

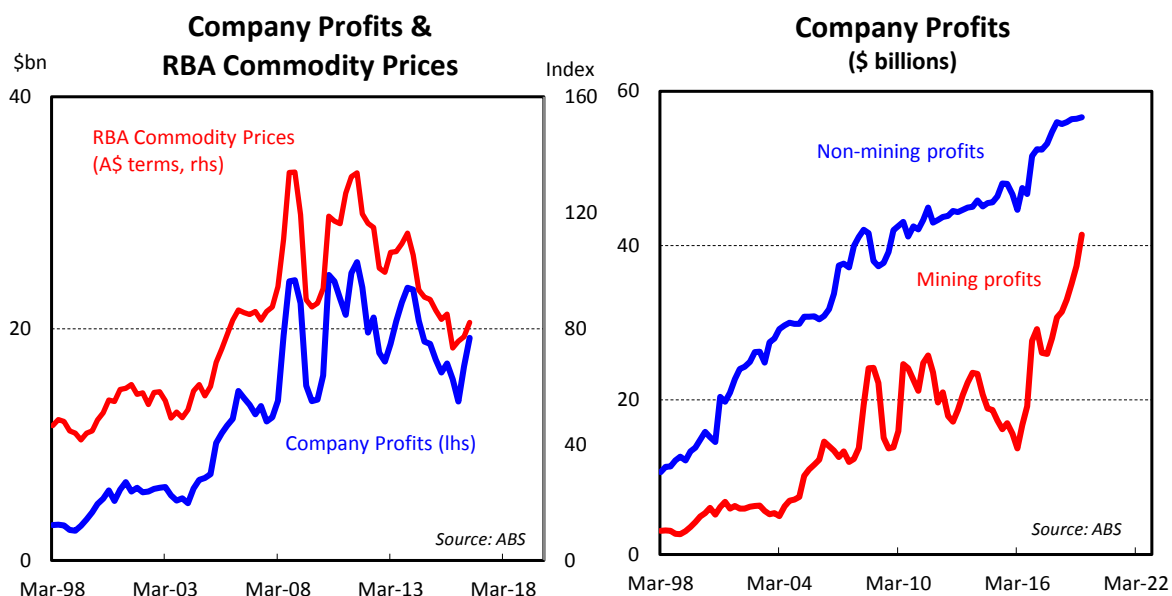
Monday, 2 September 2019



## Business Indicators

### Mining Props Up Profits

- Gross company operating profits lifted 4.5% in the June quarter, following an upwardly revised 2.6% increase in the March quarter. The annual rate of growth remained firm and lifted from 8.3% to 12.5%.
- Much of the growth in profits continues to be driven by mining. Mining profits spiked 10.9% in the June quarter. It has benefited from a bounce in bulk commodity prices, particularly for prices of iron ore. However, iron ore prices and other commodity prices are now easing on reduced supply constraints and as global trade tensions intensify.
- Excluding mining, profits were up only 0.3% in the June quarter. The non-mining backdrop remains a challenging one with weak demand prevailing.
- The wages & salaries component rose by 1.4% in the June quarter. Annual growth lifted from 4.4% to 4.7% which was the strongest in over a year. While wage growth has been slow, the strength of employment gains is providing some support to incomes.
- Inventories fell 0.9% in the June quarter, after a strong rise of 0.8% in the March quarter. We estimate the inventories component of GDP will be a significant drag on Q2 GDP of 0.6 percentage points.
- Today's data suggests the GDP growth outcome could be on the low side for the June quarter, but we are yet to receive net exports and government spending data (both due tomorrow).



## **Gross Company Operating Profits**

Gross company operating profits lifted 4.5% in the June quarter, following an upwardly revised 2.6% increase in the March quarter. The annual rate of growth remained firm and lifted from 8.3% to 12.5%.

Much of the growth in profits continues to be driven by mining. Indeed, excluding mining, profits were up only 0.3% in the June quarter. The non-mining economic backdrop continues to be a challenging one with weak demand prevailing.

The resources sector has benefited from a bounce in bulk commodity prices, particularly for prices of iron ore. However, iron ore prices and other commodity prices are now easing on reduced supply constraints and as global trade tensions intensify. Mining profits jumped 10.9% in the June quarter, which is the seventh consecutive quarter of solid gains.

In the June quarter, arts and recreation services also recorded a spike of 11.5% in profits, however, this sector is notoriously volatile. On an annual basis, this sector's growth is up 9.0%, after contracting by 5.1% in the March quarter.

The sectors that registered falls in profits in the quarter included electricity, gas, water & waste (-11.3%), information, media & technology (-4.7%), manufacturing (-3.4%) and transport, postal & warehousing (-2.0%).

## **Wages**

The wages & salaries component of the business indicators report rose by 1.4% in the June quarter, helped by stronger employment growth. Annual growth lifted modestly from 4.4% to 4.7%, which was the strongest in five quarters.

## **Inventories**

Inventories fell 0.9% in the June quarter, after a strong rise of 0.8% in the March quarter. Inventories were higher in the electricity, gas water & waste (+6.0%) sector. All other industries recorded falls in the quarter.

We estimate the inventories component of GDP will be a significant drag on Q2 GDP of 0.6 percentage points.

## **GDP Forecast**

Today's batch of data provides further clues to the outcome for GDP in the June quarter. The Australian economy has seen a loss of momentum since the second half of last year and this weakness has continued through to the June quarter. Company profits were stronger than expected, but inventories are expected to provide a larger detraction from growth than previously thought. Today's data suggests the GDP growth outcome could be on the low side for the June quarter, but we are yet to receive net exports and government spending data (both due tomorrow).

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