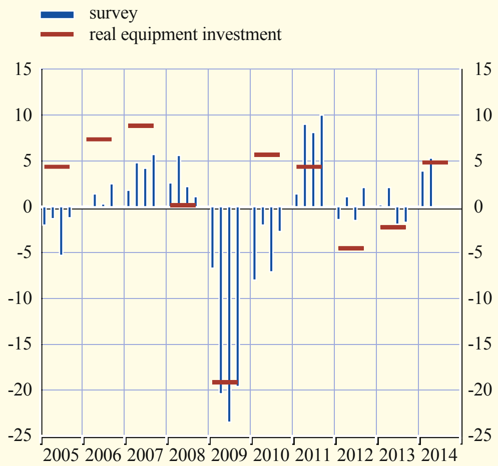
Box 7

SURVEY EVIDENCE ON INVESTMENT DEVELOPMENTS ACROSS SMEs AND LARGE FIRMS

This box reports on euro area and cross-country investment developments, focusing on surveys, notably the European Commission's latest biannual industrial investment survey. It also looks at the drivers of euro area investment across SMEs and large firms based on the results of the ECB survey on access to finance. While the economic and financial situation in the euro area has improved, which should pave the way for a recovery in real industrial investment, the conditions for SMEs remain less favourable than for larger firms.

Chart A Euro area industrial investment plans and real equipment investment

(annual percentage changes; volume)



Sources: European Commission and European Commission investment survey.
Notes: For each year, the four European Commission surveys are represented by light blue bars. Data for real equipment investment relate to the actual outcome up to 2013 and a projection for 2014.

Current investment developments in the euro area and euro area countries

According to the European Commission's recent biannual industrial investment survey, euro area real manufacturing investment declined by approximately 3% in 2013, and is expected to increase by about 5% in 2014 (see Chart A). The results of the survey, released at the end of April 2014, point to a slightly more optimistic assessment for 2014 than in the previous survey, which was published in November 2013 and suggested a 4% increase[1]. This latest assessment is broadly in line with the projection for real equipment investment contained in the European Commission's spring 2014 forecast for this year and somewhat higher than the forecast for real total investment contained in the Eurosystem's Broad Macroeconomic Projection Exercise of June 2014 (see the article entitled "June 2014 Eurosystem staff macroeconomic projections for the euro area").

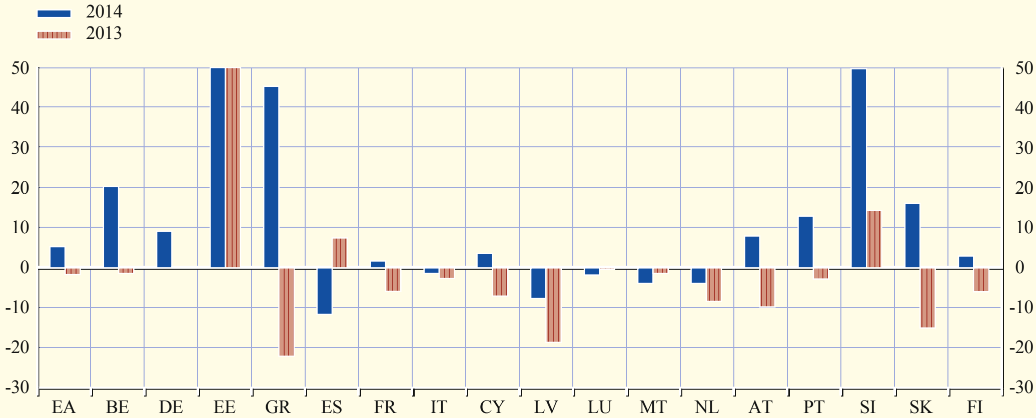
Turning to the individual euro area countries, while the European Commission's investment survey suggests that most countries foresee an increase in investment in 2014 compared with 2013, large cross-country heterogeneity remains (see Chart B). For most countries, there are similarities overall between the industrial investment plans and the projection for real equipment investment from the European Commission in terms of expected investment developments.

The European Commission's survey also shows that, compared with the preceding survey from November 2013, there was a strong upward revision (from -3% to 8%) in the figure for investment expectations for 2014 among euro area SMEs, i.e. firms employing less than 250 people (see Chart C). The figure for the investment plans of large firms has also continued to increase, albeit at a more modest pace, reaching around 7% for the year 2014 as a whole.

1 For an analysis of the European Commission's previous biannual industrial investment survey, see the box entitled "Business investment – signs of a modest recovery ahead", *Monthly Bulletin,* January 2014.

