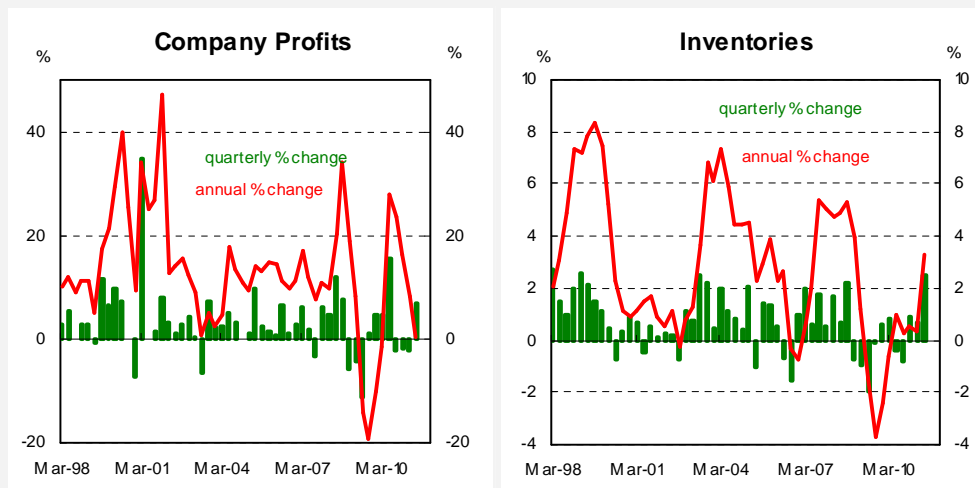


DATA SNAPSHOT

Business Indicators - Growth set for Strong Rebound

Monday, 5 September 2011

- The run of partial indicators released so far indicate the Australian economy began expanding again in Q2, following a sharp 1.2% contraction in the first quarter. Today's cements our view that growth is set for a strong rebound in Q2.
- Company profits were stronger than expected, jumping 6.7% in the June quarter, following a slight downward revision to -2.2% in the previous quarter. This largely reflects a rebound in mining profits in the June quarter, as expected, following disruptions from the flooding and cyclone in Q1.
- Business inventories rose by 2.5% the biggest percentage increase in 8 years, and much stronger than consensus expectations for a 0.3% rise. Thus inventories are likely to make a much larger contribution to Q2GDP than previously thought. Our estimate of a 0.8ppt contribution to Q2GDP, suggests upside risk to our 1.2% forecast.



Gross Company Operating Profits

Gross company operating profits rose 6.7% in the June quarter, following three consecutive quarters of declines in profits. Today's sizable increase in company gross operating profits wipes out the previous three declines. Over the year to June, company gross operating profits managed to eke out a small 0.2% gain, as strong profit growth in the June quarter of last year dropped out of the numbers.

The strength in company profits reflects a strong gain in mining (15.2%, its largest gain since the June quarter last year), electricity, gas, water and waste services (14.9%), transport, postal and warehousing (10.4%), financial and insurances services (37.8%) and professional, scientific and technical services (42.3%).

Mining profits rebounded strongly in the June quarter, as production came back on line following the flooding and cyclone in Queensland. High commodity prices and the stronger Australian dollar have supported mining profits.

On the softer side, company profits fell in the manufacturing sector (-7.4%) reflecting the dampening impact the strong Australian dollar is having on exports outside of resources.

Company profits for wholesale trade also fell by 3.5%.

Perhaps surprisingly, company profits in the retail trade sector jumped 6.2%, the second consecutive quarterly increase, despite subdued retail sales growth in recent months.

Inventories

Business inventories rose by 2.5% the biggest percentage increase in 8 years, and much stronger than consensus expectations for a 0.3% rise.

The strong increase was driven by a 12.1% surge in mining inventories, as production likely rebounded to pre-flood levels. This was the biggest percentage increase in mining inventories in more than 21 years. However, all other industries also saw increases. Accommodation & food inventories rose 8.4%, more than reversing a 6.1% fall in the March quarter. Inventories for manufacturing (0.5%), electricity, gas, water & waste (1.2%), wholesale trade (3.6%) and retail trade (0.7%) were also higher.

GDP Forecasts

The company profits and inventories data provide us with more detail for our GDP forecasts for the June quarter. Both the company profits data and inventories numbers provide upside risk to our Q2GDP forecasts, on the production and income measures. Note that there are three measures of GDP, which include expenditure, income and production.

The stronger than expected outcome for business inventories, which feed into the expenditure side of the GDP equation, indicate that inventories are likely to make a much larger contribution to Q2GDP than previously thought. Our estimate of a 0.8ppt contribution to Q2GDP, suggests upside risk to our 1.2% forecast.

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 small detraction of 0.1ppts from GDP, a large improvement from Q1, which saw a 2.4ppt detraction as a result of the weather disruptions.

Today's data confirms that GDP is expected to rebound strongly in Q2 after contracting 1.2% in Q1, as a result of the disruptions to production from the Queensland floods and cyclone. It also highlights that the mining sector is the engine of growth in the economy. Despite the likelihood of a strong number on Wednesday and the RBA's ongoing concern about the inflation outlook, there are downside risks to the outlook. Domestically, some sectors are struggling and globally, the current financial market volatility, concerns over the global growth outlook and the Euro zone sovereign debt crisis suggests that on balance, the RBA is likely to leave official interest rates unchanged this year.

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