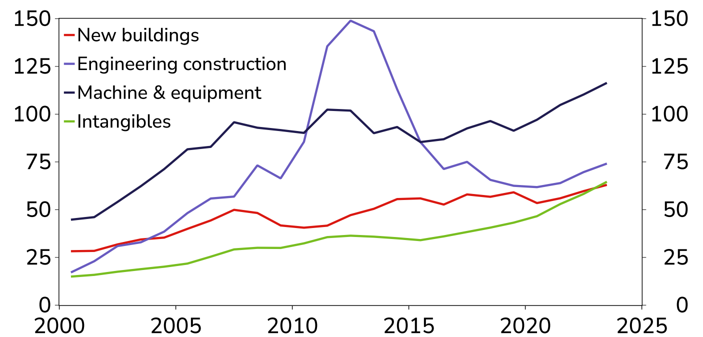
28 November 2024

AUSTRALIAN CAPITAL EXPENDITURE BULLETIN

2023–24 Annual Australian national accounts

Key points

- The economy is undergoing once in a generation structural changes (including the transition to net zero emission), which are supportive of capex. This has already boosted capex in several industries at the forefront of these changes.
- As we become a more services-oriented economy, the adoption of and investment in new technologies will grow in importance. This leads to the surprising result where year-to-year investment growth is likely to be higher compared with a more traditional manufacturing-based economy.
- We expect this to boost underlying growth in capex as obsolete technology will need to be replaced more regularly, adding at least ½ppt per year to investment growth in the non-mining market sector over the next decade.



- In contrast, the non-market sector is becoming more labour-intensive. The international experience suggests that here too technology has a role to play.

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CAPEX to pick up, despite the shift to services

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Investment outside the mining sector is expected to remain elevated in the near term, with growth continuing to moderate from the strong pace recorded coming out of the pandemic.

Over the medium to longer term, the transition to net zero carbon emissions, the emergence of new technology, and the larger population are all pro capital expenditure (or capex). These long-term underlying shifts require higher levels of investment, with capital already starting to flow to the industries at the forefront of these shifts.

Industries such as electricity generation, information and telecommunications, and professional services continue to invest and add to their capital stocks (see 'the industry detail' below).

Those industries at the coalface of the consumer-led slow down are now clearly pulling back on their investment plans to protect margins and cashflow. This includes industries such as accommodation and food services, recreational services and retail and wholesale.

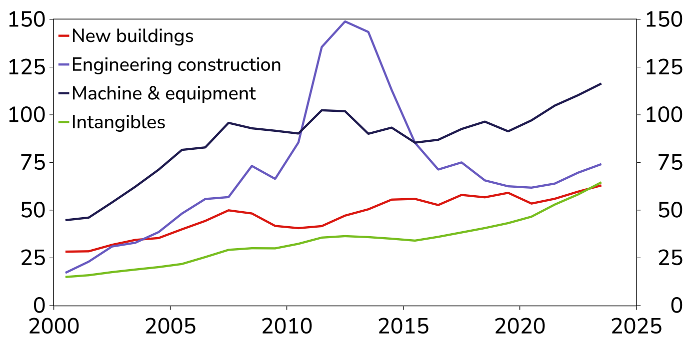
In the near term, these drivers will be somewhat offsetting. As consumer demand picks up, we expect to see a more broad-based pick-up in investment – more likely than not this will be a story for 2026-27 and beyond.

What about the role of technology?

The adoption of new and emerging technologies is already boosting investment. Businesses are telling us they are investing in cost-cutting and productivity-enhancing technologies, and many have the balance sheet strength to continue to invest (more information available here).

