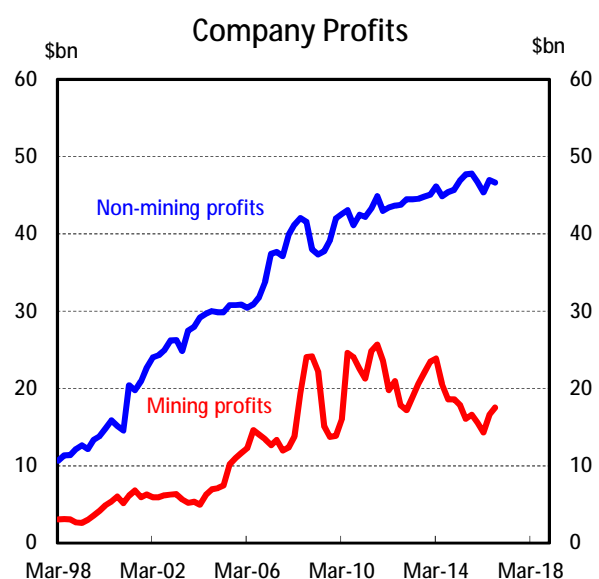
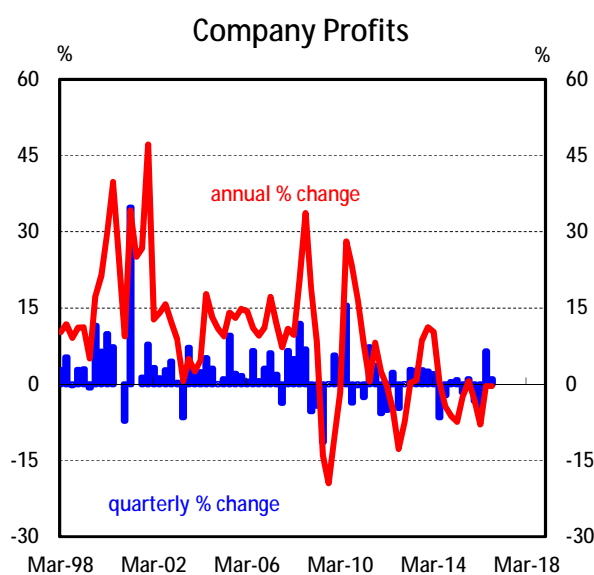


Company Profits

Mixed Business

- Gross company operating profits rose by 1.0% in the September quarter, missing our own and consensus forecasts for an increase of 3.0%.
- Mining profits, which make up more than one quarter of company profits, increased by 5.8% in the September quarter.
- Profits outside of mining were weaker, falling by 0.7% in the September quarter.
- Wages and salaries rose by a relatively healthy 1.2% in the quarter, the strongest in five quarters. For the year to the September quarter, however, wages and salaries rose by a lacklustre 2.9%.
- Inventories lifted 0.8% in the September quarter, which was above consensus and our own expectations. This suggests that inventories could provide a small contribution to GDP growth in the September quarter.
- The softer than expected lift in company profits, taken together with a solid lift in wages and salaries leaves us comfortable with our GDP forecast. We expect GDP rose by 0.4% in the September quarter and by 2.6% in the year to the September quarter. We will receive government spending and net exports tomorrow, before finalising our GDP forecast for Wednesday.



Gross Company Operating Profits

Gross company operating profits lifted 1.0% in the September quarter, below consensus and our own forecast for a 3.0% increase. The increase in profits was driven by mining profits, which make up more than one quarter of total profits and increased 5.8% for the September quarter. This followed an increase of 15.7% in the June quarter and reflects an increase in commodity prices for the quarter. Outside of mining, total profits fell by 0.7% in the September quarter. In percentage terms, the largest increase in profits for the September quarter was in accommodation & food (18.2%), followed by other services (10.1%) and transport, postal & warehousing (6.4%). The largest declines in company profits were in financial & insurance services (-17.8%), followed by professional, scientific & technical (-12.3%) and administration & support services (-7.9%).

On an annual basis, profit growth remained subdued, slipping by 0.3% in the year to the September quarter, an unchanged pace from the June quarter. The largest decline was in construction profits (-19.9%), followed by professional, scientific & technical (-15.6%) and financial & insurance services (-13.6%) in the year to the September quarter. By sector, the largest increases in profits in the year to September were in administration & support services (43.1%), followed by other services (9.7%) and arts & recreation services (9.6%).

The rebound in commodity prices has provided significant support for profit growth, although the impact was less apparent in the September quarter than the June quarter. Commodity prices have continued to increase in the current quarter and if this move is not reversed, commodity price increases could again provide support to company profits in the December quarter.

Inventories

Inventories lifted 0.8% in the September quarter, which was above consensus and our own expectations. This suggests that inventories could provide a small contribution to GDP growth in the September quarter instead of the flat result expected, although the impact will likely only be marginal.

The inventory rebuild was driven by wholesale trade (2.7%) and retail trade (0.6%). Inventories declined across all other industries including electricity, gas, water & waste (-4.2%), mining (-1.3%), manufacturing (-0.9%) and accommodation & food services (-0.1%).

GDP Forecasts

Income growth was mixed for the September quarter. Company profits were softer-than-expected, while wages and salaries lifted a robust 1.2% in the September quarter. Inventories were stronger than expected and are likely to make a slightly larger contribution to GDP than forecast, although the impact will likely only be marginal.

The mixed outcome from today's data leaves us comfortable with our GDP forecast of 0.4% in the September quarter, and 2.6% in the year. We will receive government spending and net exports tomorrow, before finalising our GDP forecast for Wednesday.

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The Detail

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