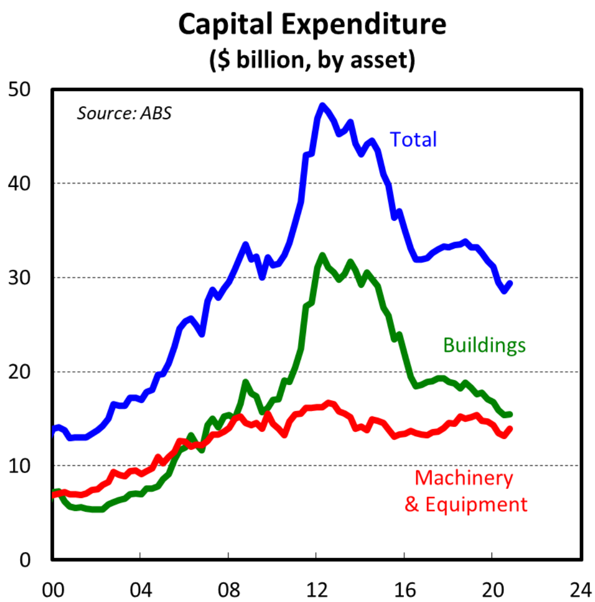
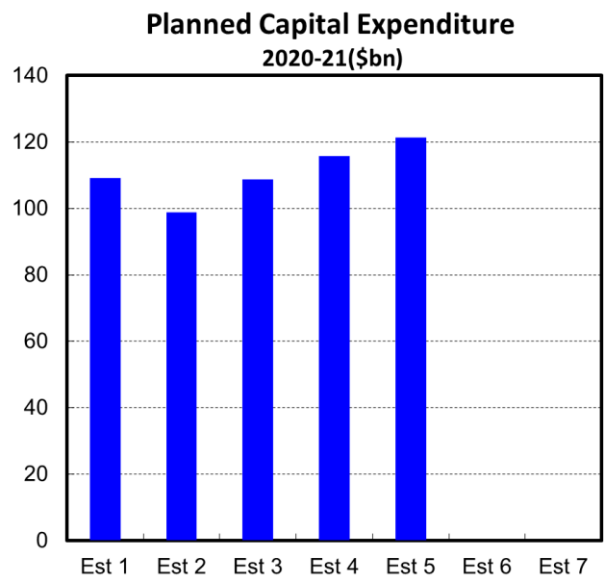
Private Capital Expenditure

Investment Ticks Up

- **Business spending picked up in the December quarter as social distancing restrictions were eased and the economic outlook improved. Private capital expenditure (or capex) increased 3% but remains weak, at 7.5% below its level in the same quarter in 2019.**
- **The increase in investment has been directed to equipment and machinery, which was up 5.7% in the quarter. This suggests that government tax incentives introduced in the October Federal budget are feeding through to investment.**
- **Investment in buildings and structures was flat in the December quarter.**
- **On an industry basis, the quarterly increase was driven entirely by a 4.9% rise in non-mining investment. This came off a low base and remains muted, down 13.3% over the year.**
- **Mining investment declined by 1.4% in the quarter. However, in annual terms, mining investment remains resilient, up 2.1%.**
- **The fifth estimate for investment plans in 2020-21 was 4.8% higher than the fourth estimate and 22.8% higher than the low point of estimate two when extreme uncertainty was prevalent.**
- **The pickup in investment in December is good news. It suggests that businesses are responding to the reopening of the economy and the decline in global uncertainty as vaccines are rolled out and COVID case numbers decline. Looking forward, we expect investment to increase in 2021-22.**





