

NAB Quarterly Mining Survey – August 2007

Minerals & Energy: Gerard Burg

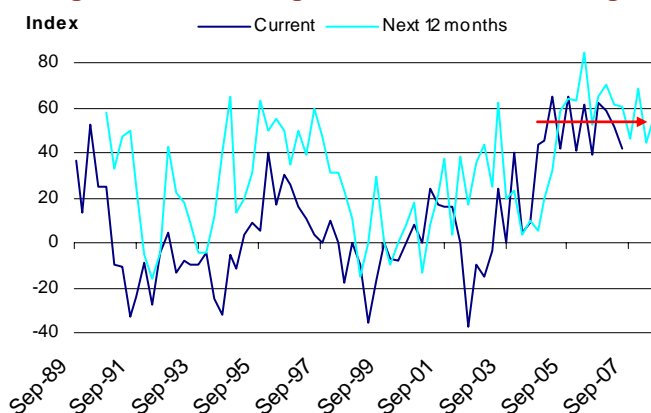
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Summary – Australia’s miners cite labour shortages as the leading constraint to profit growth

- The recent trends of strong growth, improved trading conditions and higher profitability in the mining sector appear to have stabilised, according to data from NAB’s Quarterly Business Survey. Price movements have become limited on the upside, while cost pressures have risen – primarily reflecting the cost of securing skilled labour, but also capital equipment.
- Albeit strong, employment in the mining industry has also fallen short of expectations – running below expected levels since late 2005. Constraints in acquiring labour are limiting output growth and leading to increased cost pressures on Australian mining firms.
- Around 80 per cent of mining respondents to NAB’s Quarterly Business Survey consider the labour market to be a constraint on profitability and output, with this level increasing dramatically since 2003.
- Labour market conditions are expected to remain a challenge in the next 12 months, with a shortage of skilled labour perceived to be the leading constraint on lifting profitability.
- A peak in commodity returns – together with rising costs – is likely to see profits ease further. Against that however, mining output growth and new investment looks set to remain strong (if a little lower than recent peaks).
- Although the best times of the current boom may be over, the overall industry trends remain positive. The mining industry will remain one of the best performing sectors in the Australian economy.

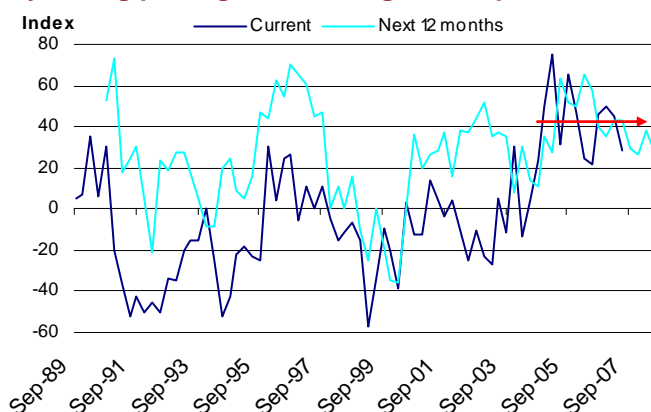
Although volatile, trading conditions in the mining sector moderated recently



Australian miners have enjoyed spectacular growth in demand and commodity prices over the past four years. However constraints to output growth and rising cost pressures are beginning to impact on trading conditions.

Nevertheless, Australia’s miners continue to expect strong conditions over the next 12 months – mining is set to remain one of the best performing sectors in the Australian economy.

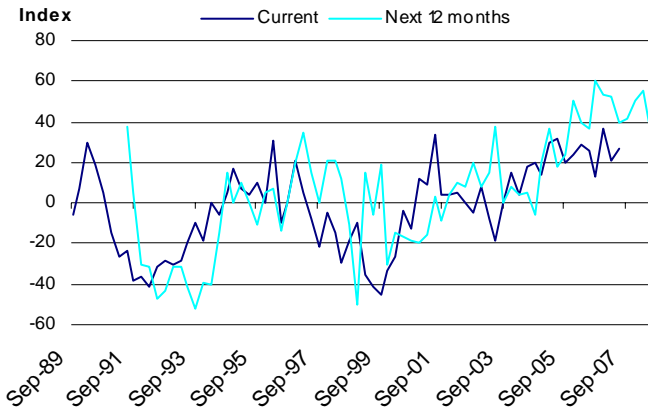
Very strong profit growth easing, and expected to moderate further



Profitability in the mining industry has surged in recent years – largely on the back of successive rises in metals, coal and gas prices. China’s surging industrial development has been the key driver, but constraints on expanding production has ensured that profitability has been more about price than output.

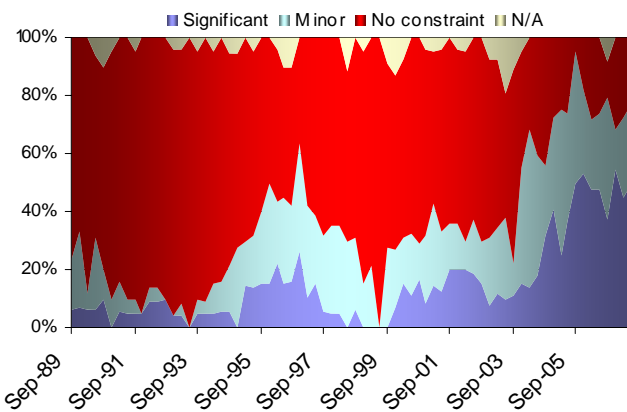
While the outlook for profits is comparatively strong – in a historical context – Australian miners expect profit growth to moderate somewhat over the next year.

