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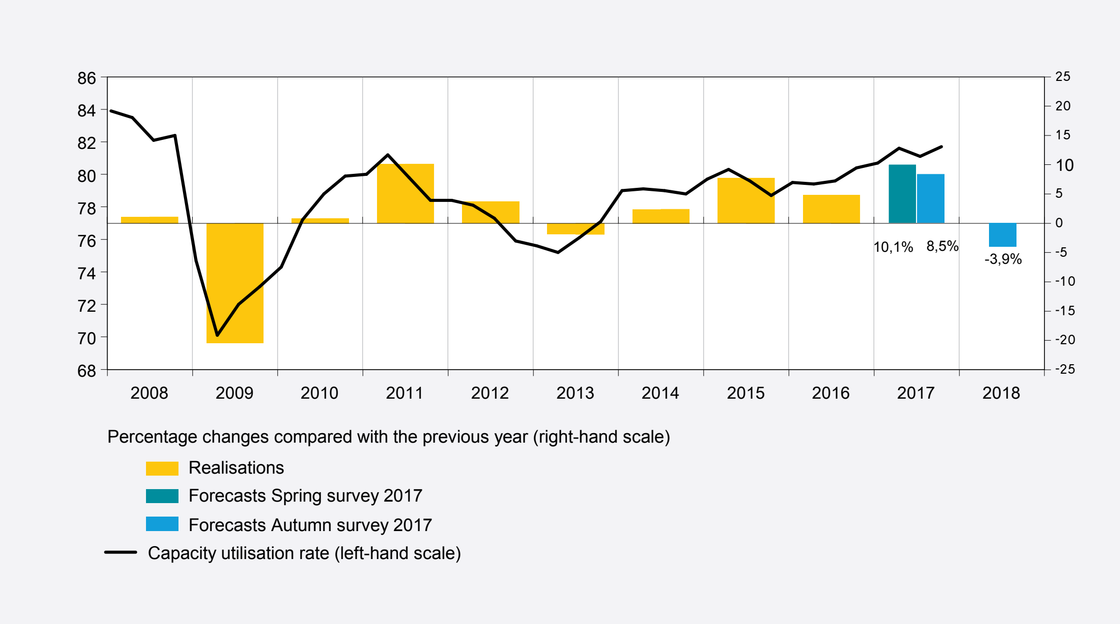
PRESS RELEASE

Results of the autumn 2017 survey of investment in the manufacturing industry

- **Fixed capital investment estimated to have risen by 8.5% in 2017 compared to 2016**
- **Entrepreneurs expect a slight decline in amounts invested for 2018**

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 conducts a twice-yearly survey of investment by firms in the manufacturing industry, once in the spring and again in the autumn.

According to the findings from the autumn 2017 survey, fixed capital investment - expressed at current prices - is estimated to have risen by 8.5% in 2017, compared with 2016. Investment appears to have been particularly dynamic in the woodworking, motor vehicle, food, printing, chemicals and plastics industries. The new estimate for 2017 is slightly below the 10.1 % anticipated in the survey carried out last spring.

The strength of investment in 2017 is related to the global upward trend in production capacity utilisation rates since mid-2013. The last figure available indicates that the capacity utilisation rate reached 81.7 % in October 2017, its highest rate since July 2008.

After the boom year of 2017 on the investment front, entrepreneurs are expecting the amounts invested to decline somewhat in 2018, of around 3.9 %. So, investment is expected to fall back

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principally in the petrochemicals, woodworking, food, printing, motor vehicle, iron and steel industries. However, it is likely to continue to rise in 2018 in the chemicals, technology (excluding motor vehicle assembly) and plastics industries.

The fall in investment expected for 2018 is likely to affect small firms (with fewer than 50 employees) in particular and, to a lesser extent, medium-sized enterprises (50 to 249 employees) and very large firms (500 employees or more). For their part, large companies (250 to 499 employees) are thinking on stepping up their investment spending in 2018. Moreover, the reduction in investment compared with 2017 is expected to be limited to firms whose export ratio is less than 60 %, as the more internationally oriented businesses are still envisaging an increase in their investment figures.

The investment forecasts supplied by firms as part of the survey constitutes a good indicator of broad business investment trends (slowdown, acceleration), as illustrated in the annex. The purely numerical evolution should however be interpreted with caution, as the gap between projections established beforehand and the actual amounts invested can be quite wide.

