

## Australian Business Indicators survey, June quarter. Weakness abounds, pointing to downside risks to Q2 growth.

**Q2 inventories: -1.9%qtr, impact -1.0ppt.**  
**Q2 sales -0.3%qtr.**  
**Q2 company profits: -13.1%qtr.**

**Weakness abounds** Often the Business Indicators (BI) survey is mixed, providing conflicting signals. Not so on this occasion. The June quarter BI survey exhibited weakness across the key indicators: inventories, sales and company profits.

These results point to downside risks to our existing Q2 GDP forecast of 0.4%qtr, 1.8%yr.

Tomorrow, net exports and public demand data may provide further surprises. We will review our GDP forecast with the benefit of this additional data, ahead of the National Accounts on Wednesday.

We are mindful that labour market trends were positive for the June quarter. The Labour Force survey reported employment accelerated, with growth lifting from 0.7% for Q1 to 0.9% for Q2. Volatile hours worked jumped by 2.9% in the June quarter.

**Inventories** rather than posting a tepid rise, as anticipated, contracted sharply in the June quarter.

Inventory levels fell by a sizeable -1.9%, -\$3.5bn in the period – much weaker than the market median forecast of +0.4% and Westpac forecast of +0.3%. That follows a 1.2% rise, +\$2.2bn, in Q1.

Inventories will subtract a hefty -1.0ppt from Q2 activity, a significantly larger drag than the -0.3ppts we expected.

This surprisingly large move in total inventories likely reflects the combination of some one-offs and underlying weakness. Soft goods imports for the period, down by around -0.6% we estimate, were a factor contributing to inventory weakness. By contrast, in Q1, goods imports rose by a sizeable 3.3%.

We noted previously, that in the March quarter, one-offs around autos resulted in a build-up of inventories at the wholesale level, an increase of some \$2.0bn. For the June quarter, wholesale inventories declined, down by -\$1.6bn. By industry, inventory falls in Q2 were also evident across mining, -\$1.1bn, and retail, -\$0.9bn.

**Total sales** weakened in the June quarter, declining by -0.3%.

This BI survey sales measure provides only a rough guide, quarter to quarter, to domestic demand. It does point to downside risk to our view on domestic demand, an expected rise of +0.3%.

Sales for the consumer sectors were soft, with retail flat and hospitality up by +0.4%. Wholesale trade sales more than reversed the 2.4% rise in March, down by -3.4%. Soft to weak sales were also reported across mining, manufacturing, and finance – together down by -1.3%.

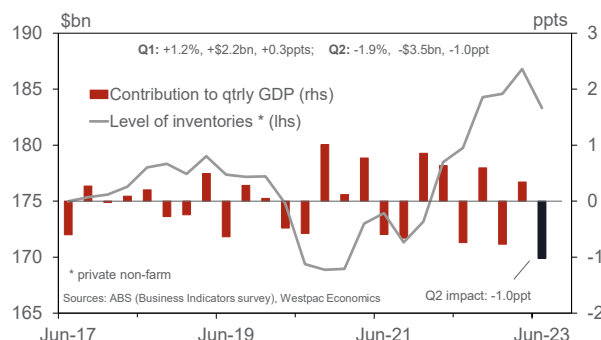
Across the other 9 industry groupings, there was relatively broadly based sales strength, up by a combined 1.6%. This result included: construction +2.2%; transport, postal & warehousing +3.3%; and real estate services & rental, hiring +2.6% – outcomes which are consistent with strength in other indicators for these sectors.

**Company profits** were not only weak, as we expected, but plunged in the June quarter. Profits fell by -13.1% in the period. The market was looking for a flat number, Westpac forecast a fall of -5.4%.

