European Commission

ISSN 2443-8049 (online)

European Business Cycle Indicators

Investment in the manufacturing and services sectors - Results from the October/November 2024 survey

4th Quarter 2024

TECHNICAL PAPER 077 | JANUARY 2025

EUROPEAN ECONOMY

Economic and Financial Affairs

European Economy Technical Papers are reports and data compiled by the staff of the European Commission's Directorate-General for Economic and Financial Affairs.

Authorised for publication by Reinhard Felke, Director for Policy Coordination, Economic Forecasts and Communication.

The Report is released every quarter of the year.

This paper exists in English only and can be downloaded from https://economy-finance.ec.europa.eu/ecfin-publications_en.

Luxembourg: Publications Office of the European Union, 2025

PDF ISBN 978-92-68-23665-9 ISSN 2443-8049 doi:10.2765/1357714 KC-01-25-011-EN-N

European Commission
Directorate-General for Economic and Financial Affairs

European Business Cycle Indicators

4th Quarter 2024

Special topic

Investment in the manufacturing and services sectors - Results from the October/November 2024 survey

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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OVERVIEW

Developments in survey indicators over the fourth quarter of 2024

- After remaining broadly flat during the first three quarters of 2024, the EU and euro-area (EA) **Economic Sentiment Indicators** decreased over the fourth quarter, finishing the year well below their long-term average of 100. Between September and December, the ESI decreased by 2.2 points to 94.5 for the EU and by 2.5 points to 93.7 for the EA.

- The EU/EA **Employment Expectations Indicator** resumed the downward trend visible since early 2023. In December, the indicator stood 1.4 (EU)/2.0 (EA) points below its September reading, undercutting its long-term average in both regions.

- **EU confidence** worsened in industry and among consumers, while it improved in retail trade and remained broadly stable in services and construction.

- **Economic sentiment worsened in all six largest EU economies**. Sentiment decreased markedly in France (-4.6) and Spain (-4.3), and fell also in Germany (-3.0), Poland (-2.8), Italy (-1.8) and the Netherlands (-1.0). The level of economic sentiment is significantly below long-term average in Germany and, moderately so, in France, while it remains close to the long-term average in Italy and Poland. Sentiment remains above its long-term average in Spain and scores roughly at its long-term average in the Netherlands.

- The EU/EA **Economic Uncertainty Indicator** increased by 2 points over the fourth quarter in both regions. From a sectoral perspective, uncertainty about the future business situation increased markedly in industry and, less so, in services and construction. Uncertainty remained broadly stable in retail. Also consumers' uncertainty about their future financial situation remained broadly stable.

- In October, EU/EA **capacity utilisation** in industry continued its steady downward trend observed since spring 2022, decreasing by another ¾ percentage points compared to July. At around 77% in both regions, capacity utilisation in industry is below its long-term average of around 80½ %. Capacity utilisation in services remained broadly stable in both the EU and the EA. At 90.3% (EU) and 90.4% (EA), capacity utilisation was above its long-term average of around 89¼ % in both regions.

- In October, the share of industry managers indicating **insufficient demand** as a factor limiting their production increased further in the EU. The share of managers indicating a **shortage of labour force** decreased further, while remaining relatively high. The share of managers pointing to financial constraints as a limiting production factor remained comparatively low and broadly stable compared to July.

- **Consumers' quantitative perceptions of price developments** over the past 12 months eased for the sixth quarter in a row, remaining, nevertheless, high by historical standards. Consumers' **quantitative price expectations** for the next 12 months edged up in the fourth quarter.

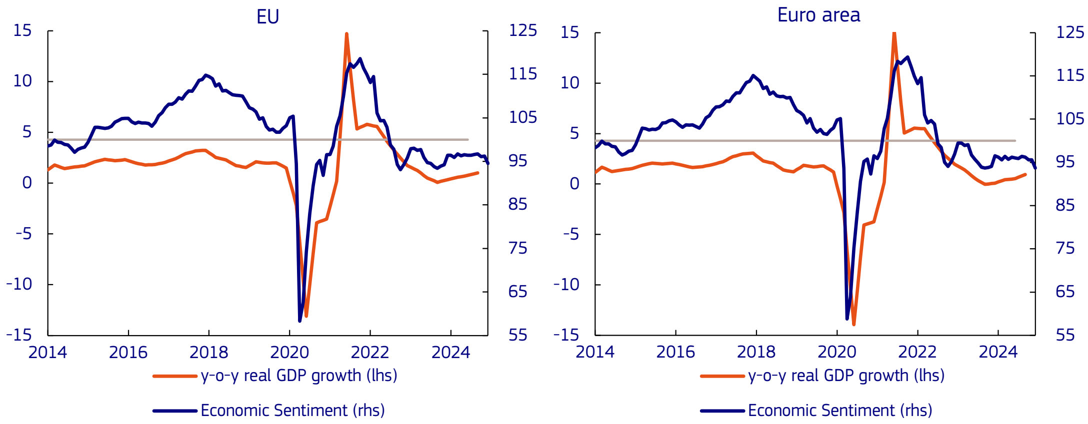
Special topic: Investment in the manufacturing and services sectors - Results from the October/ November 2024 survey

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 2024, as well as plans for 2025. On aggregate in the EU, managers' assessment of the change in investment in their firm points to still positive growth, though with a sharp slowdown compared to the previous year and a divergent trend between the manufacturing and the services sectors. In manufacturing, managers reported a slight decline in investment in 2024, but expect an increase in 2025. In contrast, services sector managers reported continued increase in investment in both 2024 and 2025, though at a significantly slower pace than in 2023. The survey also provides information on the purpose of investment (replacement, extension of production capacity, streamlining of production, other) and the factors driving it (demand, financial conditions, technical, other).

1. RECENT DEVELOPMENTS IN SURVEY INDICATORS IN EU AND EA

After remaining broadly flat during the first three quarters of 2024, the EU and euro-area (EA) **Economic Sentiment Indicators (ESI)** decreased over the fourth quarter, finishing the year well below their long-term average of 100. Between September and December, the ESI decreased by 2.2 points to 94.5 for the EU and by 2.5 points to 93.7 for the EA (see Graph 1.1).

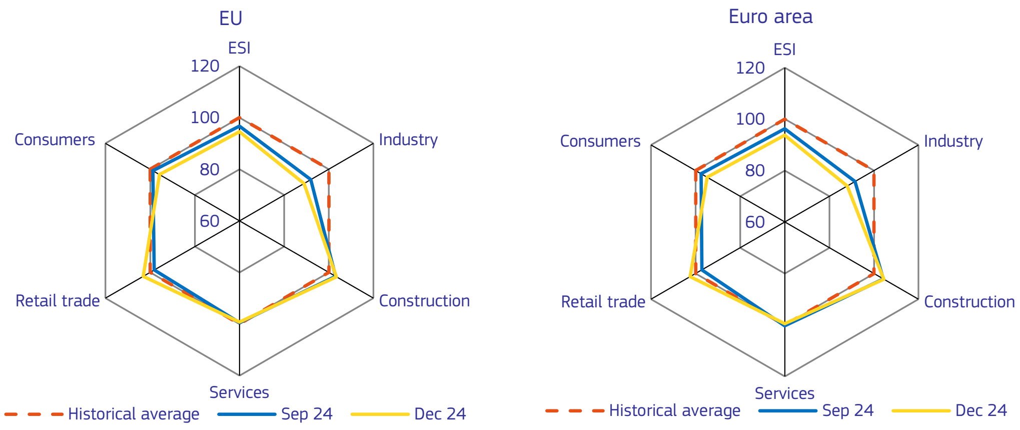
Graph 1.1: **Economic Sentiment Indicator**



(1) 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.
Source: European Commission.

From a sectoral perspective, over the last quarter of 2024, EU confidence worsened in industry and among consumers, while it improved in retail trade and remained broadly stable in services and construction (see Graph 1.2). Developments in the EA were broadly in line with those in the EU, even if confidence worsened marginally in services and the decrease in industry was more pronounced. In December, confidence was above the long-term average in retail trade and construction in both areas, while it scored low by historical standards in industry and, to a lesser extent, among consumers. Services confidence continued to stay broadly in line with average readings.

Graph 1.2: **Radar Charts**



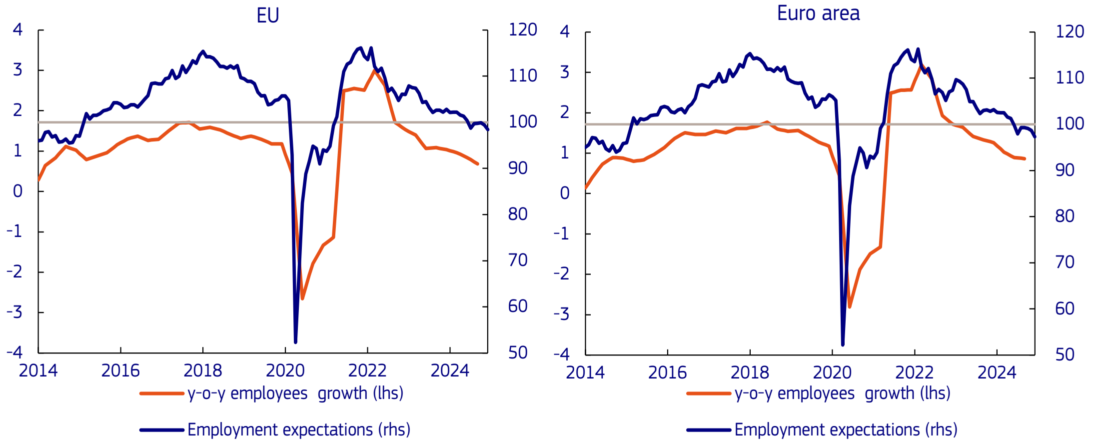
(1) A development away from the centre reflects an improvement of a given indicator. The ESI is computed with the following sector weights: industry 40%, services 30%, consumers 20%, construction 5%, retail trade 5%. Series are normalised to a mean of 100 and a standard deviation of 10. Historical averages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

In the fourth quarter, economic sentiment worsened in all six largest EU economies. The indicator decreased markedly in France (-4.6) and Spain ([1]) (-4.3), and fell also in Germany (-3.0), Poland (-2.8), Italy (-1.8) and the Netherlands (-1.0). The level of economic sentiment is significantly below the long-term average in Germany and moderately so in France, while it remains close to the long-term average in Italy and Poland. Sentiment remains above its long-term average in Spain and scores roughly at its long-term average in the Netherlands.

