BULLETIN

4 March 2024

Australian Business Indicators survey, December quarter. Inventories sharply lower, a substantial drag on Q4 growth. Q4 inventories: -1.7%qtr, impact -1.0ppt. Q4 sales +0.2%qtr. Q4 company profits: +7.4%qtr.

The Business Indicators survey provided a significant downside surprise on inventories, adding to the evidence that the December quarter National Accounts update on Wednesday will be quite weak.

Our bottom of the market Q4 GDP forecast (as at Friday) anticipates a flat outcome for output (associated with a weakly positive growth pulse for domestic demand) while the market median is for output growth of 0.2% (lowered from 0.3% at Friday).

Data tomorrow on net exports and public demand will provide further colour around the risks to our Q4 GDP forecast.

Non-farm business inventories fell by even more than we anticipated and will be a substantial drag on Q4 growth.

Inventory levels contracted by a large -1.7%, a sharp swing from a significant rise last quarter, up by +1.2%.

That outcome was much weaker than expected, Westpac at a forecast -0.3% and the market median 0.0% (range -0.7% to +1.3%).

That inventory run-down will subtract -1.0ppt from activity, a substantially larger drag than was expected, Westpac -0.5ppts and the market median -0.4pppts.

Inventories fell across the consumer sectors, down -1.1%, and the volatile business sectors, a decline of -2.6% reversing a temporary rise of +3.1%. Most of the noise is coming from mining - with, at times, transport disruptions to the ports.

The inventory run-down was alongside a sizeable decline in goods imports, down by around -3.0% (we estimate).

Total sales were soft but remained positive – just, advancing by a tepid 0.2%. That tends to suggest that private domestic demand edged higher in the period, as we anticipate (albeit we note that quarter-to-quarter the relationship is more of a "broad guide").

Consumer sector sales softness extended into the December quarter, contracting by -0.2% in the period to be below the level of a year ago, contracting by -0.6%. That contraction in consumer sector sales of -0.6%yr is matched by a contraction in associated inventories, down by -0.6%yr.

The backdrop is that consumer spending has broadly flat-lined from the December quarter 2022 and throughout all of 2023. That stalling of consumer spending, despite surging population growth, reflects the sharp declines in real household disposable income, which contracted by -1.3%qtr, -4.3%yr in Q3 2023.

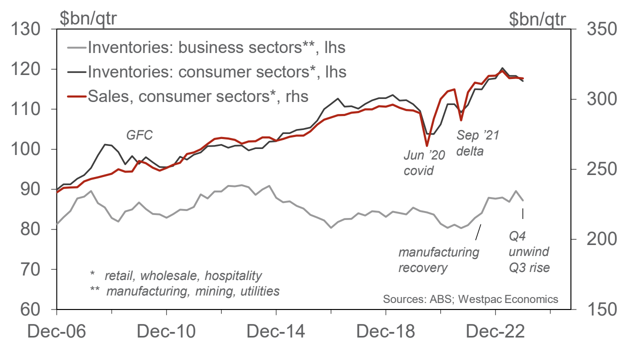
Headline company profits jumped by 7.4%, exceeding our top of market forecast of 4.2%, and well above the market median of 1.1% (range -1.0% to +4.2%).

That rise in headline profits was all about mining profits, they reportedly leapt by 17.3%, up on higher commodity prices.

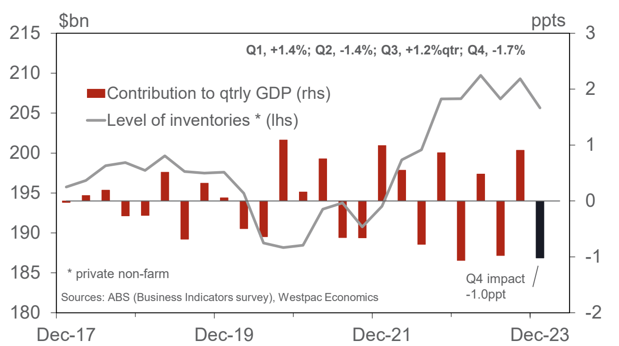
Non-mining profits ex finance edged lower, down by -0.4%, as we anticipated. The backdrop across the economy (ex-mining) is challenging, as consumer spending flat-lines.

We assess that the headline profits number grossly exaggerates actual profit growth in the period – due to a **"double upward bias"**, as we foreshadowed.