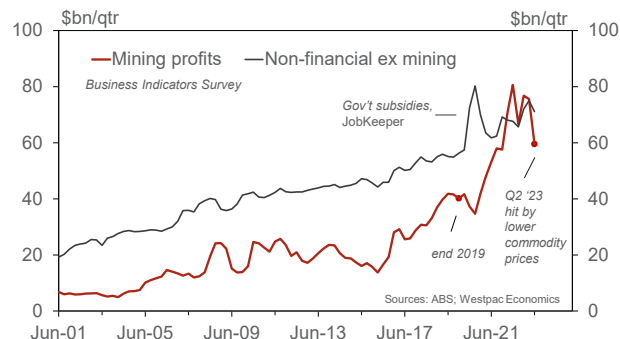
We calculate that profits adjusted for the Inventory Valuation Adjustment were still very weak in the June quarter, at -11.9%, vs an expected -4.8%.

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### Inventories: a large negative for Q2, -1.0ppt



### Company profits: slumped in Q2, led by mining



### Nominal wage incomes: annual growth slips to 9.9%



4 September 2023

Mining profits understandably fell on lower commodity prices, but the move was much sharper, at -21.3% vs Westpac at -12.3%.

Non-financial (ex-mining) profits went backwards, -5.3% vs Westpac forecast of +1.5%. Falls were reported across a range of industries - albeit, in some cases coming off a strong March quarter.

Weakness in June quarter profits across the broader economy reflects the impact of patchy sales conditions and margin squeeze - with many firms facing rising input costs (including rising unit labour costs) and limited ability to pass on those higher costs. Recall that consumer price inflation moderated in the June quarter, with the headline CPI printing at 0.8% and the Trimmed Mean measure 0.9%.

**Wage incomes** (that is the wages bill, employment times wages) in rose by a robust 1.8% in nominal terms, not greatly different from our guesstimate of around 2%.

As noted above, labour market trends were reportedly positive in the June quarter, with the Labour Force survey reporting employment numbers increasing by 0.9% and hours worked up a brisk 2.9%.

Annual wage income growth is still well above the long-run average, but has edged back below 10%, to be at 9.9% currently.

By state, annual wage income growth has moderated somewhat across the main eastern states - consistent with the earlier fading of the reopening effect. In the mining state of WA, wage income growth is remaining resilient, at 11.8% currently.

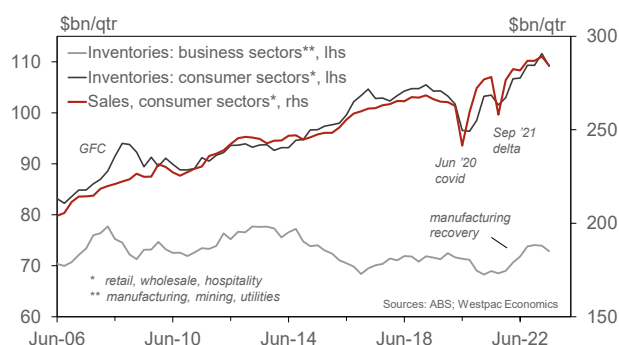
In summary, the income side of the accounts looks weak overall - given the very large fall in company profits. However, we caution that there are many unknowns on the income side ahead of the National Accounts.

We focus on the expenditure side - which, at this stage, also looks weak for the June quarter, in light of the larger than anticipated subtraction from inventories.

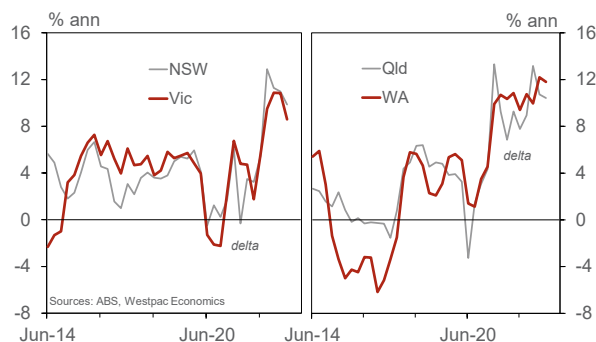
For more detail on June quarter developments, see our GDP preview article from Friday.

**Andrew Hanlan**, Senior Economist

## Inventory levels and trends



## Wage incomes by state



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