2020-01-24

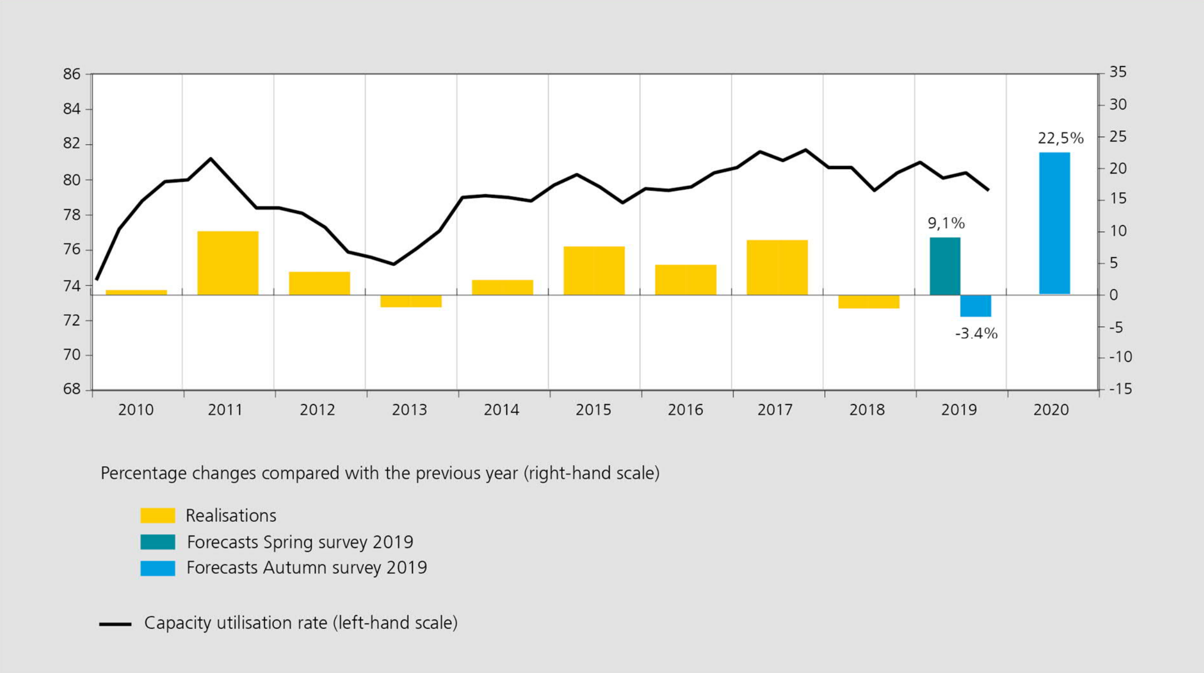
PRESS RELEASE

Results of the survey of investment in the manufacturing industry

Investment expected to rise again in the industry in 2020

- **Fixed capital investment in the manufacturing industry is thought to have fallen slightly in 2019.**
- **Yet, entrepreneurs still expect to see their investment rise substantially in 2020.**

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.

Decline in investment in industry in 2019

According to the findings from the autumn 2019 survey, fixed capital investment – expressed at current prices – is estimated to have fallen by 3.4 % in 2019, compared with 2018. This fall must be seen in the light of the drop in the production capacity utilisation rate and the slump in business confidence in the manufacturing industry for the majority of 2019. The last year was also marked by rising international uncertainty – resulting in particular from the worsening of trade tensions between the United States and China and the delays surrounding Brexit – an unfavourable climate for investment decisions, especially in those sectors most sensitive to international trade.

Communication
National Bank of Belgium Ltd.
boulevard de Berlaimont 14
1000 BRUSSELS
phone + 32 2 221 46 28
www.nbb.be
Company number: 0203.201.340
RLP Brussels

The amounts invested in 2019 are estimated to have fallen sharply in technological industries, including the motor vehicle, textile and plastics industries. Investments in petrochemicals appear to have stabilised at their 2018 level. Conversely, there appears to have been a modest rise in investments in the food and chemicals industries and a slightly more pronounced increase in the steel industry.

