



Economics | May 31, 2022

Bumper profits and wages highlight robust economy

Business Indicators, Balance of Payments, Government finance

- The Australian Bureau of Statistics (ABS) said company operating profits rose by 10.2 per cent in the March quarter to be up 25.3 per cent on a year earlier. Profits hit a record high of \$505.4 billion over the year to March.
- Wages & salaries (includes changes in wages and employment) rose by 1.9 per cent in the quarter to be up 5.2 per cent on the year – well above the decade average annual growth rate of 3.3 per cent.
- Inventories rose by 3.2 per cent in the March quarter to be up 3.0 per cent on the year. Inventories probably added 0.6 percentage points to economic growth or GDP.
- The current account surplus fell by \$5.7 billion to \$7.5 billion in the March quarter.
- The export sector (exports and imports) will shave 1.7 percentage points (pp) from economic growth (GDP) in the March quarter. The public sector will contribute 0.7pp to GDP.

What does it mean?

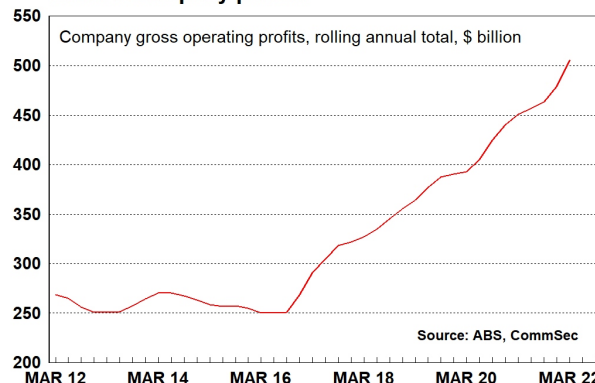
- Australia's economy remains in strong shape. Another quarter of solid growth should be recorded tomorrow in the National Accounts. The economy is tipped to have lifted by 0.7 per cent in then quarter to be up 3.0 per cent on the year. Consumer spending rose, together with public spending; inventories lifted; the wage bill rose; and companies recorded higher profits. And those positive results more than offset drags from foreign trade and business investment.
- In nominal terms (volumes plus prices) the economy probably rose 3.2 per cent in the quarter to be up a whopping 9.6 per cent. More Aussies have jobs and are spending freely, boosting the coffers of businesses and resulting in record profits being made. No wonder that a record number of businesses started up in the March quarter.
- The wage bill of Aussie companies lifted 5.2 per cent over the year to March, well above the long-term average of 3.3 per cent. More people are finding work in the tight job market. And reports from business liaison and surveys indicate that those people moving jobs are being paid more in salaries and bonuses.

What do you need to know?

Business Indicators - March quarter

- **Company operating profits** rose by 10.2 per cent in the March quarter to be up 25.3 per cent on a year earlier.
- Company profits rose in nine of the 15 industry groups in the March quarter. Mining profits rose by 25.3 per cent in the quarter to be up 48 per cent on the year.
- **Inventories** rose by 3.2 per cent in the March quarter to be up 3.0 per cent on the year. Inventories probably added 0.6 percentage points to economic growth or GDP.

Record company profits



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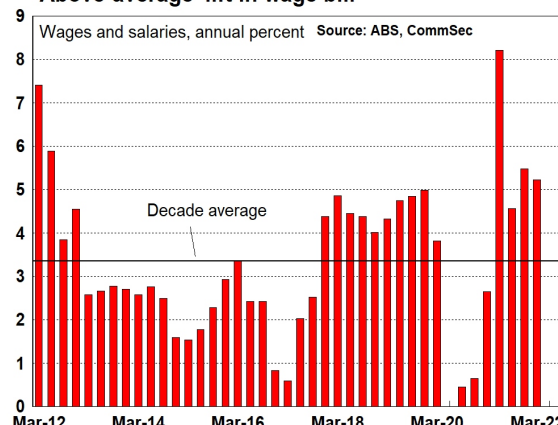
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- **Sales volumes** rose by 1.0 per cent in the March quarter to be up 2.4 per cent on the year. Sales rose in nine of the 15 sectors in the quarter, led by Arts and recreation services (up 6.4 per cent). And **nominal sales** rose by 5.5 per cent in the quarter to be up 14.8 per cent over the year. The estimate of prices rose by 12.4 per cent over the year to March, underpinned by a 39.8 per cent lift in the mining sector.
- **Wages & salaries** (includes changes in wages and employment) rose by 1.9 per cent in the quarter to be up 5.2 per cent on the year – well above the decade average annual growth rate of 3.3 per cent.

