

Box 6

LATEST DEVELOPMENTS IN INVESTMENT BY TYPE OF PRODUCT

In the first half of 2005, investment in the euro area increased by 0.2% relative to the second half of the previous year. This was below the increase of 0.7% observed in the second half of last year (see Chart A). This box reviews in further detail developments in investment by type of product in the euro area in the first half of 2005.

Overall, the deceleration in investment was mainly due to lower non-construction investment. By contrast, construction investment contributed less negatively to overall investment growth

in the first half of this year than in the second half of last year. Looking forward, favourable financing conditions are expected to support investment activity in the euro area. Moreover, the robust growth of corporate profits and the improvement in confidence indicators suggest that the gradual recovery of investment should continue.

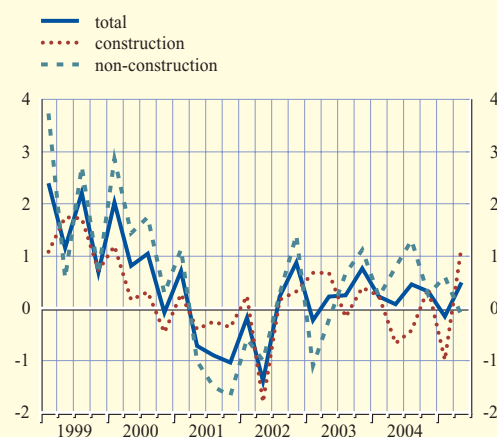
Non-construction investment increased at a slower rate in the first half of 2005 than in the second half of 2004

In the first half of this year, non-construction investment increased by 0.7%, following an increase of 1.8% in the second half of last year. This development partly mirrors changes in industrial confidence: the European Commission's industrial confidence indicator deteriorated continuously in the period between October 2004 and May 2005. Since then, however, it has improved, as has capacity utilisation. The PMI for manufacturing shows a similar pattern, deteriorating between February and May 2005 and slightly improving since then. In addition, capital goods industrial production growth (in three-month moving average terms), having declined throughout the last quarter of 2004, turned positive in 2005. Overall, recent data and survey releases suggest an increase in non-construction investment growth in the second half of the year.

The lower growth in non-construction investment in the first half of this year compared with the second half of 2004 was mainly attributable to a negative development in the transport sector (see Chart B). Investment growth in transport equipment (accounting for around 10% of total investment) was negative in both the first and the second quarter. These declines were only partly counterbalanced by positive investment growth in metal products and machinery (accounting for around 30% of total investment), while investment growth in other products (with a 12% share in the total) was close to zero. The decline in transport investment, while not considerably larger than normal volatility allows for, may partly be attributable to recent oil price increases.

Chart A Total, construction and non-construction investment

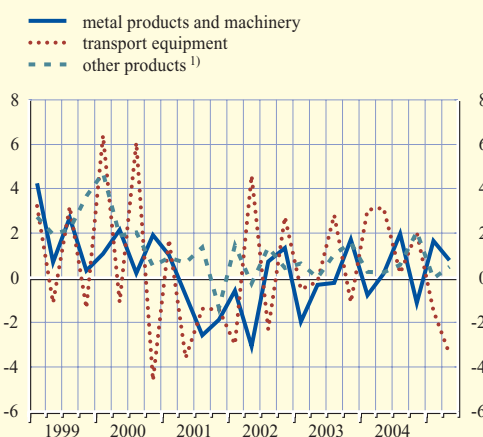
(quarter-on-quarter changes; seasonally adjusted)



Source: Eurostat.
1) Includes agriculture.

Chart B Breakdown of non-construction investment

(quarter-on-quarter changes; seasonally adjusted)



The decline in construction investment slowed down in the first half of 2005

Construction investment declined by 0.2% on average in the euro area in the first half of 2005, following a decline of 0.6% on average in the second half of last year (see Chart A). Housing and non-housing construction investment followed similar patterns. These series are known to be very volatile, in part because weather conditions have a great influence on construction investment.¹ The EC confidence indicator for the construction sector has, however, improved significantly in the course of the year, which may also be a positive indicator for investment.

¹ See Box 6 in the September issue of the ECB's Monthly Bulletin for a detailed analysis of developments in construction investment up to the first quarter of 2005 and of important factors shaping the evolution of the series.