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European Business Cycle Indicators

Results of the October/November 2023 survey on investment in the manufacturing and services sectors

4th Quarter 2023

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European Commission
Directorate-General for Economic and Financial Affairs

European Business Cycle Indicators

4th Quarter 2023

Special topic

Results of the October/November 2023 survey on investment in the manufacturing and services sectors

This document is written by the staff of the Directorate-General for Economic and Financial Affairs, Directorate A for Policy, Strategy, Coordination and Communication, Unit A3 - Economic Situation, Forecasts, Business and Consumer Surveys (http://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys_en).

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EUROPEAN ECONOMY Technical Paper 069

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OVERVIEW

Developments in survey indicators over the fourth quarter of 2023

- Following two quarters of decline, the EU and euro-area (EA) **Economic Sentiment Indicators** stabilised in October/November, before posting a significant increase in December. At the end of the fourth quarter, the indicators were 2.5 (EU) / 2.8 (EA) points up compared to September. Despite the increase, both indicators remained below their long-term average of 100, at 95.6 (EU) / 96.4 (EA) points.
- After two quarters of decline, the EU/EA **Employment Expectations Indicator** went broadly sideways in the fourth quarter. In December, the EU indicator stood 0.2 points below, while its EA-counterpart 0.1 points above its September reading, at levels slightly in excess of the indicators' long-term average.
- **Confidence** improved in services, construction and among consumers over the last quarter of 2023, while it stayed virtually unchanged in industry and retail trade.
- **Economic sentiment improved in five of the largest six EU economies**, namely Poland (+3.3), Germany (+2.4), Spain (+2.3), the Netherlands (+1.8) and Italy (+1.4), while it decreased in France (-1.0). The level of confidence remained well below long-term average in France, the Netherlands and, particularly, Germany, while it was almost back to historical means in Italy and Poland. Sentiment in Spain was slightly above its long-term average.
- The EU/EA **Economic Uncertainty Indicator** stayed virtually unchanged throughout the fourth quarter, as perceived uncertainty remained broadly stable in industry and retail trade, while decreasing in services and increasing in construction. Consumer uncertainty temporarily shot up in October, but eased back in the following two months.
- In October, **capacity utilisation** in industry decreased by 0.4 (EU) / 0.6 (EA) percentage points compared to July and stayed below its long-term average. Capacity utilisation in services decreased by 0.5 pps. in both the EU and the EA, but remained above its long-term average.
- In October, the share of industry managers indicating **insufficient demand** as a factor limiting their production gained further prominence. The percentage of managers pointing to **shortages of material and/or equipment** as a factor limiting production decreased further from the record level of early 2022. Also the share of managers indicating **shortage of labour force** as a factor limiting production decreased, but remained relatively high.
- **Consumers' quantitative perceptions of price developments** over the past 12 months eased for the second quarter in a row. Their **quantitative price expectations** for the next 12 months edged up (when expressed as arithmetic mean) or remained broadly stable (median).

Special topic: Results of the October/November 2023 survey on investment in the manufacturing and services sectors

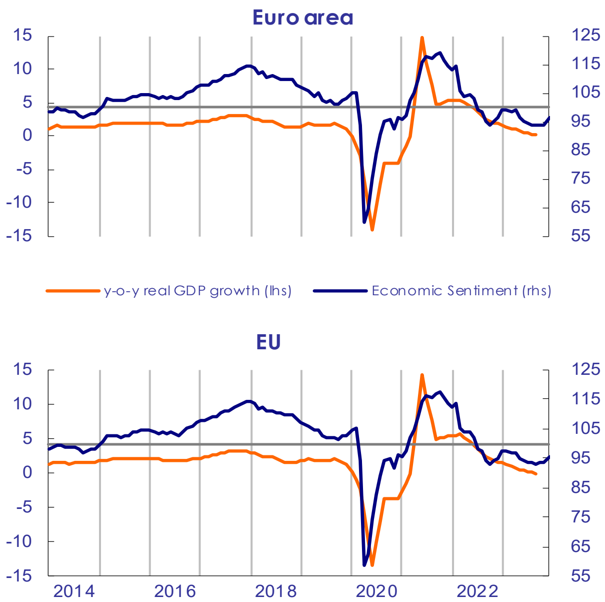
The special topic analyses the results of the questions on investment included in the October-November surveys for the manufacturing and services sectors, enquiring about business investment in 2023, as well as plans for 2024. On average, in the EU, managers in the manufacturing and services sectors expected their firms' investment in both 2023 and 2024 to increase. However, the difference between the percentage of managers expecting an increase and those expecting a decrease is lower in 2023 than in 2022, and is foreseen to increase only slightly in 2024. The survey also provides information on the purpose of investment (replacement, extension of production capacity, streamline of production, other) and the factors driving it (demand, financial conditions, technical, other).

1. RECENT DEVELOPMENTS IN SURVEY INDICATORS

1.1. EU and euro area

Following two quarters of decline, the EU and euro-area (EA) **Economic Sentiment Indicators (ESI)** stabilised in October/November, before posting a significant increase in December (see Graph 1.1.1). At the end of the year 2023, the indicators were 2.5 (EU) / 2.8 (EA) points up compared to September. In spite of the increase, both indicators remained below their long-term average of 100, at 95.6 (EU) / 96.4 (EA) points respectively.

Graph 1.1.1: Economic Sentiment Indicator

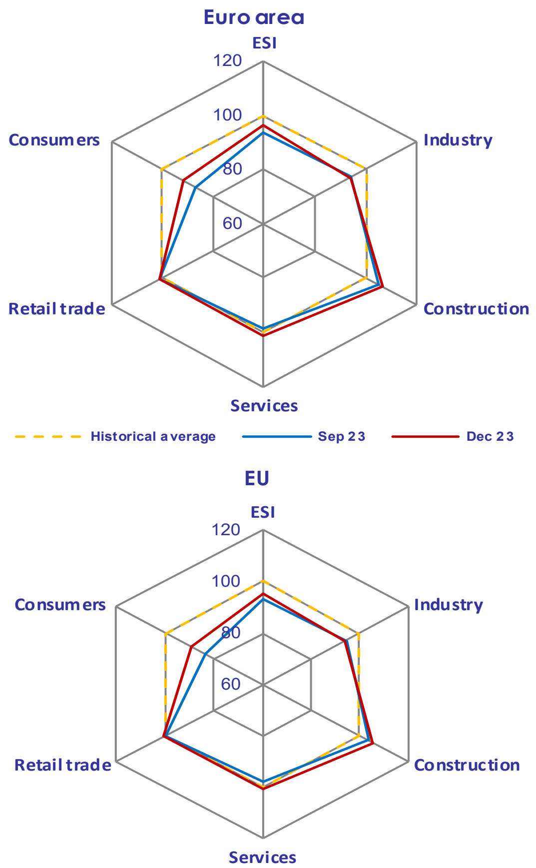


Note: The horizontal line (rhs) marks the long-term average of the survey indicators. Confidence indicators are expressed in balances of opinion and hard data in y-o-y changes. If necessary, monthly frequency is obtained by linear interpolation of quarterly data.

From a sectoral perspective, EU confidence (see lower panel of Graph 1.1.2) improved in services, construction and among consumers over the last quarter of 2023, while it stayed virtually unchanged in industry and retail trade. Developments in the EA were broadly in line with those in the EU.

The level of EU/EA confidence in December was significantly above long-term average only in construction, while it remained low by historic standards in industry and among consumers. Retail trade and services confidence was roughly in line with average readings.

Graph 1.1.2: Radar Charts



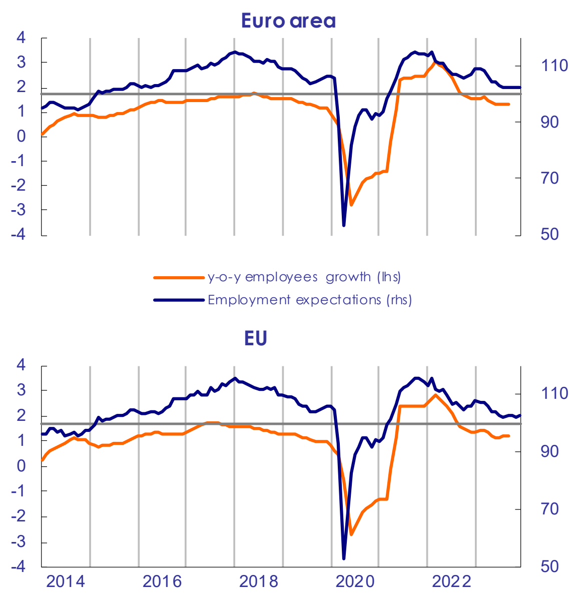
Note: A development away from the centre reflects an improvement of a given indicator. The ESI is computed with the following sector weights: industry 40%, services 30%, consumers 20%, construction 5%, retail trade 5%. Series are normalised to a mean of 100 and a standard deviation of 10. Historical averages are generally calculated from 2000q1. For more information on the radar charts see the Special Topic in the 2016q1 EBCI.

In the fourth quarter, economic sentiment improved in five of the largest six EU economies, namely Poland (+3.3), Germany (+2.4), Spain (+2.3), the Netherlands (+1.8) and Italy (+1.4). France stood out with a decrease of 1 point in December compared to September.

The level of confidence remained well below long-term average in France, the Netherlands and, particularly, Germany, while it was almost back to historical means in Italy and Poland. Sentiment in Spain was slightly above its long-term average.

The increase of the ESI was broadly in line with the evolution of HCOB Flash Eurozone Composite PMI Output Index[1], which completed the fourth quarter 0.4 points above its September reading, at 47.6 points. At the same time, the indicators' levels in December seem comparable, with the ESI below its long-term average and the PMI remaining shy of the critical 50-points threshold separating spells of positive and negative growth.

