

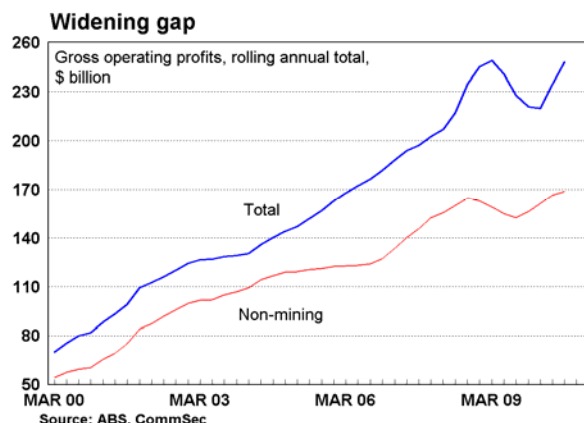
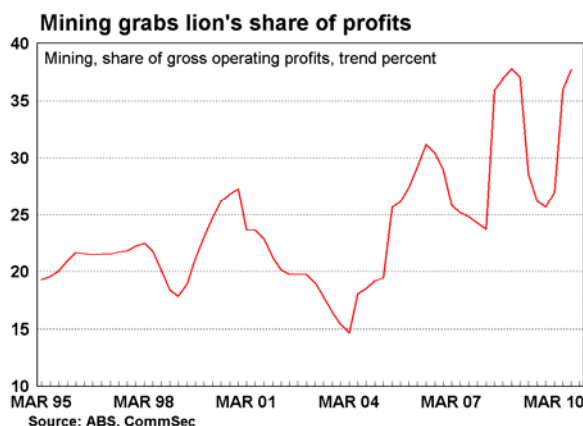
## Profits and sales slide as businesses temper activity

### Business indicators; New Home Sales; Petrol price

- **Company profits** fell by 1.5 per cent in the December quarter, led by the construction sector. Excluding mining, profits fell by a much larger 3.3 per cent in the quarter. Profits rose in just five of the 15 industry sectors.
- **Sales also fell.** Sales fell in ten of the 15 industry sectors in the September with aggregate sales down by 0.9 per cent. Sales in the mining states of Northern Territory and Western Australia outperformed.
- **But inventories fall.** Inventories (stocks) held by businesses fell by 0.8 per cent in the September quarter in inflation-adjusted terms.
- **New home sales** rose by 2.4 per cent in October. Over the past six months home sales have fallen by over 20 per cent.
- According to the Australian Institute of Petroleum the national average retail pump price rose 0.7 cents a litre last week to 125.0 cents a litre – a 15-week high. The Singapore unleaded price is holding at five month high in Aussie dollar terms and will continue to filter through to domestic pump prices.

### What does it all mean?

- The latest data on company profits highlights what we have been saying for the last couple of months. The Australian economy is effectively going sideways. Not only did profits decline in the quarter but sales were also substantially lower. In fact the slide in sales was the first in five quarters. The interest rate hikes earlier this year, weak consumer spending and generally sluggish activity levels have kept Aussie businesses on the back foot.
- The Australian Industry Group's manufacturing, services and construction surveys have highlighted the lack of new orders, decline in profits and slump in exports and the latest business indicators figures have further confirmed this trend.
- The weakness in the housing sector is certainly having knock-on effects on other parts of the economy. Construction sector profits slumped by over 20 per cent in the latest quarter, while manufacturing, retail trade and accommodation were also significantly weaker. Strip out the mining sector and profits across the rest of the economy were down well over 3 per cent.
- The modest 1.5 per cent fall in mining profits is nothing to get too concerned about especially given the massive



Savanth Sebastian – Economist (Author)

(02) 8223 7130 (work), 0414 188 161 (mobile) | [savanth.sebastian@cba.com.au](mailto:savanth.sebastian@cba.com.au)

Produced by Commonwealth Research based on information available at the time of publishing. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. To the extent permitted by law, neither Commonwealth Bank of Australia ABN 48 123 123 124 nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report.

