

Australian Business Indicators survey, September quarter. Upside on inventories key outcome amongst mixed results.

Q3 inventories: +1.2%qtr, impact +0.9.0ppts.
Q3 sales -0.1%qtr.
Q3 company profits: -1.3%qtr.

As is often the case with the Business Indicators (BI) survey, there were some mixed results for the latest quarter.

The key outcome, a material upside surprise on business inventories - which will see inventories make a much larger than anticipated positive contribution to activity for the September quarter.

In other results, total sales were weak, the survey reports.

On the income front, it was a case of weak profits, centred on mining, and strength in wage incomes, boosted by the National Wage decision.

Non-farm business inventories rose, not fell, which will see them make a materially larger positive contribution to activity in the quarter.

Inventories increased by 1.2%, representing a significant upside surprise. The market median forecast was for a decline of -0.8% (range -2.0% to +0.5%), Westpac -0.6%.

This will see inventories add 0.9ppts to Q3 activity, which is above Westpac's forecast of +0.5ppts.

Note, that inventory data, which is volatile and often subject to large revisions, was revised for Q2, from a -1.9% to a -1.3%.

In the September quarter, it was all about a mining inventory rebuild, accounting for 97% of the total increase. Mining inventories have now returned to levels prevailing pre-covid - after a downward trend to mid-2022, as supply headwinds impacted.

The Q3 result for total inventories continues what has been a volatile year: a 1.6% rise in Q1, largely reversed by a 1.3% fall for Q2, and then the Q3 rebound.

For inventories, ex mining, the picture is one of a weak trend, with a flat Q3 outcome to be modest higher over the past year, up by 0.9%. That is against the backdrop of patchy and mixed demand.

The BI survey reports that **total sales** - which provide a (rough) guide to domestic demand - were weak in the September quarter.

Sales declined in the period, down by -0.1%. Sales ex mining edged 0.2% higher. That said, across broad industries, the picture was mixed.

Retail and hospitality both recorded robust sales, of 1.4% and 1.5%, which is alongside other indicators which suggests that these two sectors fared somewhat better in the period (albeit for retail, it was a case of a stabilisation rather than moving ahead). Wholesale trade posted a large fall, down 1.5%, and utilities fell by 2.3%.

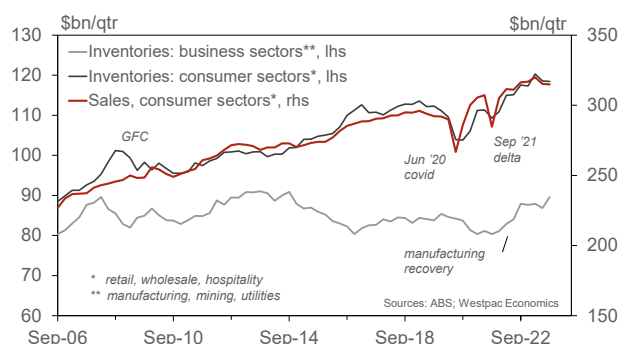
On the BI survey measure, total sales growth for the year has slowed to an anaemic 1.0%. That is weaker than our prior and weaker than other partial indicators suggest - it will then be of great interest to see how this compares with the picture painted in the National Accounts.

Company profits fell in the September quarter, declining by -1.3%.

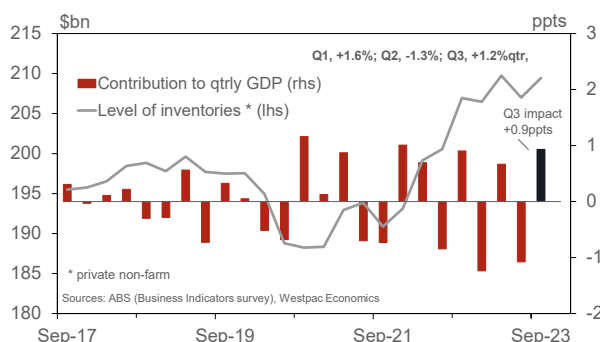
That headline result met our expectation (a forecast -1.2%) but was much weaker than the market view, which was looking for a rise, a forecast +1.2%. After adjustment to this accounting-based measure, profits fell by -0.9%.

