36: To what degree do you think the UK's attractiveness will evolve over the next three years?



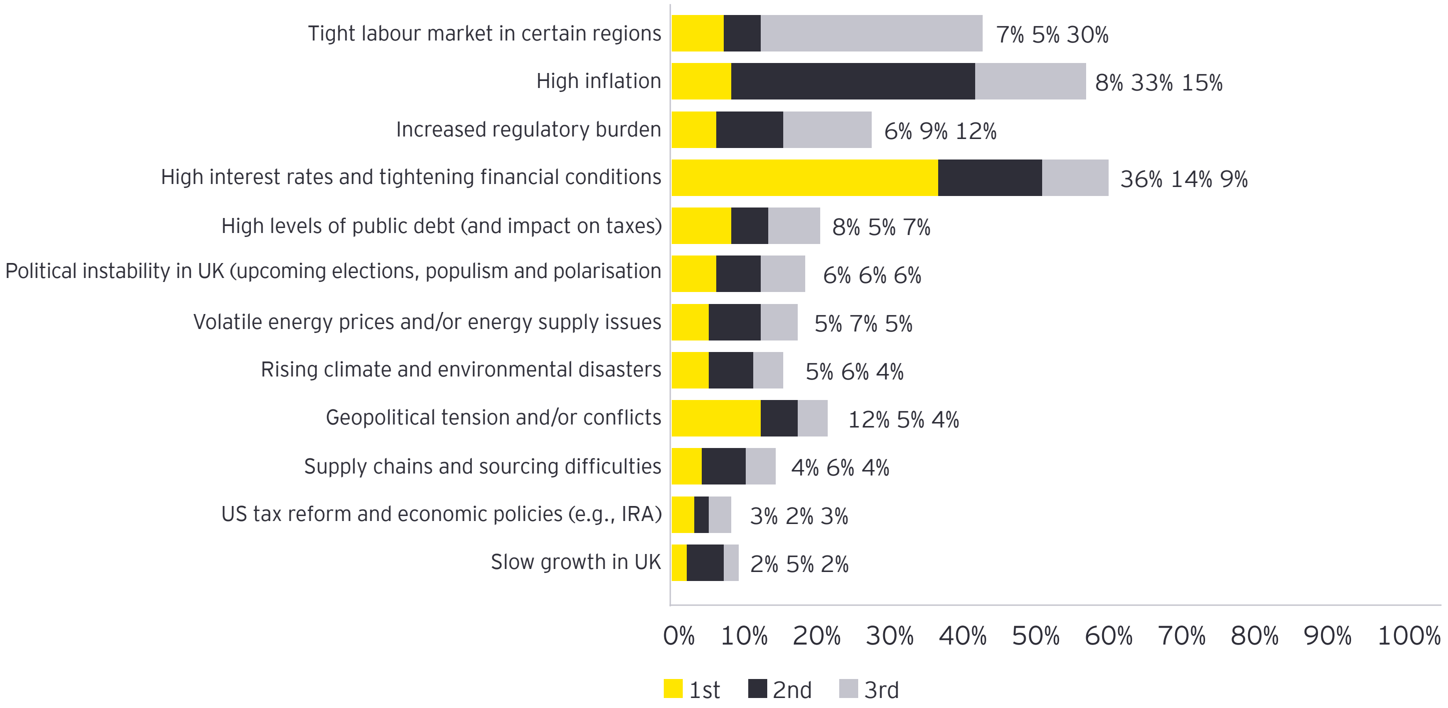
Source: EY UK Attractiveness Survey 2024

Figure 37: Breakdown of the UK's evolving attractiveness by sector



Source: EY UK Attractiveness Survey 2024

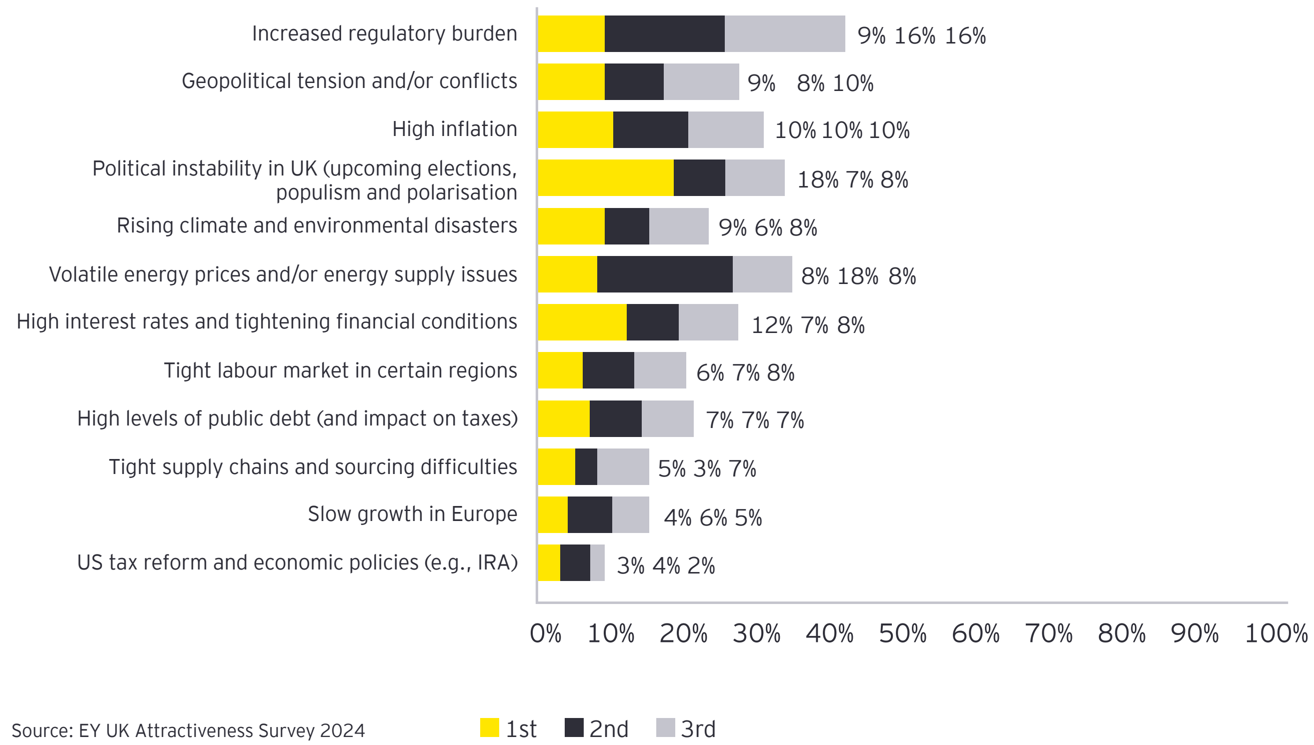
Figure 38: What are the three main risks affecting UK's attractiveness over the next three years?



