Data Snapshot

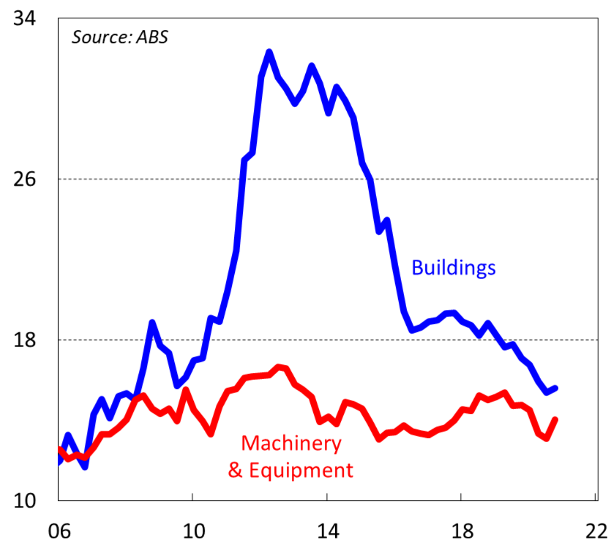
Thursday, 27 May 2021

Private Capital Expenditure

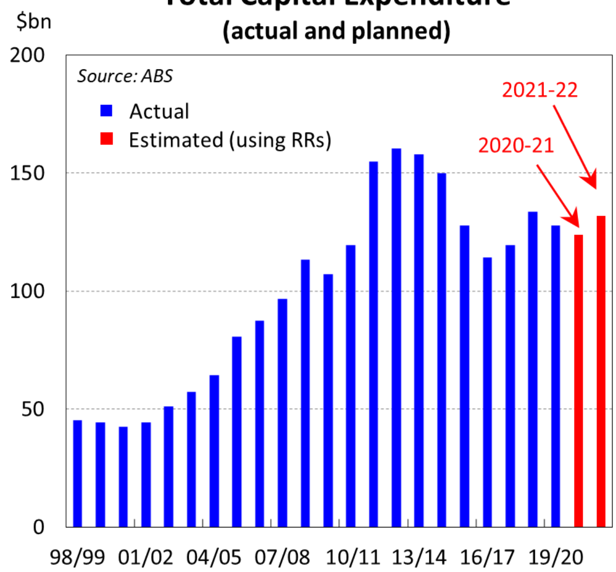
Investment Recovery Accelerates

- **Private capital expenditure jumped 6.3% in the March quarter, alongside a continued improvement in the economic outlook. The result was well above consensus expectations.**
- **Today's data are an encouraging sign that the recovery in the business sector is charging ahead. Businesses are optimistic, activity is bouncing back and tax incentives are helping to spur spending.**
- **Spending on machinery and equipment led the rise, surging 9.1%. Businesses are responding to the tax initiatives introduced in the October Federal Budget and the reopening of the economy.**
- **Investment in building and structures lifted 3.8% in the quarter, although remains 5.3% lower than before the pandemic.**
- **The pick up was led by investment in non-mining industries, which rose 7.1% in the quarter. Mining investment increased 4.1% over the same period.**
- **Spending plans have been upgraded. Estimate 6 for spending in 2020-21 was $124.0 billion. Importantly, we received Estimate 2 for 2021-22. It was $113.6, which suggests investment will increase around 7% in 2021-22 after dipping in 2020-21.**
- **Looking ahead, we expect a further recovery in business investment. Business confidence is at a record high, there has been strong growth in profits and business surveys point to an increase in capacity utilisation.**

Capital Expenditure
($ billion, by asset)



Total Capital Expenditure
(actual and planned)



Actual Spending

Private capital expenditure jumped 6.3% in the March quarter, alongside a continued improvement in the economic outlook. The result was well above the median estimate of 2.1% growth and follows a 4.2% lift in spending in the December quarter (revised up from 3.0%).

Investment dropped sharply in the first half of 2020 following the onset of the pandemic and has been slower to bounce back than household consumption. Today's data are an encouraging sign that the recovery in the business sector charging ahead. Businesses are optimistic, activity is bouncing back and tax incentives are helping to drive spending.

Spending on machinery and equipment led the rise, surging 9.1% in the quarter. Businesses are responding the tax initiatives introduced in last year's Federal Budget and the reopening of the economy. Investment in machinery and equipment is now 3.6% higher than its pre-pandemic level.

Investment in building and structures lifted 3.8% in the quarter, although remains 5.3% lower than before the pandemic.

The pick up was led by non-mining investment, which rose 7.1%. The strongest growth in the quarter was in arts and recreation (17.3%), although this is coming off a very low base. Constructional capital expenditure jumped 17.0% and is now 55.8% up over the year. Also notable was a 14.4% increase in manufacturing investment in March quarter.

Mining investment increased by 4.1% in the quarter to be broadly unchanged over the year. Mining investment has been resilient through the pandemic as firms undertook projects to replace existing capacity in the liquified natural gas and iron ore sectors. In addition, Chinese infrastructure spending has boosted demand for iron ore which in turn has benefitted Australian producers.

States and Territories

The increase in investment was broad-based across the country. All states and territories recorded gains in the quarter, except Queensland (-0.4%) and the Northern Territory (-46.9%) where investment has been choppy in recent quarters.

South Australia (11.0%) and Western Australia (10.9%) both recorded double-digit gains. There was also solid growth in NSW (9.8%), Tasmania (9.0%) and the ACT (6.0%). Gains in Victoria were more modest (3.8%).

On an annual basis, NSW, South Australia, Western Australia, Tasmania and the ACT recorded positive growth. South Australia is leading the pack, up 21.0%. The annual pace is still negative in Victoria, Queensland and the Northern Territory.

Spending Plans

Capital expenditure plans have been upgraded.

We received Estimate 6 for spending in 2020-21, which was $124.0 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 6 for 2019-20. Estimate 6 was 1.4% below Estimate 6 from a year ago, reflecting the decline in investment following the onset of the pandemic. However, this still represents an improvement on -7.1% for Estimate 5 on Estimate 5.

Importantly, we also received Estimate 2 for 2021-22, which was $113.6. This is 14.9% above Estimate 2 a year ago. This is a dramatic improvement on -3.6% for Estimate 1 on Estimate 1. However, these figures have been distorted by base effects. Estimate 1 was conducted in February

2020, before businesses had factored in the impact of COVID-19.

An alternative approach for assessing the outlook for investment is using actual spending outcomes through realisation ratios. Using a ten-year average realisation ratio, our calculations suggest capital expenditure will increase around 7% in 2021-22.

The key takeaway is the recovery in investment is picking up steam.

Outlook

Today's numbers are an encouraging sign for the ongoing economic recovery. As an important input to GDP, the upside surprise will provide a boost to the March quarter data which will be released next week. We anticipate a 1.4% lift in the quarter, to take annual growth to 0.5%. Our annual growth forecast for 2021 remains 4.5%.

Looking ahead, we expect a further recovery in business investment. Business confidence is at a record high, there has been strong growth in profits and business surveys point to an increase in capacity utilisation. In addition, the government extended key tax incentives in the May Budget, namely the instant asset write off and loss carryback schemes. These factors, alongside the ongoing vaccine rollout, will help to bolster business spending over 2021 and next year.

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