In contrast to the declining ESI, the **HCOB Flash Eurozone Composite PMI Output Index** showed no clear trend over the quarter, closing the year at 49.6, unchanged from its September reading, and remaining below the critical 50-point that separates positive from negative growth. Contrary to the ESI, PMI does not include consumer, construction, and retail trade data, and is based on a different set of questions. ([2])

After remaining broadly stable during the third quarter of 2024, the EU/EA **Employment Expectations Indicator (EEI)** resumed the downward trend visible since early 2023 (see Graph 1.3). In December, the indicator stood 1.4 (EU)/2.0 (EA) points below its September reading, undercutting its long-term average in both regions. At the sector level, employment expectations improved slightly in retail trade, while they deteriorated in industry and services, and remained broadly stable in construction.

Graph 1.3: **Employment expectations indicator**



Source: European Commission.

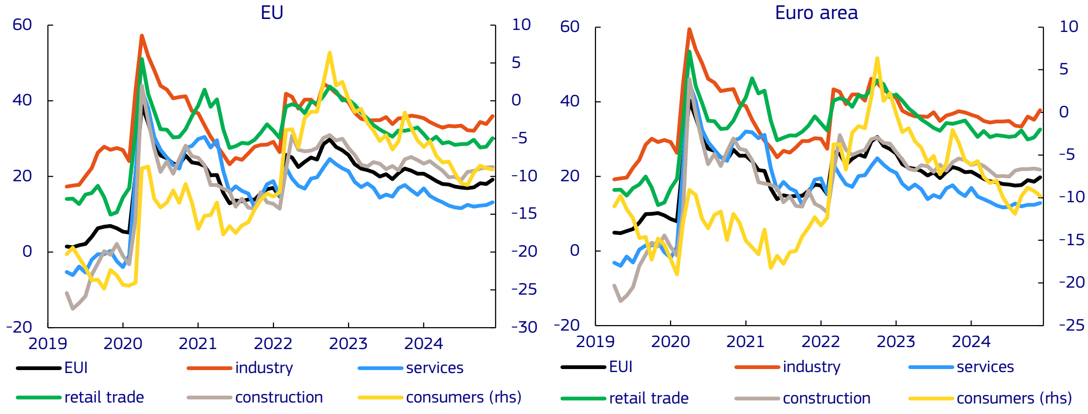
The EU/EA **Economic Uncertainty Indicator (EUI) ([3])** increased by 2 points over the fourth quarter in both regions. From a sectoral perspective, uncertainty about the future business situation increased markedly in industry and, less so, in services and construction. Uncertainty remained broadly stable in retail. Also consumers' uncertainty about their future financial situation remained broadly stable (see Graph 1.4).

([1]) The December 2024 value for the ESI in Spain is based on industry and construction survey data only as, since October 2024, the surveys for Spain in services, retail trade and among consumers are temporarily suspended.

([2]) Contradictory signals from the EA ESI and the eurozone PMI can also occur due to differences in their geographic coverage. For a systematic comparison of the two indicators, see the special topic in the [2017-Q2 EBCI](#).

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

Graph 1.4: **Uncertainty**



Source: European Commission.

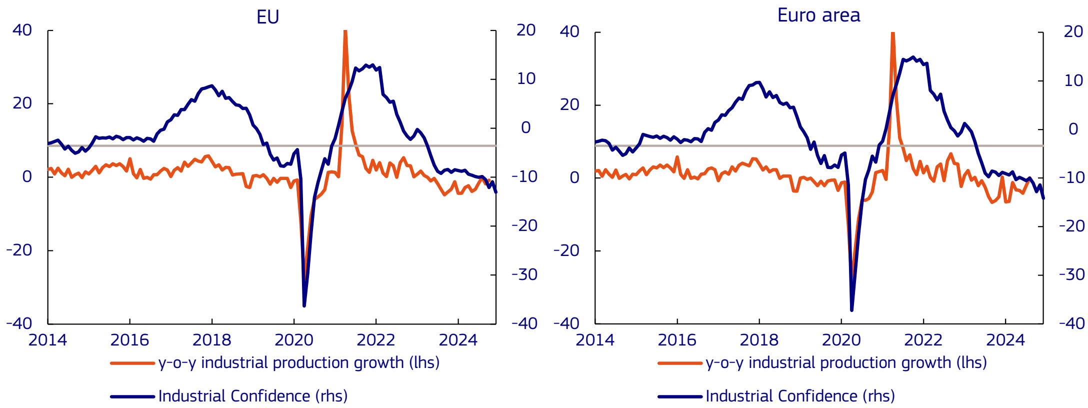
Sector developments

Industry confidence worsened compared to the end of the third quarter, dropping by 2.6 points (EU) and 3.1 points (EA) in the fourth quarter and falling further below its long-term average (see Graph 1.5).

Zooming in on the components of industrial confidence in the EU, managers' **production expectations** deteriorated significantly over the quarter. Managers' assessments of their **order books** and **stocks of finished products** worsened as well, but less markedly so.

Of the components not included in the confidence indicator, managers' appraisals of **changes in production over the past 3 months** worsened, while their assessment of the **current export order books** remained broadly stable.

Graph 1.5: **Industry Confidence indicator**

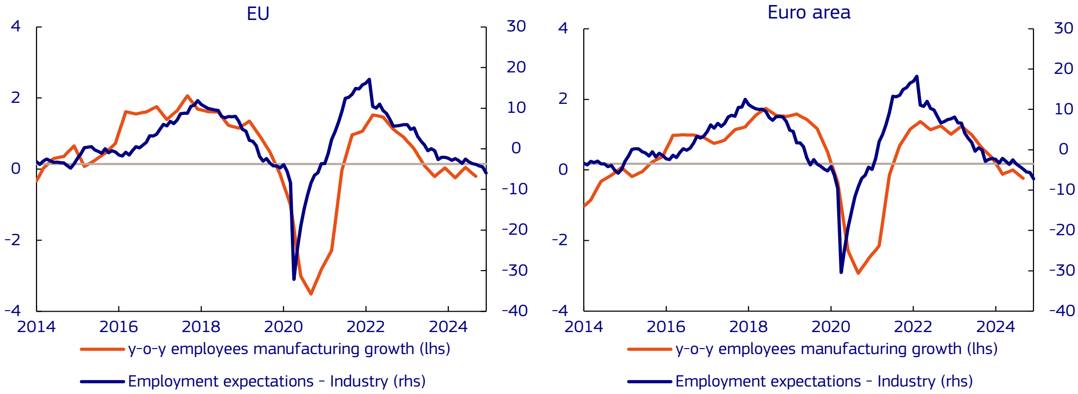


Source: European Commission.

Industry managers' **employment expectations** (see Graph 1.6) deteriorated further over the fourth quarter (-2.2 in the EU and -2.5 in the EA). Manager's **selling price expectations** increased in both the EU and the euro area over the quarter (+1.6 in the EU, +1.2 in the EA). In the EU, selling price expectations scored 0.7 above their historical mean in December, while remaining 0.2 (EA) points below their mean in the euro area.

Industry confidence decreased in all but one of the six largest EU economies. It plummeted in Germany (-5.8), France (-3.9) and Spain (-3.7) and worsened moderately Poland (-1.2) and in Italy (-1.0), while remaining broadly stable in the Netherlands (+0.7). Except for Spain, where confidence is above the historical average, and the Netherlands, where it remains at the historical average, industry confidence is weak by historical standards, particularly in Germany.

Graph 1.6: **Employment expectations in Industry**

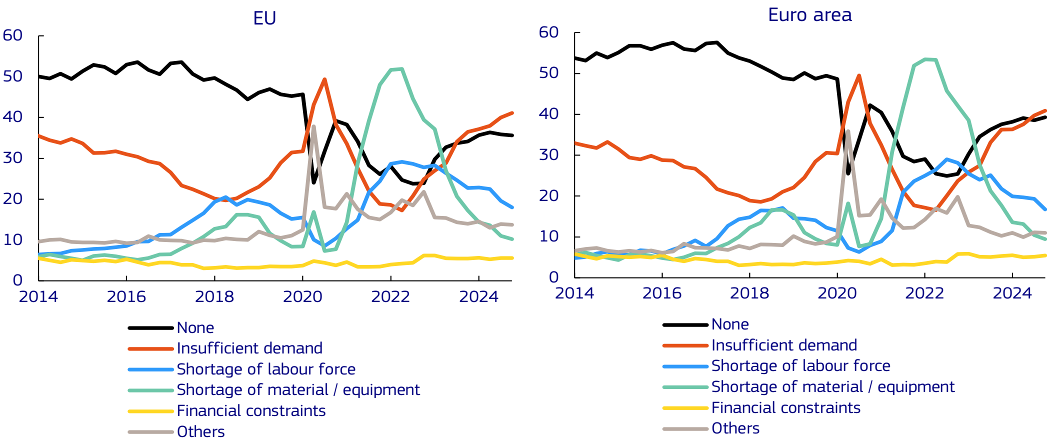


Source: European Commission.

According to the quarterly manufacturing survey (carried out in October), **capacity utilisation** continued its steady downward trend observed since spring 2022, decreasing by another 0.7 (EU) / 0.8 (EA) percentage points compared to July. At 77.2% (EU) / 76.9% (EA), capacity utilisation is below its long-term average of 80.5% (EU) / 80.6% (EA).

The share of industry managers indicating insufficient demand as a **factor limiting their production** increased further in October (see Graph 1.7), reaching its highest level since July 2020. Up 1.1 percentage points (pps.) from the previous quarter and reaching 41.1%, this was the tenth consecutive quarter pointing to faltering demand in the EU (EA: +1.2 pps. to 40.9%). Meanwhile, the percentage of managers pointing to shortages of material and/or equipment as a factor limiting production decreased further from the record-high level of early 2022 (-0.8 pps. compared to July to 10.2% in the EU). The share of EU managers indicating a shortage of labour force as a limiting factor decreased further (-1.6 pps. to 18.0%), while remaining relatively high. The share of managers pointing to financial constraints as a limiting production factor remained comparatively low (5.6%) and broadly stable compared to July.