Source: EY UK Attractiveness Survey 2024

By contrast, our perception findings across Europe show that rising regulation heads the list of economic risks impacting companies' investment plans, topping a ranking that has changed significantly in the past year. In 2023, the economic conditions in Europe were top-of-mind for investors, with the most cited risk factors being rising interest rates and tightening financial conditions, as well as inflation and its impact on consumer demand. This year, while economic concerns remain, these have ease slightly to be replaced at the top of investors' worry-list by an increased regulatory burden (cited by 41%) followed by volatile energy prices and/or supply issues (34%) and political instability in Europe (33%). Interestingly, the last of these factors – political instability in Europe – attracts the most first-place votes, underlining how seriously many investors take it as a risk. For the UK, this presents a strong opportunity as core macroeconomic risks start to recede: growth is returning, inflation is taming, and the hot labour market is cooling. Against the backdrop of structural issues lingering in Europe, this ought to be a moment where the UK can reassert itself as an example of stability and business friendly fundamentals.

Figure 39: Which three of the following economic risks have impacted your 2024 investment plans in Europe the most?



Source: EY UK Attractiveness Survey 2024

... and the UK remains highly favoured by investors for access to capital, its regulatory environment, and the strength of its domestic market

While the UK has remained only in third place among Europe's most attractive FDI locations, there are still some important investment criteria on which the UK continues to perform strongly. When choosing to invest in the UK, investors say they place particular weight on the quality of its legal and regulatory environment (cited by 50%), the liquidity of its financial markets and availability of capital (48%), and the strength of its domestic market (33%). Aspects of the UK that are less favoured by investors include the agility and pragmatism of local authorities, the tax environment, its national stimulus packages, and its conduciveness to R&D and innovation. Again, these findings can be a valuable input to decision-making on future policy.

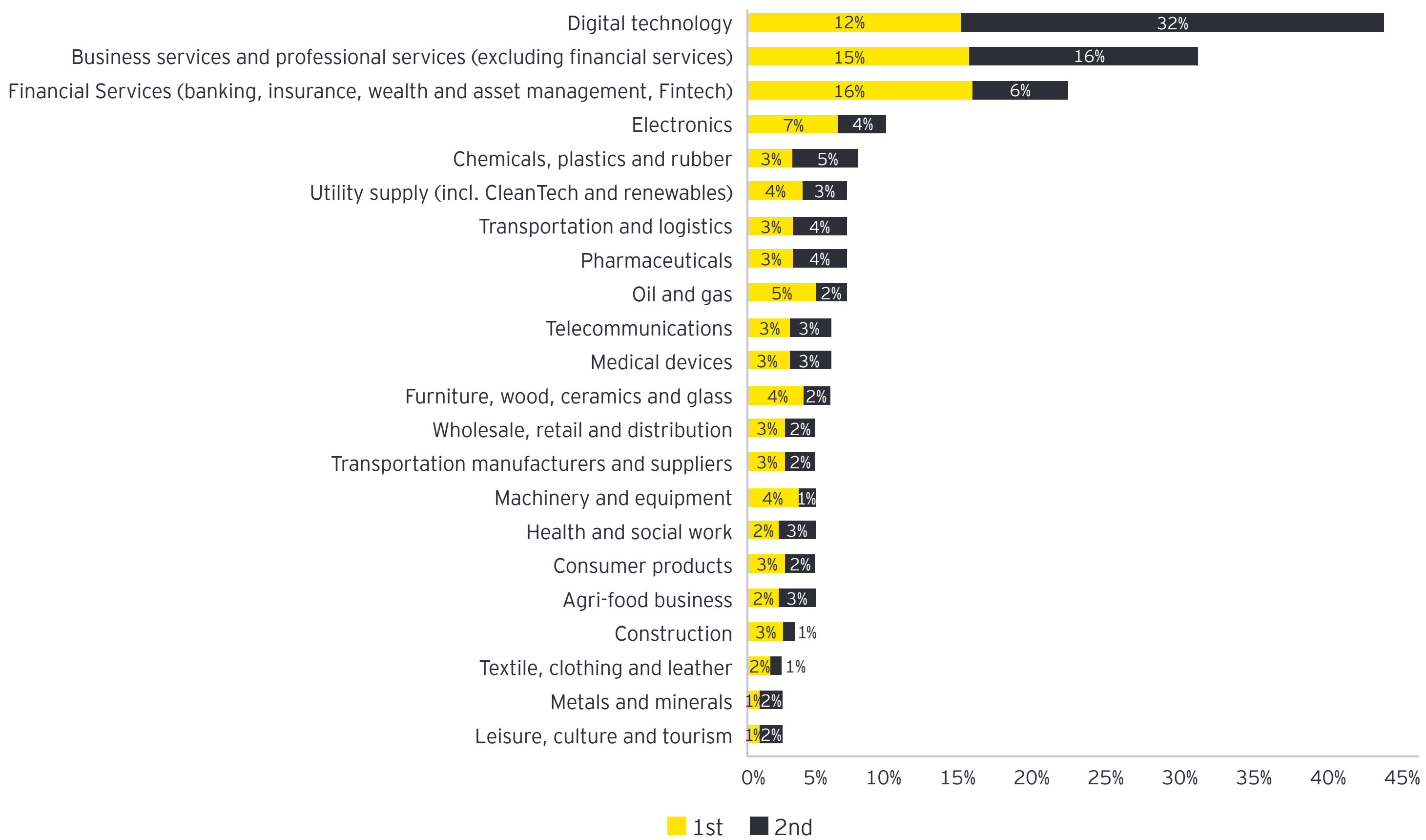
Looking ahead: FDI opportunities and investor opinion on policy direction for the UK

Together, our analysis of project announcements in 2023 and our survey of investor perceptions in 2024 show a convergence of opportunities and priorities for policy

As in previous years – Tech and financial services are still expected to be the bulwarks that drive UK growth...
While financial services secured the top spot for first-place answers, with 16% ranking it as the sector with the greatest influence on UK growth, tech (classified as 'Digital Technology' in our sector classification) secured the largest overall vote in net terms, with a combined total of 44% of investors rating it in their top two. Last year, we noted how the tech sector had not only slipped back in terms of perceptions but also in actual FDI project numbers, reflecting the impact of some severe global headwinds for the sector. This year, in a similar fashion, the recovery in investors' perceptions of tech has coincided with a rebound in the amount of tech projects coming into the UK.

