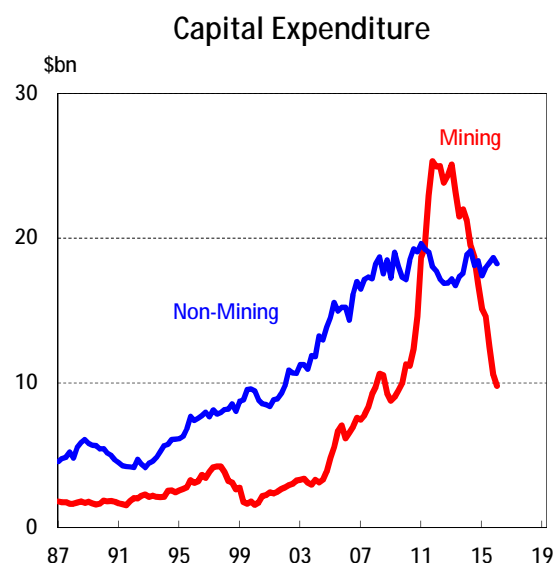
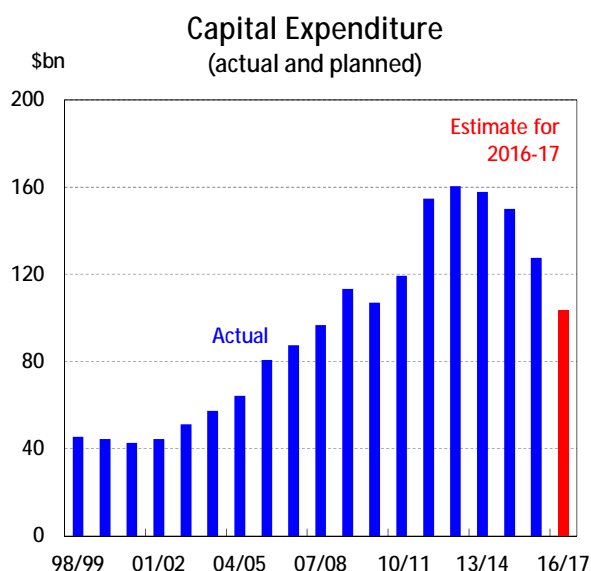


Private Capital Expenditure Downturn Dragging On

- Private capital expenditure fell 4.0% in the September quarter, the third consecutive quarter of decline. Annual growth has been in double-digit contraction for six consecutive quarters.
- Once again, mining investment drove the decline. However, the weakness in capex spending was broad based in the quarter with falls in manufacturing capex and other selected industries.
- Spending plans revealed a similar picture to the previous quarter, and suggest a sizeable decline in capex spending over 2016-17. Plans over 2016-17 were just 1.3% higher than the previous estimate, and imply an 18.8% increase on spending over 2015-16 (based on realisation ratios).
- We are yet to see the downturn in mining investment run its course, but the drag on the economy should ease over time. With regards to non-mining investment, we are yet to see much evidence of a sustained recovery in this survey. The next capex release will give us some clues to the investment spending outlook for 2017-18.
- The RBA is somewhat more upbeat regarding the outlook for non-mining investment than suggested by today's data, and has downplayed the importance of this survey. That said, it notes only "modest" growth in non-mining investment over 2015-16. A further improvement in investment spending would likely be necessary for a pickup in economic growth. Without a strong prospect of above trend economic growth, the likelihood of further monetary easing from the RBA remains.



Actual Spending

Private capital expenditure (capex) fell 4.0% in the September quarter, the third consecutive quarter of decline. On an annual basis, there was an improvement from a 17.1% contraction to a decline of 13.7%, but capex has been in double-digit contraction for six consecutive quarters.

Once again, mining investment drove the decline, falling 7.2% in the September quarter. However, the weakness in capex spending was broad based. Manufacturing capex also fell (-4.9%) as did other selected industries (or services) (-1.9%).

The ongoing downturn in mining investment has been widely known for some time. However, the ongoing weakness in non-mining capex remains a concern and points to a still uneven recovery in non-mining business investment.

Manufacturing capex declined 6.3% in the year to the September quarter, while capex in other industries were 6.4% higher in the year. Mining capex was down 35.1% in the year to the September, just a slight improvement on the 37.1% contraction in the year to the June quarter.

The breakdown by assets revealed a -5.7% decline in buildings in the September quarter, while equipment spending fell 1.9% in the September quarter.

Actual Spending by State

The weakness in capital spending was largely driven by a 17.0% drop in Western Australia. Investment spending has declined for five consecutive quarters in the State, as major resource projects approach completion. Capex in Queensland (-4.3%) also fell, the eleventh consecutive quarter of decline. While the downturn in Queensland has further to run, the rate of decline should ease further. Among other States, capex in South Australia also declined (-3.1%), while in other States, there were gains in NSW (3.7%), Victoria (1.3%), Tasmania (7.1%) and the Northern Territory (19.7%) and the ACT (28.2%).

