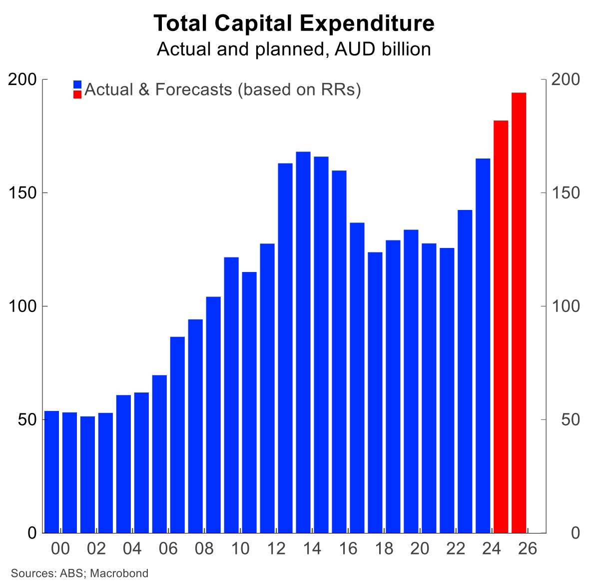
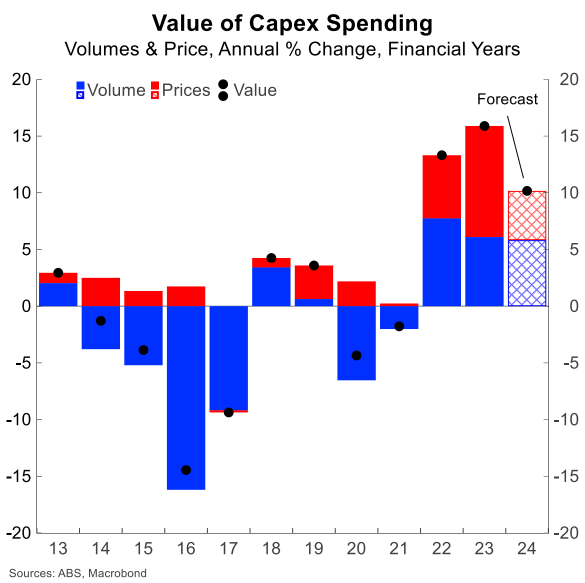
Thursday, 29 February 2024

Private Capital Expenditure

‘23/24 Small Upgrade Despite Challenges

- **Capex spending rose 0.8% in the December quarter, to be 7.9% higher over calendar year 2023. In level terms, the volume of capex spending rose to its highest in eight years.**
- **Private business capex spending, while still expanding over the second half of 2023, is transitioning from a period of strength.**
- **After growing at a robust pace of 3.3% in both the March and June quarters, spending slowed to 0.3% and 0.8% in the September and December quarters, respectively. This coincided with the material slowdown in economic growth as rapid rate hikes from the Reserve Bank (RBA) worked their way through the economy.**
- **Estimate 5 for spending plans (adjusted for historical bias) suggests that capex will rise 10% in 2023-24. This is a modest upgrade from the 8.7% estimate in the previous quarter. Estimate 1 (which tends to be unreliable) for 2024-25 suggests slower growth of 6.8%.**
- **Calendar 2024 is likely to be a year of two halves. Economic growth is slowing, led by weak consumer spending. On the other hand, capacity utilisation and the infrastructure pipeline remain robust, the population continues to grow rapidly, and disinflation is underway.**
- **The drag from higher rates is likely to weigh on capex spending in the near term. However, as inflation continues to moderate, we expect the RBA to be able to cut rates from September. Additionally, household income will receive a boost from tax cuts from July and a return to positive real income growth. These factors will support the economy and business investment in the second half of 2024 and into 2025.**





Actual Spending

Total private business capex spending rose by a moderate 0.8% in the December quarter.

That result was a touch firmer than market expectations, a median +0.5% (range -0.7% to +1.8%) and was above our forecast for a flat result.

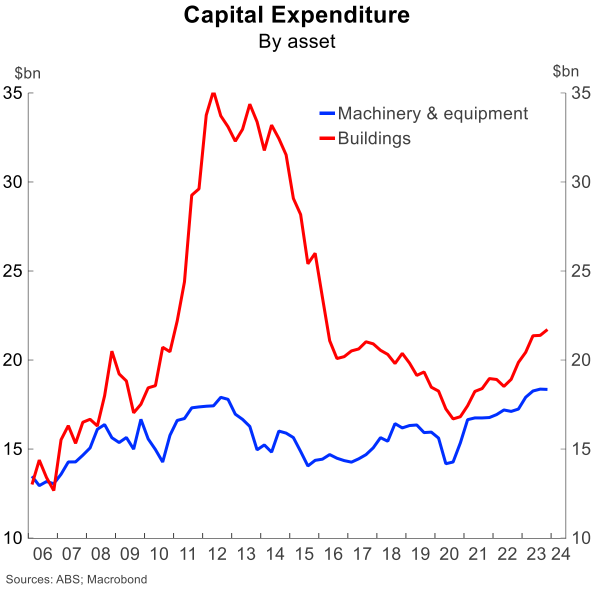
The rise of 0.8% included an increase in Building & Structures (B&S) capex of 1.5% and a broadly flat outcome for equipment spending, at -0.1%. That flat reading on equipment was not as soft as we anticipated, a forecast -1.7%.

