

Box 7

LATEST DEVELOPMENTS IN INVESTMENT BY TYPE OF PRODUCT

In 2004 investment increased by 1.6%, following declines in the three previous years. Thus, investment, together with strong exports, was one of the main reasons for the pick-up in overall activity in the euro area in 2004. This box reviews in detail developments in investment in the euro area up to the fourth quarter of last year. Overall, the increase in investment growth was broadly based. It reflected stronger growth rates for both construction and non-construction investment, each of which accounts for roughly half of total investment. In

the course of the year, however, developments in the two sectors diverged somewhat. While the quarter-on-quarter growth rate of construction investment increased towards the end of last year, the rate of growth of non-construction investment declined (see Chart A).

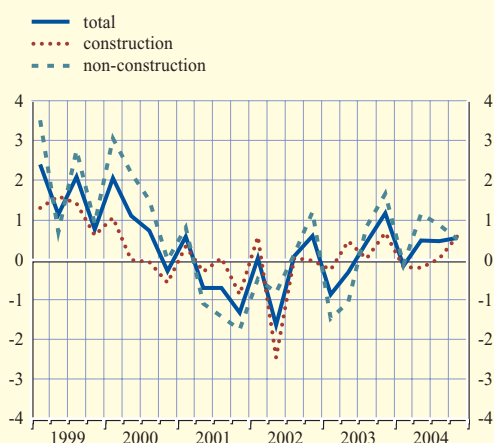
The rise in investment growth in 2004 is consistent with the results of the European Commission's biannual industrial investment survey conducted in the fourth quarter of 2004. According to respondents, financing and demand conditions improved in 2004 as compared with 2003, with the latter largely reflecting strong global growth. However, according to the survey, the bulk of the increase in investment growth in 2004 was for replacement purposes, suggesting that it was possible to meet stronger demand without expanding the existing capital stock.

Investment growth in metal products and machinery shaped non-construction investment in 2004

Non-construction investment in the euro area increased by 2.7% in 2004, having contracted by 0.7% in the previous year. This rise reflected increases in the annual growth rates of all of its main components, although the quarterly growth profiles differed somewhat within the year (see Chart B). Investment in metal products and machinery (the largest component of non-construction investment, accounting for around 60%) increased by 3.2% in 2004 after having contracted by 1.6% in the previous year. Investment in transport equipment (which represents a further 20% of non-construction investment) rose by 2.5%, 1.5 percentage points more than in 2003. Finally, investment in other products (which also accounts for 20% of non-construction investment) increased by 1.5% in 2004, following a rise of 0.4% in 2003.

Chart A Total, construction and non-construction investment

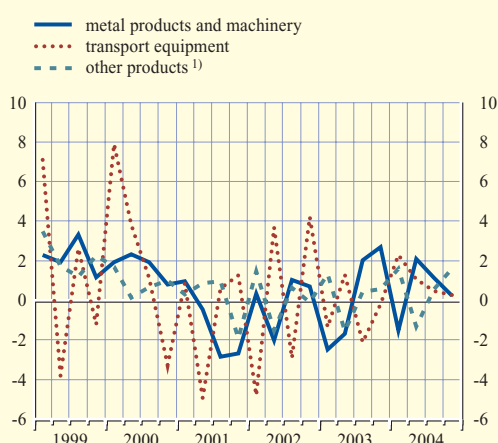
(quarter-on-quarter changes; seasonally adjusted)



Source: Eurostat.

Chart B Breakdown of non-construction investment

(quarter-on-quarter changes; seasonally adjusted)



Source: Eurostat.

1) Includes agriculture.

Investment growth in construction increased in 2004

Euro area construction investment increased by 0.5% year on year in 2004, having declined for three consecutive years. Developments in the course of 2004 were broadly similar for both housing and non-housing construction investment growth (each representing roughly half of total construction investment). Both were strongly affected by negative developments in Germany.

Looking ahead, investment growth should benefit from continued favourable financing conditions. Corporate profits appear to have been buoyant in 2004, which should also support investment growth. However, investment decisions are also related to expectations of future growth and demand which, according to the latest survey results, remain uncertain.