Meanwhile, given London's established position as a global financial hub and the most attractive city and region in Europe, it's hardly surprising that the business services and professional services sector features highly as a driver of UK growth, claiming second place - a result that also mirrors the UK's strong reputation in this sector. For many years, business services and professional services have remained a stable source of confidence and project numbers for the UK. In light of this, policymakers should not neglect the UK's strong market share of European investment - particularly given the possibility of the UK's political landscape entering a period of renewed stability against the backdrop of disruption elsewhere.

Figure 40: Please rank the top two business sectors that you expect to drive the UK's growth in the next three years.



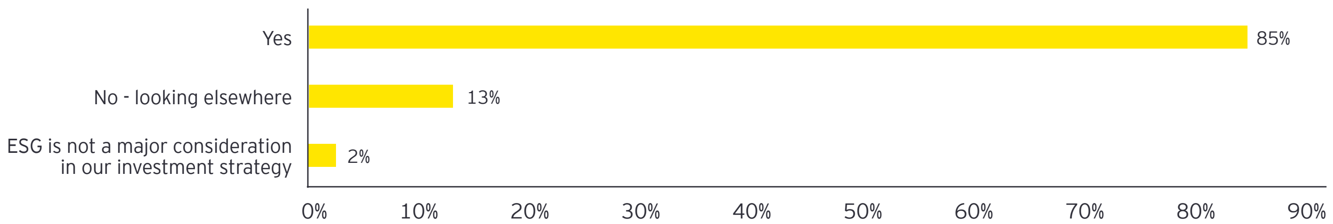
Source: EY UK Attractiveness Survey 2024 (400 respondents)

Sustainability, ESG and cleantech investment remain major agenda items for investors into the UK, but attitudes are lukewarm in certain sectors …

Over the past few years of our UK Attractiveness Survey, ESG has remained a high priority for investors – and this year is no different. When ESG is a significant consideration in a company's investment strategy, the UK is seen as offering a conducive FDI environment. However, it's also clear from our survey findings that the UK's ability to help investors deliver against their sustainability plans is not a strength that's unique to the country. In fact, only 12% of investors rate the UK as 'significantly better' than other countries in this regard, with most preferring the more measured responses of 'slightly better' (54%) or 'neither better nor worse' (28%).

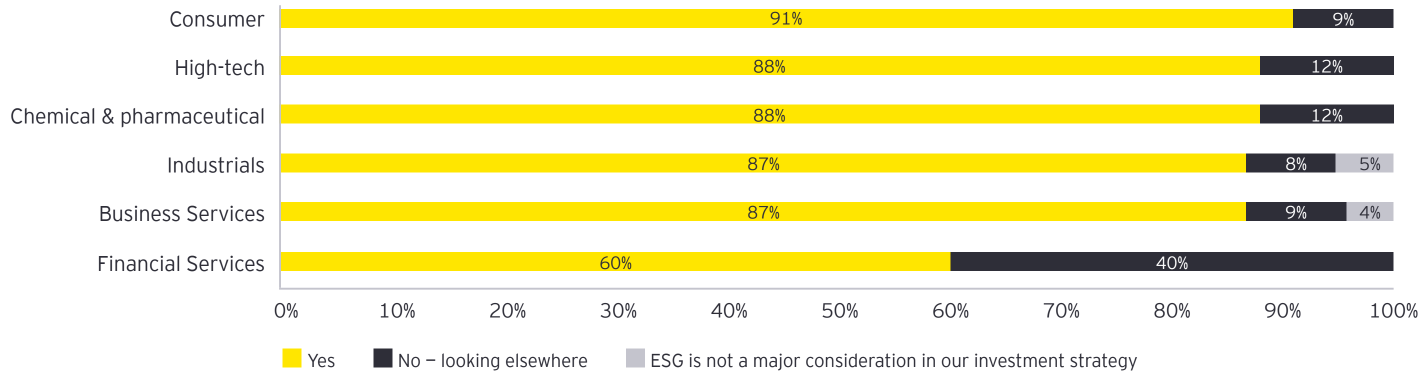
The responses from executives in financial services may offer further cause for reflection. While finance as a sector is still primarily positive about the UK's ESG environment, with 60% rating it attractive, that proportion lags all of the other sectors surveyed by at least 27 percentage points. Also, the share of those who marked the 'looking elsewhere' response is notably high, at 40%.

Figure 41: From an ESG perspective, does the UK offer the right environment for your investment?



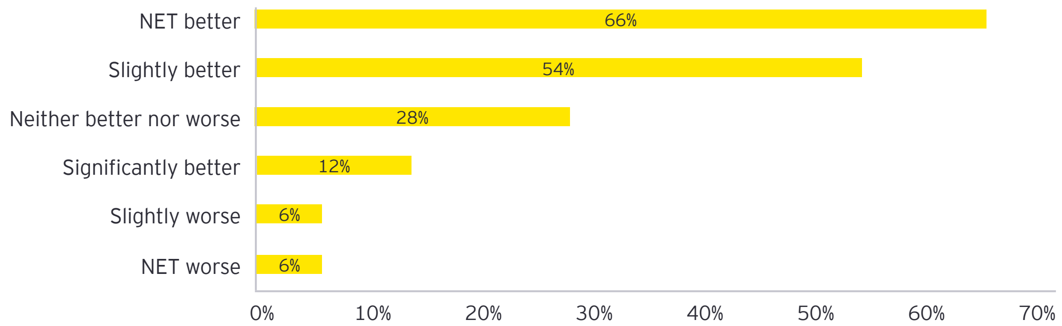
Source: EY UK Attractiveness Survey 2024 (400 respondents)

Figure 42: Sectoral breakdown of UK's attractiveness from an ESG perspective



Source: EY UK Attractiveness Survey 2024 (400 respondents)

Figure 43: As an investment destination, is the UK better or worse than other countries at helping your business achieve its sustainability plans?



