

Box 5

EUROPEAN COMMISSION INVESTMENT SURVEY

In spring and autumn of each year, the European Commission conducts a survey among companies in the manufacturing industry, collecting information on realised and planned investment (European Commission investment survey). In this survey, firms are requested to reveal their investment expectations for the past and current year (spring survey) or the current and following year (autumn survey). This box presents the euro area results of the “Autumn 2006 survey”, which were published on 31 January 2007, and include investment expectations for 2007.

Chart A shows euro area annual investment growth in volumes based on ESA 95 national accounts data¹ and the investment expectations from the European Commission investment survey, using the expectations from the autumn survey of the previous year as the basis. The chart shows that the survey results have captured developments in euro area investment growth reasonably well, in particular since the second half of the 1990s. In 2006 investment grew by 4.5%, in real terms, whereas the survey had predicted investment growth of 4.1%. With regard to 2007, the survey suggests investment growth of about 4.9%.

The European Commission investment survey also provides information on the factors influencing investment, distinguishing between demand, financial, technical (e.g. technological factors and the availability of labour) and other factors (e.g. taxation and the possibility of

¹ The data from 1985 to 1991 are calculated using data from the Area Wide Model database which can be downloaded from <http://www.ecb.int/pub/pdf/scpwps/ecbwp.zip>.

Chart A Investment growth

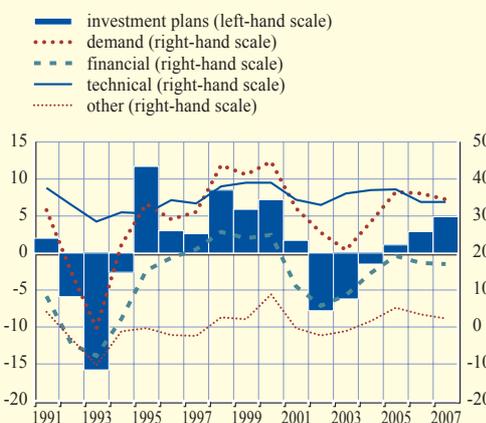
(annual percentage changes in volumes)



Sources: Eurostat, European Commission investment survey and Area Wide Model database.

Chart B Factors influencing investment

(annual percentage changes; percentage balances)



Source: European Commission investment survey.

producing abroad). The questions on factors are of a qualitative nature, indicating which of the factors influenced investment. Data are expressed in percentage balances and therefore do not add up to investment expectations, which are expressed in annual percentage changes (see Chart B).

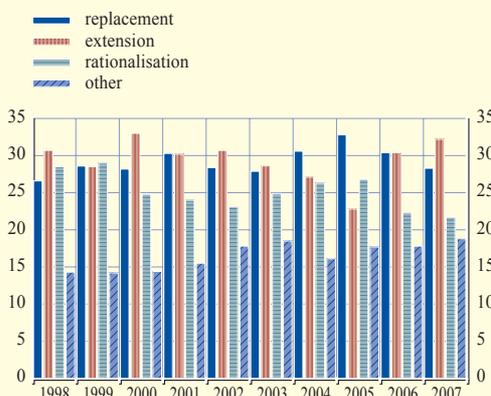
Since 1991 the main factors driving investment in the euro area have been demand and technical factors. Chart B shows that, following the decline in investment growth in 2001, financial conditions were the most important factor behind the gradual recovery in investment, followed by demand conditions. In 2006 and 2007, all factors stabilised or declined, while investment plans kept on increasing, probably owing to an increase in capacity utilisation over the same period.

Looking at the structure of investment, the European Commission investment survey suggests that the largest share of investment in 2006 and 2007 is related to the extension of production capacity (see Chart C). This reflects the fact that during a recovery, firms tend to increase production capacity (see also Box 4 in the May 2006 edition of the Monthly Bulletin). According to the survey, the share of extension investment increased from 23% in 2005 to 30% in 2006, and is expected to increase further to 32% in 2007, its highest level since 2000. This increase happened at the expense of investment in the replacement of worn-out plants or equipment and investment designed to streamline production (rationalisation), which were the main two contributors to improvements in investment from 2003 to 2005. The share of investment for rationalisation stood at its lowest level since the start of the survey in 1991. The category “other”, which relates to investment objectives such as pollution control, safety, etc., has increased slightly since 2005.

Finally, the survey provides a breakdown of investment expectations by sector. The table shows that investment in the durable goods sector, which also includes construction, grew by 23% in 2006 and is expected to grow by a further 8% in 2007. In addition, strong investment expectations for 2007 relate to the production of motor vehicles and investment and intermediate goods.

Chart C Investment structure

(shares)



Source: European Commission investment survey.

Investment expectations by sector

(annual percentage changes in volumes)

	2006	2007
Total	3	5
Intermediate goods	6	7
Motor vehicles	-7	14
Investment goods	3	8
Non-durables	2	-1
Food and beverages	5	-11
Durables	23	8

Source: European Commission investment survey.

Overall, the survey provides an indication of a continued relatively favourable investment climate at the current juncture. Financing conditions are still supportive of investment and there is potential for sustained growth in investment in 2007, in line with the latest ECB staff macroeconomic projections for the euro area (see Box 6).