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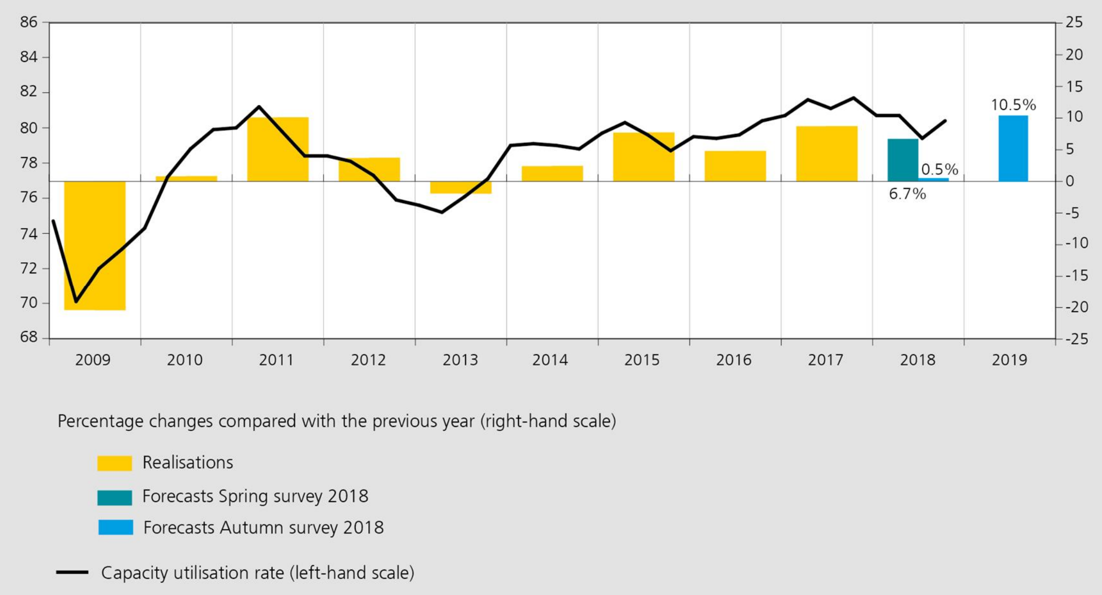
PRESS RELEASE

Results of the survey of investment in the manufacturing industry

Investment originally planned for 2018 postponed to 2019

- **Fixed capital investment in the manufacturing industry is thought to have barely expanded in 2018, compared with 2017**
- **Yet, entrepreneurs still expect to see their investment rise in 2019**

CHART 1 **TREND IN INVESTMENT[1] AND PRODUCTION CAPACITY**



[1] According to the NBB's half-yearly survey; percentage change in investment expressed at current prices (excluding leasing).

The National Bank of Belgium carries out a survey of investment by firms in the manufacturing industry twice a year, in the spring and in the autumn.

