

Overview

Australia's mining sector



8.7% of GDP in 2019



Accounted for 28% of Australia's GDP growth in 2019



73% of Australia's goods exports in 2018-19*

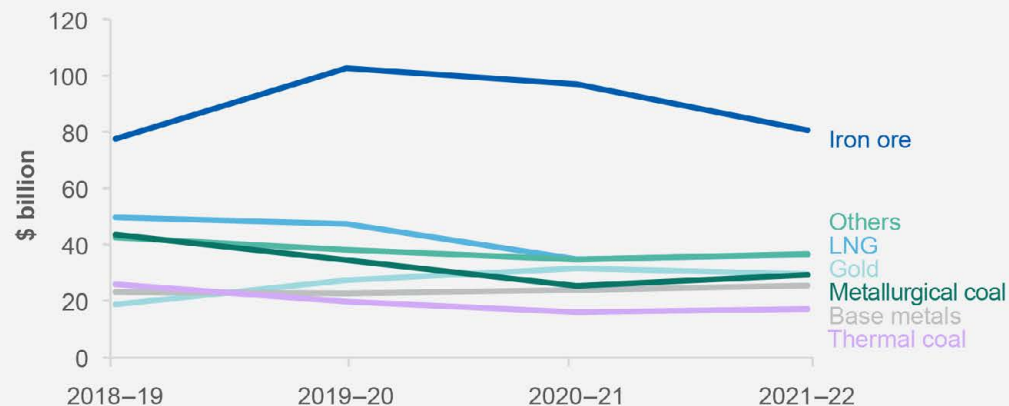


58% of Australia's goods and services exports in 2018-19*

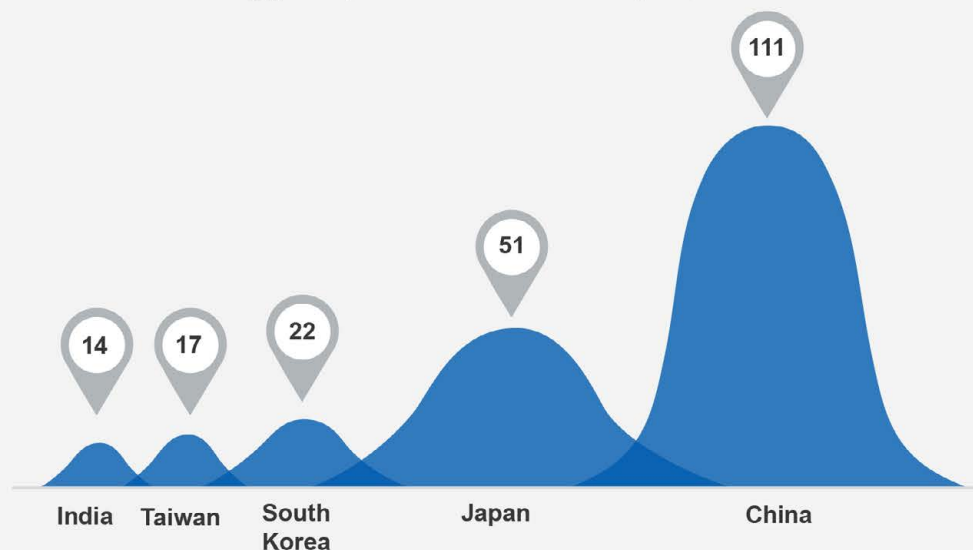


Almost 243,000 people employed (as at February 2020)

Australia's resources and energy exports



Major markets for Australia's resources and energy exports in 2018-19, A\$billion



*Export figures are for resources and energy (broader than mining sector)

1.1 Summary

- The COVID-19 pandemic has resulted in a sharp weakening in the world economy, and consequent commodity price falls have been a function of the supply response. With supply now being cut and usage recovering, price falls for most resource commodities seem to be over.
- Iron ore prices have recovered the losses of the first four months of 2020, as supply problems offset demand worries. Coal and base metal prices have declined as falling demand outpaces supply cuts.
- Offsetting the impact of generally weaker prices, both higher export volumes and a lower-than-expected Australian dollar are estimated to have seen Australia's resource and energy exports reach a record \$293 billion in 2019–20. Despite slightly higher export volumes, price weakness is likely to cut export earnings significantly over the outlook period (to 2021–22).

