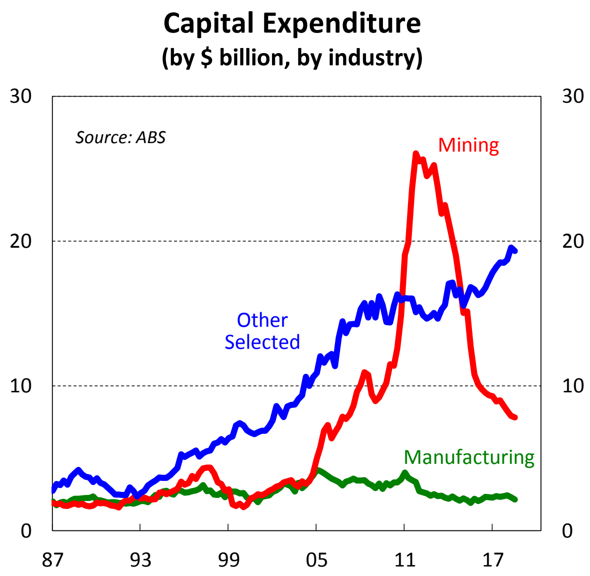
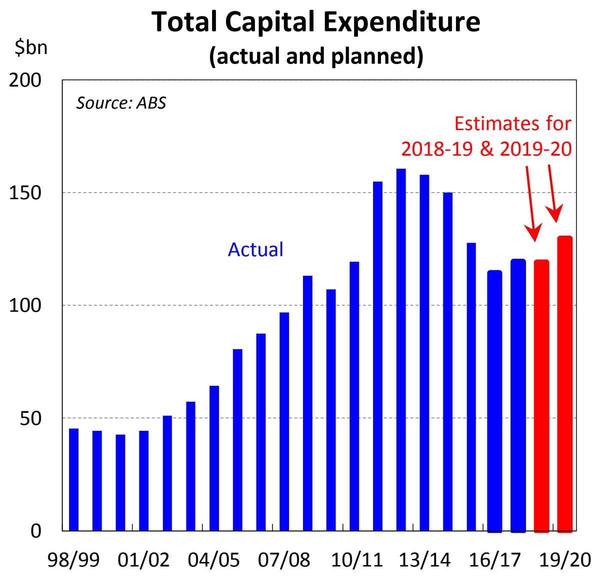
Data Snapshot

Thursday, 30 May 2019

Private Capital Expenditure
Spending Plans Remain Encouraging

- **Today's private capital expenditure report was a mixed bag. Actual spending weakened across all sectors and industries. However, spending plans for this year and next year remained promising, despite data showing fragile sentiment among businesses.**
- **The bulk of businesses were also surveyed ahead of the Federal election. Elections by their very nature bring uncertainty and can cause businesses to pull back or stall on spending plans.**
- **Private capital expenditure fell by 1.7% in the March quarter, which is the third quarterly contraction in a year. On a year ago, capex is 1.9% lower, which is the weakest annual pace since the June quarter of 2017.**
- **The most keenly watched bit of today's data was the future spending plans.**
- **We received the sixth estimate for spending in 2018-19. It stands at $122.2 billion, representing an upgrade of 3.7% on the previous estimate. These spending plans now imply an increase of 2.4% in 2018-19 compared with 2017-18. Excluding mining, we estimate the lift on spending over the same period to be 7.5%.**
- **The second estimate for spending for the 2019-20 financial year was also encouraging. This second estimate is $99.1 billion, up from the second estimate of $87.9 billion for 2018-19. Applying realisation ratios, this second estimate suggests an annual lift in spending in 2019-20 of 6.0%.**





Today's private capital expenditure report was a mixed bag. Actual spending weakened across all sectors and industries. However, spending plans for this year and next year remained encouraging, despite fragile sentiment among businesses. The bulk of businesses were also surveyed ahead of the Federal election. Elections by their very nature bring uncertainty and can cause businesses to pull back or stall spending plans.

Actual Spending

Private capital expenditure (also known as capex) fell by 1.7% in the March quarter, which is the third quarterly contraction in a year. On a year ago, capex is 1.9% lower, which is the weakest annual pace since the June quarter of 2017.

Both capex on buildings & structures and plant, machinery & equipment fell in the March quarter.

Capex on building & structures fell by 2.8% in the March quarter, which is the sixth quarterly decline in two years, underscoring the weak trend in this segment. On a year ago, this segment is down 5.5%. Meanwhile, capex on plant, machinery & equipment slid 0.5% in the March quarter with annual growth at 2.4%.

Across industries, the decline in capex in the June quarter was broad based. Capex declined 1.3% in mining, 7.4% in manufacturing and 5.5% in other selected industries, which covers primarily the services industries. Consumer-spending trends are moving increasingly towards experiences and services, which benefits other selected industries. This is the only industry recording growth in annual terms of 4.3%.

The capex data gives us the best guide to business spending, but it is not comprehensive, as it excludes important sectors such as health, education and agriculture. Health and education have been growing strongly, although agriculture has been soft due to adverse weather effects.

States and territories

The growth in capex was not spread evenly. The strongest gain in the quarter (for the second consecutive quarter) was in South Australia, up 9.9%. Victoria and Tasmania also recorded gains of 4.4% and 3.6%, respectively, in the March quarter. Capex was flat in Queensland and fell the sharpest in the NT (-22.7%), reflecting the impact of the unwinding of the investment phase of the INPEX LNG project. Capex also fell in NSW, WA and the ACT (by 3.8%, 5.3% and 19.5%, respectively).

Spending Plans

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

The Australian Bureau of Statistics (ABS) surveyed the bulk of businesses before the Federal election. Elections by their very nature bring uncertainty, regardless of the outcome. We would expect some further improvement in plans in coming months with the election now out of the way.

We received the sixth estimate for spending in the 2018-19 financial year of $122.2 billion. This represents an upgrade of 3.7% on the fifth estimate for 2018-19 and a lift of 3.8% compared with the sixth estimate in 2017-18.

Applying average realisation ratios to estimate final spending, there is a modest lift of 2.4% on spending in 2017-18. Excluding mining, we estimate the lift on spending from 2017-18 to be 7.5%.

The second estimate for spending for the 2019-20 financial year was also encouraging. This second estimate is $99.1 billion, up from the second estimate of $87.9 billion for 2018-19. Applying realisation ratios, this second estimate suggests an annual lift in spending in 2019-20 of 6.0%. Early estimates are subject to considerable revision, but nevertheless these early estimates are promising.

What is also encouraging is that the upgrade in 2019-20 spending plans is across all industries, although only very modest in manufacturing.

Besa Deda, Chief Economist
Ph: 02-8254-3251

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Senior Economist

Janu Chan
chanj@stgeorge.com.au
(02) 8253 0898