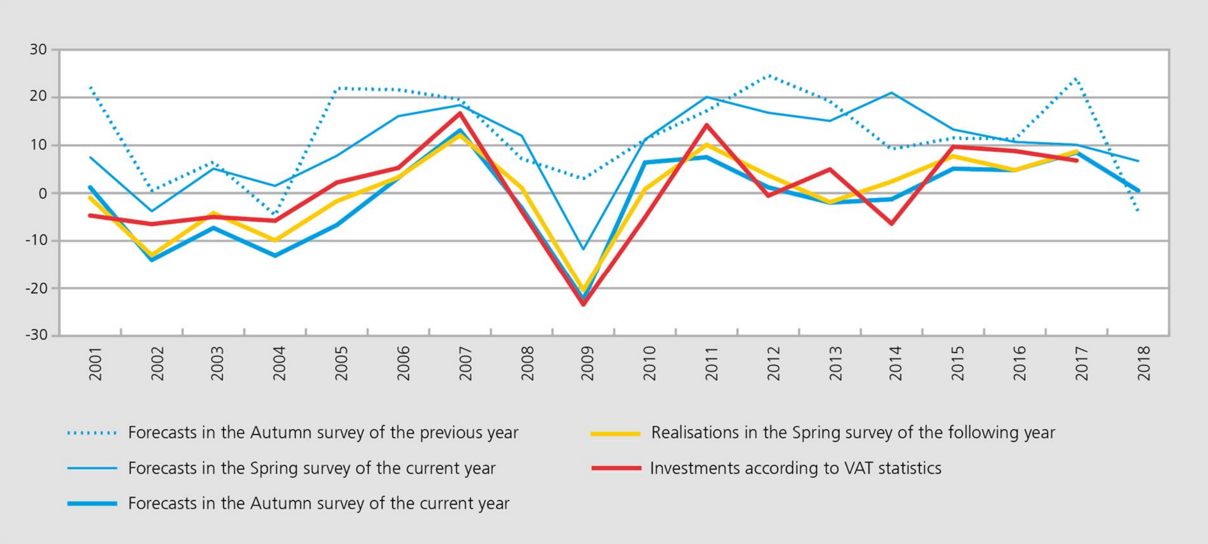
Stagnation of investment in 2018

According to the findings from the autumn 2018 survey, fixed capital investment – expressed at current prices – is estimated to have barely inched ahead in 2018, compared with 2017. This stagnation must be seen in the light of the drop in the production capacity utilisation rate observed between the end of 2017 and mid-2018 and the decline in business confidence in the manufacturing industry throughout the year 2018.

The virtual stabilisation of sums invested in 2018, in comparison to 2017, results from divergent trends at the level of the industries surveyed. On the one hand, investment appears to have been stepped up widely across the chemicals, plastics, steel and non-ferrous metals, paper and board industries, as well as in production of construction materials (excluding glass). On the other hand, investment is estimated to have fallen in the petrochemicals, motor vehicle and food industries.

Compared with the spring survey, which had led to predictions of investment growth to the tune of 6.7% in 2018, the new estimate for the same year has been revised downwards, now pointing towards a virtual stagnation (+0.5%) of amounts invested. This is attributable to large and very large enterprises (with 250 workers or more) shifting from growth of around 10 % to a marginal decline, while small firms (with fewer than 50 employees) have revised their sums invested sharply upwards; in medium-sized enterprises (50 to 249 employees), investment has not really changed at all.

CHART 2 **INVESTMENT BY FIRMS IN THE MANUFACTURING INDUSTRY: FORECASTS FROM THE HALF-YEARLY SURVEY AND ACTUAL FIGURES**



[1] Sources: NBB - half-yearly survey; percentage change in investment expressed at current prices (excluding leasing), Statbel.

Note: the definition of investment is more restrictive for the Bank's survey than for the VAT statistics since intangible assets and leasing are not taken into account. On average, however, the investment survey is representative of about 50 % of the amount invested by the manufacturing industry as reported from the VAT figures.

Rise in investment predicted for 2019

For 2019, companies are expecting their investment to rise by around 10.5 %. Investment should be further boosted in the chemicals and plastics industries and, to a lesser extent, in the steel and non-ferrous metals industries too. However, in the food industry, the decline in amounts invested is expected to continue, albeit at a slower pace than in 2018.
The rise in investment predicted for 2019 is thought to be entirely due to very large enterprises (employing 500 people or more), where it is very probably a matter of projects postponed in 2018.

While the investment forecasts reported by companies as part of the survey are actually a good indicator of the major trends in investment (slowdown, acceleration), the key figures on the main changes nevertheless need to be interpreted with caution, as the gap between the predictions made in advance and the amounts finally actually are often quite big. Companies do tend to systematically overestimate their investment forecasts for the coming year in the survey carried out in the autumn of the previous year, before proving a little more circumspect in the spring survey of the current year, and then coming out with an estimate very close to the actual figures eventually observed during the survey in the autumn of the current year.
One of the elements that can be put forward to explain this systematic upward bias in survey data is that entrepreneurs would rather tend to express their desire to invest, but this investment is in the end slowed down by external elements, over which they have less control or which they find it harder to anticipate. So, the usual caution is even more necessary for the year 2019 given all the uncertainty, especially as regards international trade relations.

During the autumn survey, companies are also asked to break down their sums invested by economic purpose and means of financing.

Mainly investment in replacement of equipment and expansion investment

As far as the **purpose of their investment** is concerned, entrepreneurs generally tend to cite two main reasons (in the case of roughly 80% of the investment carried out), namely replacement of production equipment and expansion; while the rest (about 20% of the investment made) is for rationalisation and environmental protection.

Since 2014, the share of investment related to expansion has been higher than that for investment in replacement of equipment. While the share of expansion investment had grown, in relative terms, up to 2016, compared to replacement investment, the difference gap between the sums invested for expansion and replacement has since tended to narrow. In 2018, the share of expansion investment is estimated to have reached 39 %, compared with 37 % for replacement investment. For 2019, the shares of the two main forms of investment are expected to be more or less the same (40 % for expansion and 39 % for replacement). As for other types of investment, the shares of rationalisation and environmental protection projects are projected to account for respectively 15 and 3 % in 2018 and 12 and 3 % in 2019.