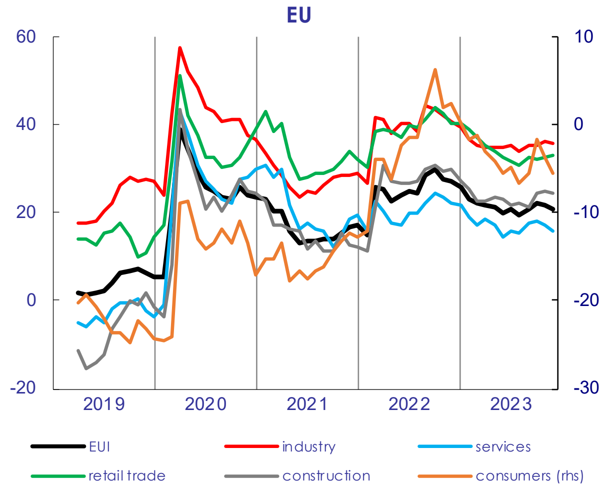
Graph 1.1.3: Employment expectations indicator



After two quarters of declining readings, the EU/EA **Employment Expectations Indicator (EEI)** went broadly sideways in the fourth quarter (see Graph 1.1.3). In December, the EU indicator stood 0.2 points below, while its EA-counterpart 0.1 points above its September reading, at levels slightly in excess of the indicators' long-term average. Employment expectations continued worsening in industry, while they stayed broadly flat in services/retail trade and recovered in construction.

The EU/EA **Economic Uncertainty Indicator (EUI)**[2] stayed virtually unchanged throughout the fourth quarter, with its December reading 0.3 (EU) / 0.2 (EA) points below its September print. From a sectoral perspective, levels of perceived uncertainty remained broadly stable in industry and retail trade, while they decreased in services and increased in construction. Consumer uncertainty temporarily shot up in October, but eased back in the following two months (see Graph 1.1.4).

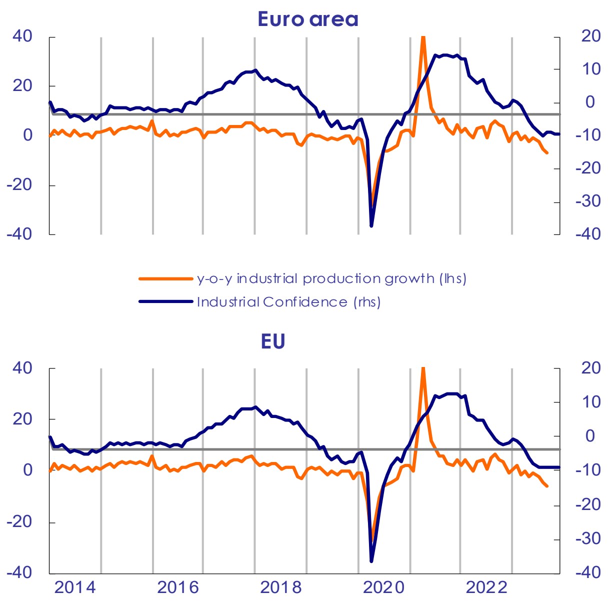
Graph 1.1.4: Uncertainty



Sector developments

Industry confidence stayed broadly flat throughout the fourth quarter, with its December reading 0.3 (EU) / 0.4 (EA) points down compared to September. Confidence in both regions remained low by historic standards (see Graph 1.1.5).

Graph 1.1.5: Industry Confidence indicator



Zooming into the components of industrial confidence, managers' **production expectations**

[1] Contradictory signals from the EA ESI and the eurozone PMI can occur due to differences in their geographic and/or sectoral coverage, as well as the survey questions used for their construction. For a systematic comparison of the two indicators, see the special topic in the 2017-Q2 EBCI.

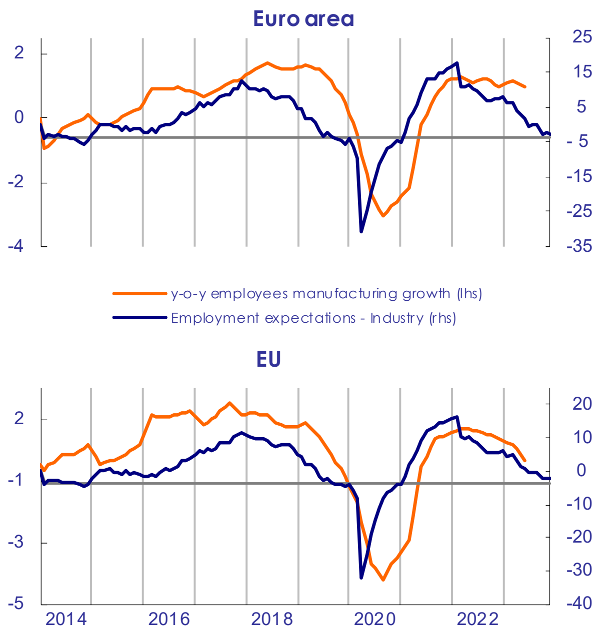
[2] See the special topic of the 2021-Q3 EBCI for background, and section 3.6 of the BCS User Guide for methodological details.

were mildly up and less managers considered the **stocks of finished products** as too high/above normal. At the same time, managers' assessments of their **order books** deteriorated for the eighth quarter in a row, reaching a new three-year low in December. Of the components not included in the confidence indicator, managers' appraisals of **past production** improved, whereas assessments of the current **export order books** followed the downward trend in overall orders.

Industry managers' **employment expectations** (see Graph 1.1.6) worsened for the fourth quarter in a row (-2.0 in the EU and -2.6 in the EA). At the same time, their **selling price expectations** stayed virtually unchanged for the second consecutive quarter (+/-0.0 in the EU, -0.2 in the EA), some 4 points below their respective historical means.

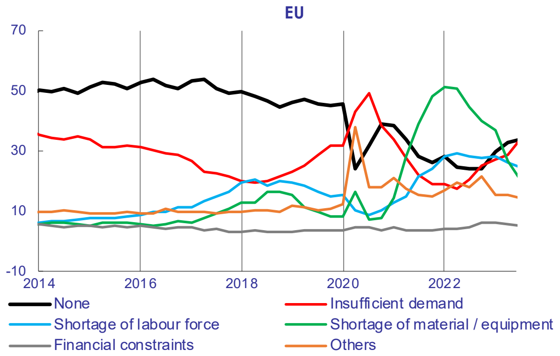
Industry confidence decreased in four of the six largest EU economies, namely France (-1.5), the Netherlands (-1.0), Germany (-0.8) and Italy (-0.7), while it increased in Spain (+2.2) and Poland (+1.3). With the exception of Spain, where confidence is at an average level, industry confidence is weak by historical standards, particularly in Germany.

Graph 1.1.6: Employment expectations in Industry



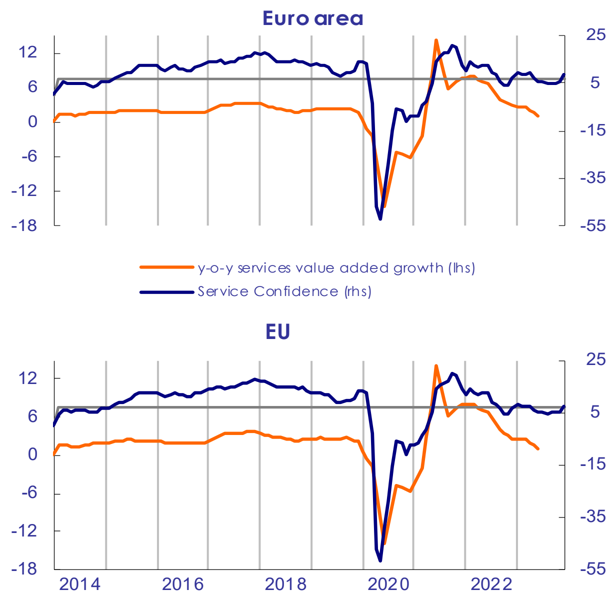
According to the quarterly manufacturing survey (carried out in October), **capacity utilisation** continued its broad downward trend observed since spring/summer 2022, decreasing by 0.4 (EU) / 0.6 (EA) percentage points compared to July. At 79.5% (EU) / 79.4% (EA), the indicator is below its long-term average of 80.6% (EU) / 80.7% (EA).

Graph 1.1.7: Industry – Factors limiting production (in %)



The share of industry managers indicating insufficient demand as a **factor limiting their production** gained further prominence in October (see Graph 1.1.7), increasing for the sixth quarter in a row in both the EU (+2.8 percentage points (pps.) compared to July 2023, to 36.6%) and the EA (+3.3 pps. to 36.4%). Meanwhile, the percentage of managers pointing to shortages of material and/or equipment as a factor limiting production decreased further from the record level of early 2022 (EU: -3.3 pps. compared to July 2023 to 17.3%, EA: -3.5 pps. to 17.5%). Also the share of managers indicating shortage of labour force as a factor limiting production decreased (EU: -2.1 pps. to 22.4%, EA: -2.4 pps. to 20.5%), but remained relatively high. The prevalence of financial constraints stayed broadly unchanged (EU: +0.1 pps., EA: +0.3 pps.) at comparatively low levels (EU: 5.5%, EA: 5.3%).

Graph 1.1.8: Services Confidence indicator

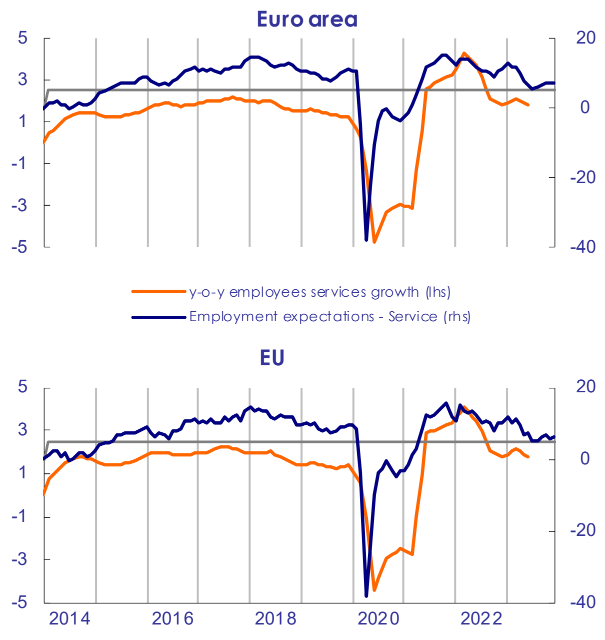


Thanks to a significant increase in December, EU **services confidence** finished the fourth quarter 2.7 (EU) / 3.8 (EA) points up compared to September. The indicator is roughly at (EU) / slightly above (EA) its long-term average (see Graph 1.1.8).

