



30 November 2018

AUSTRALIAN ECONOMIC DEVELOPMENTS

The outlook for private sector capital expenditure (CAPEX) and the estimate for CAPEX in the September quarter (Q3) of 2018 was the most significant piece of new information released this week. The ABS estimate private sector CAPEX in Q3 of 2018 fell by 0.5% q/q to \$29.3 billion. Mining investment was lower in Q3 but was partially offset by higher manufacturing CAPEX, while 'other selected industries' (mainly services and construction) was broadly stable.

Looking ahead, the data released by the ABS indicated that Australian businesses plan to invest \$116.8bn in 2018-19, a reduction from \$119.4bn in 2017-18 (after applying realisation ratios). Encouragingly, the outlook is more positive for non-mining CAPEX with the investment plans suggesting an increase in 2018-19 of 8.9% in nominal dollars.

Continued support for non-mining investment is expected to flow from key fundamentals including population growth, declining spare capacity and the positive flow-on effects from strong public infrastructure investment. This is consistent with the details of the separately released ABS construction work done estimates showing continued strength in public sector engineering construction work (largely transport infrastructure) which was at a near-record high of \$9.8 billion in Q3 2018 (inflation-adjusted, seasonally adjusted). Public infrastructure work is set to remain elevated, particularly in New South Wales and Victoria, supported by sustained high levels of government investment.

CAPEX dips slightly lower in Q3 2018

The latest ABS estimate of private sector investment (CAPEX) indicates total CAPEX fell by 0.5% q/q in Q3 2018 to be down 0.6% over the year (inflation-adjusted and seasonally adjusted). CAPEX was driven lower in Q3 by lower spending on 'building & structures' (-2.8% q/q and -6.9% p.a.). In contrast, CAPEX on 'equipment, plant & machinery' lifted in Q3, rising by 2.2% q/q and 7.7% p.a. (chart 1 and table 1).

The CAPEX survey captures around 60% of total business investment and excludes investment from industries such as agriculture, health and education as well as spending on software. Among the industries that are included, mining CAPEX fell by the most -2.7% q/q to \$8.4bn - which was the lowest quarterly mining CAPEX since Q4 2007 (chart 2). This reflected a fall in mining infrastructure work which outweighed an increase in iron ore investment and spending by miners on plant and equipment. Mining CAPEX currently accounts for less than one third of total CAPEX (around its long-run average), down from its peak of 59% in mid-2013.

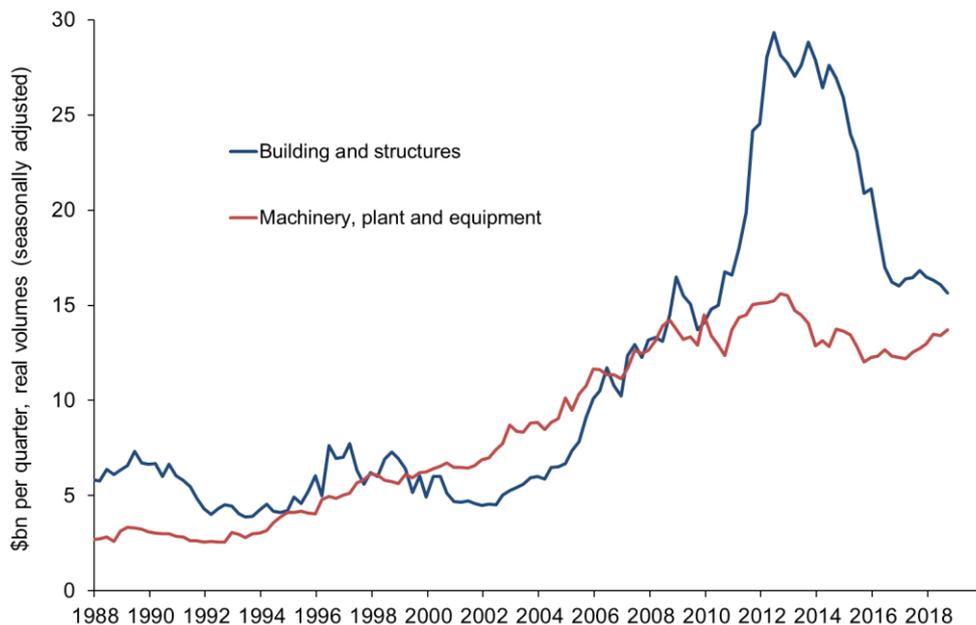
In the non-mining sectors, ‘other selected industries’ (including retail, wholesale, transport, utilities and construction industries) CAPEX was flat in Q3 but rose 3.4% over the year to 18.4 billion. It accounted for 63% of total CAPEX in Q3. Manufacturing capex lifted for a second consecutive quarter, increasing by 2.7% q/q to \$2.4bn in Q3 of 2018. Capacity utilisation is above its long-run average in the **Australian PMI®** indicating that more manufacturing businesses have spare capacity and are more confident in investing for expansion.