Employment in the mining sector remains strong, but short of expectations



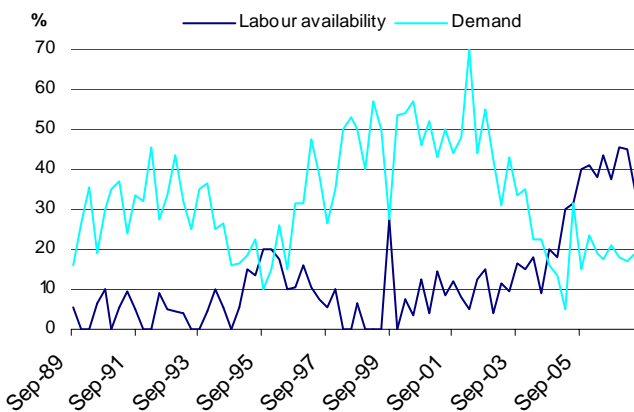
Employment in the mining sector remains strong, as Australian mining firms expand production in response to surging demand for resource commodities. However, employment growth has fallen short of expectations for both the near term and 12 months forward.

Miners cite labour shortages as the key constraint to current output and 12 month profitability growth



Since late 2003, there has been a steep increase in the number of mining respondents citing difficulties in securing labour. Around 80 per cent of surveyed producers identify labour as an output constraint – either significant or minor.

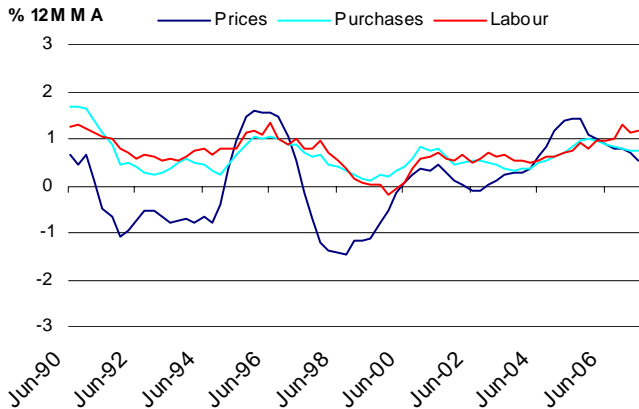
Profit outlook – labour remains the main constraint



The turn-around in mining conditions over the past five years has been spectacular. China’s economic growth has underpinned global demand for resources – eroding spare mining and processing capacity around the globe. This has seen a steep reduction in our respondents citing demand as constraint over the next 12 months.

In contrast, Australian miners continue to anticipate labour market constraints on profits in the coming year – with around 40 per cent of respondents in the past 12 months describing labour availability as the main constraint on profitability.

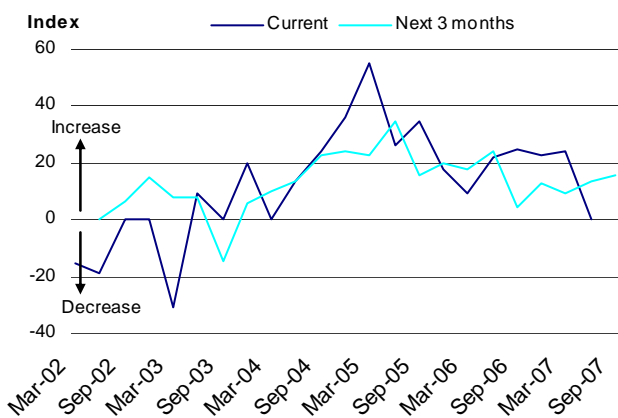
Labour and material costs are now outpacing prices...



Prices received by Australian miners have begun to stabilise in recent quarters – albeit price data from our survey likely understates actual outcomes. That said, the bulk of respondents reported little or no change to received prices in the June quarter.

In contrast, the rate of growth in labour costs and purchases were reportedly well above prices received. Wage costs are rising as miners compete for scarce labour, yet few miners have been concerned by wage pressures impacting profitability. At present, Australia’s miners are more concerned about the availability than the cost of employees.

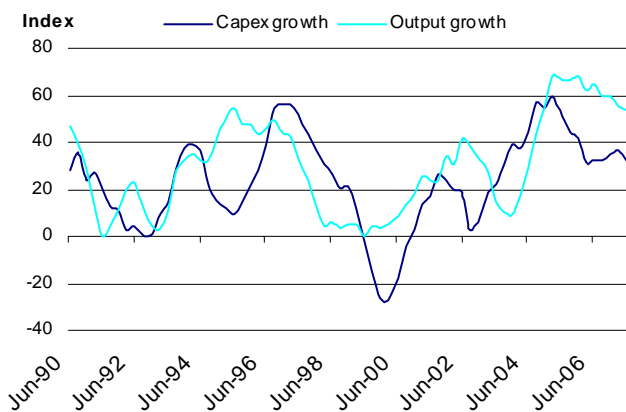
...stalling profit margins – below expectations



In line with the moderation in mining profitability, miners reported no change in sales margins in the June quarter survey – well below recent outcomes and expectations.

With employment running below expectations – limiting output growth – and cost pressures mounting, the expectation of a rising in profit margins in the September quarter may be too optimistic.

Nevertheless, miners remain relatively optimistic about the outlook



While revised lower over recent quarters, output expectations remain very strong – albeit constrained by the availability of labour and capital.

Investment plans are also off somewhat – but still consistent with a further strong rise and addition to capacity.

Source: NAB’s Quarterly Business Survey

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