Graph 1.7: **Industry – Factors limiting production (in %)**

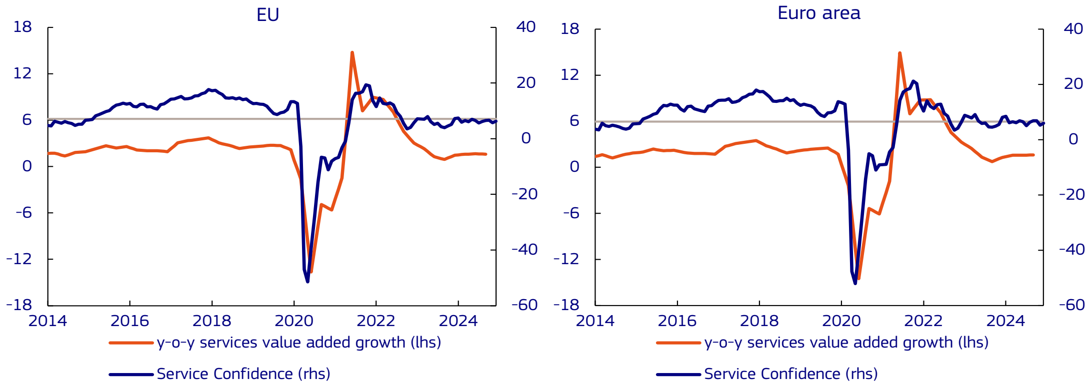


Source: European Commission.

Services confidence continued to move sideways and was virtually unchanged over the fourth quarter in the EU (-0.2 points) and slightly lower in December compared to September in the EA (-1.0). Services confidence remained roughly aligned with its long-term average in both regions (see Graph 1.8).

For the components of services confidence, the stable trend over the quarter reflects managers' broadly stable assessment of the **past business situation**, while their assessment of **past demand** improved, but was offset by managers' more negative **demand expectations**.

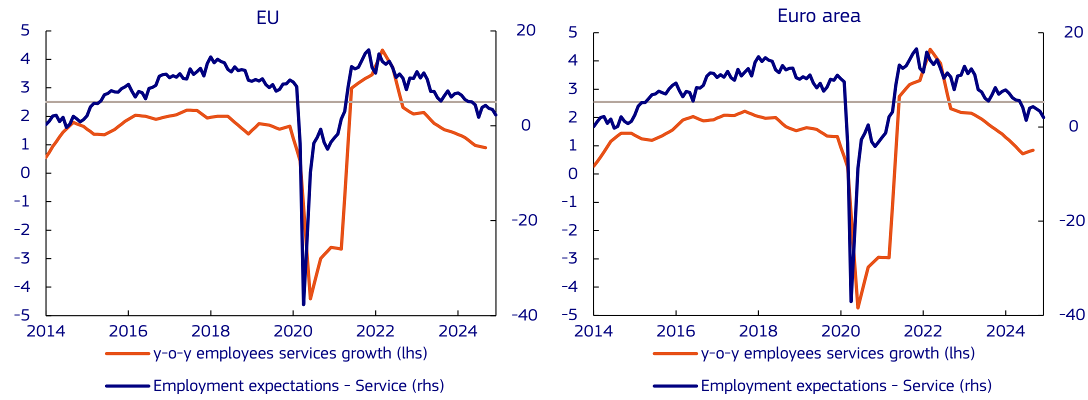
Graph 1.8: **Services Confidence indicator**



Source: European Commission.

Employment expectations in services declined over the fourth quarter in both areas. Compared to their September level, the indicators decreased by 2.0 points in the EU and 2.3 points in the EA, falling further below long-term average (see Graph 1.9). Managers' **selling price expectations** increased markedly over the quarter, by 3.2 points in the EU and by 3.1 points in the EA, reaching levels significantly above long-term average.

Graph 1.9:**Employment expectations in services**



Source: European Commission.

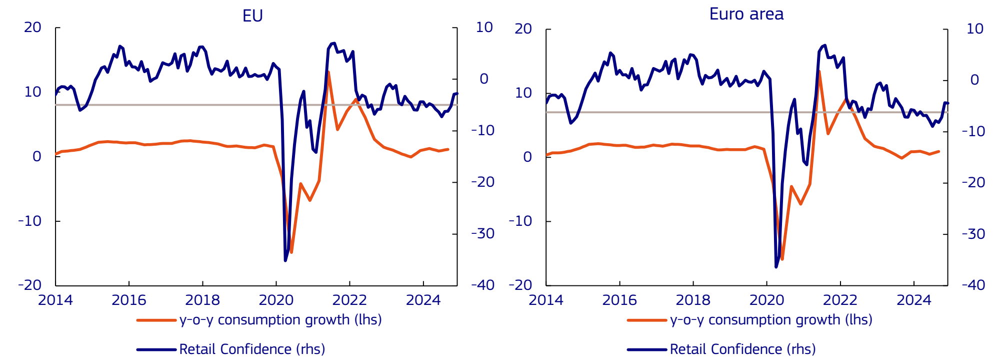
Among the five ([4]) largest EU economies, services confidence edged up in France (+1.4) and Poland (+1.3), while worsening in Germany (-2.5) and Italy (-1.9) and remaining broadly stable in the Netherlands (+0.8). Confidence levels remained above their respective long-term averages in Italy and the Netherlands, while registering below average in Germany, France and Poland.

In October compared to July, **capacity utilisation in services** remained broadly stable in both the EU (-0.1 pps) and the EA (±0.0 pp). At 90.3% (EU) and 90.4% (EA), capacity utilisation was above its long-term average of around 89¼ % in both regions.

([4]) Since October 2024, the services survey for Spain is temporarily suspended.

Retail trade confidence improved markedly in both the EU (+3.4) and the EA (+3.8) over the fourth quarter, mainly thanks to a significant increase registered in November 2024. The confidence indicator stood 2.2 (EU) and 1.8 points (EA) above its respective long-term average (see Graph 1.10).

Graph 1.10: **Retail Trade Confidence indicator**



Source: European Commission.

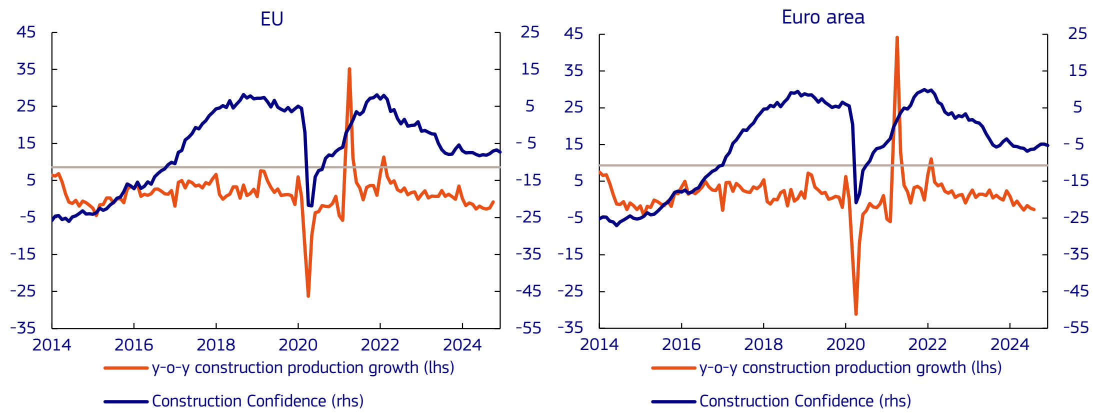
In both areas, the three confidence components (i.e., retailers' assessments of the **past** and **future business situation** and the **volume of stocks**) improved over the quarter. The upturn was particularly significant for retailers' assessment of the past business situation.

At the level of the five ([5]) largest EU economies, retailers' confidence improved markedly in the Netherlands (+3.2) and Germany (+3.1), and moderately so in Italy (+1.6). Retail trade confidence was broadly stable in France (-0.9) and Poland (-0.5) over the fourth quarter.

Construction confidence remained broadly stable over the fourth quarter of 2024 (EU: +0.4, EA: +0.3 compared to September). The two indicators remained comfortably above their respective long-term averages (see Graph 1.11).

In both the EU and the EA, builders provided a mildly more positive assessment of **order books**, while their **employment expectations** remained broadly stable.

Graph 1.11: **Construction Confidence indicator**



Source: European Commission.

([5]) Since October 2024, the retail trade survey for Spain is temporarily suspended.

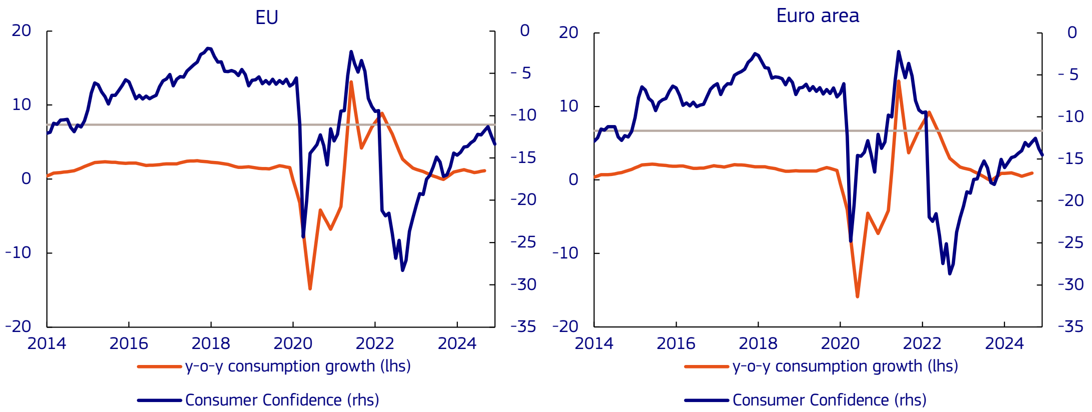
Insufficient demand was the most prevalent **factor limiting building activity**, cited by 32.8% (EU) / 33.0% (EA) of construction managers in December, slightly up (by 1.3 and 1.2 pps, respectively) from the September readings. It was followed by **shortage of labour,** which despite having decreased since September (-1.0 (EU) / -1.7 (EA) pps.), remained a wide-spread concern (EU: 25.2%, EA: 22.3%). The share of builders identifying **material and/or equipment** as factors limiting production remained broadly stable (+0.3 (EU) and +0.4 (EA) pps. from September to December) at 6.8% in the EU and 4.1% in the EA. The percentage of managers reporting **financial constraints** as a limiting factor decreased slightly in the EU to 7.9% but remained almost unchanged in the EA at 7.5%.

Among the largest EU economies, construction confidence recovered strongly in the Netherlands (+3.5) and slightly in Germany (+1.0), while it worsened in Spain (-2.7) ([6]) and France (-2.0). Construction confidence remained broadly stable in Poland (+0.7) and Italy (+0.5).

