

Private New CAPEX – September Quarter 2009

ECONOMIC ALERT**26 NOVEMBER 2009**

KEY POINTS

CAPEX by total and asset type

- The volume of private new capital expenditure fell by 3.9% in the September quarter 2009 (seasonally adjusted), following growth of 2.1% in the June quarter 2009 (originally estimated to have been 3.3%).
- The September quarter result was significantly worse than the median market forecast for a rise of 1.0%, although more in line with ANZ's forecast of a 2.6% decline.
- The annual rate of change deteriorated, from a rise of 8.0% in the June quarter 2009 to a fall of 1.3% in the September quarter. This largely reflects the strong growth in expenditure that occurred in the second half of 2008.
- Investment in building and structures (volumes) fell by 4.8%, wiping out a revised 1.4% rise in the previous quarter, to be 6.5% higher over the year.
- Investment in equipment, plant & machinery also decreased in the September quarter 2009, dropping 2.9% following a 2.9% rise in the previous quarter. In the year to the September quarter 2009, investment in equipment, plant & machinery fell by 8.1%.

CAPEX by industry

- Manufacturing capital investment fell by 13.4% in volume terms in the September quarter 2009, to be 16.1% lower than a year ago.
- This marked the largest quarterly fall in manufacturing capital investment in the survey's 22-year history.
- The seasonally adjusted value of expenditure by the manufacturing sector on buildings & structures fell by 9.7% in the quarter, while the nominal value of expenditure on equipment, plant & machinery declined by 17.5%.
- Elsewhere, investment in mining grew by 3.0% in volume terms in the September quarter, following an 8.9% fall in the June quarter. The volume of mining investment in the September quarter was 0.9% higher than a year ago.
- Investment in 'other selected industries' fell by 5.8%, to be just 0.4% higher than a year ago.

CAPEX expectations

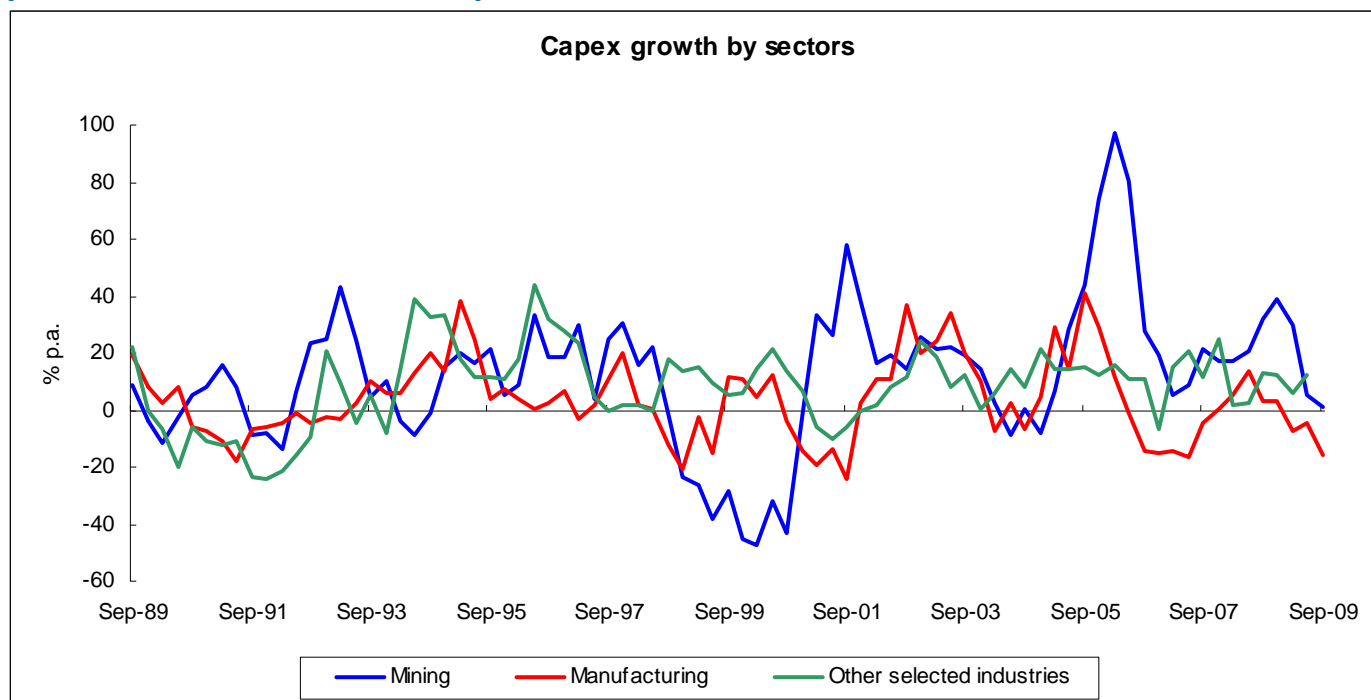
- As an indication of future investment growth, in current price terms, the survey reported a final estimate for capital expenditure for 2007-08 of \$96,772 million. The seventh and final survey estimate for 2008-09 capital spending was \$113,121 million, 1.5% higher than the sixth estimate for the year. Consequently, current price investment grew by 16.9% in 2008-09.
- The ABS also released its fourth set of investment expectations data relating to 2009-10 today. In current prices, the expectation is for investment of \$105,010 million. This is around 7.7% lower than the fourth estimate for 2008-09, but 5.9% higher than the third estimate for 2009-10.
- For the manufacturing sector the fourth estimate for investment in 2009-10 (\$12,030 million) is 6.4% higher than the third estimate for 2009-10.
- If we assume a realisation ratio of 1.00 for current estimates of total 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 7.2% in 2009-10. This compares with the MYEFO forecast of a 6.5% fall in business investment in 2009-10 in volume terms.
- Assuming a realisation ratio of 1.00 for the manufacturing investment implies a 5.1% fall in expenditure in 2009-10, while a realisation ratio equivalent to the five-year average (0.976) points to a 7.4% decline.

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Chart: Annual growth in actual capital expenditure by major sector (chain volume measure)



Policy implications

- Today's capital expenditure release by the ABS contained two major stories: a weaker than forecast level of investment in the September quarter 2009 (compounded by a downward revision to the surprisingly solid June quarter figures), but, importantly, an improvement in expectations for investment in 2009-10.
- The improvement in expectations for investment over 2009-10 is consistent with the upgraded forecasts in the Treasury's MYEFO and RBA's Statement on Monetary Policy. This will support the Bank in its belief that the official cash rate needs to rise further over the coming months on a path to neutrality.
- While the manufacturing investment figures for the September quarter 2009 were extremely weak, an improvement in expectations for investment over the 2009-10 year is promising.