

Defense Update

Inv. Outlays at all-time highs, CY23 up 9.3% Y/Y

Industry Overview

CY23 Inv. Outlays up 9.3% Y/Y with an 8.6% surge in 4Q

Last twelve months (LTM) Investment Outlays are up 9.3% Y/Y as of December 2023, mainly driven by a 14.8% increase in RDT&E. Procurement outlays were up 4.8% Y/Y, according to the US Treasury. The Y/Y growth in LTM Investment Outlays began to taper off in January 2022 and turned negative in April 2022 for the first time since February 2017 (See Exhibit 5), well below the double-digit growth seen in 2019-2020 (See Exhibit 6). However, LTM Investment outlays of \$270bn turned positive in March 2023 and reached a new all-time high in December, exceeding its prior peak from Nov 2023 by 2%. Additionally, 4Q23 Investment Outlays increased 8.6% Y/Y, mainly driven by a 14.2% increase in RDT&E. We view investment outlays (Procurement & RDT&E) as a coincident indicator of modernization spending, and hence a proxy for organic growth in the defense sector.

Procurement near peak levels; Navy at all-time highs

Procurement outlays of ~\$143bn turned positive since April 2023 and remain just 2% below prior peak levels in late 2021. The U.S. Navy represents ~43% of total procurement outlays, well above ~30% share in 2009, as spending has grown at 3% CAGR since then. The U.S. Air Force represents ~34% but has historically spent similar amounts to the U.S. Navy. The recent procurement spending deceleration in mid-2020 decoupled the U.S. Air Force's growth from the U.S. Navy's. The U.S. Army represents about ~17% of total procurement spending, well below its peak levels in 2009 (35% of total) driven by a ~4% annualized decline. The Defense Agencies represent less than 10% of total procurement spending. (See Exhibit 2).

RDT&E at all-time highs, AF 103%+ above mid-'12 peak

RDT&E also reached a new all-time high in December with LTM outlays of \$126bn, representing a 2% increase from the prior peak in Nov 2023. The U.S. Air Force represents ~45% and annualized spending of ~\$56bn is 103% above the last peak in mid-2012. RDT&E spending is also above last 20-year levels for the Defense Agencies (~26% of total) and the US Army (~11% of total) and is in line with 2010-2011 peak levels for the US Navy (~19% of total) (See Exhibit 3).

O&M near all-time highs, up 9.2% Y/Y

Last twelve months (LTM) Operation and Maintenance (O&M) Outlays of \$324bn remain just 0.3% below its prior peak from Nov 2023. As of December 2023, LTM O&M Outlays are up 9.2% Y/Y mainly driven by a 10.6% increase in Defense Agencies. Defense Agencies represented 31% of total, the US Navy 24%, the US Army 22%, and the US Air Force 23%. (See Exhibit 4, 5 & 6).

