

Australian economic update

4Q business investment survey

Australian business investment rebounded in the December quarter, rising 5.1%q/q (JPMorgan 6.0%, consensus 3.1%), after dropping a revised 6.2% in 3Q (previously -6.5%).

The fourth quarter business survey showed a slight upgrade to firms' expectations for spending in the year ending June 2008. In the previous survey, managers expected to raise business investment by 14.0%; now, managers expect a 14.7% rise, driven primarily by the building asset class (+23.1%). Investment recovered strongly in 4Q across each of the main industry groups, after slumping in the September quarter amid rapidly growing global growth concerns. The largest rise was recorded in the manufacturing sector, where spending jumped 8.7%, marking the second straight rise after seven quarters of negative growth. Investment in the mining sector and 'other selected industries' both rebounded from falls in the previous quarter to rise 5.6% and 3.8%, respectively, in 4Q.

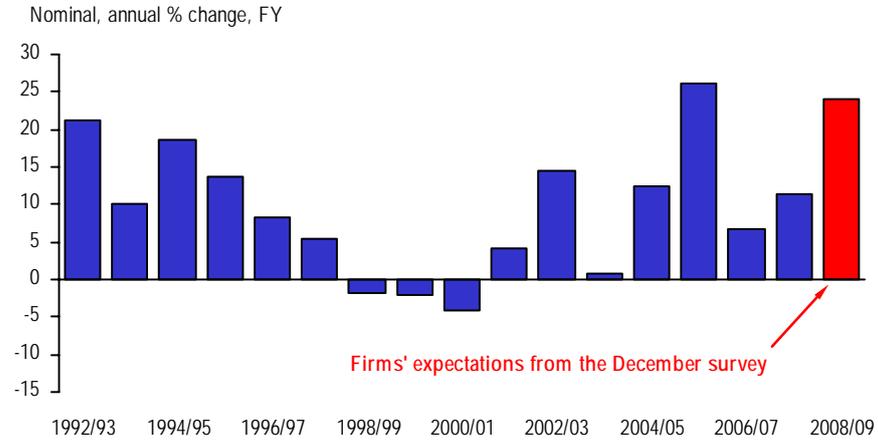
More importantly, the forward looking component of this survey showed that the first estimate of firms spending intentions for the 12 months ending June 2009 rose 23.6% (from the corresponding estimate a year earlier) to A\$78.55 billion. The upgrade may reflect firms' increased confidence in the outlook for the global economy in the latter half of 2008 and going into 2009.

Indeed, Australia's private investment outlook remains rosy. Firms expect to raise their investment spending at a double-digit pace again in 2008-09, maintaining the robust momentum of the current investment cycle. Solid business investment should continue to help alleviate the capacity constraints and infrastructure bottlenecks hampering the nation's export performance and boosting productive capacity should, eventually, help curb inflation pressure.

The details:

- New capital expenditure increased 5.1%q/q in 4Q. Spending on buildings and structures rose 5.1%, while spending on equipment and machinery was up 3.8%.
- The fifth estimate for 2007-08 was 14.7% higher than the fifth estimate for 2006-07 and 0.7% higher than the fourth estimate of 2007-08.
- The first estimate for 2008-09 rose 23.6% from the first estimate of 2007-08.

Business Investment - total



Business investment by type of asset

