BULLETIN

1 September 2022

Australian business capex.
Capex to rise strongly in 2022/23, in part to meet higher costs.
Q2 real capex: -0.3%; equipment +2.1%
2022/23 plans: Est 3 $146bn, 14.7% above Est 3 a yr ago

Equipment spending advanced in the June quarter

In Q2 capex printed -0.3%, which was weaker than expected, market median +1%.

Our focus is on the additional information included in this survey – equipment spending. That printed at +2.1%, which was softer than we expected, a forecast 5%. We would note that in recent quarters, the National Account estimate of equipment spending has tended to exceed this preliminary reading – boosted by "late returns".

Building & Structures printed at -2.5% - in line with the Construction Work survey.

By industry, capex spending in Q2 declined by -0.3% across both non-mining and mining.

For the 2021/22 financial year, the value of capex spending came in at $142.3bn, 13.3% above that the year prior. In real terms, capex spending rose by 7.7% in 2021/22 - including a 10.4% increase for mining and a 6.7% lift for non-mining.

Positive capex plans for 2022/23 confirmed

Capex plans for 2022/23 – on the initial two readings – were positive. That positive tone was confirmed by the 3rd estimate – meeting our prior.

Recall that three months ago, Est 2 printed at $130.5bn, some 15% above the 2nd estimate a year earlier. That figure has been revised to $131.1bn, to be 15.5% above Est 2 a year ago.

Strength on the Est 2 reading was broadly based, across mining and non-mining, and across equipment and building & structures. This nominal measure includes the impact of rising costs.

Estimate 3 printed $146.4bn, in line with our "guesstimate" of their "guesstimate". Est 3 is 14.7% above Est 3 a year earlier. Once again, strength is broadly based, non-mining, 15.8% and mining, 12.4%.

As noted above, this includes the impact of rising costs - which are material - inflation in the year to the June quarter was 8.2%.

The capex plans also appear to point to an expansion of capacity in 2022/23 – for equipment and for building & structures (although note that the price view factored into plans is an unknown).

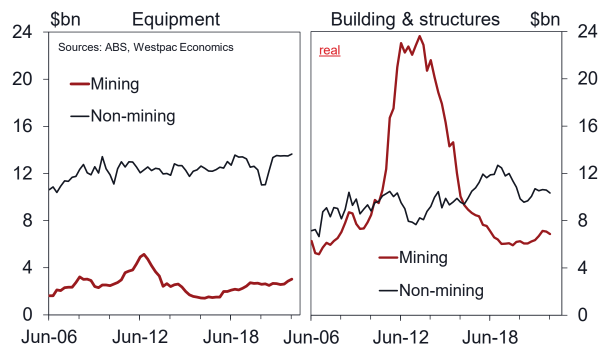
As an alternative, we use average Realisation Ratios (RRs) to calculate the implied capex spending for 2022/23. For estimate 3, this suggests that the value of capex spending will rise by around 12.2% in 2022/23.

On this RR basis, strength is across equipment (+10.6%) and building & structures (+13.6%). Non-mining is at +16.6%, while mining is only +1.5% - a reading which appears too low and suggests, that in this instance, the "average" RR may not be a reasonable guide.

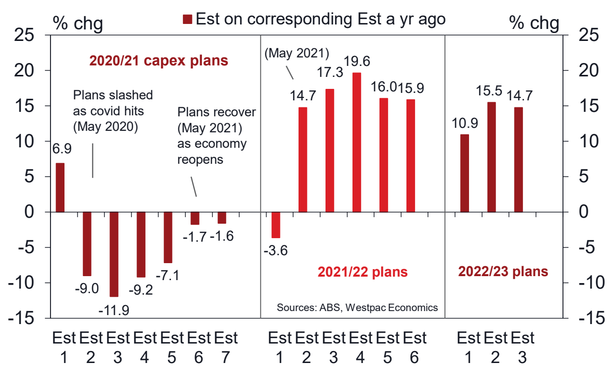
In terms of the broader investment backdrop, firms have been investing to expand capacity in response to strong underlying demand and limited space capacity in some sectors (a tightness which mirrors the lack of capacity in the labour market). Firms have also responded to generous tax incentives.

However, with policy stimulus being unwound and the economy set to cool moving into 2023, the risk is that the near-term strength in investment spending is unlikely to be sustained.

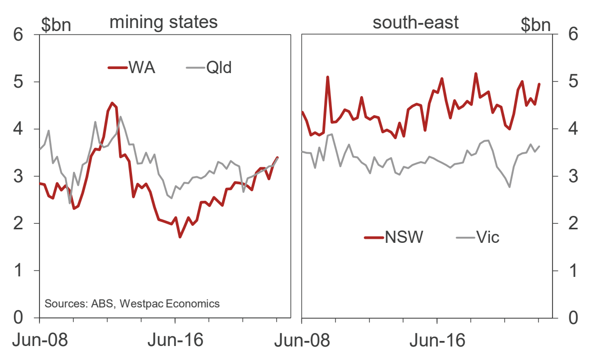
CAPEX: by industry by asset



Capex plans: positive



Equipment (capex survey): state view



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