

Monday, 24 May 2021

## Business Investment Under the Microscope

GDP numbers for the first quarter of 2021 will be released next week. Markets are pondering how quickly the recovery has continued after record GDP growth in the second half of 2020. The series dates back to 1959.

Before then, the Australian Bureau of Statistics (ABS) publishes several sets of partial data, which are important inputs to GDP. This week, two of these releases will be published – private capital expenditure and construction work.

Business conditions and confidence are rising fast. In fact, they hit new record highs in April. But, has this exuberance translated to increased capital expenditure?

In 2020, the economic recovery was led by consumers. Consumer spending rebounded quickly, as shops and cafes reopened. Business investment has been slower to recover. Capital expenditure picked up 3% in the last quarter of 2020 but remained well below pre-COVID levels.

We expect a further gain in capital expenditure of 1.6% in the March quarter, led by equipment spending. Businesses are optimistic, activity is bouncing back fast and government tax incentives are encouraging investment. However, softer commencements point to a decline in expenditure on buildings.

We anticipate construction work increased by 0.8% in the March quarter, led by the upturn in housing. Homebuilder has driven a surge in building approvals, alongside ultra low rates, which has underpinned strong demand for housing construction. We expect this will be partly offset by further falls in non-residential construction. In the December quarter, construction work declined by 0.9% after the strength in housing was outweighed by falls in non-residential construction.

We will also receive data outlining how much businesses expect to spend on capital expenditure over the coming year. Capital expenditure plans were slashed when the pandemic hit. After the economy recovered faster than expected, spending plans for 2020/2021 recovered somewhat and there are prospects for capital expenditure to lift in 2021/22. We expect further upgrades in this survey, although estimating how much businesses estimate they will spend is always a tricky exercise. We expect estimate 6 for 2021/22 to be about \$125 billion. The attention will be on estimate 2 for 2021/22, which we anticipate will be \$116 billion.

Separately, the ABS is releasing its monthly survey, Business Conditions and Sentiments, for May. Recent surveys have shown that operating conditions for businesses have continued to recover, with less businesses reporting declines in revenue. Last month, the survey highlighted that supply-chain disruptions are impacting 30% of businesses, with ramifications including major delays, uncertain delivery times and variability to revenues. This month, we will be looking for any additional colour on the impact of the expiry of JobKeeper at the end of March. Some businesses have also been reporting labour shortages and/or skilled labour mismatches, so we will be also watching to see if the survey sheds any lights on these issues.

Last week we received labour data for April which showed the unemployment rate ticked down to

5.5%, although the data was muddied by seasonal effects from Easter. Encouragingly, there were no clear signs that the end of JobKeeper led to a material deterioration in labour market conditions.

However, we aren't quite out of the woods yet. There still could be job losses in the next month or so tied to the pullback in government support, as businesses take stock of their financial position. That said, we still expect the conclusion of JobKeeper will be, at most, a modest speed bump. Back in early March, we estimated JobKeeper would lead to a loss of 60,000-140,000 jobs. We remain comfortable with this view. We also continue to expect the unemployment rate to head to 5.0% by the end of this year.

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## Forecasts

End Period:	Close (21 May)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
<b>Aust. Interest Rates:</b>							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.04	0.05	0.07	0.09	0.10	0.10	0.10
3 Year Swap, %	0.33	0.40	0.40	0.45	0.60	0.80	0.90
10 Year Bond, %	1.74	1.85	1.95	2.10	2.20	2.30	2.40
<b>US Interest Rates:</b>							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.63	1.75	1.85	2.00	2.10	2.20	2.30
<b>USD Exchange Rates:</b>							
AUD-USD	0.7760	0.79	0.80	0.82	0.85	0.85	0.85
USD-JPY	108.86	109	109	110	111	111	111
EUR-USD	1.2231	1.21	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.4181	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7187	0.73	0.73	0.74	0.76	0.76	0.76
<b>AUD Exchange Rates:</b>							
AUD-USD	0.7760	0.79	0.80	0.82	0.85	0.85	0.85
AUD-EUR	0.6347	0.65	0.66	0.67	0.68	0.67	0.67
AUD-JPY	84.2	86.1	87.2	90.2	94.4	94.4	94.4
AUD-GBP	0.5460	0.56	0.57	0.58	0.60	0.60	0.60
AUD-NZD	1.0797	1.08	1.10	1.11	1.12	1.12	1.12

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.2	-1.1	4.5	3.0
CPI (Headline), %	1.8	0.9	2.2	1.8
CPI (Trimmed mean), %	1.5	1.2	1.5	1.6
Unemployment Rate, %	5.2	6.8	5.0	4.7
Wages Growth, %	2.2	1.4	2.1	2.0

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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