Table 1: Actual CAPEX per quarter, by asset type and industry, Q3 2018

Real volumes, seasonally adjusted	\$mn per qtr	%q/q	%y/y	% of total
By type of asset:				
Buildings & structures	15,645	-2.8	-6.9	63.5
Equipment, plant & machinery	13,709	2.2	7.7	36.5
All CAPEX	29,354	-0.5	-0.6	100.0
By Industry:				
Mining	8,425	-2.7	-10.2	28.8
Manufacturing	2,473	2.7	7.1	8.3
Other Selected Industries	18,455	0.0	3.4	62.8
All industries other than mining	20,928	0.3	3.8	71.2

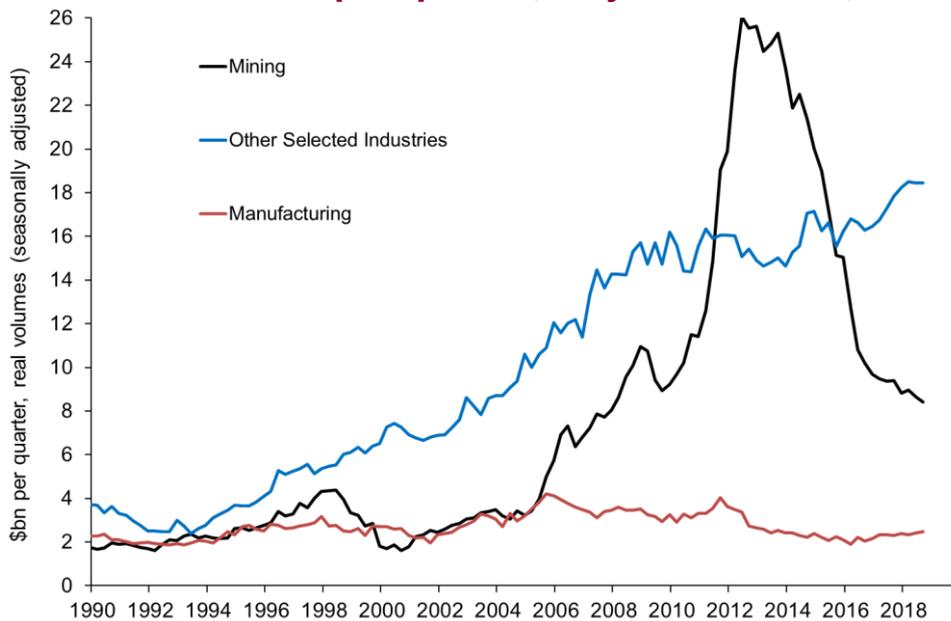
Source: ABS, CAPEX, Sep 2018.

Chart 1: Actual CAPEX per quarter, by type, to Q3 2018



Source: ABS, CAPEX, Sep 2018.

