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News Release

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Mining and heavy industry construction set to fall in 2010/11

*2010/11 Commonwealth Budget based on "overly-optimistic" mining assumptions
Next sustained upswing one to two years away*

Leading industry analyst and economic forecaster, BIS Shrapnel, is forecasting a decline in mining and heavy industry construction activity in 2010/11, the first such decline since 2004.

According to BIS Shrapnel's *Mining and Heavy Industry Construction in Australia, 2009/10 – 2023/24* report, overall mining and heavy industry construction is expected to fall three per cent in 2010/11. The mining and heavy industry sector currently accounts for 33 per cent of all civil construction work done during 2009/10 (\$25 billion), up from 13 per cent (\$3.7 billion) in 2000.

"Despite further robust growth in oil and gas construction, led by the Gorgon LNG project, the completion of major alumina refineries, and iron ore and coal projects, as well as a slump in other mineral commencements through 2009 will drive a fall in work done in the coming year," says Adrian Hart, Senior Manager for BIS Shrapnel's Infrastructure and Mining Unit.

Given its size, and importance to related segments such as ports and railways, the forecast decline in mining and heavy industry construction is expected to drive a broader fall in overall civil construction work in 2010/11. This forecast flies in the face of Treasury's projections that a boom in mining-driven engineering works will help restore the Commonwealth Budget to surplus within three years.

According to Budget Paper No. 1 (p2 – 29), new engineering construction investment from the private sector is forecast to rise by around 20 per cent per annum in both 2010/11 and 2011/12, due to a "significant increase in investment in Australia's resources sector". This will see private new engineering construction surge above \$60 billion by 2011/12.

By contrast, BIS Shrapnel is forecasting private sector funded engineering construction to waver around the \$48 billion to \$50 billion range for the next two years, with a decline slated for 2010/11.

"Combined with recent March quarter data, which showed another consecutive decline in privately funded engineering work, our analysis suggests that activity in this segment will trend lower through 2010/11, and not experience the overly-optimistic boom being modelled by Treasury," says Hart.

BIS Shrapnel expects mining and heavy industry construction activity will eventually pick up again, with the report predicting double digit growth in work done over 2012/13 and 2013/14, following a mild recovery in 2011/12.

"The key difference is that we expect the stronger growth to come through later in the forecast period, not earlier," says Hart. "Over the next one to two years the sector will be hit by the completion of projects that served us well through the GFC and also by the lack of commencements through calendar year 2009.

“By 2012/13 we expect the next round of projects will be well underway across iron ore, coal and oil and gas. By the middle of the decade, this is expected to be joined by an upswing in base metals investment.”

Resources Super Profits Tax (RSPT) not to blame

BIS Shrapnel is quick to point out the weaker outlook for mining and heavy industry construction is not the consequence of the proposed Resources Super Profit Tax (RSPT).

“We were already factoring in a weakening in mining and heavy industry construction prior to the announcement of the RSPT,” says Hart. “While the RSPT has increased uncertainty in the mining sector in the short-term, we believe this is more the result of a lack of effective communication and consultation between the Federal Government and the mining industry about aspects of the tax, not its fundamental structure.

“Ideally, we would like to see the Federal Government and the mining industry resolve their differences on the RSPT sooner rather than later. However, we do not believe that recent decisions taken to delay or cancel mining projects have been solely driven by the proposed RSPT. Nor do we believe that the tax, once finalised and implemented, will weaken overall mining investment in Australia.”

BIS Shrapnel mining and heavy industry construction forecasts by state

New South Wales

Mining and heavy industry construction activity in New South Wales is expected to remain around the \$2 billion mark throughout the next three years, following a peak of \$2.4 billion in 2008/09. An estimated decline of six per cent through 2009/10 is expected to accelerate to an 18 per cent decline in 2010/11, given the completion of two Newcastle coal port projects, the Tumut Pulp Mill expansion and the Bluescope blast furnace reline. High gold and coal prices, and increased coal port and rail capacity, will see the commencement of the next round of projects, including the \$2 billion Cadia East gold project near Orange. This will help keep activity at very high levels in historical terms.

Victoria

Large oil and gas projects such as the \$1.3 billion Kipper gas field and the \$1.4 billion Turrum project have driven solid growth in Victorian mining and heavy industry construction activity over the past year. The completion of these projects will, in turn, see some winding down in activity through the next two years. While several smaller minerals projects spanning gold and mineral sands are expected to commence over the next few years, a sustained upswing will come through later in the forecast period, led by further oil and gas projects and the proposed \$350 million Bendigo gold mine expansion.

Queensland

Mining and heavy industry construction in Queensland is traditionally geared around coal projects, but activity has boomed over the past two years as ongoing coal works have been joined by the \$2.1 billion Yarwun alumina expansions and \$700 million Boyne Island Smelter Modernisation project. The winding down of the refinery and smelter works will affect overall work done through 2010/11, before the next round of coal expansions and the Curtis Island LNG project drive a strong upswing from 2012.

Western Australia

Mining and heavy industry construction activity in Western Australia has surged from around \$1.4 billion per annum through the 1990s to an estimated \$15 billion in 2009/10. Large expansions in iron ore and oil and gas developments, such as the \$12 billion Pluto development and the \$3.1 billion Worsley alumina refinery expansion, have been the principal drivers of the boom in recent years. As activity winds down on a range of projects, including Pluto, growth in mining and heavy industry construction is expected to slow, but remain robust, given the influence of the Gorgon LNG project. The commencement of the next round of iron ore projects is expected to drive a re-acceleration in growth from 2012/13.

South Australia

Mining and heavy industry construction activity in South Australia has declined through the past two years, given the completion of the large Prominent Hill copper mine, along with some minerals sands projects. The winding down of construction work on the \$420 million Jacinth Ambrosia Zircon project in the Eucla Basin, as well as the Honeymoon Uranium project, are expected to drive a slump in activity through 2010/11 before the timed commencement of the massive \$20 billion Olympic Dam Expansion drives much higher levels of activity in later years.

Northern Territory

Mining and heavy industry construction in the Northern Territory has swung between \$1 billion and \$2 billion throughout the past eight years, on the back of large alumina and oil and gas projects. The completion of reconstruction efforts for the Montara oilfield is expected to drive a slump in activity during 2010/11, with overall activity falling under \$300 million. An upswing is expected from 2012/13, with the Crux, Talbot and Puffin South West oil and gas projects being key drivers, along with relatively large projects spanning rare earths, phosphate and molybdenum.

Tasmania

Mining and heavy industry construction activity in Tasmania is small, relative to the other states, and can vary substantially as major projects commence or move to completion. Construction of BOC's micro-LNG plant is estimated to have helped push total activity to \$160 million in 2009/10, although the completion of this plant will see activity fall sharply over 2010/11 and 2011/12. Higher commodity prices are expected to see the commencement of a range of minerals projects from 2012. BIS Shrapnel has not included the \$1.7 billion Gunns Pulp Mill in Tasmania in its forecasts until after 2014.

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 46-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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