Box 6

New data on the composition of investment

Quarterly data on the breakdown of investment by main type of product have recently become available for the euro area. This box presents the new data, describes the evolution of the composition of investment over the past decade and analyses the most recent developments. In general, the new breakdown extends the scope for the analysis of investment in the euro area and should provide additional insight into the conjunctural and structural developments affecting the euro area economy.

Investment breakdown by product categories

According to the European System of Accounts (ESA 95), gross fixed capital formation consists mainly of resident producers' acquisitions (less disposals) of fixed assets used repeatedly in processes of production for more than one year. Eurostat provides annual and quarterly euro area aggregates for total gross fixed capital formation and its breakdown in product categories, in both current and constant prices. The six categories are as follows: a) agriculture, forestry, fisheries and aquaculture products; b) metal products and machinery; c) transport equipment; d) housing; e) non-housing construction; and f) other products, such as software. Quarterly figures are compiled using national data, where available, and estimates are made for missing countries. Further countries will release such a breakdown in the future. The data currently available are therefore likely to be revised. Nevertheless, with a current coverage of around 85% of annual euro area gross fixed capital formation, the data are considered to provide a reliable picture of the breakdown in investment in the euro area.

The composition of euro area investment in the 1990s

The most important product categories are metal products and machinery which, together with housing and non-housing construction, account for around 80% of total investment. Since 1995, investment in the categories metal products and machinery has become the largest component in the breakdown, accounting for almost 31% of total investment in 2001, compared with around 25% for housing and 24% for non-housing construction (see the table).

Euro area investment breakdown by type of product

(annual and quarter-on-quarter percentage changes)

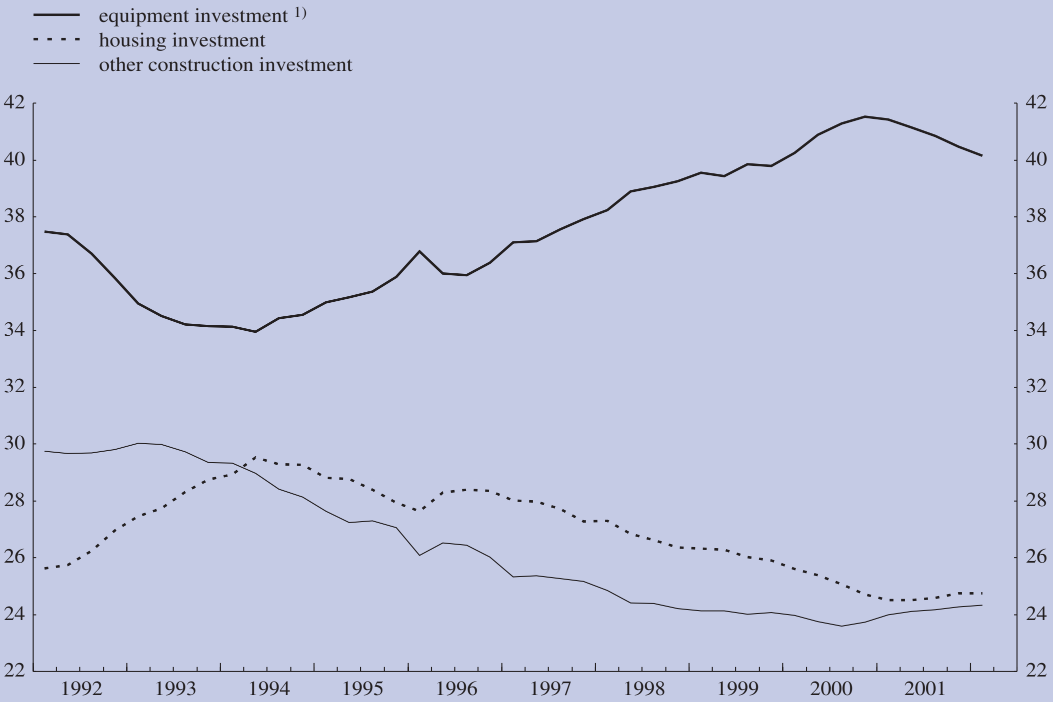
	share in 2001	Annual rates										Quarterly rates 1)				
		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2
Total	100.0	0.5	-6.1	2.3	2.4	1.3	2.4	5.2	5.9	4.8	-0.6	-0.6	-0.6	-0.9	-0.6	-0.8
Agriculture, forestry, fisheries and aquaculture	0.2	17.3	-10.2	17.4	4.2	18.1	-7.8	-6.9	17.6	-0.7	-8.5	34.1	-9.8	4.5	15.2	.
Metal products and machinery	30.7	-3.0	-10.6	1.7	4.6	4.5	5.2	8.4	6.9	7.4	0.3	-1.3	-1.8	-1.9	-1.1	.
Transport equipment	10.2	-5.3	-17.3	2.2	9.8	2.2	7.2	11.9	12.4	8.9	-2.6	-1.2	0.1	-1.6	-2.2	.
Housing	24.6	4.3	0.9	6.7	-0.3	0.2	0.8	1.6	3.5	0.8	-3.0	-0.6	-0.3	-0.3	-0.6	.
Non-housing construction	24.2	2.2	-5.9	-1.3	-2.5	-2.5	-1.4	1.8	4.3	3.4	0.9	-0.1	-0.4	-0.5	-0.3	.
Other products	10.1	1.6	-0.4	2.8	17.4	5.9	5.7	9.5	8.3	4.0	2.2	0.4	1.1	0.4	1.4	.

Source: Eurostat.
1) Quarterly rates: percentage change compared with the previous quarter; seasonally adjusted.

The most noticeable trend in the composition of investment in the euro area over the last decade has been the decrease in the share of construction investment in the second half of the 1990s (see the chart). This development reflects the impact of several factors. In the 1990s, investment in construction for the euro area as a whole was influenced significantly by specific developments in Germany which, in the aftermath of the strong expansion resulting from reunification in the early 1990s, suffered from a protracted period of declining investment in construction in the second half of the decade. In addition, public construction plans were scaled down significantly in the course of the 1990s. The further decline in the share of construction investment in the latter part of the 1990s largely reflected the relative strength of investment in transport, metal products and machinery (also referred to as "equipment investment").

Construction versus equipment investment

(as a percentage of total investment)



Source: Eurostat.

1) Include: metal products, machinery and transport equipment.

The slowdown in investment since the beginning of 2001

Since the end of 2000, a number of adverse shocks to both the euro area and world economies triggered a marked and largely unexpected deceleration in final demand in the euro area. In this context, firms have adjusted their investment plans downwards, which has led to negative growth rates of total real gross fixed capital formation in each quarter since the beginning of 2001 (see the table). The slowdown in investment occurred in all major product categories, although at a somewhat different pace, with the most significant slowdowns occurring in equipment and construction investment. The decline in equipment investment followed the strong increases in the preceding economic upturn. In particular, transport equipment has endured a more marked correction than metal products and machinery equipment, after having increased more strongly between 1998 and 2000. Despite the recent fall, the ratio of equipment investment to GDP remained at relatively high historical levels in the first quarter of 2002. As regards construction, the weakness derives largely from the continued adverse developments in Germany, in addition to the deterioration of the overall economic climate in the euro area. By contrast, investment in other products, such as software, remained relatively robust during the economic slowdown, despite the fact that, of all components, other products is the category which is historically most closely correlated to overall activity.