Data Snapshot

Thursday, 28 February 2019

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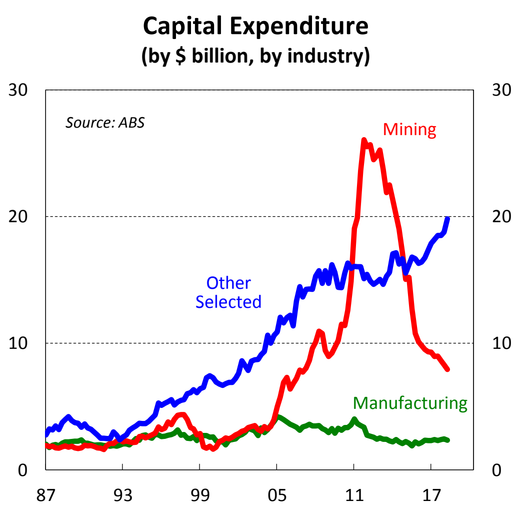
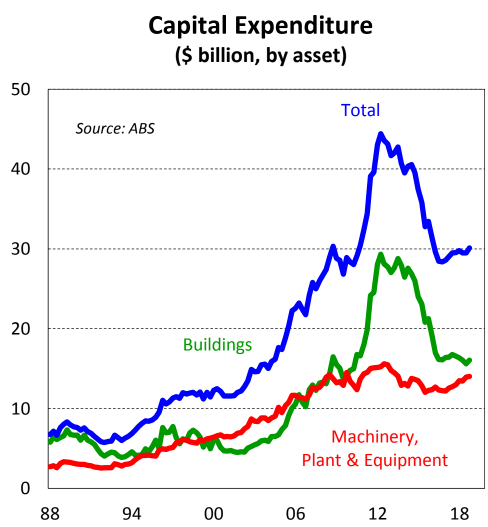
Private Capital Expenditure

Green Shoots Remain Intact

- **Private capital expenditure (also known as capex) rose by 2.0% in the December quarter, which is the fastest quarterly pace since the June quarter of 2014. On an annual basis, capex lifted by 1.9%, up from 0.1% in the previous quarter**
- **Capex on buildings & structures drove the rise; this segment's capex lifted 3.2% in the December quarter, also the best outcome since the June quarter of 2014.**
- **Across industries, capex only rose in the 'other selected' sector in the quarter, which covers primarily the services industries. Other selected capex lifted by 5.6% in the quarter while capex in mining and manufacturing fell by 4.3% and 4.4%, respectively.**
- **The most keenly watched bit of today's data are the future spending plans. These plans continue to suggest that the recovery in business spending remains intact, despite data in recent months showing some fragility around business conditions and business confidence.**
- **We received the fifth estimate for spending in the 2018-19 financial year. It stands at $118.4 billion, representing an upgrade of 4.0% on the fourth estimate. These spending plans now imply a 0.7% increase in 2018-19 compared with 2017-18. Excluding mining, we estimate the lift on spending over the same period to be 4.0%.**
- **The first estimate for spending for the 2019-20 financial year was also encouraging. This first estimate is $92.1 billion, which is higher than the first estimate of $83.0bn for 2018-19. Applying realisation ratios, this first estimate suggests a modest lift in spending in 2019-20 of 0.7%.**
- **The surprising part of today's data was for the manufacturing industry; the spending plans for this industry were subdued given what other activity data is showing.**





Actual Spending

Private capital expenditure (also known as capex) rose by 2.0% in the December quarter, which is the fastest quarterly pace since the June quarter of 2014.

