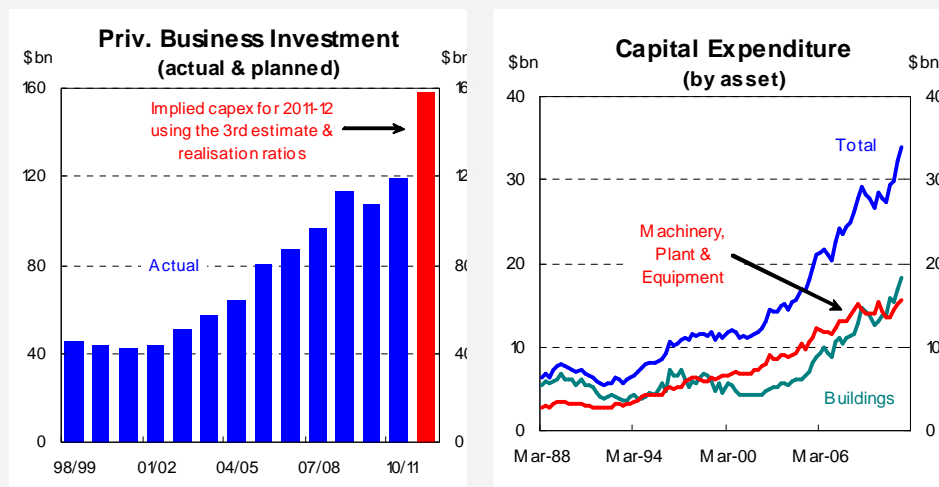


# DATA SNAPSHOT

## Private Business Investment: Solid as a Rock

1 September 2011

- Business investment remains the bright spark in the economy. The attractive return to capital, particularly for resource companies, is encouraging the growth in business investment. Both capex spending and spending plans for this financial year are solid.
- Actual capex rose by 4.9% in the June quarter taking the annual rate to 23.3% - the fastest pace in more than five years.
- Spending for 2010-11 was downgraded by a significant amount from the sixth estimate but was still solid at 11.8%.
- More importantly, spending for 2011-12 was upgraded by \$9.2bn to \$148.8bn, despite the backdrop of increased uncertainty over the global economic outlook and turmoil in global financial markets. While spending was upgraded, the implied growth for business investment for 2011-12 was slightly lower than that in the March quarter. But the implied growth of 32.4% is substantial and highlights the huge investment in the pipeline.
- The business investment story is an area of notable strength in the Australian economy, helping underpin economic activity. We believe it supports our view that the RBA will leave the cash rate unchanged in coming months.



### Capex – Actual Spending

Private business investment (or capex) rose by 4.9% in the June quarter. It follows three robust consecutive quarterly rises. Annual growth accelerated to 23.3% in the quarter, the fastest pace in more than five years.

It is clear that one area of strength in the economy remains business investment and it is helping to underpin economic activity. The attractive return to capital, particularly for resource companies, is encouraging the growth in business investment.

The increase in capex was broad based by asset class, further underscoring the strong picture in capex. By asset class, capex in buildings rose by 7.3% and in machinery, plant & equipment rose by 2.2% in the quarter. In terms of annual growth, buildings capex rose by 32%, the fastest pace in five years and machinery, plant & equipment capex rose by 14.4%, the fastest pace in more than five years.

By industry, the picture was more mixed. Mining capex jumped 14.4% in the quarter and by 47.1% in the year to the June quarter – the fastest annual rate in more than five years.

Manufacturing capex rose by 3.7%, the third consecutive quarterly gain, and taking the annual rate to 4.4%.

Capex for other industries (includes services), however, fell by 1.7%, although the annual rate increased to a 2½ year high of 12.2%.

#### Capex – Spending Plans

Spending plans by businesses remains solid, especially in the mining sector.

We received the final outcome for what private businesses spent in 2010-11. The actual outcome was \$120.0bn, \$4.4bn or 3.5% lower than the estimate provided in the March quarter. That downgrade (between the actual and the sixth estimate) is large when looking at the history of the series. But in spite of the downgrade, capex still grew by a solid amount of 11.9% in 2010-11.

More importantly, the estimate of spending plans for the current financial year is incredibly robust. We received the third estimate of spending plans for 2011-12. It was upgraded by \$9.2bn to \$148.8bn. This upward revision against a backdrop of increased uncertainty over the global economic outlook and significant turmoil in global financial markets in recent weeks.

Further, this third estimate is 6.6% higher than the second estimate for 2011-12 and 18.5% higher than the same estimate a year ago. So whichever way you cut the data, the investment in the pipeline is substantial.

Typically, there can be some variation between the third estimate and what the final actual outcome will show. However, using the average realisation ratios over the last five years, we estimate that this third estimate implies business investment will grow by 32.4% this financial year (from 11.9% in 2010-11). That is a strong rise, although it is down on the implied growth of 40.3% estimated in the March quarter.

#### Interest Rate Outlook

The business investment story is an area of notable strength in the Australian economy, which will continue to help support economic activity and jobs. There still remain areas of weakness in the economy, but we believe on balance, the RBA will leave rates unchanged in coming months.

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