During the autumn survey, companies are also asked to break down their sums invested by economic purpose and means of financing. Alongside the purely quantitative results, the survey also provides qualitative information about the determinants of business 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.

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
2012	46	35	20	12	4
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	31	47	22	13	3
2018	31	43	26	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.

Since 2014, the share of investment related to expansion has been higher than that for investment in replacement of equipment. In 2017, investment designed to boost production capacities is estimated to have come in at 47 %, compared with 31 % for replacement investment. For the year 2018, even though expansion investment should continue to account for the lion’s share of total investment, this share should nevertheless come down a little, to 43 %, still compared with 31 % for replacement investment. As for other forms of investment, the shares of rationalisation and environmental protection projects are projected to account for respectively 13 % and 3 % in 2017 and 12 % and 3 % in 2018.

Recourse to own funds is still by far the main **source of funding for investment**. As much as 91 % of the total investment in 2017 is believed to have been financed by equity capital. The share of funds borrowed from third parties is estimated to have come to 8 %. These percentages should not vary much for 2018, with a 92 % share coming from self-financing and 7 % for borrowed funds.

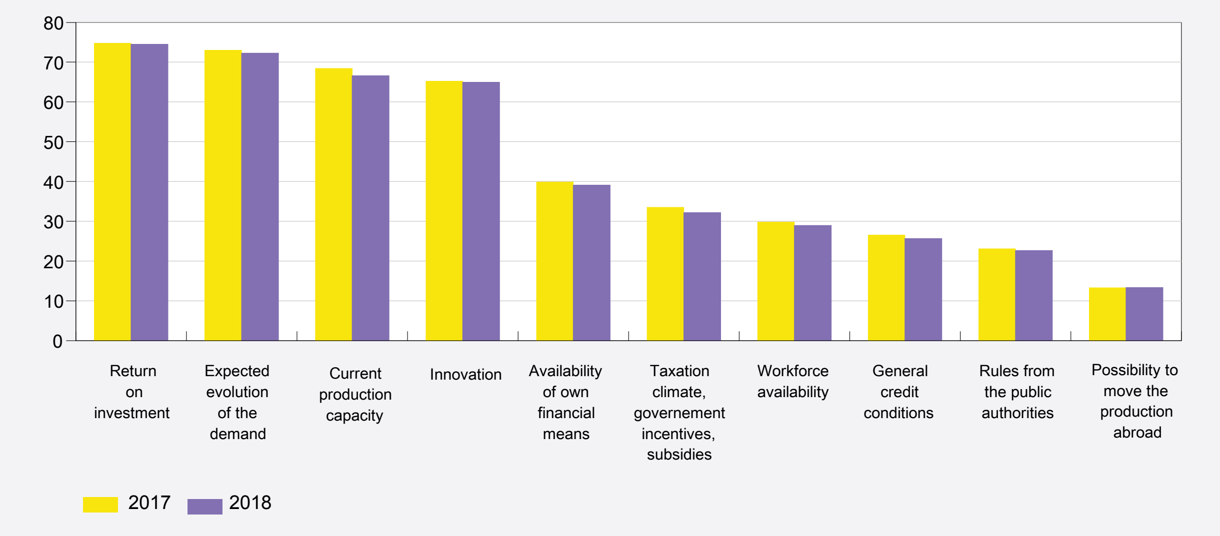
TABLE 2 **MEANS OF FINANCING INVESTMENT IN THE MANUFACTURING INDUSTRY**
(As a percentage of total amounts invested)

	2014	2015	2016	2017	2018 (forecasts)
Own funds[1]	92	89	91	91	92
Capital increase through share issue	…	…	…	…	…
Funds borrowed from third parties	7	8	7	8	7
Tangible fixed assets via leasing	1	3	2	1	1

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

Turning to the **determinants of investment**, 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 2017 remain largely the same, in terms of importance, for the year 2018. The main determinant of investment is still the return on investment, cited by three-quarters of entrepreneurs polled for both 2017 and 2018, followed by expected demand, with respectively 73 % and 72 %. Existing production capacities and the introduction of new technologies (innovation) were generally cited as factors crucial to the decision to invest, by roughly two-thirds of the companies questioned (respectively 68 % for 2017 and 67 % for 2018 and 65 % for 2017 and 2018). In the case of 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 barely one in every four firms. Lastly, only 13 % of respondents to the survey said they felt the possibility of relocation was an important factor in investment decisions.