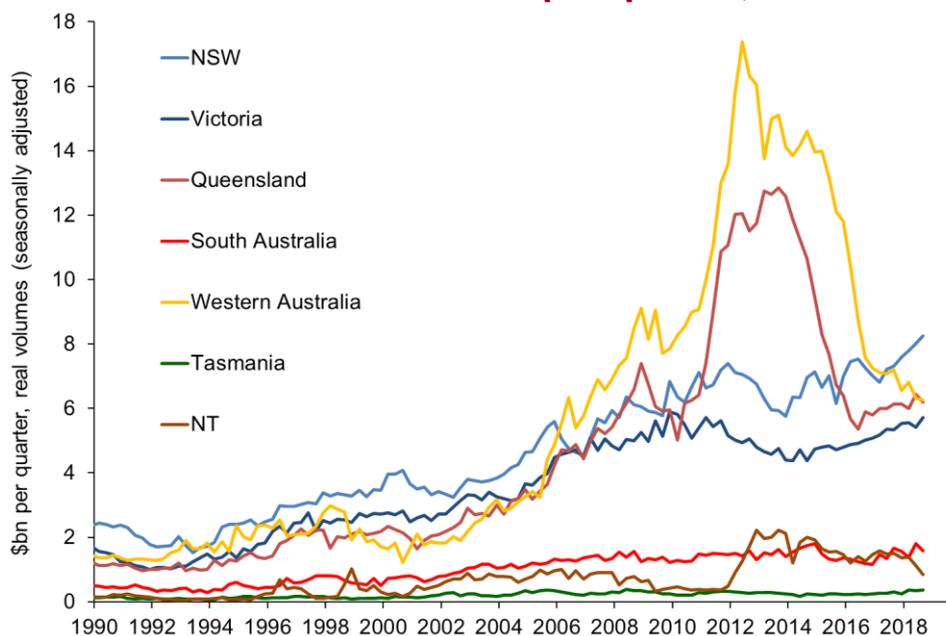
Chart 2: Actual CAPEX per quarter, major industries, to Q3 2018



Source: ABS, CAPEX, Sep 2018.

Across the states, the distribution of CAPEX continues to revert to its pre-mining-boom pattern (chart 3). NSW accounts for more than a quarter (28%) of all CAPEX captured in this survey, with the state’s CAPEX rising 13.1% p.a. to 8.3 billion in Q3. CAPEX also rose at a healthy rate in Victoria (+5.4% q/q and 6.9% p.a.) and Tasmania (+3.5% q/q and 18.3% p.a., from a low base). CAPEX was weaker in Q3 in South Australia (-11.2% q/q and -4.4% p.a. from a low base), Queensland (-3.7% q/q and +1.1% p.a.) and Western Australia (-0.9% q/q and -13.0% p.a.).

Chart 3: Actual CAPEX per quarter, states



Source: ABS, CAPEX, Sep 2018.

Non-mining business investment outlook remains positive for 2018-19

This latest CAPEX release included the fourth estimate of annual CAPEX intentions for 2018-19. It indicated an upgrade in spending plans with Australian businesses planning to invest a total of \$114.1 million in the current financial year, which is 4.4% higher than Estimate 4 for 2017-18 (the equivalent estimate for one year earlier). This was also a 11.3% increase on Estimate 3 for 2018-19 (the previous estimate for this current year) – which is the strongest upgrade in 19 years.

Once adjusted for probable realisations (based on an average realisation ratio of the past five years), this implies total CAPEX in 2018-19 will be around \$116.8 million. This is an increase of 14.0% from the third estimate for 2018-19 but is 2.1% lower than the actual amount of CAPEX in 2017-18 (in nominal terms). All of this fall however, is due to lower CAPEX in the mining industry, which is still coming down from record-high peaks.