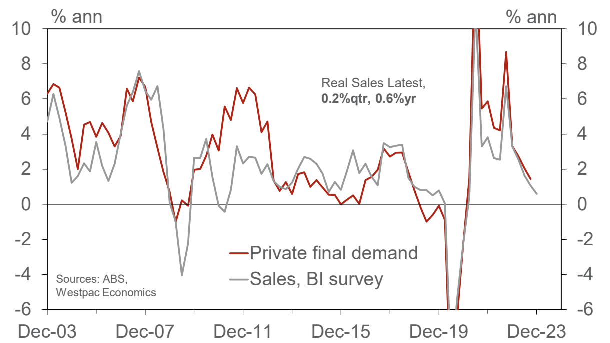
Inventory levels and trends



Inventories: Q4, substantial negative, -1.0ppt



Sales and private demand, 2023 slowdown



The BI survey is an accounting survey – which books an increase in prices of inventories as a profit (the IVA), which it is not (in an economic sense).

Profits ex finance IVA adjusted rose by 3.6% in the period, we calculate.

In addition, we detect the National Accounts are using a different seasonal factor – typically, the National Accounts profit reads for Q4 are softer than those in the BI survey. This potentially may trim the profit rise to around 2½% or so. Again, we highlight, that rise is all about mining and global commodity prices - while non-mining sector profits are under pressure from soft demand and rising costs.

Nominal wage incomes (that is the wages bill, employment times wages) was disappointing printing at a "soft" rise of only 0.9%.

By way of comparison, over the past two years, nominal wage incomes grew by a quarterly average of 2.5% (the BI survey reports), ranging from 1.9% to 3.4%, including a 3.0% outcome the quarter prior.

The labour market cooled further in the December quarter, with hours worked contracting by -0.7% in the Labour Force Survey, which we assess is more likely to print around -0.9% in the National Accounts, thereby representing a deteriorating from the -0.6% the National Accounts reported on hours worked for the September quarter.

As noted above, despite strength in nominal wage incomes, real household disposable income is contracting and contracting sharply - reflecting the impact of: high inflation, higher interest rates and additional tax obligations.

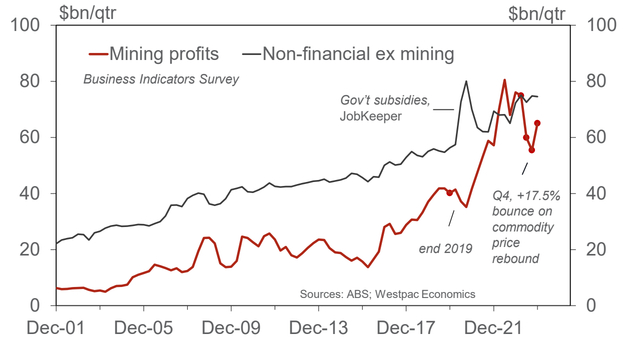
This soft update on nominal wage income for the December quarter adds to the intense focus on household income flows and the household saving ratio - updates which will provides insights into the spending prospects of households heading into 2024.

By way of further context, we note that there are many moving parts around the household income picture. There are two positives for the December quarter that may cushion this soft nominal wage income update.

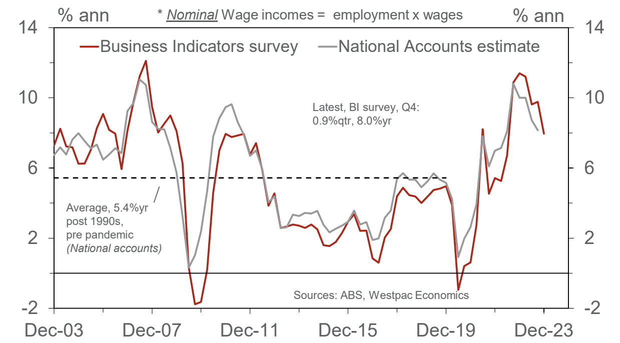
First, inflation cooled somewhat in the December quarter (the CPI seasonally adjusted moderated from 1.0% to 0.7%). Second, on the tax side, recall that the tax take in the September quarter 2023 was inflated by the end of the LMITO (Low and Middle Income earner Tax Offset). Against that, the RBA raised official interest rates in November, thereby increasing *net* interest payments of households.

Andrew Hanlan, Senior Economist

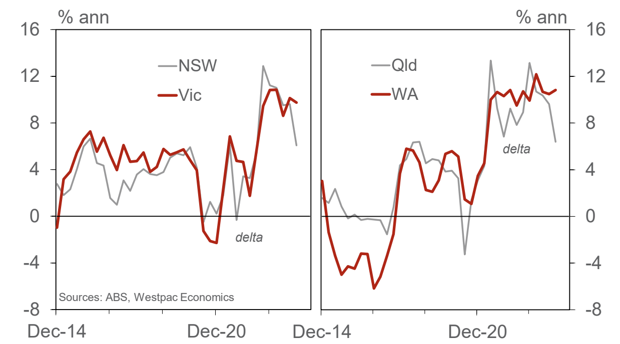
Company profits: Q4 rise all about mining



Wage income growth: Q4, a "soft" 0.9%qtr



Wage incomes by state



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