

Australian Economic Comment

Capex outlook remains 'recessionary'

Economics

Australia

Q2: capex -4.0% q/q & -10.5% y/y - worst since the last recession ended in 1992

Private new capex (volumes) fell much more than expected (again) in Q2-15, slumping by 4.4% q/q (UBS & mkt: -2.5%) – to the lowest level since 2011 – after a downwardly revised -4.7% in Q1 (was -4.4%). Hence, the y/y slumped to -10.5%, the weakest since the last recession ended in 1992 (after -4.8%). Meanwhile, by industry, the fall was led by a collapse in mining (-11.3% q/q, -23.8% y/y) & manufacturing (-3.4%, -8.8% y/y), but "other" bounced after retracing (+4.4%, +8.1% y/y). By asset, there was a larger fall in buildings (-5.6%, -16.7% y/y), while equipment also fell solidly again (-1.2%, still +2.8% y/y).

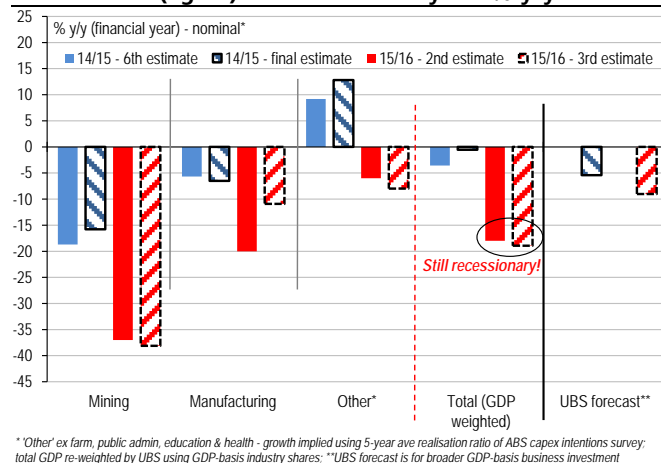
Outlook: 15/16 implied growth downgraded again to 'recessionary' -19% y/y

Meanwhile, for nominal capex intentions, the 3rd estimate of 2015/16 was a bit better than expected at \$114.8bn (UBS & mkt: \$111.0bn), an upgrade of 10% from the 2nd estimate of \$104.5bn. However despite this, based on historic 'realisation ratios' (5-year average, GDP re-weighted), nominal implied growth in 15/16 was still actually worse at a 'recessionary' -19% y/y (was -18% previously). This is because intentions by industry showed "other" deteriorated sharply. Mining remains in depression (-38%, was -37%), while manufacturing was less weak (-11%, was -20%); but the double-dip in the large "other" category got even worse (-8%, was -6%).

Implications: if today's data is 'right', Q2 GDP could be negative (UBSe: +0.2%)

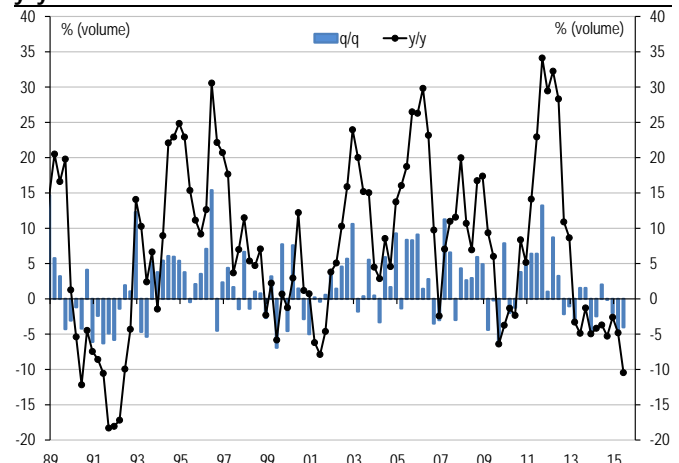
After yesterday's [construction release](#) implied a sharp rise for private non-residential construction (+7.5% q/q), today's capex release in complete contrast showed a collapse in buildings & structures (-5.6% q/q). This difference likely reflects the [ABS](#) treatment of when LNG components are installed. That said, today's drop should be the indicator which translates to actual GDP-basis investment next Wednesday – which suggests, at face value, some chance of negative GDP (UBSe: +0.2%). Indeed, given weaker [non-mining](#) intentions for 15/16 – when combined with the collapse in mining – the capex outlook remains 'recessionary'. Hence, we wonder [is Australia already in recession?](#) Overall, the risks to GDP (below consensus at 2.2% in 2015 & 2.6% in 2016), RBA cash rate (2% ahead), Budget balance, & AUD (0.7USD end-15) remain to the downside.