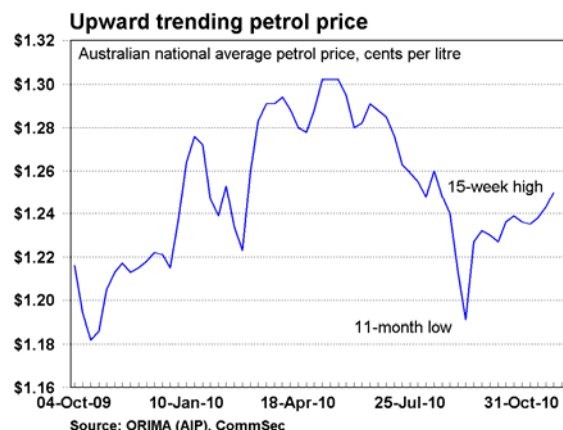
The report has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should, before acting on the information in this report, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. In the case of certain securities Commonwealth Bank of Australia is or may be the only market maker.

This report is approved and distributed in Australia by Commonwealth Securities Limited ABN 60 067 254 399 a wholly owned but not guaranteed subsidiary of Commonwealth Bank of Australia. This report is approved and distributed in the UK by Commonwealth Bank of Australia incorporated in Australia with limited liability. Registered in England No. BR250 and regulated in the UK by the Financial Services Authority (FSA). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for private customers and are not available to them.

Commonwealth Bank of Australia and its subsidiaries have effected or may effect transactions for their own account in any investments or related investments referred to in this report.

boost in profits in the prior quarter. The recent weakness is more than likely due to the rising Aussie dollar and rising input costs including higher wages.

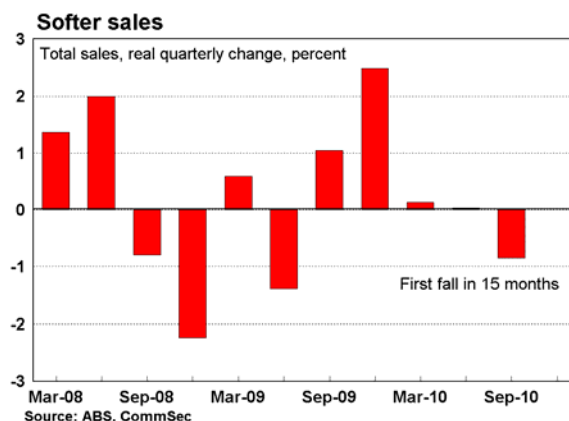
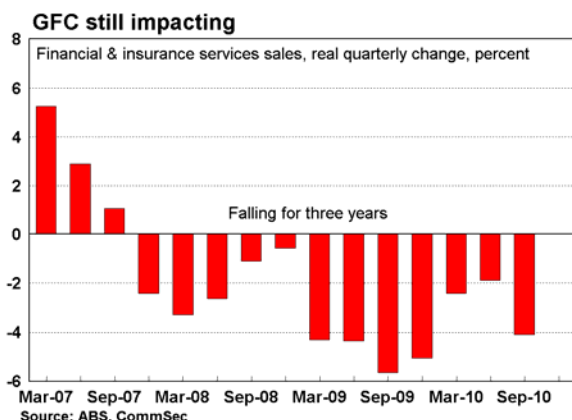
- Interestingly the mining states of Northern Territory and Western Australia outperformed in terms of sales, with activity going backwards in the rest of Australia. Looking forward the pickup in wages and strong employment growth in the resource states are likely to ensure that activity remains well ahead of the eastern states.
- Despite the weakness in sales, company inventories also tracked lower – suggesting that businesses were paring back new orders. Given that inventories data plugs into the economic growth calculation it is likely to add downside risks to the September quarter growth result on Wednesday. CommSec expects growth of just 0.3 per cent for the September quarter however the last pieces of the puzzle will be released tomorrow – with government finances and trade data released.
- With the economy decidedly mixed and inflation under control, the Reserve Bank has good reason to be sitting on the interest rate sidelines.
- It is clear that the property sector is in the midst of a consolidation. – a view which we have highlighted for some time. In fact over the past six months new home sales have slumped by over 20 per cent and are holding at levels that are well below historical averages. The cumulative rate hikes, hangover effect from the expiry of the first home buyer grant and appreciation in property prices has given potential home buyers a valid reason to be more circumspect about future purchases.
- Petrol prices have risen for the third straight week, and are now heading towards four month highs. And there is unlikely to be much good news for motorists in the near term, especially given that the regional oil prices have also reached multi-month highs.
- The recent Australian dollar weakness has far outpaced the falls in the Singapore unleaded price. And as a result the Singapore unleaded fuel is trading at five month highs in Australian dollar terms. However given that the higher regional petrol price is largely factored in. CommSec expects petrol prices to continue to rise at a sedate pace. The national average price is likely to rise by 1-2 cents a litre in the next fortnight.



