

# Australian business indicators

## Profits jump to trigger investment surge

### Q2 company profits: 18.9%; (mkt 5.8%)

### Q2 inventories: -0.5%, -0.6ppt contribution

- The key figure from the *Business Indicators* survey was the 18.9% jump in company profits in the June quarter. This highlights the boost to national income from the sharp rise in Australia's terms of trade.
- A staggering 62.7% increase in mining profits in the period was the driver of overall profit strength.
- It's important not to underestimate the significance of these numbers. Australia is in the midst of Commodity Boom Mark II. The latest ABS CAPEX survey suggest mining sector investment will increased by 58% in 2010/11, in response to these high commodity prices.
- Wage incomes improved considerably over the first half of 2010, increasing by 2.2% in Q2, consistent with strength in the labour market.
- These income figures point to a stronger Q2 GDP number than our forecast of 0.9%qtr, 2.8%yr. However, balancing this upside risk was a substantial downside surprise on business inventories. They fell by 0.5% in the period and will subtract 0.6ppts from growth, in contrast to the neutral impact we had forecast.

#### Profits jump

Company profits increased sharply in Q2, rising by 18.9%. Key was a 62.7% jump in mining sector profits from higher commodity prices - notably iron ore and coal.

In short, national income is being boosted by a sizeable rise in the terms of trade. The terms of trade increased by an estimated 13%qtr, 23%yr in Q2.

Miners are planning to lift investment in response to these higher commodity prices. The latest ABS CAPEX survey suggests mining sector investment could increased by 58% in 2010/11.

Profitability in the broader economy improved in the quarter, in contrast to private business surveys, which suggested that there had been a deterioration in profitability. Profits ex-mining increased by 2%qtr, 13%yr in Q2.

For the purists, profits are trimmed to +16.8% after incorporating the inventory valuation adjustment - which gives a better guide to the figure that will be published in the national accounts.

#### Private non-farm inventories

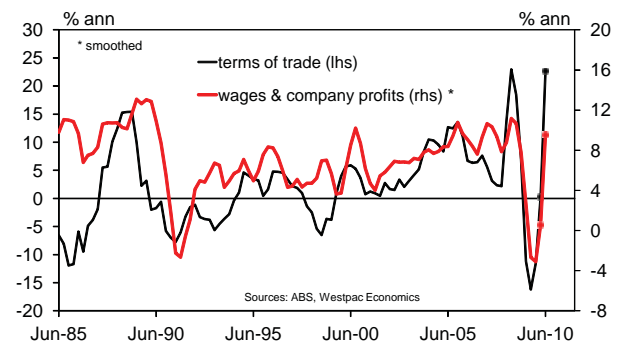
	Dec 09	Mar 10	Jun 10
Stocks % chg	0.4	0.9	-0.5
Stocks ppt contrib to GDP growth	0.3	0.2	-0.6

#### Profits & wages

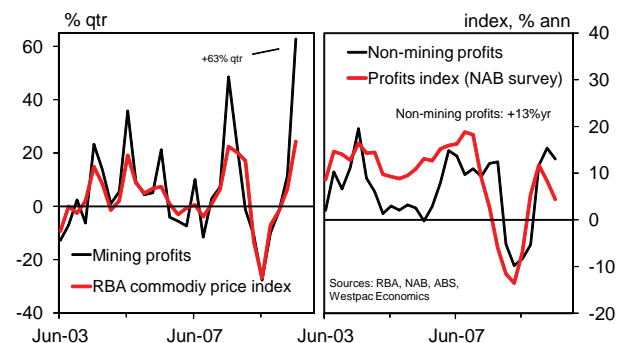
	%qtr		%yr	
	Mar	Jun	Mar	Jun
Company profits*	4.3	18.9	-1.6	27.5
Wages & salaries	18	2.2	0.2	4.9

\* Note: The National Accounts profits measure allows for the Inventory Valuation Adjustment  
Sources: ABS, Westpac Economics

#### Incomes boosted by terms-of-trade jump



#### Mining profits surged in Q2



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**Wage incomes improve**

Wage incomes, which turned the corner in 2009Q4, improved significantly over the first half of 2010. Wages & salaries increased by 2.2%qtr in Q2, following a 1.8% rise in Q1.

That's good news for household spending power and is in stark contrast with wage incomes during 2009 - with a cumulative fall of 2.5% over the three quarters to 2009Q3.

The improvement in wage incomes is consistent with developments in the labour market. Employment increased by 2.9% in the year to the June month 2010, up from a rise of just 0.2% a year earlier.

**Inventories to weigh on Q2 growth**

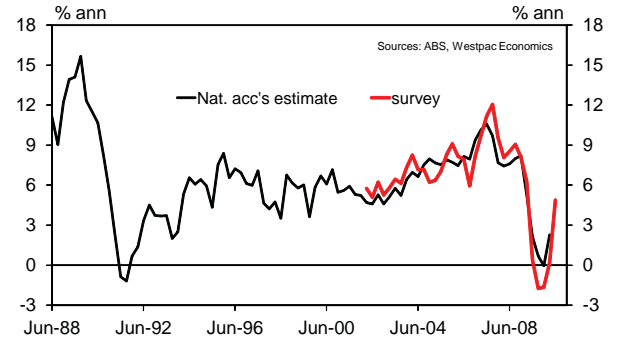
After a short rebuilding phase as the economy recovered, inventories were cut in the June quarter, with a fall of 0.5%. That will subtract 0.6ppts off Q2 GDP growth. Our forecast was for a rise of 0.4% and a neutral impact.

- By industry, the wholesale sector was the swing factor - with a \$1.3bn decline in inventory levels in Q2 after a \$1.9bn run-up in Q1. It may be that this turnaround in part facilitated strong export volume growth in the June quarter. We estimate that export volumes were up 5% in the period.

Looking forward, if consumer spending gains some momentum over the second half of 2010 and into 2011 - now that the RBA is on the sidelines - inventories are likely to be rebuilt once more and thereby add to growth.

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**Wage incomes strengthen**



**Inventories weigh on Q2 growth**