Looking into the components of services confidence, the positive impetus came from a sharp improvement in managers' assessments of **past demand** in December, as well as a second quarter of brightening **demand expectations**. Views on the **past business situation**, by contrast, stayed broadly unchanged for the third quarter in a row.

Compared to their September level, **employment expectations in services** stayed virtually unaltered in the EU (-0.1), while they improved mildly in the EA (+0.9) (see Graph 1.1.9). Managers' **selling price expectations** rebounded from their slump in the first two quarters of the year, increasing by 3.4 (EU) / 2.6 (EA) points in the course of the fourth quarter. Their level remains exceptionally high.

Graph 1.1.9: Employment expectations in services

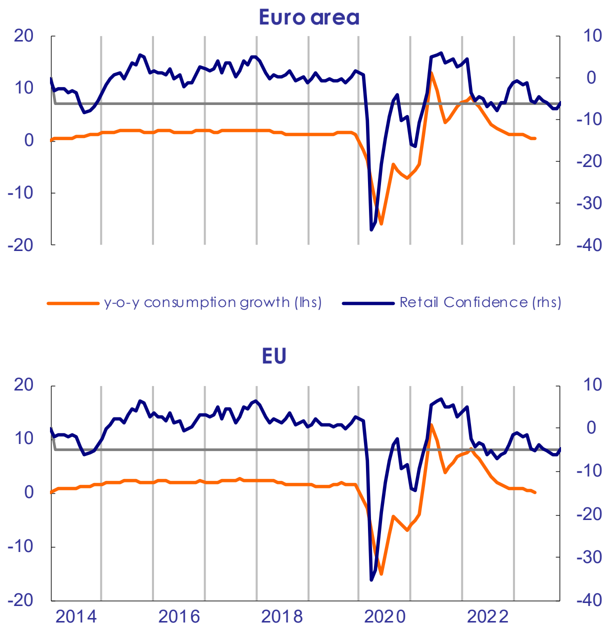


Among the six largest EU economies, services confidence improved sharply in Germany (+4.9), Italy (+3.5), Spain (+2.7) and Poland (+2.4), while it barely changed in France (-0.5) and the Netherlands (+0.1). The level of confidence exceeds long-term averages in Italy and Spain, while it continues falling short of them in Germany, France and Poland. Dutch confidence is at average level.

In October compared to July, **capacity utilisation in services** decreased by 0.5 pps. in both the EU and the EA. At 90.2% (EU) / 90.1% (EA) both indicators remained above their long-term averages of 89.1% (EU) and 88.8% (EA) respectively.

Retail trade confidence continued following a broad sideways trend. Compared to September, the indicator completed the fourth quarter almost unchanged (EU: +0.2 points, EA: +0.1 points), at a level roughly corresponding to its long-term average (see Graph 1.1.10).

Graph 1.1.10: Retail Trade Confidence indicator



While retailers' assessments of the **past business situation** and the **volume of stocks** brightened, mainly thanks to a sharp improvement in December, the opposite held true for their expectations of the **future business situation**.

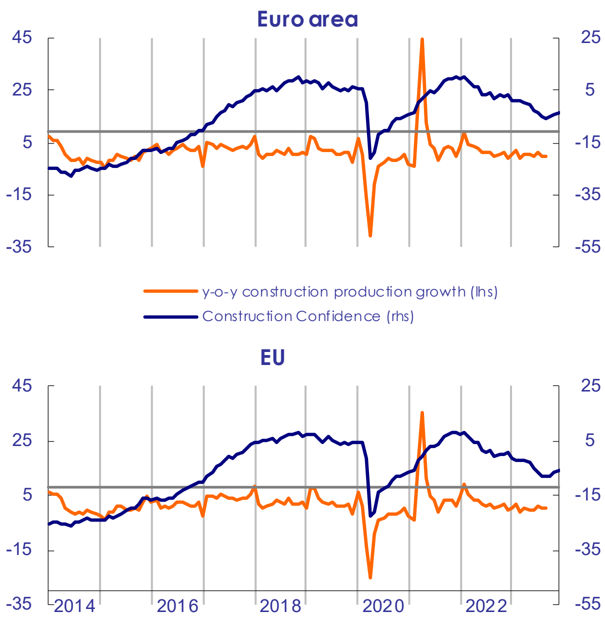
At the level of the six largest EU economies, retailers' confidence weakened in France (-3.9), Spain (-3.1), Italy (-1.3) and the Netherlands (-1.1), while it improved mildly in Poland (+1.1) and stayed broadly flat in Germany (+0.4).

Construction confidence rebounded from three quarters of declining readings (EU: +2.2, EA: +2.3 compared to September), staying comfortably above its long-term average (see Graph 1.1.11).

In both the EU and the EA, builders declared more upbeat **employment expectations** and appraisals of **order books**.

Insufficient demand was the most prevalent **factor limiting building activity**, cited by 30.5% (EU) / 30.6% (EA) of construction managers in December (+1.7 (EU) / +2.5 (EA) pps. compared to September). It was followed by **shortage of labour** which remained a wide-spread concern (EU: 28.6%, EA: 27.0%), but not a growing one (-0.2 (EU) / +0.2 (EA) pps. compared to September). The share of builders identifying **material and/or equipment** as factors limiting production stayed virtually unchanged, dropping by a mere 0.5 (EU) / 0.6 (EA) pps. to 9.4% (EU) / 6.7% (EA). Similarly, the percentage of managers reporting **financial constraints** as limiting factors stagnated (-0.5 (EU) / -0.3 (EA) compared to September) at 9.4% (EU) / 8.9% (EA).

Graph 1.1.11: Construction Confidence indicator

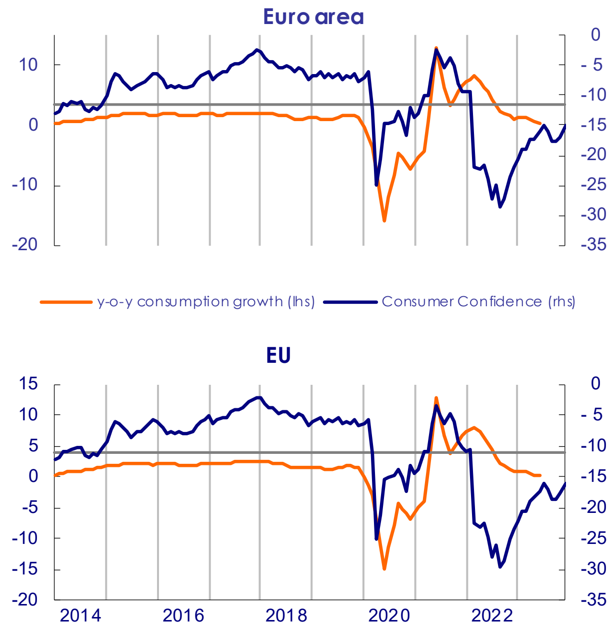


Among the largest EU economies, construction confidence improved strongly in Spain (+10.6)[3], the Netherlands (+7.1) and, to a lesser extent, in Italy (+3.3), Poland (+2.2) and Germany (+1.3). Sentiment in France continued deteriorating (-4.7).

EU/EA **consumer confidence** rebounded from last quarter's slide, firming by 2.7 points compared to September, but remaining below long-term average (see Graph 1.1.12).

The boost in confidence reflected consumers' more benign assessments of their households' **past financial situation**, as well as more upbeat expectations regarding their **future financial situation** and the **country's general economic** situation. While consumers' **intentions to make major purchases** also firmed, the improvement was more muted.

Graph 1.1.12: Consumer Confidence indicator



Consumer confidence improved in all of the six largest EU economies, most so in the Netherlands (+6.3) and, to a lesser extent, in France (+2.1), Germany (+1.9), Poland (+1.7), Spain (+1.6) and Italy (+0.9).

In the EU and the EA, **consumers' quarterly quantitative perceptions of price developments** (change over the past 12 months, in %) eased for the second quarter in a row, both in terms of their arithmetic mean, as well as their median (which is less sensitive to the presence of extreme values). In spite of the renewed decline, price perceptions remained exceptionally high (see Graph 1.1.13). [4] **Quantitative price expectations** (change over the next 12 months, in %), by contrast, edged up (when expressed as arithmetic mean) or remained broadly stable (median). The results at total level were

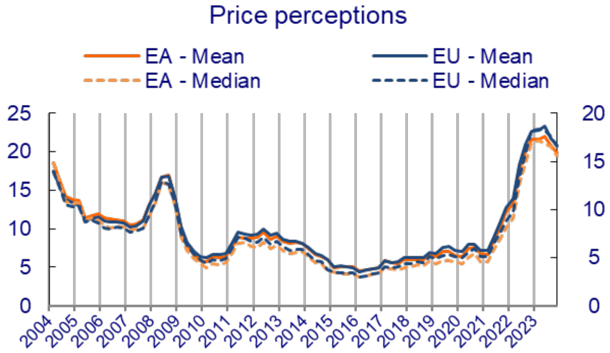
[3] The Spanish construction confidence indicator has a comparatively high month-to-month volatility.

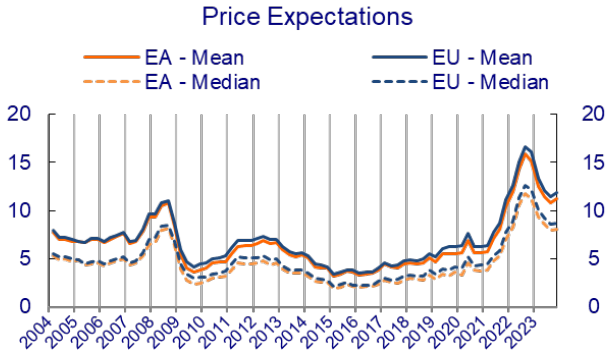
[4] For more information on the quantitative inflation perceptions and expectations, see the special topic in the EBCI 2019Q1.

mirrored across almost all income, education and age groups, as well as among both men and women.