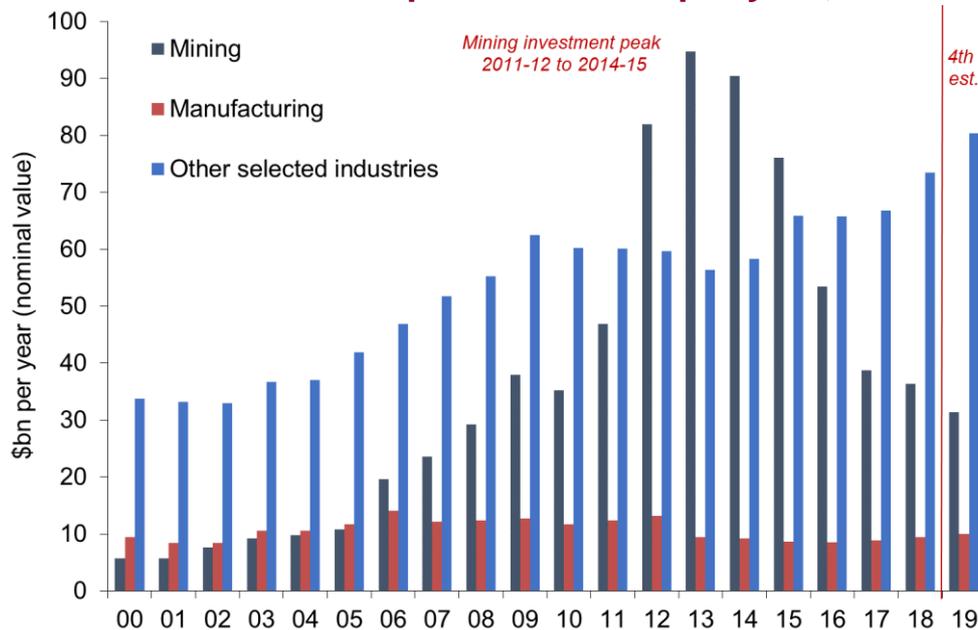
Outside of mining, the outlook is more upbeat than it was three months ago. Non-mining CAPEX now looks likely to rise by 8.9% to \$90.4mn in 2018-19. This will include a further, albeit slightly slower rate of growth in manufacturing CAPEX (+6.0% p.a.) and an increase of 9.3% p.a. among businesses outside mining and manufacturing (table 3).

Table 3: Actual and expected CAPEX per year, Q3 2018

Nominal dollars per year	2016-17 (actual)		2017-18 (actual)		2018-19 (estimate 4)*	
	\$mn	% p.a.	\$mn	% p.a.	\$mn	% p.a.
Mining						
Buildings and structures	33,277	-30.0	29,390	-11.7	23,526	-20.0
Plant and equipment	5,474	-6.8	6,999	27.9	7,635	9.1
All mining	38,751	-27.4	36,389	-6.1	31,355	-13.8
Manufacturing						
Buildings and structures	2,476	27.0	2,597	4.9	2,699	3.9
Plant and equipment	6,397	-3.3	6,854	7.1	7,385	7.7
All manufacturing	8,873	3.6	9,451	6.5	10,017	6.0
Other selected industries						
Buildings and structures	29,353	6.2	35,200	19.9	39,403	11.9
Plant and equipment	37,430	-1.7	38,320	2.4	39,674	3.5
All 'other selected industries'	66,783	1.6	73,520	10.1	80,352	9.3
All buildings and structures	65,105	-15.6	67,187	3.2	64,007	-4.7
All plant and equipment	49,301	-2.5	52,174	5.8	54,728	4.9
ALL CAPEX	114,406	-10.4	119,361	4.3	116,837	-2.1
all non-mining CAPEX	75,656	1.8	82,971	9.7	90,368	8.9

* Five-year average realisation ratio applied. Source: ABS, CAPEX, Sep 2018.

Chart 4: Actual and expected CAPEX per year, Q3 2018



Source: ABS, CAPEX, Sep 2018.

Construction work turns down in Q3

Reflecting recent results in the Ai Group’s **Australian PCI**[®] the value of all construction work done in Australia declined in Q3 2018, falling by 2.8% q/q to \$53.1 billion (inflation-adjusted and seasonally adjusted). Over the year, construction work done fell by 16.9% p.a., a result that was largely influenced by the on-going decline in mining investment. In trend terms, the value of construction was unchanged in Q3 and 5.6% higher over the year.

Declines were broad based in Q3 across the major building sectors. Residential building dropped by 1.0% q/q (+5.4% p.a.) to \$19.6bn with new house building and new multi-units both down. However, figures on alterations and additions showed that the renovations market was a source of strength, rising by 4.7% q/q and a solid +11.0%p.a. on an annual basis.

