

Defense Update

Inv. Outlays at all-time highs, up 12.9% Y/Y as of January 2024

Industry Overview

Investment Outlays up 12.9% Y/Y as of January 2024

Last twelve months (LTM) Investment Outlays are up 12.9% Y/Y as of January 2024, mainly driven by a 17.6% increase in RDT&E. Procurement outlays were up 9.1% 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 \$277bn turned positive in March '23 and reached a new all-time high in January 2024, exceeding its prior peak from December '23 by 3%. 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 hits all-time high, soaring past 2021 peak

Procurement outlays of ~\$150bn turned positive since April 2023, reaching a new all-time high in January 2024, surpassing last previous peak from 2021 by 1%. The U.S. Navy represents ~42% 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 ~36% 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 ~16% 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 104%+ above mid-'12 peak

RDT&E also reached a new all-time high in January with LTM outlays of \$128bn, representing a 2% increase from the prior peak in December '23. The U.S. Air Force represents ~44% and annualized spending of ~\$57bn is 104% above the last peak in mid-2012. RDT&E spending is also above last 20-year levels for the Defense Agencies (~25% 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 at all-time highs, up 9.1% Y/Y

Last twelve months (LTM) Operation and Maintenance (O&M) Outlays of \$325bn reached a new all-time high in January 2024, exceeding its prior peak from November 2023 by 0.2%. As of January 2024, LTM O&M Outlays are up 9.1% Y/Y mainly driven by a 12.0% 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).

14 February 2024

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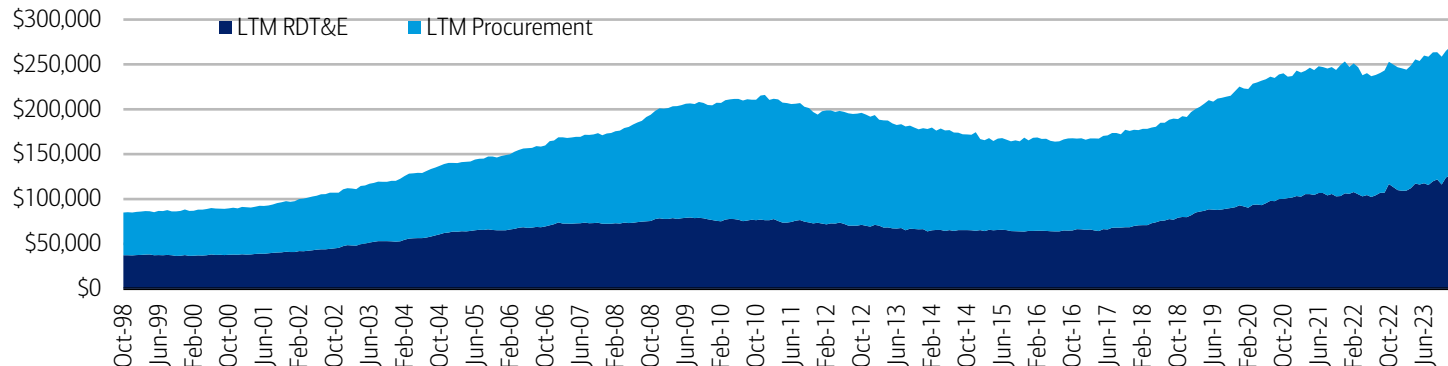
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Exhibit 1: LMT Investment Outlays

