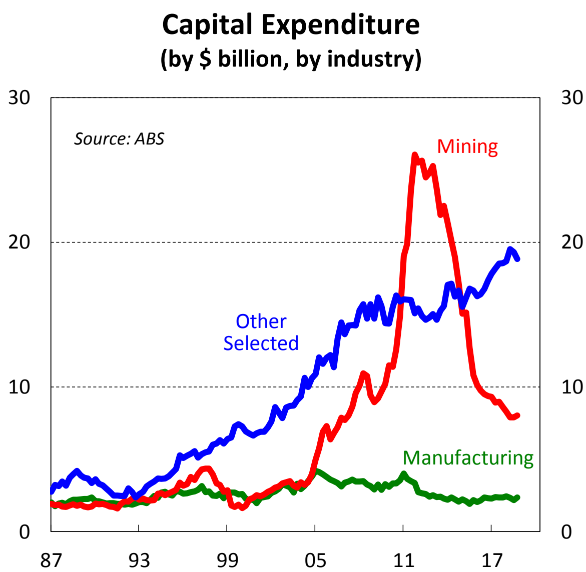
Data snapshot

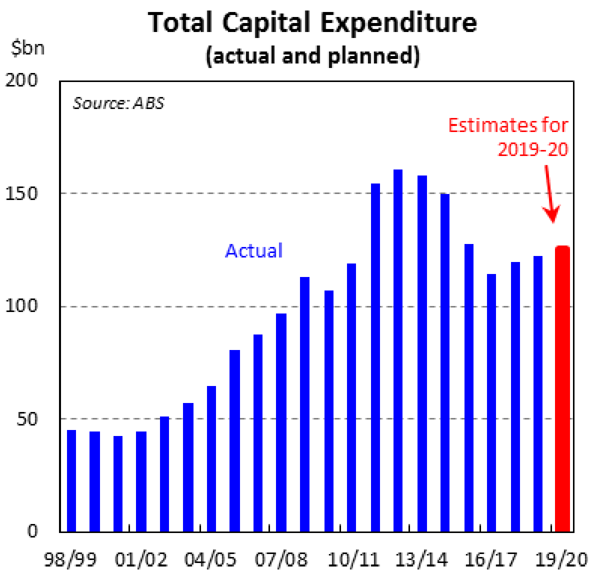
Thursday, 29 August 2019

Private Capital Expenditure

Recovery Intact For Now

- **It was a mixed result in today's private capital expenditure report. Actual spending was weak, declining for the second consecutive quarter. However, business spending plans continue to imply a modest increase in investment over 2019-20.**
- **Private capital expenditure (or capex) fell 0.5% in the June quarter, following a 1.3% decline in the March quarter.**
- **There are a few key themes at play behind today's data. Prospects have improved for mining investment as the drag from the completion of major LNG projects is now complete and as commodity prices have risen. However, flagging confidence amid uncertainty over trade developments and a slowing global economy might be having an increasingly negative impact on business investment within other sectors.**
- **Total spending came in at $122.1 billion for 2018-19, a modest 2.3% increase from 2017-18 and confirming an ongoing recovery in business investment. The third estimate for spending in 2019-20 was $113.4 billion. When using realisation ratios, it would imply a modest 2.7% increase in 2019-20, suggesting that a recovery in business investment remains intact. There remains considerable uncertainty around investment plans, particularly given fragile business confidence and weakness in the global economy.**
- **There was an improvement in mining investment plans, which suggests an increase in mining investment of 13.0%. Plans still point to a modest increase in non-mining investment over 2019-20, however it implies a smaller increase than estimated previously.**





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Actual Spending

Private capital expenditure (or capex) fell 0.5% in the June quarter, the second consecutive quarter in which capex has fallen, following a 1.3% decline in the March quarter.

There are a few key themes at play behind today's data. Prospects have improved for mining investment as the drag from the completion of major LNG projects is now complete and as commodity prices have risen. However, flagging confidence amid uncertainty over trade developments and a slowing global economy might be having an increasingly negative impact on business investment within other sectors.

In the quarter, mining capex rose 1.7% in the June quarter, the first increase in five quarters.

Overall, non-mining investment declined 1.3% in the quarter.

Capex in other industries (or services) weakened, falling 2.4% in the June quarter, and dropping for two consecutive quarters. While manufacturing capex was somewhat resilient rising 8.5% in the quarter, this followed sizeable declines in the two previous quarters.

By asset class, the weakness in capex was driven by buildings and structures, which was down 3.3% in the quarter. Spending on plant, machinery and equipment however, rose 2.5% in the June quarter.

States and territories

Across States, growth was led by Western Australia (4.8%), especially in plant, machinery & equipment and corresponds with stronger mining investment. Another standout was NSW (4.2%), although capex declined in all other States including Victoria (-2.7%), Queensland (5.9%), South Australia (-3.7%) and Tasmania (-9.8%).

Spending Plans

Today we received actual spending for 2018-19, and the third estimate for spending in 2019-20.

Total spending in 2018-19 was $122.1 billion, a modest 2.3% increase from 2017-18 and confirming an ongoing recovery in business investment.

Encouragingly, spending plans continue to imply a modest increase in business spending over 2019-20, and suggest that this recovery will continue.

The third estimate for spending in 2019-20 was $113.4 billion, up from the second estimate and 10.7% higher than the third estimate in the previous year. However, when using realisation ratios, it would imply a modest 2.7% increase in 2019-20 (using 5-year average realisation ratios).

The detail by industry however, seemed to reflect mixed conditions. There was an improvement in mining investment plans, which suggests an increase in mining investment of 13.0%.

However, while plans still point to a modest 2.2% increase in non-mining investment over 2019-20, it implies a smaller increase than estimated previously. It would suggest some caution may be impacting spending plans, particularly for services (estimated to increase 1.7%). Nonetheless, manufacturing capex was relatively firm, with an estimated increase of 6.0% in 2019-20.

Outlook

There remains considerable uncertainty around investment plans, particularly given fragile business confidence and weakness in the global economy. The ongoing uncertainty in the global economy has the potential to weigh more heavily on investment plans. Nonetheless, current estimates of investment spending remain encouraging, especially within the mining investment.

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The Detail