# BULLETIN

5 September 2022

# Australian Business Indicators survey Q2. Mixed signals - Q2 growth picture remains unclear.
# Q2 wage incomes: 3.3%qtr, 6.8%yr
# Q2 company profits: 7.6%qtr
# Q2 inventories: 0.3%qtr

The Business Indicators (BI) survey provided mixed signals – which is not uncommon. This leaves considerable uncertainty as to the growth picture for the June quarter.

Inventories were much weaker than expected – providing a material downside surprise to our Expenditure view of GDP (which is our main focus, given the publicly available information).

Income data was positive, supportive of our above market call on Q2 GDP. A word of caution, there are many unknowns on the Income side (including the volatile but significant "Taxes less Subsidies" line).

On Tuesday, additional detail on the Expenditure side, net exports and public demand, will provide further colour around the risks to our forecast - ahead of the National Accounts, on Wednesday. The key uncertainty, scaling the acceleration in consumer spending on services – notably, hospitality and tourism.

**Wage incomes** (that is the wages bill ~ employment times wages) printed a sizeable increase of 3.3% for the June quarter, to be 6.8% higher for the year. Annual wage income growth is strongest in the mining state of WA, at 10.1%, a result matched in SA, followed by the mining state of Qld, at 8.2%. NSW and Victoria are around 5½%.

The strength of the June quarter result reflects the sizeable increase in hours worked, associated with a pick-up in economic activity enabled by fewer covid restrictions. The Labour Force survey reported hours work rose by a brisk 4.6% in the quarter, while employment numbers expanded by a more modest 0.9%.

Wage incomes, along with a still elevated household saving ratio, are supportive of consumers spending more freely. In real terms, wage incomes are up by around 1.7%qtr, 2.6%yr (deflated by the household consumption deflator from the National Accounts).

In other detail, unincorporated incomes printed a soft 0.4% gain for the June quarter, representing a downside surprise.

**Company profits** printed an increase of 7.6% for the June quarter, which was above expectations ~ market median and Westpac 4.5%. As to what this likely means for the National Accounts – abstracting from the "Inventory Valuation Adjustment" – company profits increased by around 9%.

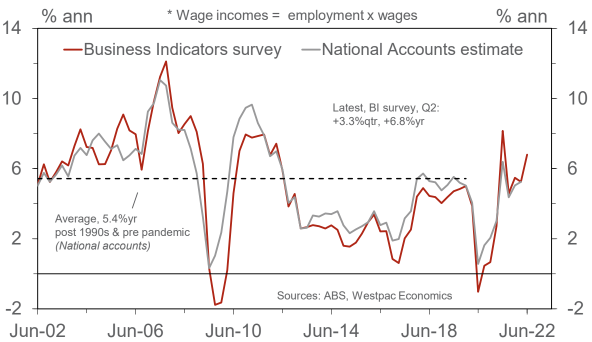
As to the industry detail, mining profits surged in the quarter - as to be expected - up by 14.3%, with global commodity prices sharply higher in the period. Non-mining profits, ex finance, printed a solid 1.7% rise for the quarter - benefiting from increased turnover but adversely impacted by margin squeeze on spiralling input costs. Retail and construction sector profits both fell in the quarter *(although note, quarterly data at this level of detail is volatile).*

**Inventory** levels increased by only 0.3% in the period, materially softer than anticipated ~ market median +1.5% and Westpac +1.6%. This result suggests that the inventory rebuilding process faltered in the June quarter. That said, it comes on the heels of a record rebuild in the March quarter, a rise of 3.6% (revised up from 3.2%).

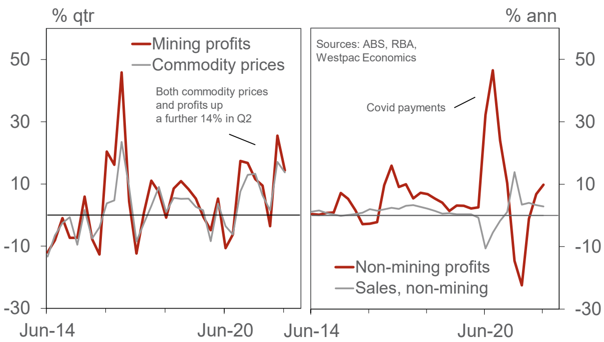
The June outcome implies that inventories will have a large negative impact on activity in the quarter – subtracting -1.1ppts, a larger drag than we anticipated, a forecast -0.5ppts.

In other detail, sales, as reported in the BI survey, printed a solid but not strong increase of 1.1%.

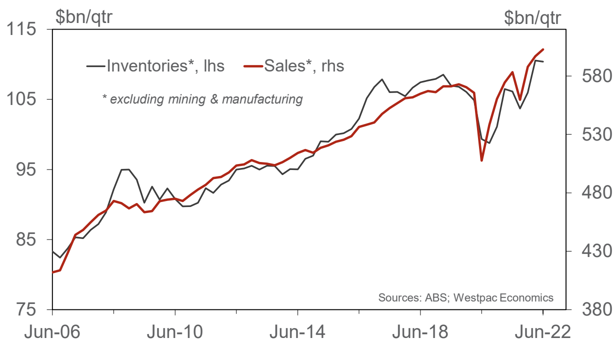
## Nominal wage incomes: annual growth at 6.8%




## Company profits: led higher by mining




## Inventory rebuild faltered in Q2 2022




**Andrew Hanlan,** Senior Economist

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