New business investment

$bn per financial year



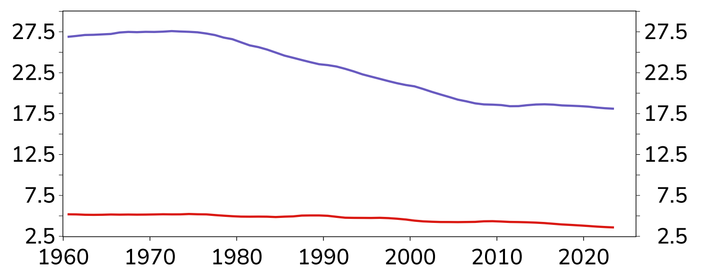
Source: ABS, Macrobond, Westpac Economics

Investment in data centres, fit-outs for these centres as well as investing in the intangibles (such as software platforms, cloud storage, upgraded mainframes, cybersecurity) all picked up pre-pandemic, with this trend accelerating in the post-pandemic period. In fact, in the 2024 financial year business investment in intangibles was higher than investment in new commercial buildings for the first time ever.

As we move further towards a services-based economy, investment in new technologies will become more important. This leads to the surprising result where year-to-year investment growth is likely to be higher compared with a more traditional manufacturing-based economy. That's because in services-based industries, intangibles are a more important part of the production process and these intangible capital items depreciate (or need to be replaced) more rapidly – in fact, software takes on average 2.5 years to depreciate, while more traditional capital items such as manufacturing floorspace and large-scale industrial infrastructure on average take more than 25 years to depreciate.

Capital depreciation

Average number of years before item deprecate



–Intangibles (software and R&D)
–Traditional capital items (non-dwelling construction and machinery)

Source: ABS, Macrobond, Westpac Economics

The growth in investment required to cover depreciation and to provide ongoing population growth with capital to work and live (what economists like to call the 'steady state' level of investment) in the non-mining market sector will be higher going forward compared to the average over the 30 years before the pandemic.

We estimate that the higher depreciation rate will add at least ½ppt per year to investment growth – or in today's dollars, at least $20 billion over the next decade.

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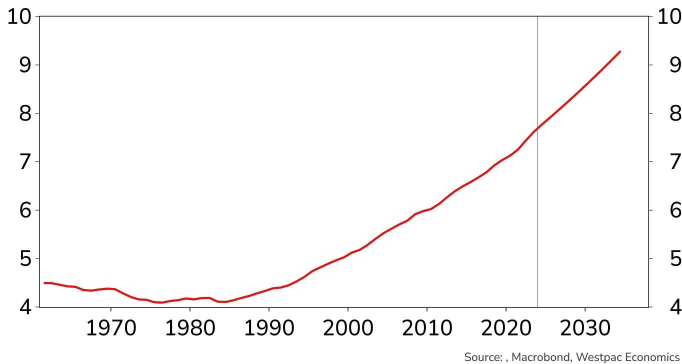
Annual depreciation rate

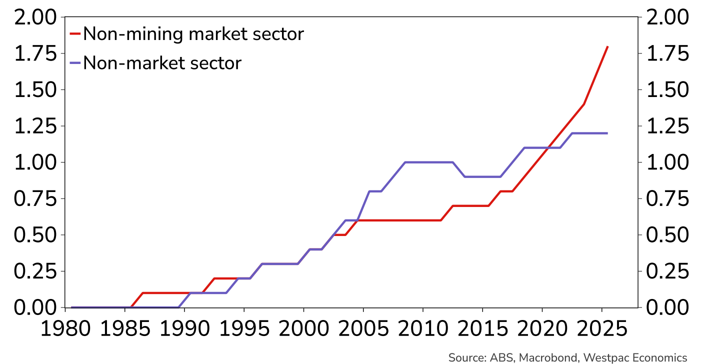
Non mining corporate sector, share of capital stock



Source: , Macrobond, Westpac Economics

Software as a share of the capital stock

By sector, financial year



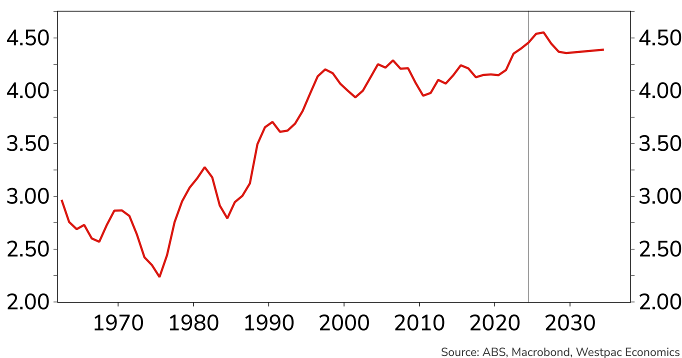
Source: ABS, Macrobond, Westpac Economics

There are also other implications. Capital deepening – investment above what's required to replace depreciated capital and to cater for the ongoing growth in the population – will require a higher level of investment. In addition, the capital stock could respond more quickly to the economic cycle, possibly increasing the amplitude of business cycles going forward.