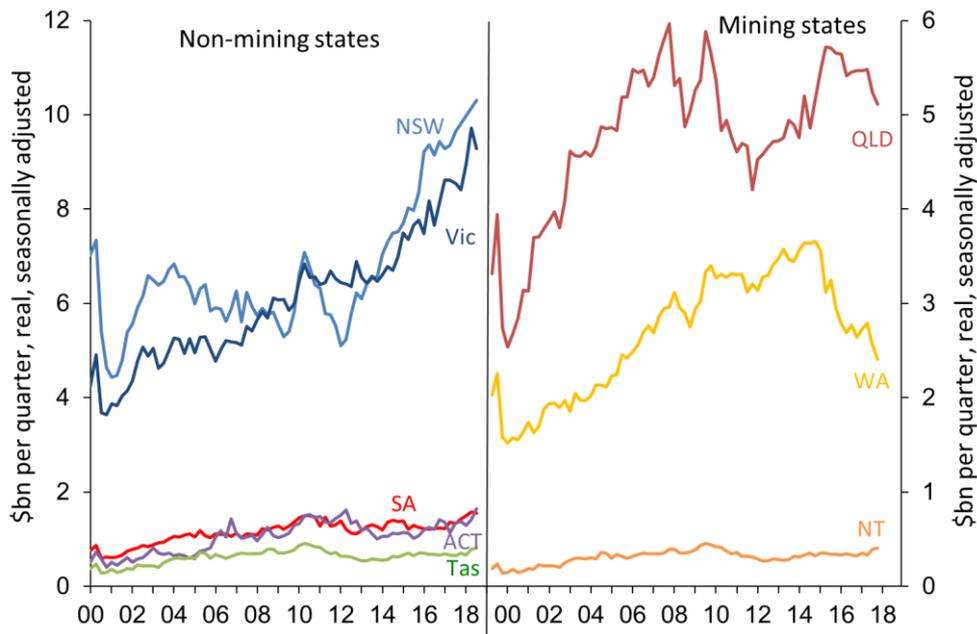
Outside of the residential segment, non-residential building fell by 2.4% to \$10.5 billion in Q3, although this was up 2.3% over the year (seasonally adjusted and inflation-adjusted). Despite the quarterly decline, the pipeline of work still looks sizable in key project areas including accommodation, aged care, offices, education and industrial buildings. This and the demands of a growing population are likely to be enough to support a healthy level of activity in this sector moving into 2019.

Engineering construction work was down by 4.5% in Q3 to \$23.0bn and a solid 34.4% over the year. This large annual decline reflects the winding back in mining investment (as the Ichthys LNG plant nears completion) and the pull-back from a spike in activity in Q3 2017 when this sector was affected by a one-off investment surge in large-scale LNG sites due to the installation of platforms at the Ichthys and Prelude plants.

Publicly funded construction held steady at an historically high level in Q3 reflecting continued strength in government infrastructure investment, particularly road and rail projects in NSW and Victoria. This is consistent with an elevated level of public sector engineering work (\$23.9 billion in Q2 2018) in the pipeline. In contrast, private sector engineering work declined by 7.5% due to the continued drag from falling mining-related work (Table 4). This decline offset a lift in private non-mining investment in Q3 in project categories such as telecommunications and renewables.

Across the states, building work and especially residential building work remains elevated in NSW and Victoria (chart 5). Engineering construction is also at high levels in these states with a large proportion of the lift related to public sector projects. It would also appear that decline in engineering construction in WA is levelling-off consistent with the more recent lift seen in the pipeline of mining infrastructure projects and with a few iron ore projects proceeding (chart 6).

