

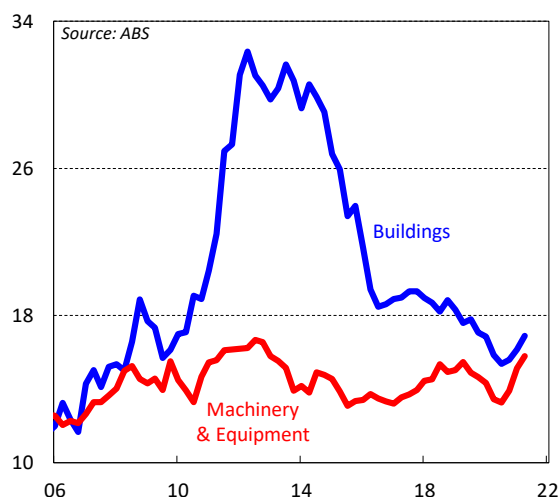
Thursday, 26 August 2021

Private Capital Expenditure

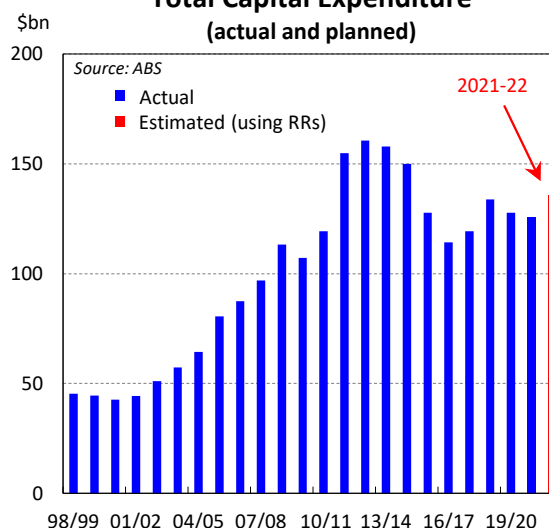
Strong Growth Ahead of Lockdowns

- Heading into recent lockdowns, the landscape was ripe for an uptick in business investment. Business confidence and capacity utilisation were around record highs, there had been strong growth in profits and generous tax incentives continued to encourage investment.
- These factors underpinned a 4.4% pick up in business investment in the June quarter. This follows robust growth in the December and March quarters of 3.0% and 6.0%, respectively.
- There was solid growth in spending on both buildings, up 4.6%, and machinery and equipment spending, up 4.3%. By industry, most of the increase was driven by spending in the non-mining sector, which rose 6.0%.
- Spending plans were resilient despite the survey being conducted in July and August when much of the country was in lockdown. Estimate 3 for 2021-22 was \$127.7 billion, which is 17.5% higher than Estimate 3 from a year ago.
- It may be that businesses did not have the opportunity to entirely factor in the impact of lockdowns. Regardless, the health and economic outlook remains in flux. Given the uncertain landscape, we are inclined to place less importance on spending plans this quarter.
- Business confidence has soured since the onset of lockdowns. The highly uncertain environment is likely to see some businesses put spending plans on hold as they shore up their financial position.
- Beyond the near-term disruptions, we expect the economy will rebound rapidly which in turn will support a resumption in the upwards trend in business investment.

Capital Expenditure
(\$ billion, by asset)



Total Capital Expenditure
(actual and planned)



Actual Spending

Heading into the recent lockdowns, the landscape was ripe for an uptick in business investment. Business confidence and capacity utilisation were around record highs, there had been strong growth in profits and generous tax incentives continued to encourage investment.

These factors underpinned a continued pick up in business investment in the June quarter. Private business capital expenditure rose by 4.4% in the quarter. This follows robust growth in the December and March quarters. Total private capital expenditure has now recovered to be above the pre-pandemic level at December 2019.

The rise was led by growth in investment in buildings and structures. This rose by 4.6% in the quarter. This has been recovering since the lows during the pandemic but remains around 1% below its pre-pandemic level.

