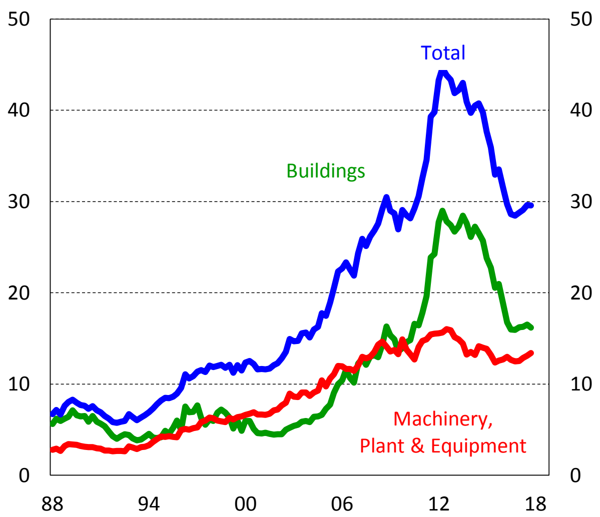
Private Capital Expenditure

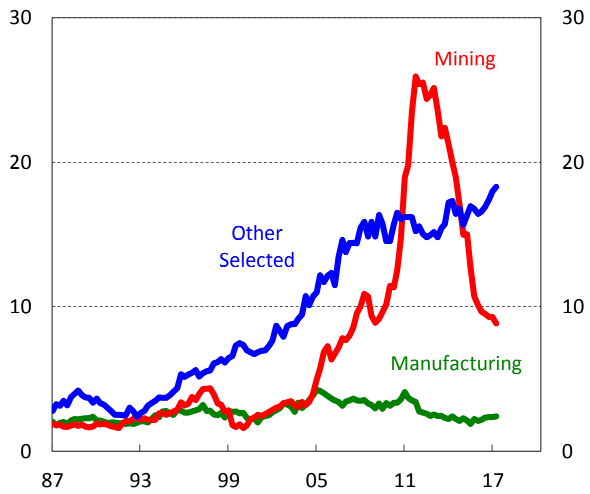
Bringing Business Investment Back

- **Private capital expenditure (also known as capex) slipped 0.2% in the December quarter, below the consensus estimate for a 1.0% gain.**
- **The weakness was entirely driven by mining investment, which fell 4.7% in the quarter. Non-mining capex rose 1.8% in the quarter, and has risen for five consecutive quarters.**
- **Spending plans were upgraded marginally for 2017/18 to $114.6bn, 5.1% higher than the fourth estimate in the previous quarter.**
- **Looking further ahead, the first estimate for 2018/19 was for $84bn, modestly higher than the first estimate in the previous year. However, we caution that the first estimates for spending tend to be unreliable, and very typically underestimate actual spending. If business conditions remain elevated and the global economy maintains its current momentum, it is likely that actual spending will turn out stronger than this first estimate implies.**
- **The downturn in mining investment is not over yet, but its drag on the economy will continue to lessen. We are gaining further evidence of a recovery in non-mining investment, which is being supported by a pickup in global growth and also a large pipeline of public infrastructure spending, which is spilling over into the private sector.**

Capital Expenditure
($ billion, by asset)



Capital Expenditure
(by $ billion, by industry)



Actual Spending

Private capital expenditure (also known as capex) slipped 0.2% in the December quarter, below the consensus estimate for a 1.0% gain. In the context of business conditions at close to record highs and the upswing underway in the global economy, today's data would seem a touch disappointing. However, the decline was entirely driven by mining investment, which fell 4.7% in the quarter.

The mining investment downturn does not appear to be completely over yet, but we are still getting evidence that non-mining investment is improving. Non-mining capex rose 1.8% in the quarter, and has risen for five consecutive quarters. Within non-mining investment, manufacturing capex rose 2.6%, while investment in other selected industries (services) rose 1.7%.

On an annual basis, the recovery in non-mining investment is more apparent. Total non-mining investment was up 10.4% in the year, which was the strongest annual pace in three years. Both manufacturing (10.7%) and services (10.3%) had double-digit annual growth in the quarter. Mining investment was down 8.4% in the year to the December quarter, down from the 8.0% annual decline in the September quarter. This is however, a vast improvement from the 37.2% contraction in the year to June 2016.

