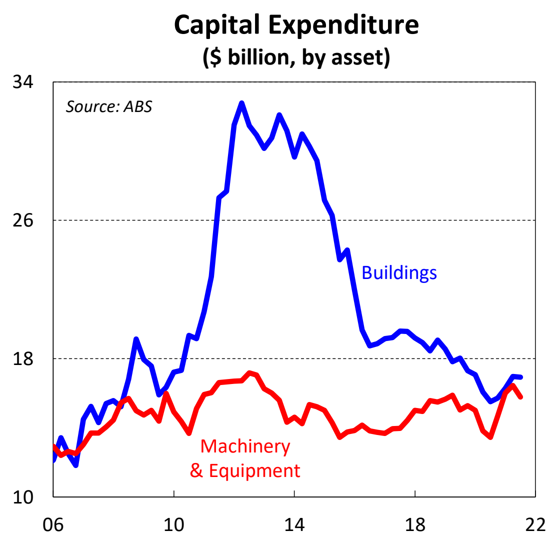
Data Snapshot

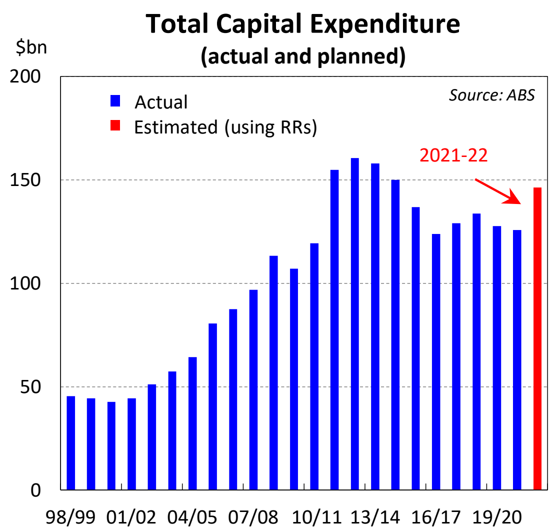
Thursday, 25 November 2021

Private Capital Expenditure

Businesses Bolster Spending Plans

- **New private capital expenditure (capex) fell by 2.2% in the September quarter, as Delta lockdowns in NSW and Victoria led businesses to press the pause button. The drop in capex in NSW was the biggest in six years. Capex also fell in Victoria.**
- **Despite the pullback, capex remained above pre-pandemic levels and encouragingly, businesses have bolstered their plans to spend.**
- **The fall in actual capex was driven by a 4.1% decline in spending on machinery and equipment. This category had been recovering strongly since mid 2020. Generous tax incentives and the recovering economy supported machinery and equipment investment.**
- **Spending on buildings and structures fell slightly over the quarter (-0.2%). Within this category, construction was down a whopping 73.6%. The construction industry was heavily impacted by stringent restrictions across NSW and Victoria during lockdowns.**
- **By industry, the fall was driven by non-mining (-3.4%). However, it was the first quarterly fall in a year and annual growth rose to 16.5% - the fastest pace in almost 14 years. Bucking the trend, mining capex rose by 1.2% to be 4.5% higher over the year.**
- **Business spending plans were upgraded. Estimate 4 for capex plans over 2021-22 came in at $138.6 billion. This is an 8.7% increase on Estimate 3 of $127.6 billion. Using realisation ratios, we estimate that business spending will post a solid increase this financial year.**
- **The economy and business investment are well placed to recover. Pent-up demand is being unleashed. Generous business tax incentives remain in place, business and household balance sheets are robust and fiscal and monetary policy settings remain accommodative.**





Actual Spending

New private capital expenditure (capex) plans and business investment had been recovering going into the Delta lockdowns. However, prolonged lockdowns across our two largest states have impacted capital expenditure spending over the September quarter.

Capex fell by 2.2% over the quarter. It follows solid growth over the previous three consecutive quarters, as the economy bounced back from the hit during 2020. Despite the pullback, total capex remained just above pre-pandemic levels, as of the December quarter of 2019.

- **Machinery & Equipment**

The fall was driven by a 4.1% decline in spending on machinery and equipment. This category had been recovering strongly since the middle of 2020, as businesses capitalised on generous tax incentives from the Federal government, such as the temporary full expensing and temporary loss carry-back measures. The recovery in the broader economy also supported business investment, including spending on machinery and equipment. Despite the fall, spending on machinery and equipment remained 3.3% above pre-pandemic levels.

