23 February 2023

Australian business capex. An uncertain investment outlook for 2023/24. Q4 real capex: +2.2%; equipment +0.6% 2023/24 plans: Est 1 $129.7bn, 11% above Est 1 a yr ago

Q4 capex spending

Total private business capex grew by a solid 2.2% in the December quarter, meeting our expectations (forecast +2%, market median +1.1%). However, the detail was mixed.

Notably, equipment spending was sluggish, advancing by only 0.6% in the quarter (whereas we anticipated a figure closer to 2.0%). The result was constrained by a 5.2% pull-back in mining sector equipment spending – albeit coming off a relatively high base.

By way of context, non-mining sector real equipment spending at end 2022 was some 9.6% above that at end 2019, prior to the pandemic. Whereas for Building & Structures (B&S), the figure is a tepid 1.2% - such that total capex spending by the non-mining sectors is 5.6% higher than that three years earlier. For mining, the total figure is 11.4% up on three years ago.

Capex costs continue to rise sharply. Inflation is running at 10.5% in the year to the December quarter 2022, including a 2.7% increase for the quarter. Prices for the 2022 calendar year are 8.7% above that for 2021 - with the same pace for both equipment (where the lower AUD was a factor) and for B&S.

Capex plans

Est 5 for 2022/23 capex plans printed at $158.7bn, some 12.6% above Est 5 a year ago.

We estimate, based on average Realisation Ratio (RR) calculations, that Est 5 implies a 14% rise in capex spending for 2022/23. That represents a slight downgrade on Est 4, which implied a rise of 15% (with the downgrade centred on mining, to around 8% from 11%).

The positive plans for 2022/23 are against the backdrop of: a high level of demand; limited spare capacity; and generous tax incentives. It also includes the impact of sharply higher capex costs.

This update included Estimate 1 of capex plans for the 2023/24 financial year, which we describe as lukewarm, the tone being as anticipated. As always, we caution that Est 1 and Est 2 for any given year can be a misleading guide to the outlook.

Est 1 printed at $129.7bn, some 11.1% above Est 1 a year ago.

While that headline reading sounds like a robust number, our calculations based on average realisation ratios imply only a relatively modest increase for 2023/24, in the order of 5.5% (noting that the price / volume split of plans is an unknown).

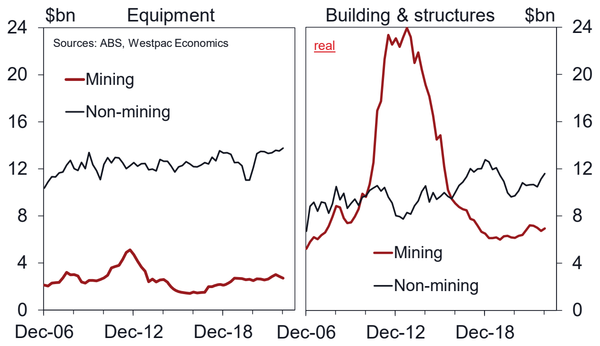
By industry, mining plans for 2023/24 imply a rise of almost 9%, while non-mining is subdued at only a touch over 4%. A softer reading for non-mining in this environment meets our prior.

We anticipate that the business investment outlook will sour in 2023/24 as the economy slows abruptly. As this becomes more apparent, survey respondents will likely mark down their plans, particularly across the non-mining sectors.

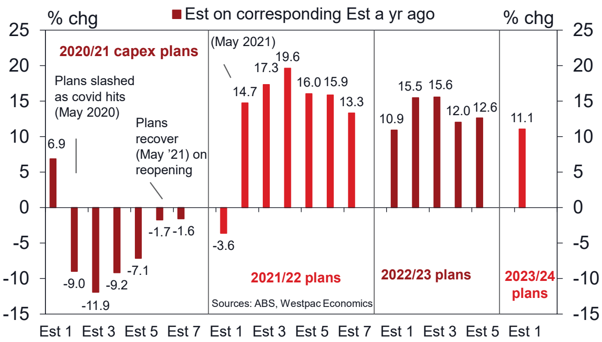
As to our Q4 GDP forecast, we have rounded this up to 0.7%qtr, 2.7%yr from 0.6%qtr, 2.6%yr.

This slight revision incorporates the net impact of a raft of recent partial indicators, with net exports the source of upside surprise, while that is largely offset by inventories and aspects of domestic demand. A GDP preview bulletin will be released on Friday.

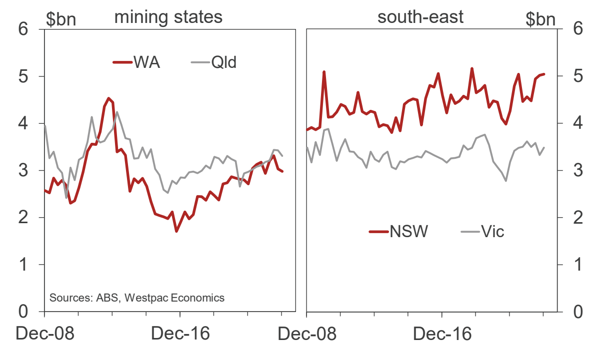
CAPEX: by industry by asset



Capex plans: 2023/24 an uncertain outlook



Equipment (capex survey): state view



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