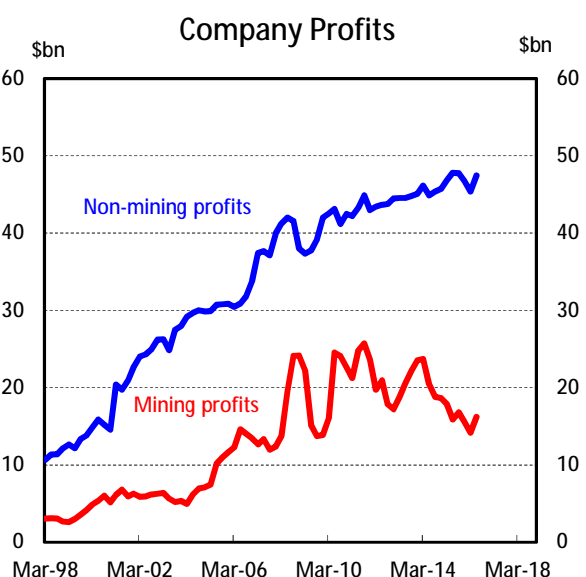
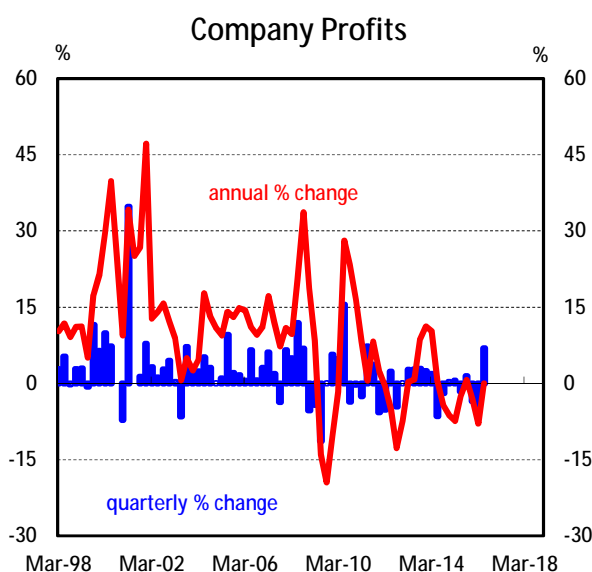


Company Profits

Commodity Prices Drive Comeback

- Gross company operating profits jumped 6.9% in the June quarter, well above expectations. The surge reflected a 14.2% increase in mining profits, the largest quarterly gain in five years helped by a rebound in commodity prices.
- Profits of other sectors also performed relatively well. Non-mining profits rose 4.6% in the June quarter.
- The rebound in profits is an encouraging sign for the rebalancing towards non-mining sectors of the economy. Business surveys continue to point to above-average conditions and suggest that profit growth should continue for non-mining sectors. That said, we do not expect profit growth to be sustained at such a solid pace in the quarters ahead.
- Wages and salaries rose a relatively healthy 0.8% in the quarter, the strongest in three quarters.
- Inventories lifted 0.3% in the June quarter, which was close to expectations. Nonetheless, a downward revision to March suggests that inventories could provide a small contribution to GDP growth in the June quarter instead of the flat result previously expected.
- The solid growth in incomes poses upside risks to our GDP forecast of 0.2% in the June quarter, and 3.0% in the year. We will receive government spending and net exports tomorrow, before finalising our GDP forecast for Wednesday.



Gross Company Operating Profits

Gross company operating profits jumped 6.9% in the June quarter, well above the median estimate for a 2.0% increase. The surge reflected a 14.2% increase in mining profits, the largest quarterly gain in five years. Mining profits comprise a quarter of all corporate profits. A 6.2% rebound in commodity prices during the quarter supported the gain in mining profits.

Profits of other sectors also performed relatively well. Non-mining profits rose 4.6% in the June quarter. After mining, the strongest contributions to profit growth were in manufacturing, which grew 22.6% in the quarter. This was partially offset by a 27.6% decline in construction profits.

On an annual basis, profit growth remained subdued and was unchanged on a year ago. Mining profits were up 2.0% in the year to the June quarter. Non-mining profits were similarly weak, falling 0.7% over the same period.

The rebound in commodity prices has provided significant support for profit growth. Meanwhile, business surveys continue to point to above-average conditions and suggest that profit growth should continue for non-mining sectors. That said, we do not expect profit growth to be sustained at such a solid pace in coming quarters. Commodity prices have stabilised, but are unlikely to increase as substantially in the months ahead. The stronger Australian dollar since January further suggests that it might be more difficult for companies to maintain strong gains.

Inventories

Inventories lifted 0.3% in the June quarter, which was close to expectations. Nonetheless, a March's result was revised downwards to a 0.3% fall, and could suggest that inventories could provide a small contribution to GDP growth in the June quarter instead of the flat result expected.

The inventory rebuild was driven by wholesale trade (3.0%), and accommodation & food services (1.5%). Inventories declined across all other industries including mining (-1.8%), retail (-1.2%) and manufacturing (-0.6%).

GDP Forecasts

Income growth was relatively firm for the June quarter. Company profits were stronger-than-expected, while wages and salaries lifted a robust 0.8% in the June quarter. Inventories were largely as expected, but the downward revision in the March quarter suggests a small contribution to GDP growth in the June quarter at the expense of March quarter growth.

The solid growth in incomes poses upside risks to our GDP forecast of 0.2% in the June quarter, and 3.0% 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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