

Australian Business Indicators survey Q1. Inventory rebuild, as imports snap back post delta. Q1 inventories: 3.2%qtr, +0.6ppt contr'n Q1 company profits: 10.2%qtr Q1 wage incomes: 1.8%qtr

There was a positive tone to the March quarter Business Indicators update. Strikingly, inventory levels were rebuilt and will make a sizeable contribution to growth in the quarter.

Nominal incomes reported robust gains, led by company profits. However, higher inflation erodes much of the increase in national income growth for the quarter.

Business Inventories - we saw risks to Q1 inventories in both directions. As it transpired, the upside risk played out, with inventories rising by 3.2%, boosted by a flood of imports (consumer goods imports jumped by 14.9% in the quarter).

This implies that private non-farm business inventories will add almost 0.6ppts to activity in the quarter, rather than subtracting 0.2ppts as we anticipated.

Focusing on inventories excluding mining and manufacturing, they posted a 4.3% increase for the quarter, associated with a 1.5% rise in sales (as measured in the BI survey). This inventory rebuild in the March quarter largely corrects for much of the shortfall evident of late. Inventories are now 3.7% above pre pandemic levels (end 2019), not greatly different to the 4.6% rise in sales over this period.

Company profits jumped sharply in the March quarter, led by the mining sector. This theme was as expected. However, the headline company profits figure of +10.2% represents an upside surprise, Westpac a forecast +6% and market median +5%.

Mining profits leapt 25% in the opening quarter of 2022 - the BI survey reports. Non-mining profits (ex finance) were - as anticipated - patchy, declining by -1.1%, reflective of mixed domestic conditions.

The complication is that the BI survey is on an accounting basis. It is booking higher prices for inventories on hand as a rise in profits. The national accounts abstract from this. Profits, adjusted, rose by 6.2%, in line with our forecast.

Wage incomes

Aggregate wages incomes rose by a reported 1.8% in the quarter (this is the wages bill - wages times employment).

That has annual growth holding relatively steady, at 5.2%, down a touch from 5.5% for December. This is broadly in line with the historical average. However, a bout of inflation is eroding consumer spending power.

As to the overall income picture for the quarter, nominal incomes across the economy appear to be up in the order of 2.8% for the period. In real terms - the increase is closer to 0.5%. Prices rose very sharply - with both domestic inflation and a large 5.9% rise in the terms of trade. We caution though, that there are many unknowns on the income side, ahead of the National Accounts - reducing the confidence in this estimate.

We have upgraded our Q1 GDP forecast to 0.6%qtr from 0.2%qtr - to reflect upside surprises on the expenditure partials (inventories and government spending).

Note, the national accounts are to be released on Wednesday.

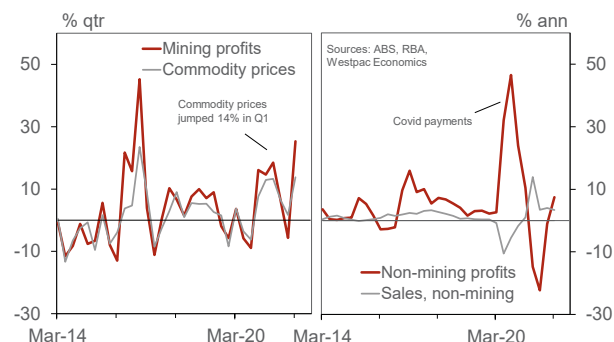
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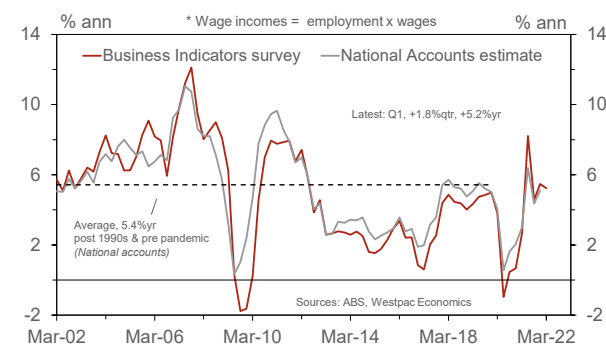
Inventories and sales: impacted by lockdowns



Company profits: led higher by mining in Q1



Nominal wage incomes: annual growth 5%+



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