12 January 2024

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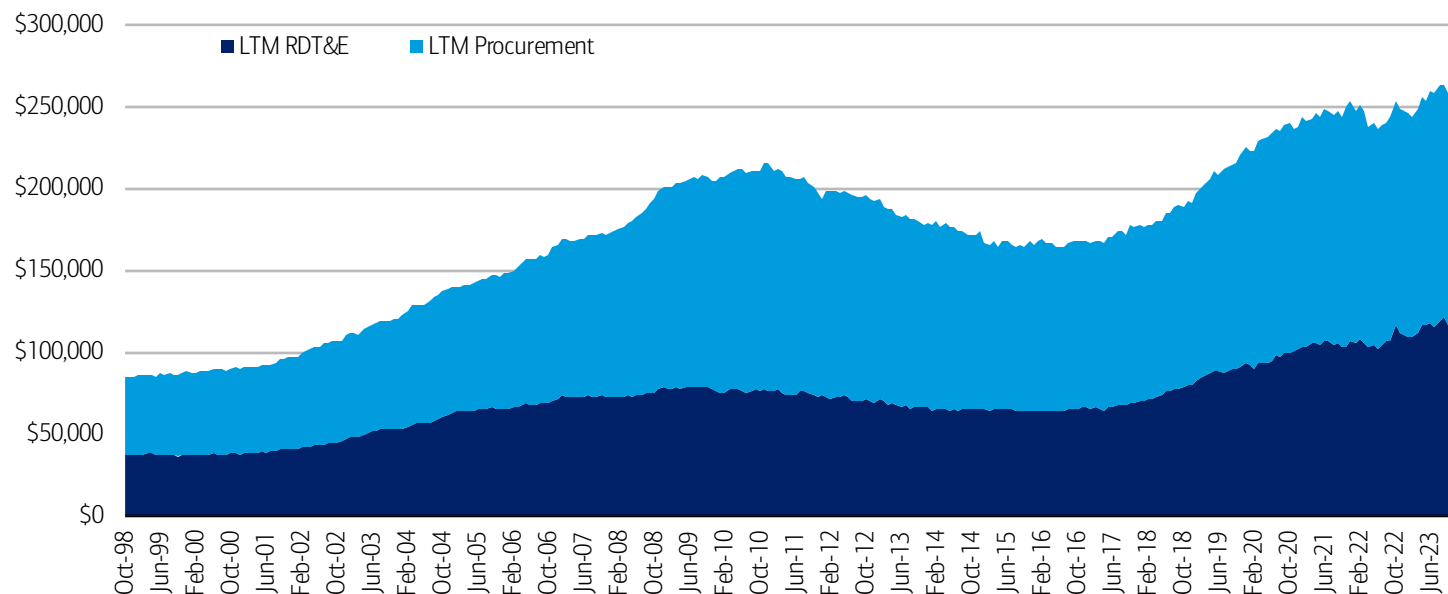
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Exhibit 1: LMT Investment Outlays