Chart B Industrial investment plans across euro area countries

(annual percentage changes; volume)



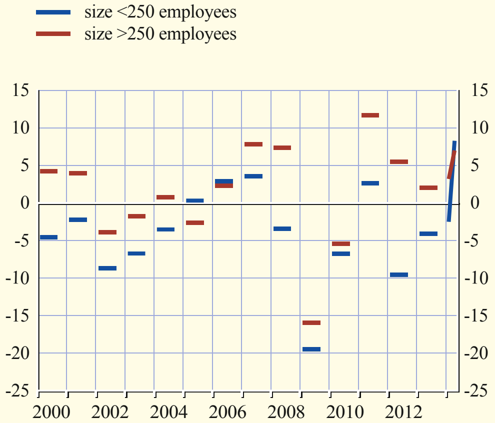
Source: European Commission investment survey, April 2014.
Notes: EE: 378 (2014) and 168 (2013). SI: 68 (2014).

This appears to signal that conditions are gradually returning to normal for both categories of firms in terms of recovering profits, signs of diminishing slack, lower uncertainty and improving access to finance [2].

Indeed, gross operating surplus in the euro area is growing at a slightly faster pace than long-term average growth rates (see Chart D), pointing to increasing availability of internal funding for

Chart C Euro area industrial investment plans by firm size

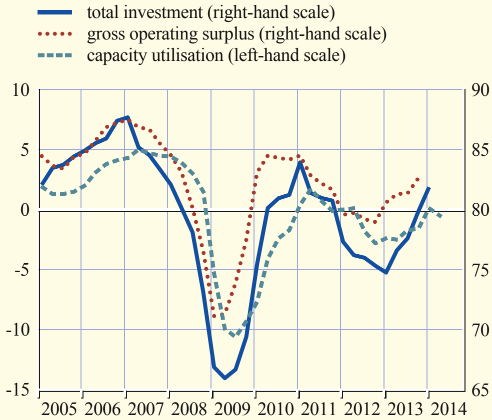
(annual percentage changes; volume)



Source: European Commission investment survey.
Note: The horizontal lines represent averages across the four survey results for every year. Only for 2014 are the individual results from the November 2013 and April 2014 surveys shown.

Chart D Total investment, capacity utilisation and gross operating surplus

(annual percentage changes; volume; percentage)

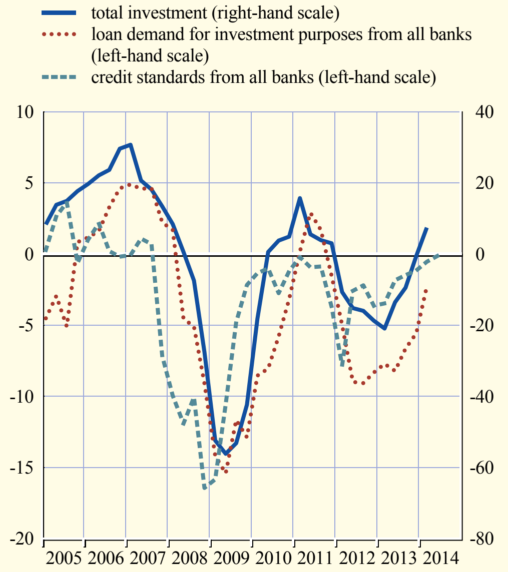


Sources: Eurostat and European Commission.

2 For a detailed analysis of the factors behind the weakness in investment, see the box entitled "Factors behind the fall and recovery in business investment", *Monthly Bulletin,* April 2014.

Chart E Total investment, credit standards and loan demand for investment purposes

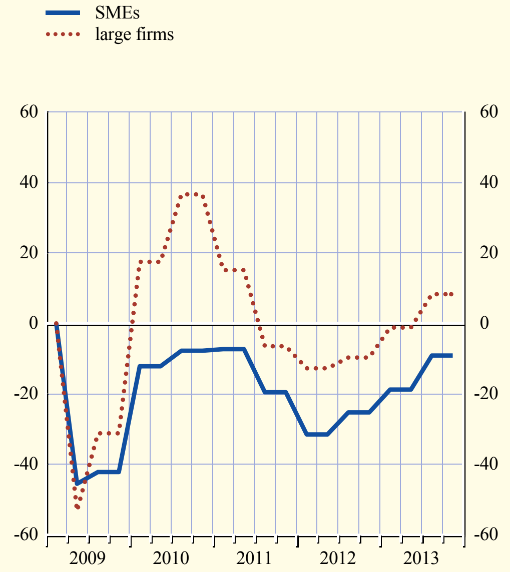
(annual percentage changes; net percentage of respondents)



Sources: Eurostat and ECB (bank lending survey).

Chart F Profits as a relevant factor for income generation for firms in the industrial sector

(over the preceding six months; net percentage of respondents)



Source: ECB SAFE.

investment projects. Moreover, slack in the industrial sector is diminishing as capacity utilisation in the manufacturing industry is perceived to gradually increase towards long-term averages.

The increase in capacity utilisation points to a growing need among firms to expand their capital stock[3]. According to the April 2014 bank lending survey conducted by the ECB, financing conditions have also gradually improved, with credit standards set by banks easing and demand for loans for investment purposes increasing significantly over the past quarters (see Chart E).

