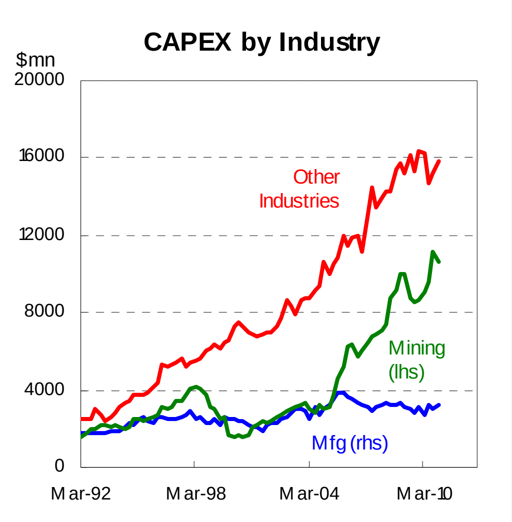
DATA SNAPSHOT

CAPEX – Boom, Boom, Boom

Thursday, 24 February 2011

- Actual spending by private businesses rose by 1.3% in the December quarter. This outcome was weaker than markets expected, but was overshadowed by the strength revealed in business investment plans.
- Business investment plans for this financial year were revised higher and the first estimate for spending plans for 2011-12 was very strong. We estimate that investment growth in 2010-11 will be 23% and in 2011-12 will be 34%.
- The mining sector continues to be a big driver of these plans. Indeed, the first estimate for business spending in 2011-12 by the mining sector shows a staggering increase of 55% compared to what the first estimate was in 2010-11.
- Today's data tells us that one of the starlets of the Aussie economy, private business investment, will continue to underpin economic activity. It also supports our view that a rate hike from the Reserve Bank in the June quarter can't be ruled out.



Capex – Actual Spending:

Private business investment rose by 1.3% over the December quarter. It was a little short of market expectations, but it follows a very solid 6.9% increase in the September quarter.

A breakdown of the data shows that spending on equipment, plant & machinery was 6.1% in the quarter and much stronger than expected. This component contributes to the GDP figures; so it suggests to us that there is some upside risk to Q4 GDP forecasts. Constraining the overall spend on investment in the quarter was weaker spending on buildings & structures (down 2.8%).

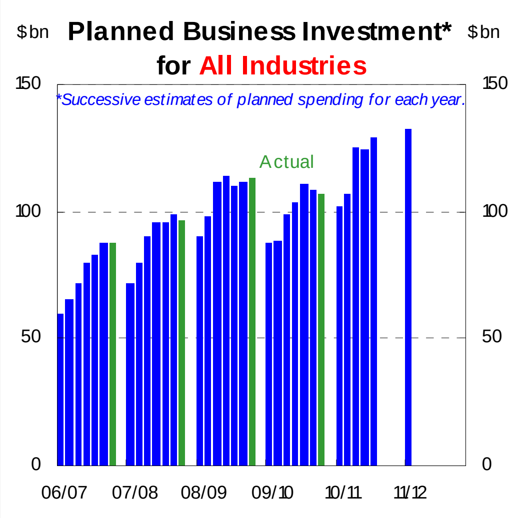
By industry, there was an improvement in the breadth of spending. Business investment growth in the quarter was driven by manufacturing and other selected industries (such as retail, transport, communications, insurance and construction). This result is encouraging because in prior quarters spending in these industries had been quite weak with the high Australian dollar a major constraint for manufacturing and higher interest rates weighing on retail spending.

Mining investment fell in this quarter, by 4.8%. But it simply represents a pause for breath after a strong run. In the prior four quarters, mining investment had risen substantially, by an accumulative 27.2%.

Capex – Spending Plans:

The intentions to spend by businesses for this financial year and next year are very strong, especially in the mining sector.

Business investment is one of the key growth engines in the Aussie economy's outlook and these plans highlight this fact.



We received the 5th estimate for what private businesses plan to spend for 2010-11. The 5th estimate for total spending was $128.9bn. This estimate is 16.2% higher than what the 5th estimate was for 2009-10 and is 3.6% higher than the 4th estimate for 2010-11.

Using the average realisation ratios over the last five years, the 5th estimate implies business investment will grow by 23% this financial year. That represents a slight upward revision from the previous quarter.

We also received the 1st estimate for the next financial year. The first estimate for total spending in 2011-12 is $132.7bn, which is 30.3% higher than what the first estimate was for 2009-10. Typically, there can be quite some variation between the 1st estimate and what the final actual result will show. However, using realisation ratios, we estimate that a very strong increase of investment will still come through. We estimate that business investment will grow by 34% in 2011-12, after estimated growth of 23% in 2010-11.

- By Type of Asset

For buildings & structures, the fifth estimate for 2010-11 is 33.5% higher than what the fifth estimate was for 2009-10 and is 1.5% higher than the fourth estimate in 2010-11.

For plant & equipment, the fifth estimate for 2010-11 is 2.6% lower than what the fifth estimate was for 2009-10 but is 6.9% higher than the fourth estimate in 2010-11.

- By Industry

Across all industries, the fifth estimate for 2011-12 was revised higher in mining and other selected industries but was revised lower in manufacturing.

The first estimate for 2011-12 was higher across all industries and particularly so in the mining secor (see the chart on the front page). In mining, the first estimate for 2011-12 is a staggering 54.8% higher than what the first estimate was for 2010-11.

The recent approval of several mega coal seam gas projects in Queensland and the $43 billion Gorgon LNG project in Western Australia has made marked contributions to investment spending plans. Investment prospects are also being buoyed by anticipated further gains in export revenues amid strong demand for Australian resources from emerging economies and weather-related supply constraints.

GDP Implications:

Our preliminary growth forecast for GDP for the December quarter is 0.6% (and 2.6% year-on-year). Today's numbers suggest upside risk to this GDP forecast.

The GDP data is due on Wednesday 2 March. There are a number of partial economic indicators still to be released that will help finalise GDP forecasts.

Cash Rate Implications:

The impact of greater business investment in the year ahead will filter through to the broader economy, underpinning economic activity. This strong business investment story, therefore, supports our long-held view that the Reserve Bank is likely to start raising rates before the end of June; we favour a rate hike in May or June.

Footnote:

Each quarter, the Bureau of Statistics releases an estimate for the current financial year and/or an actual figure. It also releases an estimate or actual figure for the next financial year. There are six estimates, followed by the actual data. Thus, the charts show six blue bars (representing the estimates) and a green bar, which is the actual outcome.

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