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It's official: resources boom is over

Jacob Greber

The federal government's top resources forecaster has for the first time said the mining and energy investment boom has probably peaked.

In an assessment that underscores the need for an urgent rebound in non-mining parts of the economy, the Australian Bureau of Resources and Energy Economics said the number of projects given the green light fell in the six months ended October 31 and was the lowest in over a decade.

As financial markets brace for Thursday's closely-watched official survey of company investment plans, separate official figures showed a surprise rise in construction work during the September quarter.

Fuelled by a surge in non-residential construction, total engineering and building work rose 2.7 per cent from the June quarter, the biggest increase in 18 months, Australian Bureau of Statistics data showed on Wednesday. The figures prompted predictions from some economists that third-quarter gross domestic product – in a report to be published by the ABS next week – may be slightly higher than first thought.

"It's clear that the pipeline of future work will be winding down over the next couple of years, but the debate is about how quickly that occurs," UBS economist George Tharenou said. "There is still a little bit of life left in the investment story."

Still, many analysts aren't yet convinced the recent rise in construction work is evidence of a strengthening growth impulse driven by record-low Reserve Bank of Australia interest rates, rising house prices and demand for new homes.

"The likely increase in mining capex this quarter is probably a last hurrah by mining companies given the cost pressure they face and the lower prices that coal companies are receiving," said Paul Brennan, a Citigroup economist.

Wayne Calder, BREE deputy executive director, said lower commodity prices and a rise in global production of minerals and energy meant it was becoming "a little more difficult" for companies to justify fresh investments in mines and gas projects.

BREE said in its report that many commodity markets are either already or soon to be oversupplied as slower global demand undershoots "the rush of global investment to increase supply over the past five years". "As such, the prospects for investment at levels comparable to the past five years in Australia are limited," BREE said.

Mr Calder emphasised that the nation's biggest projects were starting to switch to the production phase. "Australia has a lot to gain from this production cycle," he said.

BREE's biannual report showed the value of committed investment projects fell 10 per cent to $240 billion in October from six months earlier.

Only five projects worth a combined $1.7 billion were given final approval to begin construction during that period. Adding to the drop in projects under way was a record $30.3 billion in investment that was completed during the six months through October, up from $23.5 billion in the previous six months, BREE data showed. An extra 71 projects in the planning stage were delayed.

Minister for Industry **Ian Macfarlane** said the report showed there are still 250 projects worth over $300 billion being planned.

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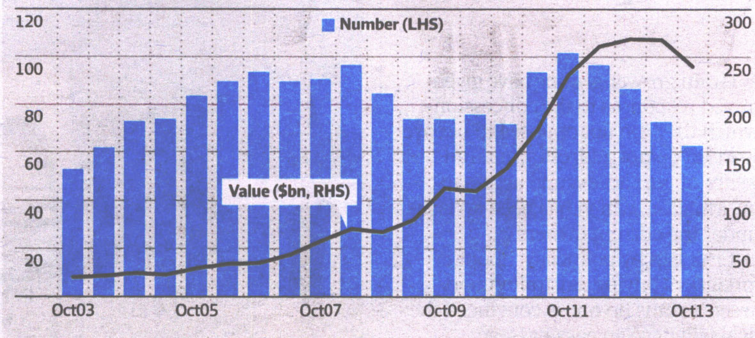
Peaked

Number v nominal value of projects at the committed stage



SOURCE: BREE