On an annual basis, declines in Western Australia (-34.0%), Queensland (-30.0%), and the Northern Territory (-10.2%) continue to reflect weaker mining investment. The annual pace was also weak in South Australia (-5.7%), the ACT (-2.8%). There were modest gains in Victoria (1.7%) and Tasmania (2.5%). NSW had the strongest annual growth in capex, as businesses are likely more encouraged by stronger activity in the State.

Spending Plans

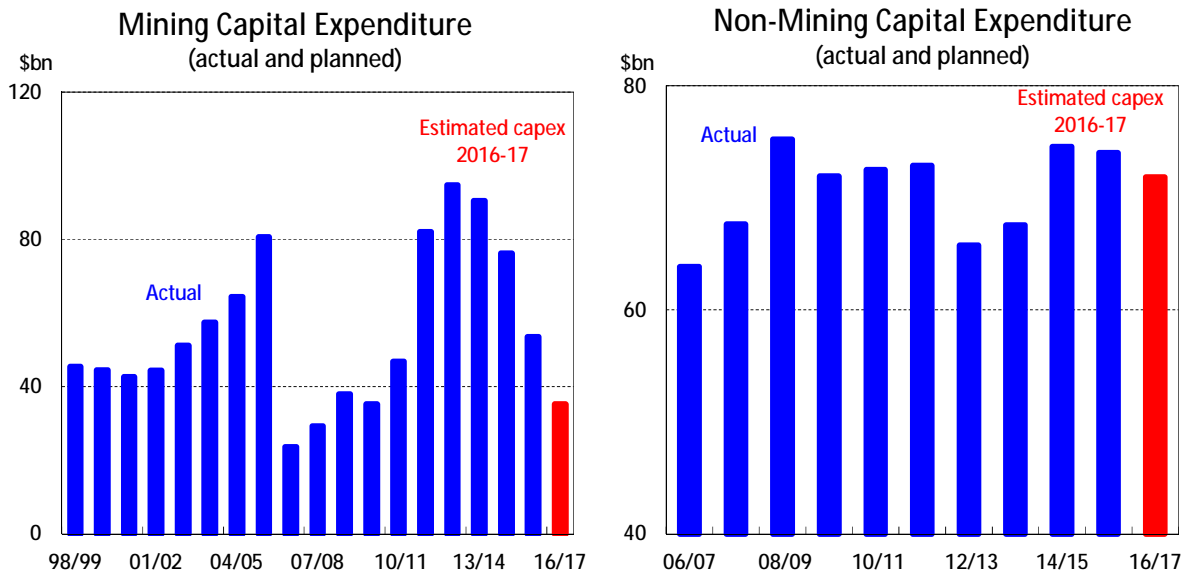
Spending plans revealed a similar picture to the previous quarter, and suggest a sizeable decline in capex spending over 2016-17. In today's release, we received the fourth estimate for spending over 2016-17.

Plans over 2016-17 were just 1.3% higher than the previous estimate. Based on realisation ratios, we estimate an 18.8% increase on spending over 2015-16.

Mining investment was downgraded 3.2% on the previous quarter, and point to little response from miners to the rebound in commodity prices over recent months. With question marks over the sustainability of the recent rally, resource producers are likely wary of committing to further

investment.

Non-mining capital spending plans were very little changed from the previous quarter, and continue to imply a modest decline in spending in 2016-17 from 2015-16. Manufacturing investment is estimated to decline 1.0% in 2016-17 while capex in other selected industries is expected to fall 3.1% (based on realisation ratios). The data continue to suggest there is lack of traction in non-mining investment.



Outlook and Implications

The unwinding of the mining investment boom, driving a decline capital spending, has been an ongoing theme that has played out over the last few years. We are yet to see this run its course, but the drag on the economy should ease over time.

In the next capex release, we will obtain the first estimate for spending for 2017-18, which will give a guide on the impact of the downturn in mining investment next year. We will also gain further insight into the outlook for non-mining investment. At present, we are yet to see much evidence of a sustained recovery in non-mining investment in this survey.

The RBA is somewhat more upbeat regarding the outlook for non-mining investment than implied by today's data. In the latest Statement on Monetary Policy, it notes that "the capex survey only covers about half of the non-mining business investment captured by the more comprehensive national account measure". That said, it notes only "modest" growth in non-mining investment over 2015-16.

Further improvement in investment spending would likely be necessary for a pickup in economic growth. While the current pace of economic growth remains moderate, growth will need to pick up beyond trend for inflation to return to target. Without a strong prospect of above trend economic growth, there remains a likelihood of further monetary easing from the RBA.

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The Detail

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