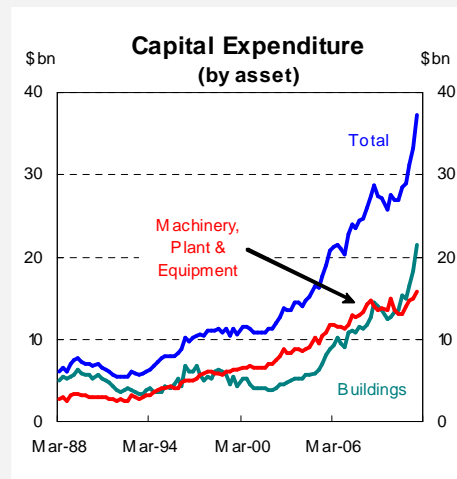
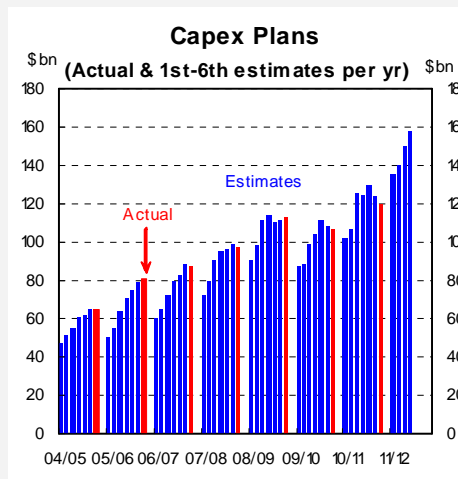


DATA SNAPSHOT

Private Capital Expenditure: Up, Up and Away

30 November 2011

- Today's data confirms that the business investment is taking off and remains a major area of strength in the Australian economy, despite growing worries about the global outlook.
- Actual capital expenditure surged 12.3% in the September quarter, the strongest quarterly increase since 1996. Annual growth accelerated to 31.1% in the quarter, the fastest pace since the data became available in 1987.
- Furthermore, spending plans for 2011-12 remain very strong. These were upgraded by \$7.7bn to \$158bn, against a backdrop of increased uncertainty over the global economic outlook and significant turmoil in global financial markets in recent months. Implied growth was therefore 34.3% in 2011-12, which is slightly up from our previous estimate of a 33.8% increase.
- Taken together with a very strong and surprising increase of 12.5% in construction work done for Q3, business investment will likely make a very solid contribution to Q3 GDP.
- The business investment story is an area of notable strength in the Australian economy. However, the RBA's focus is on developments overseas, and it is worried about the problems in Europe posing downside risks to growth. On balance, we expect the RBA to cut rates by 25bps in February. But given worries in Europe remain, a rate cut next week cannot be fully ruled out.



Capex – Actual Spending

Private capital expenditure (or capex) surged 12.3% in the September quarter, the strongest quarterly increase since 1996. The outcome also follows two consecutive solid quarterly rises, while annual growth accelerated to 31.1% in the quarter, the fastest pace since the data became available in 1987.

Mining capex drove the increase surging by 22.1%, as high commodity prices continue to attract business investment in the resource sector. On an annual basis, mining capex was 60.2% higher, the fastest annual rate in over six years. That said, capex in manufacturing and other industries (including services) also had solid increases in the September quarter. Manufacturing capex rose by 9.8% taking the annual rate to 29.0%, the strongest annual pace in nearly six years, despite the sector's struggles with the high Australian dollar.

Meanwhile, capex for other industries rose by 4.1% in the quarter, and 10.4% over the year.

By asset class, capex in buildings and structures led the increase, surging 17.1%. Nonetheless, machinery, plant and equipment also rose by a strong 6.3% in the quarter. In terms of annual growth, buildings capex rose by 39.5%, the fastest pace in more than five years and machinery, plant & equipment capex rose by 21.1%, also the fastest pace in more than five years.

Today's data confirms that the business investment is taking off and remains a major area of strength in the Australian economy, despite growing worries about the global outlook. Taken together with a very strong and surprising increase of 12.5% in construction work done for Q3, business investment will likely make a very solid contribution to Q3 GDP.

Capex – Spending Plans

More importantly for gauging the outlook for capex is the spending plans by firms. The data shows that investment intentions remained very strong for 2011-12. We received the fourth estimate for spending plans for 2011-12. This was upgraded by \$7.7bn to \$158bn, against a backdrop of increased uncertainty over the global economic outlook and significant turmoil in global financial markets in recent months.

This fourth estimate is 5.1% higher than the third estimate, and is 26.9% higher than the fourth estimate a year ago, reflecting the large amount of investment in the pipeline.

Typically, there can be some variation between the third estimate and what the final actual outcome will show. Based on past outcomes and plans, we estimate that capital expenditure will increase by 34.3% in 2011-12, which is slightly up from our previous estimate of a 33.8% increase.

Spending plans are particularly strong in the mining sector, and imply an increase of more than 70% in 2011-12. Manufacturers are also looking for an increase in investment spending of about 7% in 2011-12. Also of note was an encouraging upgrade to spending plans for other industries of \$4.6bn, implying a 5% increase in spending in 2011-12.

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. However, there remain areas of weakness in the economy. The RBA's focus is on developments overseas, and is worried about the problems in Europe posing downside risks to growth. On balance, we expect the RBA will prefer to wait to see the next release of CPI before cutting rates once more by 25bps in February. But given worries in Europe continue, a rate cut next week cannot be fully ruled out.

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