

Tuesday 8 July 2008

News release

www.bis.com.au

For further information:

Adrian Hart
BIS Shrapnel
Tel: 02 9959-5924
A/h: 0425-370-145
Email: ahart@bis.com.au

Sheila Maidment
Watterson Marketing Communications
Tel: 02 9929-7533
A/h: 0413-359-231
Email: sheila.maidment@watterson.com.au

Mining sector to keep Australian economy from stalling *Mining investment at record levels*

Sydney, Australia -- Australia's booming mining sector will help insulate the economy from recession for the next five years according to a new report released by leading independent economic forecaster and industry analyst, BIS Shrapnel.

Mining in Australia, 2008 to 2023 states sustained, historically high levels of mining investment coupled with soaring production is poised to offset the dampening impact of rising costs and interest rates, delivering GDP growth of between 2.5 and 4.5 per cent per annum over each of the next five years.

"Right now, the mining sector is experiencing massive income inflows from strong commodity prices and this is financing further investment in capacity, as well as providing a boost to government coffers," says Adrian Hart, senior manager of BIS Shrapnel's Infrastructure and Mining unit.

"Later on, soaring production will offset the impact of commodity price declines, keeping the mining sector's contribution to economic growth on a very sound footing.

"In fact, strong export growth, driven mainly by the mining sector, will see Australia's trade deficit swing back into positive territory through 2008/09 and 2009/10 -- the first full year surpluses since 2002."

The outlook for mining varies substantially by commodity and for regions within Australia, with energy and steel-driven commodities such as oil, gas and iron ore having the brightest prospects during the next five years, according to BIS Shrapnel.

"Strong growth in global demand for steel, driven by the industrialisation of China, is fuelling the boom in iron ore and coking coal investment particularly," says Hart. "While we expect Chinese growth to ease somewhat from the hot pace of recent years given weaker conditions in the United States and rising domestic inflation, the economy is not expected to deteriorate dramatically, and will continue to drive demand for Australian metals and minerals."

Oil and gas investment is growing strongly on the back of record energy prices and surging exploration, with several 'mega-projects' to ramp up during the next five years. These include Woodside's \$10 billion plus Pluto LNG project as well as several other massive projects in Western Australia's Carnarvon and Browse Basins. High gas prices are also accelerating investment in Victoria's Gippsland Basin as well as in Queensland, where two LNG projects using the state's coal seam methane gas reserves are in the pipeline.

"While high energy prices are hurting consumers and industry at the bowser, they are also stimulating a tremendous boom in oil and gas investment, including exploration and the construction of new infrastructure including rigs and platforms, pipelines and onshore processing facilities," says Hart.

"Energy prices may be volatile in the short-term, but we believe that the long-term trend is for energy prices to move higher, and this will drive further increases in investment in oil and gas during the next ten to fifteen years."

Price outlook

With the exception of energy and steel inputs, prices have already started to decline for many commodities, according to Hart. "The expected surge in new production during the next few years -- brought on by the boom in investment -- will see stocks rise from recent critical low levels and accelerate the price declines for many metals."

According to the report, the trough in the price cycle is expected in either 2010 or 2011, with the largest price falls forecast to occur in nickel, zinc, lead and copper. Meanwhile, the price outlook for the bulk commodities of coal and iron ore is for further growth into 2009 before declining between 2010 and 2012. In the case of coal, the supply response is being constrained by infrastructure bottlenecks at major export terminals.

Even with the prediction of further price declines, BIS Shrapnel expects commodity prices to remain well above long-term levels. With demand continuing to grow at a sharp pace, prices are not expected to fall back to the early 2000s lows, encouraging the development of new prospects and sustaining investment at record levels.

Mining investment outlook

BIS Shrapnel estimates total mining investment rose a further 22 per cent in 2007/08 to \$41.5 billion (in constant 2005/06 prices), with the level of investment now more than four times that of 2000/01. Driving the strong result in 2007/08 was a 45 per cent surge in exploration -- spurred on by past under-investment and soaring commodity prices -- coupled with double-digit growth in mining construction (including port and rail infrastructure) and investment in plant and equipment including rolling stock and industrial machinery such as bulldozers, drilling equipment and front end loaders.

Investment will remain at historically high levels despite a very mild cyclical downturn from 2009/10, according to BIS Shrapnel. Oil and gas will have the highest levels of investment during the next five to ten years, driven by demand for LNG in east Asia and the US west coast. Iron ore and nickel investment is also expected to remain strong given global demand for steel and stainless steel. Copper investment will also move to a higher plane after 2010 given the timing of BHP Billiton's Olympic Dam expansion. In contrast, coal, gold and base metals investment is expected to ease (from record levels) from 2009/10.

Risks to the forecast

The *Mining in Australia, 2008 to 2023* report notes several key risks to the positive outlook. On the investment side, there are a number of downside risks including sharply rising costs for materials and equipment and skilled labour shortages. One-off events such as the Varanus Island gas explosion, which has constrained gas supply in Western Australia, also have the potential to impact the sector. However, Hart notes these risks will tend to keep commodity prices high in the short-term, hence extending the minerals investment cycle.

A more serious risk to the longevity and extent of the mining boom is a severe downturn in the Chinese economy, which would affect prices and investment. China accounts for a substantial portion of the growth in metals demand, according to BIS Shrapnel, and a manufactured slowdown in the Chinese economy to prevent over-heating and an inflationary spiral could cause a sharper than expected downturn in commodity prices. At this stage, however, BIS Shrapnel believes Chinese growth prospects are sound.

Finally, BIS Shrapnel believes the implementation of a carbon emissions trading scheme in Australia will impact on the outlook for certain commodities. In particular, the promotion of cleaner forms of energy generation will likely come at the expense of thermal coal. Until clean coal technology becomes commercially viable, BIS Shrapnel warns investment in new thermal coal mines could be delayed, replaced by cleaner forms of energy such as gas and uranium.

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.

Over the company's 44-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

#