



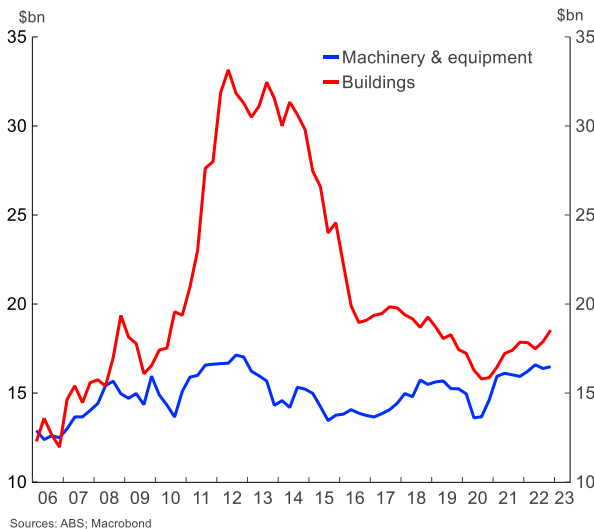
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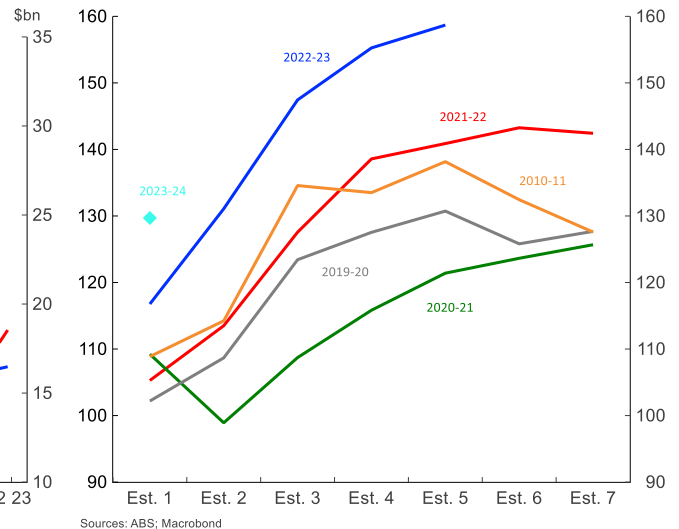
Private Capital Expenditure Spending Splurge Unlikely a New Norm

- New private capital expenditure (capex) jumped 2.2% in the December quarter, the largest quarterly jump since mid-2021. Additionally, the September quarter result was revised up substantially from a 0.6% fall to a 0.6% gain.
- Elevated capacity utilisation through most of 2022 looks to have translated into stronger capex spending as businesses increase capacity to make the most of robust demand. The upcoming end to the instant assets write-off and the loss carry-back schemes is also prompting a pull-forward in capex spending.
- Growth was concentrated in building and structures which jumped 3.6% in the December quarter, supported by the expansion of supply chain operations following the pandemic. Spending on machinery and equipment came in softer (up 0.6%) but remains elevated.
- Capex spending could reach as high as \$159.2 billion in 2022-23 if we adjust survey outcomes in line with historical norm. If we adjust using the realisation ratio from the most recent RBA tightening cycle (2010-11), our estimate for capex drops to \$146.5 billion, a softer outlook. Adjusting the first estimate for 2023-24 using either method, growth in capex is expected to be less than 4% in that year – if realised, this would be a soft outcome.
- Business investment appears to have gained momentum in the second half of 2022 as persistent capacity constraints and strong demand prompted a capex response. However, looking further ahead the outlook is less rosy. Rising interest rates and a sharp slowdown in activity will weigh on spending – something that’s coming through in capex expectations.

Capital Expenditure
By asset



Total Capex Spending Plans
\$Billion



Actual Spending

New private capital expenditure (capex) increased strongly over the end of 2022. Capex jumped 2.2% in the quarter, the largest quarterly jump since mid-2021. Additionally, the September quarter result was revised up substantially from a 0.6% fall to a 0.6% gain.