1.2 Export values

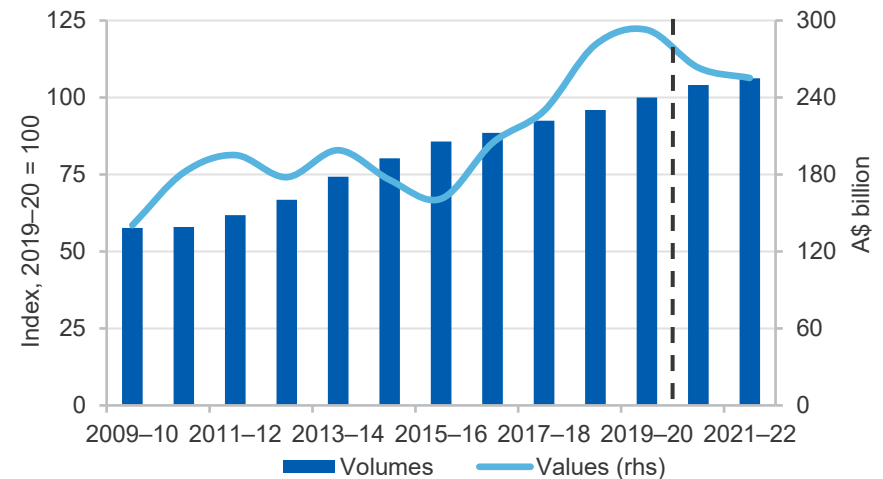
Australia's export values estimated at a record \$293 billion in 2019–20

The Office of the Chief Economist's (OCE) Resources and Energy Export Values Index in the June quarter 2020 was 5.9 per cent below the June quarter 2019; an 8.2 per cent fall in prices was partly offset by a 2.3 per cent rise in volumes. Financial year 2019–20 is estimated to have set a record \$293 billion of resource and energy exports (Figure 1.1), as a 4.2 per cent rise in volumes (on 2018–19) added to the impact of a 0.5 per cent price lift. In the outlook period, low prices and Australian dollar gains will likely more than offset the higher export volumes: exports are forecast at \$263 billion in 2020–21 and \$255 billion in 2021–22 (Figure 1.2).

Ongoing weakness in the Australian dollar is helping to support earnings

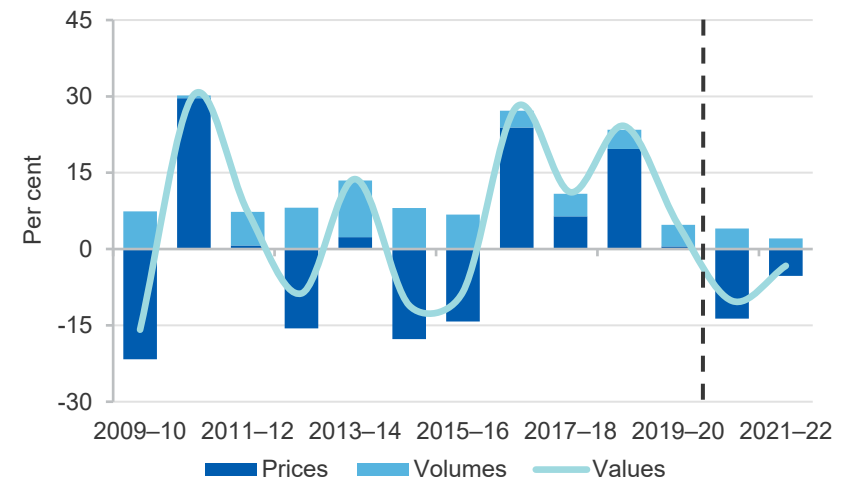
In Australian dollar terms, the OCE's Resources and Energy Commodity Price Index fell by 5.6 per cent (preliminary estimate) in the June quarter, and was 8.2 per cent lower than a year ago. In US dollar terms, the index fell by 6.8 per cent in the quarter, and was 14.8 per cent lower than a year ago. The index of prices for resource commodity exports (Australian dollar terms) rose by 6.4 per cent in the year to the June quarter 2020, while energy commodity prices fell by 26.2 per cent (Figure 1.3).

Figure 1.1: Australia's resource and energy export values/volumes



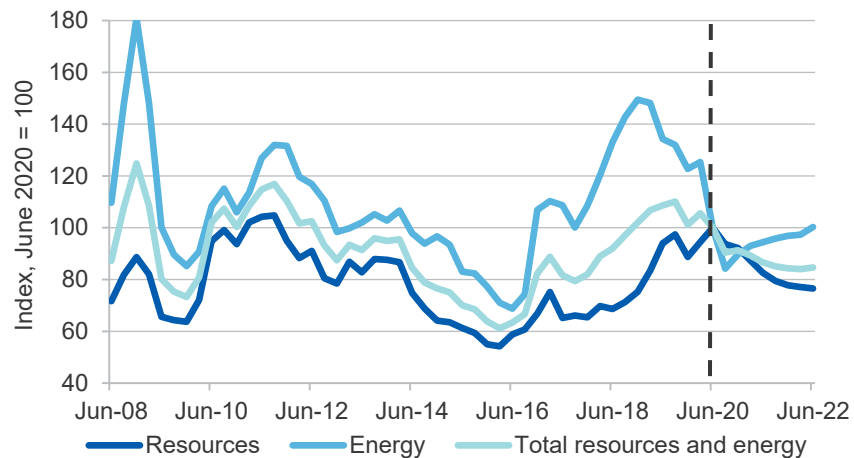
Source: ABS (2020) International Trade in Goods and Services, 5368.0; Department of Industry, Science, Energy and Resources (2020)

