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Media Release

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Investment Monitor March 2015: Resources sector drags down project pipeline

30 April 2015: The scale of the challenge Australia faces in navigating its way through a cooling resources boom is becoming clear. Global commodity prices – the tonic that underpinned the ramp up in investment – are falling, and have now declined to a point that is limiting the returns on past investment as well as putting a stop to new investment opportunities.

Australia is now well and truly into the export phase of the boom, a period where the returns on past investments are cashed in. **This was supposed to be the payoff**, both for miners who invested vast sums expanding production capacity, and for the Australian economy overall. **But economic growth remains below trend and national income growth is truly in the doldrums**.

The Reserve Bank is doing its part by using interest rates as an offset to prop up activity in the retail and housing sectors. A lower exchange rate is also helping alleviate some pressure by providing a much needed shield for tourism and manufacturing. **But the exceptional demise in commodity prices is proving a bigger challenge during this structural shift than was anticipated**.

The spot price for iron ore has fallen by over 60% in the past 12 months and is currently under US$50 per tonne. And while export volumes continue to reach new heights, export values are taking a hit.

Gas prices are also under pressure given falling oil prices, and the ramp up in LNG exports is only just beginning. Over the next year, two additional facilities on Curtis Island will add to production from facilities off Gladstone, while on the west coast the first exports are also due from the $61 billion Gorgon LNG project. The scale of activity is staggering. Over the next year alone, Australia will add 41 million tonnes a year of LNG production capacity – equivalent to about 17% of current global demand. And there's plenty more to come. Another 21 million tonnes will be available by 2017 following the completion of the Ichthys LNG project.

As a nation, Australia has bet the house on the expectation that emerging Asia's appetite for our resource commodities will be ongoing. Around 95% of Australian LNG exports end up in either China or Japan. Those countries are also the primary destinations for our coal and iron ore exports, and China's changing model of economic growth will not support the same level of demand for commodity inputs into production and investment into the future.

Overall, **the value of projects in the *Investment Monitor* database fell by $21 billion during the March quarter to $812.3 billion**. That represents a 2.5% fall from the previous quarter, and is 7.6% below the level recorded a year earlier.

The value of **definite projects in the database (those under construction or committed) decreased by $4.2 billion over the quarter, equivalent to a 1.0% fall**. Measured against the same quarter last year, the value of definite projects is down by 2.1%.

The value of **planned projects in the database (those under consideration or possible) contracted further during the March quarter**. The $16.8 billion decline consolidates a larger fall over the December quarter of 2014.

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