

Box 8

EUROPEAN COMMISSION INVESTMENT SURVEY FOR THE MANUFACTURING SECTOR

The European Commission conducts a bi-annual survey among euro area companies in the manufacturing sector, collecting information on realised and planned investment.¹ Firms are requested to reveal their investment plans for the previous and current year (spring survey) or the current and subsequent year (autumn survey). The results for the euro area of the autumn survey conducted in October and November 2007 were published on 31 January 2008. This box presents recent investment developments based on these latest survey results, and provides a current assessment of investment expectations for 2008.

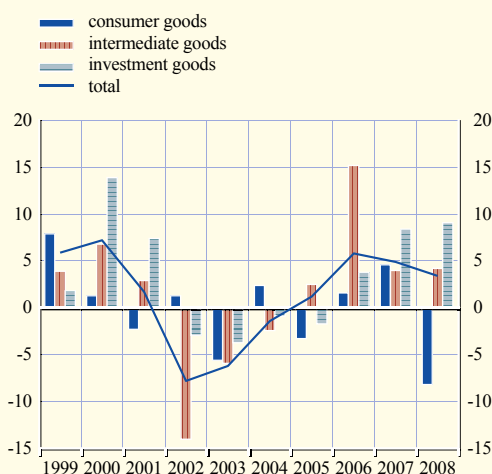
Positive investment developments in 2007

According to Eurostat, investment in 2007 grew by 4.8% in real terms. This was the second consecutive year with investment growth of over 4.0%. According to the survey, investment growth in 2007 was broad based: the investment goods sector reported the strongest investment growth (8.4%), followed by the consumer and intermediate goods sectors (4.6% and 4.0% respectively), (see Chart A). These results are consistent with the European Commission industry survey in which the investment goods sector reported the highest increase in capacity utilisation rate of the three sectors in 2007 (see Chart B).

The European Commission investment survey also provides information on the factors influencing investment, namely demand, financial conditions, technical (e.g. technological factors and the availability of labour) and other factors (e.g. taxation and the possibility of moving production abroad). In 2007, as in 2006, the main factor driving investment in the euro area was reported to be demand, followed closely by technical factors (see Chart C). The financial conditions factor

Chart A Investment expectations by sector

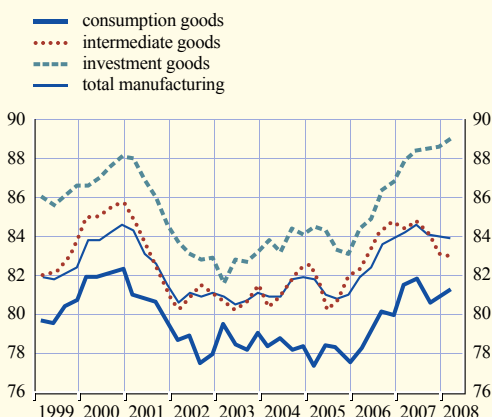
(annual percentage changes)



Source: European Commission investment survey.

Chart B Capacity utilisation in the manufacturing sector

(quarterly data; seasonally adjusted; percentages of total capacity)

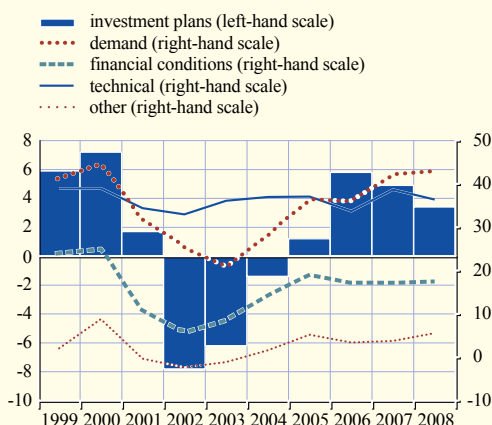


Source: European Commission Business and Consumer Surveys. Note: The latest observation refers to Q1 2008.

1 The European Commission investment survey is described in Box 5 of the March 2007 issue of the Monthly Bulletin.

Chart C Factors influencing investment

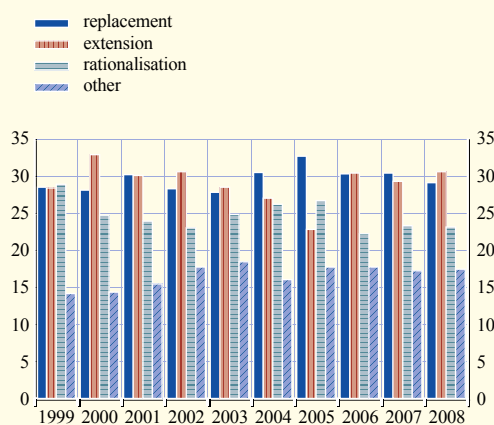
(annual percentage changes; percentage balances)



Source: European Commission investment survey.
 Note: The survey questions on factors are of a qualitative nature, indicating which of the factors influenced investment. Data are expressed as percentage balances and therefore do not add up to investment expectations, which are expressed as annual percentage changes.

Chart D Investment structure

(percentages of total investment)



Source: European Commission investment survey.

remained broadly stable in 2006 and 2007 following the recovery of investment in 2005 as a result of improving financial conditions.

Looking at the structure of investment, the European Commission investment survey suggests that in 2007, as in 2006, the largest share of investment was earmarked for the extension of production capacity and replacement of plant or equipment (see Chart D). The relatively large share of investment earmarked for the extension of production in 2006 and 2007, in particular, for the investment goods sector, reflected relatively high capacity utilisation rates.

Lower investment expected in 2008

With regard to 2008, last autumn's survey suggested a slowdown in investment growth to approximately 3.4% (see Chart A). The investment breakdown indicated that the expected slowdown would be largely driven by the consumer goods sector, which reported a decline of 8.2% in its investment plans for 2008. The sharpest reduction was expected in the durable goods sub-sector. For the investment and intermediate goods sectors, investment growth in 2008 was expected to remain broadly at the same level as in 2007 (see the table). None of the sectors, however, reported a worsening in the expected financial conditions for investment in 2008, indicating that, in the autumn of last year when the survey was conducted, the financial

Investment expectations by sector

(annual percentage changes in volumes)

	2007	2008
Total	4.9	3.4
<i>Breakdown by sector</i>		
Intermediate goods	4.0	4.2
Investment goods	8.4	9.1
Motor vehicles	10.5	9.9
Consumer goods	4.6	-8.2
Non-durables	2.8	-4.2
Food and beverages	1.8	-7.9
Durables	16.7	-12.8

Source: European Commission investment survey.

market turbulence which started in August 2007 was not seen to significantly affect firms' investment plans for 2008.

The survey also suggested that the share of investment earmarked for the extension of production was expected to be slightly higher in 2008 than in 2007. This planned continued extension investment has to be seen against survey evidence on high capacity utilisation in the euro area, notably in the investment goods sector. While the consumer and intermediate goods sectors have reported some easing of capacity pressures since last autumn, the capacity utilisation rate for the investment goods sector was still on an upward trend in January 2008 (see Chart B).

Investment survey results, together with the latest capacity utilisation data and strong export expectations for the investment goods sector in January 2008, suggest that the investment goods sector may have been least affected by the recent slowdown in the euro area economy. It should be noted that the future performance of the investment goods sector will also depend on sustained foreign demand and overall global economic growth since, in the euro area, this sector is characterised by the large share of its output that is made for export.

Overall, the results of the survey suggest that a slowdown in manufacturing investment is expected in 2008, albeit with significant differences across sectors. This expectation is also broadly supported by the March 2008 ECB staff macroeconomic projections (see Box 10).