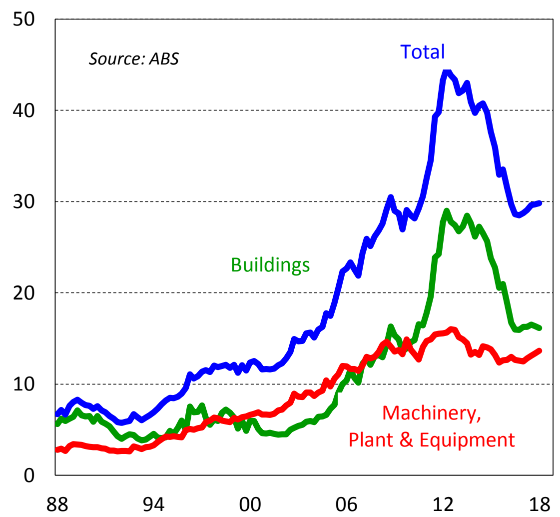
Private Capital Expenditure

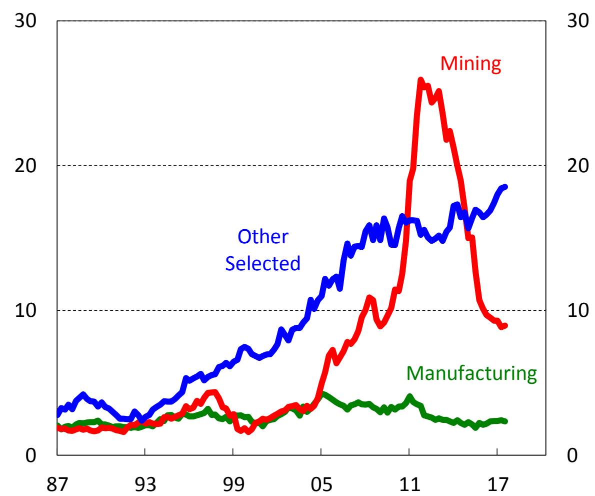
Momentum Stalling?

- **Private capital expenditure (also known as capex) rose 0.4% in the March quarter. It was the fifth consecutive quarterly increase, but the pace of growth has slowed over the last six months.**
- **While it was encouraging to see mining capex lift in the quarter, investment intentions continue to suggest that the unwinding of the mining investment boom is not over just yet. Mining capex rose 1.2% in the quarter.**
- **Total non-mining capex (manufacturing and other) grew just 0.1%, weighed down by a drop in manufacturing capex. It was the softest increase in non-mining capex in 1½ years.**
- **Business spending was driven higher by NSW and Victoria. In the March quarter, capex in these States rose 2.3% and 1.1%, respectively.**
- **The second estimate for spending in 2018-19 was $83.0 billion, an upgrade from the first estimate of $83.0 billion previously. However, after adjusting the estimate (using realisation ratios) it implies a virtually unchanged outcome to the previous quarter.**
- **The plans for non-mining investment were somewhat discouraging, and do not suggest much growth in spending over 2018-19.**
- **Early estimates do not tend to be great predictors of actual spending, and are typically revised upwards as the year progresses. However, it was disappointing to not see a larger upgrade given that business conditions are tracking at record high levels. A clearer picture will emerge in the next capex release.**

Capital Expenditure
($ billion, by asset)



Capital Expenditure
(by $ billion, by industry)



Actual Spending

Private capital expenditure (also known as capex) rose 0.4% in the March quarter. It was the fifth consecutive quarterly increase, but the pace of growth has slowed over the last six months. Over the two quarters to March, private capex has grown just 0.6%. In the two quarters prior, growth was a much stronger 3.1%.

For the quarter, the weakness was driven by manufacturing capex, which fell 3.4%. Capex in mining (1.2%) and other selected industries (services) (-3.4%) however, grew in the quarter.

While it was encouraging to see mining capex lift in the quarter, investment intentions continue to suggest that the unwinding of the mining investment boom is not over just yet (see below for further details). Total non-mining capex (manufacturing and other) grew just 0.1%, weighed down by weakness in manufacturing capex. It was the softest increase in non-mining capex in 1½ years.

On an annual basis, mining capex was down 5.7%. That was the best result in 4½ years. The drag on the economy from mining investment is dissipating. Among the non-mining sectors, growth in other capex was relatively firm at 9.6% in the year. However, manufacturing capex was down 0.4% in the year to the March quarter.