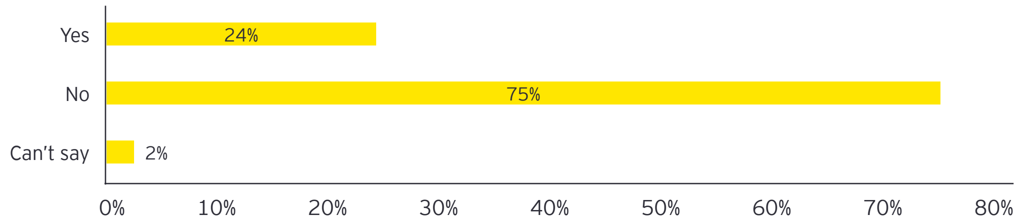
Source: EY UK Attractiveness Survey 2024 (400 respondents)

Investors are re-visiting supply chain changes — but mostly due to pressures to innovate and reduce their carbon footprint ...

Looking at investors' responses to our questions on their supply chains over the past few years, it's clear that macroeconomic headwinds have had a significant impact, not least in causing their opinions to flip-flop year on year. In 2022, almost 40% of investors were considering changing their supply chain models in the wake of the global pandemic. Then, last year, geopolitical uncertainty and macro risks drove many investors back towards safety, making them keener on maintaining the status quo. Now in 2024 we're seeing a modest correction back towards revamping supply chains, with 24% putting changes to supply chain models back onto their action plans, up from 18.8% in 2023.

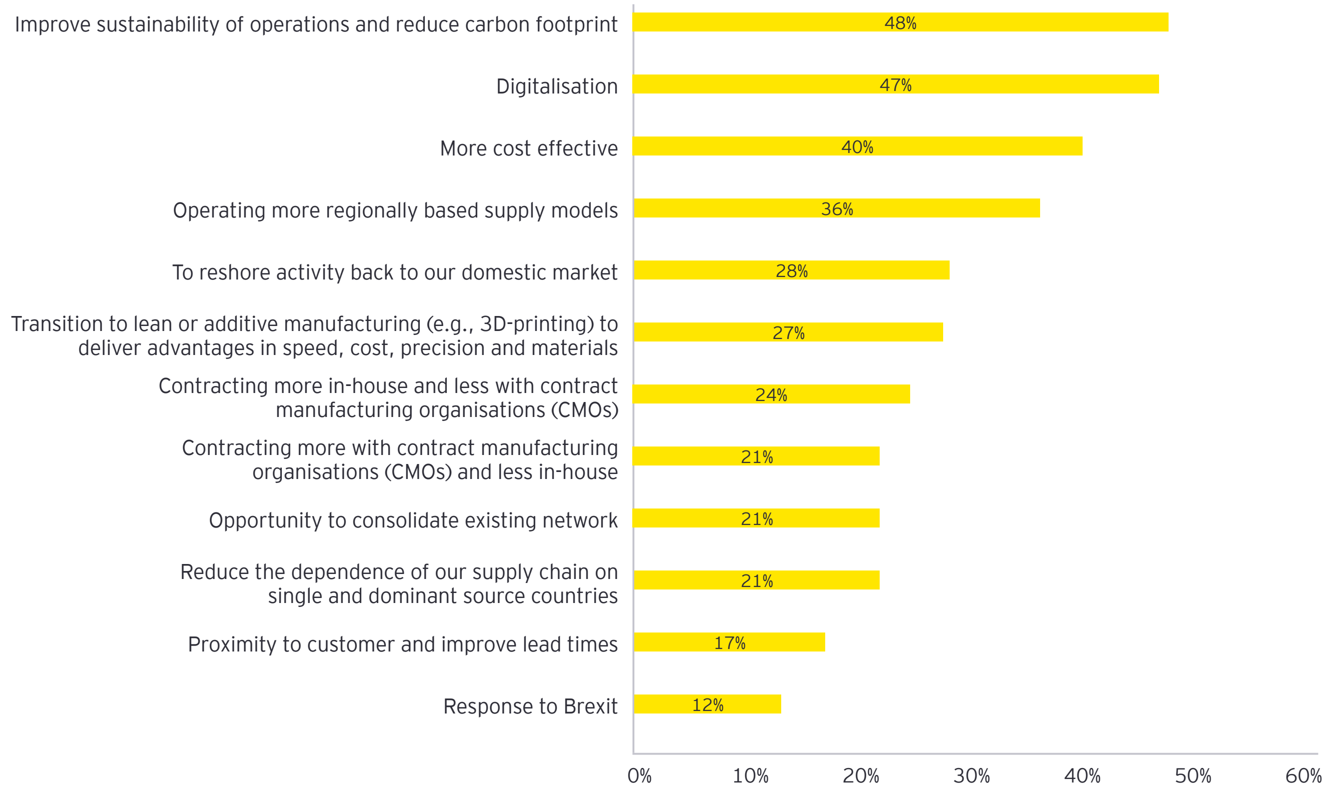
What factors are driving this increased readiness to rethink supply chains? Sustainability and reducing carbon footprints has continued to grow year-on-year as a reason for switching up supply chains, with almost half (48%) of all investors citing it this year. Digitisation has also continue to gain ground, with the proportion of investors quoting it as a rationale rising from 42% last year to 47% in 2024 — an increase that makes particular sense given the increasing role of additive manufacturing and the pressure on businesses to remain innovative. Meanwhile, factors such as the pandemic, Brexit, and closer proximity to customers have been slowly fading from investors' minds as reasons to change their supply chain model.

Figure 44: Do you plan to change your supply chain model in future?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

Figure 45: Why are you planning to change your supply model in the future?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

In summary, the overarching message from this year's research into investor perceptions remains largely in line with that from recent years of our perception survey, our analysis of project data collected from investment bodies across Europe, and our wider EY macroeconomic forecasting. It is that the expectations of investors broadly follow those areas where the UK has performed well historically in productivity terms, has a strong track record of attracting FDI, and is forecast to achieve growth — and which remain reputationally strong sectors for the UK domestically.

It's also apparent from this year's findings that some of the major headaches for investor of the past few years — the likes of COVID-19, Brexit, and macroeconomic instability in global markets — seem to be receding from investors' rear-view mirrors, or at least calming down. One effect is to give investors the confidence to re-visit their supply chain models. At the same time, investors are cognisant of their ESG commitments — and while the UK is well-placed in this area, UK policymakers should look to mitigate any negative perceptions that our survey data seems to be conveying in areas like finance services investment. Similarly, energy and defence companies which represent core parts of our infrastructure and which remain essential in a geopolitically fraught landscape have found some ESG requirements difficult to engage with. All of this needs to be seen against the backdrop of a UK FDI environment that remains the dominant presence for digital tech investment in Europe.

