

## Corporate Australia retains optimism

### Business investment

- **Past business investment:** New business investment (spending on buildings and equipment) fell by 2.8 per cent in the December quarter (consensus +0.5 per cent) to be down by 5.8 per cent over the year.
- **Expected business investment:** The fifth estimate of spending in 2019/20 was \$120.3 billion, up 2.8 per cent on the fourth estimate and 2.1 per cent higher than the fifth estimate for 2018/19. The first estimate for investment in 2020/21 was up by 8.8 per cent on a year ago, well ahead of the 1.2 per cent average increase over the past decade.

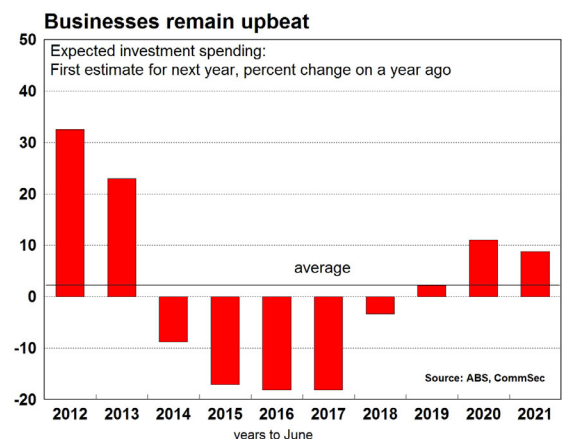
*The investment data is important for companies in mining services, construction, transport and other industrial sectors.*

### What does it all mean?

- Year 2019 was a tough year. The uncertainty of the US-China trade dispute and Brexit weighed on business minds across the globe. At home, there was the Federal Election, drought, bushfires, super-low interest rates and a weaker Australian dollar. So the fact that investment expectations for the current year are still higher compared with a year ago (while plans for next year are up substantially) is a reflection of the strong shape of company balance sheets.
- Listed companies have generally been happy just to pay dividends to shareholders. But in the current profit-reporting season there are a few more companies that have re-assessed dividend policies and are keen on reinvesting dollars back into the business and/or scouring for merger and acquisition deals (Seek, Appen, Growthpoint, Viva Energy, APA, Ansell)
- Mining services companies indicate that they are busy at present and that is reflected in stronger housing market conditions in towns like Karratha and the Pilbara more generally. However the higher prices being paid for imported equipment is one factor holding back investment spending.

### What do the figures show?

- **Overall:** New business investment (spending on buildings and equipment) fell by 2.8 per cent in the December quarter – the fourth straight decline. Spending is down 5.8 per cent on the year.
- **Spending on buildings** fell by 5.9 per cent after lifting by 2.5 per cent in the September quarter.
- **Spending on equipment** rose by 0.8 per cent after falling by 3.6 per cent in the September quarter.
- **Building** investment is down by 9.6 per cent over the year and **equipment** is down by 1.4 per cent.
- **Sectors:** Mining investment fell by 2.7 per cent in the December quarter; manufacturing spending fell by 10.1 per cent; while spending by “other selected industries” fell by 1.9 per cent.
- **States:** In seasonally adjusted terms investment fell in five of the eight states and territories in the December quarter: NSW (down by 6.3 per cent); Victoria (down by 5.6 per cent); Queensland (down by 4.0 per cent); South



Craig James, Chief Economist  
Twitter: @CommSec

#### IMPORTANT INFORMATION AND DISCLAIMER FOR RETAIL CLIENTS

The Economic Insights Series provides general market-related commentary on Australian macroeconomic themes that have been selected for coverage by the Commonwealth Securities Limited (CommSec) Chief Economist. Economic Insights are not intended to be investment research reports. This report has been prepared without taking into account your objectives, financial situation or needs. It is not to be construed as a solicitation or an offer to buy or sell any securities or financial instruments, or as a recommendation and/or investment advice. Before acting on the information in this report, you should consider the appropriateness and suitability of the information, having regard to your own objectives, financial situation and needs and, if necessary, seek appropriate professional financial advice. CommSec believes that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made based on information available at the time of its compilation, but no representation or warranty is made as to the accuracy, reliability or completeness of any statements made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed by any other member of the Commonwealth Bank of Australia group of companies. CommSec is under no obligation to, and does not, update or keep current the information contained in this report. Neither Commonwealth Bank of Australia nor any of its affiliates or subsidiaries accepts liability for loss or damage arising out of the use of all or any part of this report. All material presented in this report, unless specifically indicated otherwise, is under copyright of CommSec. This report is approved and distributed in Australia by Commonwealth Securities Limited ABN 60 067 254 399, a wholly owned but not guaranteed subsidiary of Commonwealth Bank of Australia ABN 48 123 123 124. This report is not directed to, nor intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or that would subject any entity within the Commonwealth Bank group of companies to any registration or licensing requirement within such jurisdiction.