Investment Outlays at all-time highs, up 9.3% Y/Y as of Dec 2023

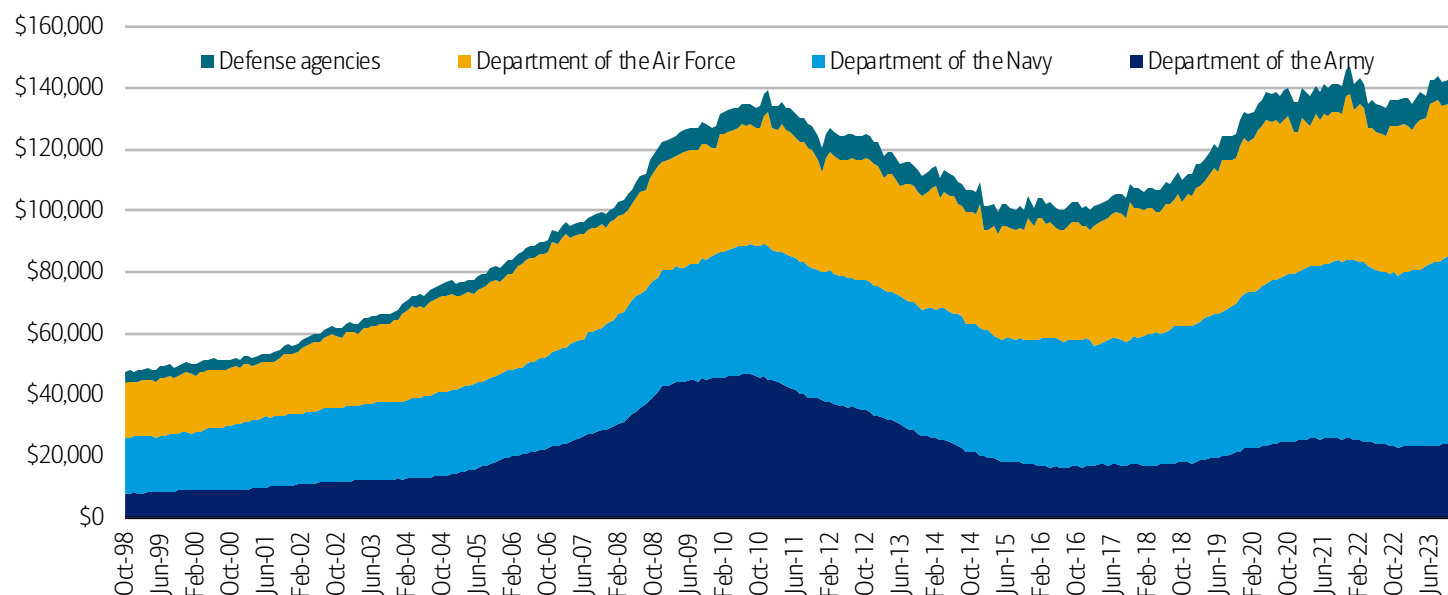


Source: U.S. Treasury

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Exhibit 2: LTM Procurement

Procurement outlays of ~\$143bn are 2% below prior peak levels in late 2021



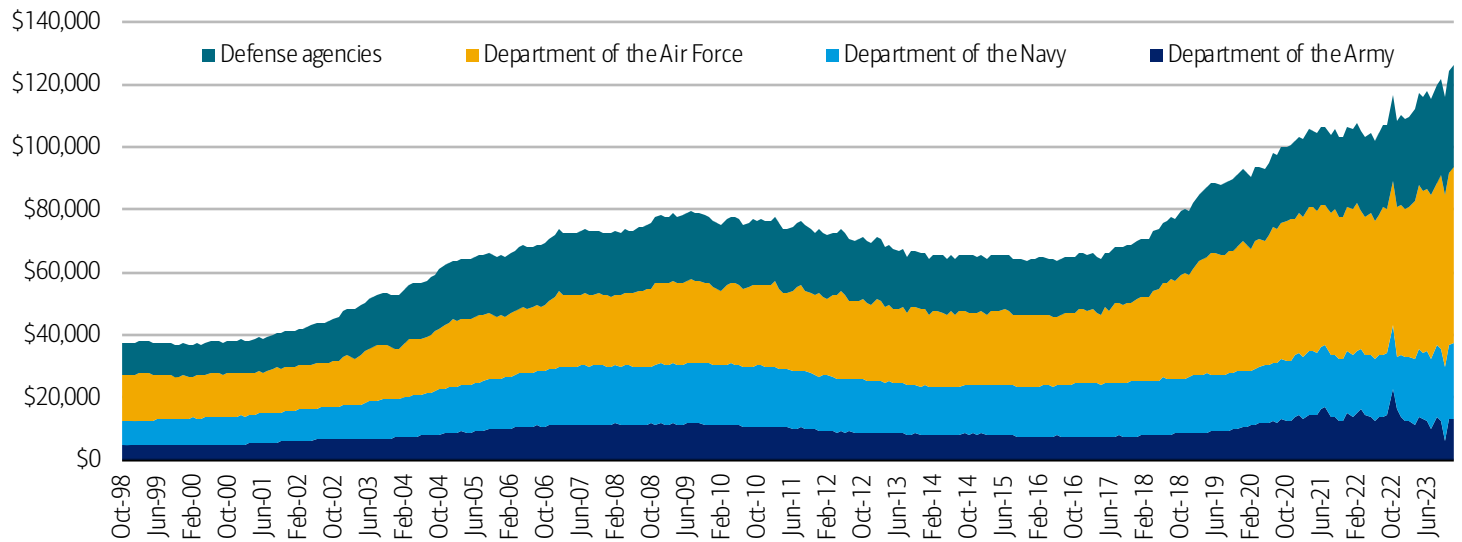
Source: U.S. Treasury

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Exhibit 3: LTM RDT&E

