Data Snapshot

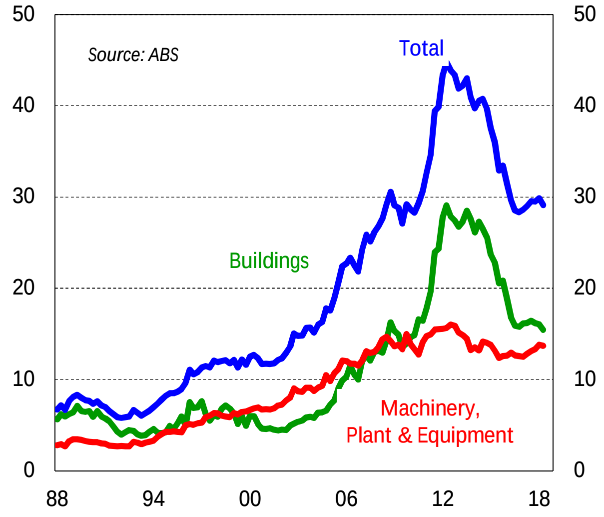
Thursday, 30 August 2018

Bank of Melbourne

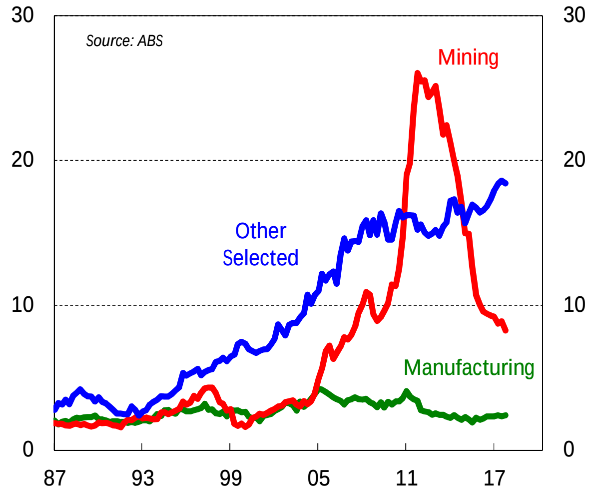
Private Capital Expenditure
Non-Mining Investment Flatlining?

- Private capital expenditure (also known as capex) fell 2.5% in the June quarter, the first quarterly drop in 1½ years. Annual growth eased from a pace of 4.3% in the March quarter to 0.4% in the year to the June quarter, which was the weakest in a year.
- A 7.2% drop in mining capex drove the decline in the June quarter. That said, total non-mining capex (which includes services and manufacturing) fell 0.5% in the quarter.
- The sixth estimate or actual spending in 2017-18 was $118.9 billion, a modest 4.1% increase from 2016-17. Much of that improvement has come from a solid increase in non-mining investment.
- Looking ahead to 2018-19, the outlook is not as positive. The third estimate came in at $102.0 billion. This is 1.1% lower than the third estimate for spending for 2017-18. After applying realisation ratios to the estimate for 2018-19, it suggests a decline in investment spending of 9.0%.
- Both mining and non-mining investment intentions were somewhat disappointing. We are still yet to see the end of the downturn in mining investment, although the drag on the economy is continuing to lessen. The spending intentions survey suggests that this drag has further to run.
- After the strong increase in non-mining investment over 2017-18, plans imply non-mining investment spending will flat line in 2018-19.

Capital Expenditure
($ billion, by asset)



Capital Expenditure
(by $ billion, by industry)



Actual Spending

Private capital expenditure (also known as capex) fell 2.5% in the June quarter, the first quarterly drop in 1½ years. Annual growth eased from a pace of 4.3% in the March quarter to 0.4% in the year to the June quarter, which was the weakest in a year.

A 7.2% drop in mining capex drove the decline in the June quarter, highlighting that the unwinding of the mining investment boom is not over just yet. That said, capex in other selected industries (or services) also fell in the quarter (down -1.0%), resulting in a fall of 0.5% in non-mining capex over the quarter. Manufacturing was the only industry to see an increase, lifting 2.7%.

While the ongoing downturn in mining investment has a little further to run, the drag on the economy is continuing to ease. However, the recovery in non-mining investment which was particularly strong over the past year appears to be easing. This moderation is not particularly surprising given the uncertainty with regards to trade tensions for the global economy, although it is a touch disappointing given that business surveys have continued to point to elevated conditions and confidence.

On an annual basis, mining capex contracted 11.1% in September, weakening from the 5.5% decline in the March quarter. Manufacturing and other selected industries were modestly higher in the year to the June quarter, lifting 3.0% and 6.1%, respectively.

