BULLETIN

1 June 2023

Australian business capex.
Investment outlook to sour as economy slows.
Q1 real capex: +2.4%; equipment +3.7%
2023/24 plans: Est 2 $137.6bn, 5% above Est 2 a year ago

Q1 capex spending
Total private business capex grew by a solid 2.4% in Q1, above both our own forecast and the market median of +1.0%.

Underlying this strength was a notable 3.7% lift in equipment investment in the quarter. This result was supported by a 5.2% gain in mining sector equipment spending, coming off a sluggish end to last year.

Outside of mining, the strength in equipment spending was broadly-based by industry, non-mining up 3.4% in the quarter, although the ABS did note that purchases by the construction sector provided a partial offset to this.

Building and structures (B&S) was mildly positive, up 1.3% in Q1, led by a 2.0% increase across non-mining while only a more tepid 0.3% lift was reported in the mining sector.

Alongside encouraging data received yesterday pertaining to construction work, the picture for B&S in early 2023 is broadly positive.

Costs are not rising as rapidly as they once were, the price deflator for all capex only rising 0.5% in Q1, marking the softest quarterly rise in two years, lowering the annual rate from 10.5% to 8.5%.

Capex plans
Est 2 for 2023/24 capex plans printed at $137.6bn, some 5.0% above Est 2 a year ago.

Note that the price/volume split of plans is an unknown, making interpretation of the survey more difficult during periods of high inflation.

We estimate, based on average realisation ratio (RR) calculations, that this implies capex spend will rise by 5.9% in 2023/24. That represents a slight upgrade on Est 1, which implies a rise of 4.7%.

By asset, mining plans imply a rise of almost 8%, while non-mining is just a touch over 5%, reflecting a relatively even split.

On the split between equipment and B&S investment, non-mining plans are positive for 2023/24 (+3.8% and +6.8% respectively, based on RRs), while plans for mining are relatively more mixed at this stage (–0.5% and +11.0% respectively, based on RRs).

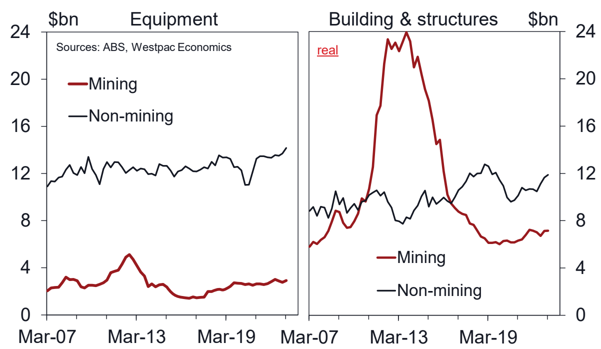
We anticipate that the business investment outlook will sour in 2023/24 as the economy slows abruptly. As this becomes more apparent, the survey respondents will likely mark down their plans, particularly in the non-mining sectors

Q1 GDP implications
In terms of our Q1 GDP forecast, the upside surprise on equipment investment goes some way towards balancing what look to be materially softer reads on the consumer and net export contribution. However, the net effect is still a downgrade to our bottom-line estimate – we have pared our Q1 GDP forecast back slightly, to 0.2%qtr, 2.3%yr from 0.4%qtr, 2.5%yr.

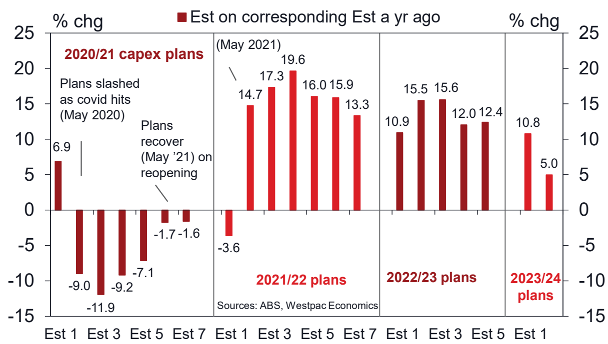
Other partial indicators due early next week should provide more of a guide to the contribution from net exports and inventories, as well as a gauge of how some of the income components of the accounts have performed.

Ryan Wells, Economist

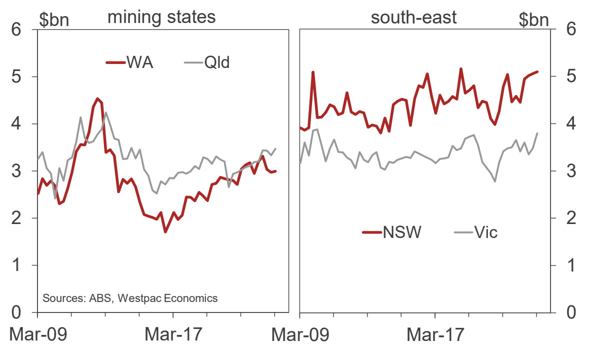
CAPEX: by industry by asset



Capex plans: 2023/24 an uncertain outlook



Equipment (capex survey): state view



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