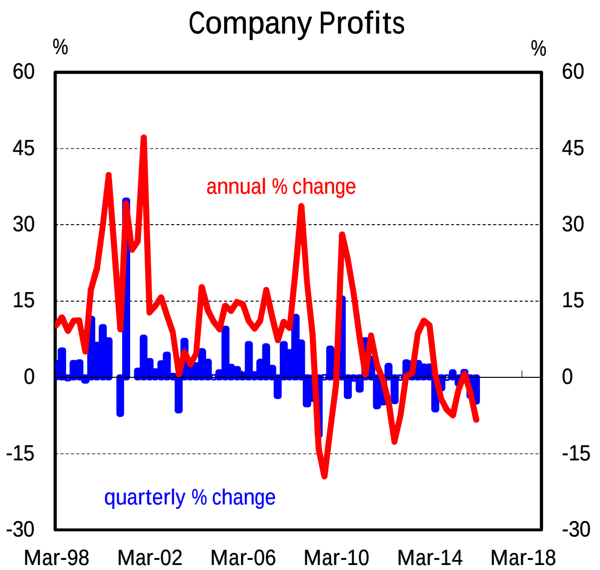
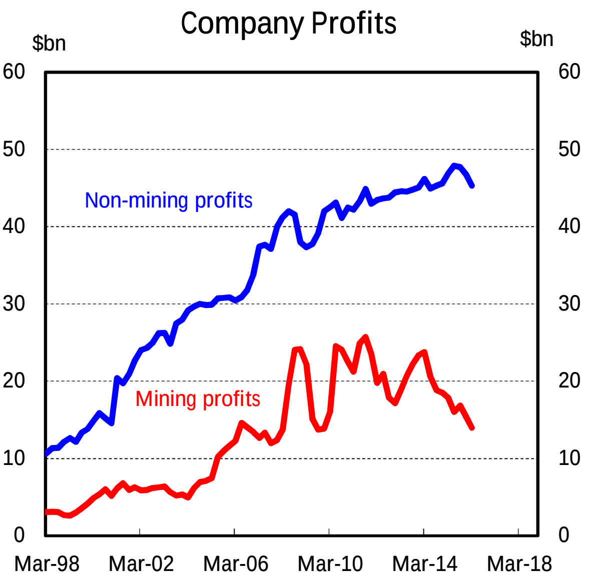
Company Profits

A Difficult Transition

- Gross company operating profits fell 4.7% in the March quarter following a downwardly revised 3.6% decline in the December quarter. Company profits have declined in three out of the past four quarters.
- Weak mining profits have weighed on corporate profits over the year to the March quarter. Mining sector profits, which comprise almost one quarter of all corporate profits, fell 9.6% in the March quarter and by 21.7% in the year to the March quarter.
- Non-mining profits were also disappointing, falling 3.1% in the March quarter. Non-mining profits have now fallen for three successive quarters. For the year to the March quarter, non-mining profits fell 3.3%.
- Wages and salaries growth was disheartening, rising just 0.6% in the March quarter and 3.5% in the year to the March quarter.
- Inventories were rebuilt in the March quarter, rising 0.4%, suggesting inventories will add 0-0.1 percentage points to GDP growth in the March quarter.
- The income components in today’s release (profits and wages) suggest potential downside risks for our GDP forecasts. We expect growth of 0.7% in the March quarter, and an annual rate of 2.7%. We will finalise our forecast tomorrow following government spending and net exports. GDP will be released on Wednesday.





Gross Company Operating Profits

Gross company operating profits fell 4.7% in the March quarter following a downwardly revised 3.6% decline in the December quarter. Company profits have declined in three out of the past four quarters. For the year to the March quarter, company profits were down 8.4% after falling 2.9% in the year to the December quarter. In annual terms, company profits have declined in six out of the last seven quarters.

Weak mining profits have weighed on corporate profits over the year to the March quarter. Mining sector profits, which comprise almost one quarter of all corporate profits, fell 9.6% in the March quarter and by 21.7% in the year to the March quarter.

While mining export volumes may have picked up, a further decline in commodity prices in the March quarter weighed on profits in the mining sector. Commodity prices fell 3.2% in the March quarter, after falling 7.1% in the December quarter. The Australian dollar was little changed, on average, between the December and March quarters and was therefore unable to cushion the impact of lower commodity prices.

Non-mining profits were also disappointing, falling 3.1% in the March quarter. Non-mining profits have now fallen for three successive quarters. For the year to the March quarter, non-mining profits fell 3.3%.

In the quarter, non-mining profits were dragged down by declines in manufacturing (-14.5%), information, media & telecommunications (-4.1%) and the highly volatile financial & insurance services sector (-69.4%). However, it was not all bad news in the non-mining sector during the March quarter. Profits were up in arts & recreation (6.3%), transport, postal & warehousing (5.3%), accommodation & food (3.8%), wholesale trade (1.8%), construction (0.6%) and retail trade (0.6%). Apart from the decline in mining profits, the second largest contributor to the decline in company profits was the manufacturing sector. Profits from this sector account for just over 10% of total profits.

On an annual basis, the strongest gains were in wholesale trade (9.6%), transport, postal & warehousing (8.7%) and accommodation & food (7.1%). The weaker sectors, apart from mining included construction (-15.6%), professional, scientific & technical (-11.5%), manufacturing (-9.6%) and information, media & telecommunication (-4.4%).

The company profit results were disappointing. Despite a weaker currency and a low interest rate environment, the non-mining sector failed to produce convincing profit growth in the quarter. Weak profit outcomes do not bode well for further business investment and future growth. That said; business surveys have been solid, reporting reasonable business conditions and positive sentiment. It is also possible that commodity prices are stabilizing and will not act as a further drag on mining profitability.

Inventories

Inventories were rebuilt in the March quarter, rising 0.4%. This was a touch stronger than our expectations (0.2%) and market expectations (0.0%). It followed an upwardly revised flat result in the December quarter (previously reported as a 0.4% decline). This suggests inventories will add 0-0.1 percentage points to GDP growth in the March quarter. The rebuild in inventories was driven by the mining sector (1.2%) and wholesale trade (0.9%). Inventories were flat in retail trade, edged lower for manufacturing (-0.4%) and fell sharply for electricity, gas, water and waste (-9.5%).

GDP Forecasts

Income growth was disappointing in the March quarter. Company profits were weaker than expected and company profits for the previous quarter were revised lower. In addition, growth in wages and salaries was soft in the March quarter.

Subdued incomes in the March quarter suggest potential downside risks for our GDP forecasts. We expect GDP growth of 0.7% in the March quarter, and 2.7% growth in the year. We will receive government spending and net exports tomorrow, before finalising our GDP forecast for Wednesday.

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