Figure 1.2: Annual growth in Australia's resources and energy export values, contributions from prices and volumes



Source: ABS (2020) International Trade in Goods and Services, 5368.0; Department of Industry, Science, Energy and Resources (2020)

Figure 1.3: Resource and energy export prices, AUD terms



Notes: The export price index is based on Australian dollar export unit values (EUVs, export values divided by volumes); the export price index is a Fisher price Index, which weights each commodity's EUV by its share of total export values.

Source: ABS (2020) International Trade in Goods and Services, 5368.0; Department of Industry, Science, Energy and Resources (2020)

1.3 Macroeconomic, policy, trade and other factors

The impact of the COVID-19 pandemic now seems likely to be much larger than estimated in our previous (March) forecast, notwithstanding the measures taken by governments and central banks in recent months. Initially thought to be largely concentrated in China, the impact now appears set to result in the worst contraction in the world economy since the 1930s. While focused largely on the retail, education, travel and hospitality sectors, the (metal-consuming) manufacturing sector is expected to feel the impact of weaker household and business finances.

The direct impact of the COVID-19 outbreak in China in February-March 2020 is now being added to by indirect effects, as pandemic-related economic slowdowns impact on the economies of China's largest customers, including the US, EU, and Japan. The Chinese government is launching infrastructure projects and taking measures to boost consumer and business spending, some of which will lift resource commodity usage.

So far, the COVID-19 pandemic's deepest impact on the commodity sector has been on energy, particularly oil-based products used in transportation. Temporary and permanent changes affecting energy usage could arise from the pandemic: in the short term, commuters are likely to continue to avoid public transport, and the buses/trains that do operate will each shift fewer people. Long-haul airline travel could take some years to recover, once nations remove bans on incoming visitors. A sustained rise in office staff working from home may also lower oil usage, though higher demand for home heating/cooling may see more gas and thermal coal consumed.

Supply issues have been influential in resource and energy commodity markets, exacerbating the fall in demand in some, while offsetting it in others. OPEC+ was reluctant to react to falling oil demand and kept production high for so long that fifteen year price lows were reached on some oil types. At the time of writing Australia has not had to close mines due to COVID-19 related outbreaks, however, mines in a number of other countries have been forced to close. Some have re-opened, but new outbreaks may see closures. Low prices are now forcing miners to examine the economics of cutbacks or closures: trying to weigh-up closure costs against the timing and strength of a price recovery.

Renewed trade tensions pose a significant risk to both world growth and resource and energy commodity trade over the outlook period. The COVID-19 outbreak has raised questions around China's ability to fulfil its side of the US-China Phase One trade deal, leading to speculation that the US may call off the deal and/or impose new conditions. Separately, there are also some concerns that pandemic-induced weakness in many nations' traded goods sectors could boost protectionist tendencies.

We have assumed that a second wave of coronavirus infections is avoided in China — and other major nations — in 2020. Assuming the worst of the global COVID-19 outbreak has passed by the end of 2020, it is expected that world GDP will contract by 5.5–6.5 per cent in 2020, before growth of about 4.5–5.5 per cent is recorded in 2021. World GDP growth is then assumed to moderate in 2022. Infrastructure spending over the outlook period will be resource commodity intensive.