Reversing its steady recovery since late 2023, **consumer confidence** worsened by 1.6 points in the EU and by 1.5 points in the EA between September and December 2024. Down to -13.4 (EU) and -14.5 (EA) points, consumer confidence departed from its long-term average again (see Graph 1.12).

In both areas, in December compared to September, consumers were markedly more pessimistic about their **country's future general economic situation** and, to a lesser extent, their own **household's future financial situation**. Consumers' assessment of their **household's past financial situation** and their **intentions to make major purchases** remained broadly stable.

Graph 1.12: **Consumer Confidence indicator**



Source: European Commission.

Consumer confidence plunged in three of the five ([7]) largest EU economies, namely in France (-6.0), the Netherlands (-4.8) and Poland (-4.2). In Germany consumer confidence increased slightly (+0.9) and remained broadly stable in taly (±0.0), consumer confidence remained broadly stable.

In the EU and the EA, **consumers' quantitative perceptions of price developments** (change over the past 12 months, in %) eased for the sixth quarter in a row, both in terms of their arithmetic mean and their median (which is less sensitive to the presence of extreme values). Despite the long-standing decline, price perceptions remained exceptionally high (see Graph 1.13). ([8]) **Quantitative price expectations** (change over the next 12 months, in %), edged up in the fourth quarter. The results at total level were mirrored across all income, education and age groups, as well as among both men and women.

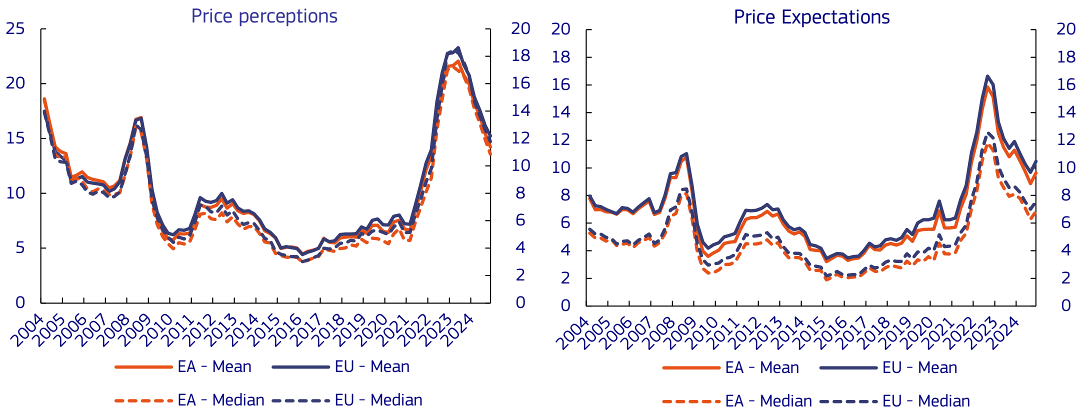
([6]) The Spanish construction confidence indicator has a comparatively high month-to-month volatility.

([7]) Since October 2024, survey for Spain among consumers is temporarily suspended.

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

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

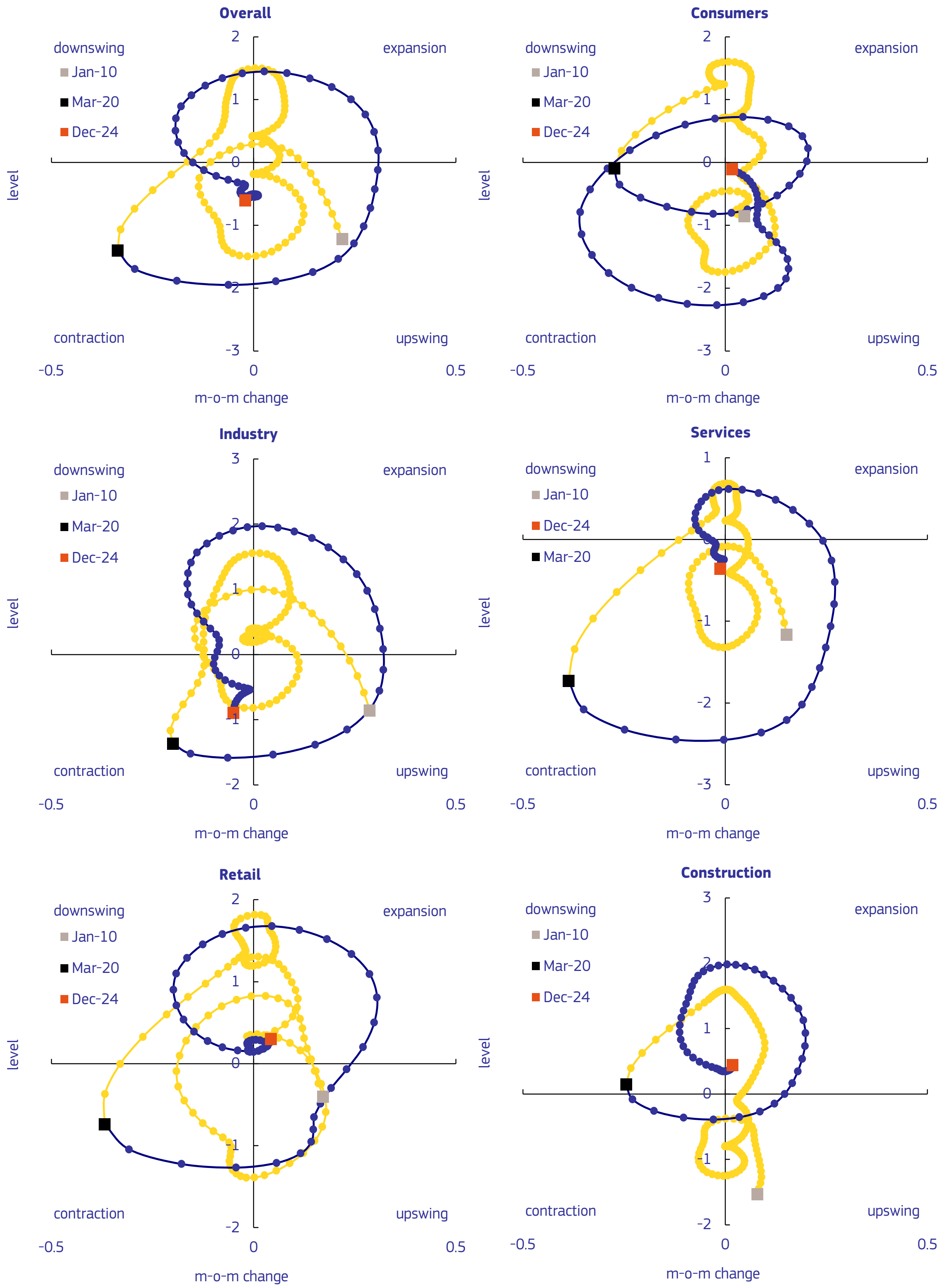
Graph 1.13: **Euro area and EU quantitative consumer price perceptions and expectations**



Source: European Commission.

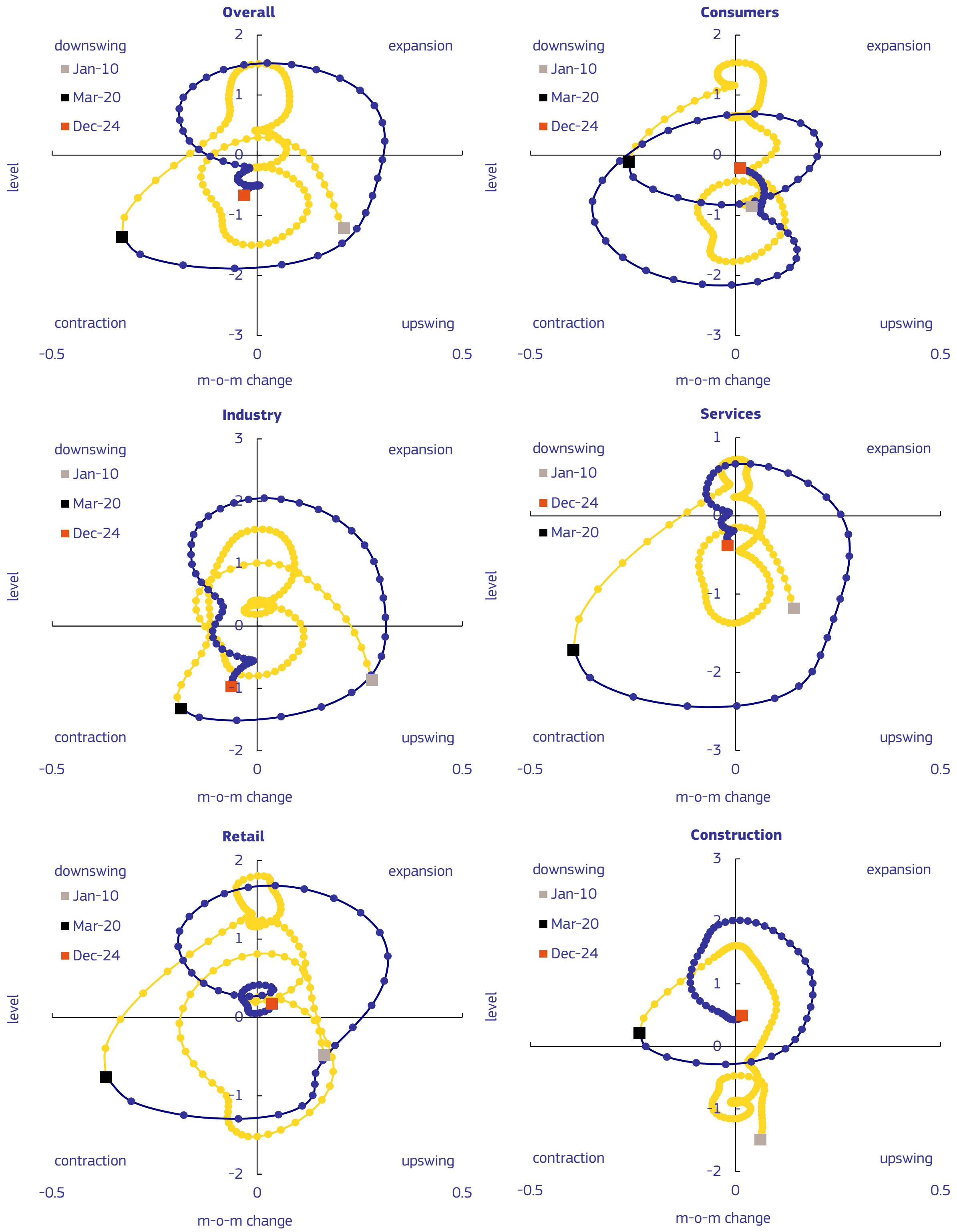
Worsened sentiment in 2024-Q4, as captured by the ESI, also shows in the **climate tracers** for the EU and EA (see Annex for details). Both moved from the upswing to the contraction quadrants (see Graphs 1.14 and 1.15). Developments in the sectoral EU/EA confidence indicators broadly reflect the sectoral climate tracers: the industry tracer moved deeper in the contraction area, while the services tracer remained close to the border between the contraction and upswing quadrants. The consumer tracer remained in the upswing area, moving towards the contraction quadrant. Both the construction and retail trade tracers entered into the expansion quadrant in the EU and the EA.

