



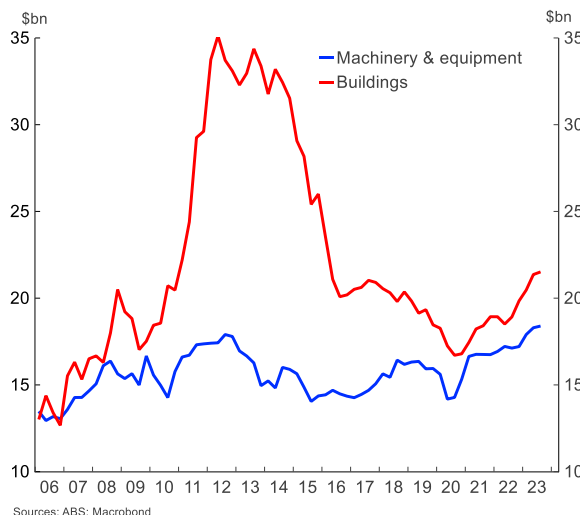
Thursday, 30 November 2023



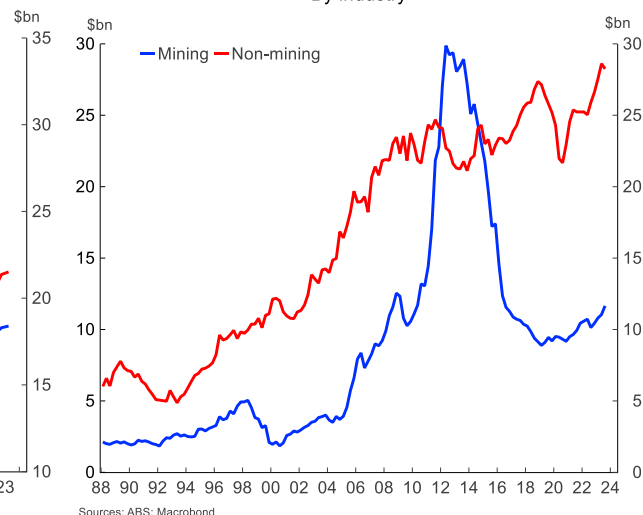
Private Capital Expenditure Businesses Not Backing Down on Investment

- New private capital expenditure (capex) increased 0.6% in the September quarter, to be 10.7% higher in annual terms. In annual terms, spending on machinery was 7.4% higher, while spending on new buildings was 13.7% higher.
- The mining sector led the increase with spending up 5.6% over the quarter. There were pockets of strength in the non-mining sector. Spending by the construction industry, mainly on machinery, was up 15.1%, while spending by the education industry increased 22.7%.
- Machinery and equipment have become more readily available as supply chain disruptions are resolved. Now, prices are also coming down, falling by 0.2% over the quarter – the first decline since the September quarter 2017 outside of COVID. Prices look to be turning a corner and could encourage businesses to invest going forward.
- While a weak outlook for consumer spending is no doubt holding investment down, opposing forces are at work. Record population growth, strong business balance sheets and elevated and growing spending on infrastructure are all supporting capex.
- Consistent with this, capex plans were again revised higher. After adjusting for survey bias, we estimate that the total amount spent on capex will grow by around 9.0% in 2023-24.
- After adjusting for expected price growth, we estimate that capex will be around 4.0% higher in 2023-24. This will support growth in the capital stock. As this occurs, the measured decline in labour productivity (or the amount of output produced by each unit of labour) should also stabilise, helping to reduce costs pressures.

Capital Expenditure
By asset



Capital Expenditure
By industry



Actual Spending

Business capex spending remains resilient, despite evidence consumers are tightening their belts as higher interest rates bite. Opposing forces are at work, such as the record growth in the population, strong business balance sheets and elevated and growing spending on infrastructure.

The September quarter outcome was always going to be softer than last quarter. We knew businesses took advantage of the generous tax incentives that expired on 30 June 2023.

Despite this, investment remained resilient and grew by 0.6% over the quarter to be 10.7% higher in annual terms. Previous quarters were also revised higher which boosted the annual outcome.

Machinery and equipment rose by 0.5% in the quarter to be 7.4% higher in annual terms, while capex on buildings and structures rose by 0.7% to be 13.7% higher in annual terms.

By Industry

Spending was strongest in the mining sector, which jumped 5.6% over the quarter.

Manufacturing capex lifted by 3.1% while capex in the “other” industry declined by 1.8% after recording a jump of 3.9% in the June quarter.