Policy implications: a new government presents an opportunity to reassert the UK as a forum for stability and investor-friendly policy

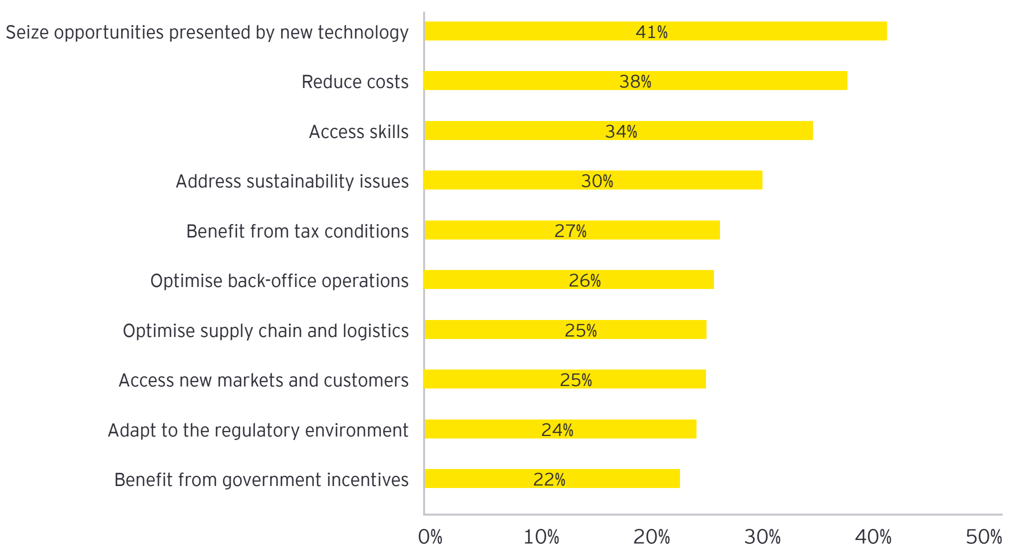
In the immediate aftermath of the UK's recent General Election, it is worth pausing and asking how policymakers should reflect on the themes that are driving investor decision-making — and how they can then capitalise on these insights to present the UK as a centre ground of stability and an investor-friendly environment. In this context, our 2024 findings reveal a mixed picture, with some consistent trends over recent years, but also some significant departures from last year — and a number of commonalities with the UK's neighbours in Europe.

Investors are establishing and expanding operations where they are incentivised to pursue R&D, to seize new technological opportunities and reduce their costs — but experiences vary across sectors ...

As the responses to our diverse array of survey questions make clear, the effects of recent geopolitical and global macroeconomic headwinds have not disappeared entirely. However, it seems that these are now receding in favour of a competitive pursuit to seize new opportunities presented by new technology (41% of investors), reduce the impact of increased costs (38%), and — in an effort to tackle one of the perennial problems across all sectors — access the appropriate levels of skill in the labour market (34%).

Many European countries have highlighted the impact and importance of sweeping legislation that promotes incentives to investors, such as the Inflation Reduction Act in the USA. However, it's notable that while 'benefits from government incentives' does feature among the reasons for establishing or expanding operations, it still comes relatively low in investors' overall ranking of importance. Fundamentally, investors undertaking due diligence care much more about the fundamentals of investment — such as gaining access to a skilled labour market, improving margins, and achieving competitive advantage. Subsidies are a factor, but not the deciding factor for many.

Figure 46: What are the main reasons for establishing new or expanding existing operations?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

... and the UK is rated above its competitors for its deeper liquidity and access to financial markets as a defining feature, but more broadly for its strong legal and regulatory environment ...

The past few years of our survey have underlined investors' rising awareness that the role governments play in the economy is now bigger than in previous decades. However, headwind risks in geopolitics are still being felt across the investment landscape. The reality is that the geopolitical and global economic environments remain challenging, despite inflation coming down and forecasts for growth returning.

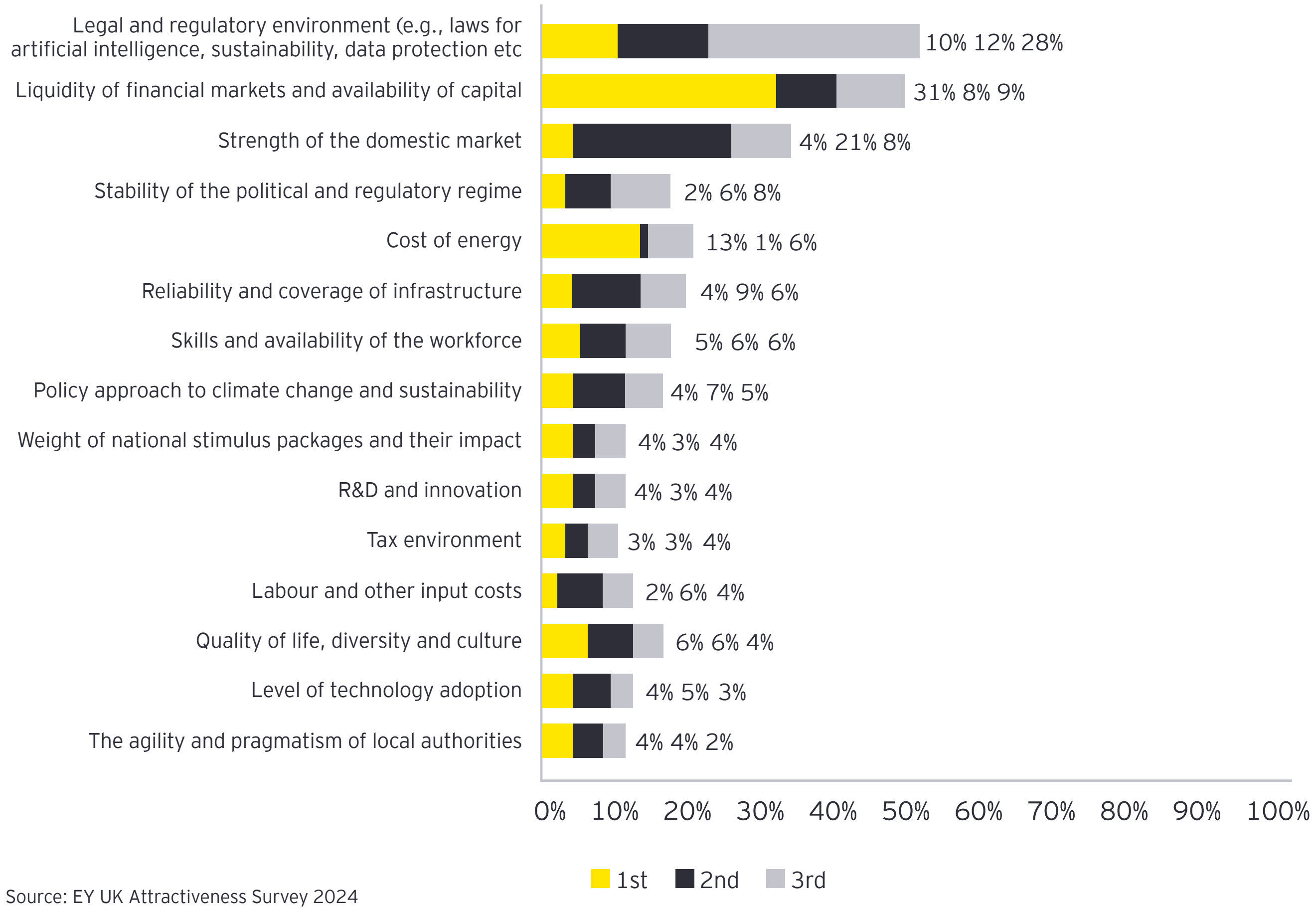
Against this background, it's now widely understood that achieving sustainability — in combination with managing the geographic change resulting from deglobalisation and shifts in how domestic markets are organised — will require significant amounts of government support. However, different countries across the world face differing challenges in shouldering this burden, and the UK is no exception. We have maintained over the past few years that the pandemic, the energy crisis, and changes to trading relationships globally have made investors more accustomed to seeing the public sector play a more active role in the economy. However, going forward, finding the line between help and hindrance with broad policy interventions will be vital for maintaining the UK's attractiveness. The responses from — for example — the financial services sector to the ESG environment in the UK suggest that some crucial parts of the economy and investor base are finding that the UK is becoming a little less attractive as an investment location.

