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**From:** JACOBS, David  
**Sent:** Friday, 24 February 2023 10:52 AM  
**To:** SCHWARTZ, Carl  
**Cc:** DM Securities Markets - Equities  
**Subject:** profit results [SEC=OFFICIAL]

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

**Categories:** Do

Hi everyone

there was some discussion of this think tank piece that has been getting some attention today: [Profit-Price-Spiral-Research-Report-WEB.pdf \(futurework.org.au\)](#). There is a great deal of appetite to really pin down our thinking on how much margins have added to inflation.

Dave

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**From:**

**Sent:** Friday, 24 February 2023 2:04 PM

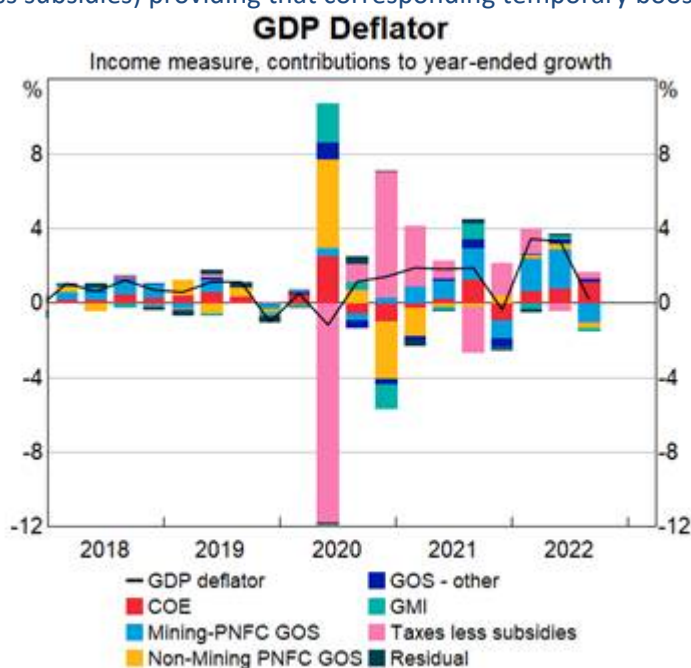
**To:** @rba.gov.au>;

@rba.gov.au>; EA - DAT - Management

**Subject:** RE: Paper on margins and inflation [SEC=OFFICIAL]

Thanks – that mining doing the heavy lifting was also my initial reaction when reading the report.

Have done a decomp of the GDP deflator into income measures and it certainly looks like mining GOS is contributing significantly to GDP deflator growth ( , I've used the mining/non-mining PNFC GOS series calculated in the [profits forecasts](#) spreadsheet – does that sound right to you?). You can also see the covid-related support in the pink (taxes less subsidies) providing that corresponding temporary boost to non-mining GOS and GMI.



