

## Box 6

### Latest developments in investment by type of product

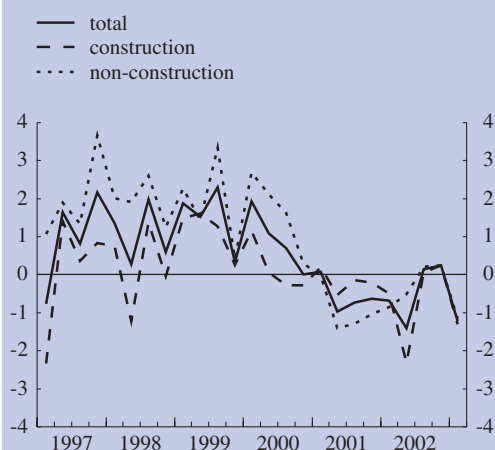
Data on the breakdown of investment by type of product were first presented in Box 6 of the September 2002 issue of the ECB's Monthly Bulletin, together with a description of long-term trends. This box summarises developments in the second half of 2002 and the first quarter of 2003, the latest available estimate. After a slight recovery at the end of last year, overall investment declined again in the first quarter of 2003 (see Chart A). This pattern has been relatively broad-based across investment categories, but is largely related to country-specific factors. Abstracting from these effects, investment was broadly unchanged in the first quarter of this year, after having declined over the two preceding years.

#### Equipment investment affected by country-specific factors

For the past three quarters, data on euro area non-construction investment (referred to here as "equipment investment") have been significantly affected by strong fluctuations in Italian equipment investment. The fiscal incentives in place in Italy up to the end of 2002 meant that equipment investment was brought forward at the end of last year, which resulted in a sharp decline in the first quarter of 2003. The impact of this special factor more than offset the improvement in equipment investment in the rest of the euro area. As a result, euro area equipment investment declined by 1.2% quarter-on-quarter in the first quarter of 2003, after two quarters of growth around zero (see Chart B). Within equipment investment, investment in metal products and machinery (30% of total investment) fell by 1.1% quarter-on-quarter in the first quarter of this year. Transport equipment (10% of total investment), which tends to be a very volatile component, declined even more strongly, by 2.1% quarter-on-quarter, while "other investment" (10% of total investment), which notably comprises software, declined slightly. Looking ahead, business confidence data indicate that companies may remain cautious in their investment decisions in the short term. However, euro area equipment investment should recover gradually as the outlook for demand and corporate balance sheet positions improves.

#### Chart A: Total, construction and non-construction investment

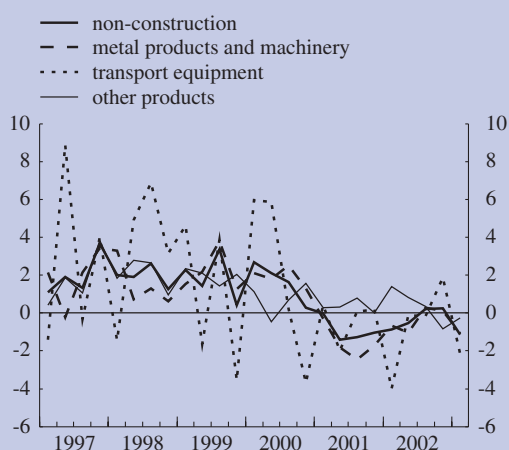
(quarter-on-quarter changes; quarterly data)



Source: Eurostat.

#### Chart B: Breakdown of non-construction investment

(quarter-on-quarter changes; quarterly data)



#### Ongoing weakness in construction investment

Euro area construction investment declined for around two years before stabilising in the second half of 2002. In the first quarter of 2003, growth turned negative again, at -1.3% quarter-on-quarter. Similar falls were recorded for the two main sub-components, housing and non-housing construction. Continued restructuring,

in particular the ongoing correction of the post-reunification overhang of buildings in Germany, contributed to the past decline in construction investment. Moreover, as regards the first quarter of 2003 specifically, an unusually cold winter in some countries of the euro area is likely to have had a negative impact on construction activity.