Investment Outlays are at all-time highs, up 12.9% Y/Y as of January 2024

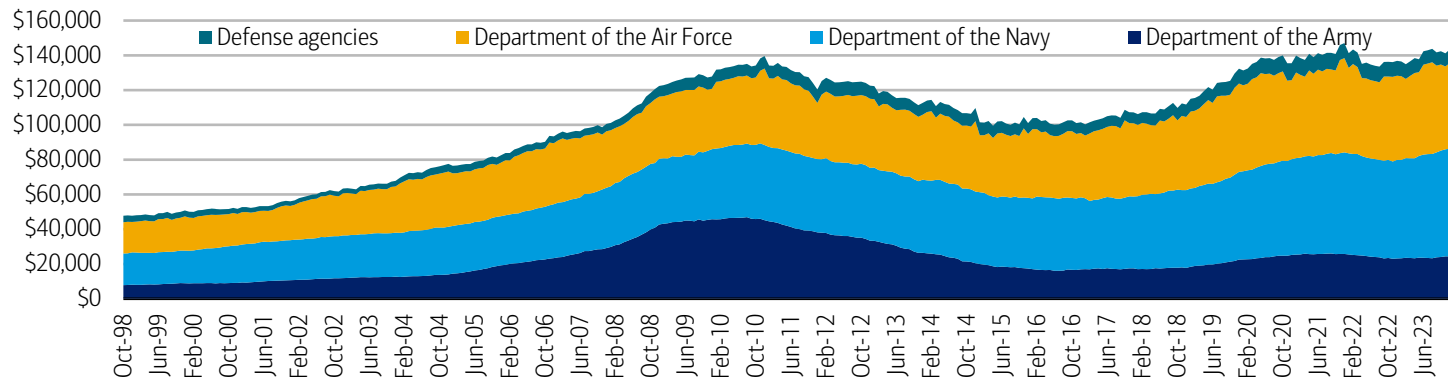


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Exhibit 2: LTM Procurement

Procurement outlays at all time-highs, up 1% from prior 2021 peak

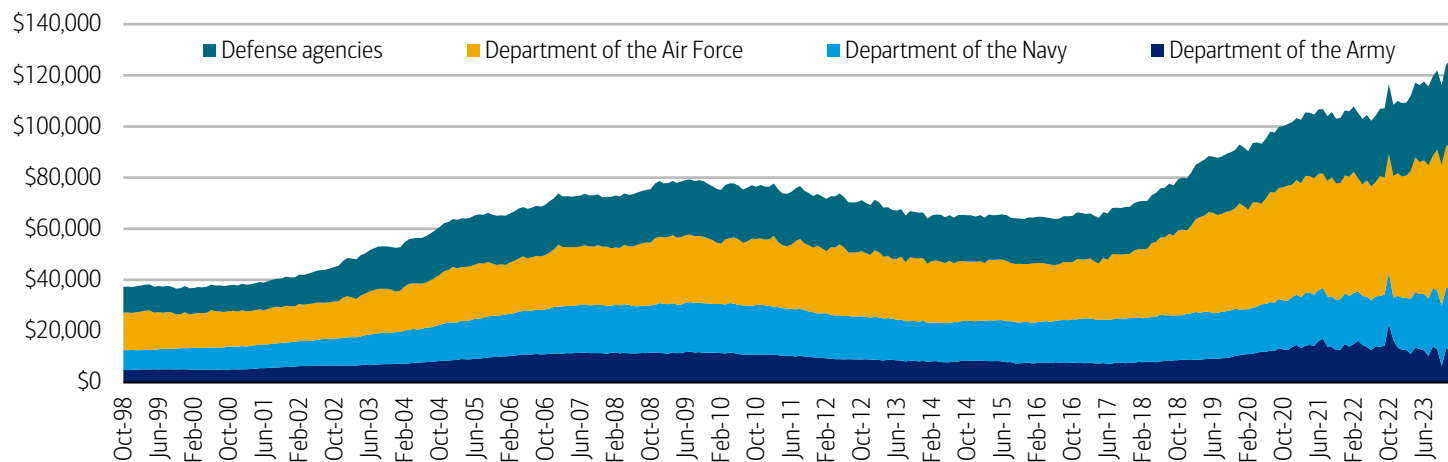


Source: U.S. Treasury

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Exhibit 3: LTM RDT&E