Elevated capacity utilisation and mounting capacity constraints through most of the year look to have translated through to stronger capex spending as businesses increase capacity to make the most of robust demand. In annual terms, investment spending expanded 3.6%, which is considerably stronger than the 10-year average of -3.1%. However, the 10-year average was heavily impacted by the unwinding of the mining investment boom. In dollar terms, capex in the December quarter was the strongest we have seen in almost 7 years at \$35.0bn and the 2022 calendar year was the strongest we have seen since 2018.

Capex growth was concentrated in building and structures investment which jumped 3.6% in the December quarter. Annual growth accelerated to 3.8%, up from 2.8% in the September quarter. Building and structure spending has been supported by the need to expand warehousing and supply chain operations to respond to the large mismatch between supply and demand caused by the pandemic. However, the weak construction activity data released yesterday suggests the pipeline of construction work is swelling.

Spending on machinery and equipment came in softer, growing 0.6% in the quarter following a sharp 1.2% fall in the September quarter. In annual terms machinery and equipment capex rose 3.4%. Despite recent volatility, spending on machinery and equipment remains elevated and was only 0.7% below the June quarter of 2022, which marked the strongest monthly spend since the mining investment boom.

- Machinery & Equipment

Machinery and equipment investment was mixed in the December quarter across the mining and non-mining industries.

Mining investment slipped for a second consecutive quarter, falling 5.2%. Annual growth also slowed to 3.3% from 11.7% in the September quarter. Despite recent softness, the value of spending remains above the 10-year average.

In contrast, non-mining investment in machinery and equipment rose 1.8% in the quarter to a new record high. The post-pandemic surge in machinery and equipment spending from non-mining companies has been prompted by the generous instant asset write-off and loss carry-back schemes. This stimulus is likely to support machinery and equipment spending until it expires on 30 June this year. However, rising interest rates appear to be draining some of the momentum in machinery and equipment investment.

- Buildings & Structures

The increase in spending on buildings and structures in the December quarter was broad-based across the mining and non-mining sectors.

Mining investment surged 67.1% in the December quarter, fully unwinding a 26.8% fall in the September quarter. Note that base effects contributed to the outsized quarterly gain given spending on buildings and structures was 3.6% lower in annual terms.

Non-mining investment rose 3.9% in the December quarter, adding to a 6.4% gain through the September quarter. As a result, the level of spending in the December quarter was the strongest since the pandemic began. However, non-mining spending on buildings remains around 9.3% off

the record high struck in the December quarter of 2018.

By Industry

Spending rose 0.7% in the mining sector, while non-mining capex increased a more pronounced 2.8% in the quarter. In annual terms, mining capex declined 1.8% – the first annual contraction in mining investment since the September quarter of 2020. Meanwhile, annual growth in non-mining investment accelerated to 5.8% in the December quarter, well above the 10-year average of 1.6%.

Across the non-mining industries, 10 of 16 industries reported an increase in capex in the December quarter, while spending held above the 10-year average in 12 non-mining sectors. There were particularly large spikes in spending in the other services (67.1%), finance & insurance (47.3%), professional services (36.2%) and accommodation & food services (25.6%) industries. Additionally, spending in the education and training and electricity & gas industries rose to a record high level.

On the other end of the ledger, spending declined in the arts & recreation (-12.7%), healthcare (-4.9%) and wholesale trade (-4.1%) industries.

States and Territories

Capex outcomes were mixed by region in the December quarter 2022, ranging from a 20.1% increase in the NT, to a 5.5% fall in Tasmania. Solid gains were recorded in the ACT (8.5%), Victoria (7.4%) and SA (3.8%). Falls were recorded in Queensland (-2.6%) and NSW (-0.7%).

However, when looking at the change over the year to the December quarter, annual falls were only recorded in the ACT and Queensland, with solid gains posted across the remaining states and territories. This is consistent with the strong business conditions and high capacity utilisation, which characterised the 2022 calendar year.