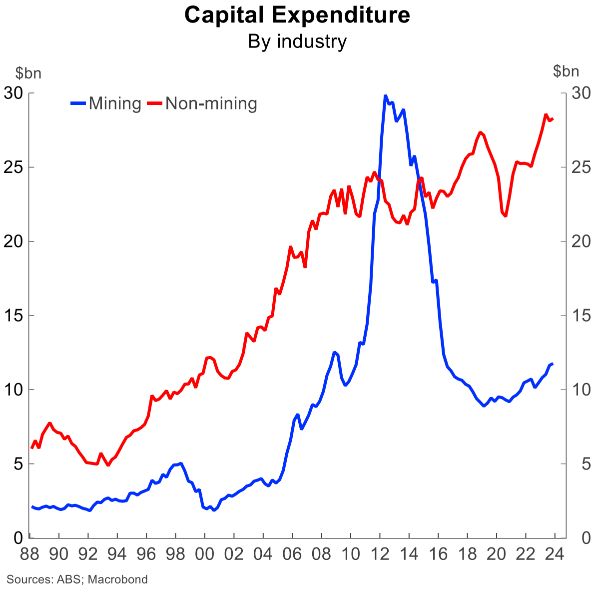
Over recent quarters, the momentum in capex spending has cooled.

Private business capex spending, while still expanding over the second half of 2023, is transitioning from a period of strength – with growth a brisk 10.8%yr to June 2023. Outcomes for the past two quarters have been +0.3% and +0.8%, compared to +3.3% in each of the first two quarters of 2023.

A loss of momentum is evident across both B&S and equipment. B&S capex grew 15.4%yr to June 2023, followed by a rise of 1.6% over the second half of calendar 2023. For equipment, annual growth to June was 6.2%, followed by a rise of 0.5% over the past six months.

For B&S, the sector experienced a temporary growth spurt as work caught up with the earlier mini-jump in project starts which emerged as covid delays eased. For equipment, the softer readings of late are against the backdrop of a flattening of household demand, but at the same time some ongoing underlying positive fundamentals, which are partly offsetting the weight of a weak household sector.





By Industry

Capex spending by both mining and the non-mining sectors of the economy advanced in the December quarter.

Non-mining capex rose by 0.6% in the quarter, with a rise in B&S of 1.8% more than offsetting a slight decline in equipment spending, a fall of -0.3%.

For mining, capex rose by 1.1%, including B&S +1.2% and equipment +1.0%.

The recent loss of momentum in capex spending is more evident in the non-mining sectors of the economy, which are more sensitive to swings in household demand.

Non-mining capex grew by 14.2% in the year to June 2023, followed by a decline over the second half of 2023, a fall of 1% (a -1.7% and then a +0.6%). The softer second half of 2023 is evident across both B&S (-1.5%) and equipment (-0.6%).

Mining capex spending exhibited strength through to the September quarter 2023, up 15%yr, centred on B&S, +20.6%yr, while equipment was volatile around a flattish trend, at +1.7%yr.

Other data sources suggest that the recent burst of mining construction activity is set to cool near-term, with work done having caught up with commencements.

Spending Plans

The December quarter update included Estimate 5 for 2023-24 capex plans. There are a total of six estimates for each financial year before the actual is available on the seventh update. Additionally, we also received Estimate 1 for 2024-25 financial year – which is typically unreliable.

Estimate 5 for total spending across the mining and non-mining sectors printed at $177.7 billion for 2024-25. This was 12.2% higher on the equivalent estimate a year ago. Mining companies estimated spending of $52.3 billion in 2024-25 – 11.3% above the equivalent estimate a year ago. Non-mining companies expect spending of $125.4 billion – 12.6% up on Estimate 5 a year ago.

However, when considering how plans translate into actual capex spending, we need to adjust by measures of historical bias. As companies move through the year, they tend to update plans to account for new projects and actual outcomes. As such, plans tend to be downwardly biased in the first few estimates before providing a better guide through later estimates.

As such, we apply historical realisation ratios to the estimates, using 5- and 10-year averages. After applying these ratios, the value of total spending is expected to come in at $181.8 billion in 2024-25 – a 10% increase from 2022-23. This represents a modest upgrade from an expected 8.7% lift based on Estimate 4 from the September quarter. If realised, nominal capex spending would rise to the highest level on record in 2023-24.

Non-mining spending is expected to increase 11% in 2023-24, made up of a 13.3% lift in buildings & structures and a 9.0% lift in equipment spending. Mining spending is projected to rise 8% – reflecting a 9.6% lift in buildings & structures and a 4.3% gain in equipment spending.

However, an important point to make is that reporting spending plans are nominal and don't account for the impact of price rises. During this inflationary period, price gains have been a more significant driver of overall increases in spending plans than was the case prior to the pandemic.

We have estimated this impact and adjusting capex plans accordingly. This process leads us to think that real capex spending may grow by slightly less than 6% in 2023-24, followed by more modest growth of around 3.5% in 2024-25.

In quarterly terms, this implies a broadly flat profile for the remaining two quarters of 2023-24, followed by growth in the range of 1% to 1.5% per quarter for 2024-25 across B&S & equipment.

The first estimate for spending in 2024-25 came in at $145.6 billion – a 12.6% increase on the same estimate a year ago. After applying realisation ratios, this suggests that spending may rise a further 6.8% in 2024-25, from the current 2023-24 estimate. However, we would caution that the first estimate is unreliable and likely to be revised heavily in future estimates.

Jarek Kowcza, Senior Economist & Andrew Hanlan, Senior Economist
Ph: +61 481 476 436 & Ph: +61 466 422 382

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
+61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@banksa.com.au
+61 468 573 786

Economist
Jameson Coombs
jameson.coombs@banksa.com.au
+61 401 102 789