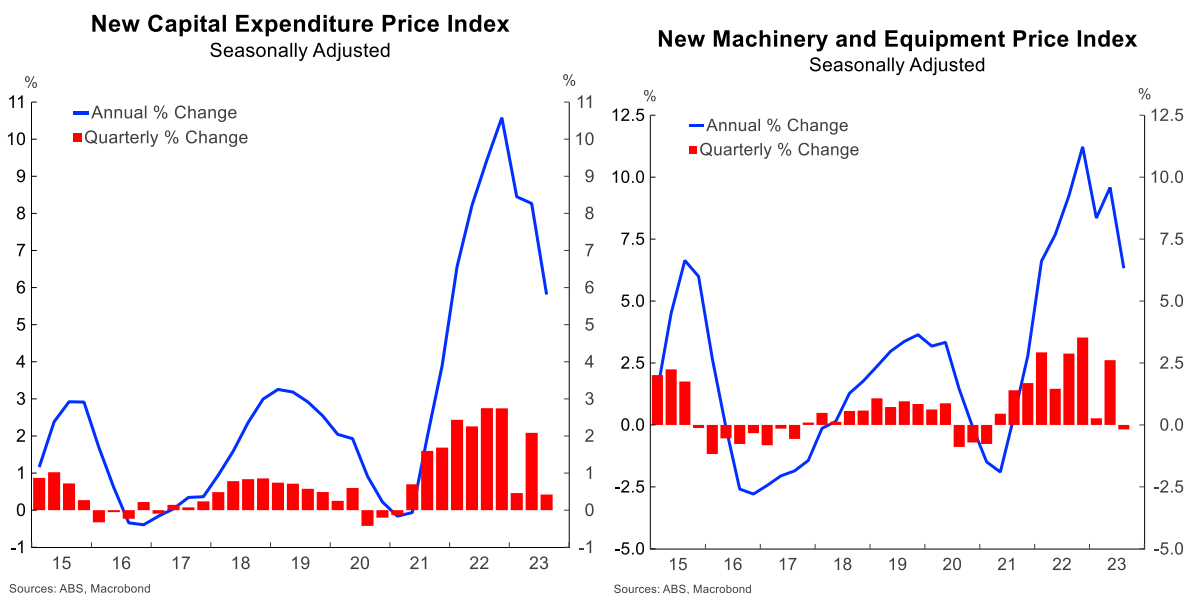
There were pockets of strength in the non-mining sector. Spending by the construction industry, mainly on machinery, was up 15.1%, while spending by the education industry increased 22.7%.

The construction sector will continue to benefit from government demand for new infrastructure. This should see construction firms continue to maintain their investment levels going forward.

More broadly across the non-mining industries, 8 of 16 industries reported an increase in capex.

Prices of Capital Goods

Supply chain disruptions made it more difficult for businesses to import machinery and equipment and pushed prices sharply higher. As these disruptions dissipate, machines and equipment are becoming more readily available, and price growth is moderating.



This quarter we saw the price on machinery and equipment fall by 0.2% over the quarter – the first decline since the September quarter 2017 outside of COVID. Prices look to be turning a corner and could encourage businesses to invest going forward.

Spending Plans

We received fresh estimates on what businesses plan to spend in the 2023-24 financial year. We received the fourth estimate today. There are a total of six estimates provided before an actual outcome is known.

The fourth estimate revealed that businesses plan to spend \$171.2 billion in 2023-24, up from \$165.1 billion in 2022-23.

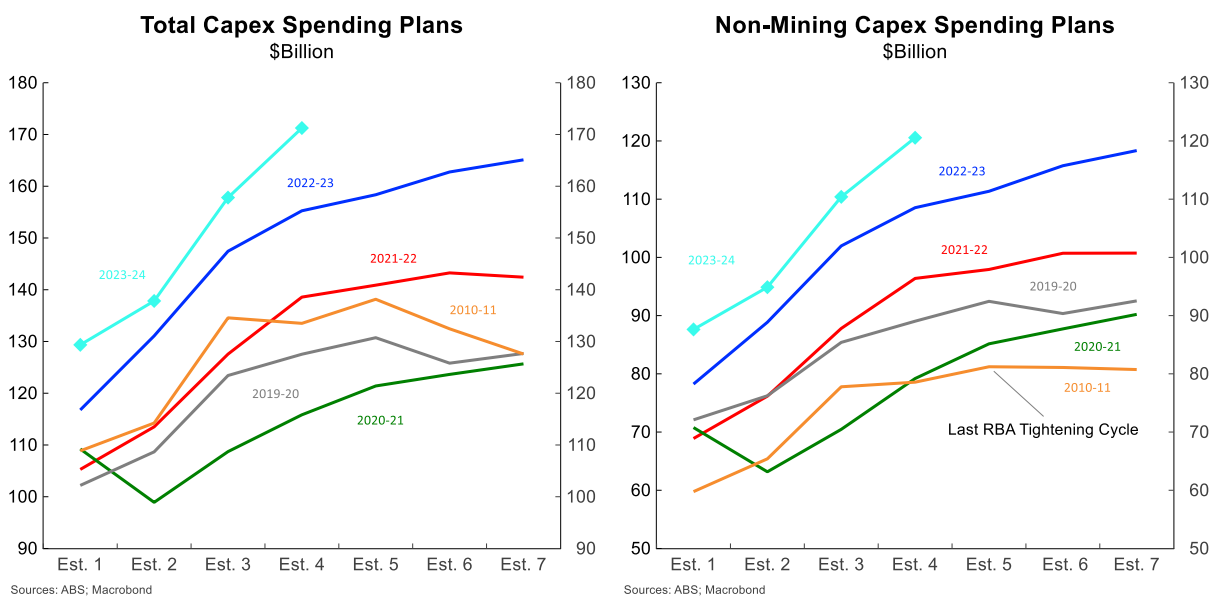
However, business plans change and evolve over the six estimates. In fact, capex expectations can be biased, and evidence suggests that non mining businesses systematically under predict how much capex they will end up spending. To correct for this bias, we apply a 5-year average “realisation ratio”, which helps minimise forecasting errors.

When we apply realisation ratios, the story is one of ongoing strength in business spending. The adjustment reveals that capex could be \$180.0 billion – a 9.0% increase on 2022-23.

Breaking this down further, non-mining capex is expected to grow by 9.9% and reach a record high of around \$130.0 billion in 2023-24. On the other hand, mining capex is expected to increase by 6.9% in 2023-24 to \$50.0 billion.

In real terms (or after adjusting for expected price growth), we estimate that capex will be around 4.0% higher in 2023-24. This will support growth in the capital stock and help it catch up with the strong growth in the population.

As this occurs, the measured decline in productivity or the amount of output produced by each unit of labour should also increase, helping to reduce costs pressures.



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