

31 August 2023

Australian business capex, June quarter

Robust gain for Q2. Capex plans broadly unchanged.

Q2 real capex: +2.8%; equipment +1.9%

2023/24 plans: Est 3 \$157.8bn, 7% above Est 3 a year ago

The overall tone and message of the Capex survey was broadly consistent with our prior. There was a robust gain for the June quarter and plans for 2023/24 were largely unchanged.

Q2 capex spending

Total capex spending rose by 2.8% in the June quarter, a little above our forecast of 2.0%. Equipment spending increased by 1.9% in the period, a touch below our anticipated 2.5%. The national accounts estimate may still be in line with our view of 2.5%, with the accounts including the agricultural sector and "late returns" – both of which have, of late, tended to push up the estimate.

Recently, firms have been increasing equipment spending to boost capacity and in response to generous tax incentives, some of which expired on 30 June 2023. Construction is experiencing a strong burst, in part due to earlier delays, and with the need to expand the capital stock to meet the requirements of a growing population.

Over the past four quarters, total capex rose by 10.8%, driven by a 14.2% increase across the non-mining economy. Building & structures (B&S) capex rose 15% over the four quarters (mining +7.7% and non-mining up by a spectacular 20%). Equipment rose by 6.4% over the four quarters (non-mining up 10%, outweighing a fall for mining, down by -9%).

For the 2022/23 financial year, the value of capex spending rose by 15.9% to \$165. This included a 6% increase in real spending and a 9% hike in prices.

Capex plans for 2023/24

Capex plans for 2023/24 were largely a restatement of those 3 months earlier, as we anticipated.

Est 3 printed at \$157.8bn, a 14.5% upgrade on Est 2. That's only a little above our guesstimate of \$156bn. Est 3 is 7% above Est 3 a year ago, while Est 2 on Est 2 was 5% above.

We calculate, based on average Realisation Ratios (RRs), that Est 3 implies the value of capex spending in 2023/24 will be around 6.3% higher than in 2023/223. That is largely a restatement of the view 3 months ago – the point estimate upgraded only marginal from the +5.3% implied by Est 2.

By industry, Est 3 implies non-mining capex up by 8.5%, led by B&S, +12.5%. Mining capex plans are around +1%, which looks to be a little on the soft side – we caution that average RR calculations are imprecise, given the variability of RRs from year to year.

Note, capex plans are in nominal terms – the price / volume split is unknown. It is a year average reading and we have a greater interest in the profile between June quarter 2023 and June 2024.

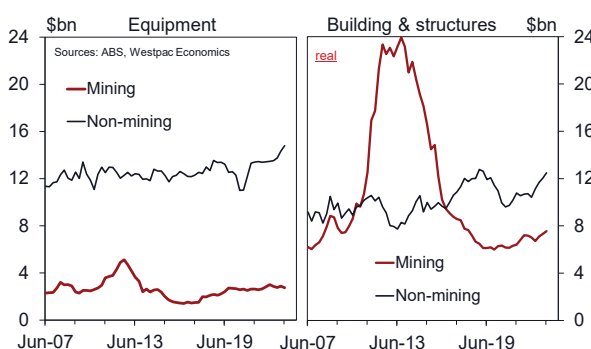
Our central case is for business investment to be mixed over the four quarters ahead – with equipment spending declining from Q3 2023 onwards (as some tax incentives expire and given softer consumer demand) but for construction work to continue marching higher, providing a much needed expansion of the capital stock.

Q2 GDP forecast

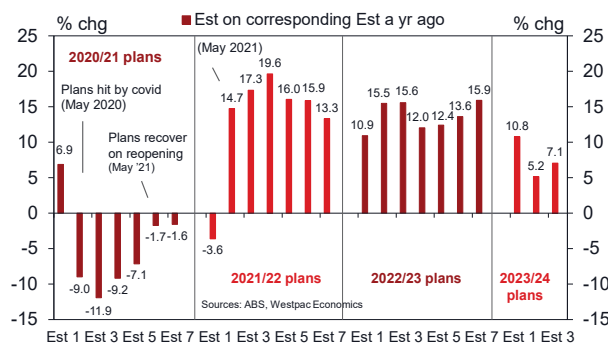
Our Q2 GDP forecast remains 0.4%qtr, 1.8%yr – notwithstanding the downside surprise on Construction Work, worth around -0.1ppt. A detailed GDP preview will be released on Friday.

Andrew Hanlan, Senior Economist

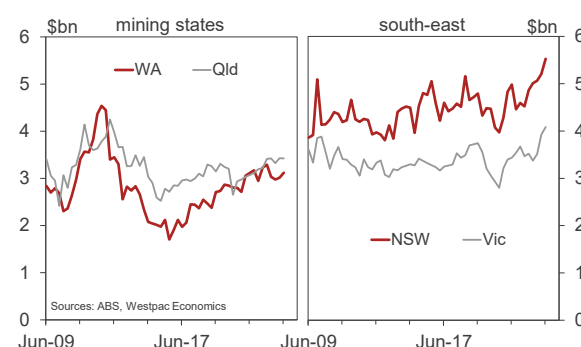
Capex: by industry by asset



Capex plans: 2023/24 an uncertain outlook



Equipment (capex survey): state view



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