By asset-class, buildings capex contracted 1.3% in the March quarter. Meanwhile, spending on equipment, plant and machinery rose 2.5%.

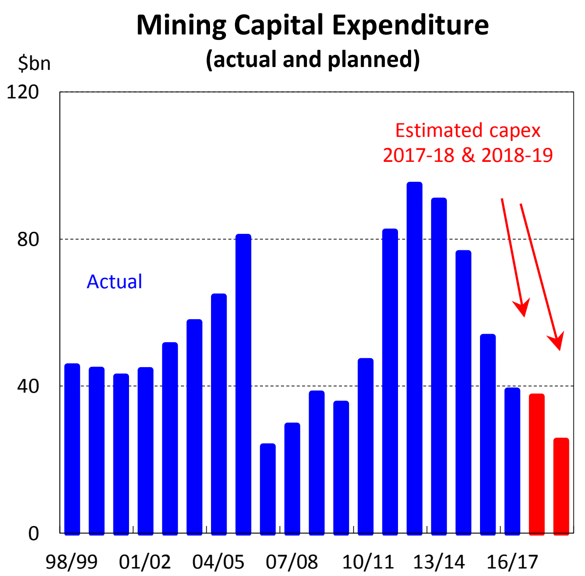
States and territories

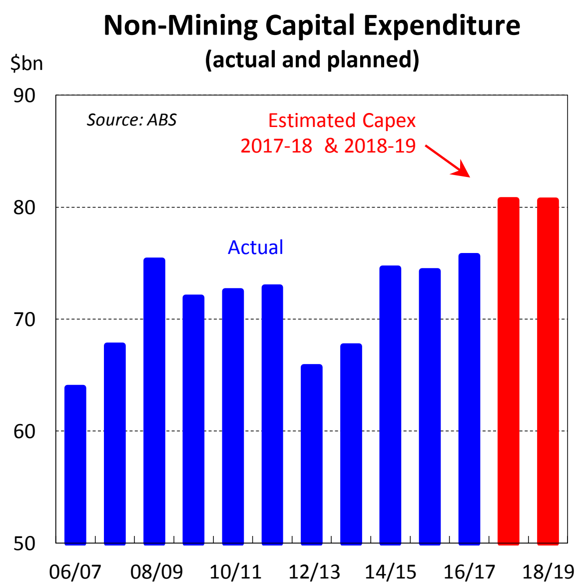
Business spending was driven higher by NSW and Victoria. In the March quarter, capex in these States rose 2.3% and 1.1%, respectively. On an annual basis, growth was also solid at 9.6% and 10.7%, respectively.

Conditions were more mixed in other States. Capex declined in Queensland (-1.2%), South Australia (-10.9%) and Western Australia (-0.2%). In Tasmania (33.1%), the Northern Territory (1.2%) and the ACT (4.6%), capex increased, although spending in these States and territories is much smaller.

Spending Plans

Today's release provided the sixth estimate for capex spending for the 2017-18 financial year and the second estimate for spending in the 2018-19 financial year.





The sixth estimate for spending for 2017-18 was $117.5 billion, and a modest 2.4% increase on spending over 2017-18.

With 2017-18 ending soon, the focus however, was on spending plans for 2018-19.

The second estimate for spending in 2018-19 was upgraded. However, second estimates of spending are typically higher than the first estimates of spending. After adjusting the estimate (using realisation ratios), it implies a virtually unchanged outcome to the previous quarter.

Much like first estimates of spending, second estimates do not tend to be great predictors of actual spending, and are typically revised upwards as the year progresses. However, it was disappointing to not see a larger upgrade given that business conditions are tracking at record high levels.

In the breakdown by industry, mining investment plans continue to point to an ongoing decline in spending over 2018-19. However, the plans for non-mining investment were somewhat discouraging, and do not suggest a meaningful growth in spending over 2018-19.

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.

There was however, some disappointing news on non-mining investment. The pickup over 2017 appears to have eased. Moreover, investment intentions over the coming year are not pointing to much growth in spending over 2018-19.

That being said, such early estimates of spending are unreliable, and very typically underestimate actual spending. Buoyant business conditions also suggest scope for upgrades. A clearer picture will emerge in the next capex release.

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