Figure 1: Implied nominal capex growth for 15/16 deteriorated (again) to a 'recessionary' -19% y/y



Source: ABS, UBS

Figure 2: Q2 real private capex slumps 4.0% q/q & 10.5% y/y – the worst since the last recession ended in 1992



Source: ABS, UBS

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Private capex survey (Q2 2015)

Figure 3: Real private capex (volume)

	Total		Plant & equipment		Buildings & structures		Mining		Manufacturing		Other	
	% q/q	% y/y	% q/q	% y/y	% q/q	% y/y	% q/q	% y/y	% q/q	% y/y	% q/q	% y/y
Q2-14	2.0	-3.7	-0.4	-9.7	3.2	-0.6	1.5	-9.8	-3.6	-4.3	3.6	6.7
Q3-14	-0.1	-5.3	4.0	-1.9	-2.1	-6.9	-4.8	-15.7	-2.8	-12.0	6.9	13.4
Q4-14	-2.0	-2.6	0.9	7.6	-3.5	-7.2	-6.1	-15.8	8.3	0.5	1.8	18.3
Q1-15	-4.7	-4.8	-0.8	3.6	-6.7	-9.0	-3.8	-12.8	-10.3	-8.9	-4.9	7.2
Q2-15	-4.0	-10.5	-1.2	2.8	-5.6	-16.7	-11.3	-23.8	-3.4	-8.8	4.4	8.1

Figure 4: Nominal private capex intentions (14/15 & 15/16) – implied adjusted % y/y growth*

	Total**		Plant & equipment		Buildings & structures		Mining		Manufacturing		"Other"****	
	14/15	15/16	14/15	15/16	14/15	15/16	14/15	15/16	14/15	15/16	14/15	15/16
Q2-14	-5 (3 rd)		1		-11		-16		-16		10	
Q3-14	-3 (4 th)		-3		-10		-17		-14		8	
Q4-14	-4 (5 th)	-13 (1 st)	0	-13	-13	-18	-21	-21	-11	-21	11	-7
Q1-15	-4 (6 th)	-18 (2 nd)	0	-16	-11	-28	-19	-37	-6	-20	9	-6
Q2-15	-1 (7 th)	-19 (3 rd)	4	-19	-9	-28	-16	-38	-7	-11	13	-8

Figure 5: Q2 q/q fall concentrated in mining (-11.3%) and manufacturing (-3.4%), while other bounced (+4.4%)