Graph 1.14: **Economic climate tracers across sectors – EU**



Source: European Commission.

Graph 1.15: **Economic climate tracers across sectors – Euro area**



Source: European Commission.

2. RECENT DEVELOPMENTS IN SURVEY INDICATORS IN SELECTED MEMBER STATES

Germany

The **German** ESI worsened by 3.0 points in December compared to September. At 86.1 points, the indicator fell further below its long-term average of 100 (see Graph 2.1). Accordingly, the German climate tracer moved deeper into the lower-left area, suggesting a more severe contraction (see Graph 2.2).

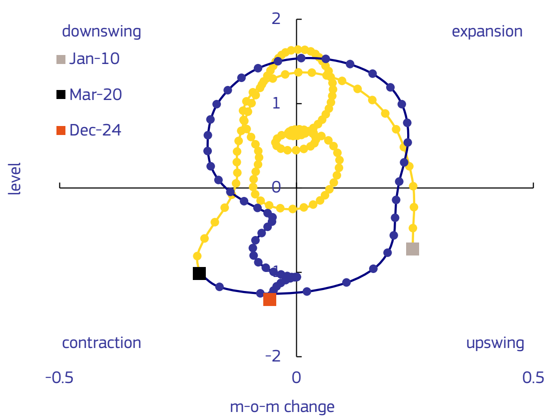
Also the Employment Expectations Indicator (EEI) declined significantly over the fourth quarter (-3.3 points compared to September) to 89.4, scoring far below its long-term average. The decline was due to severely gloomier employment plans among services and industry managers, while employment plans remained broadly stable in retail trade and construction.

Graph 2.1:**Economic Sentiment indicator for Germany**

Source: European Commission.

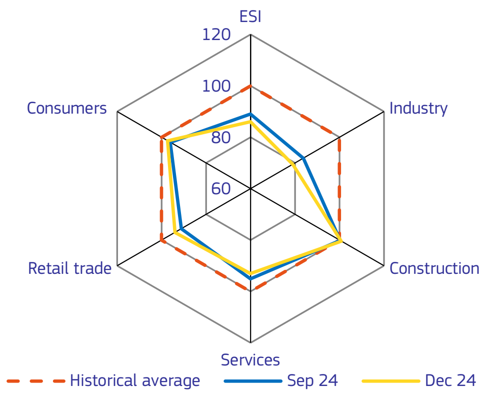
As shown in the radar chart (see Graph 2.3), confidence deteriorated significantly in industry and, less so, in services. By contrast, confidence improved markedly in retail trade and marginally in construction and among consumers. The level of confidence remains below the historical average in all surveyed sectors, except construction, where it stayed slightly above its average during the fourth quarter of 2024.

Graph 2.2:**Climate Tracer for Germany**



Source: European Commission.

Graph 2.3:**Radar chart for Germany**



Source: European Commission.

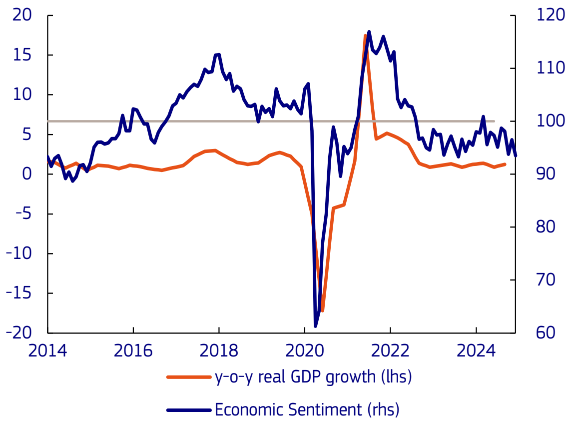
France

The **French** ESI fluctuated substantially during the last quarter of 2024, ending the year significantly lower than in September (-4.6). After a broad downward path over the past year, at 93.5 points in December, the indicator scores well below its long-term average of 100 (see Graph 2.4). In line with the ESI, the French climate tracer moved further down in the contraction area (see Graph 2.5).

The Employment Expectations Indicator (EEI) declined as well (-2.9 points compared to September), resulting from worsened employment plans among managers in in all four business sectors. The decrease was most pronounced in retail trade.

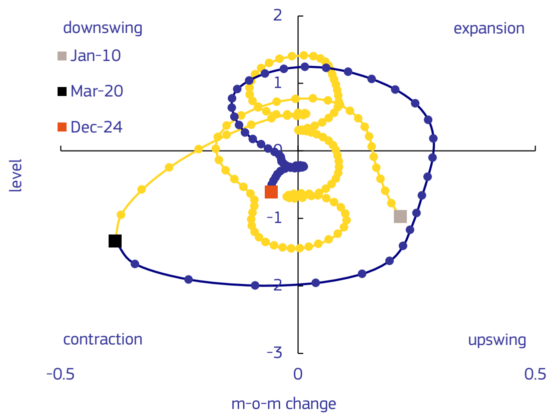
As shown in the radar chart (see Graph 2.6), confidence among consumers and in industry declined sharply in the fourth quarter of 2024. In contrast, confidence fell only marginally in construction and retail trade, while edging up slightly in services. The level of confidence is below the historical averages in all surveyed sectors.

Graph 2.4:**Economic Sentiment indicator for France**



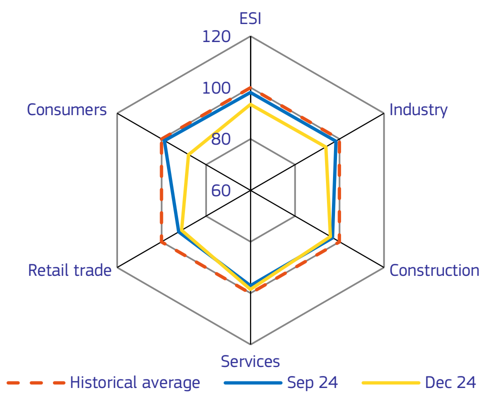
Source: European Commission.

Graph 2.5: **Climate Tracer for France**



Source: European Commission.

Graph 2.6: **Radar chart for France**



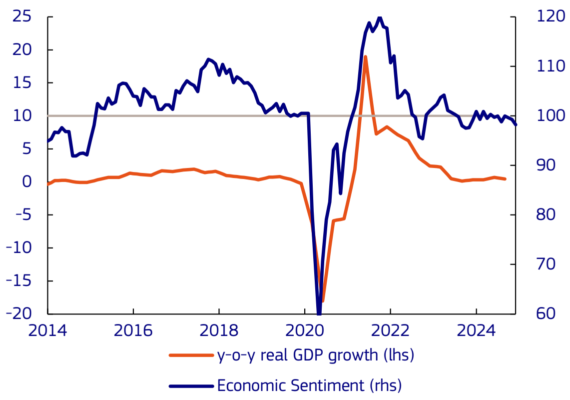
Source: European Commission.

Italy

Oscillating around its long-term average of 100 since December 2023, the **Italian** ESI ended the year 2024 1.8 pps lower than in September. The indicator stood just below its average at 98.2 points (see Graph 2.7). In line with these observations, the Italian climate tracer remained close to the neutral intersection between the four possible states of the business cycle (see Graph 2.8).

Despite the slight decline in confidence, the Italian EEI remained broadly stable over the quarter (+0.4 pps), reaching 105.9, above its long-term average of 100. The broadly flat EEI resulted from a strong deterioration of employment plans in industry, compensated by a marked improvement in retail trade, and, to a lesser extent, construction. Services managers' employment expectations remained broadly stable.

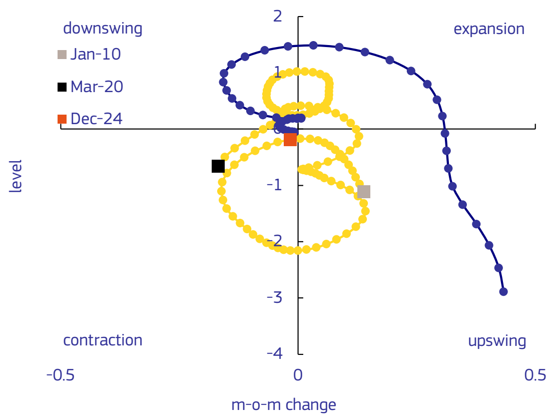
Graph 2.7:**Economic Sentiment Indicator for Italy**



Source: European Commission.

As shown in the Italian radar chart (see Graph 2.9), confidence declined marginally in services and industry, while it improved slightly in retail trade. Confidence in construction and among consumers remained broadly stable. Confidence indicators remained high by historical standards in construction, retail trade and services, while falling short of their long-term averages in industry and, to a lesser extent, among consumers.

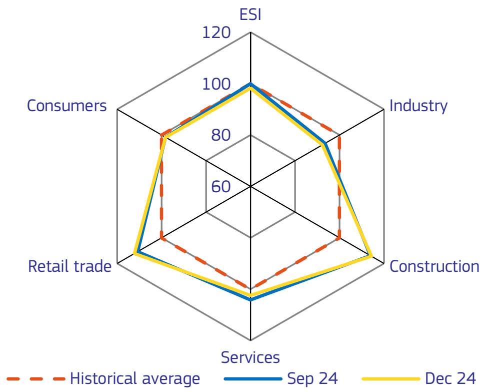
Graph 2.8:**Climate Tracer for Italy**



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

Source: European Commission.

Graph 2.9:**Radar chart for Italy**



Source: European Commission.

