Private New CAPEX

KEY POINTS

CAPEX by total and asset type

- The volume of private new capital expenditure fell by 8.9% in the March quarter 2009 (seasonally adjusted), following a revised 7.3% increase in the December quarter 2008 (previously reported as a 6.0% rise).
- The March quarter result was significantly worse than the median market forecast for a fall of 5.0%.
- The annual rate of growth fell sharply from a revised rise of 19.5% in the December quarter 2008 to 6.8% in March quarter.
- Investment in building and structures (volumes) fell by 4.7%, following a revised 15.9% increase in the previous quarter, to be 24.2% higher over the year.
- Investment in equipment, plant & machinery also droppped in the March quarter 2009, falling by 10.8%, following a revised 1.1% fall in the previous quarter. In the year to the March quarter 2009, investment in equipment, plant & machinery fell by 5.0%.

CAPEX by industry

- Manufacturing capital investment fell by 12.2% in volume terms in the March quarter 2009, to be 8.9% lower than a year ago.
- The seasonally adjusted nominal value of expenditure by the manufacturing sector on buildings & structures fell by 23.6% in the quarter, while the nominal value of expenditure on equipment, plant & machinery fell by 2.7%.
- Elsewhere, investment in mining fell by 1.2% in volume terms in the March quarter, following rises in the previous five quarters. The volume of mining investment in the March quarter remained 26.8% higher than a year ago.
- Investment in ‘other selected industries’ fell by 13.1%, to be 0.3% lower than a year ago.

CAPEX expectations

- As an indication of future investment growth, in current price terms, the survey reported a final estimate for capital expenditure for 2007-08 of $86,478 million. The sixth survey estimate for 2008-09 capital spending was $99,259 million, 0.9% lower than the fifth estimate for the year.
- Multiplying the current investment expectation for 2008-09 by the ratio of actual investment in 2007-08 to expected investment for 2007-08 at the same time last year, gives an idea what the actual outcome for investment in 2008-09 might be.
- The 2007-08 realisation rate was 0.9, i.e. actual investment in 2007-08 was 1% lower than expected at this time last year. Using this as a guide for the outcome for 2008-09 gives an expectation of a 13.6% rise in current price capital expenditure in 2008-09 over 2007-08.
- However, realisation ratios can fall rapidly in time of economic downturn. That is, actual outcomes often fall significantly below earlier expectations. It is highly unlikely that realisation ratios for last year or indeed, the commonly used 5-year average, will give a realistic indication of likely outcomes in the current economic climate. The outcome for 2008-09 is more likely to be in line with the Commonwealth Budget’s forecast of a rise of 2.5% in business investment in real terms.
- The ABS also released its second set of investment expectations data relating to 2009-10 today. In current prices, the expectation is for investment of $76,925 million.

- If we assume a realisation ratio of 1.00 for current estimates of investment in both 2008-09 and 2009-10, and recognising the high level of uncertainty in these estimates, this implies a fall in current price private capital investment of around 22.5% in 2009-10. This is consistent with the Budget forecasts of a fall of 18.5% in business investment in 2009-10 in volume terms.

Policy implications

- The weakness of new capital spending in the March quarter and the sharp reduction in expectations for investment over the next year is consistent with the economic forecasts underlying the Budget and the Reserve Bank's most recent forecasts in its recent Statement on Monetary Policy.
- This suggests that while the numbers are poor, they are consistent with the RBA's current expectations for the economy. In turn, this suggests that, in the absence of a further weakening in overseas economic activity or other economic indicators domestically, the Bank will continue to wait and see before it makes a further reduction in the official cash rate.