Spending on machinery and equipment also grew strongly, driven by the non-mining sector. This was up 4.3% in the June quarter, following strong growth in the December and March quarters of 4.8% and 8.8%, respectively. Spending on machinery and equipment is now at its highest level since December 2012. Businesses continue to take advantage of generous government tax incentives such as the temporary full expensing and the temporary loss carry-back schemes, in addition to responding to the recovery in the economy.

Growth in business investment spending was driven by the non-mining sector. Non-mining capital expenditure increased by 6.0% in the quarter, as it continued to recover after falling sharply following the onset of the pandemic. By industry, the rental, hiring and real estate services sector was the strongest contributor to growth (contributing 1.9 percentage points). This was followed by transport, postal and warehousing (contributing 1.2 percentage points).

Mining sector investment rose by 0.4%, to be 2.2% higher over the year. During the pandemic, mining investment has been relatively steady, supported by spending to replace existing capacity. The recovery in the global economy has increased demand for raw materials and flowed through into higher commodity prices.

Data on final spending for 2020-21 was published, which was \$125.7 billion. This represents a 1.5% decline in spending compared to 2019-20, reflecting the decline in investment following the onset of the lockdowns. However, it is worth noting that investment still turned around sharply in the latter part of the financial year. For comparison, early in the pandemic, spending plans suggested investment would decline around 12%.

States and Territories

The growth in private capital expenditure in the quarter was broad-based across the country.

Spending increased in all states and territories, except for SA. Spending in SA fell by 3.3% as it retraced from high levels in the March quarter, which was the second strongest quarter for SA in the history of the series. Investment spending in SA was 11.6% higher over the year. The NT recorded the strongest quarterly growth of 111.5%, to be 60.2% higher through the year. However, investment spending in the territory has been volatile in recent quarters.

The ACT (29.7%), Victoria (10.7%), Queensland (5.1%) and NSW (5.0%) all also recorded robust growth in the quarter.

On an annual basis, all states and territories recorded growth. This was led by the NT (60.2%), Tasmania (41.3%) and NSW (19.1%). Annual growth was weakest in Victoria (6.6%) and Queensland (0.8%).

Encouragingly, capital expenditure spending is now above pre-pandemic levels in most states and territories, the exceptions being Queensland and Victoria.

Spending Plans

Spending plans were resilient despite the survey being conducted in July and August when much of the country was in lockdown.

We received Estimate 3 for 2021-22, which was \$127.7 billion. Estimates tend to increase through the year as companies add to their plans. What is more helpful in assessing the outlook for investment is the comparison with Estimate 3 for 2020-21. Estimate 3 for 2021-22 is 17.5% higher than Estimate 3 from a year ago. Recall that Estimate 2 on Estimate 2 from a year ago was 14.7% higher. In other words, this suggests a slight upgrade in spending plans.

Another approach to assessing the outlook for investment spending is using actual spending outcomes through realisation ratios. These estimates suggest the investment outlook is broadly unchanged from the previous survey. That is, capital expenditure will be around 8% higher in 2021-22 than in the previous financial year.

It may be the case that businesses did not have the opportunity to entirely factor in the impact of lockdowns. Our liaison suggests that more businesses started to feel the pinch from lockdowns from mid-August. Businesses built up large cash flow buffers last year which will help them to weather lockdowns for a period. However, the longer lockdowns last, the more likely it will be that businesses need to cut back their spending plans.

Regardless, the health and economic outlook remains in flux. Given the uncertain landscape, we are inclined to place less importance on the spending plans this quarter.

Outlook

Business confidence has soured since the onset of lockdowns. The highly uncertain environment is likely to see some businesses put spending plans on hold as they shore up their financial position and await the outcome of developments around lockdowns.

Much will depend on how long lockdowns lasts. Currently, we expect that the lockdown in NSW will last to the end of October and that the lockdown in Victoria will last at least six weeks.

However, conditions remain favourable once lockdowns lift. Monetary policy settings are highly accommodative and businesses still have access to generous government investment incentives. Fiscal policy support announced by the Federal and state governments will also assist businesses in managing a period of reduced revenue.

Beyond the near-term disruptions, we expect the economy will rebound rapidly and demand will increase once restrictions ease, with 5% GDP growth pencilled in for 2022. This in turn will support a pick up in business investment.

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