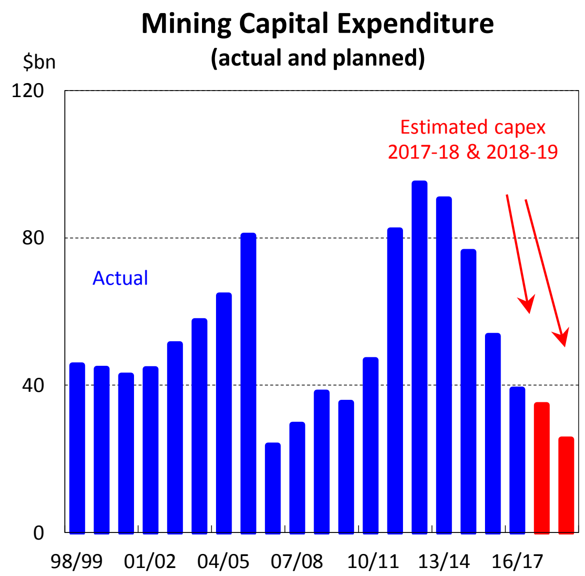
The breakdown by asset-class revealed a 2.1% decline in building capex in the December quarter. Meanwhile, spending on equipment, plant and machinery rose 2.2%.

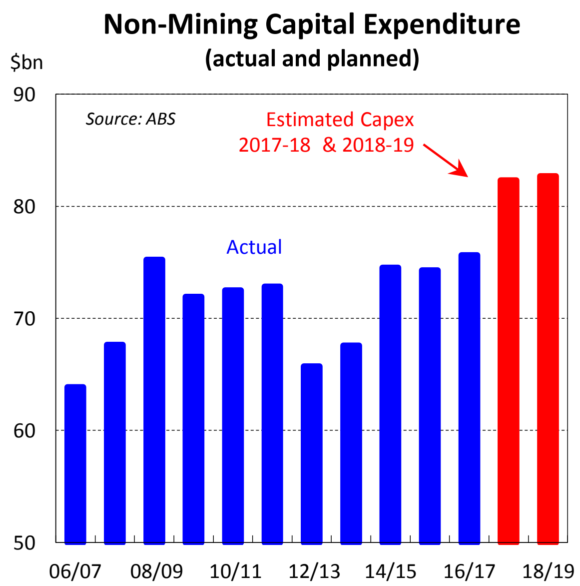
States and territories

Given the weakness in mining capex, it was no surprise that there were large declines in capex in WA (-9.6%) and the Northern Territory (-9.8%). There was also a sizeable contraction in Tasmania (-15.6%), although this comes from a small base. The recovery in non-mining investment was evident through stronger capex in NSW (3.3%), Victoria (3.2%) and the ACT (38.1%). Encouragingly, Queensland capex rose 1.1% in the quarter, and has risen for four consecutive quarters. The mining investment downturn has mostly run its course in the State. South Australian capex fell 4.2%, but it followed a 19.8% jump in the September quarter.

Spending Plans

Today's release provided the fifth estimate for capex spending for the 2017/18 financial year and the first estimate for spending in the 2018/19 financial year.





Spending plans were upgraded marginally for 2017/18 to $114.6bn, 5.1% higher than the fourth estimate in the previous quarter. The breakdown by industry reveals that the upgrade was across all industries, but mostly within mining and other selected industries.

Looking further ahead, the first estimate for 2018/19 was for $84bn, modestly higher than the first estimate in the previous year. However, we caution that the first estimates for spending tend to be unreliable, and very typically underestimate actual spending. If business conditions remain elevated and the global economy maintains its current momentum, it is likely that actual spending will turn out stronger than this first estimate implies.

By industry, mining investment plans suggest a further decline in spending over 2018/19, and was 5.3% lower than the first estimate for 2017/18. Manufacturing and other selected industries however, were 7.1% and 8.1% higher than their respective estimates for 2017/18.

Spending intentions are implying that the downturn in mining investment has a little further to run, but that the drag will increasingly lessen over 2018-19. Meanwhile, the outlook for non-mining investment continues to be encouraging and suggest spending could be a little stronger over 2018-19.

Outlook

The downturn in mining investment is not over yet, but the drag on the economy will continue to lessen. We are also gaining further evidence of a recovery in non-mining investment, which is being supported by a pickup in global growth and also a large pipeline of public infrastructure spending, which is spilling over into the private sector.

Actual spending point to mining investment dragging in the December quarter, but it follows strength in previous quarters. More broadly, the improving business investment outlook, particularly for non-mining, suggests that business investment would provide a positive contribution to economic growth over the coming year at a time when downside risks persist for consumer spending and a turning in the housing construction cycle.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist	Senior Economist	Senior Economist
Besa Deda	Josephine Horton	Janu Chan
dedab@bankofmelbourne.com.au	hortonj@bankofmelbourne.com.au	chanj@bankofmelbourne.com.au
(02) 8254 3251	(02) 8253 6696	(02) 8253 0898