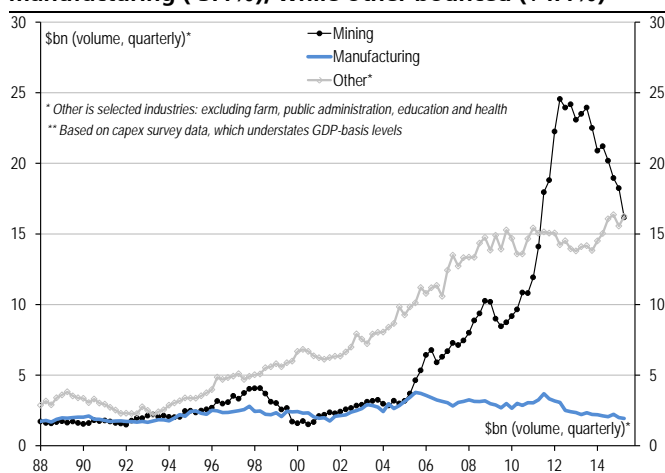
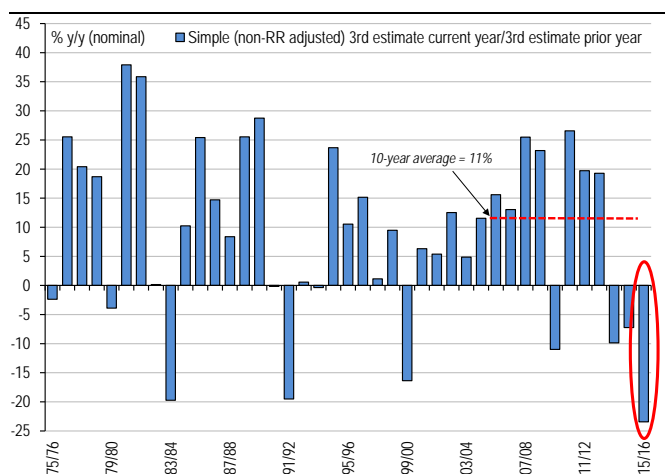


Figure 7: The simple (non RR-adjusted) '3rd/3rd' growth rate for 15/16 worst on record (since 1975) at -23% y/y



Sources: ABS, UBS – for figure 4: * UBS estimate using 5-year average realisation ratio adjusted growth (as reported at that release) ** Total is GDP industry re-weighted by UBS *** Latest 13/14 based on annual national accounts **** "other" is selected industries excluding farm, public administration, education & health

Figure 6: Q2 buildings dropped to the lowest level since 2011, while equipment retraced again

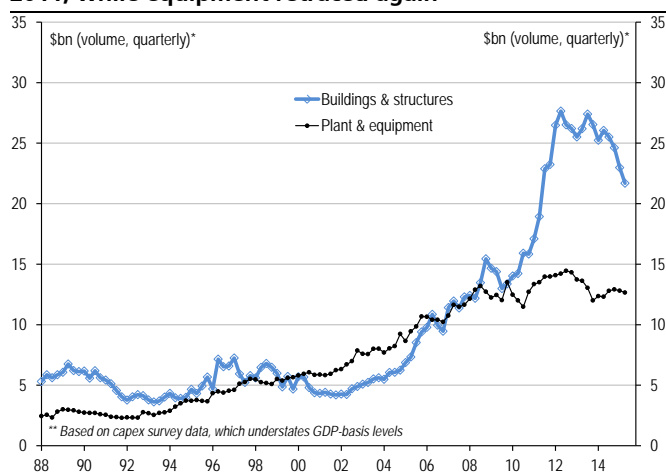
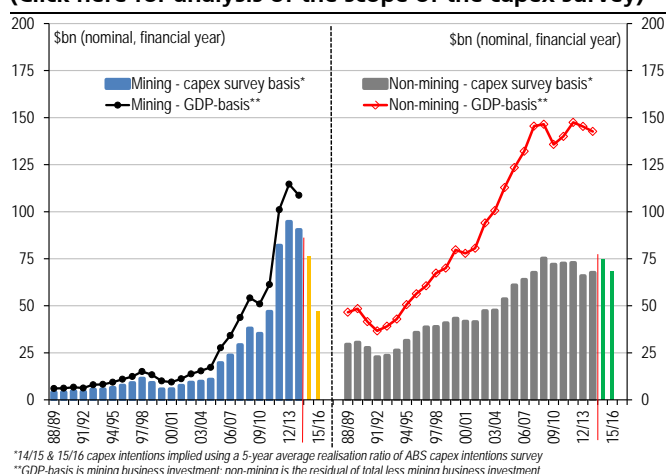


Figure 8: 15/16 mining capex intentions collapse further, but more worryingly, non-mining is also expected to fall (Click here for analysis of the scope of the capex survey)



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