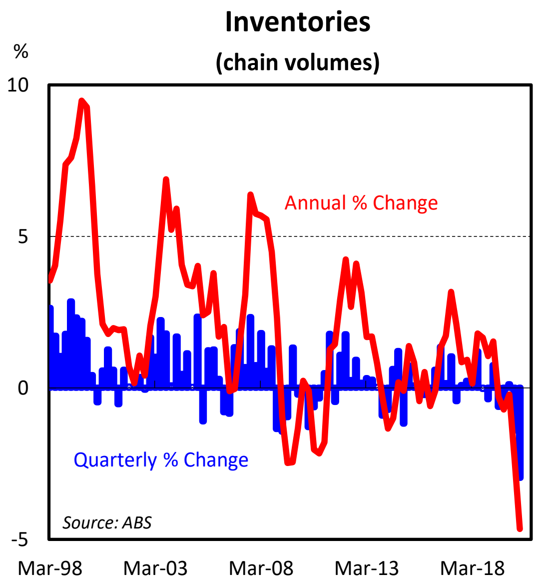
Data snapshot

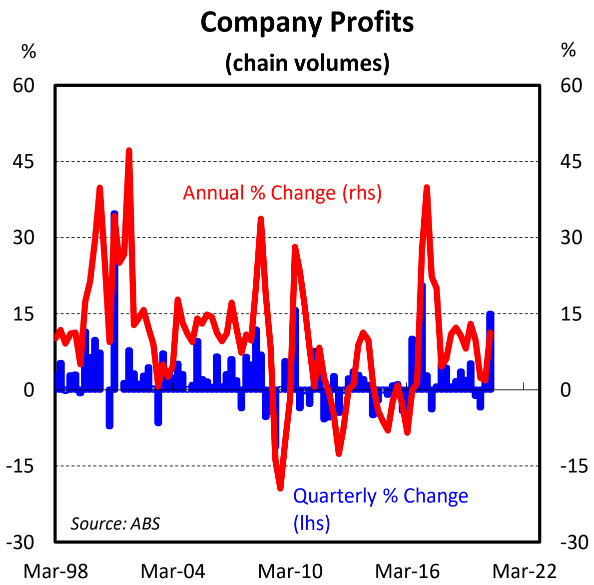
Monday, 31 August 2020

Co. Profits, Inventories & GDP Preview

Wild Swings

- **The pandemic generated waves of government stimulus. These stimulus measures led to an unexpected 15.0% spike in company profits in the June quarter and have obscured the true underlying picture in profits.**
- **Wages & salaries declined by 3.3% in the June quarter, which is the biggest decline since the data series goes back and reflects the sharp deterioration in the labour market. The annual pace also showed a contraction, of 1.1%, which was the largest decline since the December quarter of 2009.**
- **Inventories declined sharply in the June quarter, falling by 3.0% or $4.8 billion. It was the biggest decline since the data series began in 1985. COVID-19-related restrictions have had a detrimental impact on production, resulting in a drawdown in inventories across all sectors except for mining.**
- **Partial economic indicators have been mixed in the lead up to the GDP release this Wednesday, but on balance suggest upside risk to our long-held preliminary forecast for a fall of 7% in the June quarter. The quarterly decline in GDP is shaping up to be closer to 6%.**





Gross Company Operating Profits

Gross company operating profits spiked unexpectedly by 15.0% in the June quarter, which is the biggest quarterly gain in 3½ years. The outcome was heavily impacted by the receipt of government subsidies such as JobKeeper. The government unleashed substantial stimulus to help otherwise viable businesses survive the impact of the pandemic and have obscured the true underlying picture in profits. These subsidies or government transfers are included as income in the compilation of company gross operating profits but are not separately published in today's release.

The largest gains in profits were recorded in other services, which includes bookstores, pharmacies and other specialty stores. The gain in this sector was 252.8% in the quarter. Administration & support services and accommodation and food services also recorded hefty increases in the quarter of 120.6% and 86.3%, respectively.

Mining has the greatest share of profits at around 35% in the quarter, but its profits slid 0.7% in the quarter. Mining is one of the industries that has shown greater resilience from the pandemic, so mining businesses might have not accessed government income support measures as much as other industries. Excluding mining, profits would be up 25.5%.

On an annual basis, company profit growth slowed from 2.4% in the December quarter to 1.5% in the March quarter.

Wages & Salaries

Wages & salaries declined by 3.3% in the June quarter, which is the biggest decline since the data series goes back and reflects the sharp deterioration in the labour market. The annual pace also showed a contraction, of 1.1%, which was the largest decline since the December quarter of 2009.

The decline for wages and salaries is likely to bring down total incomes in the quarter. The wages component comprises just under half of GDP (based on the income measure).

Inventories

Inventories declined sharply in the June quarter, falling by 3.0% or $4.8 billion. It was the biggest decline since the data series began in 1985. COVID-19-related restrictions have had a detrimental impact on production, resulting in a drawdown in inventories across all sectors except for mining.

The largest drawdowns occurred in accommodation & food services and retail trade, which are also industries that were especially hard hit by the lockdown restrictions. Inventories in accommodation & food services dropped 11.6% in the June quarter while those in retail trade declined 7.8%. The drop in retailing inventories was the sharpest on record.

Inventories are expected to detract 0.5 percentage points from GDP growth in the June quarter.

GDP Preview

Partial economic indicators have been mixed in the lead up to the GDP release this Wednesday, but on balance lean towards upside risk. Our preliminary forecast for GDP for a long time has been for a contraction in GDP for the June quarter of 7%. The partial indicators published so far suggest the contraction might be closer to 6%. There are two more partial indicators to be released tomorrow, which will help finalise economists' forecasts.

A contraction in the June quarter would confirm Australia was in recession in the first half of 2020 with two consecutive quarters or more of a shrinkage in GDP required to meet the official definition of a recession. In the March quarter, GDP fell 0.3%.

We are anticipating a broader based recovery to start in the December quarter with a flat outcome our preliminary forecast for the September quarter. The recovery has been delayed due to Stage 4 lockdowns in Victoria and growing clusters in NSW impacting confidence.

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