... as well as some of the business fundamentals which appeal to a wide array of sectors, setting out a roadmap for national policy priorities

In weighing up potential forward-thinking policy responses to the findings of our investor perceptions survey, it's important to take into account some significant variations in investors' priorities between sectors. These differences may carry major implications for the strategic sectors that UK policymakers may be targeting as sources of future FDI. For example:

- The **tech sector** has consistently — and increasingly — highlighted two factors as being defining attributes of the UK: the robustness of its legal and regulatory environment (48%) — including the regulations and laws around artificial intelligence and data protection — and the UK's liquidity of financial markets and availability of capital (46%). The fact that these were the major reasons to invest in the UK in 2024 is perhaps unsurprising, given the years of low-interest rate borrowing and investment that preceded the pandemic, followed more recently by the strong headwinds faced by the tech sector during a sharp inflationary spike and higher interest rate environment. The COVID-19 period saw a huge rise (and now subsequent fall) in the weighting attributed to healthcare-related factors in driving business fundamentals. For the tech sector, it seems that rising energy needs are also causing the cost of energy to feature increasingly in their responses, with 17% of all tech investors quoting this as a key factor.
- The **industrials sector** shares many investment criteria with tech, but has some clear distinguishing priorities as well. The most important consideration for these investors remains access to liquidity and capital (50%). Unsurprisingly, the sector also places a heavy emphasis on the strength of the domestic market (34%), as well as the reliability and coverage of infrastructure (24%) with a focus on transport, telecoms, and energy.
- The **finance sector** places a similarly high emphasis on liquidity and access to capital — cited by 44% of finance respondents, a significant jump on last year — but the stability of the political and regulatory regime ranks higher in importance (15%) than for other sectors.
- Meanwhile, the factors highlighted by the **consumer products sector** also includes some outliers that it values more highly than other sectors. For example, 20% of consumer products investors see quality of life, diversity, and culture as important — and 24% regard the level of technological adoption as critical when deciding to invest in the UK.

Figure 47: Which factors are the most important when choosing to invest in UK?



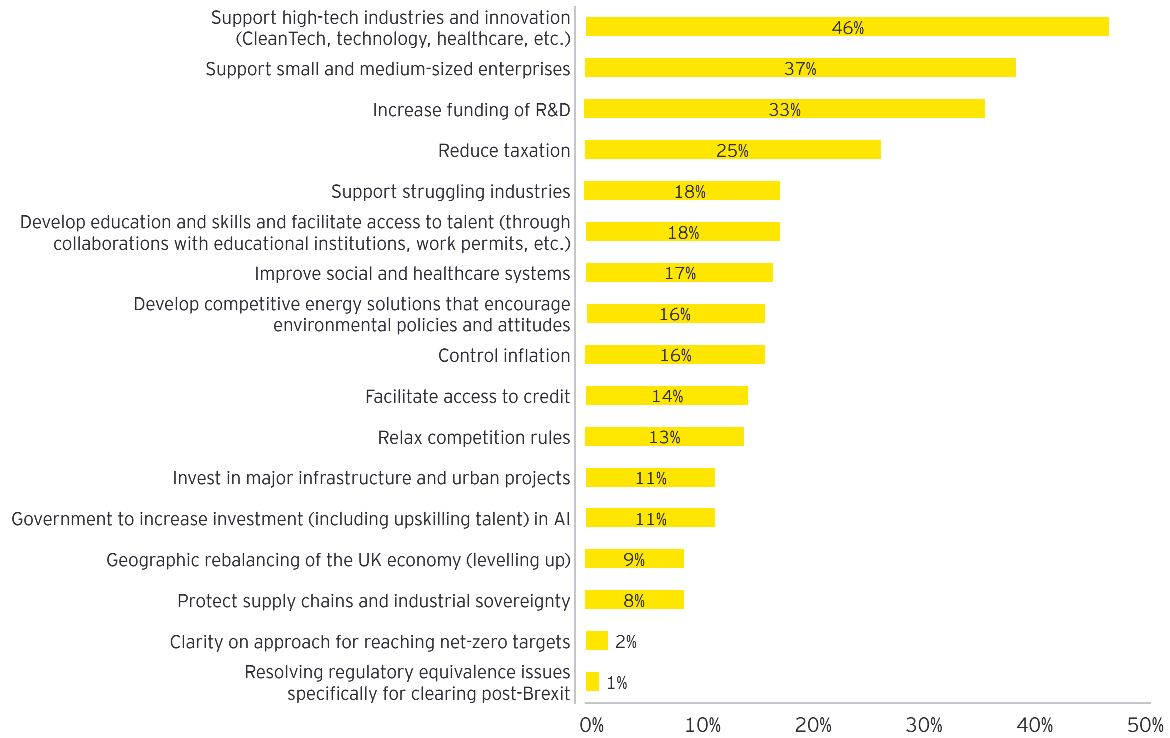
Source: EY UK Attractiveness Survey 2024

In order to stay competitive globally, investors maintain that the UK needs to focus heavily on providing support for R&D-intensive and high-tech industry…
In our perception surveys over the past few years, we have consistently argued that the sector priorities for the UK should be viewed through the lens of investors' evolving views on the UK's policy responses to major geopolitical and macroeconomic events. For 2024, we asked investors what they thought the UK government should focus on to maintain the country's competitive position in the global economy –and investors pointed strongly to support for high tech industries and innovation (at 46%).

