

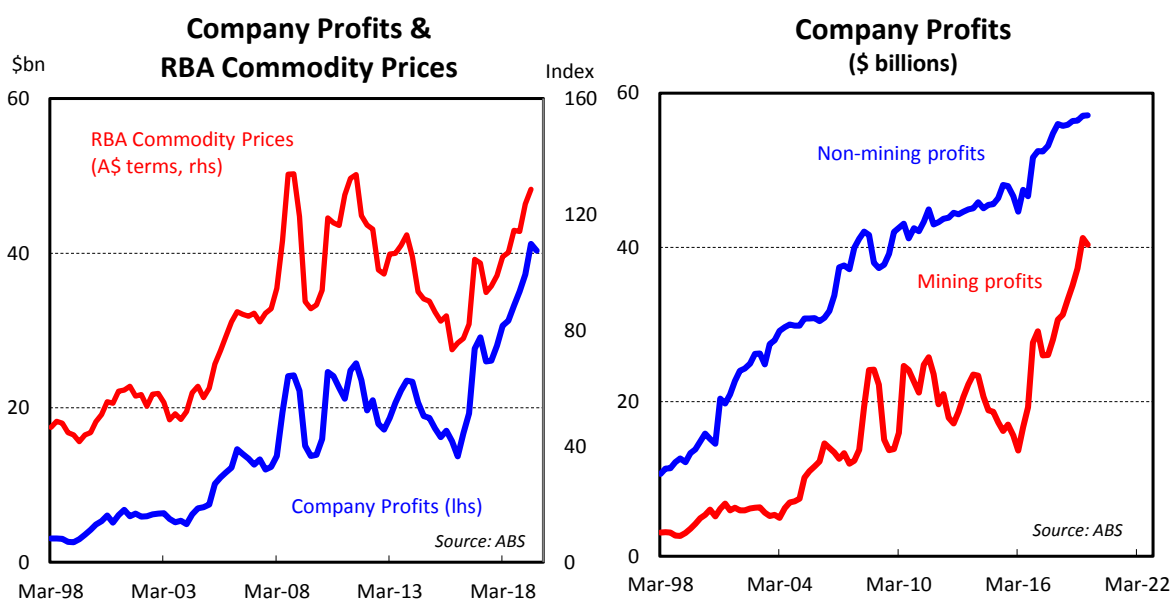
Monday, 2 December 2019



Company Profits & Inventories

Profits Contract

- Gross company operating profits contracted by 0.8% in the September quarter, the first negative outturn since June 2017. On an annual basis, the rate of growth slowed to 9.4% in the September quarter from 12.9% in the previous quarter.
- The mining sector's contribution to profits turned negative in the September quarter. Profits in the sector fell 2.1%. The fall was due to retreating commodity prices, which had surged in the previous quarter, leading to a 10.5% surge in mining sector profits.
- Excluding the negative contribution from mining, non-mining profits softened. Non-mining profits expanded just 0.1%.
- Wages & salaries increased 1.0% in the September quarter following a revised 1.6% rise in the three months to June. Slow wages growth has been a feature of the Australian economy in recent years, with solid gains in employment outweighed by increases in population growth and an elevated participation rate.
- Inventories fell 0.4% in the September quarter following a 1.0% fall in June. Companies appear to be destocking following a prolonged period of inventory build that spanned from September 2017 to December 2018.
- Today's data reinforce our view that GDP growth is likely to remain modest. We expect GDP growth to remain below trend in 2020.



Gross Company Operating Profits

Gross company operating profits fell 0.8% in the September quarter, the first negative outturn since the June quarter of 2017. On an annual basis, the rate of growth slowed to 9.4% in the September quarter from 12.9% in the previous quarter.

Growth in company profits was revised up to 4.8% in the June quarter. A surge in commodity prices resulted in a significant boost to mining sector profits then, which expanded 10.5%. As prices receded in the September quarter, so too did profits of miners. Mining sector profits fell 2.1%, their worst result in more than 2 years and ended eight consecutive quarterly gains.

Excluding the negative contribution from mining, non-mining profits softened. Non-mining profits expanded just 0.1%. The decline was led by the financial and insurance sector (-28.0%), arts & recreation services (-16.6%) and transport (-6.6%). The strongest performing sector was construction which saw a 14.6% increase in operating profits over the quarter.

The retail trade and wholesale trade sectors both saw a modest increase in profits, up 1.1% and 1.6% respectively. Soft income growth and high household debt has put pressure on retail spending recently. Other sectors to expand were media & telecommunications (9.6%), manufacturing (1.0%), utilities (2.0%), accommodation & food (2.2%), professional & scientific services (7.2%) and administration & support (2.0%).

Wages

Wages & salaries increased 1.0% in the September quarter following a revised 1.6% rise in the three months to June. Annual growth remained at 4.8%, unchanged from the previous quarter which was the fastest growth since the March quarter of 2018. Slow wages growth has been a feature of the Australian economy recently, with solid gains in employment outweighed by increases in population growth and an elevated participation rate.

Inventories

Inventories fell 0.4% in the September quarter following a 1.0% fall in June. Companies appear to be destocking following a prolonged period of inventory build that spanned over much of 2018.

After providing a significant drag on GDP growth in Q2, we expect the inventories component of GDP to provide a small positive contribution to growth in Q3.

GDP Forecast

Today's data reinforce our view that GDP growth is likely to remain modest and remain below trend.

The Australian economy has lost momentum since the second half of last year, and stimulus measures are taking time to flow through. We expect some of the impact of the three Reserve Bank (RBA) rate cuts since June to start to take effect, along with tax-breaks and an improvement in house prices. The negative outturn of company profits today adds to evidence that any improvement is likely to be muted. We expect quarterly GDP growth of 0.6% for the September quarter, compared with a 0.5% increase registered in the previous quarter.

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