TABLE 1 **ECONOMIC PURPOSE OF INVESTMENT IN THE MANUFACTURING INDUSTRY**
(As a percentage of total amounts invested)

	Replacement investment	Expansion investment	Other[1]	of which:	
				Rationalisation investment	Investment in environmental protection
2013	44	37	19	12	4
2014	40	42	18	12	3
2015	36	41	23	14	4
2016	31	48	21	12	3
2017	38	42	20	12	4
2018	37	39	23	15	3
2019	39	40	21	12	3

[1] "Other" refers to investment for which it is not possible to specify the main economic purpose, for example social investment, investment in rationalisation and environmental protection.

Recourse to own funds is still by far the main **source of funding for investment**. As much as 91 % of the total investment in 2018 is believed to have been financed by equity capital. The share of funds borrowed from third parties is estimated to have come to 7 %. The share coming from self-financing is expected to rise further in 2019 to 94 % compared with 5 % for borrowed funds.

TABLE 2 **MEANS OF FINANCING INVESTMENT IN THE MANUFACTURING INDUSTRY**
(As a percentage of total amounts invested)

	2015	2016	2017	2018	2019 (forecasts)
Own funds[1]	89	91	91	91	94
Capital increase through share issue	…	…	…	…	…
Funds borrowed from third parties	8	7	8	7	5
Tangible fixed assets via leasing..............................	3	2	1	2	1

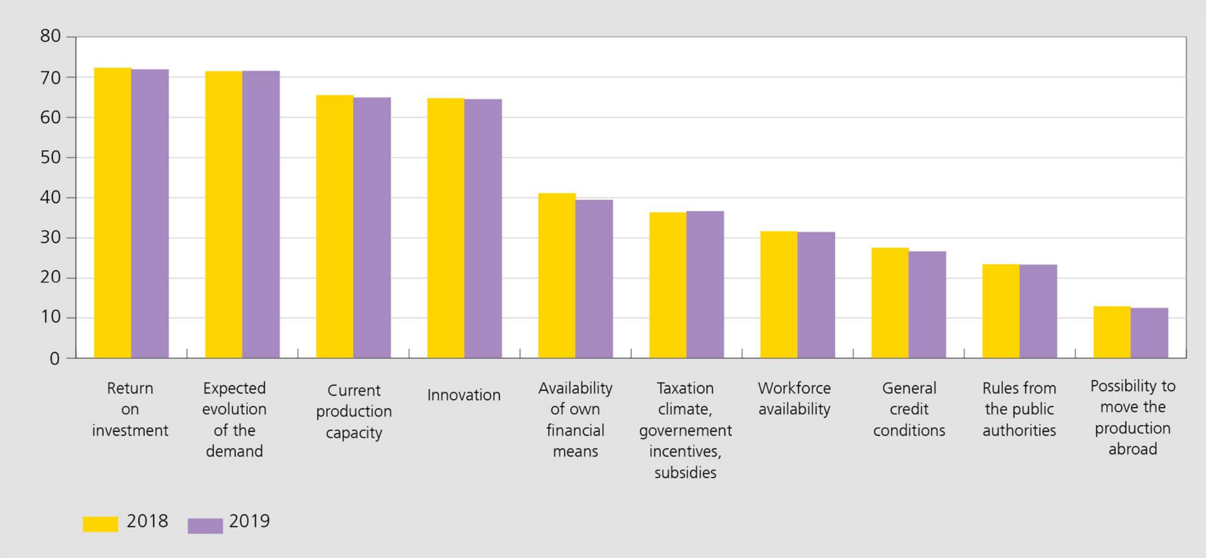
[1] Including finance through a company within the same group.

Apart from purely quantitative results, the survey also gives qualitative information on the **determinants of investment** for businesses.

Companies surveyed are asked to select from a list of possible factors the extent to which the factor had been "stimulating", "limiting" or having "no influence" on the decision to invest. The investment determinants reported as "stimulating" for 2018 remain largely the same, in terms of importance, for 2019. The main determinant of investment is still the return on investment, cited by just over seven out of ten companies for both 2018 and 2019, followed by expected demand. Existing production capacities and the introduction of new technologies (innovation) were also generally cited as decisive factors, by around two-thirds of all companies surveyed, in both 2018 and 2019.

In the case of almost four out of ten companies, availability of own funds is a determining factor for investment. This percentage rises to almost one-third when it comes to taxation and subsidies, closely followed by availability of labour. Next come general borrowing conditions considered as a stimulus by just under one in every four firms. Finally, only 13 % of respondents to the survey said they felt the possibility of relocation was an important factor in investment decisions.

CHART 3 **DETERMINANTS OF INVESTMENT[1]**



[1] Percentage of firms that cited determinants of investment as "stimulating". Companies may mention more than one determining factor.