

**ECONOMICS: AUSTRALASIAN PERSPECTIVES—FEBRUARY 26, 2010**

# The Mining Boom Is Back

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One of the key drivers of our view on Australia’s growth prospects over the next couple of years is continued rapid expansion in the mining sector. After looking a little wobbly a year or so ago—with commodity prices falling and some major projects being deferred—it looks like the mining boom is now back with a vengeance.

### Capex Survey Confirms Boom Restart

The Australian Bureau of Statistics’ Capital Expenditure Survey released this week underscores this theme. The bureau surveys companies about their investment plans over the next 12 to 18 months, so the most recent set of data contains the first estimate of spending for the 2010–2011 fiscal (June) year. In aggregate, firms are expected to increase spending by around 15% over the year—a return to the double-digit growth rates recorded from 2002 to 2008. Once again, this growth is dominated by mining—the survey data imply a 40% to 50% rise in capital spending in this sector, after a likely outcome of little change in 2009–2010. None of this is much of a surprise, of course—it’s well known that there are a number of very large projects on the drawing board, particularly in the liquefied natural gas (LNG) sector. But this helps to resolve uncertainty about the timing of those projects, confirming that the flat phase in investment is largely over, and that we’re on the cusp of another surge.

If these expectations are realized, then capital spending in the mining sector—already at a record high—will soon approach 6% of GDP (**Display 1**).

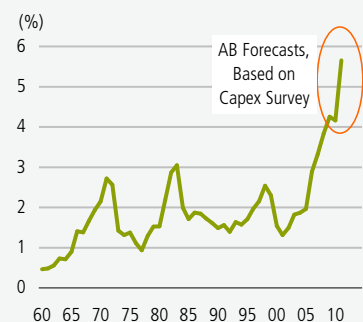
### Some Potential Implications

This mining boom has important implications for the shape of the Australian economy, both in the near term and over the longer run.

Over the next couple of years, the challenge is in facilitating the expansion of the mining sector in an economy that is already pretty close to full capacity. As pointed out by Reserve Bank of Australia (RBA) Deputy Governor Ric Battellino this week, all previous Australian mining booms have resulted in increased inflationary pressure. While having a floating exchange rate is clearly helping in this episode by acting as a buffer, there’s currently not a lot of slack in the system, with the unemployment rate at 5.3% and surveyed measures of capacity use back to well above average. This suggests that while the RBA might be comfortable in a

Display 1  
Mining Boom Continues

Mining Sector Capex as a % of GDP



Source: Australian Bureau of Statistics, AllianceBernstein estimates

“softly softly” approach to tightening through the rest of this year, the monetary policy strategy in 2011 may take on a significantly more aggressive tone. It’s not that difficult to envisage a scenario that would take the cash rate to the 6% to 7% range by the end of 2011.

In the longer term, this boom is likely to result in a significant shift in the industrial composition of the economy. Mining’s importance in the economy has already expanded from around 2% in the late 1960s to 5% before this latest boom commenced. The latest actual reading, at June 2009, had mining at a near-8% share of nominal GDP. With the mining capital stock likely to grow at a 15% pace over

the next few years, the sector is soon likely to account for over 10% of output. Increasing the economy's exposure to a volatile sector will likely increase the volatility of the economy as a whole—including incomes, employment and tax revenue—and will add a new set of economic policy challenges. ■

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