The detailed results among the different socio-economic breakdowns can be downloaded from the [European Commission's website](#).

Graph 1.1.13: Euro area and EU quantitative consumer price perceptions and expectations

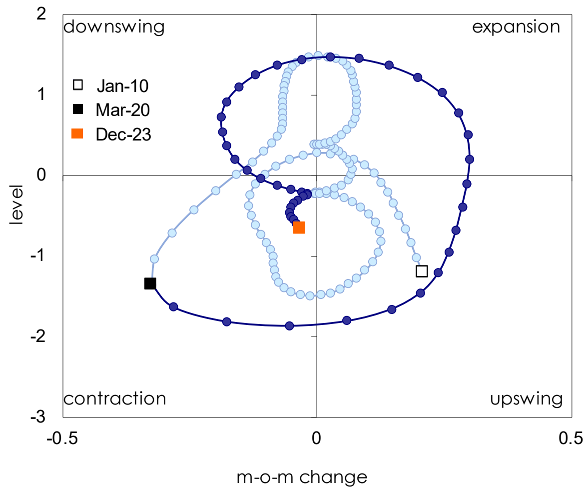




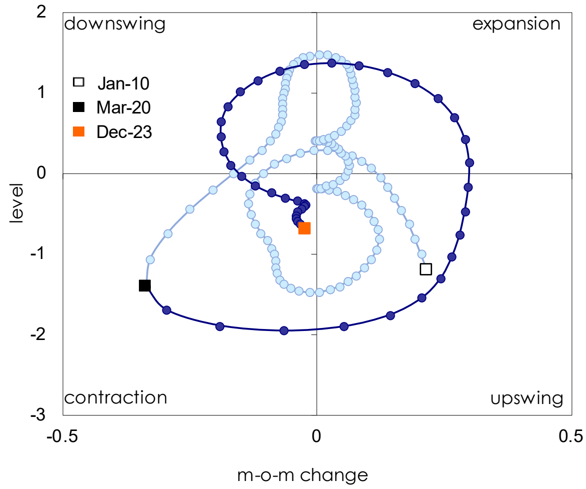
Brightening economic sentiment in 2023-Q4, as captured by the ESI, also shows in the EU/EA **climate tracers** (see Annex for details). While remaining in the contraction quadrant, both moved closer to the intersection with the upswing area (see Graphs 1.1.15 and 1.1.16).

The developments in the sectoral EU/EA confidence indicators reverberated in the sectoral climate tracers (see Graph 1.1.17): higher confidence moved the services tracers closer to the upswing and the construction and consumer tracers nearer to the expansion quadrant. Also the industry tracers inched a bit closer towards the upswing area, while the retail trade tracers remained virtually unchanged on the intersection between downswing and contraction.

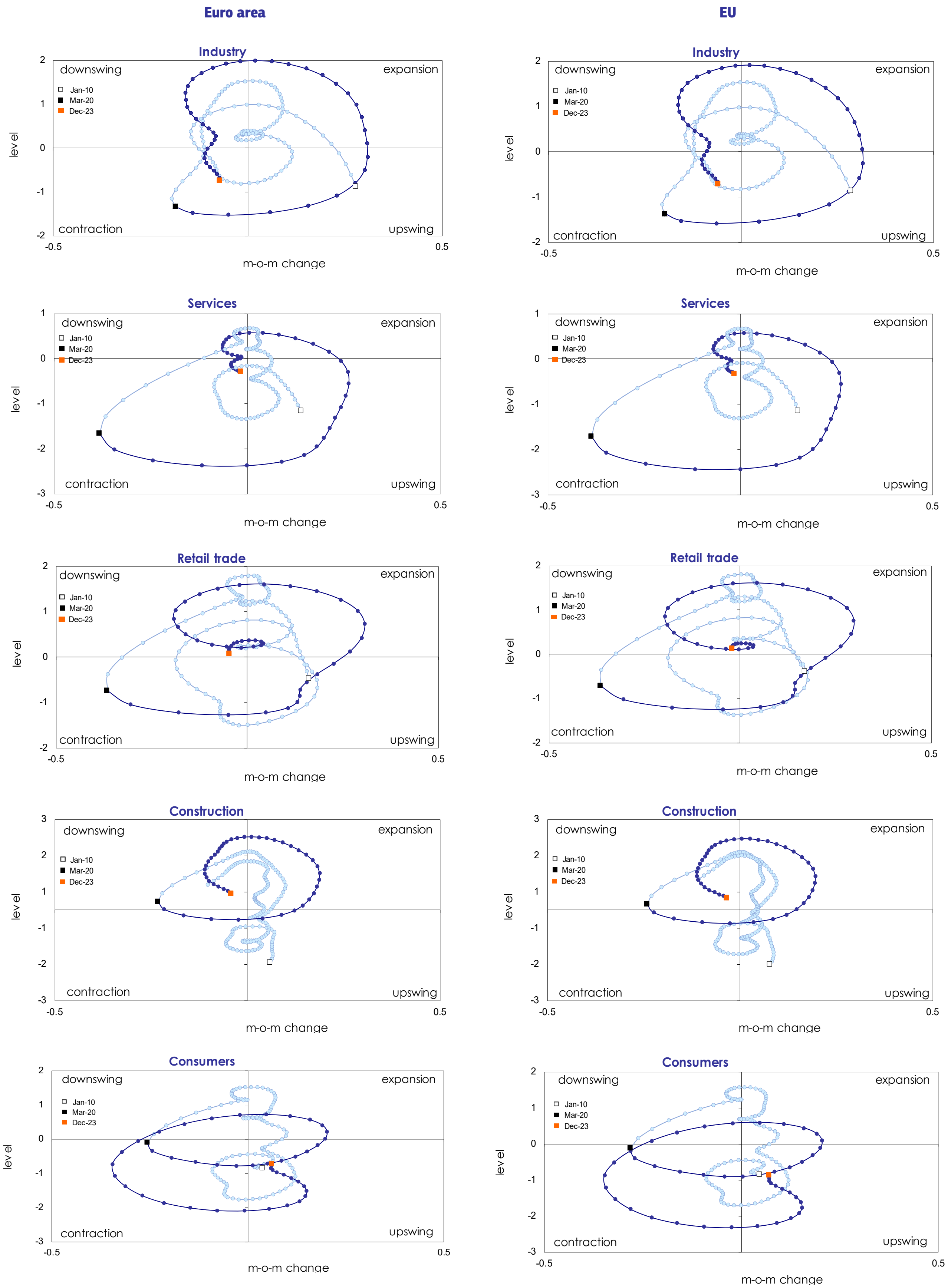
Graph 1.1.15: Euro area Climate Tracer



Graph 1.1.16: EU Climate Tracer



Graph 1.1.17: Economic climate tracers across sectors

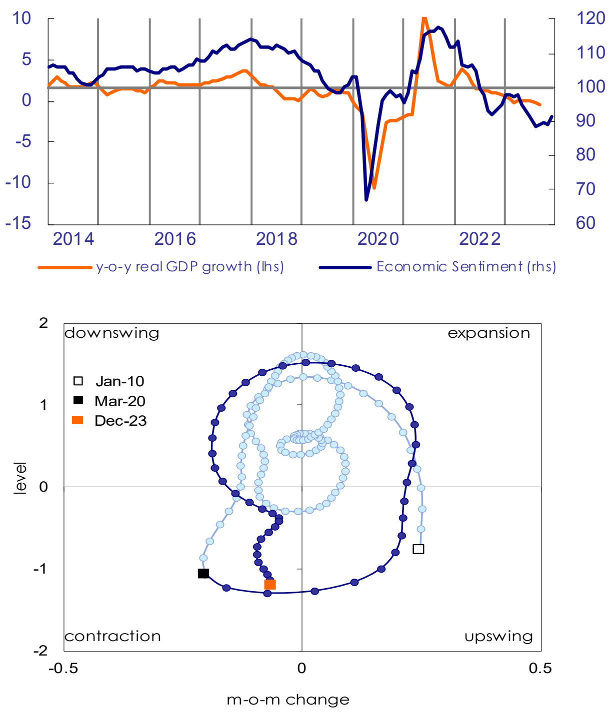


1.2. Selected Member States

After posting sharp declines in two consecutive quarters, the **German** ESI finished the fourth quarter 2.4 points up compared to September, thanks to a significant improvement in December. Yet, at 91.6 points, the indicator remained well below its long-term average of 100. Consistently, the German climate tracer stayed in the contraction quadrant, but moved closer to its intersection with the upswing area.

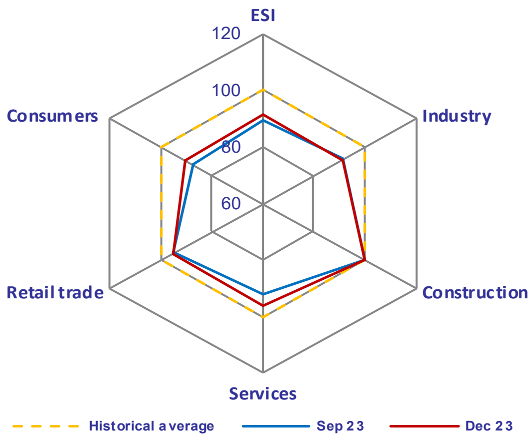
The Employment Expectations Indicator (EEI) went in lockstep with the ESI, rebounding in December and gaining 1.7 points on the quarter. Contrary to the ESI, its level in December (99.1 points) is just a whisker below its long-term average. The indicator's improvement in the fourth quarter was fuelled by more optimistic employment plans among services and construction managers, which were only partially offset by slightly more cautious plans in industry and retail trade.

