

30 November 2023

Australian business capex, September quarter

Capex spending in 2023/24 to be up on 2022/23. However, quarterly momentum in real spending likely to soften from here. Q3 capex: +0.6%.

Q3 capex spending

Capex spending in Q3 printed a subdued rise of 0.6%, which was a little weaker than the market expected (median forecast of +1.0%, range of -1.5% to +2.7%) but above Westpac's forecast of -0.6%.

The new information is around equipment. The survey reported business equipment spending was little changed, edging higher by 0.5% in the quarter. While representing a consolidation that was more resilient than our expectation for a dip in spending.

This follows a strong burst in equipment spending over the first half of calendar 2023, with quarterly gains of 4.0% and 2.2% (while in the National Accounts, Q1 and Q2 are reported as +4.8% and +4.3%). This spending burst included both an element of catch-up (as global supply constraints eased) and a bring-forward (ahead of generous tax incentives ending on 1 July). The easing of supply constraints has extended into the second half of 2023.

By industry, non-mining sectors trimmed equipment spending, down 0.5% - the first decline since December 2021. Mining equipment spending bounced, up 5.9%, but that followed a 4% fall and extends a very volatile pattern since mid-2022.

Building & Structures capex spending printed a rise of 0.7%. By contrast, the Construction Work survey reported actual business construction activity in the quarter dipped, falling by 0.8% (infrastructure +0.2% and building -2.2%).

Capex plans for 2023/24

Capex plans for 2023/24 were upgraded modestly from 3 months earlier.

Our interpretation is that on current plans, the value and volume of capex spending in 2023/24 will be higher than in 2022/23. However, current plans imply a modest decline in real capex spending over the next 3 quarters - off an elevated starting point.

Recall that Est 3 for 2023/24 printed at \$157.8bn, some 7% above Est 3 a year ago.

Est 4 printed at \$171.2, some 10.3% above Est 4 a year ago. That represents an 8.5% upgrade on Est 3, which is in excess of the 5 year average upgrade of 7%, but is well within the range of upgrades over this period (varying between 3.3% and 11.2%).

We calculate, using average realisation ratios, that Est 4 implies the value of capex spending in 2023/24 will be about 9% above that in 2022/23 - an upgrade from the around 6½% implied by Est 3.

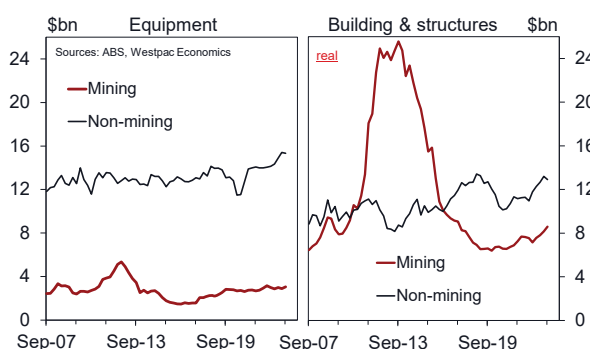
The price / volume split of the capex plans is an unknown. We assess that capex inflation may slow from a brisk 9.2% in 2022/23 to a little under 5%. That would suggest around 4% growth in real capex spending in 2023/24 - which would be a positive result.

However, as to the momentum in real capex spending from here, Est 4 implies a moderation over coming quarters - given that the September quarter actual was 5.6% above the 2022/23 average. We calculate a decline in real capex spending per quarter over the remainder of this year of 1%, centred on a 2% decline in equipment.

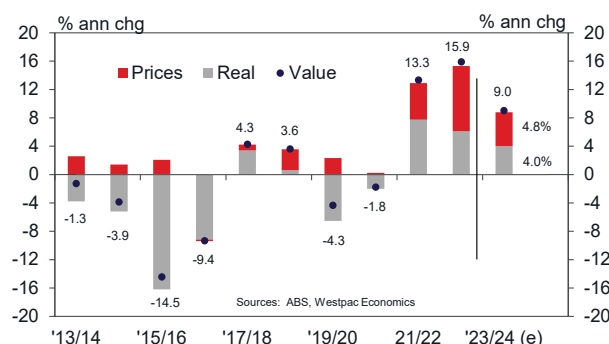
The end of some tax incentives from July 1 2023, weak consumer spending and a squeeze on profitability all point to an emerging caution in equipment spending. Potentially tempering any decline, firms looking to boost productivity and expand capacity given ongoing capacity constraints in some segments of the economy while the unemployment rate remains at a near 50 year low.

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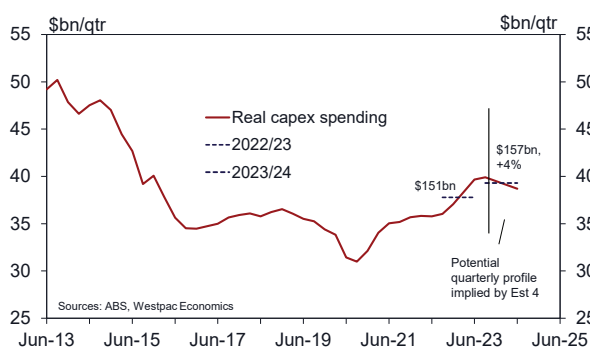
Capex: by industry by asset



Value of capex spending: prices and volumes



Real capex spending: potential loss of momentum



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