



Australian Government
Department of Industry,
Innovation and Science

Office of the
Chief Economist



Commodity forecasts and future export prospects

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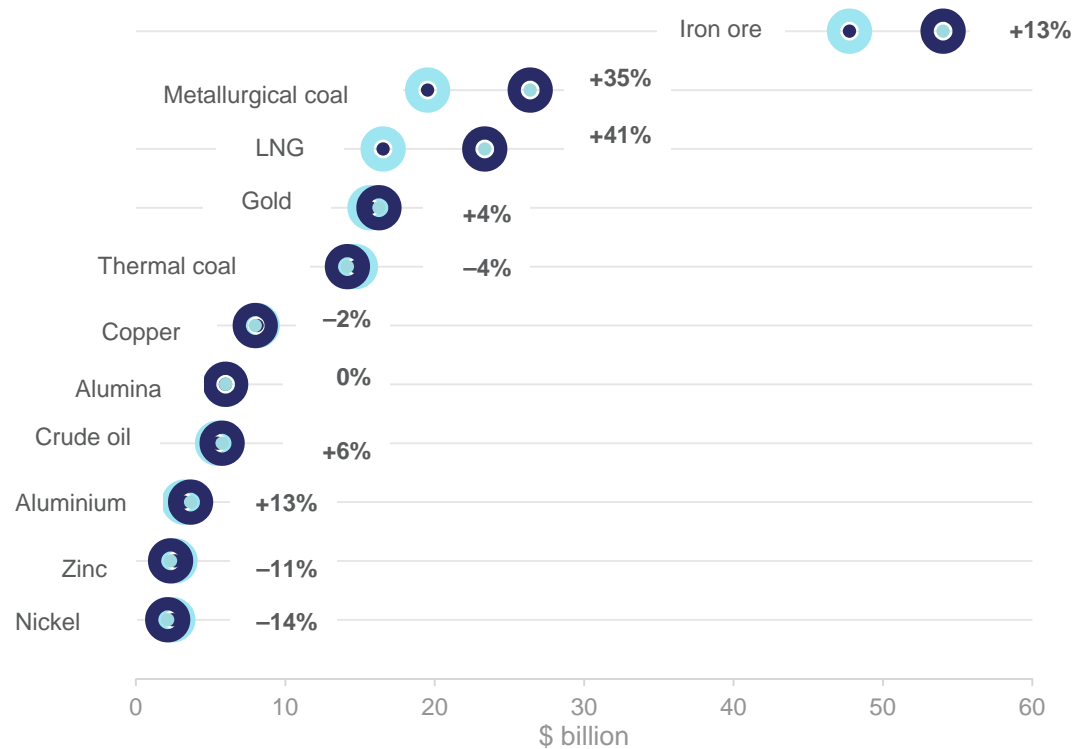
Australia's resources and energy exports are forecast to increase by 12 per cent in 2016-17 to \$176 billion

Despite challenging conditions for Australian producers, the short term outlook is for moderate growth

Higher export earnings will be supported by:

- continued growth in the volume of most bulk commodity exports
- additional production and new capacity coming online from LNG projects

Australia's major resources and energy exports, 2015–16 and 2016–17f



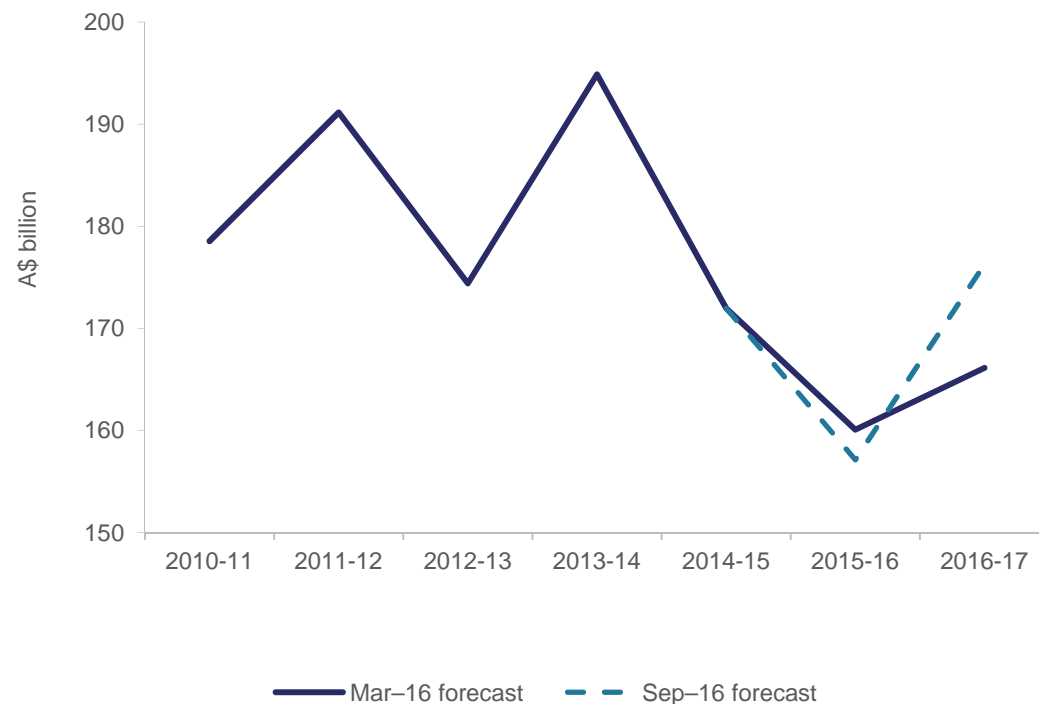
Source: ABS (2016) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2016)