Graph 1.2.1: Economic Sentiment Indicator and Climate Tracer for Germany



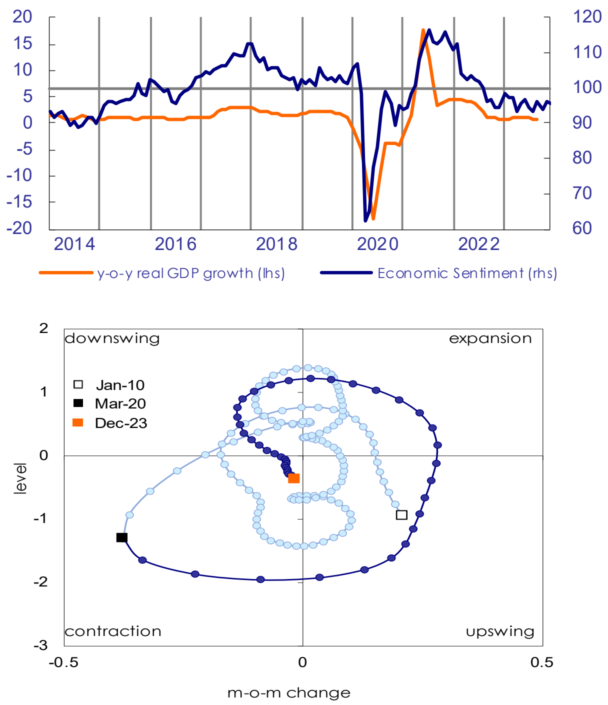
As shown in the radar chart (see Graph 1.2.2), confidence recovered in services and among consumers, while it changed only little in industry, construction and retail trade. The level of confidence remained well below long-term averages, with the exception of construction, where it is normal by historical standards.

Graph 1.2.2: Radar Chart for Germany



Compared to September, the December print of the **French** ESI was 1.0 point down and, at 95.4 points, below the indicator's long-term average of 100. In the context of the preceding quarters, developments in the fourth quarter constitute a continuation of the indicator's broad sideways movement witnessed throughout 2023. The French climate tracer barely moved, staying close to the intersection of the contraction and upswing quadrant (see Graph 1.2.3).

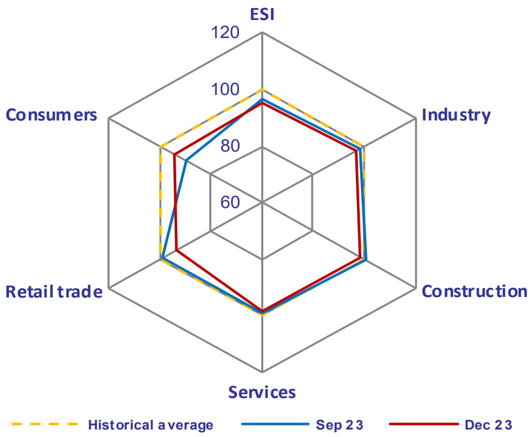
Graph 1.2.3: Economic Sentiment Indicator and Climate Tracer for France



The Employment Expectations Indicator (EEI) slipped (-1.6 points compared to September) owing to more muted employment plans among industry, services and construction managers, which were only partly outweighed by more buoyant expectations in retail trade.

As evidenced by the radar chart (see Graph 1.2.4), confidence firmed only among consumers, while it flagged in retail trade, industry and construction and remained broadly flat in services. The level of confidence falls short of historical averages, most so in retail trade, while least so in services.

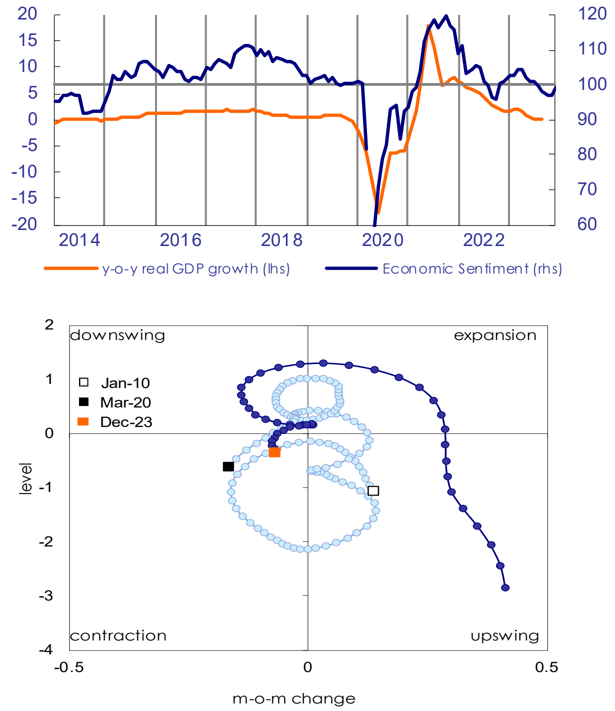
Graph 1.2.4: Radar Chart for France



Thanks to a significant increase in December, the **Italian** ESI completed the fourth quarter 1.4 points up compared to September and, at 99.3 points, is almost back to its long-term average of 100. The Italian climate tracer stayed in the contraction quadrant, but inched slightly closer towards its intersection with the upswing area (see Graph 1.2.5).

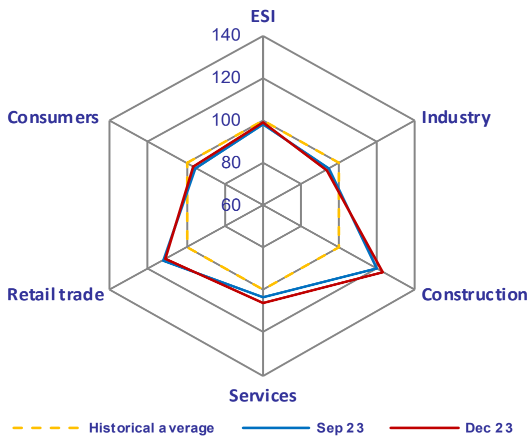
Due to a significant decline in October, the Italian EEI decreased by 5.1 points on the quarter, but, at 104.2 points, remained comfortably above its long-term average of 100. The downward correction was due to less optimistic employment plans among services and, to a lesser extent, industry and retail trade managers. Construction managers were more upbeat about future employment.

Graph 1.2.5: Economic Sentiment Indicator and Climate Tracer for Italy[5]



As shown in the Italian radar chart (see Graph 1.2.6), confidence firmed in services, construction and, to a lesser extent, among consumers, while it eased mildly in industry and retail trade. Barring industry and consumers, confidence levels are generally high by historical standards, especially in construction.

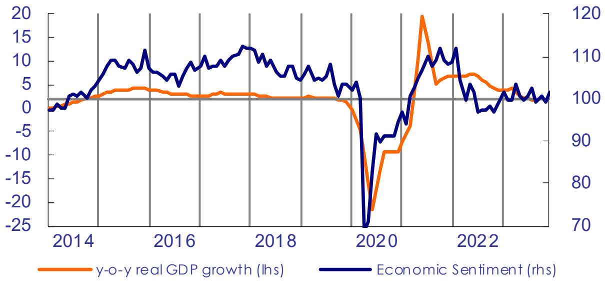
Graph 1.2.6: Radar Chart for Italy

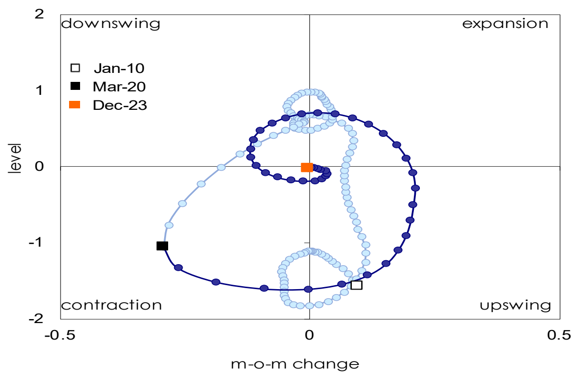


5 Due to a missing value for April 2020, the climate tracer for Italy is interrupted between March and May 2020.

The **Spanish** ESI finished the fourth quarter 2.3 points above its September level, at 101.4 points, i.e. slightly above its long-term average of 100. The Spanish climate tracer stayed on the neutral intersection between the four possible states of the business cycle (see Graph 1.2.7).

Graph 1.2.7: Economic Sentiment Indicator and Climate Tracer for Spain

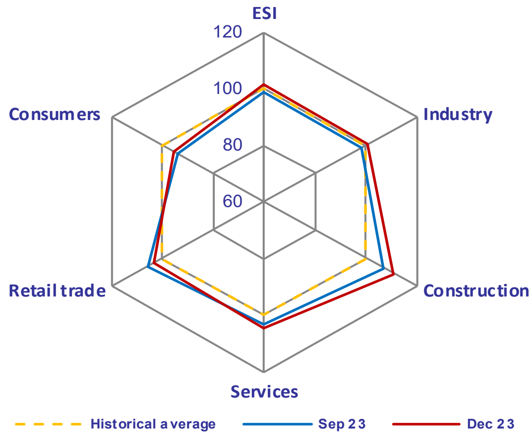




The Spanish EEI remained broadly flat (+0.3) at a level (107.7 points) well in excess of its long-term average, as more cautious employment plans in industry and retail trade were offset by more upbeat expectations in services and construction.

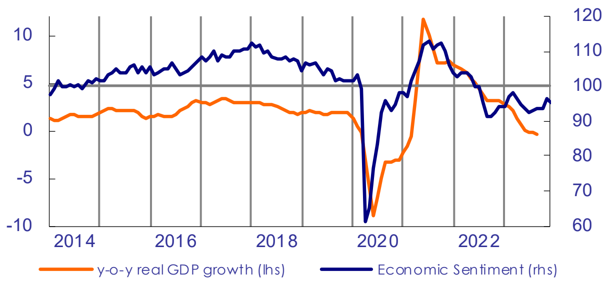
As shown in the radar chart (see Graph 1.2.8), confidence improved among consumers and in all surveyed business sectors, with the exception of retail trade. Confidence exceeds long-term averages in services, retail trade and, most so, in construction. By contrast, among consumers it is low and in industry normal by historical standards.