Spain

The **Spanish** ESI saw a marked decrease (-4.3 points) between September and December 2024. At 102.9, the indicator remained well above its long-term average of 100 (see Graph 2.10). ([9])

Notwithstanding the ESI's decline, the Spanish EEI remained broadly unchanged over the fourth quarter (+0.1) at a level (105.5 points) clearly above its long-term average. Worsening employment expectations in construction were offset by broadly stable employment expectations in industry.

Confidence worsened significantly in both industry and construction, offsetting the strong improvements registered in the third quarter of 2024. Confidence still exceeds long-term averages in both business sectors.

Graph 2.10: **Economic Sentiment Indicator for Spain**

Source: European Commission.

([9]) The December 2024 value for the ESI in Spain is based on industry and construction survey data only as, since October 2024, the surveys for Spain in services, retail trade and among consumers are temporarily suspended. For this reason, the Climate tracer and the Radar chart for Spain are not shown.

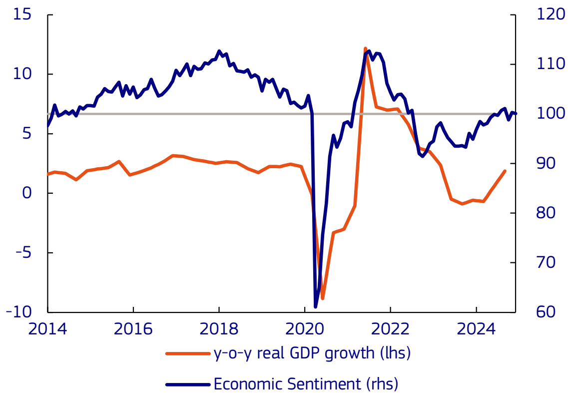
The Netherlands

The ESI for the **Netherlands** decreased slightly by 1.0 point between September and December. As a result, the confidence indicator stood at 100.1 points, thus effectively at its long-term average (see Graph 2.11). The Dutch climate tracer remained in the upswing quadrant, moving towards the expansion area (see Graph 2.12).

The EEI for the Netherlands fluctuated during the quarter, ending the year at a level broadly unchanged from September (+0.1 pps). At 103.1 points in December, the indicator remained above its long-term average, with a margin. Employment plans strengthened significantly in retail trade and construction, while decreasing in industry and services.

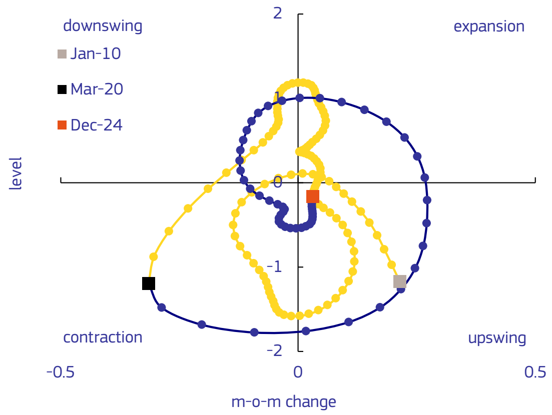
As shown in the radar chart (see Graph 2.13), confidence increased in retail trade and construction, while it declined markedly among consumers. Confidence among managers in industry and services remained broadly stable. Compared to historical averages, confidence remained elevated in construction, while it dropped well below its long-term average among consumers.

Graph 2.11: **Economic Sentiment Indicator for the Netherlands**



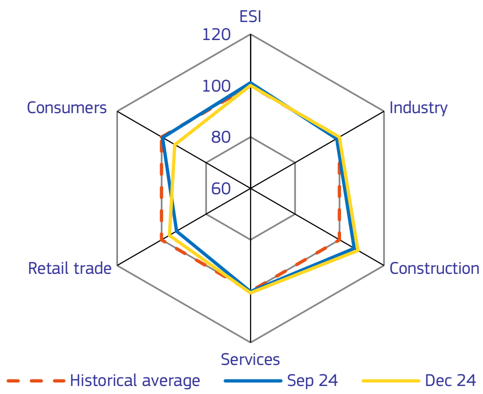
Source: European Commission.

Graph 2.12: **Climate Tracer for the Netherlands**



Source: European Commission.

Graph 2.13: **Radar chart for the Netherlands**



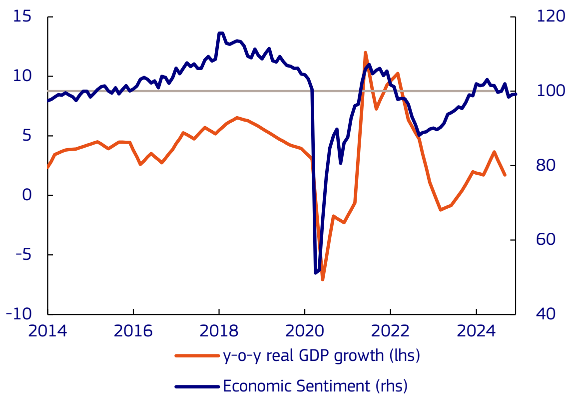
Source: European Commission.

Poland

The ESI for **Poland** declined by 2.8 points over the fourth quarter. Since late-2023, the indicator has been relatively stable around the long-term average of 100. In December, the indicator stood at 99.2 (see Graph 2.14). The Polish climate tracer shifted into the contraction quadrant but remained close to the neutral intersection point between the four possible states of the business cycle (see Graph 2.15).

The Polish EEI ended the fourth quarter of 2024 at 103.6 points, up 0.6 points from its September level and above its long-term average of 100. Employment plans showed improvements in the industry and retail trade sectors, while remaining broadly stable in services and construction.

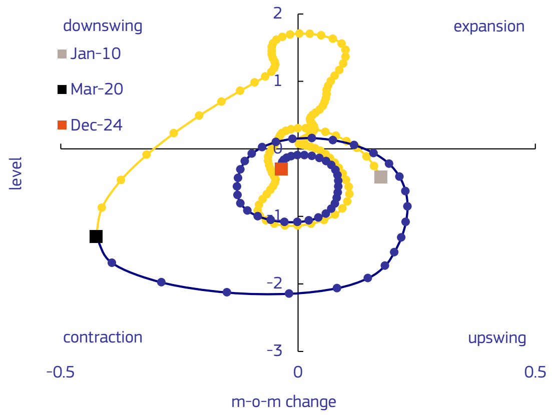
Graph 2.14: **Economic Sentiment Indicator for Poland**



Source: European Commission.

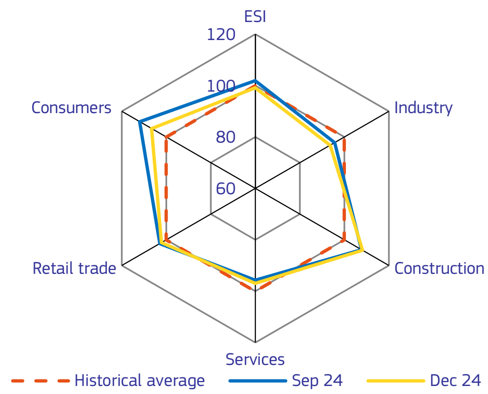
As shown in the radar chart (see Graph 2.16), confidence improved slightly in services, while it declined significantly among consumers and, to a lesser extent, in the industry sector. Confidence in the retail trade and construction sectors remained broadly stable. Confidence exceeded historical averages among consumers, as well as in the construction and retail trade sectors, while remining below average in industry and services.

Graph 2.15: **Climate Tracer for Poland**



Source: European Commission.

Graph 2.16: **Radar chart for Poland**



Source: European Commission.

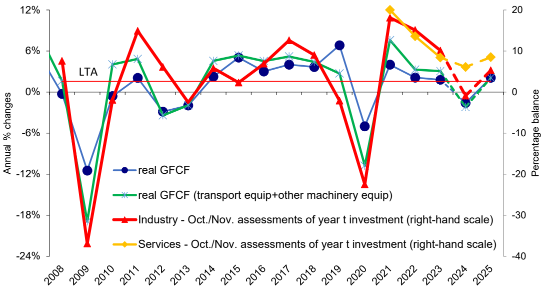
3. SPECIAL TOPIC: INVESTMENT IN THE MANUFACTURING AND SERVICES SECTORS - RESULTS FROM THE OCTOBER/NOVEMBER 2024 SURVEY

Business investment has been facing challenges amid tight financing conditions and elevated uncertainty. National Accounts show that in the first three quarters of last year, gross fixed capital formation disappointed, contracting by 1.8% relative to the same period of last year. The contraction affected residential construction and equipment in particular. High uncertainty, tight credit standards and high financing costs, and subdued demand held investment back. This section assesses recent developments and outlook of business investment and its main purposes and drivers, based on the views of managers in manufacturing and services,(10) as reported in the European Commission's surveys conducted in October-November 2024. The survey results confirm that in 2024 growth of business investment slowed down sharply compared to the previous year. Looking ahead, managers expect a modest increase of investment, with replacement and rationalisation of processes cited as major motives.

Investment in 2024 and plans for 2025

The Commission's business surveys provide insights into investment in the manufacturing and services sectors. Twice a year – in spring and autumn – the Commission business surveys for the manufacturing and services sectors include questions on investment. 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). Thus, in autumn 2024, managers in industry and services provided their appraisal of the year-on-year change in investment in their firm for the year 2024 as a whole – following their earlier assessments provided in spring 2024 and autumn 2023; they also reported on their investment plans for the year 2025. Graph 3.1 shows that managers' assessments of investment during the survey year from the autumn surveys in industry (for which long series are available) and services (from 2021) 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. The autumn surveys also enquire 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).

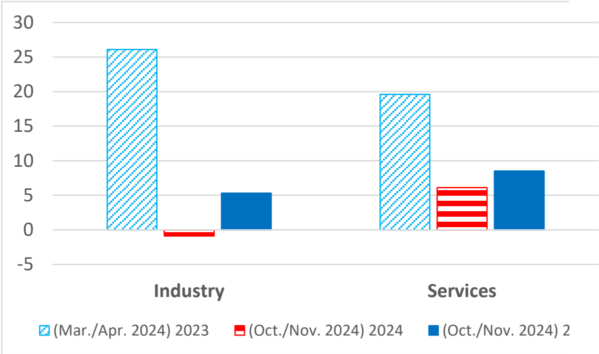
Graph 3.1: **Investment growth in the EU, as reported in National Accounts and in the Oct/Nov industry and services surveys**



(10) For the services sector, the investment questions were included for the first time in the autumn 2021 survey. At the same time, the formulation of some of the investment questions in the manufacturing survey was changed, and the corresponding time series were adjusted backwards accordingly (see Box 1 in the 2021Q4 EBCI).