RDT&E at all-time highs with outlays of \$128bn as of Jan 2024

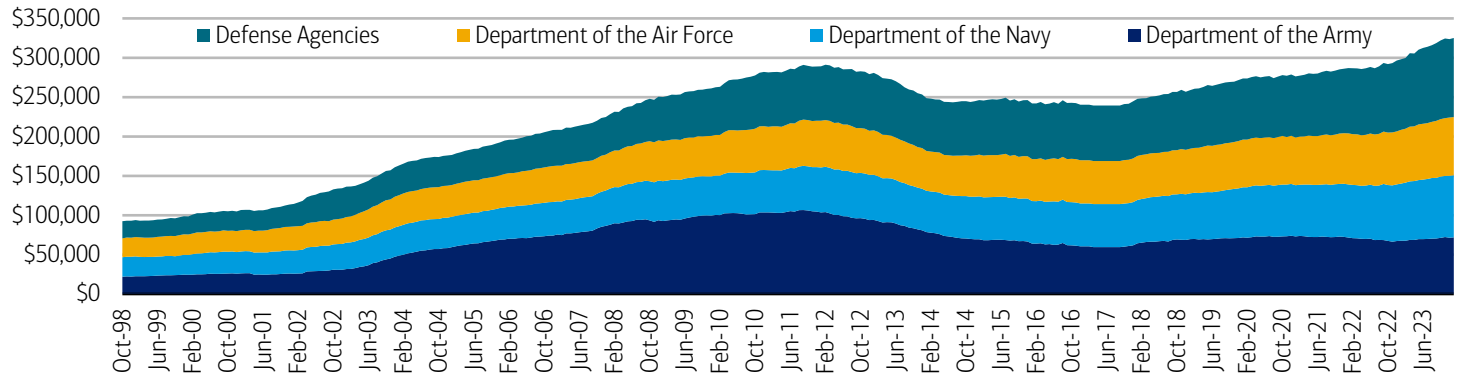


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Exhibit 4: LTM O&M

O&M Outlays were up 9.1% Y/Y as of January 2024

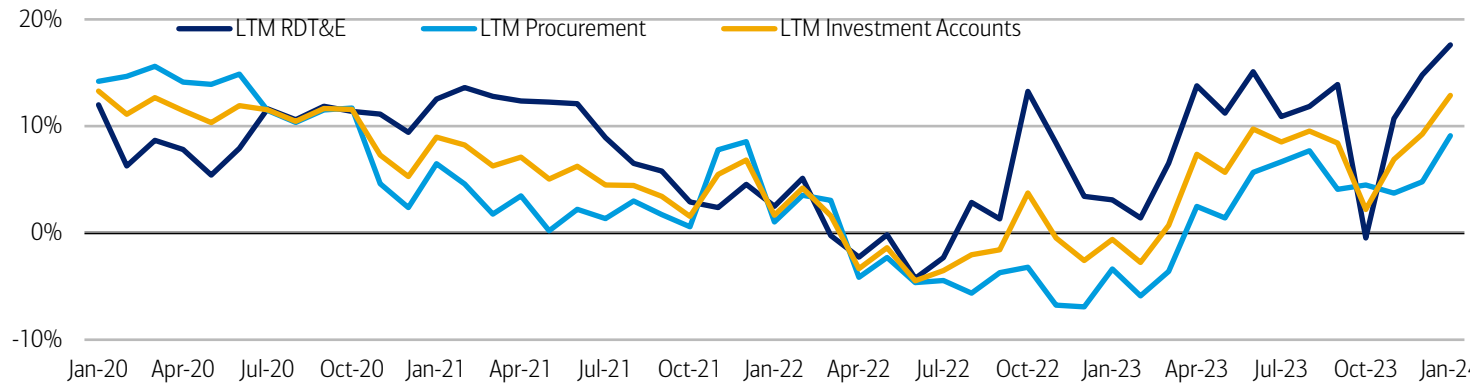


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Exhibit 5: Outlays Y/Y Trends – Jan 2020 to date