By asset-class, buildings capex contracted 3.9% in the June quarter. Meanwhile, spending on equipment, plant and machinery slipped 0.9%.

States and territories

The weakness in mining investment over the June quarter was evident in the State breakdown. There were large falls in capex in Western Australia (-7.5%) and the Northern Territory (-18.6%). In other States, there continued to be strength in NSW, where capex rose 2.0% in the June quarter, the fifth consecutive quarterly increase. Investment, however pared back in Victoria (-5.4%). South Australia had a strong percentage quarterly increase (29.7%), but capex fell in Tasmania (-7.0%) and the ACT (-25.0%).

Spending Plans

Today's release provided the final estimate or actual capex spending for the 2017-18 financial year and the third estimate for spending in the 2018-19 financial year.

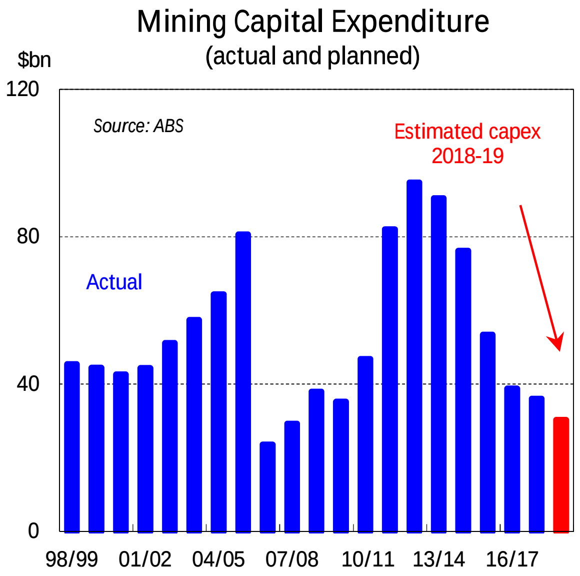
The sixth estimate and actual estimate for spending in 2017-18 was $118.9 billion, a modest 4.1% increase from 2016-17. Much of that improvement has come from a solid increase in non-mining investment.

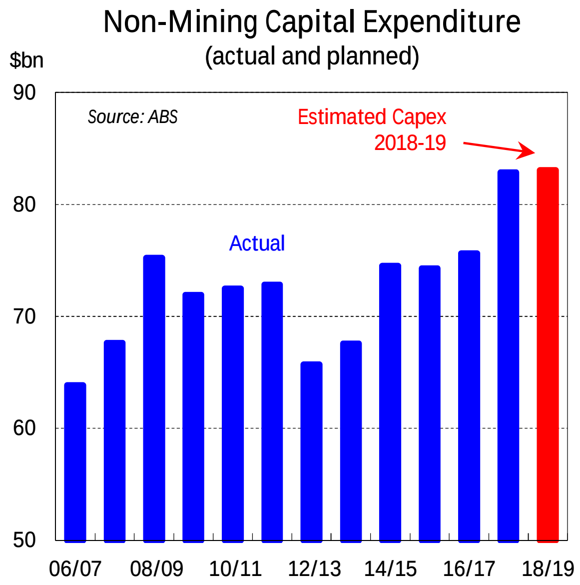
Looking ahead to 2018-19, the survey is suggesting that the picture is not as positive.

The third estimate came in at $102.0 billion. This is 1.1% lower than the third estimate for spending in 2017-18. After applying realisation ratios, it suggests a decline in investment spending of 9.0%.

Again, much of the weakness comes from mining investment. In 2018-19, firms plan to spend $31.9 billion on mining capex, 4.2% lower than the estimate in 2017-18. The RBA has said that it expects mining investment "to trough in coming quarters, but beyond that was expected to increase moderately as companies invested to sustain production". We are yet to see a trough and subsequent recovery in this capex survey.

Investment intentions in non-mining was somewhat disappointing after the strong increase over 2017-18. After a 9.5% increase in spending in 2017-18 from 2016-17, plans imply non-mining investment spending will flat line in 2018-19.





Outlook

Today's data does not provide a particularly positive picture for the business investment outlook. We are still yet to see the end of the downturn in mining investment however, the drag on the economy is lessening. Spending intentions suggest that this drag has further to run.

For non-mining investment, today's release was also a touch disappointing, particularly given business conditions have held at above average levels. The recovery over the past year appears to be stalling. That being said, while this does not provide a great signal for the outlook, there are areas of non-mining investment which are not capture in this survey, such as education, healthcare, agriculture and public administration.

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

Contact Listing

Chief Economist

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

Senior Economist

Josephine Horton
hortonj@bankofmelbourne.com.au
(02) 8253 6696

Senior Economist

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

The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.