RDT&E at all-time highs with outlays of \$126bn as of Dec 2023

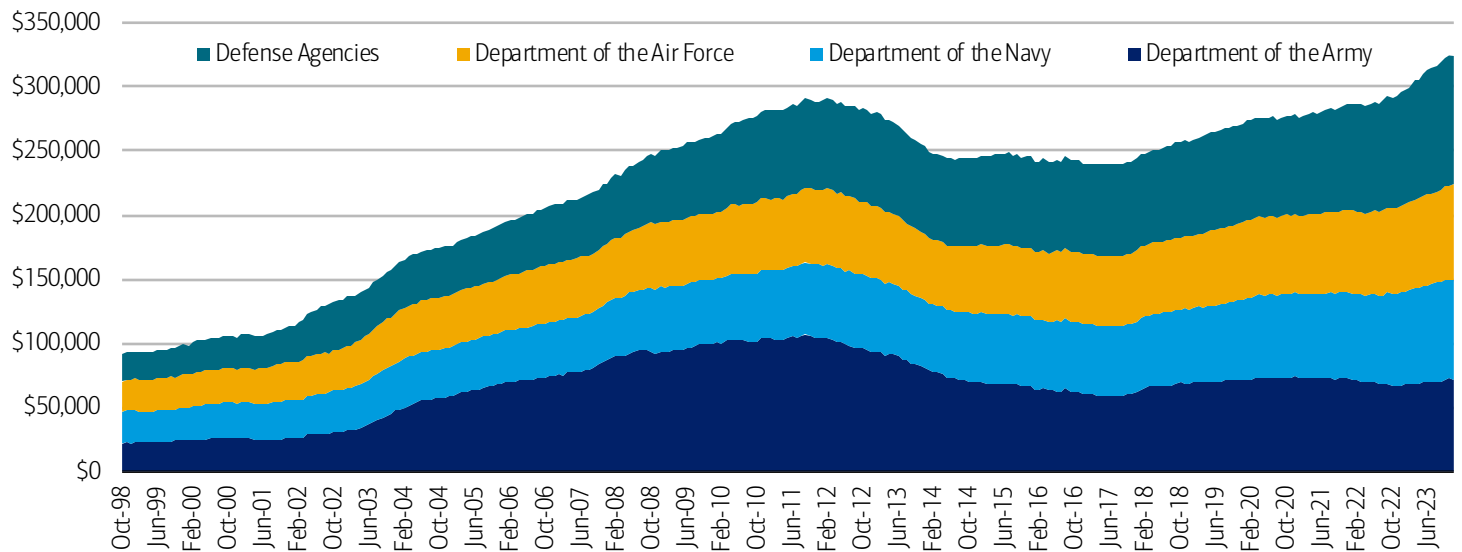


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Exhibit 4: LTM O&M

O&M Outlays were up 9.2% Y/Y as of Dec 2023

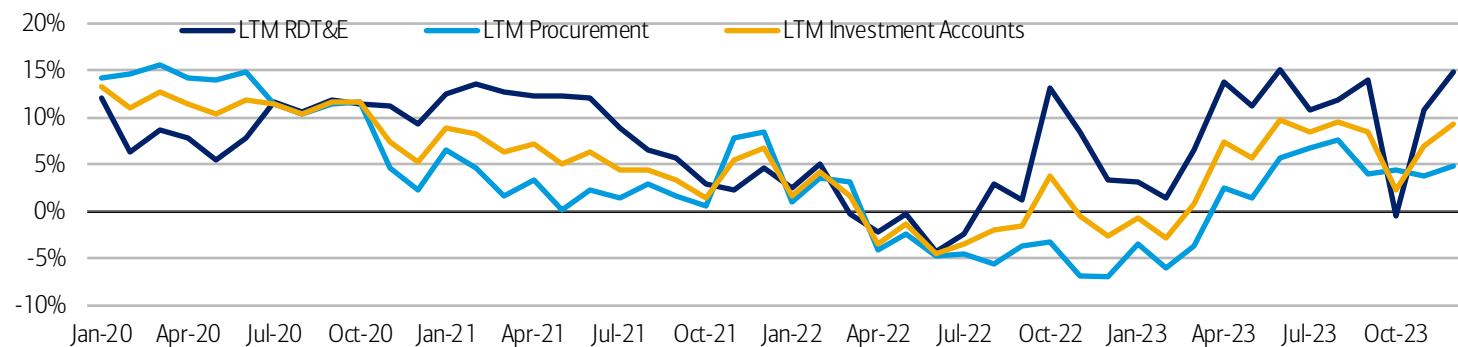


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Exhibit 5: Outlays Y/Y Trends – Jan 2020 to date