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

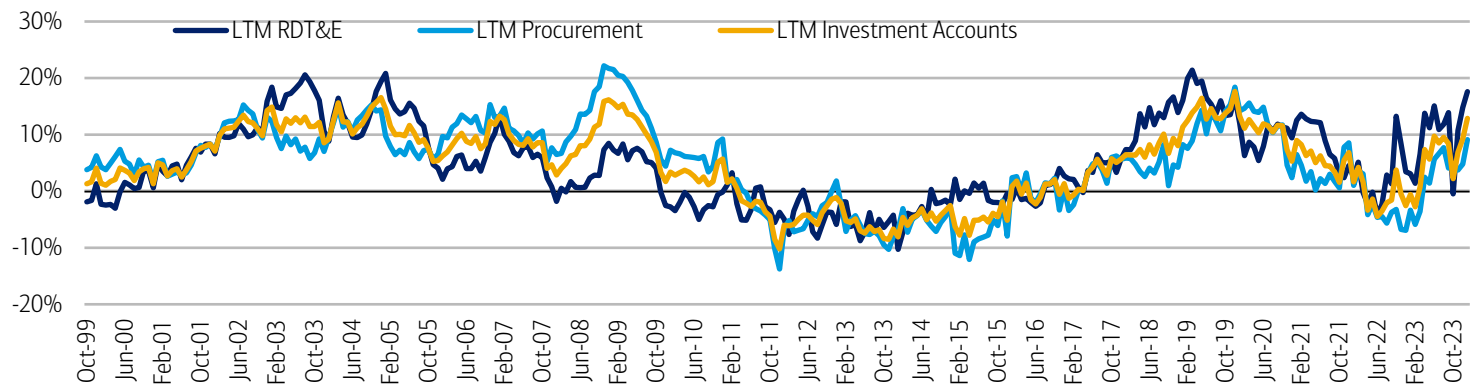


Source: U.S. Treasury

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

Procurement Outlays were up 9.1% Y/Y while RDT&E Outlays were up 17.6% Y/Y respectively as of Jan 2024



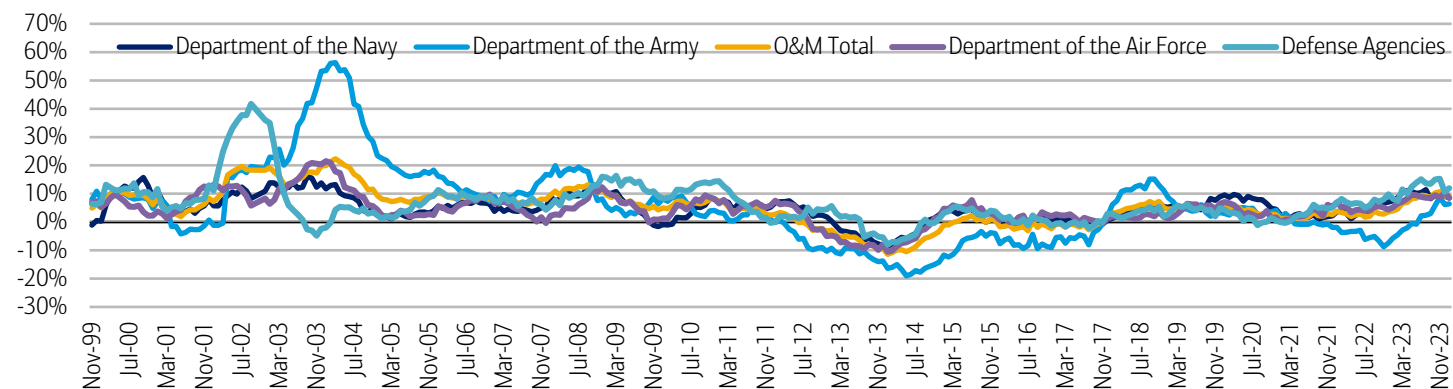
Source: U.S. Treasury

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

Defense Agencies were up 12% Y/Y as of Jan 2024



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