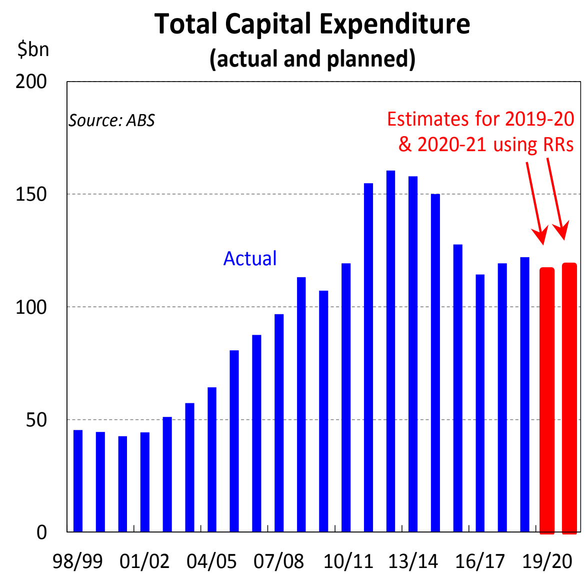
Data Snapshot

Thursday, 28 May 2020

Private Capital Expenditure
Collapse is Coming

- **Private capital expenditure (or capex) fell 1.6% in the March quarter, and has fallen for five consecutive quarters. Uncertainty and fragile business confidence put a lid on business spending as COVID-19 spread. This uncertainty has been taken to another level after restrictions to stem the spread of COVID-19 were imposed across the world.**
- **It was the services sector which led the decline in capex over the March quarter, falling 5.2%. It was the largest quarterly decline in 4½ years. Services accounted for the bulk of the weakness in non-mining capex, which was down 10.8% on a year ago, the weakest outcome in seven years.**
- **Capex in mining and manufacturing rose in the quarter, lifting 4.2% and 5.7%, respectively. Strength in these areas is unlikely to be sustained given the uncertain global backdrop, although the mining sector has been less impacted than other industries, particularly iron ore.**
- **Today, we also received the second estimate for business spending in 2020-21 and the sixth estimate for spending in 2019-20. Both plans revealed businesses delayed or cancelled plans.**
- **The second estimate for 2020-21 was $90.9 billion, which is a fall of 7.9% on the second estimate a year ago. It is the biggest year-on-year fall for the second estimate in four years. Compared with the first estimate for 2020-21, a downgrade of 8.8% occurred. It is the first decline between the first and second estimate recorded since 1991/92, which is the time of the last recession.**
- **The sixth estimate for business spending in 2019-20 was $115.4 billion, which is 5.4% lower on 2018-19. Moreover, there was a downgrade from the fifth estimate for 2019-20.**
- **Using realisation ratios, there is an implied decline in business investment for 2019-20 of 4.9% and only a very slight increase of 1.8% for 2020-21; both are likely to be scaled back as businesses moved aggressively to preserve cash as COVID-19 spread and restrictions took force.**
- **Uncertainty about the outlook also means businesses are unlikely to have an appetite for increasing business spending in the next few quarters. A larger fall in capex is likely for Q2.**



Actual Spending

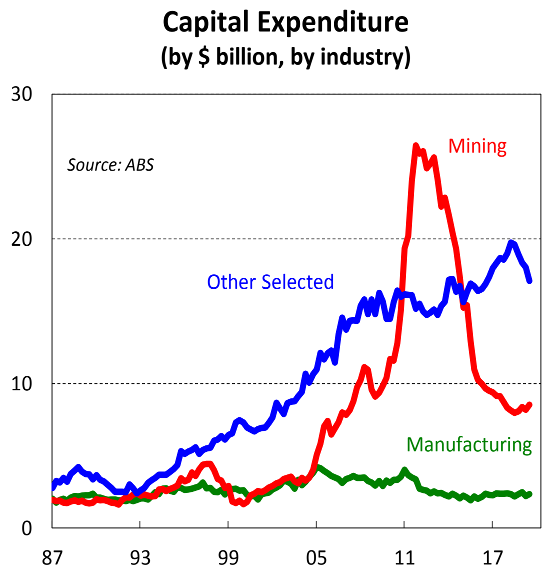
Weakness in business spending continued over the March quarter. Private capital expenditure (or capex) fell 1.6%, and has fallen for five consecutive quarters. Uncertainty and fragile business confidence put a lid on business spending as COVID-19 spread and deepened. This uncertainty has now been taken to another level after restrictions to stem the spread of COVID-19 were imposed across the world.