Actual Spending

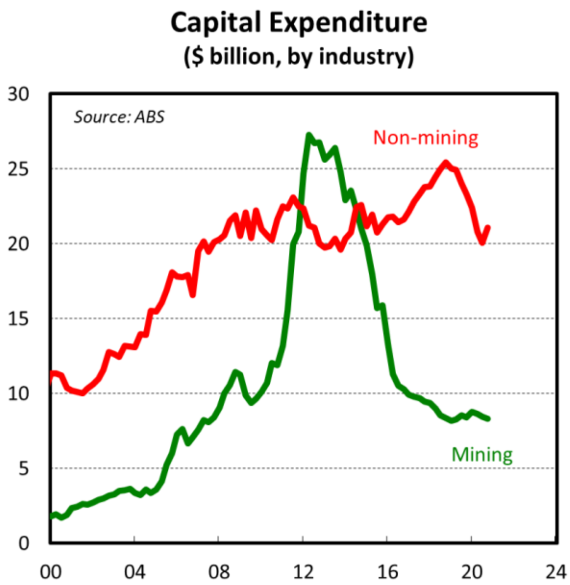
Business spending picked up in the December quarter as the social distancing restrictions were eased and the economic outlook improved. Private capital expenditure (or capex) increased 3% but remains weak, at 7.5% below its level in the same quarter in 2019. This result was stronger than our forecast and median estimates. This marks the first positive growth we have seen in capex since June 2019.

The increase in investment has been directed to equipment and machinery, which was up 5.7% in the quarter, although remains down 5.2% over the year. This suggests that government tax incentives introduced in the October Federal budget are feeding through to investment. Investment in buildings and structures was flat in the December quarter and is down 9.4% compared to December 2019.

On an industry basis, the increase was driven entirely by a 4.9% rise in non-mining investment. This came off a low base and remains muted, down 13.3% over the year.

Mining investment declined by 1.4% in the quarter. However, in annual terms, mining investment remains resilient, up 2.1%. Information from Reserve Bank liaison and company reports suggest that mining investment will be supported by work on iron ore and coal projects this financial year. Notably, extensive fiscal support from the Chinese government to support its infrastructure spending has boosted demand for iron ore. In turn, this has benefitted Australian producers.

Note: The ABS made some changes to the survey in the December quarter and so these groupings are slightly different than reported in the past. It expanded its coverage to include education and health care as well as changing broad industry groupings from mining, manufacturing and other selected industries to mining and non-mining.



Spending Plans

Today, we received the fifth estimate for spending in 2020-21, which was $121.4 billion. This was 4.8% higher than the fourth estimate received in the previous quarter and 22.8% up on the low point of estimate two, taken nine months ago when the pandemic was declared and uncertainty surrounding business planning was at its highest.

While it is encouraging to see improvements in plans for capital expenditure, it should be noted that the fifth estimate for 2020-21 is 7.1% below the fifth reading for 2019-20. The COVID-19 recession dampened business spending plans on what they might otherwise have been.

Today's survey presented the first estimate of capital expenditure plans for 2021-22. This came in at $105.5bn, a 3.4% decline on the first estimate for 2020-21. However, we aren't putting much stock in this estimate since there are complicating factors which mean the picture for 2021-22 is still unclear:

- The first estimate for 2020-21 overstates spending relative to the likely outcome. This is because the survey was conducted in February, before businesses had factored in the impact of COVID-19.
- Estimates one and two for any given year are not usually reliable guides to the final outcome. Plans become more reliable when the outcome for the previous year is a known – that is from estimate three onwards.

Taking these factors into consideration, we still expect business investment to improve in 2021-22.

The key takeout from today's estimates are that there has been a lift in expectation from the dip in estimate two and that it will take time before capital expenditure is back to the levels seen in 2019-20.

Outlook

The pickup in investment in December is good news. It suggests that businesses are responding to the reopening of the economy and the decline in global uncertainty as vaccines are rolled out and COVID case numbers decline. Tax incentives introduced in October have also likely supported capex. Overall, however, investment remains weak relative to pre COVID levels. It still looks like capex will be down in 2020/21 but by less than suggested three months ago.

Looking forward, we expect investment to increase in 2021-22. However, we will need further reads on capex plans for a clearer picture of the investment outlook.

Hans Kunnen, Senior Economist
Ph: 02-8254-1316
&
Matthew Bunny, Economist
Ph: 02-8254-0023

Contact Listing

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

Senior Economist
Hans Kunnen
hans.kunnen@bankofmelbourne.com.au
(02) 8254 1316

Economist
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023