

NEWS RELEASE

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Mining investment in Australia to fall a further 58 per cent over the next three years: BIS Shrapnel

- *Further mining job losses on the way despite boom in mining production*
- *New investment drivers required to support economic growth and jobs*

Monday, November 30 – Despite being in decline since 2013/14, mining investment is forecast to fall a further 58 per cent over the next three years, dragging down economic growth, according to a new report from leading independent economic forecaster and industry analyst, BIS Shrapnel.

According to BIS Shrapnel's *Mining in Australia 2015 to 2030* report, mining investment, production, contractor services and employment will follow very different paths over the next five years. Mining investment fell 11 per cent from its peak to \$80.3 billion (constant 2012/13 prices) in 2014/15 and is expected to decline almost 60 per cent further over the next three years. Meanwhile, mining production is expected to rise six per cent annually over the next five years, driving a corresponding increase in mining operations activities and export volumes.

"We haven't hit bottom yet on commodity prices or investment, which will continue to be a key drag on Australian economic growth from here," said Adrian Hart, Senior Manager of the Infrastructure and Mining Unit at BIS Shrapnel. "While mining production will continue to rise strongly, led by new LNG exports, the facts are that this growth will be far less employment intensive than the investment phase, albeit offering contractor opportunities for maintenance and facilities management. Indeed, we are forecasting a further 20,000 job losses in the mining industry over the next three years, on top of the 40,000 direct job losses since the investment peak.

"Excluding oil and gas, mining investment has already halved since the peak, and we expect it to fall a further 40 per cent over the next two years – a 70 per cent decline overall from top to bottom – led by further declines in coal, iron ore and gold. Add in the sharp fall in oil and gas investment as LNG projects are completed, and the outlook is even worse.

"The persistent drag from falling mining investment has important ramifications for the economy. Quite simply, Australia badly needs new investment drivers beyond mining to

provide sustainable growth in jobs and incomes. While other tradable sectors of the economy, such as tourism, are benefitting from the lower Australian dollar and starting to invest, the onus is also on governments to stand up and get back on the job of investing in productive public infrastructure.”

The BIS Shrapnel report points out that it is not all bad news in the mining industry, with a boom in mining production, operations and maintenance to roll on right through the next five years. Overall, BIS Shrapnel estimates the mining industry represents around 20 per cent of the national economy, given strong growth in production and related services combined with a (falling) level of investment. In terms of production alone, the mining industry represents nine per cent of the national economy.

“A significant volume of capital that has been injected into the mining industry is still to fully translate into expanded mine production,” said BIS Shrapnel economist and report author, Rubhen Jeya. “The value of mining production has grown at an annual average rate of 7.1 per cent over the past five years – and there is more growth to come. Mining production is forecast to expand by over one third again over the next five years – around double the pace of the national economy – taking the value of industry output to \$186 billion in Gross Value Added terms (GVA) by 2019/20.”

Even so, severe challenges are expected to remain for both miners and industry contractors.

“The industry continues to be squeezed given a fundamental global oversupply now plaguing most commodities,” said Jeya. “The slowdown in demand from China is the predominant factor driving weaker demand growth overall, while a fight for market share from lower cost producers is still adding sharply to supply. These conditions are expected to persist over several years, keeping commodity prices weaker.”

In response, miners and traders continue to shift to a leaner, more efficient and productive operation. Some have placed operations in care and maintenance, while others continue to renegotiate contracts and reduce budgets and expenses. Operations are becoming much more capital intensive through new investments in technology and processes, resulting in ongoing job losses.

“The deep cost cuts and smaller budgets have spread to maintenance operations with a higher portion of mining maintenance being brought in-house to reduce expenses and increase flexibility,” said Jeya. “However, essential maintenance operations are not ‘fat’ to be cut, particularly as capital investment is deferred and the asset base ages with high utilisation. Therefore, contractors in this space can expect some opportunities, provided they are cost competitive, have high safety standards and provide the ‘know-how’ in creating an efficient solution to problems facing operators.

“Eventually, the current strike in investment will eradicate the oversupply and allow stabilisation and recovery in commodity prices, but this is not expected until towards the end of the decade. Even at sub-seven per cent per annum economic growth, China is still adding the equivalent of another Australia each year to the value of its economy. As China continues to shift its engine of growth from investment to consumption, we will eventually see a staggered recovery across most metals and minerals, particularly those which will service the growth in middle class consumer demand, such as copper, gold, and base metals.

