

# Business investment falls, outlook flat

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Business is unlikely to increase investment spending this financial year after a disappointing June quarter for capital expenditure forced economists to predict economic growth will be just 1.5 per cent – the slowest since financial year 2009.

ABS figures released yesterday showed actual business investment was down 0.5 per cent in the June quarter in seasonally adjusted terms, lower than market expectations of a 0.4 per cent gain.

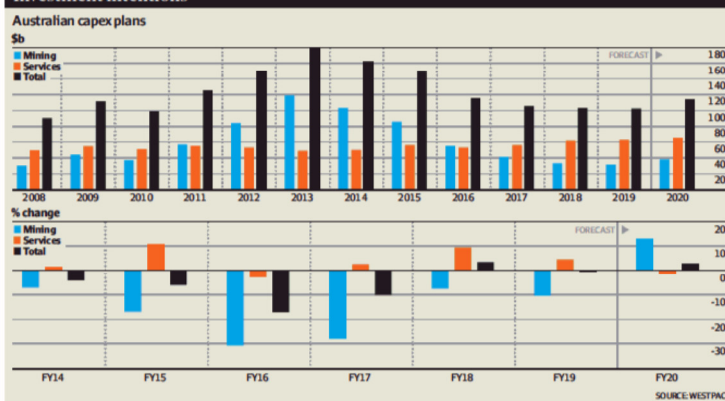
Businesses estimated that they would spend \$113 billion on capital this financial year but at such a level, and accounting for the usual differences between estimates and where such investment usually ends up, there is likely to be very little or no growth at all on last financial year.

Treasurer Josh Frydenberg triggered a national debate on Monday suggesting company boards needed to search harder for ways to invest and improve productivity instead of just paying dividends and/or share buybacks, which have grown to \$29 billion in the last 12 months, up from an average of \$12 billion over the previous four years.

Woolworths chief executive Brad Banducci said he was "cautiously" optimistic about the Australian economy, and that the company was "committed to investing" following \$2 billion in capital expenditure in fiscal 2019 and \$1.7 billion in buybacks.

His rival Coles has reported that it

## Investment intentions



would press ahead with up to \$800 million in capital expenditure this financial year.

Trade war tensions have slowed capital investment overseas and the Reserve Bank of Australia has expressed its concern in board meeting minutes that business uncertainty and lack of investment is one of the main dangers in Australia.

"Members noted that investment intentions had already eased significantly in a number of economies,

including the United States and the euro area, and investment had fallen in a number of economies with a high exposure to international trade."

Westpac's Andrew Hanlan said the bank's preferred approach pointed to "a subdued and lopsided investment outlook".

KPMG chief economist Brendan Rynne said he expected there to be next to no growth in business investment this financial year.

NAB economists say spending will

be only 0.5 per cent higher this financial year compared to last.

The latest capital investment numbers are derived from a period when only one interest rate cut had yet been made, in the final month of June, and tax cuts were yet to take effect.

Across the sectors, capital investment in the manufacturing sector rose 8.5 per cent in the June quarter, while mining rose 1.7 per cent and other selected industries fell 2.4 per cent in the June quarter.

"While total capital expenditure was weaker than consensus expectations in the second quarter, the underlying data were more positive. Importantly, spending on machinery and equipment grew by a solid 2.5 per cent, implying a marginal 0.1 percentage point contribution to second quarter GDP," NAB economist Kabini Owyong said.

However, she noted that combined with Wednesday's construction activity data, business investment probably fell by 1 per cent in the June quarter, subtracting 0.1 percentage points from GDP. "We see slight downside risk to our 0.5 per cent forecast for GDP in the June quarter."

The figures will mean economic growth will even fall short of the Reserve Bank of Australia's latest forecasts published this month, predicting 0.8 per cent growth in the June quarter.

The latest reporting season has shown mixed results for capital expenditure plans.

AGL said it had "a record year for capital expenditure", increasing investment in its existing generators, progressing construction of a gas-fired power station and delivering a new customer service program. It plans to spend \$800 million in capital expenditure this financial year.

BHP said it would keep capital expenditure steady at US\$8 billion this financial year and next financial year. Wesfarmers – Australia's biggest employer – will see capital expenditure of \$550 million to \$750 million this financial year.