Chart 5: Volume of building work done by state, to Q3 2018



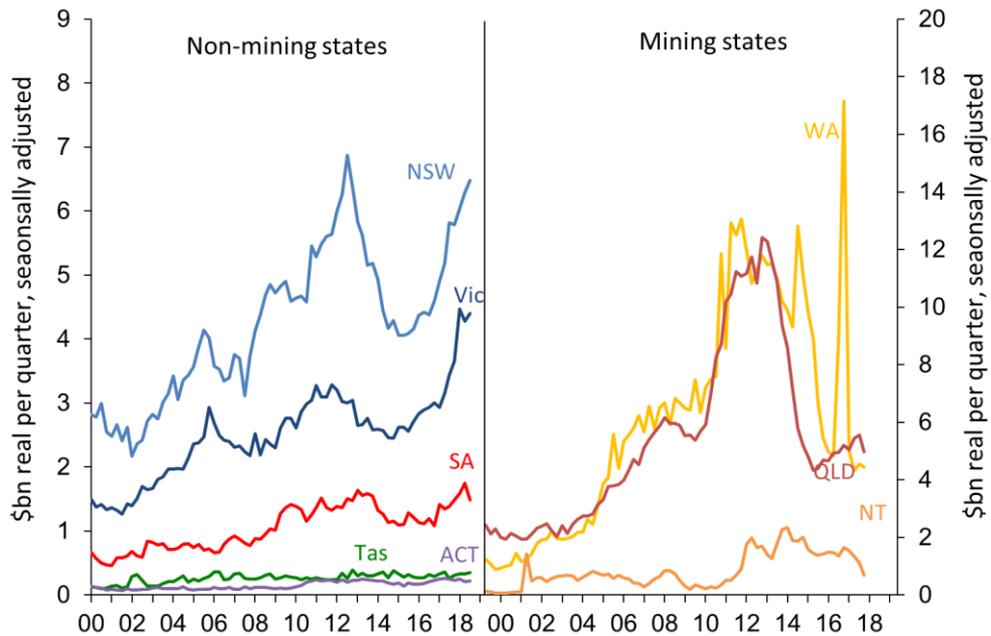
Source: ABS, *Construction Work Done*, September 2018.

Table 4: Volume of construction work done, Q3 2018

<i>Seasonally adjusted chain volume measures</i>	\$mn per qtr	% share of total	% change q/q	% change y/y
New houses	9,199	17.3	-3.2	7.4
New multi-unit dwellings	8,133	15.3	-0.1	1.9
Alterations and additions	2,298	4.3	4.7	11.0
Residential building	19,630	36.9	-1.0	5.4
Non-residential building	10,486	19.7	-2.4	2.3
Building work done	30,116	56.7	-1.5	4.3
Private sector engineering	13,200	24.8	-7.5	-49.3
Public sector engineering	9,828	18.5	-0.1	8.5
Engineering work done	23,028	43.3	-4.5	-34.4
<i>All private sector</i>	<i>40,231</i>	<i>75.7</i>	<i>-3.4</i>	<i>-22.9</i>
<i>All public sector</i>	<i>12,912</i>	<i>24.3</i>	<i>-1.0</i>	<i>9.4</i>
All construction work done	53,144	100.0	-2.8	-16.9

Source: ABS, *Construction Work Done*, September 2018.

Chart 6: Volume of engineering construction work done by state, to Q3 2018



Source: ABS, *Construction Work Done*, Sept 2018.

This week's data and events, 26 Nov – 30 Nov 2018

Day	Date	Data/event	Data period	Result
Mon	26 Nov	Speech by Philip Lowe, RBA Governor, at the Australian Payment Summit, Sydney	Nov (M)	N/A
Tue	27 Nov	ABS Jobs in Australia (additional information)	2015-16	2015-16: 13.5mn people held a job in Australia, totalling 18.5 million jobs
Wed	28 Nov	ABS Construction Work Done	Sep (Q)	-2.8% q/q, -16.9% p.a.
Thu	29 Nov	ABS Private New Capital Expenditure and Expected Expenditure	Sep (Q)	-0.5% q/q, -0.6% p.a.
		ABS Characteristics of Employment	2018 (A)	N/A
Fri	30 Nov	RBA Financial Aggregates	Oct (M)	Business credit: +0.6% m/m, +4.7% p.a.