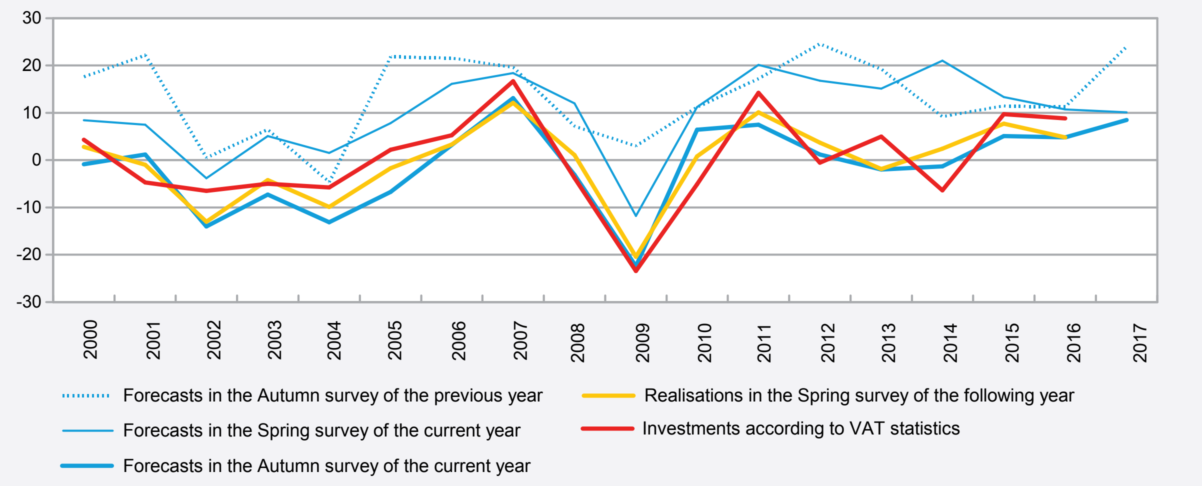
CHART 2 **DETERMINANTS OF INVESTMENT[1]**



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

Annex: Comparison of investment forecasts from the National Bank of Belgium's half-yearly survey on business investment in the manufacturing industry and investment actually carried out over the period 2000-2016

CHART 3 **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.

Twice a year, the National Bank of Belgium conducts a survey of investment by firms in the manufacturing industry. As part of this survey, companies are questioned on their tangible investment, that is, in fixed assets acquired or produced for their own account. According to the VAT statistics, on average over the period 2005-2016, the manufacturing industry accounted for approximately 20 % of all corporate investment. However, 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.

Although the investment forecasts extracted from the Bank's surveys cover only a fraction of the amounts actually invested, calculated on the basis of VAT statistics, they do have a close correlation with these sums. The correlation gets even closer over successive surveys covering a given period. For instance, while the correlation coefficient between the amounts actually invested and the projections collected in the autumn of the previous year works out at just 54%, this coefficient rises to 73% when compiling the spring forecasts for the current year and to 82% when it comes to the autumn projections for the present year. So, entrepreneurs tend to refine their assessment of amounts invested over the course of the year, which is not at all surprising given the waning uncertainty and the increase in the number of companies in a position to report their investment figures.

Over the period from 2000 to 2016, however, firms tended to systematically over-estimate their investment forecasts for the coming year during the survey conducted in the autumn of the previous year, before toning down their projections in the spring survey of the present year, and then reaching an estimate that is very close to the figures finally observed in practice when questioned for the autumn survey of the same year.

One of the elements that can be mentioned to explain this systematic upward bias in survey data is the fact that entrepreneurs tend to voice just their *willingness* to invest, not their actual investments which in the end are held up by external elements, over which entrepreneurs have less influence, or which they find harder to anticipate.

Even though the sample is generally representative enough to determine the broad lines of recent trends and expected developments (acceleration, slowdown), revisions call for caution when it comes to extrapolating survey results for macroeconomic projections through strictly quantitative trends. It must also be stressed that trends in investment in the other branches of activity may differ from those observed in the manufacturing industry and the amounts invested by all companies surveyed is much less volatile than for investment in the manufacturing sector alone.

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