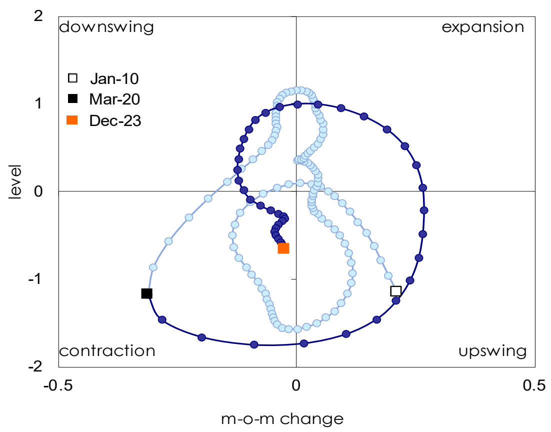
Graph 1.2.8: Radar Chart for Spain



Compared to September, the ESI for the **Netherlands** improved by 1.8 points over the fourth quarter, but, at 95.1 points, remained short of its long-term average. The Dutch climate tracer remained in contraction territory, but moved slightly closer to the upswing quadrant (see Graph 1.2.9).

Graph 1.2.9: Economic Sentiment Indicator and Climate Tracer for the Netherlands

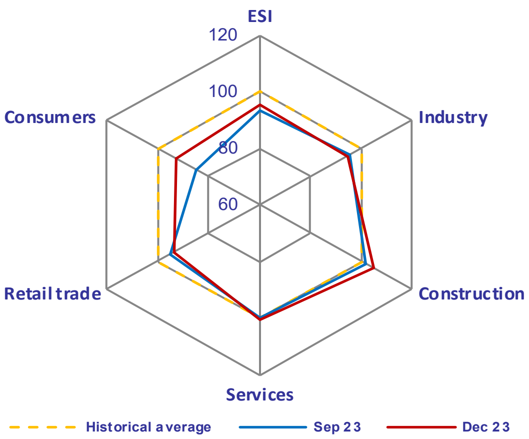




The EEI for the Netherlands picked up and ended the fourth quarter 1.6 points higher than in September (at 103.9 points), well in excess of its long-term average. Employment plans improved in services, retail trade and, most so, in construction, while they got more muted in industry.

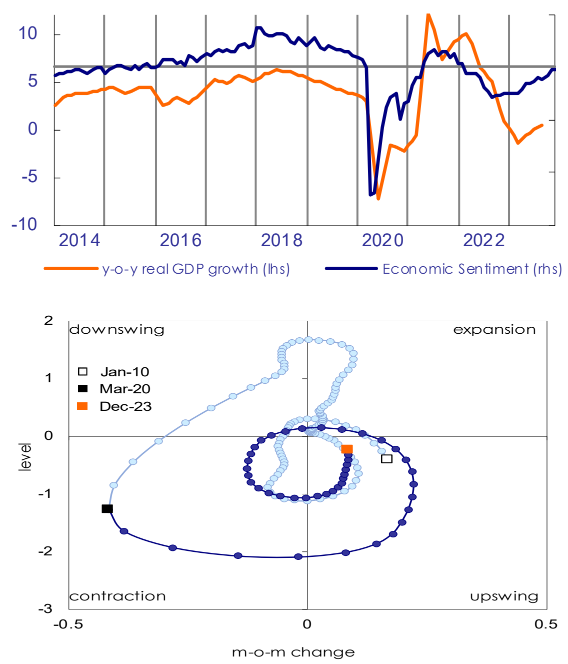
As shown in the radar chart (see Graph 1.2.10), confidence improved significantly among consumers and construction managers, while it eased mildly in industry and retail trade. Services confidence stayed virtually unchanged. Compared to historical standards, confidence was elevated in construction, while low in industry, retail trade and among consumers. Services confidence hovered around its long-term average.

Graph 1.2.10: Radar Chart for the Netherlands



In the fourth quarter of 2023, the ESI for **Poland** continued the ascent it had embarked upon a year ago, gaining 3.3 points compared to September. At 99.0 points, the indicator remained just a whisker below its long-term average of 100. The Polish climate tracer remained in upswing territory, but inched closer towards the expansion quadrant (see Graph 1.2.11).

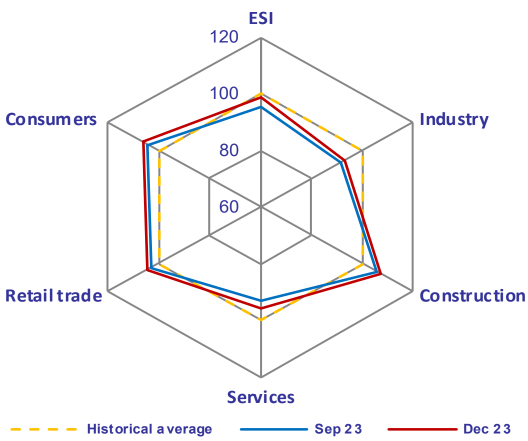
Graph 1.2.11: Economic Sentiment Indicator and Climate Tracer for Poland



The Polish EEI completed the fourth quarter of 2023 virtually unchanged compared to September (+0.4 to 99.1 points), remaining slightly below its long-term average of 100. Employment plans in the surveyed sectors changed barely, with the exception of construction, where they improved for the fourth quarter in a row.

As shown in the radar chart (see Graph 1.2.12), confidence improved in all business sectors and among consumers. It exceeded historical averages in retail trade, construction and among consumers, while it fell short of them in industry and services.

Graph 1.2.12: Radar Chart for Poland



2. SPECIAL TOPIC: RESULTS OF THE OCTOBER/NOVEMBER 2023 SURVEY ON INVESTMENT IN THE MANUFACTURING AND SERVICES SECTORS

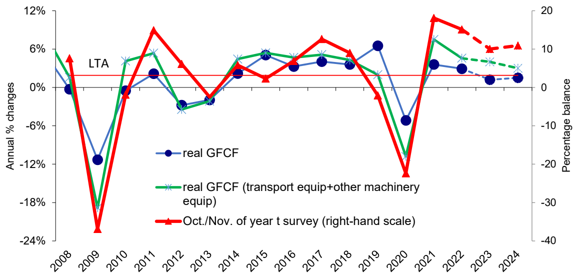
Opposing forces are at play in driving investment decisions by firms at the current juncture. Tight financing conditions could dampen investment and lead to the downsizing or postponement of investment projects. At the same time, the business transformation needed for the green and digital transition and adaptation to rising energy costs, coupled with overall strong corporate balance sheets, provide room for continued investment. This section assesses the developments and outlook for business investment and its drivers in 2023 and 2024, based on the appraisals by managers in manufacturing and services, as reported in the European Commission business surveys conducted in October-November 2023.

Set-up of the bi-annual investment survey

Twice a year – in spring and autumn – the Commission business surveys for the manufacturing and services sectors include questions on investment. For the services sector, these questions were included for the first time in the autumn 2021 survey. In spring, managers are asked about investment realised in the year preceding the survey (t-1) and planned in the survey year (t), relative to investment realised in the previous year. In autumn, they are asked about annual investment changes realised/planned in the survey year (t) and in the following year (t+1). The autumn survey also enquires about the purpose of investment (replacement, extension of production capacity, process streamlining, other) as well as the factors stimulating it (demand, financial conditions, technical factors, others).[6]

For any year, the business surveys enquire about managers' assessment of the year-on-year change in their firm's investment in four successive vintages. A first assessment, by way of plans/expectations, is provided in October/November of the preceding year; a second one is given in March/April of the survey year; a third appraisal comes in October/November of the same year; a final, ex-post assessment is given in March/April of the following year. Graph 2.1 provides an overview of managers' investment assessments in industry from 2008 to 2023, expressed as percentage balances,[7] based on the autumn surveys of the respective year (i.e., the third assessment). The graph shows that the assessments co-move well with the investment outcomes as measured by total Gross Fixed Capital Formation and investment in (transport and machinery) equipment in National Accounts.

Graph 2.1: Investment growth in EU industry (y-o-y changes in % and survey balances)



The data refer to the EU excluding Ireland. The dotted lines for real GFCF and equipment investment reflect the European Economic Autumn 2023 forecasts. The last point of the survey data reflects managers' plans/expectations for investment growth in 2024. LTA: long-term average of investment assessments. All survey-based assessments are expressed as percentage balances.

Investment in 2023 and plans for 2024

The outlook for investment in 2023 and 2024 remains positive in industry…

In October/November 2023, industry managers expected their company's investment growth in 2023 to be, on balance, positive and above long-term average, though significantly down compared to their assessment for 2022 in the March/April 2023 survey (see left-hand panel of Graph 2.2). For 2024, managers

6 The formulation of some of the investment questions was changed in autumn 2021, and the time series from the industry survey were adjusted backwards accordingly (see Box 1 in the 2021Q4 EBCI).

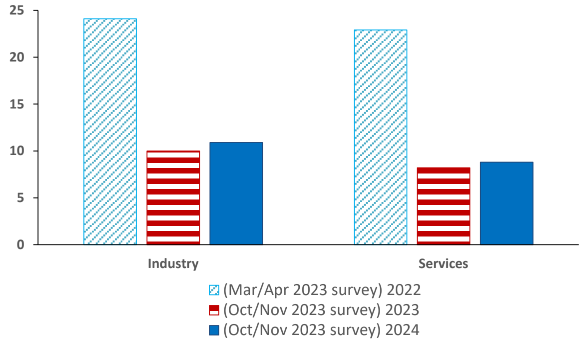
7 The survey asks managers whether their company's investment will (+) 'increase', (=) 'remain the same', or (–) 'decrease', compared to the previous year. The balance is the difference between the percentage of positive (+) answers minus that of negative (-) answers.

were expecting fixed assets in their firm to increase further, at a slightly higher pace than in 2023. This is in line with the Commission's autumn forecast for total gross fixed capital formation (the dotted blue line in Graph 2.1). At the same time, the slight pick up between 2023 and 2024 suggests there is scope for lifting the forecast for equipment investment, beyond what was projected in autumn.

... and in services.

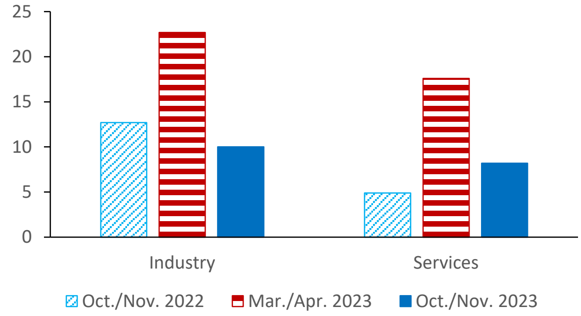
In services (see right-hand panel of Graph 2.2), managers' assessment of their business' investment growth in 2023 was also, on balance, positive, but markedly lower than their ex-post assessment of March/April for 2022. In 2024, the balance picks up only slightly, suggesting broadly steady investment growth in services.