Investors also signalling the need for support for SMEs (37%) and a focus on R&D (33%) to maintain the country's competitive position, it's clear that policymakers should explore which options are feasible – beyond blanket transactional support through funding – to drive activity in these areas. This might possibly involve exploring the potential for relief through the tax system, amending regulations to make them less cumbersome, and focusing on developing the pipeline of talent that ultimately fuels these areas of strategic focus.

Looking at the second tier of policy actions that investors think will fuel the competitive position of the UK globally, we find that these include many of the 'usual suspects' in terms of bread-and-butter issues that consistently appeal to investors. Examples include reducing taxation (25%); controlling inflation, which has moved up the agenda in recent years, with 16% mentioning it in 2024; supporting access to credit (14%); and some emerging concerns amid a global context of rising protectionism, with investors citing a need to relax competition rules (13%) and protect supply chains and 'industrial sovereignty' (8%). It's worthwhile for policymakers to keep a temperature check on these types of concerns, as the UK seeks to develop strategic responses to mood swings that favour protectionism in other capitals worldwide.

Figure 48: Where should UK concentrate its efforts in order to maintain its competitive position in the global economy?



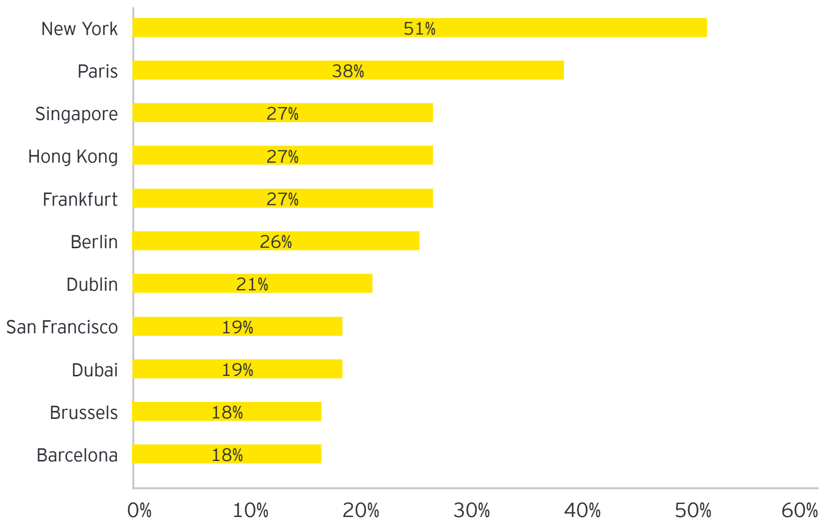
Source: EY UK Attractiveness Survey 2024 (400 respondents)

… and while investors remain very open to investing outside the capital within the UK, London's biggest competitors are other major global cities …

In stark contrast to 2022, London experienced a solid recovery in its volume of FDI projects secured in 2023, largely driven by a rebound in tech investments. This revival is reflected in our investor survey data, with London emerging as the clear preference for investors both as a city and region, and 52% of investors seeking to establish or expand operations there in the next 12 months. Outside the UK capital, Scotland remains in clear second place for attractiveness, with 26% of investors seeking to establish or expand operations there.

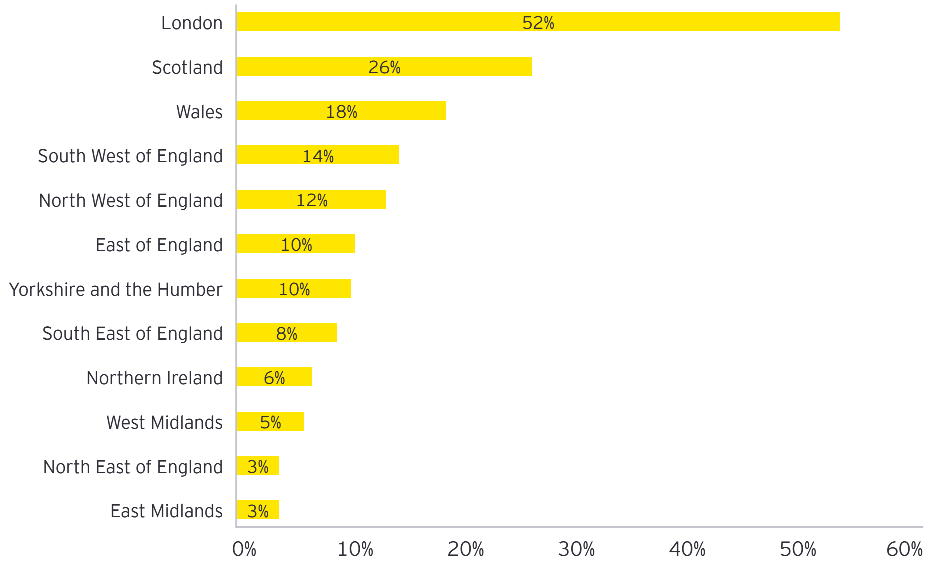
For a more detailed analysis, please see the accompanying report on Scottish Attractiveness that we produced for 2024. Scotland is followed by Wales in third place for investment intentions with 18%. In terms of UK cities, the top three for investment intentions are all capitals – with London's 52% followed by Edinburgh on 23% and Cardiff 16%. Sectorally, on the global stage, the tech sector highly favours Hong Kong, New York, and Paris as competitors to London, while the finance sector favours Dublin and New York. Overall, New York (51%) and Paris (38%) rank as the biggest rivals to London in investors' eyes.

