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Australian CAPEX plans: a preview Est 3 of 2014/15 Cross currents in mining & services sectors

The ABS survey of private business investment plans, the CAPEX survey, will provide some further guidance to growth prospects. The June quarter edition will be released on August 28, with responses received over July and August. This update will include the final outcome for 2013/14 and the third estimate of plans for 2014/15.

The 2nd estimate for 2014/15 pointed to a decline in business capex, with a sharp downturn in mining only partially offset by a lift in services sector spending. These broad themes are likely to be restated. What policy makers will be looking for is some greater clarity around the likely magnitudes of these divergent trends.

The RBA does take note of the capex survey, but is mindful of its shortcomings, stating that: "the expectations component of the ABS capital expenditure survey ... tends to be a relatively imprecise guide to firms' realised spending". We would add that Est 1 and Est 2 are often considerably less reliable than following estimates, given that the previous full-year outcome is still unknown. Accordingly, the upcoming survey, including Est 3, takes on a greater degree of interest from our perspective.

Recent developments in the Australian economy have been mixed. Conditions softened in the June quarter, with consumer sentiment dented by a tough Federal budget. The signs are that this soft spot may have been short lived, with consumer confidence recovering somewhat and private business surveys reporting conditions were above average early in the September quarter. A still relatively high Australian dollar reduces the competitiveness of trade exposed sectors, although imported capital equipment is relatively cheaper.

A recap on the March capex survey

2013/14: Estimate 6

Est 6 of capex plans for 2013/14, released in the March quarter survey, is \$163bn. That is unchanged from Est 6 for 2012/13.

We calculate that Est 6 implies capex spend in 2013/14 will be 1.5% below the 2012/13 outcome, based on average realisation ratios (RRs). This is in line with the 2% decline suggested by Est 5.

By industry, we calculate that Est 6 implies capex this year relative to last will be: mining, -5%; manufacturing, flat; and services, +4%.

2014/15: Estimate 2

Est 2 of capex plans for 2014/15 was \$137bn. That is 12% lower than Est 2 for 2013/14. While weak that is an improvement on Est 1 which was 17% below Est 1 for 2012/13.

By industry, Est 2 vs Est 2 a year ago are: mining, -21% (upgraded from -25% three months earlier); manufacturing, -18% (upgraded from -20%) and services, +9.5% (upgraded from 0.4%).

We calculate, using average RRs, that this implies capex in 2014/15 relative to 2013/14 will be as follows: total, -6.5%; mining, -19%; manufacturing, -23%; and services, +15%.

Interpreting Est 2

The implications of Est 2 for total business investment in 2014/15 varies according to the preferred method of calculation.

Est 2 on Est 2 on a year ago by industry suggest a 5% fall in business investment (applying national account weights). This is a little weaker than our forecast of -3.5% because of a sharper decline in mining investment.

Using average RRs by industry gives a fall in business investment of only 1%. In this second approach services investment increases by a very strong 15% whereas other indicators point to a more modest recovery.

Scenarios for the June capex survey

2013/14: final outcome

For 2013/14, we anticipate a final outcome of about \$158bn, 1.5% below the 2012/13 result. Such an outcome is a 2.8% downgrade on Est 6, a downgrade in line with recent years.

2014/15: Estimate 3

Here we set our three scenarios for Est 3 of 2014/15 capex. A key caveat, any surprise around the final outcome for 2013/14, which we expect to be \$158bn, will impact these calculations.

Scenario 1, 2014/15: - a restatement of Est 2 (implied -6.5% Est 3 of \$147bn.

Implies a final outcome of \$148bn, -6.5% on 2013/14
Mining, -19%; manufacturing, -23%; services, +15%

Scenario 2, 2014/15: - a softer result

Est 3 of \$139bn.

Implies a final outcome of \$139bn, -12% on 2013/14
Mining, -23%; manufacturing, -27%; services, +7%

Scenario 3, 2014/15: - a more positive result

Est 3 of \$154bn.

Implies a final outcome of \$155bn, -2% on 2013/14
Mining, -15%; manufacturing, -18%; services, +20%

(Note: implied final outcomes are, by chance, in line with Est 3, given offsetting impacts from mining and services. Mining capex is typically downgraded as the year progresses but services plans, with a focus on equipment, are typically upgraded.)

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 overstates the share of mining investment. Also, investment plans can and will change between now and the end of 2014/15.

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