The impact on the cost of capital (or global interest rates) over the long run remains unclear. On the one hand, increased investment will increase demand for loanable funds. However, this investment will also boost productivity over the longer term, increasing the supply of loanable funds.

Steady state growth in investment

Non mining corporate sector, year average % change



Source: ABS, Macrobond, Westpac Economics

What's happening in the non-market sector?

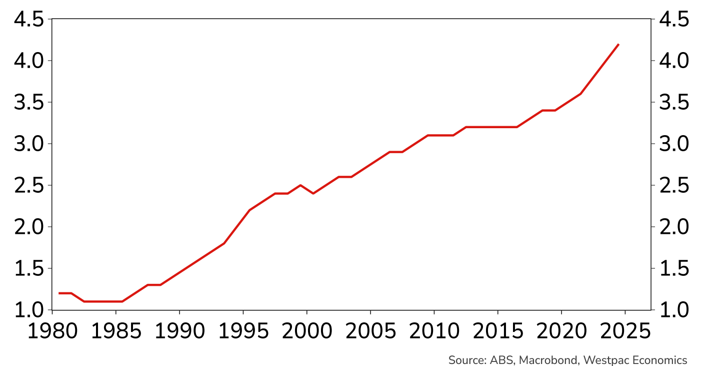
In the non-market sector (health, education and public administration and safety industries) the adoption of new technologies has not increased at the same pace as seen in the market sector.

In fact, the importance of intangibles (computer systems/ software and R&D) in the production process has declined to be at its lowest level in 1996. Such a large fall could relate to the emergence of cloud computing and software as a service-based model where the software and computing equipment may no longer be purchased by entities in the sector but 'leased' instead.

As a basis for comparison, in the non-mining market sector intangibles have become a more important part of the production process, now accounting for 4.2% of the capital stick, up 1ppt in eight years (or from the 2015-16 financial year). It had previously taken 20 years for intangibles to increase from 2.2% of the capital stock in 1994-95 to 3.2% in the 2015-16 financial year.

Intangibles as a share of the capital stock

Non mining corporate sector, financial year



Source: ABS, Macrobond, Westpac Economics

How efficiently the non-market sector uses scarce resources will impact future growth in living standards. The non-market sector now accounts for almost 30% of all hours worked in the economy – a record high. The Productivity Commission is looking at how efficiency in the sector could be boosted, examining the impact of regulations, standards and other policies on the was the sector provides services.

Other countries are embracing technology in this space. China for instance has hospitals where, using AI and other technologies, patients are able to be diagnosed and prescribe medical treatment without the need for human doctors and nurses. While no one is suggesting this should happen here, it shows there is room for better use of technology.

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The industry detail

Industries invest to replace depreciated or obsolete capital items like computers, laptops, software, etc and to provide new workers with the capital items needed to perform effectively.

If businesses or governments invest more than what's required to cover depreciation they are adding to their capital stock. If they invest more than what's required to provide new workers with capital, that's called capital deepening and tends to boost growth in productivity over time.