## What do the figures show?

### Business indicators

- **Company gross operating profits** fell by 1.5 per cent in the September quarter. Profits now stand 25.0 per cent higher than a year ago.
- **Profits rose** in five of the 15 industry sectors, led by administrative and support services (up 27.4 per cent), "other services" (up 19.5 per cent), transport & warehousing (up 17.6 per cent). Mining profits rose 1.5 per cent following the 58.2 per cent rise in profits in the June quarter.
- **Excluding mining**, profits fell by a much larger 3.3 per cent in the quarter.
- **Profits fell** 21.2 per cent in construction and fell 46.0 per cent in financial and insurance services.
- **Sales** rose in just three of the 15 industry groupings in real (inflation-adjusted) terms in the September quarter. Of the major sectors, sales rose 0.9 per cent in accommodation and food services. Sales fell by 4.1 per cent in



financial and insurance services and by 2.1 per cent in arts and recreation services.

- In real terms, **aggregate sales** fell by 0.9 per cent in the September – marking the first fall in five quarters.
- In nominal terms sales fell most in September quarter in both Queensland and South Australia (down 1.3 per cent). Sales rose most in the Northern Territory (up 3.7 per cent) followed by Western Australia (1.2 per cent).
- **Inventories fell** in three of the six sectors, with overall stocks down by 0.8 per cent. Mining stocks fell by 8.1 per cent with retail trade down 1.3 per cent. Utilities rose 11.1 per cent.

### New home sales

- The Housing Industry Association reports that new home sales rose by 2.4 per cent in October after a downwardly revised fall of 1.7 per cent in September. Private sector detached house sales rose by 1.0 per cent in October while multi-unit sales fell by 2.6 per cent.

### Petrol prices:

- According to the Australian Institute of Petroleum, the national average Australian price of unleaded petrol rose by 0.7 cents per litre to 125.0 cents a litre in the week to November 28. The metropolitan price rose by 1.0 c/l to 124.9 c/l, while the regional average price rose by 0.1 c/l to 125.1 c/l.
- Petrol prices across states in the past week were: Sydney (up 0.9 cents to 124.1 c/l), Melbourne (up 1.0 cent to 125.0 c/l), Brisbane (up 1.8 cents to 128.3 c/l), Adelaide (down 0.2 cents to 123.0 c/l), Perth (unchanged at 122.9 c/l), Darwin (up 3.4 cents to 130.6 c/l), Canberra (up 4.7 cents to 126.9 c/l) and Hobart (up 0.9 cents to 128.9 c/l).
- The national average wholesale (terminal gate) hit an 11-month low of 111.6 cents a litre on October 1. However the terminal gate price has since risen to a near three month high holding at 117.0 cents today. The key Singapore unleaded petrol price rose by US\$1.05 (1.1 per cent) to US\$94.65 last week. And in Australian dollar terms Singapore gasoline rose by \$2.27 (2.4 per cent) over the week to \$97.23 a barrel – a five month high.

### **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.
- The **Housing Industry Association** releases data on the sales of new homes each month. The HIA collects the data each month from a sample of Australia's largest 100 home builders.
- **Weekly figures on petrol prices** are compiled by ORIMA Research on behalf of the Australian Institute of Petroleum. National average retail prices are calculated as the weighted average of each State/Territory's metropolitan and non-metropolitan retail petrol prices, with the weights based on the number of registered petrol vehicles in each of these regions.

### **What are the implications for interest rates and investors?**

- The weak profits and sales data when combined with sliding inventories confirms the slowdown that has taken place in the Australian economy. Given that inflation is unlikely to rise significantly over the coming year the Reserve Bank can remain on the interest rate sidelines.

Savanth Sebastian, Economist, CommSec

Work: (02) 8223 7130; Mobile: 0414 188 161