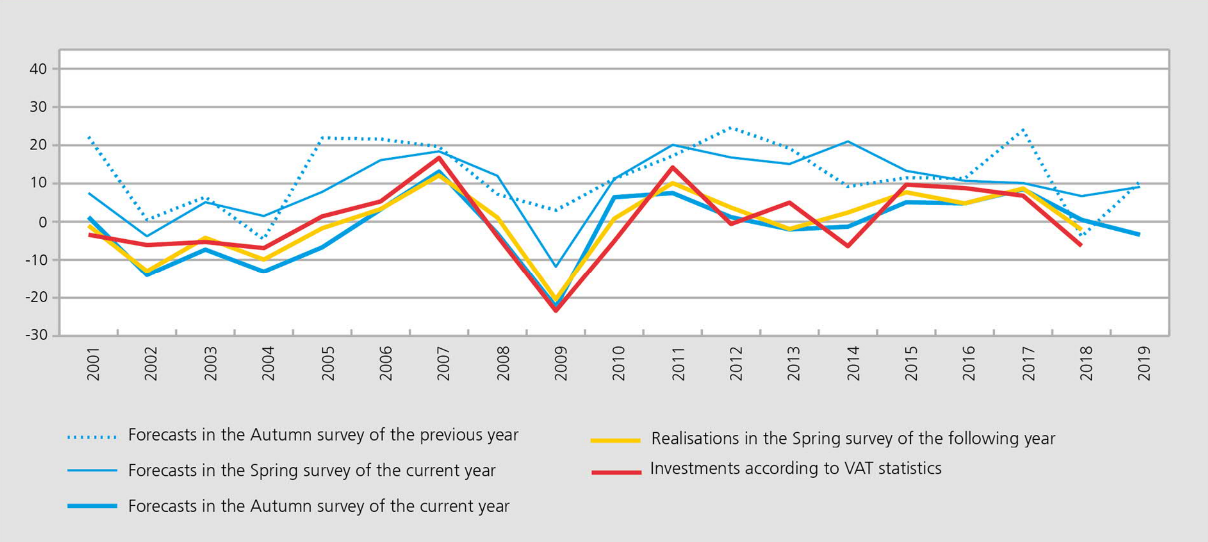
Compared with the spring survey, which had led to predictions of investment growth to the tune of 9.1 % in 2019, the new estimate for the same year has been revised downwards significantly. Enterprises of all sizes reported having ultimately investing at a lower level than they had planned six months previously. Regarding the export ratio, investment appears to have increased only in those firms which are focused to a very minor or moderate degree on foreign markets.

Greater optimism in 2020

After two years of lacklustre growth, industrial enterprises anticipate a substantial increase in their investments in 2020, of just over 20 %. Investment is set to rise in the steel, chemicals and food industries. Following a decline in 2019, the sums invested should also rise in technological industries (including motor vehicles) and plastics.

Here, the higher investment in 2020 will concern all firm size categories, especially the smallest (under 50 workers). Regarding the export ratio, investment should also increase in practically all categories of firms, whether they are focused on foreign markets to a lower, moderate or higher degree.

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.

While the investment forecasts reported by firms in the survey are a good indicator of general investment trends (slowdown, acceleration) in industry, specifically quantified trends must nevertheless be interpreted with caution, as the difference between predicted figures and the amounts ultimately invested is often substantial. In fact, companies systematically tend to overestimate their investment forecasts for the coming year at the time of the preceding year's autumn survey, and then moderate their forecasts in the current year's spring survey, ultimately – in the current year's autumn survey – arriving at an estimate very close to the actual figure eventually recorded.

One of the potential explanations for this systematic upward bias in the survey data is that entrepreneurs tend to state how much they hope to invest, but they are ultimately constrained by external factors over which they have less control, or which it is harder for them to anticipate. This is certainly the case in industry, which is traditionally more susceptible to the vagaries of the global economy than service sectors, for example.