Spending Plans

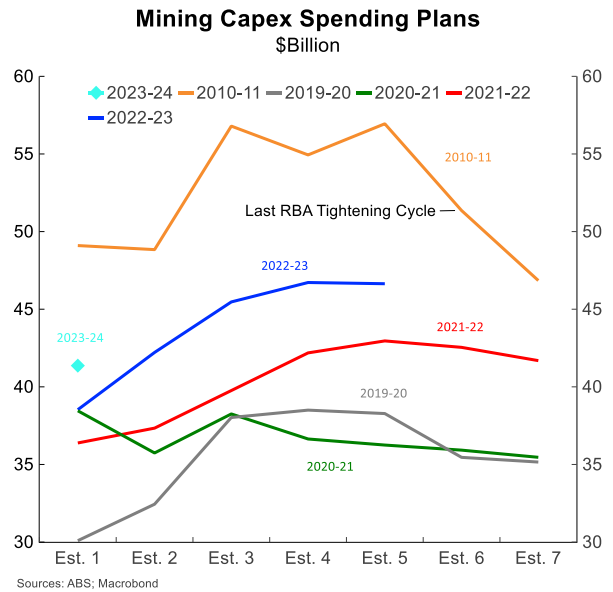
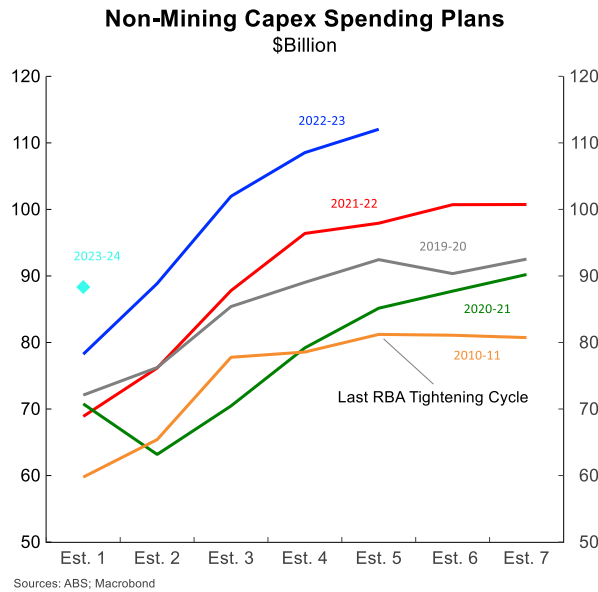
We received fresh estimates of business spending plans for 2022-23 and the first estimate of spending plans for the 2023-24 year. The updated estimate (Estimate 5) published today for 2022-23 was \$158.7 billion, which is 2.2% higher than the previous estimate. The new estimate for 2023-24 (Estimate 1) was \$129.7 billion. This is 11.1% higher than Estimate 1 for 2022-23. This is a nominal estimate which incorporates changes in both the prices and volumes of investment goods.

Capex expectations tend to be biased with businesses systematically under predicting how much capex they end up spending. To correct for this bias, we apply a long run average “realisation ratio” which has been shown to minimise the forecasting errors particularly when compared with other averages such as the 3- and 10-year averages.

Using the long run average realisation ratio, we estimate spending in 2022-23 could reach as high as \$159.2 billion, which would be 11.8% higher than spending in 2021-22 and in line with spending levels in 2014-15.

While the long run realisation ratio does well on average, we are currently not in an “average” period. The RBA has embarked on an aggressive tightening cycle, inflationary pressures are high, and the global economy is entering a downturn. If we apply the realisation ratio from the most recent RBA tightening cycle (September 2009 to November 2010 when the cash rate increased from 3% to 4.75%), our estimate for capex spending in 2022-23 drops to \$146.5 billion, representing a modest increase of 2.9% on spending in 2021-22 – a soft number when you consider prices are running hot.

When it comes to the 2023-24 year, we estimate spending could reach as high as \$165.5 billion, which would be 3.9% higher than expected spending in 2022-23. Given inflation is expected to remain elevated in 2023-24, this is a weak outlook for capex spending.



Outlook

Business investment appears to have gained momentum in the second half of 2022 as persistent capacity constraints and strong demand prompted a spending response from businesses. Additionally, the rapidly approaching end to the instant assets write-off and the loss carry-back schemes is encouraging businesses to capitalise on the generous incentives before they expire in June this year.

However, looking further ahead the outlook is less rosy. Rising interest rates and a sharp slowdown in activity will weigh on spending – something that’s coming through in capex expectations.

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