Graph 2.2: EU, managers' investment assessment for the years 2022, 2023 and 2024 (% balances)



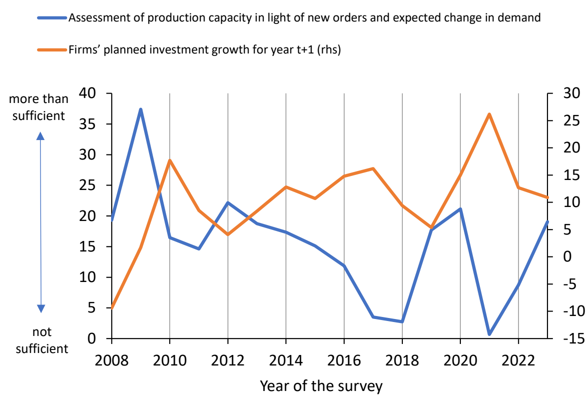
In both sectors, investment expectations for 2023 have been revised downwards over the course of the year. Managers in industry were less optimistic in October/November 2023 on investment growth over the year compared to what they had expected in the same survey one year earlier (see Graph 2.3). This, despite the improved expectations reported in the March/April 2023 survey, when energy prices had started to decrease. Weakening demand and tighter financial conditions likely contributed to the downward revision in the course of 2023. In contrast, managers in services were still slightly more optimistic in October/November 2023 compared to what they had expected one year earlier, but they also scaled down their assessment of investment growth compared to spring. In both industry and services, the scaling down of investment appraisals over the course of 2023 was broad-based across Member States.

Graph 2.3: EU, managers' investment expectations for 2023 over three successive survey vintages (% balances)



Managers' investment expectations are related to their assessment of capacity utilisation in the firm. Graph 2.4 compares managers' investment expectations, or plans, for the year t+1 with their assessments of production capacity in their firm in year t, as surveyed in Oct/Nov of year t over the period 2008-2024.[8] The two variables tend to move in opposite directions: the more excess production capacity firms consider they have (relative to orders and expected demand), the less they plan to invest in the coming year. The assessments for the year 2021 reported in Oct/Nov 2020 were atypical, likely due to the specific situation for firms during the pandemic crisis. In the three latest autumn surveys (Oct/Nov 2021, 2022, and 2023), the two series moved again in opposite directions.

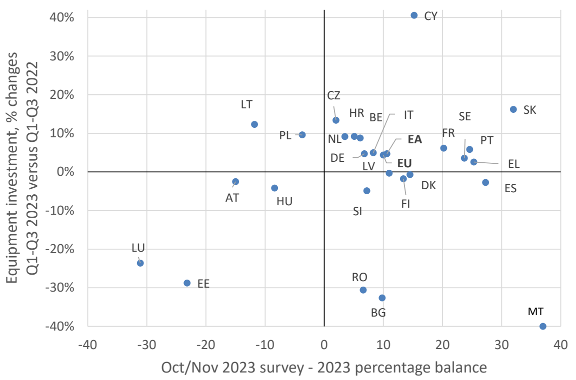
Graph 2.4: Expected investment for year t+1 & assessment of production capacity in industry, as surveyed in Oct/Nov of year t (% balance in industry) - EU



8 Question (Q9), which is asked in the first month of each quarter, reads: "Considering your current order books and the expected change in demand over the coming months, how do you assess your current production capacity? The current production capacity is... (+) more than sufficient, (=) sufficient, (−) not sufficient".

Industry investment continued to increase in 2023 in the vast majority of EU Member States. The percentage of managers reporting their company to have increased investment in 2023 compared to 2022 is higher than the percentage of those reporting a decrease in all Member States except EE, LT, LU, HU, AT and PL. This result is broadly consistent with the growth in equipment investment and overall investment evidenced by National Accounts over the first three quarters of 2023. The scatter plot in Graph 2.5 shows the autumn 2023 investment survey results for the year 2023 and the outcomes, based on quarterly National Accounts for the first three quarters of 2023 compared to the same period of 2022. Almost half of the countries are in the upper right quadrant of the plot, where positive assessments of investment growth for 2023 coexist with increases in the rate of equipment investment growth during the first three quarters of 2023 compared with the same period in 2022. Four Member States (LU, EE, AT, HU) are in the lower-left quadrant, consistently indicating negative investment growth. Seven Member States (BG, ES, DK, FI, RO, SI, MT) are in the lower-right quadrant of the graph, suggesting that survey results are too optimistic in light of National Accounts results for the first three quarters of the year. Finally, in two countries (LT and PL), gross fixed capital formation in the first three quarters of 2023 performed better than suggested by the survey results.

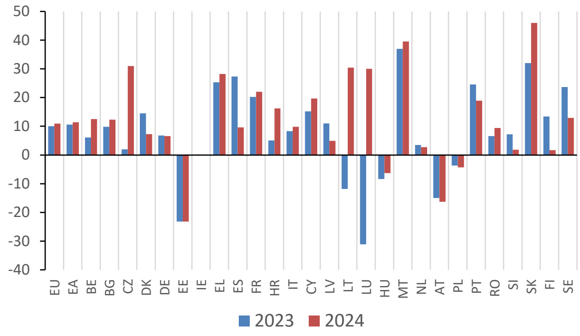
Graph 2.5: EU, investment in equipment* and Oct/Nov industry survey results for the year 2023 (y-o-y % changes and % balances)



**based on quarterly national accounts for the first three quarters of 2023 compared with the same period in 2022. BE data shown are the Autumn Forecast projections for 2023 as no quarterly data are available.*

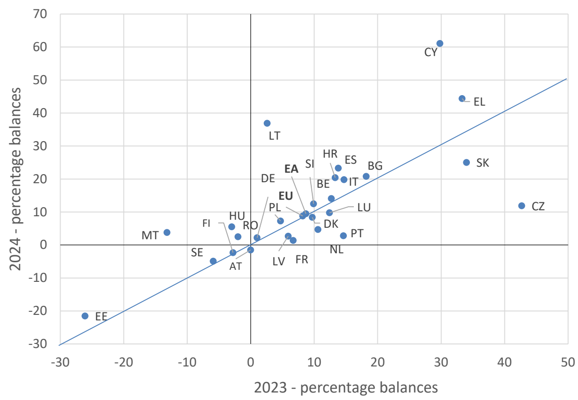
Industry investment is set to grow steadily in 2024 in almost all EU Member States, with the balance increasing in most countries (see Graph 2.6).

Graph 2.6: Oct/Nov 2023 survey – industry managers' investment expectations for the years 2023 and 2024 (% balances)



In a large majority of EU Member States, managers in the service sector expect their investment to increase further in 2023 and 2024. Growth momentum, however, differs across countries and a decrease in investment in both 2023 and 2024 is expected in EE and, to a lesser extent, SE and FI. Managers in MT, HU and RO reported a decrease in their investment in 2023 but expect an increase in 2024. In AT, investment has remained broadly unchanged in 2023 and is expected to decrease in 2024. In around one third of the countries, investment growth is also expected to slow down in 2024 compared to 2023. Still, the EU/EA aggregates point to a slight acceleration.

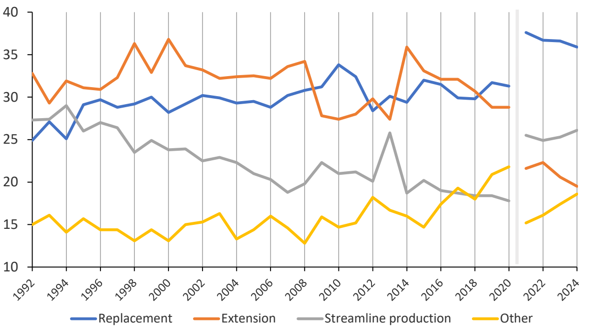
Graph 2.7: Oct/Nov 2023 survey – services managers' investment expectations for the years 2023 and 2024 (% balances)



Investment structure

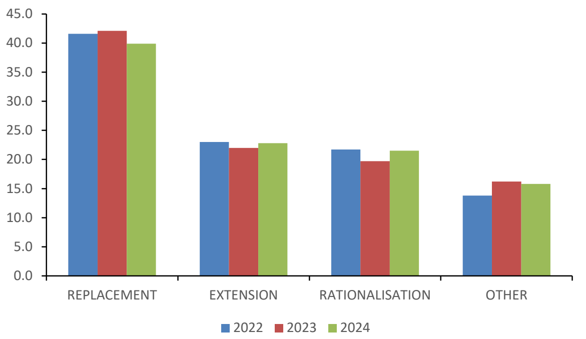
A historically low share of extension investment is foreseen in industry in 2023 and 2024. With real GDP over the first three quarters of 2023 barely growing in the EU, the share of investment related to extension of production capacity decreased in 2023 and is expected by managers to decrease further in 2024, reaching a new record low. Investment in 2023 mainly served the purpose to streamline processes or replace worn-out plants or equipment (see Graph 2.8). In 2024, managers expect an increase in the share of investment dedicated to streamlining production processes, suggesting ongoing technological adaptation. The rise in energy prices in 2021-2022 arguably accelerated business investment in more efficient and less energy-intensive technologies.

Graph 2.8: EU – Industry survey - Structure of investment (%)[9]



In services, reported investment mainly serves replacement purposes in both 2023 and 2024. Extension and rationalisation objectives both represent around 20% of investment (see Graph 2.9) in both years. The structure of investment in services is broadly similar to that of 2022 (from the Oct/Nov 2022 survey).

