Thursday, 28 November 2019

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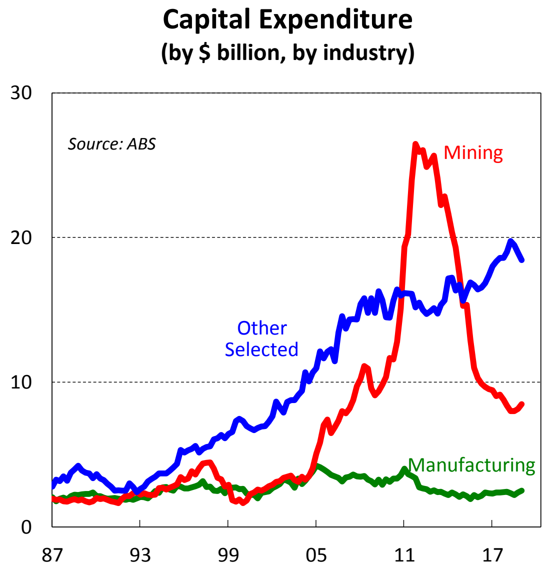
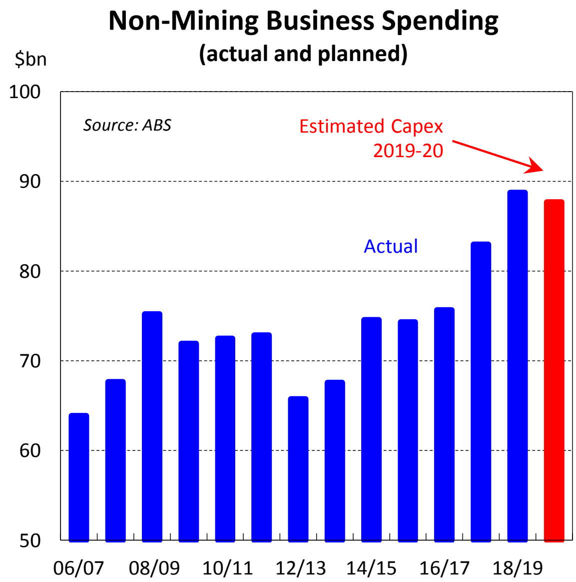
Private Capital Expenditure

Clouds Darken

- **Private capital expenditure (or capex) slipped 0.2% in the September quarter, the third consecutive quarter of decline.**
- **The recent weakness has been driven by the services sector. This sector also weighed on spending plans. In contrast, investment in the mining and manufacturing sectors was relatively firm in the quarter.**
- **Only Queensland and Western Australia saw a lift in capital spending in the September quarter, most likely reflecting stronger mining investment. All other States and territories recorded declines in capex.**
- **Today, we also received the fourth estimate for spending in 2019-20 of $116.7 billion. This estimate implies a 13.7% increase on 2018-19, which is a smaller increase than estimated previously.**
- **The extended period of weak business confidence, global uncertainty and weakness in consumer spending domestically has finally caught up with business spending plans.**
- **Implied spending for non-mining investment is down 1.2% over 2019-20 with a small decline in services capex. Without any upgrades to spending, this would be the first annual decline in non-mining capex in four years.**
- **It wasn't all bad news – spending intentions in mining was upgraded slightly higher, confirming an increase over 2019-20 and the end of the downturn in mining investment.**





Actual Spending

Private capital expenditure (or capex) slipped 0.2% in the September quarter, the third consecutive quarter of decline.

The recent weakness has been driven by the services sector. This sector fell 2.7% in the quarter, which is the third consecutive quarter of decline. In contrast, investment in mining and manufacturing sectors were relatively firm. Capex in these industries rose 3.9% and 5.5%, respectively, in the quarter.

Weaker momentum in the global economy and uncertainty regarding global trade relations may have had some part to play behind recent soft outcomes. However, given that much of the weakness in investment is services-related, it suggests that the languishing consumer sector is also negatively affecting business investment.

By asset class, capex in buildings and structures rose 2.7%, while spending on plant, equipment & machinery fell 3.5% in the quarter.

States and Territories

Only Queensland (2.3%) and Western Australia (1.6%) saw a lift in capital spending, most likely reflecting stronger mining investment. Capex declined in all other States and territories, including NSW (-0.3%), Victoria (-1.0%), South Australia (-7.0%), the ACT (-12.2%), the Northern Territory (-13.5%) and Tasmania (-23.1%).

Spending Plans

Today, we received the fourth estimate for spending in 2019-20 of $116.7 billion. This estimate was a slight 2.9% increase on the third estimate received last quarter. It implies a 13.7% increase on 2018-19 (using 5-year average realisation ratios), which is a smaller increase than estimated previously.

The industry breakdown revealed that weakness was concentrated in the services sector. Plans now imply a small decline in services capex in 2019-20. Implied spending for non-mining investment (manufacturing and services) is now down 1.2%. Without any upgrades to spending, this would be the first annual decline in non-mining capex in four years.

It wasn't all bad news – spending intentions in mining was upgraded slightly higher, confirming the end of the mining-investment downturn. Mining investment plans imply a 14.1% increase in spending in 2019-20 compared with 2018-19.

Plans for manufacturing capex were relatively unchanged, and still imply a modest increase in spending over 2019-20.

Outlook

The extended period of weak business confidence, global uncertainty and weakness in consumer spending domestically has finally caught up with business spending plans.

The recent easing in global trade tensions is a positive development. However, we have yet to see this translate into a meaningful pick up in business confidence. Moreover, the weakness in the domestic economy is persisting, particularly with regard to consumer spending. This would suggest that risks to business spending remain skewed towards the downside.

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