Box 4
Factors behind the comparatively strong activity in euro area services

The services sector has been a driving force behind the ongoing recovery in the euro area since the first quarter of 2013, raising the question as to which factors in particular have been behind the comparatively strong activity in services. The total services sector (market as well as non-market) accounts for about three-quarters of total value added in the euro area. Total services value added in volume terms has grown steadily since the trough in the first quarter of 2013 and has recorded all-time highs (see Chart A). Market services have accounted for almost 90% of the total growth in euro area services value added since the first quarter of 2013. In 2015, by contrast, euro area value added in industry (including construction) was still almost 10% below its peak at the beginning of 2008 (see Chart B). Looking at the largest euro area countries, a similar picture emerges, the main exceptions being comparatively weak total services value added in Italy and all-time highs for German industrial value added in recent quarters.

The European Commission’s quarterly business survey of the euro area services sector gives an insight into the factors that are stimulating or hampering market services activity. The survey contains the question “What main factors are currently limiting your business?” and offers respondents the choice

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1 For a more detailed description of euro area developments across sectors, see the article entitled “Euro area sectoral activity since 2008” in the May 2014 issue of the Monthly Bulletin.
Of “none”, “insufficient demand”, “shortage of labour force”, “shortage of space and/or equipment”, “financial constraints” and “other factors”, with respondents being asked to select however many that apply to them. The factors are reported as a percentage of the total number of respondents.

Even though it has increased, demand remains the main factor reported by euro area market services firms as hampering business, while an easing in financial constraints is also apparent compared with the same time last year. In the ongoing recovery, almost half of all services firms report no constraints on business, as suggested by the indicator on the absence of factors that limit business, which stood at 45% in January 2016 (see Chart C). Even so, it has increased steadily since the fourth quarter of 2012. This finding mirrors developments in the capacity utilisation rate in the services industries, which has also increased steadily since the fourth quarter of 2012. In January 2016 the “insufficient demand” indicator was reported by a third of the companies that responded. A lack of demand thus remains the single most important impediment to market services business, although it has been declining in importance for the last year. The categories “none” and “insufficient demand” were by far the two most frequently reported by services companies (as is usually the case, and also holds for manufacturing and construction firms). The third largest response in January this year, with 20%, was for the category “other factors”, which was reported more frequently than in the recession of 2011-13. Services firms have benefited from improving financial conditions, as 12% of services reported in January that “financial constraints” were a factor limiting their business, compared with 16% a year ago. This improvement of 4 percentage points was of a similar magnitude to the improvement in the demand indicator over the same period. To complete the picture, “shortage of labour” was mentioned by 10% of services firms, whereas the factor “shortage of space and/or equipment” was only reported by around 2%.

The limits to services business for the euro area as a whole that were reported mask marked differences at the country level. Among the four largest euro area countries, “insufficient demand” is playing a very limited role in Germany, but a more significant one in the other three countries, where around half of the services firms reported a lack of demand (see Chart D). “Financial constraints” was another factor that was more or less absent in Germany in January this year, whereas a quarter of Italian services firms reported that financial conditions were...
continuing to hamper business (see Chart E). “Financial constraints” has diminished in importance in Spain since January 2015, when it stood at a similar level to that in Italy. In contrast, “shortage of labour force” was reported to be a factor limiting services business for one in five German services firms, whereas this indicator remains low in Italy and Spain (see Chart F).

**Chart E**
Financial constraints indicator for services in the euro area and the four largest euro area countries

(Percentages of total respondents)

Source: European Commission.

**Chart F**
Shortage of labour force indicator for services in the euro area and the four largest euro area countries

(Percentages of total respondents)

Source: European Commission.

There are also marked differences within the services sector at a more disaggregated level. In recent quarters, an absence of factors limiting services business was reported by about half of the firms active in warehousing and support activities for transportation, real estate activities, and computer programming, consultancy and related activities. This suggests that these market services industries in particular are driving the ongoing recovery. A third of total value added growth in euro area services since the first quarter of 2013 has indeed come from trade, transport, accommodation and food services, and almost a quarter from professional, business and support services (see Chart G). Real estate and information and communication technology services have each contributed in double-digit terms to total euro area services value added growth since the first quarter of 2013. In January financial constraints were reported to be a particular issue for telecommunication firms (one in five firms) and labour shortage for employment activities firms (a share of 40%, the highest since records began in the third quarter of 2003, with employment activities referring to the activities of employment placement firms and temporary employment agencies, as well as other human resources provision).
Overall, insufficient demand remains the single most important factor holding back services business at the euro area level, but other factors play a role at country and sub-sectoral level. For example, factors limiting services business that are reported comparatively often by market services firms are financial constraints in Italy and shortage of labour in Germany.