Resources and energy export earnings revision

Generally a more positive outlook than 6 months ago

Largest upward revisions were for metallurgical coal and iron ore

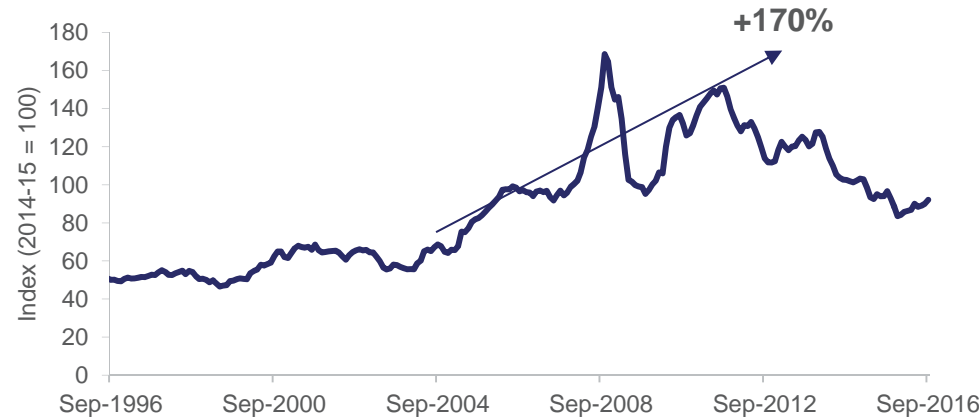
Reflects unexpected persistence in the effects from the housing stimulus in China, and weather and infrastructure related supply disruptions



Source: Department of Industry, Innovation and Science (2016) Resources and Energy Quarterly September edition

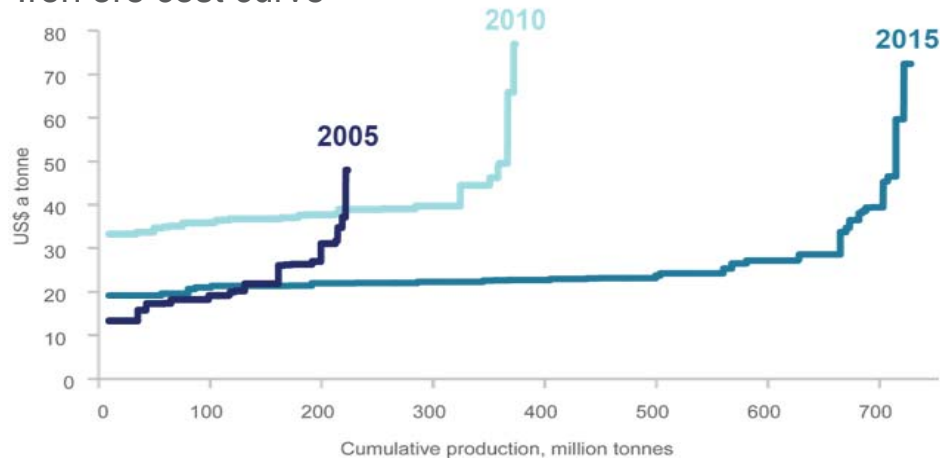
How did we get here?

