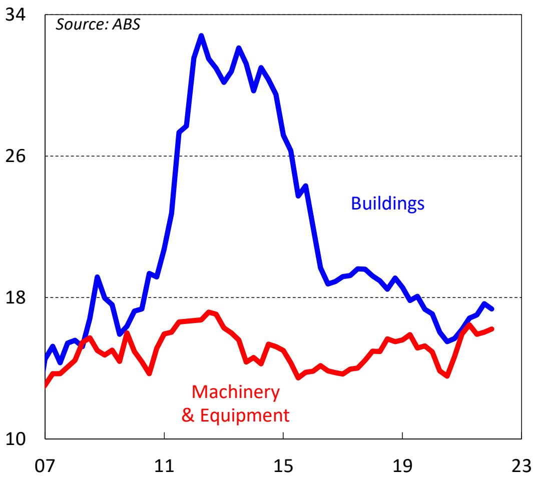
Thursday, 26 May 2022

Private Capital Expenditure

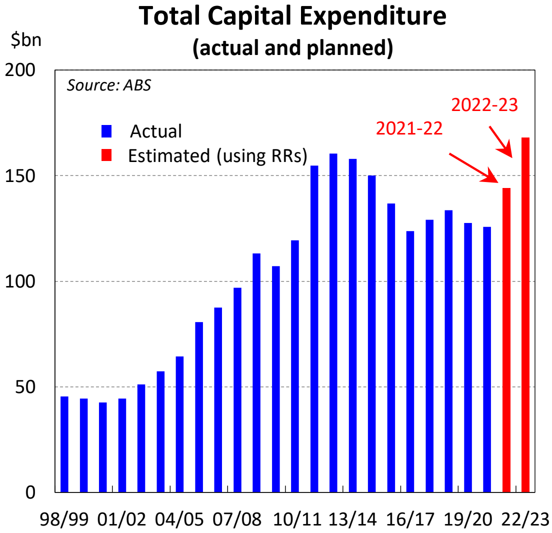
2022-23 Plans Imply Best Growth in 11 Years

- **New private capital expenditure (capex) declined by 0.3% in the March quarter. This follows a revised 2.3% increase (previously 1.1%) in the December quarter. Supply disruptions, flooding and labour shortages impeded capex in the quarter.**
- **The weakness in the quarterly result was driven by a fall in spending on buildings and structures, which declined 1.7% in the March quarter. Conversely, spending on machinery and equipment rose by 1.2% in the period.**
- **Generous tax incentives have helped to entice businesses to increase spending on machinery and equipment. Additionally, the economic recovery and increase in demand has incentivised businesses to expand their capacity.**
- **By industry, spending declined by 0.3% in the mining and non-mining sectors. Capex growth was mixed by region in the March quarter. Weakness in NSW and Victoria was partly offset by an uptick in capex in some of the smaller states.**
- **Spending plans were upgraded. This financial year is nearly over and spending is set to be nearly 15% bigger than in the previous year. However, estimate 2 for 2022-23 suggests another big lift in spending by businesses. Indeed, if the estimates come to fruition, spending could be 16.6% higher in 2022-23 – the strongest annual growth in 11 years.**
- **The upgrade in spending plans is consistent with our expectation for solid growth in business investment over the coming year. Business confidence has been resilient in the face of growing headwinds. Labour shortages, supply disruptions, and elevated price pressures are key challenges as we transition from 'pandemic' to 'endemic'.**

Capital Expenditure
($ billion, by asset)



Total Capital Expenditure
(actual and planned)



Actual Spending

New private capital expenditure (capex) declined by 0.3% in the March quarter of 2022. This outcome follows a revised 2.3% increase (previously a 1.1% increase) in the December quarter of 2021. The capex survey is another important partial input into the March quarter GDP numbers, due Wednesday next week. We’re expecting GDP growth of 0.2% in Q1 and 2.5% in the year.

The outcome was softer than the 1.5% gain expected by consensus. However, the upgrade to the previous quarter means that the outcome wasn’t as large of a miss as it initially appears. In annual terms, new private capital expenditure rose by 4.5% over the year to the March quarter.

Several headwinds likely impacted business investment in the March quarter. This included supply disruptions, flooding across large parts of NSW and Queensland, challenges in progressing work on projects with workers in isolation, and growing inflationary pressures.

- **Machinery & Equipment**

Spending on machinery and equipment rose by 1.2% in the March quarter. This followed 0.7% growth in the December quarter. In annual terms, spending on machinery and equipment grew by 1.8%. Generous tax incentives have helped to entice businesses to increase spending on machinery and equipment as the economy recovers from the pandemic. This continued in the March quarter. Spending was 6.3% above pre-pandemic levels (as at December quarter 2019).

Additionally, the economic recovery and increase in demand has incentivised businesses to expand their capacity. Private business surveys have shown that capacity utilisation has remained elevated in recent months. Capacity utilisation hit an 11-month high in April and was above the long-run average in the March quarter.