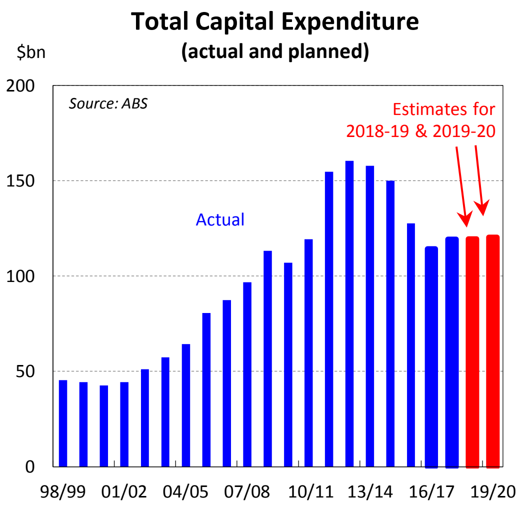
Capex on buildings & structures drove the rise; this segment's capex lifted 3.2% in the December quarter, also the best outcome since the June quarter of 2014. The other segment – equipment, plant & machinery recorded a 0.7% gain in the December quarter.

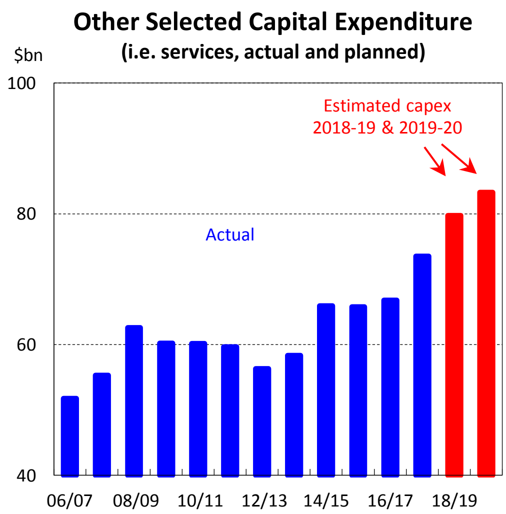
Across industries, capex only rose in the 'other selected' sector, which covers primarily the services industries. The trends in consumption have been towards services, especially services tied to experiences for the consumer. Other selected capex lifted by 5.6% in the quarter while capex in mining and manufacturing fell by 4.3% and 4.4%, respectively.

On an annual basis, capex lifted by 1.9%, up from 0.1% in the previous quarter. By asset class on a year ago, buildings capex contracted 2.9% in the quarter, the fourth consecutive quarter of contraction. In contrast, spending on equipment, plant and machinery grew 8.1%. And other capex grew at an annual pace of 9.1%, but mining and manufacturing capex contracted by 11.5% and 2.1%, respectively.

States and territories

The growth in capex was not spread evenly. The strongest gain in the quarter was in South Australia, up 6.2%. Queensland, NSW and Victoria also recorded gains of 3.9%, 3.5% and 1.8%, respectively. Capex fell the sharpest in the NT (-29.4%) in the quarter, reflecting the impact of the unwinding of the investment phase of the INPEX LNG project. Capex also fell in WA and ACT (by 4.0% and 27.7%, respectively).





Spending Plans

The most keenly watched bit of today's data by economists are the future spending plans. These plans continue to suggest that the recovery in business spending remains intact, despite data showing some fragility around business conditions and business confidence.

We received the fifth estimate for spending in the 2018-19 financial year of $118.4 billion. This represents an upgrade of 4.0% on the fourth estimate for 2018-19 and a lift of 3.6% compared with the fourth estimate in 2017-18. Applying average realisation ratios to estimate what final spending might be from this estimate, there is a modest lift of 0.2% on spending in 2017-18.

Excluding mining, we estimate the lift on spending from 2017-18 to be 4.0%.

The first estimate for spending for the 2019-20 financial year was also published and it was also encouraging. This first estimate is $92.1 billion, which is higher than the first estimate of $83.0bn for 2018-19. Applying realisation ratios, this first estimate suggests a modest lift in spending in 2019-20 of 0.7%.

Mining and other selected sectors are driving this improvement in plans for next financial year. Indeed, mining investment is expected to rise for the first time in a number of years. On the other hand, manufacturing plans for 2019-20 suggest a flat outcome from 2018-19. Manufacturing activity had been improving through much of last year, especially in industries related to the food industry. So it is a little discouraging that the improvement has not continued with the first estimate for 2019-20. But first estimates are usually open to significant revision.

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