1.4 Prices

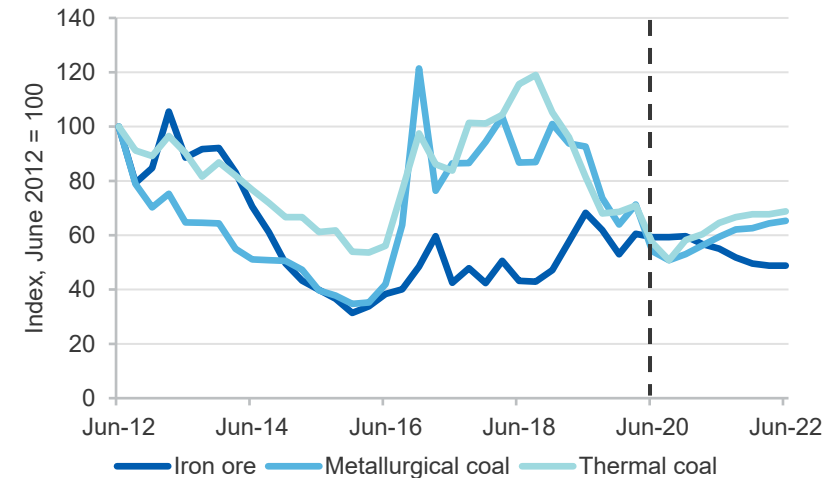
The iron ore price has consolidated in a US\$81-104 a tonne range since the March 2020 *Resources and Energy Quarterly*. Supply disruptions in Brazil and, to a lesser extent, Australia have offset the impact of lower global demand arising from the COVID-19 outbreak. The price is likely to drift lower over the second half of 2020 (Figure 1.4), as growth in Chinese steel output eases and Brazilian iron ore supply rises.

After holding during the March quarter 2020, the prices of metallurgical and thermal coal dropped sharply in the June quarter 2020. Metallurgical coal prices fell as the lockdown implemented by the Indian Government impacted on steel production and port operations in that nation. A modest rise in prices is likely over the outlook period, as high-cost mines shut and demand recovers. Weaker demand from Asian coal-fired power utilities has put pressure on the thermal coal price. Prices are likely to rebound modestly over the outlook period, as demand recovers (Figure 1.4).

Oil prices dipped sharply in April, as OPEC+ members failed to agree on production cuts in the face of a collapse in demand. Oil demand fell sharply as movement restrictions took effect in the economies of major consuming nations. Once the market saw evidence of production cuts by major producers, the price staged a partial recovery. The price should recover further, but seems destined to be capped at the US\$60 a barrel mark, as US producers swing back into the market. The value of Australian LNG exports is expected to dip sharply in 2020–2021, as 75 per cent of our LNG is sold under contract at prices linked to the price of oil.

The gold price pushed above the US\$1,700 an ounce mark — a 7-year high — in mid-April, on the back of declining bond yields and rising safe haven demand. Price strength during the second half of 2020 is likely to attract strong scrap supply and deter jewellery demand in price-sensitive markets such as India and China. Further out, the price is likely to decline as equity markets recover and bond yields rise. Base metal prices have declined significantly on the back of the COVID-19 pandemic. Nickel and zinc have been particularly hard hit. Base metals should rebound once industrial activity starts to recover from COVID-19 shutdowns (Figure 1.5).

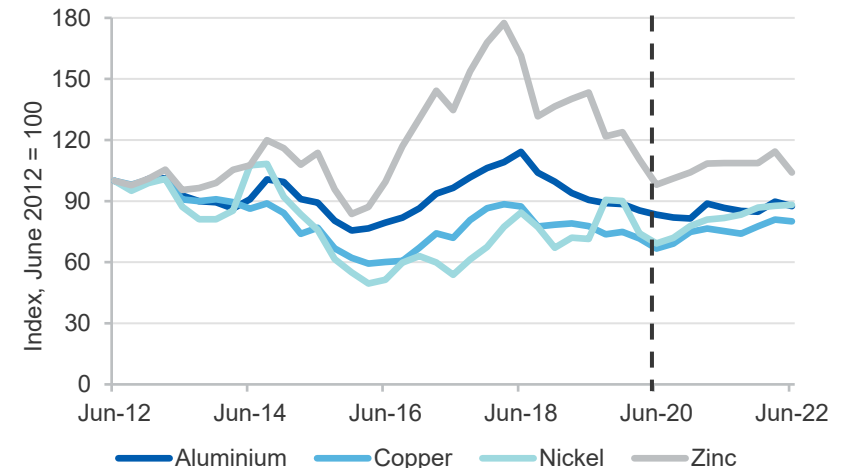
Figure 1.4: Bulk commodity prices



Notes: Prices are in US dollars, and are the international benchmark prices

Source: Bloomberg (2020); Department of Industry, Science, Energy and Resources (2020)

Figure 1.5: Base metal prices



Notes: Prices are in US dollars, and are the international benchmark prices

Source: Bloomberg (2020); Department of Industry, Science, Energy and Resources (2020)

1.5 Export volumes

Export volumes to grow, driven by growing energy exports

The OCE's Resources and Energy Export Volumes Index (preliminary estimate) rose by 10.2 per cent in the June quarter 2020 from the March quarter 2020, and was 2.3 per cent higher than a year before. Resource commodity volumes rose by 4.6 per cent over the year since June 2019, and energy commodity volumes fell by 2.5 per cent over the same period. Resources export volumes are expected to show modest growth in the outlook period, while energy exports will likely tend to stagnate.