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

Investment primarily in replacement and expansion

As far as the **purpose of their investment** is concerned, entrepreneurs generally tend to cite two main reasons (in the case of roughly three-quarters of the investment carried out), namely replacement of production equipment and expansion. While the difference gap is minimal – as has been the case for the last two years – companies expect to invest more in replacement than in expansion. The rest of the investments are for rationalisation and environmental protection.

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	of which: Investment in environmental protection
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	42	37	21	13	2
2019	38	38	24	16	2
2020	39	37	24	16	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 2019 is believed to have been financed by equity capital. The share of investments financed by funds borrowed from third parties is estimated at 7 %. The share coming from self-financing is expected to reach 94 % for 2020, compared with just 4 % for borrowed funds.

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

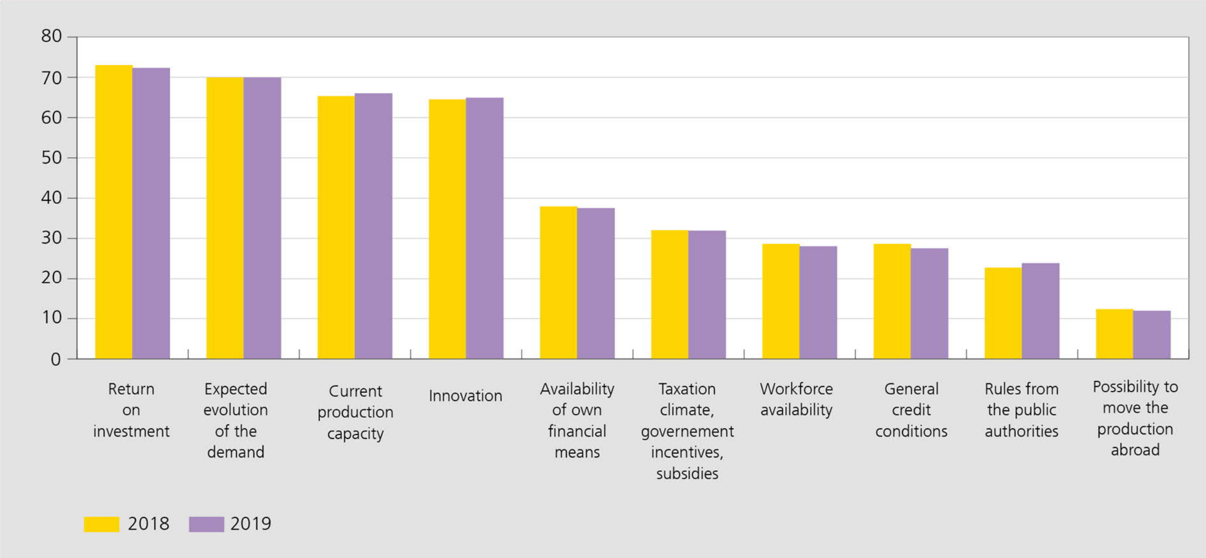
	2016	2017	2018	2019	2020 (forecasts)
Own funds[1]	91	91	92	91	94
Capital increase through share issue	…	…	…	…	…
Funds borrowed from third parties	7	8	6	7	4
Tangible fixed assets via leasing..............................	2	1	2	2	1

[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" or "limiting" or had "no influence" on the decision to invest. The investment determinants reported as "stimulating" for 2019 remain largely the same, in terms of importance, for 2020. The main determinant of investment is still the return on investment, cited by just over seven out of ten companies for both 2019 and 2020, followed by expected demand. Existing production capacities and the introduction of new technologies (innovation) were also cited as decisive factors, by around two-thirds of all companies surveyed, in both 2019 and 2020. 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, followed by availability of labour. Next come general borrowing conditions, considered as a stimulus by just under one in every four firms. Finally, only 12 % 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.