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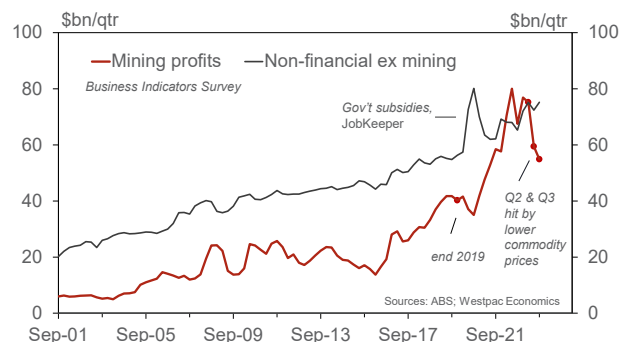
Inventory levels and trends



Inventories volatile in 2023: mining led Q3 rise



Company profits: lower led by mining



By industry, weakness was in mining profits, printing -7.7%qtr, associated with lower commodity prices.

Non-mining profits were flat over the past half year - albeit with some quarterly volatility. The BI survey reports that they fell by 3.6% in the June quarter, followed by a 3.9% rise in the September quarter - to be only 0.2% higher over the period. Some improvement in household spending in the latest quarter provided support to profits in related sectors.

Wage incomes (that is the wages bill, employment times wages) were up strongly, increasing by 2.7%, associated with the boost to wage levels from the National Wage decision which provided an oversized increase in award wages from 1 July.

Annual wage income growth is holding close to around a 10% pace - at 9.7% currently. That is well above the post 1990s, pre-pandemic average of 5.4% - associated with the current bout of inflation.

Brisk nominal wage income growth is broadly based across the four major states - ranging from 9.6% for NSW and Qld, to 10.1% for Victoria, and 10.4% for WA. The smaller states, with slower population growth, are further back, at 8.1% for SA and 6.9% for Tasmania.

What then is the BI survey telling us about wages growth - as measured by average compensation per hour? We estimate that the September outcome implies annual wages growth climbed to 5.0%yr on this basis.

That factors in the hours worked series from the National Accounts, as well as an estimate for the September quarter of -0.8% (which is the outcome from the Labour Force survey). It may be that the National Accounts estimate of Q3 hours worked differs from that of the LFS.

Q3 GDP view

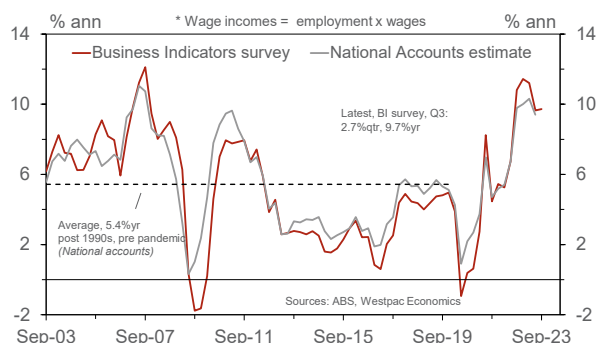
On Tuesday, we will receive updates on net exports and public demand - further key inputs to output growth for the period, which will be published on Wednesday.

We will reassess our Q3 GDP forecast of 0.4%qtr, following Tuesday's data.

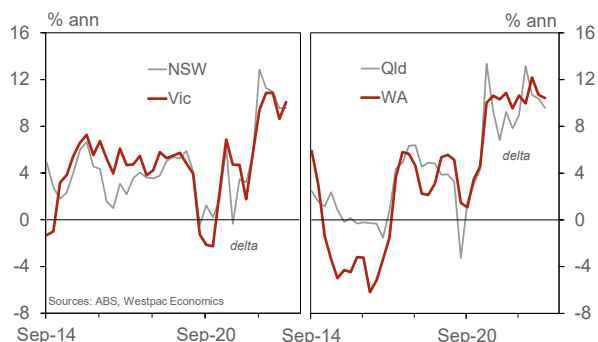
For more detail on September quarter developments, see our GDP preview article from Friday.

Andrew Hanlan, Senior Economist

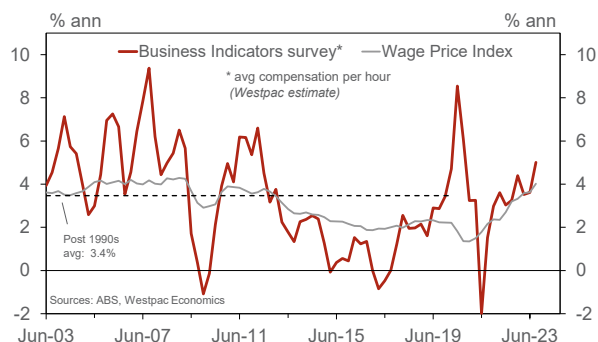
Nominal wage incomes: growth a brisk 9.7%yr



Wage incomes by state



Wages growth* hits 5%yr (implied by BI survey)



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