The Y/Y growth in LTM Investment Outlays turned positive in March 2023

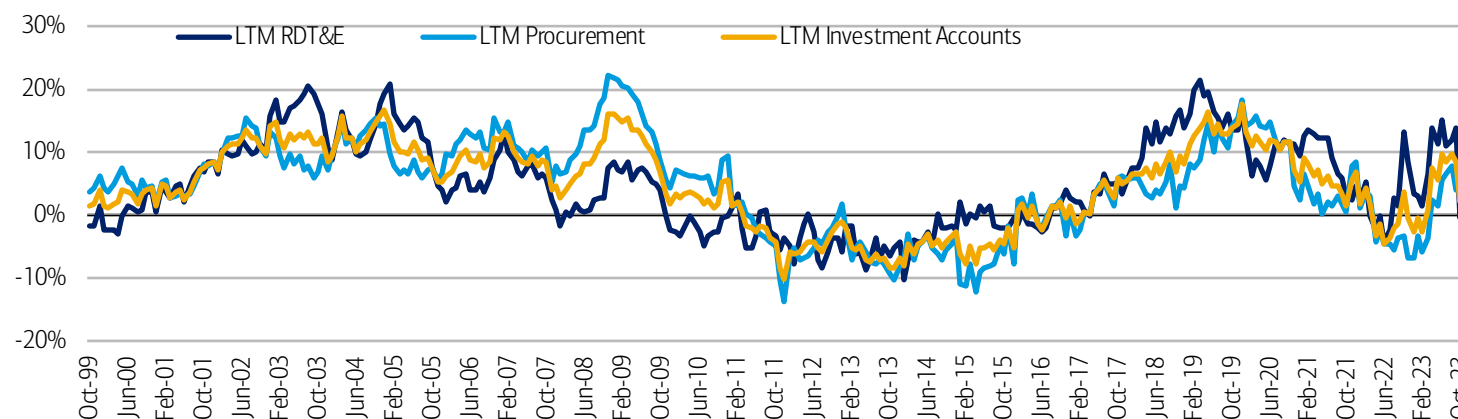


Source: U.S. Treasury

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Exhibit 6: Outlays Y/Y Trends – Oct 1999 to date

Procurement Outlays were up 4.8% Y/Y while RDT&E Outlays were up 14.8% Y/Y respectively as of Dec 2023

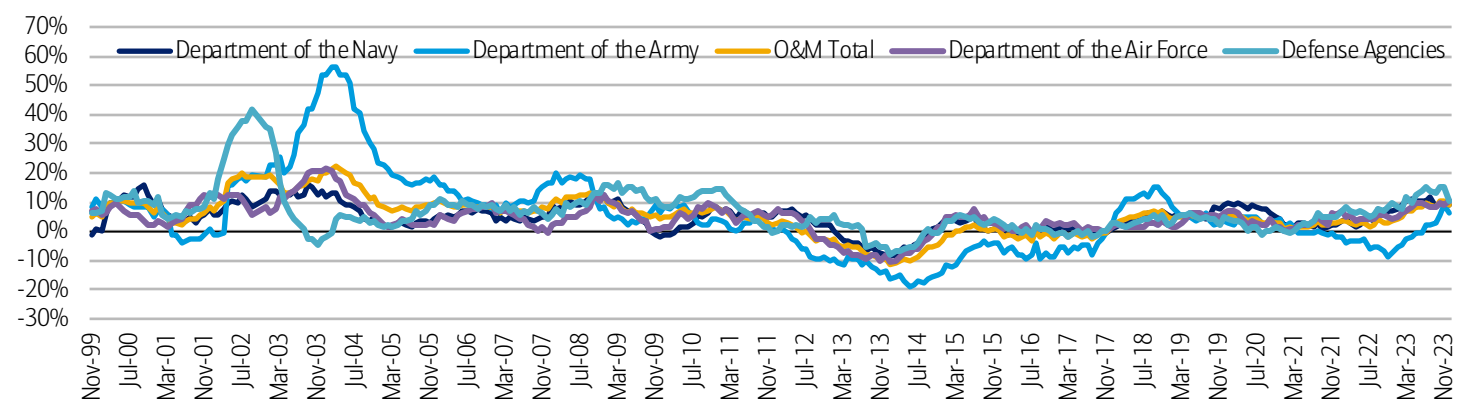


Source: U.S. Treasury

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Exhibit 7: O&M Outlays Y/Y Trends – Oct 1999 to date

US Army Outlays were up 6.2% Y/Y while Defense Agencies were up 10.6% Y/Y as of Dec 2023



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