Figure 49: Which global cities will be London's biggest rivals for foreign investment over the next three years?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

Figure 50: In which parts of the UK are you planning to establish or expand operations in the next 12 months?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

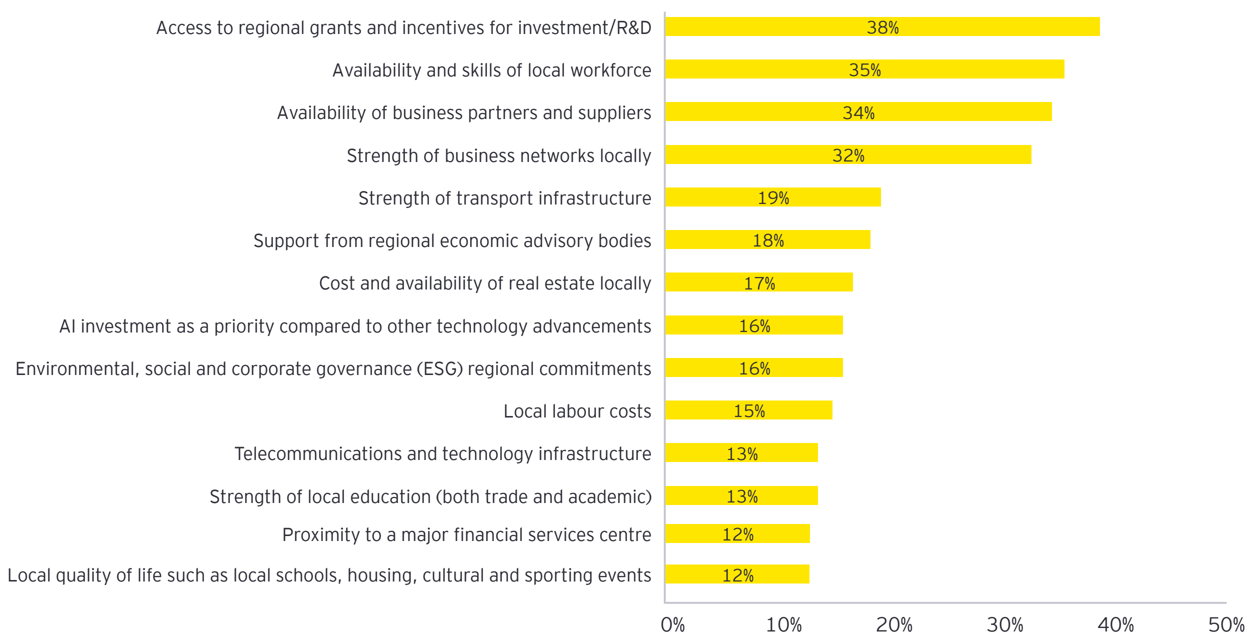
… with investors citing a number of clear criteria to enable the UK to compete globally, and for investment to be distributed regionally too …
The topic of regional attractiveness to FDI brings us to our deep-dive on why investors looking at investing in the UK specifically would choose to invest in areas outside of London. Our investor survey reveals both similarities to – and also differences from – the set of priorities they cite when asked about the UK's attractiveness at the national level.

Perhaps most interestingly, for the second year in a row we've found there is a highly transactional nature to the way investors are looking at establishing or expanding operations outside of the UK capital. Access to grants and incentives continues to lead as a criterion in unlocking investment at the regional level, cited by 38% of investors – a leap of 16% since last year. This rise is probably a function of the national-level priority of accessing liquidity and capital, supplemented by the much bigger role governments are playing in incentivising or funding investment across Europe.

After grants and incentives, it's little surprise that the availability and skills of the local workforce comes a close second among investors' criteria, with 35% citing this as a consideration when investing regionally. This finding should be seen in the context of a labour market that is still running hot for certain skills, within industries that are struggling to match high demand to limited supply. Sectors such as manufacturing are keen to capitalise on any initiatives that will supply them with apprentices or people with transferable skills in new technologies and areas of growth. The availability of this type of support can play a major role when investors are conducting their initial due diligence on the choice between different locations – both when comparing the UK to other places in Europe, and also when weighing up different locations within the UK.

However, there is also a further nuance to note in investors' views on the UK labour market in 2024, around labour costs. The proportion citing local labour costs as a criterion spiked at 23.5% in 2022, before declining to a more typical score of 16.4% in 2023. Now in 2024 it has fallen again to 15%, probably reflecting the continued cooling of the labour market at the aggregate level.

Figure 51: What are your investment criteria when considering investing in the regional locations outside of London in the UK?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

Conclusion: the UK has an opportunity to reclaim its position as the European FDI location of choice — and re-establish its global reputation for stability and business-friendly policies

The period covered by our UK Attractiveness Survey 2024 has seen a creditable return to strength by the UK after a challenging time during the previous year. Rebounding from a modest decline in project numbers in 2022 against the background of a slight increase across Europe, the UK has registered improved project volumes despite a further small fall in overall investor perceptions. Encouragingly, the UK has delivered this recovery in FDI by holding firm in areas that experienced a knock last year — and regaining ground in a number of sectors, areas, activities and perceptions where it has traditionally excelled.

All of this has been achieved in a year when many of the equivalent analyses across Europe are much gloomier. With projects in Europe as a whole falling back, the UK has done well both in terms of attracting projects and protecting its reputation as an FDI location in the eyes of the large cohorts of C-suite investors surveyed by EY. Yet, as we have stressed in this report, one year of solid performance does not give the UK any grounds for complacency. To help ensure that this performance is sustained into the future, our close examination of the data has enabled us to identify and highlight areas to prioritise, re-group, or — in some cases — start afresh.

The overall goal for the UK? After a number of years of volatility and occasional turmoil within the UK, across Europe and even at a global level, investors are now craving certainty and predictability above all. The UK has a golden opportunity to build on the solid performance showcased in this report, and reclaim its formerly long-held position as the number one choice for FDI into Europe. Key to this will be re-establishing the UK's global reputation for stability and business-friendly policies — a task that we hope the new government will rise to with enthusiasm.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognised by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyses both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers. The program has a 20-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit: **ey.com/ukas**
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The perceived attractiveness of the UK and its competitors by foreign investors

We explore UK's perceived attractiveness via an online survey of international decision-makers. Field research was conducted by Longitude in February and March 2024, based on a representative panel of 400 respondents, which are determined on the most recently available FDI data (2023). The survey thus aims to get a representative sample of investors into UK, by geography, industry grouping and size of company. We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI.

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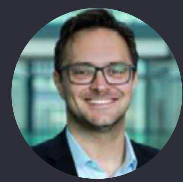

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