1.6 Contribution to growth and investment

Mining industry continues to support economic growth

Australia's real Gross Domestic Product (GDP) fell by 0.3 per cent in the March quarter 2020, but rose by 1.4 per cent through the year. The mining industry directly accounted for 25 per cent of the growth in Australia's GDP in the year to the March quarter 2020. Mining value-added rose by 1.0 per cent in the March quarter to be 4.1 per cent over the previous twelve months, driven by growth in iron ore mining.

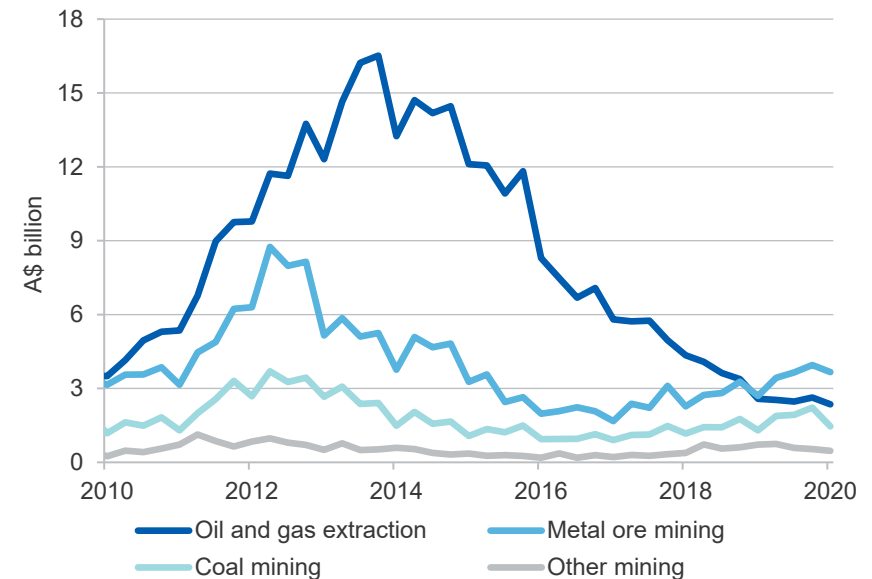
After being a significant contributor to mining industry value-added growth in the last year or two, the coal mining sector failed to contribute to growth in the March quarter. In the coming year, it is likely that this sector will make a much smaller contribution to GDP growth, as low prices and mine closures and cutbacks impact on the sector's output.

Mining investment is picking up

The ABS Private New Capital Expenditure and Expected Expenditure survey shows that investment by Australia's mining industry was \$8.0 billion in the March quarter 2020, up 8.8 per cent over the last year.

Higher commodity prices in the past two years appear to have encouraged some recovery in capital spending over the most recent quarters. This has been led by growth in investment by the metal ore mining sector (Figure 1.6), which may have been encouraged by surging iron ore prices in mid and late 2019 and in early 2020.

Figure 1.6: Mining industry capital expenditure by commodity



Notes: Other mining includes non-metallic mineral mining and quarrying and exploration and other mining support services; chart data is in nominal terms

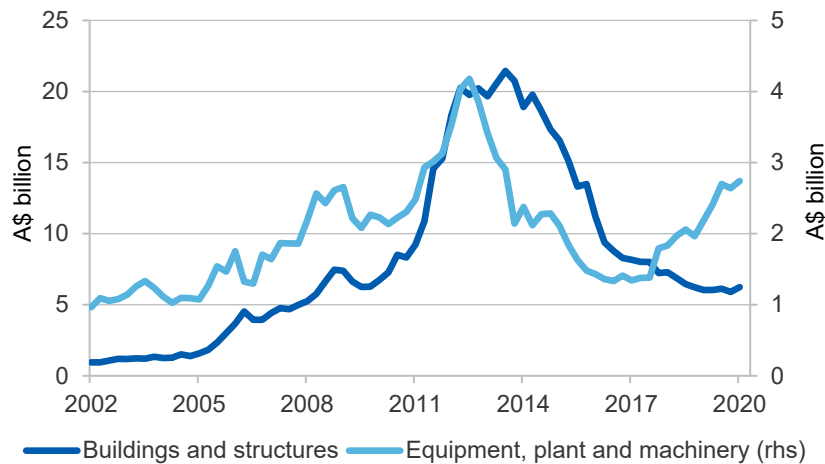
Source: ABS (2020) Private New Capital Expenditure and Expected Expenditure, 5625.0

Expenditure across the mining sector as a whole was driven by higher investment in machinery and equipment, which was up by 25 per cent over the year to the March quarter (Figure 1.7).