- **Buildings & Structures**

The weakness in the quarterly result was driven by a fall in spending on buildings and structures. Spending on buildings and structures declined by 1.7% in the March quarter after a gain of 3.7% in the December quarter. In annual terms, spending was 7.1% higher. Note, spending in this category can be volatile from quarter to quarter. Data on construction work done, published yesterday, also reported a fall of 0.9% in construction work in the quarter.

Despite flooding across large parts of NSW and Queensland, spending on buildings and structures was flat in NSW (0.0%) and increased in Queensland (2.0%). The fall was driven by a large drop in spending in SA (-16.1%), WA (-3.1%) and the ACT (-2.0%). SA and WA experienced increases in COVID-19 case numbers over late 2021 and early 2022. This may have impacted spending in those states after they were largely unaffected by high case numbers until the Omicron outbreak. The other states and territories reported increases in spending on buildings and structures.

By Industry

By industry, spending declined by 0.3% across both the mining and non-mining sectors. Manufacturing spending was down by 1.5%, while spending in other non-mining sectors fell by 0.2%.

Across the non-mining sectors, education & training (-17.1%), arts & recreation (-16.3%) and retail trade (-11.4%) experienced double digit falls in capex spending. The construction sector reported a particularly large decline in spending on buildings and structures (-49.5%), as availability of staff and weather-related effects likely impacted the volume of work that could be completed in the quarter.

On the other hand, spending rose in the electricity, gas, water & waste industry (9.9%), driven by increases in spending on buildings and structures. Spending also expanded across the transport, postal & warehousing (7.8%) and financial & insurance services (7.0%) industries.

Across the mining industry, spending has been supported by strong demand for commodities and increases in commodity prices.

Over the year, mining capex expenditure was up by 9.7% and non-mining spending was 2.5% higher.

States and Territories

Capex growth was mixed by region in the March quarter. There was weakness in the biggest states of NSW and Victoria, where capex pulled back by 3.3% and 3.6%, respectively in the quarter. The falls were driven by a drop in spending on machinery and equipment. There were also sizeable declines in spending in the quarter in SA (-7.6%) and Tasmania (-4.8%). The fall in Tasmania was also underpinned by a decline in spending on machinery and equipment while the decline in South Australia reflected weaker spending on buildings. On the other side of the ledger, there were solid gains in the quarter in the NT (3.4%), the ACT (3.3%) and WA (2.3%). Despite flooding across large parts of the state, capex spending also rose in Queensland (1.7%).

While the nation's capital expenditure is now 2.9% above its pre-pandemic level, as at the December quarter 2019, the story is mixed by region. Generally, the regions less impacted by lockdowns experienced stronger growth. Capital expenditure is well above its pre-pandemic level in the smaller states of Tasmania, WA, and SA, as well as the territories. The ACT has experienced the highest growth over the period, up 39.6% since the December quarter of 2019. Meanwhile, capex in NSW, Victoria and Queensland remains below its pre-pandemic level. Growth was weakest in Victoria, down 7.7% relative to the December quarter of 2019.

Spending Plans

We received fresh estimates of business spending plans for 2021-22 and 2022-23.

Spending plans for 2021-22 were broadly unchanged. Estimate 6 for expenditure plans over 2021-22 came in at $142.8 billion. This estimate is nearly 16% higher than the same estimate a year ago. Using realisation ratios, we estimate spending in 2021-22 will be $144.2 billion, which would be almost 15% higher than spending in 2020-21.

Spending for 2021-22 is mostly locked in with the end of this financial year near.

The more insightful estimate in the plans, therefore, is the new estimate (Estimate 2) published today for 2022-23. This estimate was $130.5 billion, which is 15.0% higher than the same estimate a year ago. This lift is the firmest since 2012-13. Notably, it points to growth in spending by businesses of 16.6% on 2021-22 (using realisation ratios). This estimate, if it comes to fruition, would be the strongest rise in a financial year since 2011-12 when the mining investment boom was a backdrop. However, early estimates (such as estimate 1 and 2) are typically less reliable estimates of capex spending, as businesses tend to revise their estimates over time.

Outlook

Business investment edged lower in the March quarter alongside challenges from extreme weather, labour shortages, supply disruptions and inflationary pressures. This feeds into our expectation for a modest 0.2% growth in GDP in the March quarter, off the back of a solid 3.4% jump in the December quarter on reopening following the Delta lockdowns. The March quarter forecast is underpinned by a solid rise in consumer spending offsetting a contraction in net exports, due to strong growth in imports.

The upgrade in spending plans in 2022-23 is a positive sign that is consistent with our expectation for solid growth in business investment over the coming year. Businesses confidence has been resilient in the face of growing headwinds alongside the broader lift in activity as we learn to live with covid, and put lengthy lockdowns in the rear-view mirror. Plus, generous tax incentives – namely temporary full expensing and loss carry-back measures – are slated to remain in place until mid-2023, providing ongoing support to business investment. Labour shortages, supply disruptions, and elevated price pressures are key challenges for businesses as covid transitions from 'pandemic' to 'endemic'.

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