- **Buildings & Structures**

Spending on buildings and structures fell slightly over the quarter, down 0.2%, to be 2.2% below pre-pandemic levels. Within this category, construction spending was down a whopping 73.6% over the quarter. The construction industry was heavily impacted by stringent restrictions across NSW and Victoria during the Delta lockdowns. This impact included a two-week construction shutdown in NSW.

- **By Industry**

By industry, the fall in capex was driven by the non-mining industry, which declined by 3.4% over the quarter. However, investment in the non-mining industry has been recovering strongly since it was hard hit during the depths of the pandemic. In fact, it was only the first fall in a year. And in annual terms, non-mining capex rose 16.5%, its fastest annual growth in almost 14 years. However, annual growth is partly impacted by base effects from weak capex spending a year ago.

Capex across other services, retail trade, administrative & support services, and professional, scientific & technical services all fell by more than 10% over the quarter.

Bucking the trend, mining capex rose by 1.2% to be 4.5% higher over the year. Investment in the mining industry has been relatively steady during the pandemic, as strong global demand for commodities supported investment plans to maintain existing capacity. However, investment has not increased significantly, as mining companies have so far not sought to materially expand capacity in response to higher commodity prices. This likely reflects expectations that price increases are unlikely to persist in the longer-term. Consistent with those expectations, iron ore prices have fallen significantly over recent months, from highs of around US$240 per tonne in mid 2021 to below US$100 per tonne currently.

States and Territories

Across the country, the fall in capex over the quarter was mixed, reflecting scattered lockdowns in major capital cities and states.

Spending declined in all states and territories, except for SA, Tasmania and the NT. The ACT experienced the largest quarterly fall, declining by 16.7%, albeit from a historically high level. NSW followed, slipping 8.5% for the quarter, the largest quarterly fall in six years. This was led by a 14.8% contraction in plant machinery and equipment expenditure. Victoria, Queensland and WA recorded more muted declines in the quarter, down 1.6%, 0.7% and 0.3%, respectively.

Capex surged in Tasmania over the September quarter, up 25.8% to a record high, however, this can be a volatile series. Meanwhile, capex also rose in SA (4.2%) and the NT (2.3%). The increase in capex in these states is consistent with less disruption from the Delta wave of COVID-19.

On an annual basis, all states and territories recorded growth. However, the strength reflects the rebound from weak investment outcomes during the peak of the pandemic, as capex hit its lowest level during the pandemic in the September quarter of 2020. Annual growth was led by Tasmania (66.5%) and the NT (62.0%), followed by Victoria (19.2%), SA (19.1%) and WA (13.6%).

Encouragingly, capex remains above pre-pandemic levels nationally. Nevertheless, expenditure has fallen back below pre-pandemic levels in NSW, Queensland, Victoria and the ACT.

Spending Plans

Despite the Delta lockdowns, capex plans were upgraded. Estimate 4 for expenditure plans over 2021-22 came in at $138.6 billion. This is an 8.7% increase on Estimate 3 of $127.6 billion. While estimates tend to increase over the year as business plans become more certain, this increase was higher than is typical for Estimate 4.

To reduce the impact of businesses adding to their investment plans, estimates can be compared with the same estimate from the prior year. Estimate 4 for 2021-22 was 19.7% higher than Estimate 4 for 2020-21. This is a very strong outcome. However, it partly reflects a rebound from weak investment expectations last year, due to significant uncertainty caused by the pandemic.

Another method of assessing the strength of investment plans is to adjust the numbers by realisation ratios – calculated using historical outcomes of how investment plan estimates have translated into actual investment spending by the end of the relevant financial year. Using a five-year realisation ratio, spending plans are expected to be around 16% higher in 2021-22 than in 2020-21. This is higher than Estimate 3 from the June quarter, which suggested that investment over 2021-22 would be around 13% higher than in 2020-21.

The upgrade to investment plans is an encouraging sign for the recovery in business investment.

Outlook

As expected, actual business capex was negatively affected by the Delta lockdowns. However, encouragingly, businesses upgraded their investment plans. Business confidence has remained more resilient during the Delta lockdowns than lockdowns earlier in the pandemic. In fact, confidence has bounced back strongly, approaching all-time highs recorded earlier in the year, as sentiment was buoyed by vaccination rates and roadmaps out of lockdowns.

The economic recovery is being led by consumer spending, as pent-up demand is unleashed. Our customer liaison suggests a recovery in business spending is already underway. Generous business tax incentives remain in place, business and household balance sheets are robust following the large build-up of savings, and fiscal and monetary policy settings remain accommodative.

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