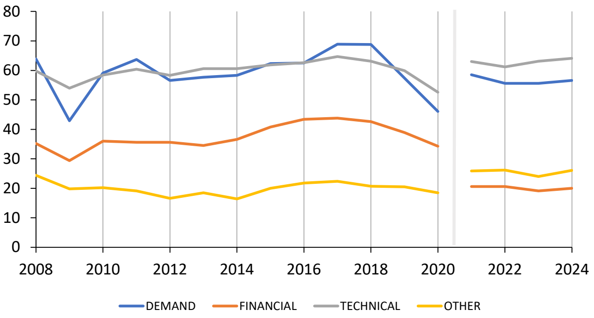
Graph 2.9: EU – Services survey - Structure of investment (%)



Drivers of investment

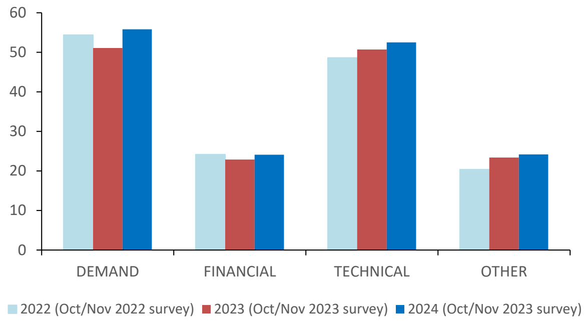
Demand and technical factors are reported as the main factors stimulating investment in 2023 and 2024. In the 2023 autumn survey, these two factors are each reported by around 60% of industry managers. The high and increasing share of managers pointing to technical factors driving their investment activity may still be driven by the adaptation needs posed by the green and digital transition as well as rising energy costs. By contrast, a relatively small percentage of firms (about 20%) reported financial conditions as a stimulating factor (see Graph 2.10). The share does not show a decline that would reflect the dampening impact of tighter financial conditions, which may be explained by the relatively favourable financial position of the corporate sector at the current juncture.

Graph 2.10: EU – Industry survey – factors stimulating investment (% of firms stating that factor is stimulating)[10]



In services, around 50% of managers stated demand as a factor stimulating investment for 2023 and 55% for 2024. Technical factors are also considered to stimulate investment by just above 50% of managers for both 2023 and 2024. Financial conditions and 'other factors' are assessed as stimulating investment by slightly more than 20% of managers for both 2023 and 2024 (see Graph 2.11). Technical drivers of investment appear to be on a slight upward trend compared to the assessments from the Oct/Nov 2022 survey.

Graph 2.11: EU – Services survey – factors stimulating investment (% of firms stating that one factor is stimulating)



9 In 2021 the investment survey has been revamped and integrated into the industry survey (see EBCI Q4-2021 for more details). Although the question on the structure of investment was not changed, the answer behaviour to the question may have been affected by changes to other parts of the survey.

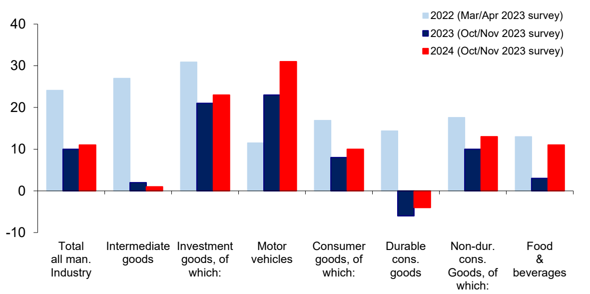
10 There was a change in the question's formulation in 2021, implying a structural break in the series. Percentage quotes collected for factors assessed as "very stimulating" or "stimulating" for investment up to 2020 were re-classified as percentages of managers quoting a certain factor as "stimulating" according to the simplified formulation of the 'factors driving investment' question as from 2021. For details see EBCI Q4-2021).

Does investment activity differ across sub-sectors?

The survey results can be broken down to track investment developments by sub-sectors. To assess whether the overall investment dynamics are broadly uniform across companies and sectors or whether they mask divergences, the results were analysed by main industrial groupings (MIGs) and by services' sub-sectors at level 1 of the statistical classification NACE Rev2.

The increase in investment in 2023 and 2024 is widespread across main industrial groupings, although sectoral dynamics differ (Graph 2.12). For 2023, the net balance of managers in the investment goods sector (including the motor vehicle sector) reporting positive rather than negative investment growth is high, at above 20%. The balances among producers of consumer goods is also positive. Except for intermediate goods, for which the balance of positive over negative expectations is very low in 2023 and reduces to close to 0 in 2024, investment growth for 2024 should accelerate slightly across industrial MIGs.

Graph 2.12: EU investment plans by Main Industrial Groupings (percentage balances in industry)

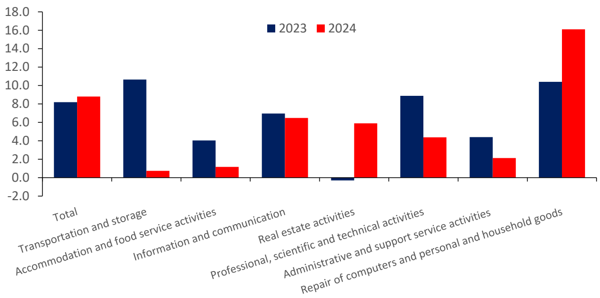


Investment growth in 2023 is expected to be lower than in 2022 in most industrial groupings. In terms of changes in investment growth compared to 2022, only the motor vehicle sector increased significantly, while assessments worsened markedly in the other MIGs. In addition, the investment foreseen by motor vehicle producers is set to increase further in 2024. The significant increase in investment in the vehicle branch may reflect the ongoing sweeping transformation of the sector from combustion engines to electric vehicles.

Fall in investment for durable consumer goods. Zooming into the consumer goods grouping, the balance is negative in the durable consumer goods MIG for both 2023 and 2024, pointing to negative investment growth in both years, while it remains relatively robust in the non-durable consumer goods group, which includes food and beverages producers. The strong cut in investment plans of producers of durables may be related to consumers' decreased spending on durables following the strong pent-up demand following the lifting of the COVID restrictions on mobility.

Broad-based investment growth in services in 2023 and 2024. Across the different services activities (see Graph 2.13), the balance results point to broad-based positive investment growth in 2023, with the exception of 'real estate activities', where the balance is slightly negative. For 2024, investment growth is expected to significantly increase in 'real estate activities'[11] and 'repair of computers and personal and household goods'. By contrast, following strong investment growth in 2023, investment growth is set to decelerate in 2024 in 'transport and storage' and 'professional, scientific and technical activities'.

Graph 2.13: EU investment plans by services sub-sectors (as surveyed in Oct/Nov 2023)



Conclusions

This special topic analyses the results of the Investment Survey conducted in October-November 2023, enquiring about business investment in 2023, as well as plans for 2024.

As projected by the Commission's Autumn Forecast and supported by overall solid corporate balance sheets, corporate investment is projected to continue to grow, despite interest rates set to remain relatively high compared to the previous decade.

On aggregate in the EU, managers in the manufacturing and services sectors assessed or expected investment in their company to increase in both 2023 and 2024. While the difference between the percentage of managers expecting an increase and those expecting a decrease is lower for 2023 than for 2022 (ex-post

11 It should be noted that the real estate sub-sector enters with a weight of nearly 32% in the calculation of the total services aggregate.

assessment of March/April 2023), it increases slightly for 2024.

In industry, investment for both 2023 and 2024 served or will mainly serve to replace worn-out plants or equipment or streamline production. The share of investment used to extend production capacity is expected to account for just over a fifth of investment. For services, investment also mainly serves replacement purposes in both 2023 and 2024. The share of investment used for extension and rationalisation accounts for approximately 20% each.

In both industry and services, for both 2023 and 2024, a high percentage of managers stated demand and technical factors as stimulating investment, possibly also reflecting the need to adapt to the green and digital transition, as well as rising energy costs.

From a sectoral perspective, the increase in investment in 2023 is broad-based across industry and services sub-sectors. For 2024, investment growth is set to increase in particular in the motor vehicle production, reflecting the ongoing sweeping transformation of the sector from combustion engines to electric vehicles. By contrast, investment growth is set to decrease among consumer durables producers and to stabilise among intermediate goods producers. In services, investment is set to increase further and slightly more in 2024 according to the survey results, mainly thanks to increases in investment plans in ‘real estate activities’ and ‘repair of computers and personal and household goods’.

ANNEX

Reference series

Confidence indicators	Reference series from Eurostat (volume/year-on-year growth rates)
Total economy (ESI)	GDP, seasonally- and calendar-adjusted
Industry	Industrial production, working day-adjusted
Services	Gross value added for the private services sector, seasonally- and calendar-adjusted
Consumption	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Retail	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Building	Production index for building and civil engineering, trend-cycle component

Economic Sentiment Indicator

The economic sentiment indicator (ESI) is a weighted average of the balances of replies to selected questions addressed to firms and consumers in five sectors covered by the EU Business and Consumer Surveys Programme. The sectors covered are industry (weight 40 %), services (30 %), consumers (20 %), retail (5 %) and construction (5 %).

Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. EU and euro-area aggregates are calculated on the basis of the national results and seasonally adjusted. The ESI is scaled to a long-term mean of 100 and a standard deviation of 10. Thus, values above 100 indicate above-average economic sentiment and vice versa. Further details on the construction of the ESI can be found here.

Long time series (ESI and confidence indices) are available here.

Economic Climate Tracer

The economic climate tracer is a two-stage procedure. The first stage consists of building economic climate indicators, based on principal component analyses of balance series (s.a.) from five surveys. The input series are as follows: industry: five of the monthly survey questions (employment and selling-price expectations are excluded); services: all five monthly questions except prices; consumers: nine questions (price-related questions and the question about the current financial situation are excluded); retail: all five monthly questions; building: all four monthly questions. The economic climate indicator (ECI) is a weighted average of the five sector climate indicators. The sector weights are equal to those underlying the Economic Sentiment Indicator (ESI, see above).

In the second stage, all climate indicators are smoothed using the HP filter in order to eliminate short-term fluctuations of a period of less than 18 months. The smoothed series are then normalised (zero mean and unit standard deviation). The resulting series are plotted against their first differences. The four quadrants of the graph, corresponding to the four business cycle phases, are crossed in an anti-clockwise movement and can be described as: above average and increasing (top right, 'expansion'), above average but decreasing (top left, 'downswing'), below average and decreasing (bottom left, 'contraction') and below average but increasing (bottom right, 'upswing'). Cyclical peaks are positioned in the top centre of the graph and troughs in the bottom centre.

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