Forward expectations (Figure 1.8) suggest that mining companies will invest an estimated \$38 billion for the year over 2019–20, up by about 15 per cent, with investment in the following year expected to be largely stable.

Strong prices for gold, iron ore and other minerals are leading to new investment plans, including the re-opening of mines. However, investment in new greenfield projects remains well below the levels of the previous decade.

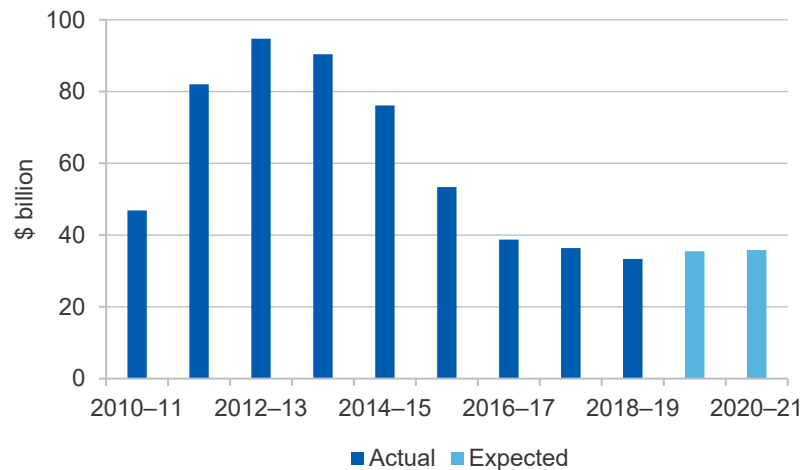
Figure 1.7: Mining industry capital expenditure by type, quarterly



Notes: Chart data is in nominal terms

Source: ABS (2020) Private New Capital Expenditure and Expected Expenditure, 5625.0

Figure 1.8: Mining industry capital expenditure, fiscal year

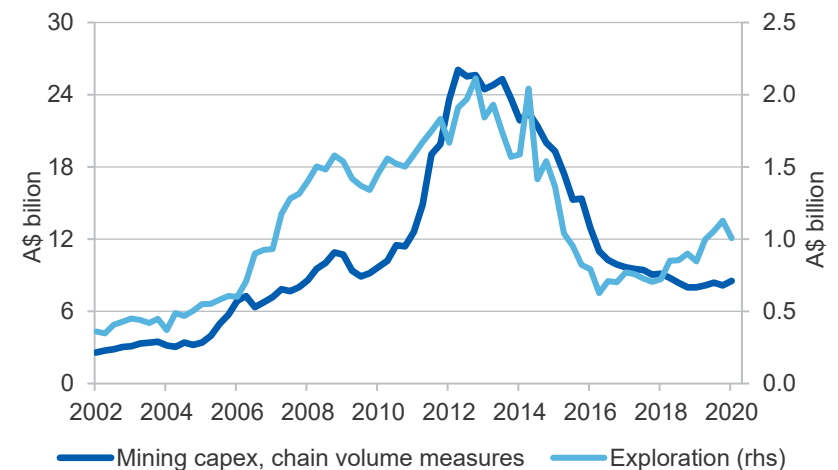


Notes: Chart data is in nominal terms

Source: ABS (2020) Private New Capital Expenditure and Expected Expenditure, 5625.0

Data on exploration spending (adjusted for inflation) suggests that a recovery in mining capital expenditure is underway (Figure 1.9). Exploration spending for all commodities reached \$1.0 billion in the March quarter 2020, up 19 per cent on March quarter 2019.

Figure 1.9: Mining capital expenditure vs exploration, quarterly



Notes: Chart data is in real terms

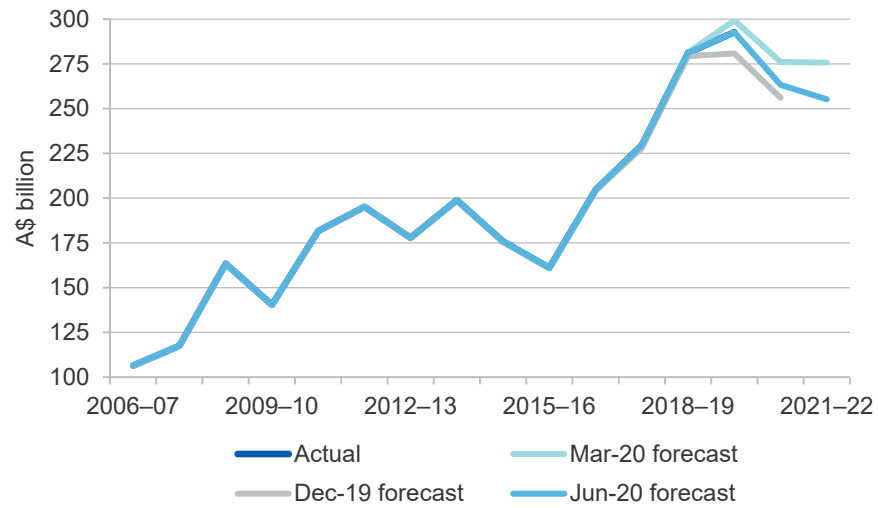
Source: ABS (2020) Private Capital Expenditure Survey, Mining, Chain Volume measure, 5625.0