Australia (down by 1.4 per cent); Western Australia (down by 1.2 per cent); Tasmania (up by 8.0 per cent); Northern Territory (up by 17.3 per cent); ACT (up by 30.9 per cent).

- **Prices:** The overall deflator for investment goods rose by 0.4 per cent in the December quarter after a 0.7 per cent lift in the September quarter. The cost of buildings and structures rose by 0.1 per cent in the quarter while the cost of equipment rose by 0.8 per cent.
- Over the year, **the cost of investment goods** rose by 2.5 per cent, down from the 2.8 per cent annual gain in the September quarter. The cost of buildings rose by 1.5 per cent. And the cost of investment equipment rose by 3.6 per cent – the strongest annual growth rate in four years.
- **Forecasts:** The fifth estimate of spending in 2019/20 was \$120.3 billion, up 2.8 per cent on the fourth estimate and 2.1 per cent higher than the fifth estimate for 2018/19.

### What is the importance of the economic data?

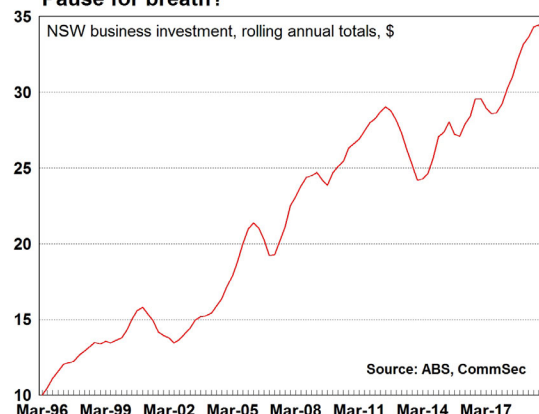
- **“Private New Capital Expenditure and Expected Expenditure”** is released quarterly by the Bureau of Statistics. The figures show both actual and expected spending by businesses on tangible assets such as new buildings, machinery and office equipment. The figures are obtained after sampling 8,000 private business units.

### What are the implications for interest rates and investors?

- The outlook is again cloudy. Last year, it was Brexit and tariff wars. This year: coronavirus. So we will have to wait and see if the business optimism on investment spending is manifest in dollars being spent.
- Mining towns are buzzing again. Favourable commodity prices and a lower Aussie dollar are leading more firms to tap ‘second tier’ assets as well as to spend money on maintenance. Western Australia, Queensland and Northern Territory will be the beneficiaries of extra dollars being spent.
- In the current environment, the Reserve Bank will remain open to more monetary stimulus. The preferred option is spending and infrastructure investment by Federal and State governments.

Craig James, Chief Economist,  
Twitter: @CommSec

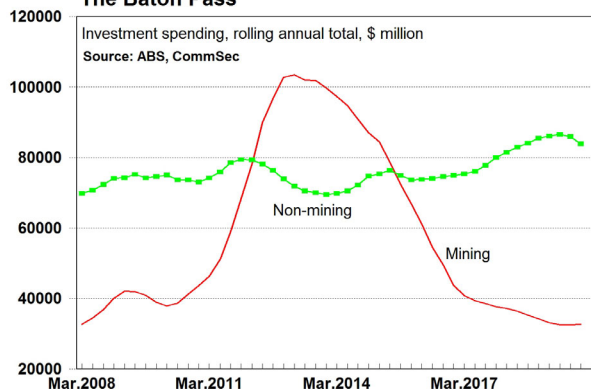
#### Pause for breath?



#### Off the summit



#### The Baton Pass



#### Positive mining investment outlook