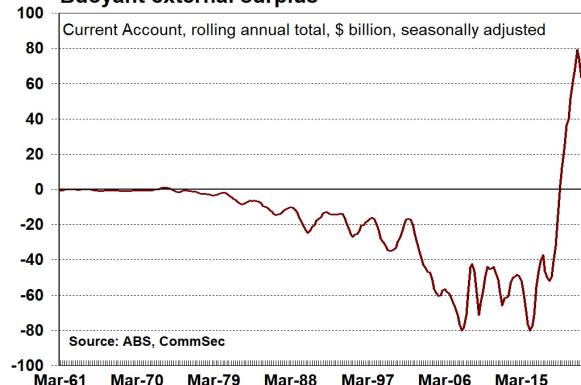
Balance of Payments – March quarter

- The **current account surplus** fell by \$5.7 billion to \$7.5 billion in the March quarter.
- **Exports of goods and services** fell by 0.9 per cent in real terms in the quarter (goods down 1.3 per cent) with **imports** up 8.1 per cent (goods up 8.3 per cent). Car imports surged by almost \$2 billion in the quarter or 33.8 per cent.
- Net exports are expected to trim 1.7 percentage points from GDP in the March quarter.
- The ABS noted: *“The current surplus narrowed for the third consecutive quarter and was the lowest since December quarter 2019. The fall in the current account surplus was driven by a \$4.9 billion widening of the net primary income deficit and a fall of \$0.9 billion in the balance on goods and services surplus.”*
- *“While the Current Account Surplus narrowed to \$7.5b in the quarter, Australia recorded its twelfth consecutive Current Account Surplus – the longest consecutive period of current account surpluses since the 1970s.”*
- *“Imports of goods and services increased 12 per cent with rises across a range of categories including Intermediate and other merchandise goods, supported by increased domestic demand for COVID-19 rapid antigen tests. Consumption goods also contributed to the rise reflecting continued domestic demand, consistent with record levels of retail trade turnover. Exports of goods and services rose 9 per cent with exports of Metal ores and minerals and Coal, coke and briquettes the main drivers as commodity prices surged to record levels and global demand remained high.”*
- The **terms of trade** on goods and services for the March quarter rose by 5.9 per cent to a record high, with an increase of 9.6 per cent in export prices out-pacing a 3.5 per cent increase in import prices.
- Australia's **net foreign debt** fell by \$76.8 billion to \$1,128.7 billion.
- The **debt servicing ratio** (net income on foreign debt, ratio to goods and services) eased from 3.3 per cent in the December quarter to 3.0 per cent in the March quarter and is approaching the 44-year low of 2.5 per cent set in the September quarter.

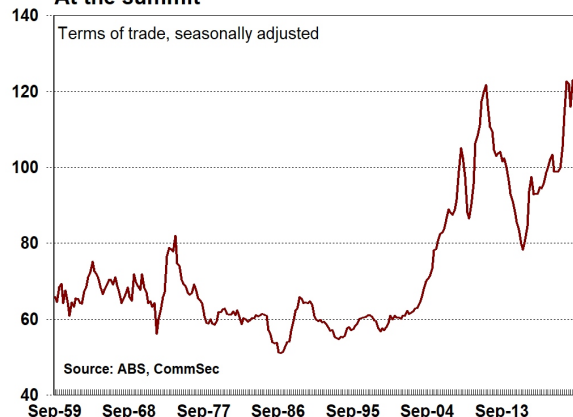
'Above-average' lift in wage bill



Buoyant external surplus



At the summit



Government Finances – March quarter

- Public sector demand is expected to contribute 0.7 percentage points to the change in GDP in March quarter 2022.
- General government final consumption expenditure increased by \$3,151m or 2.7 per cent and is expected to contribute 0.6 percentage points to the change in GDP in March quarter 2022.
- Total public gross fixed capital formation increased by \$466m or 1.7 per cent and is expected to contribute 0.1 percentage points to the change in GDP in March quarter 2022.

Craig James, Chief Economist

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COMPANY GROSS OPERATING PROFITS

Seasonally Adjusted, March quarter 2022

Industry	qtr%	ann %
Mining	25.3	48.0
Manufacturing	-6.4	20.2
Electricity, gas, water and waste services	6.2	0.3
Construction	5.7	6.9
Wholesale trade	13.6	10.7
Retail trade	25.3	14.0
Accommodation and food services	-43.7	-62.5
Transport, postal and warehousing	3.6	27.5
Information media and telecommunications	4.6	14.0
Financial and insurance services	-26.4	79.1
Rental, hiring and real estate services	-3.2	14.0
Professional, scientific and technical services	-34.9	-16.1
Administrative and support services	-19.7	-37.4
Arts and recreation services	-6.8	-17.7
Other services	17.7	56.8
TOTAL	10.2	25.3

Source: ABS, CommSec

INVENTORIES

Seasonally Adjusted, March quarter 2022

Industry	qtr%	ann %
Mining	-3.5	-4.9
Manufacturing	3.6	5.4
Electricity, gas, water and waste services	-6.7	-4.4
Wholesale trade	3.0	3.5
Retail trade	7.1	4.0
Accommodation and food services	6.3	13.2
TOTAL	3.2	3.0

Source: ABS, CommSec

SALES OF GOODS AND SERVICES

Real, Seasonally Adjusted, March qtr 2022

Industry	qtr%	ann %
Mining	-1.1	-5.4
Manufacturing	-0.8	-0.4
Electricity, gas, water and waste services	-2.8	4.2
Construction	0.4	3.3
Wholesale trade	3.1	2.7
Retail trade	0.9	1.9
Accommodation and food services	3.6	-0.4
Transport, postal and warehousing	6.0	5.5
Information media and telecommunications	1.8	9.1
Financial and insurance services	-8.3	3.4
Rental, hiring and real estate services	-1.6	1.6
Professional, scientific and technical services	3.2	9.3
Administrative and support services	0.5	11.2
Arts and recreation services	6.4	9.7
Other services	-0.4	3.0
TOTAL	1.0	2.4

Source: ABS, CommSec