1.7 Revisions to the outlook

At \$293 billion, the estimate for Australia's resources and energy export earnings in 2019–20 is \$6 billion lower than forecast in the March 2020 *Resources and Energy Quarterly* (Figure 1.10).

In 2020–21, relatively weak resource and energy commodity prices — virtually across the board — and lower coal exports, are expected to drive a sizable fall in export earnings. Export earnings are now forecast to be \$263 billion, and then fall modestly further to \$255 billion in 2021–22, down \$13 billion and \$20 billion from the March quarter 2020 *Resources and Energy Quarterly* forecasts, respectively.

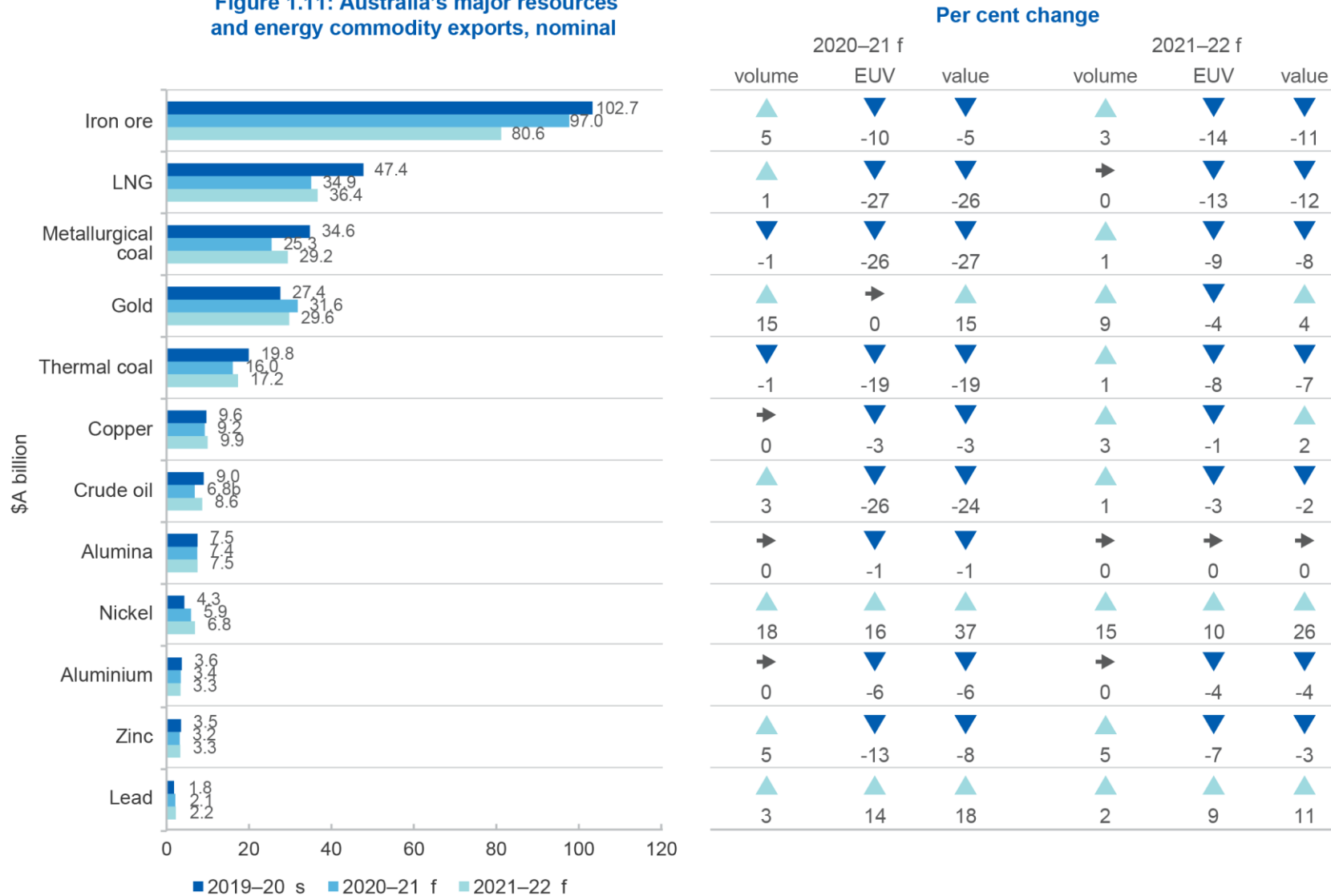
Figure 1.10: Resource and energy exports, by forecast release



