

# WORKING TOGETHER THE FACTS

## COMPANY PROFITS

### IT IS IN EVERYONE’S INTEREST FOR BUSINESSES TO MAKE A PROFIT

It is in the interests of businesses, workers and the broader community for businesses to make a profit.

Only profitable businesses can afford to pay above-award wage rates and to offer generous employment conditions.

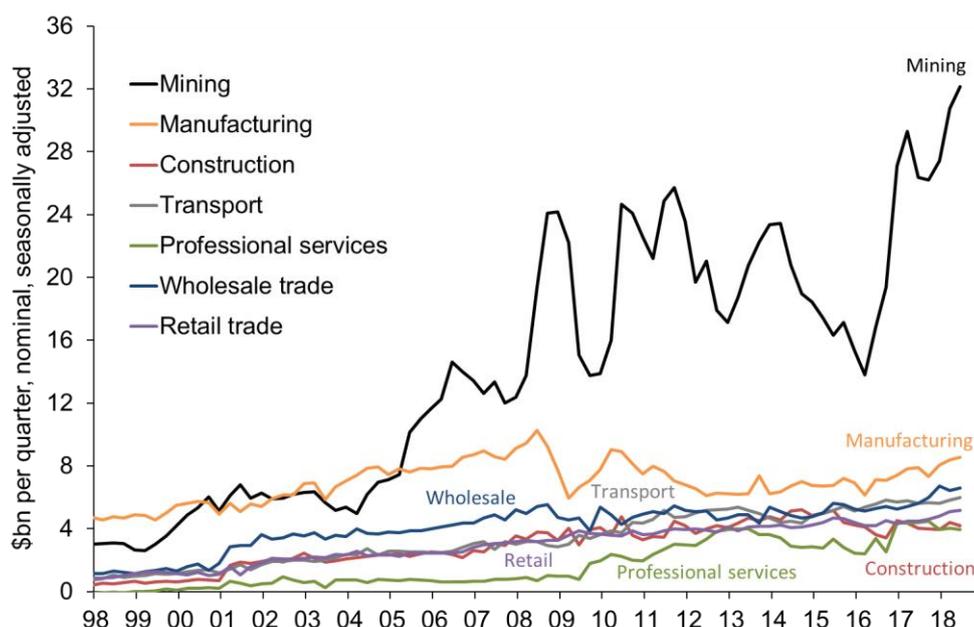
Profitable businesses pay taxes to support community services and infrastructure, and profitable businesses provide returns to shareholders which, in turn, provide income to many Australian workers, families and retirees either directly or through their superannuation fund returns.

### HOW PROFITABLE ARE AUSTRALIAN BUSINESSES?

ABS data on company profits across industries confirms that since 2005, almost all of the growth and volatility in aggregate nominal profits for private sector companies has occurred in the mining sector (chart 1). Outside of mining, private sector corporate profits recovered in 2017-18 in some but not all industries.

Even within the mining industry, profit growth and profitability are not evenly distributed. Annual ABS data indicate that between 2014-15 and 2016-17, 39%-42% of miners made a profit and 57%-60% made a loss.

**Chart 1: Company gross operating profits, by major industry, 1998 to 2018 (nominal \$bn per quarter)**



Source: ABS Business Indicators, June 2018.

## IS THE SHARE OF NATIONAL INCOME GOING TO EMPLOYEES FALLING?

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ABS data on corporate gross operating profits indicate that the temporary fluctuations in employee income shares over the past decade are correlated with repeated temporary surges in mining company profits (see chart 1). These temporary spikes in mining company profits *added* to the total income earned by Australia in the quarters in which they occurred, so mathematically, they pushed down the shares of income being earned by all other sources. Importantly however, these temporary rises did not occur *at the expense of* other forms of income or cause them to fall. They were additional to the income earned by employees and by businesses in other industries and did not displace or ‘take’ any income away from employees.

These recent temporary rises in gross company profits in Australia’s mining sector are:

- Extremely volatile and unpredictable from quarter to quarter, as they largely depend on globally-set commodity prices and especially the prices of iron ore, black coal and liquified natural gas. Mining volumes, exports and prices are easily upset by natural disasters and geopolitical events globally and by local weather events (e.g. cyclones disrupting shipping exports from the north of Australia);
- Pre-tax gross earnings before any taxes, expenses, future investments or distributions are paid; and
- Contained mostly within the mining industry. Other private-sector industries have, at best, recovered their nominal aggregate profits in recent years, following profit falls related to the Global Financial Crisis from 2007-08 (most notably in manufacturing, see chart 1) but they are not ‘booming’. ABS annual industry performance data indicate that between 18% and 21% of all private sector businesses made a loss in each year from 2014-15 to 2016-17, with a further 2% only breaking even.

Mining has rewarded its own workforce with substantially higher average weekly wages than any other industry (\$2,592 in mining compared to \$1,583 across all industries in May 2018), but it employs just 2% of Australia’s workforce directly. Some companies in other industries share in this income stream indirectly, as suppliers or contractors to the miners. In aggregate however, Australia’s other big private-sector employing industries are simply not as profitable (or volatile) as the mining sector.

## FEWER PROFITABLE BUSINESSES WOULD MEAN FEWER JOBS

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Unprofitable businesses are often forced to downsize or off-shore. In the long run, only profitable businesses survive.

Fewer profitable Australian businesses would mean fewer jobs for Australian workers.

### Data Sources

ABS, *National Accounts*, June 2018.

ABS, *Business Indicators*, June 2018.

ABS, *Average Weekly Earnings*, May 2018.

ABS, *Australian Industry 2016-17*, May 2018.