M = monthly. Q = quarterly. H = half-yearly. A = annual. All data are seasonally adjusted unless otherwise noted.

Next week's data and events, 3 Dec – 7 Dec 2018

Day	Date	Data / event	Data period	Current release
Mon	3 Dec	Ai Group Australian PMI®	Nov (M)	Oct: 58.3 points
		ABS business indicators	Sep (Q)	Jun: corp. profits +2.0% q/q
		ABS building approvals	Oct (M)	Sep: +3.3% m/m
Tue	4 Dec	ABS balance of payments	Sep (Q)	Jun: current account -\$13.4bn
		RBA interest rate decision	Dec (M)	Cash rate: 1.50%
Wed	5 Dec	ABS national accounts (GDP)	Sep (Q)	Jun: GDP +0.9% q/q; +3.4% p.a.
		Ai Group Australian PSI®	Nov (M)	Oct: 51.1 points
Thu	6 Dec	ABS international trade	Oct (M)	Sep: Exports \$36.0bn; Imports \$34.5bn
		ABS retail trade	Oct (M)	Sep: nominal value of sales +0.2% m/m
Fri	7 Dec	Ai Group Australian PCI®	Nov (M)	Oct: 46.4 points

M = monthly. Q = quarterly. H = half-yearly. A = annual. B = Biennial. All data are seasonally adjusted unless otherwise noted.

Australian economy: latest full-year growth rates and government forecasts

RBA SoMP (November 2018)	2016-17 a	2017-18 a	2018-19 f	2019-20 f	2020-21 p	2021-22 p
GDP, % change p.a., year end	1.8	3.4	3.25	3.25		
Unemployment rate, %, year end	5.6	5.4	5.0	4.75		
Inflation (CPI), % change p.a., year end	1.9	2.1	2.0	2.25		
Treasury Budget 2018-19 (May 2018)						
GDP, % change p.a., year average	2.1	2.9	3.0	3.0	3.0	3.0
Household consumption, % p.a., year average	2.6	3.0	2.75	3.0		
Dwelling investment, % p.a., year average	2.8	-0.4	1.5	0.0		
Business investment, % p.a., year average	-4.0	8.7	3.0	4.5		
Terms of trade, % change p.a., year end	14.4	2.1	-5.25	-2.25		
Employment growth, % p.a., year end	1.9	2.7	1.5	1.5	1.25	1.25
Unemployment rate, %, year end	5.6	5.4	5.25	5.25	5.25	5.0
Inflation (CPI), % change p.a., year end	1.9	2.1	2.25	2.5	2.5	2.5
Wages (WPI), % change p.a., year end	1.9	2.1	2.75	3.25	3.5	3.5

a = actual f = forecast p = projection

Sources: ABS various data; RBA *Statement on Monetary Policy* (SoMP), latest quarter; Australian Treasury, *Budget 2018-19* (May 2018).

Australian economy: latest indicators

Economy			FX and commodity prices (Friday morning)		
RBA official cash rate, %	Nov (M)	1.50 -	AUD/USD exchange rate	US\$0.7317	▲
Real GDP, % change p.a.	Jun (Q)	3.4% ▲	Oil price (WTI light crude, USD/BBL)	US\$51.30	▼
Headline CPI, % change p.a.	Sep (Q)	1.9% ▼	Gold price (USD/OZ)	US\$1,223.13	▼
Unemployment rate, % trend	Oct (M)	5.1% ▼	Copper price (USD/tonne, LME spot)	US\$6197.00	▼

Australian Industry Group monthly performance of industry indices

Australian PMI®	Oct (M)	58.3 ▼
Australian PSI®	Oct (M)	51.1 ▼
Australian PCI®	Oct (M)	46.4 ▼

M = monthly. Q = quarterly. All data are seasonally adjusted unless otherwise noted.

Arrows represent direction of movement relative to last week for prices, and last observation for growth rates and indices.

Sources: ABS various data; Ai Group; Australian Financial Review market prices (as of Fri); London Metals Exchange market prices (as of Fri).

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