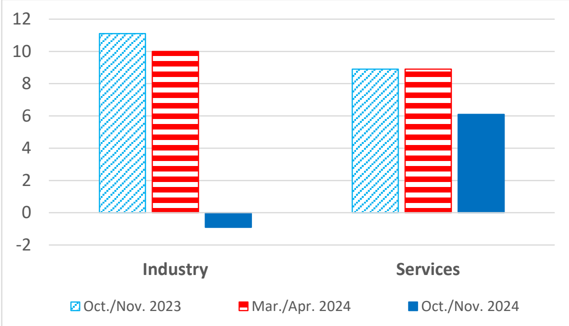
Business investment is assessed to have weakened in 2024 ... Following a relatively good year for business investment in 2023, as reported by both National Accounts and the spring 2024 surveys, managers' latest assessment points to a marked slowdown of investment in 2024. On balance, managers in industry even expect their company's investment to have contracted, albeit slightly, in 2024 (see Graph 3.2). By contrast, services sector managers were overall positive about their business' investment growth in 2024, though the balance of positive over negative assessments for 2024 is significantly lower than managers' ex-post assessment for 2023 reported in the March/April survey. A weighted average of the results of the industry and services surveys[11] results in a slight positive overall EU average balance score (at +3.5%), highlighting a very modest increase of business investment in 2024 compared to the previous year. This is not fully consistent with National Accounts data up to the third quarter of the year, which point to a decline in both total and equipment investment.

Graph 3.2:**EU, managers' investment assessment for the years 2023, 2024, 2025 (% balances)**



... and is expected to rebound this year. For 2025, managers in both sectors anticipate a moderate recovery (see Graph 3.2), which in the case of industry would lift the balance of positive over negative investment expectations above its long-term average. These results corroborate the Commission's autumn forecast, which foresees a rebound of gross fixed capital formation of 2.1% (as indicated by the dotted blue line in Graph 3.1), on account of strong balance sheets, recovering profits, improving credit conditions and the impulse to private investment from the Recovery and Resilience Facility.

Graph 3.3:**EU, managers' investment expectations for 2024 over three successive survey vintages (% balances)**

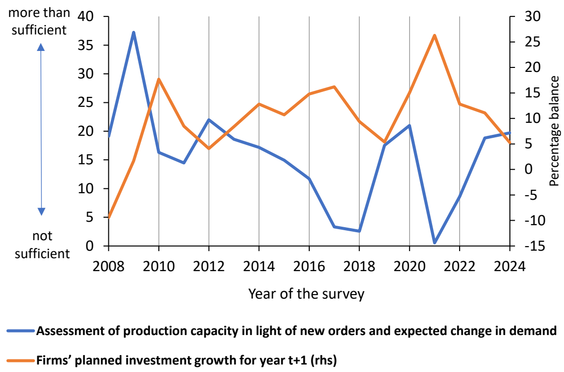


Business investment in 2024 disappointed compared to earlier survey results. In both sectors, investment expectations for 2024 have been revised downwards over the course of the 12 months preceding the survey. The autumn survey results point to a sharp scaling down of expectations for investment activity in 2024 (see Graph 3.3), starting from the rather sanguine view expressed in autumn 2023, which was broadly reiterated in spring last year. This is especially striking in industry, where, as mentioned above, the balance of positive over negative investment assessments fell into negative territory.

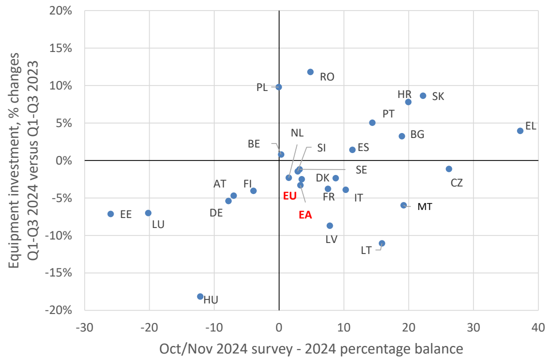
(11) The weighted average of the responses is based on the relative size of each sector according to 2022 Gross Fixed Capital Formation (GFCF) in transport and machinery equipment as reported in National Accounts.

Ample spare capacity is limiting scope for investment ahead. Managers' investment expectations in the manufacturing sector are related to their assessment of capacity utilisation in the firm**.** Graph 3.4 compares managers' investment plans for the year t+1 in industry (percentage balance of positive over negative assessments) with their assessments of production capacity in their firm in year t, as surveyed in Oct/Nov of year t.(12) The two variables tend to move in opposite directions: the more excess production capacity firms are assessed to 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 of firms during the pandemic crisis. In the four latest autumn surveys (Oct/Nov 2021, 2022, 2023 and 2024), the two series moved again in opposite directions. The currently high share of managers pointing to excess capacity in their firm is reflected in the low balance outcome for investment growth in 2025.

Graph 3.4:**Expected investment for year t+1 & assessment of production capacity in industry, as surveyed in Oct/Nov of year t (% balance in industry) – EU**



Graph 3.5:**EU, investment in equipment* and Oct/Nov aggregate industry and services survey results** for the year 2024 (y-o-y % changes and % balances)**

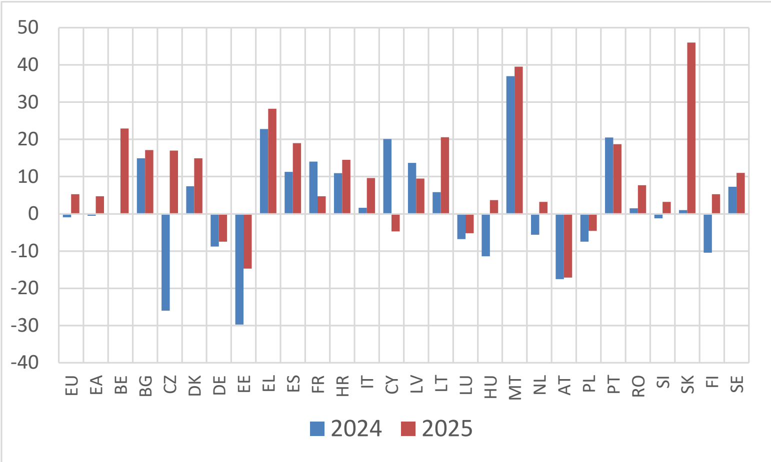


(*) Based on quarterly National Accounts for the first three quarters of 2024 compared with the same period in 2023. BE data are the Autumn Forecast projections for 2024 as no quarterly data are available.
(**) Weighted average of the responses based on the relative size of each sector according to 2022 Gross Fixed Capital Formation (GFCF) in transport and machinery equipment from National Accounts.

Survey results by country highlight a mixed picture across the region. Combining the results for the industry and services surveys, the percentage of managers reporting increased investment in 2024 compared to 2023 exceeded the share of those reporting a decrease in around two thirds of the countries. National Accounts data reveal a more widespread decline, with a majority of EU Member States experiencing negative growth in equipment investment and overall investment during the first three quarters of 2024. Graph 3.5 compares the autumn 2024 investment survey results for the year 2024 with National Accounts data for the first three quarters of 2024 relative to the same period of 2023. In eight Member States (EL, PT, BG, HR, ES, RO, SK, BE), positive assessments of investment growth in 2024 coincide with increases in the rate of equipment investment growth (upper right quadrant of the plot). Six Member States (EE, AT, FI, DE, HU, LU) consistently indicate negative investment growth, both in the survey and in National Accounts (lower-left quadrant). Meanwhile, managers in eleven Member States (MT, LV, LT, FR, SE, DK, IT, CZ, NL, SI, CY) appear to be overly optimistic in their survey responses compared to National Accounts data, which suggests negative equipment investment growth (lower-right quadrant of the graph). Finally, in PL, gross fixed capital formation in the first three quarters of 2024 performed better than suggested by managers' assessments in the industry and services investment surveys (broadly stable).

(12) 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".

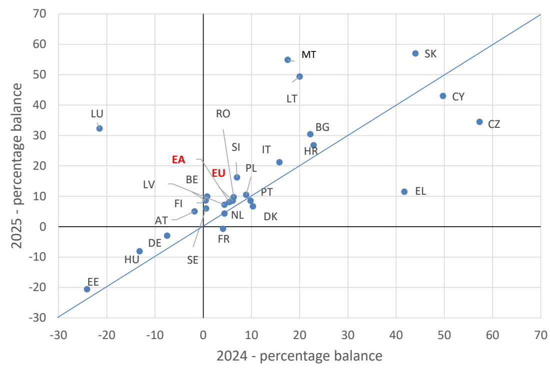
Graph 3.6:**Oct/Nov 2024 survey – industry managers' investment expectations for the years 2024 and 2025 (% balances)**



In 2025, industry investment is set to strengthen in almost all EU Member States, with the balance of positive over negative assessments improving compared to 2024 in all but four countries (FR, CY, LV, PT) (see Graph 3.6). In line with the positive balance for the EU for 2025, signalling a return to positive investment growth, balances are positive in all but six countries (DE, EE, CY, LU, AT, PL).

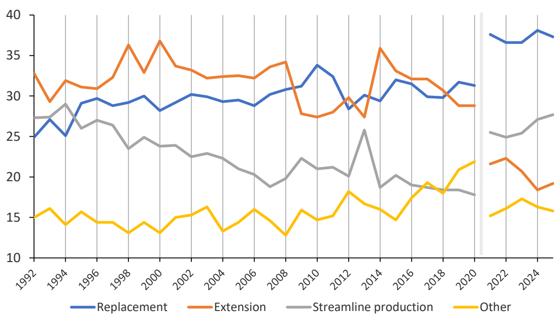
In most Member States, managers in the services sector expect their investment to have increased in 2024 and to expand further in 2025. However, growth momentum compared to 2023 is assessed to have decreased, though there is large variation across countries, as illustrated in Graph 3.7. Managers in EE and, to a lesser extent, HU and DE, stand out as expecting a decrease in investment in both 2024 and 2025. Conversely, services managers in LU and AT reported a decrease in their investment in 2024 but expect an increase in 2025. In SE, FI, and BE, investment was reported to have remained broadly unchanged in 2024 and is expected to increase in 2025. In only 6 countries, investment growth is expected to slowdown in 2025 compared to 2024 (FR, DK, PT, EL, CZ, CY). Overall, the EU/EA aggregates point to a mild acceleration in investment growth in 2025 compared to 2024.

