28 May 2014

# Australian CAPEX survey: a preview Est 6 of 2013/14 & Est 2 of 2014/15
## Uncertainty abounds

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

The March quarter edition will be released on May 29, with responses received over April and May. This update will include Estimate 6 of capex plans for 2013/14 and Est 2 for 2014/15.

While the final outcome for 2013/14 is unknown, the focus is shifting to 2014/15. The initial estimate for the year ahead highlighted the risk of a particularly sharp decline in mining investment, while the outlook for investment by the services sectors remains unclear.

Developments in the period since the most recent quarterly update by the ABS have been mixed. Private surveys report that business conditions are currently at levels in line with historic averages. That is less positive than readings at the turn of the year, but is nonetheless a marked improvement from mid-2013. The willingness of business across the broader economy to commit to additional investment may be adversely affected by a number factors: the retreat in consumer sentiment to below average levels; a lift in the AUD back above US90¢; and fiscal policy considerations.

At the outset we would emphasise that Est 1 and Est 2 of capex plans are typically and understandably less reliable than following estimates, at times by a considerable margin. In short, 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".

### A recap on the December capex survey

**2013/14: Estimate 5**
Est 5 of capex plans for 2013/14, released in the December quarter survey three months ago, was $167bn. That is 0.5% above the corresponding estimate for 2012/13.

We calculate that Est 5 implies capex spend in 2013/14 will be 2% below that in 2012/13, based on average realisation ratios (RRs). This fall of 2% matches that implied by estimate 4.

By industry, we calculate that Est 5 implies that capex this year relative to last is likely to be: -5% for mining; –7% for manufacturing; and +5.5% for the services sectors.

**2014/15: Estimate 1**
Est 1 of capex plans for 2014/15, released in the December quarter survey three months ago, was $125bn. That is 17.4% lower than Est 1 for 2013/14.

By industry, Est 1 vs Est 1 a year ago are: mining, –25%; manufacturing, –20%; and services, +0.4%.

We calculate, using average RRs, that these plans imply growth in 2014/15 by industry of: –22% for mining; –20% for manufacturing; and +8% for services.

### Scenarios for the March capex survey

**2013/14: Estimate 6**
We make the assumption that Est 6 for 2013/14 will be in line with that for Est 5.

This would require that Est 6 is about $162bn. We calculate that this implies a final outcome for 2013/14 of $158bn, which is 2% below the 2012/13 result of $160.5bn.

Note that a value of $162bn for Est 6 is 3.0% lower than Est 5, and a final outcome of $158bn is 2.5% lower than Est 6. These movements accord with the average downgrades over the past four years.

Underpinning a profile of downgrades as the year draws to a close is the mining sector, which dominates this survey (58% of the total) and the fact that investment by mining is dominated by building & structures (90% of the total). Work on building & structures often takes longer than expected and hence actual capex spending in a financial year falls short of initial plans.

**2014/15: Estimate 2**
Here we set our three scenarios for Est 2 of 2014/15 capex. A key caveat, any surprises around Est 6 for 2013/14 will change these calculations for 2014/15.

To recap, the final outcome for 2012/13 was $160.5bn and we're assuming that the final outcome for 2013/14 will be $158bn.

Scenario 1, 2014/15: - implied growth same as Est 1 (i.e. –11%)
**Est 2 of $131bn.**
Implies a final outcome of $141bn, –11% on 2013/14
Mining, –22%; manufacturing, –20%; services, +8%

Scenario 2, 2014/15: - a softer result
**Est 2 of $124bn.**
Implies final outcome of $134bn, –16% on 2013/14
Mining, –26%; manufacturing, –25%; services, +2%

Scenario 3, 2014/15: - a more positive result
**Est 2 of $138bn.**
Implies final outcome of $148bn, –6% on 2013/14
Mining, –17; manufacturing, –15%; services, +12%

Comments
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.

More generally, we note that the capex survey is only one input into our forecasts of business and mining investment. The capex survey covers only 60% of total business investment and the survey overstates the share of mining investment.

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