“However, some iconic Australian commodities – such as thermal coal – face a much riskier future as energy and environmental policies evolve from here, starting with the climate talks in Paris in December, and as the price premium for other energy sources continues to narrow.”

About the Mining in Australia Report

Mining in Australia 2015 to 2030 provides comprehensive analysis, market information and forecasts by mineral commodity for activities undertaken at each stage of the mine lifecycle: from investment and infrastructure set-up (construction, plant and equipment, exploration), to mining operations (production and value of contract mining) and asset maintenance (owner and contractor split). Data and forecasts are further broken down by owner-operator versus contract work. The report is organised by stage of mine lifecycle, with detailed analysis of the different drivers affecting mining activity for each commodity.

Key findings of the outlook from the *BIS Shrapnel Mining in Australia 2015-2030* report (in 2012/13 prices):

Commodity Prices: Commodity prices (in US\$ terms) are expected to be weaker for almost all commodities in the short term as a result of the slowdown in China amid increasing supply. While a mild acceleration in world economic growth in the medium term is expected to support most commodity prices, prices will take 1-2 years just to return to mid-2015 levels. Rising US\$ prices coupled with the depreciation of the Australian dollar will support stabilisation, then mild growth, in mining investment later this decade.

Exploration: Commodity prices are the key driver and predictor of exploration activity. During the commodity price boom, exploration activity reached a peak of \$7.8 billion in 2012/13. However, as commodity prices have plunged, the level of exploration activity has also fallen, declining by 32 per cent to \$5.3 billion in 2014/15. Exploration is forecast to decline in 2015/16 (-4.4 per cent) before activity begins to stabilise and gradually recover late in the decade to \$6.4 billion. The continued dominance of oil and gas exploration will likely see Western Australia expand its share of total exploration activity above 55 per cent.

Fixed Capital Investment: Weaker commodity prices and the relatively high cost of development in Australia have led to falling levels of investment since 2012/13, with investment dropping 12 per cent to \$80.3 billion in 2014/15 alone. The downturn in mining investment is expected to accelerate over the next three years, declining a cumulative 58 per cent to \$33.9 billion in 2017/18. Investment is expected to be weighed down heavily by LNG completions, with further (smaller) falls in investment also expected in the coal, iron ore and gold segments. BIS Shrapnel forecasts mining investment to recover mildly from 2018/19, reaching \$42 billion in 2019/20.

Production: The mining industry continues to ramp up output, with the GVA of economic production rising to \$139 billion in 2014/15. The investment boom has now graduated into a production boom, with volumes of iron ore and coal rising significantly in recent years, while the boom in gas (particularly LNG) is now poised to take up the baton for growth. These three commodities alone represented \$109.9 billion in export revenue (43 per cent of Australia's total exports) while the mining industry as a whole exported \$168.5 billion in minerals and metals during 2014/15. Mining output is expected to expand at an average rate of six per cent per annum over the next five years – about double the pace of the national economy – taking the real value of industry output to \$186 billion in 2019/20 (in 2012/13 constant prices).

Contract mining: In 2014/15, BIS Shrapnel estimates that contract mining activity increased by around 2.5 per cent to \$12.5 billion. Solid levels of growth in contract mining over the next three years are expected, driven by the oil and gas and iron ore sectors. The largest increase is likely to come from LNG related contracts as the major LNG projects start production. Over the two years to 2019/20, growth in contract mining is expected to be weak reaching \$14.6 billion by the end of the period.



Maintenance: BIS Shrapnel estimates that the mining industry maintenance market (excluding maintenance of supporting infrastructure) totalled \$7.2 billion in 2014/15. Of the sub sectors, metal ore mining (including iron ore) is expected to contribute the largest portion (\$2.7 billion), closely followed by coal (\$2.6 billion), oil and gas extraction (\$1.2 billion) and other mining (\$680 million). With lower commodity prices, producers are using a number of tactics to reduce costs. This includes bringing non-essential maintenance operations in-house and under the control of management, while still relying on OEMs for specialised maintenance operations. The frequency of maintenance operations is also declining in the hardest hit segments. Other high-cost producers have moved their operations to care-and maintenance (which itself attracts maintenance costs). Total mining maintenance expenditure is forecast to grow to \$9.9 billion in the five years to 2019/20, an increase of 38 per cent from 2014/15 levels, with 82 per cent of this growth driven by additions to the asset base in the oil and gas segment.

ABOUT BIS SHRAPNEL

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Since its foundation in 1964, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting economic and industrial conditions.