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Australian CAPEX survey: a preview Est 5 of 2013/14 & Est 1 of 2014/15

Risk investment plans are upgraded

The ABS survey of private business investment plans, the CAPEX survey, will provide some further guidance to growth prospects.

The December quarter edition will be released on February 27, with responses received over January and February.

This update occurs at a time of improved business conditions, as reported by private business surveys. This raises the question of whether firms have responded by upgrading investment plans to meet stronger demand from households and from abroad or whether uncertainty and excess capacity see firms hold-off.

The risks of a possible downgrading of investment plans centres on a possible downside surprise to actual capex spending in Q4.

2013/14: Estimate 4
Estimate 4 of capex plans for 2013/14, released in the September quarter survey three months ago, was $167bn. That was 2% below the corresponding estimate for 2012/13.

Est 4 represented an upgrading of intentions from those of three months earlier, with Est 3 some 10% below the corresponding estimate of a year ago. In part, that may be because plans as at late August (the timing of Est 3) were constrained by uncertainty ahead of the September 14 Federal Election.

By industry, Est 4 was: $104bn for mining, 3% below Est 4 for 2012/13; $53bn for services, +3% on corresponding estimate year prior; and $9bn, for manufacturing, –11%.

So how to interpret these estimates of investment plans? A quick option is to apply the realisation ratio of the previous year to each industry estimate. This is equivalent to comparing Est 4 with Est 4 for the year prior, as above. But is it reasonable to assume that the realisation ratio will remain constant for one year to the next.

Alternatively, an average realisation ratios (RR) could be applied. In the case of mining, we use the 3 year RR and for services and manufacturing the 10 year RR. On this occasion, the results were very similar to those from the 1yr RR calculation, namely: mining 4% below the final outcome for 2012/13; services +4%; manufacturing –10%; and total capex –2%.

A word of caution, these calculations are particularly sensitive to the choice of RR. Given the current stage of the mining cycle there is a great deal of uncertainty surrounding the likely ultimate RR for the mining sector in the 2013/14 year.

2013/14: Estimate 5 - Scenarios
Here we present some scenarios for Est 5 of capex plans for 2013/14.

This is based upon applying the 3yr RR to mining, and the 10yr RR to services and the 10yr RR to manufacturing.

<u>Scenario 1, 2013/14</u>: - implied growth same as Est 4 (i.e. –2%)
Est 5 of $167bn.
Implies a final outcome of $172bn, –2% on 2012/13
Mining, –4%; services, +4%; manufacturing, –10%.

<u>Scenario 2, 2013/14</u>: - a softer result
Est 5 of $160bn.
Implies final outcome of $151bn, –6% on 2012/13
Mining, –8%; services, flat; manufacturing, –14%.

<u>Scenario 3, 2013/14</u>: - a more positive result
Est 5 of $174bn.
Implies final outcome of $164bn, +2% on 2012/13
Mining, flat; services, +8%; manufacturing, –6%;

2014/15: Estimate 1
The initial estimate of capex plans for 2014/15 will be released in this update. We caution that the reliability of estimates 1 & 2 for any given year are typically significantly less than estimates 3 through to 6, ahead of the final outcome, estimate 7.

The strength or otherwise of Est 1 will depend upon plans for 2013/14, hence our preference not to present various scenarios for 2014/15.

<u>Comments</u>
Note that the scenarios are calculated for the overall growth in investment. The mix of various industry groups could be quite different to the mixes set out in these scenarios.

Arguably, the RBA will be most focused on the estimate for growth in the non-mining sectors, particularly services. This will add some colour as to the likelihood that the non-mining sectors will be a growth engine in the near-term.

More generally, we note that the capex survey is only one input into our forecasts of business and mining investment. We agree with the RBA that: "the expectations component of the ABS capital expenditure survey ... tends to be a relatively imprecise guide to firms' realised spending". Also, the level of business investment in the national accounts is much greater than capex ($67bn vs $41bn for 2013 Q3) and quarterly movements in the national accounts can diverge somewhat from those in capex.

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