Notes: Chart data is in nominal terms

Source: Department of Industry, Science, Energy and Resources (2020)

Figure 1.11: Australia's major resources and energy commodity exports, nominal



Notes: f forecast. s estimate. EUV is export unit value. Per cent change is from 2019-20.

Source: ABS (2020) International Trade in Goods and Services, 5368.0; Department of Industry, Science, Energy and Resources (2020)

Table 1.1: Outlook for Australia's resources and energy exports in nominal and real terms

Exports (A\$m)	2018–19	2019–20 ^s	2020–21 ^f	2021–22 ^f	Annual percent change		
					2019–20 ^s	2020–21 ^f	2021–22 ^f
Resources and energy	281,188	292,697	263,231	255,199	4.1	-10.1	-3.1
– real ^b	286,471	292,697	258,132	244,989	2.2	-11.8	-5.1
Energy	132,717	114,859	86,718	95,400	-13.5	-24.5	10.0
– real ^b	135,210	114,859	85,038	91,584	-15.1	-26.0	7.7
Resources	148,471	177,838	176,512	159,799	19.8	-0.7	-9.5
– real ^b	151,261	177,838	173,093	153,405	17.6	-2.7	-11.4

Notes: **b** In 2019–20 Australian dollars; **s** estimate; **f** forecast.

Source: ABS (2019) International Trade in Goods and Services, 5368.0; Department of Industry, Science, Energy and Resources (2020)

Table 1.2: Australia's resource and energy exports, selected commodities

	Unit	Prices			Unit	Export volumes			Export values, A\$b		
		2019–2020 ^s	2020–21 ^f	2021–22 ^f		2019–20 ^s	2020–21 ^f	2021–22 ^f	2019–20 ^s	2020–21 ^f	2021–22 ^f
Iron ore	US\$/t	78	77	66	Mt	852	893	912	103	97	81
Metallurgical coal	US\$/t	145	121	140	Mt	182	180	187	35	25	29
LNG	A\$/GJ	11.4	8.3	8.7	Mt	79	80	80	47	35	36
Thermal coal	US\$/t	63	55	64	Mt	213	210	216	20	16	17
Gold	US\$/oz	1,558	1,587	1,534	t	362	418	427	27	32	30
Alumina	US\$/t	282	276	284	Mt	17,799	17,861	17,897	7.5	7.4	7.5
Copper	US\$/t	5,644	5,818	6,150	Kt	925	909	966	9.6	9.2	9.9
Oil ^a	US\$/bbl	52	43	48	Kb/d	292	300	299	9.0	6.8	8.6
Aluminium	US\$/t	1,713	1,676	1,717	Kt	1,384	1,384	1,385	3.6	3.4	3.3
Zinc	US\$/t	2,189	2,035	2,100	Kt	1,435	1,532	1,598	3.5	3.2	3.3
Nickel	US\$/t	13,898	13,404	14,843	Kt	282	333	374	4.3	5.9	6.8
Lithium	US\$/t	511	415	423	Kt	1,367	948	983	1.0	0.6	0.7
Uranium	US\$/lb	28	38	47	t	7,270	6,500	5,800	0.6	0.7	0.7

Notes: **a** Export data covers both crude oil and condensate; **s** estimate; **f** forecast. **Price information:** Iron ore fob (free-on-board) at 62 per cent iron content estimated netback from Western Australia to Qingdao China; Metallurgical coal premium hard coking coal fob East Coast Australia; Thermal coal fob Newcastle 6000 kc (calorific content); LNG fob Australia's export unit values; Gold LBMA PM; Alumina fob Australia; Copper LME cash; Crude oil Brent; Aluminum LME cash; Zinc LME cash; Nickel LME cash; Lithium spodumene ore.

Source: ABS (2020) International Trade in Goods and Services, Australia, Cat. No. 5368.0; LME; London Bullion Market Association; The Ux Consulting Company; US Department of Energy; Metal Bulletin; Japan Ministry of Economy, Trade and Industry; Department of Industry, Science, Energy and Resources (2020)