Previous investment developments across SMEs and large firms

Looking more closely at the real industrial investment plans of SMEs versus large firms over a longer period, the European Commission's investment survey suggests that the investment plans of euro area SMEs have overall been more subdued than those of larger firms (see Chart C). In 2009 the decline in investment plans was associated with firms of all sizes scaling back their plans. In contrast, in 2011 and 2012 weak investment seems to have coincided mostly with smaller firms planning to reduce their investment, while larger firms' investment plans overall continued to be dynamic.

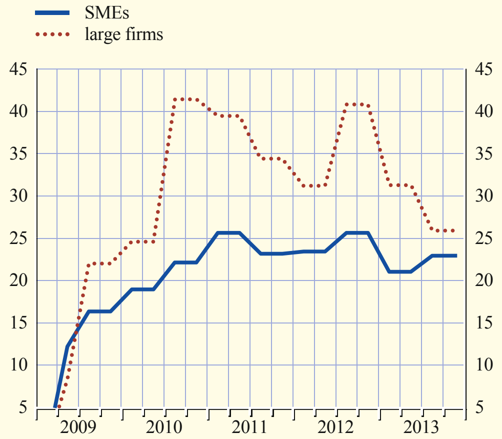
The biannual survey on access to finance (SAFE)[4] carried out by the ECB using data available up to the second half of 2013 sheds some light on the drivers of the differences in investment

3 See the box entitled "Business investment, capacity utilisation and demand", *Monthly Bulletin,* April 2010.

4 See the survey on the access to finance of small and medium-sized enterprises in the euro area October 2013 to March 2014: http://www.ecb.europa.eu/pub/pdf/other/accesstofinancesmallmediumsizedenterprises201404en.pdf??da920468528300ff549d8cc95522eb81 and the box entitled "Survey on the access to finance of small and medium-sized enterprises in the euro area: October 2013 to March 2014" in the May 2014 issue of the Monthly Bulletin.

Chart G External financing needs for investment purposes for firms in the industrial sector

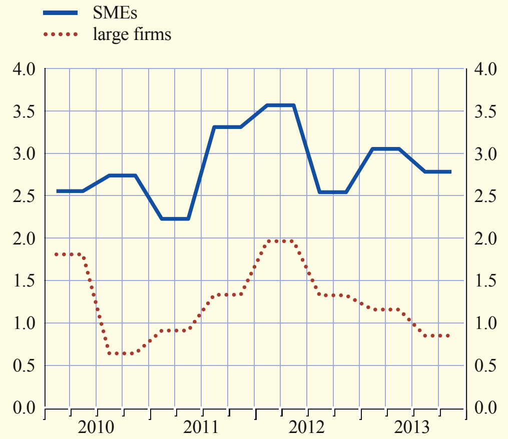
(over the preceding six months; net percentage of respondents)



Source: ECB SAFE.

Chart H Bank loans applied for but rejected for firms in all sectors

(over the preceding six months; net percentage of respondents)



Source: ECB SAFE.

plans over recent years. The differences between the growth in investment foreseen in large firms (i.e. those employing more than 250 people) and that in small and medium-sized firms in the course of 2011 and 2012 may be partly associated with the fact that profit developments as a source of income generation were much weaker in SMEs than in larger euro area firms. While, on balance, larger firms expected profits to increase considerably in relevance as a source of income after 2009 and only fall somewhat in 2012, SMEs continued to see profit conditions playing a limited role, throughout this period (see Chart F).

The net percentage of respondents to the SAFE who indicated a need for external finance for investment purposes among SMEs improved only modestly in the wake of the financial crisis (see Chart G). Meanwhile, for larger euro area firms, the perceived need for external finance for investment increased considerably after 2009 and has remained higher than that of SMEs ever since.

In addition, SMEs in the euro area appear to have been exposed to credit constraints in the years following the outbreak of the financial crisis to a greater extent than larger firms. Such constraints when attempting to obtain external financing could have impeded fixed investment, especially in the case of weak profits and internal funding. The SAFE shows that, according to the weighted responses, more SMEs than larger firms have seen their loan applications rejected by banks (see Chart H). Since the first half of 2012 banks' loan rejection rates have fallen, primarily those for larger firms.

Conclusions

The European Commission's biannual industrial investment survey shows expectations of an increase in real industrial investment in the euro area in 2014 for all firms, which is supported by its contributory factors – such as profits, capacity utilisation and access to finance – returning to normal levels. The European Commission's most recent industrial investment survey suggests that small firms expect to significantly increase investment in 2014. Nevertheless, a number of fundamental factors that determine investment – such as profits and credit conditions – appear to have remained weaker for SMEs than for larger firms recently, as evidenced by the survey on access to finance. Therefore, the actual pick-up in investment among euro area SMEs may be relatively contained, also keeping in mind that it starts from low levels following depressed investment over recent years.