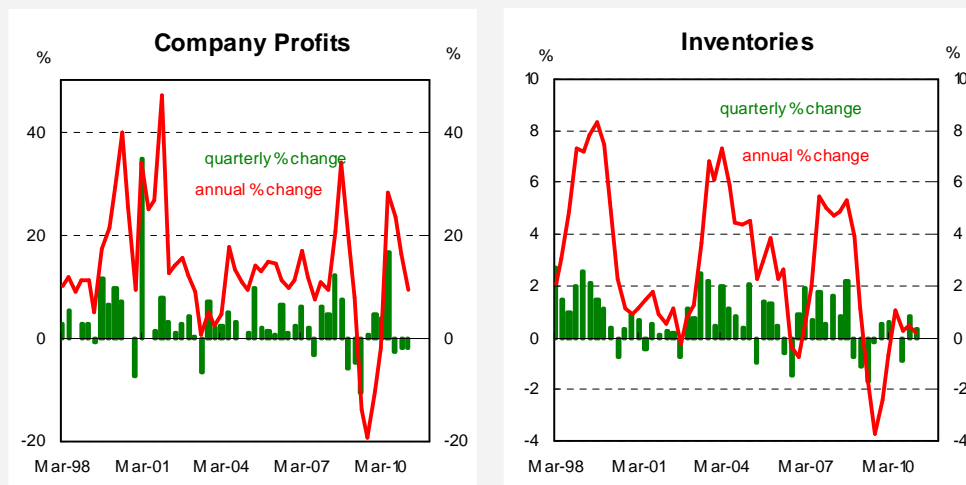


DATA SNAPSHOT

Business Indicators: The GDP Pieces Come Together

Monday, 30 May 2011

- The run of partial indicators to date point to a contraction in growth for the March quarter. We are expecting a 0.6% contraction for 1Q GDP, owing to the temporary disruptions of the floods and cyclone Yasi. However, growth should rebound in coming quarters.
- Company profits were weaker than expected, falling by 2.0% in the March quarter, following an upward revision to -1.7% in the previous quarter. This largely reflects a fall in profits for the mining sector.
- Business inventories were stronger than expected, rising by 0.4% versus expectations for a 0.1% rise.



Gross Company Operating Profits

Gross company operating profits fell 2.0% in the March quarter, the third consecutive quarterly decline and the largest three-quarter decline in company profits since the December-June quarters of 2009, in the aftermath of the GFC. However, there was an upward revision from December quarter profits from -2.8% to -1.7% likely owing to difficulties obtaining estimates in QLD due to heavy rains and the floods. Over the year to March, company profits are up 9.5% reflecting strong growth in the first half of 2010.

The weakness in company profits reflects falls in mining (-6.6%), electricity, gas, water & waste (-6.9%), rental, hiring and real estate services (-2.3%), financial and insurance services (-48.1%) and administrative and support services (-22.9%).

The decline in mining profits is likely as a result of the floods hampering shipments and production. With production set to recover and commodity prices edging higher, profits should rebound over the June and September quarters this year.

Weaker profits in real estate services are consistent with some moderation in housing conditions over the March quarter.

Inventories

Business inventories rose by 0.4%, stronger than expectations for a 0.1% rise. This follows a solid 0.8% increase in the December quarter 2010.

Inventories were higher for mining, electricity, gas, water and waste services and wholesale trade while the retail, manufacturing and accommodation & food industries drew down inventories.

Mining inventories were up a surprising 1.2%, despite reports of weather-related disruptions to production. Stock levels for mining in the March quarter however remain much lower than a year ago and are down 16.6%.

GDP Forecasts

The company profits and inventories data provide us with more detail for our GDP forecasts for the March quarter. While the company profits data provide downside risks to our forecast for the income side of GDP, higher than expected inventories present an upside risk on the expenditure side of GDP. Note that there are three measures of GDP, which include expenditure, income and production.

The balance of payments and the government finance statistics released tomorrow will be the final pieces in compiling GDP forecasts ahead of the GDP release on Wednesday. The balance of payments is expected to show that net exports will make a large deduction to GDP as coal and iron ore exports were hampered due to weather disruptions.

Although 1Q GDP is likely to show a contraction (currently we are forecasting a 0.6% decline) this will largely be owing to the impact of the floods and cyclones, and should recover in coming quarters. Further, the RBA has indicated that it will look through the temporary disruptions to economic activity and, as production resumes, this should provide a boost to growth in coming quarters. The upside risk to the inflation outlook is of greater concern for the RBA. We therefore continue to maintain our long-held view that the Reserve Bank will increase rates in August with a possibility they could move sooner.

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