Graph 3.7:**Oct/Nov 2024 survey – services managers' investment expectations for the years 2024 and 2025 (% balances)**



Investment structure

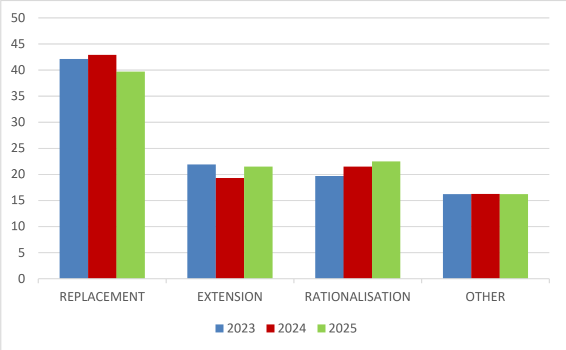
Graph 3.8: EU – Industry survey– Structure of investment (%)([13])



The share of industry investment meant to streamline production processes is expected to continue growing in 2024 and 2025. Managers reported an increase in the share of investment dedicated to streamlining production processes in 2024. The share is expected to increase further in 2025, reaching 27.7% (see Graph 3.8). This trend suggests ongoing efforts to improve efficiency and productivity through technological adaptation. At the same time, the share of investment aimed at extending production capacities is set to decline further in 2024, and to rebound only slightly in 2025. The primary driver of investment is set to remain the replacement of worn-out plants or equipment.

([13]) In 2021 the investment survey has been revamped (see EBCI Q4-2021 for more details). Although the question on the structure of investment was not changed, the answer behaviour to the question appears to have been affected by changes to other parts of the survey, leading to a structural break in the series.

Graph 3.9: **EU – Services survey - Structure of investment (%)**

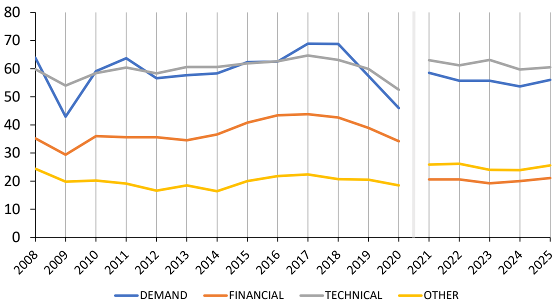


Also in services, investment is primarily driven by replacement needs in both 2024 and 2025. Extension objectives account for only approximately 20% of total investment for both years (see Graph 3.9). Meanwhile, similar to industry, rationalisation objectives show a modest upward trend compared to the previous assessments from the Oct/Nov 2023 survey.

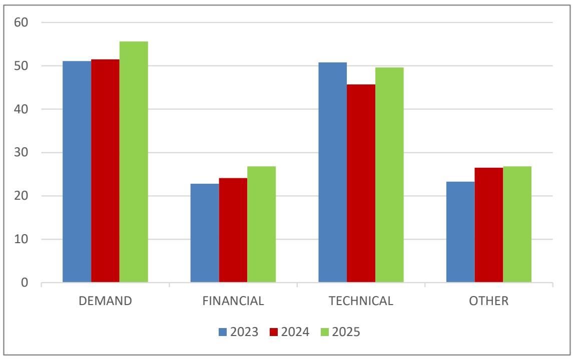
Drivers of investment

Technical factors are again reported as the main factors stimulating investment in manufacturing in 2024 and 2025, with around 60% of industry managers pointing to this factor in the 2024 autumn survey for both years. This category likely includes AI technologies and energy saving investments. However, a detailed breakdown is not available. Demand also plays a significant role, with 56% of firms stating that demand will be stimulating their investment in 2025, marking a 2.3-point increase compared to 2024 (see Graph 3.10). Financial factors also see a small but significant increase: While only 19.2% of firms reported this factor as stimulating their investment in 2023 – the lowest level since 2021 – the share rises to 20% for 2024, and further to 21.1% for 2025. This gradual shift is in line with the loosening of financial conditions following the tightening observed in 2023.

Graph 3.10: EU – **Industry survey – factors stimulating investment (% of firms stating that factor is stimulating)**([14])



Graph 3.11: **EU – Services survey – factors stimulating investment (% of firms stating that one factor is stimulating)**



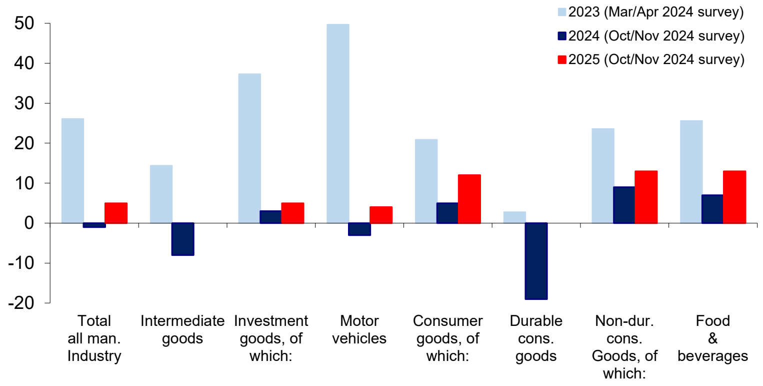
Similar trends are observed in the services sector, where demand is increasingly cited as a factor stimulating investment, with a notable surge from around 50% of managers in 2024 to 55% in 2025. Financial conditions are also perceived as more stimulating, with a slight upward trend expected for both 2024 and 2025 in the latest survey compared to the assessments from the Oct/Nov 2023 survey. Technical factors remain an important factor stimulating investment, albeit at a slightly lower level than in 2023, with approximately 45% of managers citing it for 2024 and 50% for 2025 (see Graph 3.11).

([14]) 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?

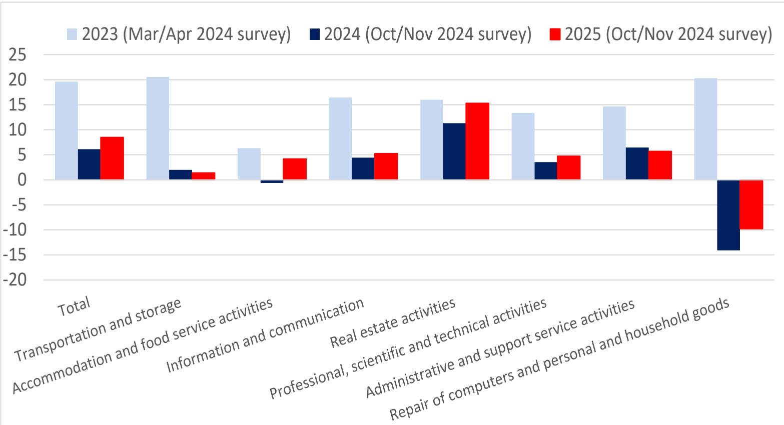
In industry, the reported slight contraction in investment in 2024 is largely driven by the intermediate goods sector, where a higher proportion of managers reported negative rather than positive investment intentions (Graph 3.12). Conversely, the investment and consumer goods main industrial groupings maintain positive, albeit subdued, investment balances, indicating a slowdown in investment growth. However, within the investment goods sector, the motor vehicle industry displays a negative balance for 2024, following a remarkably high level in 2023. Similarly, within the consumer goods sector, producers of durable consumer goods reported markedly negative investment growth on balance. The balance remained comparably robust in the non-durable consumer goods sector, which includes food and beverages producers. The sharp cutback in investment plans by durable goods producers could be attributable to a combination of factors, including declining consumer spending, overcapacity, increased competition, technological changes, and global economic uncertainty.

Graph 3.12: **EU investment plans by Main Industrial Groupings (percentage balances in industry)**



While investment growth in 2024 is expected to be lower than in 2023 across all industrial groupings, a recovery is projected across the board for 2025. The rebound is driven by improvements in the investment goods and consumer goods sectors, alongside a shift from a negative to a neutral balance of opinions on investment in the intermediate goods sector. Within the consumer goods sector, also the producers of durable goods see a return to a neutral balance of positive over negative investment outlooks for 2025.

Graph 3.13: **EU investment plans by services sub-sectors (as surveyed in Oct/Nov 2024)**



The sectoral breakdown in services points to a broad-based but moderate investment growth in 2024 and 2025 compared to 2023. As depicted in Graph 3.13, despite a significant decline from 2023 levels, the balance results point to positive investment growth in most service activities in 2024, with the exceptions of 'repair of computers and personal and household goods' and 'accommodation and food service activities'. For 2025, investment growth is expected to show slight improvements in most activities, including 'information and communication' and 'real estate activities', with 'repair of computers and personal and household goods' expecting a less severe decline and 'accommodation and food service activities' turning positive.

Conclusions

On aggregate in the EU, managers' assessments indicate positive investment growth in 2024, albeit with a sharp slowdown compared to 2023 and differing trends between sectors. In manufacturing, managers revised their assessment of investment in 2024 markedly downward compared to earlier surveys, indicative of negative investment growth in 2024. For 2025, manufacturing managers anticipate a rebound in their investment. In contrast, services sector managers reported continued increase in investment in both 2024 and 2025, though at a significantly lower pace than in 2023.

The structure of investment in industry and services exhibits similar trends. While the replacement of worn-out plants or equipment remains the primary driver of investment, a notable feature is the decline of investment aimed at extending production capacity in 2024. However, this share is expected to rebound slightly in 2025. Conversely, investment driven by the need to streamline or rationalise production processes has seen a steady increase in both sectors, highlighting ongoing efforts to improve efficiency and productivity through technological adaptation.

Similar trends in the two sectors are observed in the factors driving investment. Managers expect demand to become a more significant driver of investment in 2025. Meanwhile, technical factors, such as digitalisation and the need to adapt to the climate transition, remain a key driver, particularly in the industrial sector. Importantly, the proportion of managers citing financial conditions as a stimulating factor is increasing in both sectors, a shift that is consistent with the anticipated easing of financing conditions.

From a sectoral perspective, the marked slowdown in investment in 2024 compared to 2023 is broad-based across sub-sectors in both industry and services. In industry, the negative outcome for the EU aggregate in 2024 is largely driven by the intermediate and durable consumer goods sectors. For 2025, investment growth is expected to increase in particular in the investment goods and consumer goods sectors, while stabilising among intermediate goods producers. In services, the expected moderate increase in investment in both 2024 and 2025 is set to be broad-based across sub-sectors.

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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