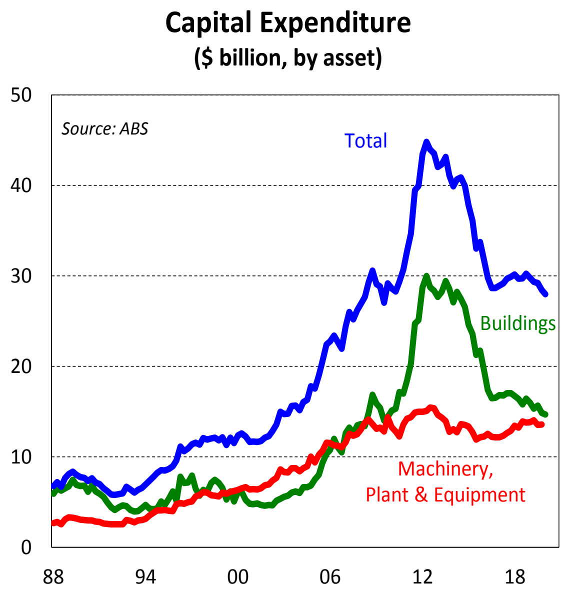
On a year ago, capex was down 6.1%, the fifth consecutive annual decline.

It was the services sector which led the decline in capex over the March quarter, falling 5.2%. It was the largest quarterly decline in 4½ years. Some industries were significantly impacted by the earlier spread of COVID-19 in China, such as tourism and education. However, capex in services has declined for five consecutive quarters, and is down 12.8% in the year. It accounted for the bulk of the weakness in non-mining capex, which was down 10.8% on a year ago, the weakest outcome in seven years.

Capex in the mining and manufacturing sectors increased in the quarter, lifting 4.2% and 5.7%, respectively. Strength in these areas is unlikely to be sustained given the uncertain global backdrop, although the mining sector has been less impacted than other industries from COVID-19.

Across the different asset classes, capex in buildings and structures fell 1.1%, while spending on plant, equipment and machinery fell 2.3%.





States and Territories

There were sizeable declines across most States and territories in the March quarter, including NSW (-5.1%), Victoria (-2.1%), South Australia (-4.7%), the ACT (-26.9%) and the Northern Territory (-8.1%). Western Australia (7.8%) was one of the few States where capex gained, likely reflecting the relative strength in mining capex. Queensland (-0.3%) also saw a relatively small decline in comparison to other States. Tasmania was the other State to witness an increase, lifting 20.2% in the quarter.

On an annual basis, the weakness across non-mining investment was evident across the various States and territories. Annual rates were in decline in NSW (-10.1%), Victoria (-12.9%), Queensland (-7.8%), South Australia (-18.6%), Tasmania (-4.8%) and the ACT (-12.5%). Western Australia

(14.3%) had the strongest positive gain, while capex in the Northern Territory (0.4%) was also higher on a year ago.

Spending Plans

Today, we received the second estimate for spending in 2020-21. It was $90.9 billion, which represents a fall of 7.9% on the second estimate a year ago. It is the biggest year-on-year decline for the second estimate in four years. Compared with the first estimate for 2020-21, there was a decline of 8.8%. It is the first decline between the first and second estimates since 1991/92, which is the time of the last recession.

It is clear from the size of these declines that businesses were already facing stress and uncertainty with the outbreak of COVID-19. The outbreak escalated in Australia during March locally, so much of the March quarter will not capture the worst of the pullback in spending plans. We anticipate capex plans will be pulled back more sharply in the June quarter, as businesses cancel and defer plans amid heightened uncertainty and an economic downturn. Furthermore, many businesses are trying to preserve cashflow and boost liquidity amid this economic and health crisis, which would also contribute to a decline in business investment.

If we apply realisation ratios, the business-investment plans for 2020/21 suggest a rise of only 1.8% for business spending for 2020/21, which is likely to be scaled back to a fall in coming quarters.

Today we also received the sixth estimate for spending in 2019-20 of $115.4 billion. There were signs of plans being deferred or cancelled in this dataset as well. The sixth estimate was 5.6% lower on the sixth estimate a year ago, which is the biggest year-to-year decline in the sixth estimate in four years, and it was 5.4% lower than 2018-19. Compared with the prior fifth estimate for 2019-20, there was a downgrade of 3.8%, which is the first downgrade between the fifth and sixth estimates for the same financial year since 2014/15.

Applying realisation ratios, it implies a decline in business-investment for 2019-20 of 4.9% on the previous financial year. Next quarter we will receive the final outcome for 2019-20; it is quite likely there will be another downgrade and that a fall in business investment will occur in 2019-20 for the first time since the financial year of 2014/15.

Outlook

Uncertainty about the outlook means businesses are unlikely to have an appetite for increasing spending in the next few quarters. A larger fall in capex is likely for Q2 and a further scaling back of plans is likely. The Australian economy is gradually reopening, but it will not be a quick return to the norm that existed prior to the crisis. Many businesses are still facing stresses and have to adapt to new ways of delivering their goods and services.

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