BULLETIN

5 December 2022

Australian Business Indicators survey Q3. Sizeable inventory increase a boost for growth.

Q3 inventories: 1.4%qtr, impact +0.4ppts
Q3 wage incomes: 2.9%qtr,
Q3 company profits: -12.4%%qtr

Inventories posted a sizeable rise in the September quarter, broadly meeting our expectations, but coming in stronger than the market expected.

Inventory levels rose by 1.7% in the period, Westpac f/c 1.4% and market median 1.0%. Note that the Q2 result was upgraded a little, to a rise of 0.5% from an originally reported increase of 0.3%. The Q3 result, along with the Q2 revision, will see inventories add 0.4ppts to activity in the September quarter – as we anticipated.

The detail of the Q3 result differed somewhat from our prior. We had anticipated a resumption of the inventory rebuild across wholesale and retail, and while that was evident to some extent, it was the mining sector that played a major role. Mining inventories jumped by a sizeable $2bn – evidence that flooding of the transport network disrupted supplies to the ports.

Inventories ex mining and ex manufacturing rose by 1.0% in the quarter, to be 7.4% above levels of a year ago. Sales on this basis rose by 1.4%qtr, 9.4%yr - suggesting that the inventory rebuild across the broader economy still has some way to go - albeit the looming economic slowdown points to the need for some caution.

Total sales expanded by a robust 1.1% in the September quarter, the Business Indicators survey (BIS) reports. That is a fraction above the 1.0% outcomes for the initial two quarters of the year. The BIS estimate of sales provides a broad (but imperfect) guide to overall economic conditions (domestic demand and output).

Company profits surprised to the downside in the September quarter, as we foreshadowed. Indeed, profits were even weaker than our bottom of the market forecast.

Headline profits – on this accounting measure – plunged by -12.4%, Westpac -4.5% and market median -1.5%. Mining profits retreated by -19%, after jumping 52% over the previous year, and non-mining profits ex finance declined by -4%. Mining profits eased from the highs of June as commodity prices fell on global recession fears.

As we highlighted previously, the value of inventories declined sharply in the quarter on lower prices – which is booked as an accounting loss in the Business Indicators Survey – but not in the National Accounts. This was worth $12.2bn of the $18.7bn decline in profits. Profits on an adjusted basis declined by a still sizeable -4.3%, which was weaker than the -1.5% we anticipated on this measure.

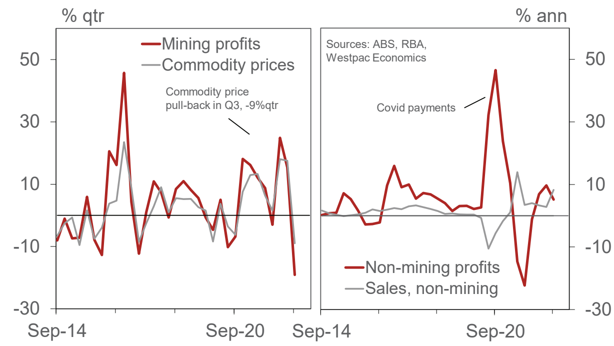
Wage incomes (that is the wages bill ~ employment times wages) surged for a second consecutive quarter - giving households considerable funds to expand spending.

Nominal wage incomes grew by 2.9% in the quarter, following a 3.4% rise in the June quarter. Annual growth, on this measure, spiked to 11% (flattered by weak base effects, a -1.1% for the corresponding quarter a year ago associated with lockdowns). That is the fastest annual growth for this series since 2007.

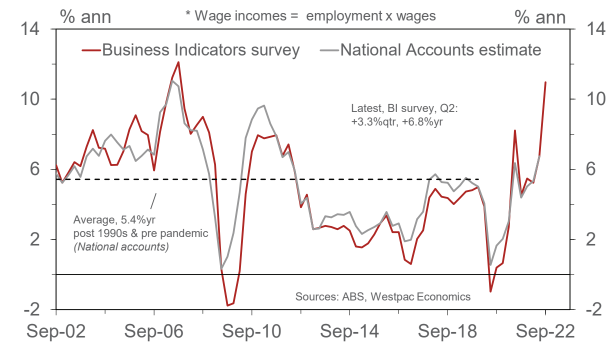
The Q3 outcome represents a material upside surprise on labour income. It is much strong than would be anticipated on the basis of the Labour Force survey - which reported employment and hours work up a tepid 0.3% and 0.2% in the period. This may suggest that the National Accounts will report hours work up by more than the Labour Forces survey. The household balance sheet detail in the National Accounts will be of great interest - particularly in light of this strength in labour income.

Inventory levels, expand in Q3

Company profits, off highs in Q3



Nominal wage incomes: annual growth hits 11%



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