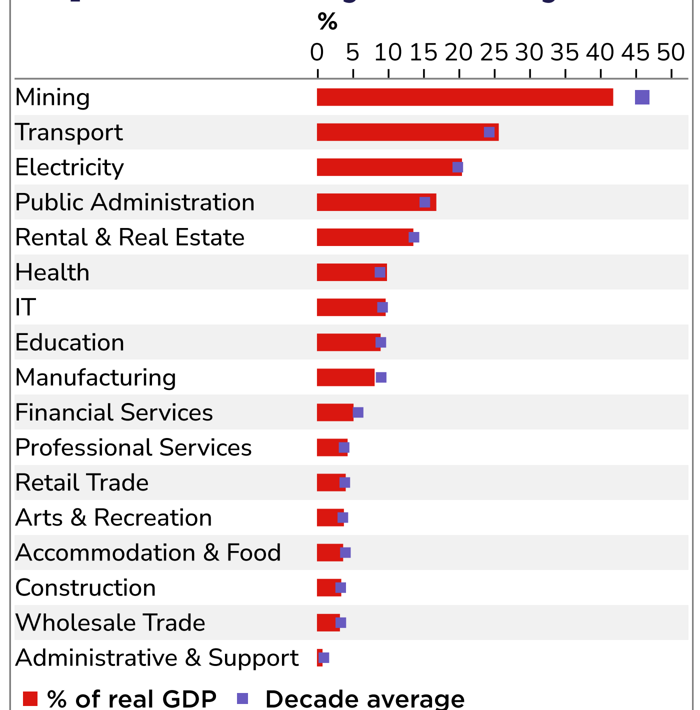
The 2023-24 annual national accounts showed that industries at the forefront of the structural shifts in the economy are adding to their capital stock and going through a process of capital deepening. This includes the electricity generation, construction, information and telecommunications, professional services and transport/warehousing industries.

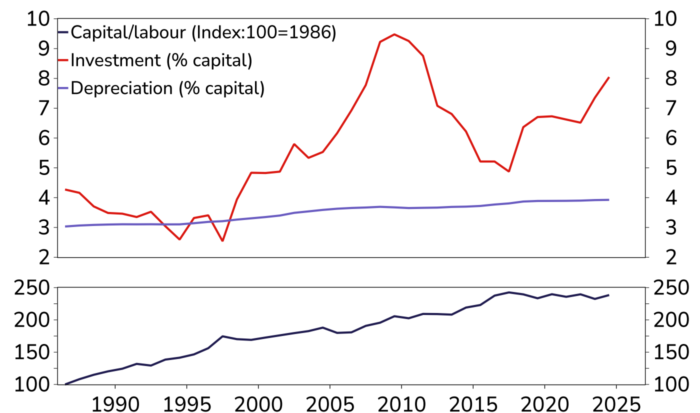
After running down its capital stock for more than a decade in the pre pandemic period, the manufacturing sector has started to rebuild its stock over the past few years.

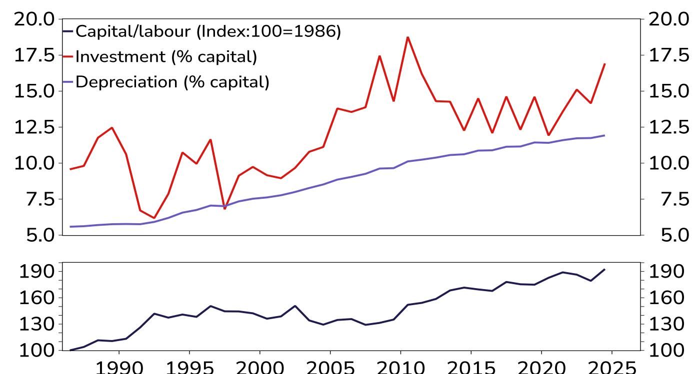
Creative destruction or structural change also implies that some sectors' investment lags. Mining investment has barely covered what is required to replace the wear and tear on capital equipment. This stall in investment reflects lower expected demand for some commodities as the world transitions to net zero emissions, and as well as steel production in China having passed its peak. Uncertainty related to energy policies is also weighing on investment.

Industries at the forefront of the consumer-led slowdown are either running down their capital stocks or going through a period of capital shallowing. This includes arts and recreation and the retail and wholesale trade industries. The finance and insurance industry has also reduced its capital stock on the back of increased use of technology.

The non-market sector is investing enough to replace depreciated capital, with the capital stock unable to keep pace with the massive increase in hours worked. The education and health industries have become more labour intensive over the past few years.







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