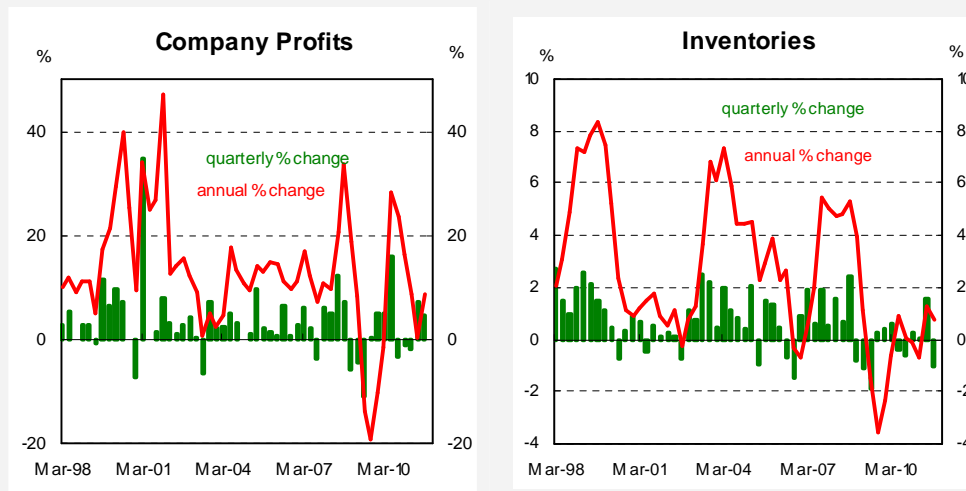


# DATA SNAPSHOT

## Business Indicators – Expansion on Track

Monday, 5 December 2011

- The run of partial indicators released so far indicate the Australian economy continued to expand solidly in Q3 and today's data reaffirms this view.
- Company profits were stronger than expected, rising 4.8% in the September quarter, following upwardly revised profit growth of 7.3% in the previous quarter.
- Business inventories unexpectedly fell 1.1% in Q3, the largest fall in nine quarters. The drop follows a downwardly revised 1.6% rise in inventories in Q2, and suggests that inventories will make a large deduction from Q3GDP.
- The large deduction from inventories will present some downside risk to our forecast, although solid growth in company profits could provide some upside. Our forecast is for GDP growth in the September quarter of 1.2%.



### Gross Company Operating Profits

Gross company operating profits rose 4.8% in the September quarter, the second consecutive quarter of strong growth in company profits. Over the year to September, company gross operating profits jumped 8.8%, up from growth of 0.4% in the year to June.

The mining industry is the most profitable industry, having accounted for around 35% of all gross operating profits over the past year. After rebounding strongly in the June quarter, mining profits grew a solid 5.0% in the September quarter, as production continued to recover from the flooding and cyclone in Queensland early this year.

Aside from the mining industry, other large contributors to the increase in company profits in the September quarter included the construction industry and the financial and insurance services industry.

By industry, large increases in company profits in Q3 were seen in financial and insurance services (36.1%), other services (35.1%), construction (21.7%) and electricity, gas, water and waster (11.4%).

The biggest percentage gains in company profits in the September quarter were seen in administration and support services (up 111.4% for the quarter) after falling sharply for two consecutive quarters, reflecting the small size of profits in this industry, and their tendency to volatility.

On the softer side, company profits declined in the transport, postal and warehousing industry (-5.8%) and the information, media and telecommunications industry (-2.1%). The manufacturing industry showed a decline in company profits (-3.0%) in the September quarter, as the high Australian dollar, high input prices and competition from lower cost manufacturers overseas likely pressured profits.

After two consecutive quarters of solid growth, the retail industry saw company profits decline in the September quarter (-2.9%) reflecting caution by households.

#### Inventories

Business inventories unexpectedly fell 1.1%, the largest fall in nine quarters. The drop reflects drawing down of stocks after jumping a revised 1.6% in the June quarter. Firms might be a little cautious about building inventories given the uncertain global backdrop, or the fall in inventories may indicate an upside surprise elsewhere in expenditure.

All industries recorded declines in inventories with the exception of the manufacturing sector where inventories were flat. Falls in accommodation and food service inventories (-3.6%) led the decline, followed by electricity, gas, water & waste (-2.7%), wholesale trade (-1.8%) and retail trade (-1.6%). Mining stocks were down 0.6%, but followed a 10.8% surge in Q2 as production partially recovered from the January floods.

#### GDP Forecasts

The company profits and inventories data provide us with more detail for our GDP forecasts for the September quarter. While the company profits data suggests upside risk to the income measure of GDP, inventories provide downside risk to the expenditure measure. Note that there are three measures of GDP, which include expenditure, income and production.

The unexpected fall in business inventories, which feed into the expenditure side of the GDP equation, indicate that inventories are likely to make a much larger deduction from Q3GDP than previously thought.

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.

We are expecting another solid GDP result of 1.2% in the September quarter, after increasing 1.2% in the June quarter. Despite the likelihood of a strong number on Wednesday, developments in Europe present a significant downside risk to the outlook. In addition, some sectors domestically continue to struggle. On balance, we expect the Reserve Bank of Australia (RBA) to cut interest rates by 25bps when it meets tomorrow.

Jo Heffernan, Senior Economist  
Ph: (02) 9320-5751  
Email: [heffernan@stgeorge.com.au](mailto:heffernan@stgeorge.com.au)

&

Janu Chan, Economist  
Ph: (02) 9320-5892  
Email: [chan@stgeorge.com.au](mailto:chan@stgeorge.com.au)

## Contact Listing.

---

### Economics & Strategy:

Chief Economist	Besa Deda	<a href="mailto:dedab@stgeorge.com.au">dedab@stgeorge.com.au</a>	(02) 9320 5854
Senior Economist	Josephine Heffernan	<a href="mailto:heffernanj@stgeorge.com.au">heffernanj@stgeorge.com.au</a>	(02) 9320 5751
Economist	Janu Chan	<a href="mailto:chanj@stgeorge.com.au">chanj@stgeorge.com.au</a>	(02) 9320 5892
State Manager SA	Mark Goldsmith	<a href="mailto:goldsmithm@banksa.com.au">goldsmithm@banksa.com.au</a>	(08) 8424 5597

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

\*\*\*\*\*  
Any unauthorised use or dissemination is prohibited.  
Neither BankSA - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.  
\*\*\*\*\*