

Record profits. Strongest sales growth in 6 years.

Business Indicators

- **Profits soar:** Company operating profits rose by 6.0 per cent in the March quarter to record highs.
- **Sales rise:** Economy-wide sales rose by 0.8 per cent in the March quarter after rising 0.7 per cent in the December quarter. Non-mining sales rose 1.1 per cent to stand 2.9 per cent higher than a year ago – the strongest annual gain in almost six years.
- **Inventories:** Inventories rose 1.2 per cent in the March quarter and will add 0.44 percentage points to economic growth in the quarter.

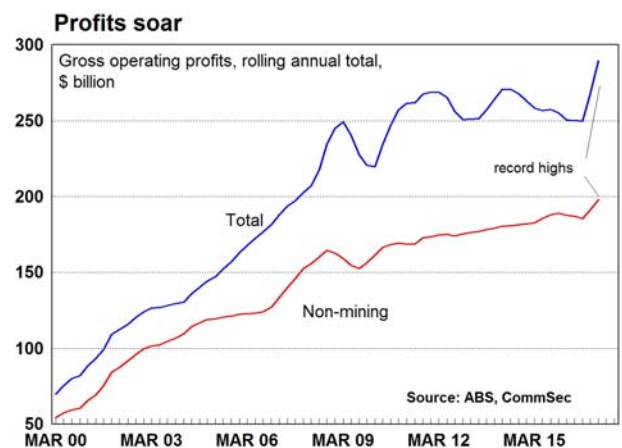
The Business Indicators data provides a guide to how industry sectors are faring – including data on profits, sales, inventories and wages.

What does it all mean?

- The *Business Indicators* publication contains the latest information on sales, profits, wages and inventories. But the quarterly data can be a little “noisy”. A little digging is required to reveal the trends.
- If you aggregate sales across industries, the data shows that economy-wide sales lifted by 0.8 per cent in real, seasonally adjusted terms in the March quarter after a 0.7 per cent fall in the December quarter. Annual growth of sales stand at 2.5 per cent – above the “normal” or decade average rate of 2.0 per cent. Non-mining profits were even stronger.
- And profits hit fresh record highs. No surprise then that business conditions are a 9-year highs according to the NAB business survey.
- The bottom-line is that the economy continues to expand with the lift in sales and profitability positive for business investment and employment.

What do the figures show?

- **Company operating profits** rose by 6.0 per cent in the March quarter to record highs after rising 20.1 per cent in the December quarter. Profits were up 39.7 per cent over the year – the strongest gain in 15 years.
- Profits fell in just four of the 15 industry groups. In the quarter, profits fell most in “*Other services*” (down by 28.9 per cent) and *Accommodation and food services* (down by 8.9 per cent). Profits rose most in *Administrative and support services* (up 15.8 per cent), *Arts and recreation services* (up 13.7 per cent) and *Mining* (up 13.0 per cent).
- **In rolling annual terms**, mining operating profits rose by 45.7 per cent for the year to March to a 5-year high of \$91.4 billion. Non-mining profits rose by 3.4 per cent to a record \$197.9 billion for the year to March.
- **Unincorporated gross operating profits** rose by 7.2



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per cent in the March quarter after rising 12.8 per cent in the December quarter. **Business gross operating profits** rose by 6.2 per cent after rising by 19.1 per cent in the December quarter. **Company profits before tax** rose by 0.9 per cent in the March quarter after rising by 51.1 per cent in the December quarter.

- **Inventories** rose by 1.2 per cent in the March quarter after a flat result in the December quarter. Inventories fell in just *Manufacturing* (down 1.1 per cent). Stocks rose most in *Mining* (up 7.7 per cent) and *Electricity, gas, water and waste services* (up 5.4 per cent). Inventories will add 0.44 percentage points to economic growth.
- **Sales fell in just three of the 15 industry sectors in the March quarter.** Sales fell the most in “*Other services*” (down 3.1 per cent) followed by *Mining* (down 2.1 per cent) and *Manufacturing* (down 1.4 per cent). Sales rose most *Electricity, gas, water and waste services* (up 5.2 per cent) and *Financial and insurance services* (up 3.7 per cent).
- **The total value of sales** rose by 0.8 per cent in the March quarter after rising by 0.7 per cent in the December quarter. Annual growth eased from 2.6 per cent to 2.5 per cent (decade average 2.0 per cent). **Non-mining sales** rose by 1.1 per cent in the quarter with annual growth of 2.9 per cent the strongest reading in 5½ years.
- **In current prices, sales** rose in all of the states and territories in the March quarter except Tasmania (down 3.9 per cent). Of the other states: NSW (up 0.9 per cent), Victoria (up 3.5 per cent), Queensland (up 4.7 per cent), South Australia (up 3.5 per cent), Western Australia (up 0.2 per cent), Northern Territory (up 1.2 per cent) and ACT (up 5.6 per cent).
- **Wages & salaries** rose by 0.3 per cent in the March quarter after falling by 0.5 per cent in the December quarter. Wages are up 0.9 per cent over the year.

What is the importance of the economic data?

- The quarterly **Business Indicators** publication by the Bureau of Statistics contains measures such as inventories, company profits and income from sales. Higher inventory (stock) levels can be either intentional or unintentional. If stocks are low and sales are expected to rise in the future, businesses will seek to build up stocks. However an unintentional build-up in stocks is where sales fall short of expectations, leaving more goods on the shelves than desired. If profits are increasing then this may point to increased capital spending and employment in the future. Rising profits are also a sign of favourable business conditions.

What are the implications for interest rates and investors?

- Companies are lifting profits and sales, leaving behind the flat spot experienced in mid-2016. With companies well and truly cashed up, now the question is what to do with all the funds. The Reserve Bank hopes that more businesses will actually invest in their businesses – buying equipment and modernising and/or expanding premises.
- The latest data will give the Reserve Bank more reasons to stay on the interest rate sidelines.

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