Thanks,

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**From:**

**Sent:** Friday, 24 February 2023 12:58 PM

**To:** @rba.gov.au>; EA - DAT - Management

@rba.gov.au>

**Subject:** RE: Paper on margins and inflation [SEC=OFFICIAL]

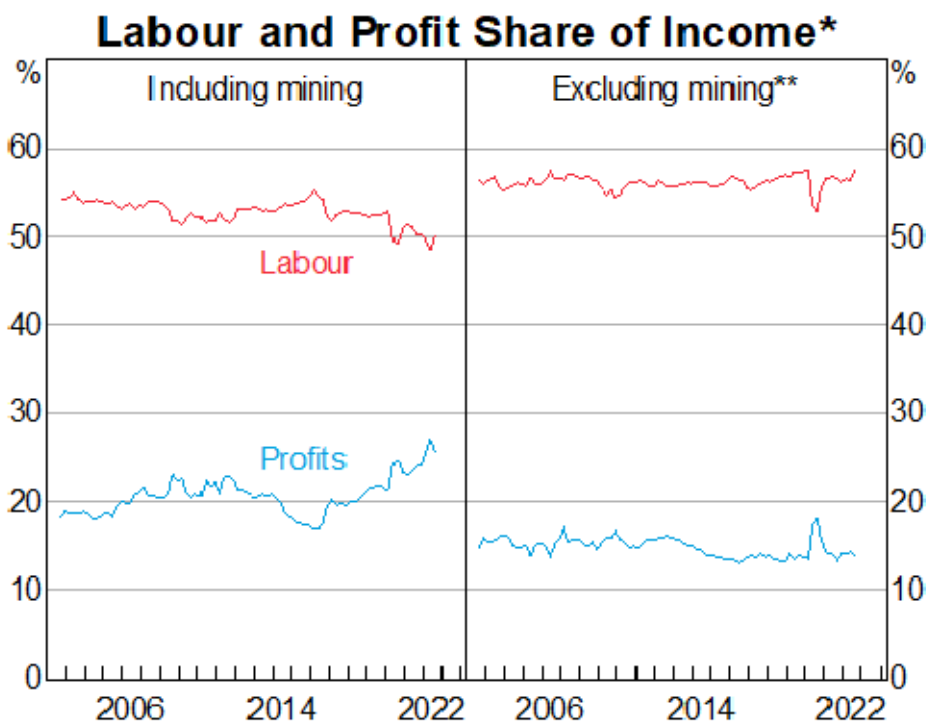
Thanks

The analysis by the Australia institute decomposes growth in the GDP deflator from Dec 2019 to Sept 2022 into growth in:

- Labour compensation
- Corporate GOS
- Small bus. GOS
- Indirect taxes less subsidies
- Other factor incomes

I think the inclusion of mining is doing all the heavy lifting here. I think our standard including/excluding mining chart addresses this issue. I suspect jobkeeper is not playing a big role in the Australia institute work because it decomposes the total change from Dec 2019 to Sept 2022 and so would not capture any temporary boost to profits during the period of jobkeeper (and this is evident in the chart below also).

There might also be a related issue of how the GDP deflator reflects improvements in the terms of trade differently to the CPI.



\* Shares do not sum to 100 per cent due to the exclusion of gross mixed income, and the gross operating surplus of public corporations, financial corporations, general government and dwellings.

\*\* Excluding mining sector profits and mining sector labour income.

Sources: ABS; RBA

Happy to discuss.

**From:**

**Sent:** Friday, 24 February 2023 10:48 AM

**To:** EA - DAT - Management

[@rba.gov.au](mailto:@rba.gov.au)>

[@rba.gov.au](mailto:@rba.gov.au)>;

**Subject:** Fwd: Paper on margins and inflation [SEC=OFFICIAL]

Begin forwarded message:

**From:** "KOHLER, Marion"

**Date:** 24 February 2023 at 9:52:32 am AEDT

**To:** @rba.gov.au>, @rba.gov.au>

**Cc:** "ROSEWALL, Tom", "COCKERELL, Lynne"

**Subject:** FW: Paper on margins and inflation [SEC=OFFICIAL]

Hi all,

We should have a look what we think of this.

At first look to my amateur eye – no controlling for mining sector, and also starting in dec 2019, I suspect Job Keeper is doing it's thing. Do we know what his graphs look like if you take this out?

Thanks,

Marion

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**From:** JACOBS, David

**Sent:** Friday, 24 February 2023 9:34 AM

**To:** 8.50 attendees

**Subject:** Paper on margins and inflation [SEC=OFFICIAL]

As covered in today's media:

<https://futurework.org.au/wp-content/uploads/sites/2/2023/02/Profit-Price-Spiral-Research-Report-WEB.pdf>

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**From:** ELLIS, Luci  
**Sent:** Friday, 24 February 2023 2:35 PM  
**To:** KOHLER, Marion <[@rba.gov.au](mailto:marion.kohler@rba.gov.au)>  
**Subject:** RE: Paper on margins and inflation [SEC=OFFICIAL]

Thanks

Just having a look now. I think one of the other issues is that he is decomposing nominal GDP and then attributing all of the profits to domestic margins in the CPI, rather than the GDP deflator. The increase in the terms of trade is highly relevant to both the profits outcome and which prices that shows up in.

There's a second-order issue that he isn't decomposing gross mixed income into a labour and capital component, which is standard practice in the related literature, either by attributing a notional wage to the self-employed or splitting GMI one-third/two-thirds.

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**From:** KOHLER, Marion  
**Sent:** Friday, 24 February 2023 9:57 AM  
**To:** ELLIS, Luci  
**Subject:** FW: Paper on margins and inflation [SEC=OFFICIAL]

FYI

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**From:** KOHLER, Marion  
**Sent:** Friday, 24 February 2023 9:53 AM  
**To:** <[@rba.gov.au](mailto:marion.kohler@rba.gov.au)>; <[@rba.gov.au](mailto:marion.kohler@rba.gov.au)>  
**Cc:** ROSEWALL, Tom; COCKERELL, Lynne  
**Subject:** FW: Paper on margins and inflation [SEC=OFFICIAL]

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