RBA Index of Commodity Prices



Source: RBA (2016) Index of Commodity Prices

Iron ore cost curve



Source: AME Group (2016)

Note: Cost curves represent the cash cost of mining, processing, administration and support, royalties and freight (to the port)

Commodity prices grew by 170 per cent between 2004 and 2011

Growth in commodity prices were underpinned by:

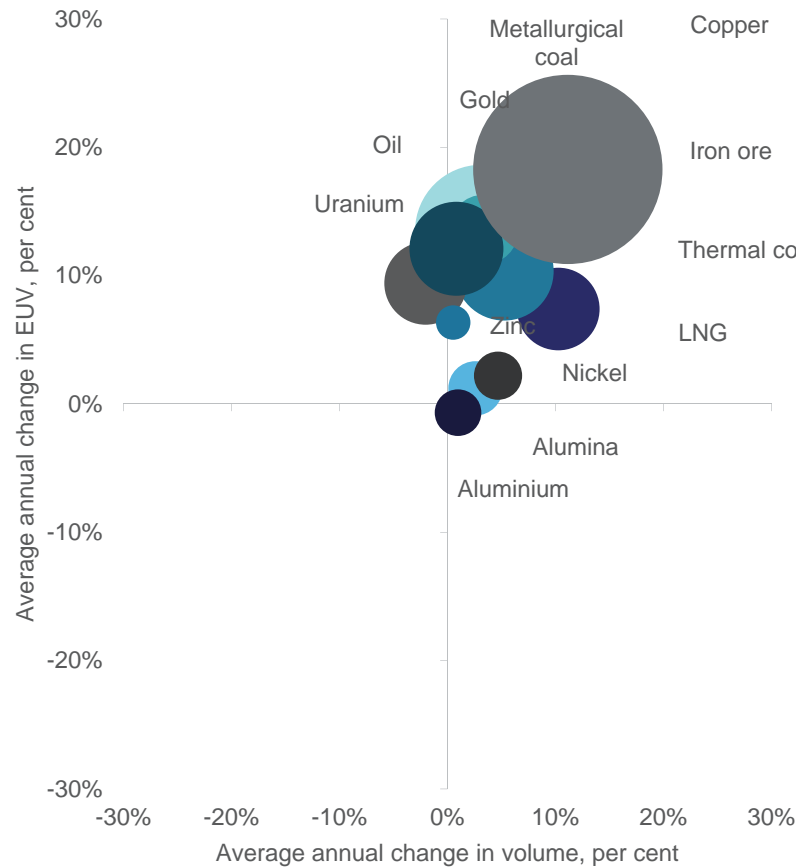
- rapid economic growth in China
- an initially slow supply-side response
- a depreciation of the US dollar against most currencies

Over the course of a decade there have been significant gains in output and efficiency

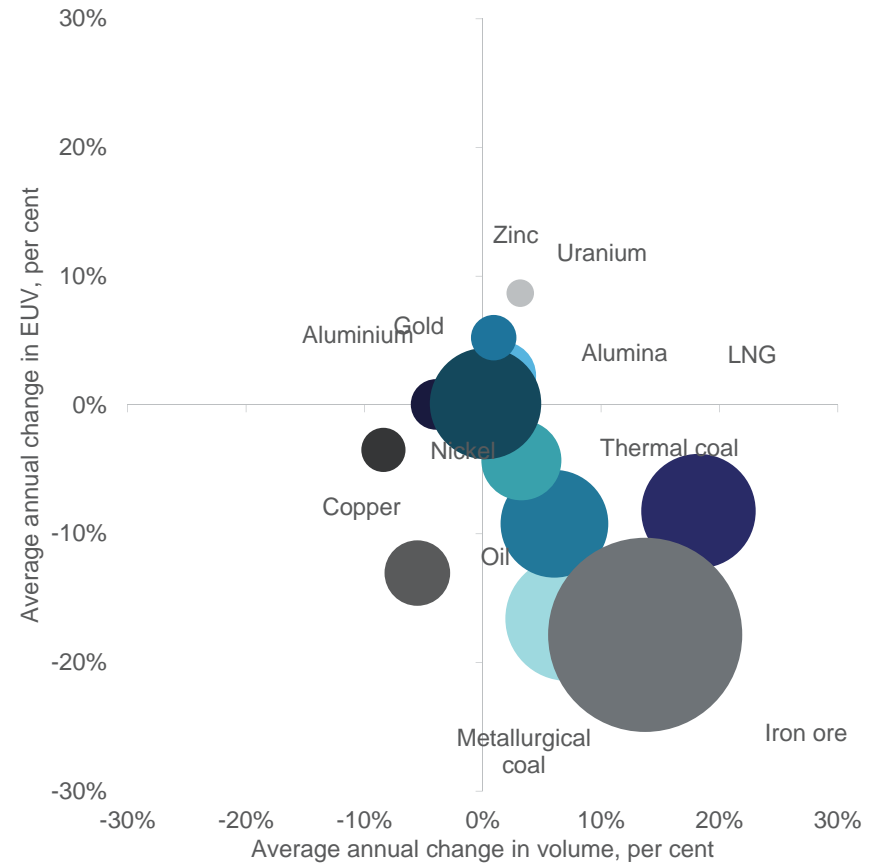
Where are we in the commodity price cycle?

Average annual growth in prices and export volumes

2002–03 to 2011–12



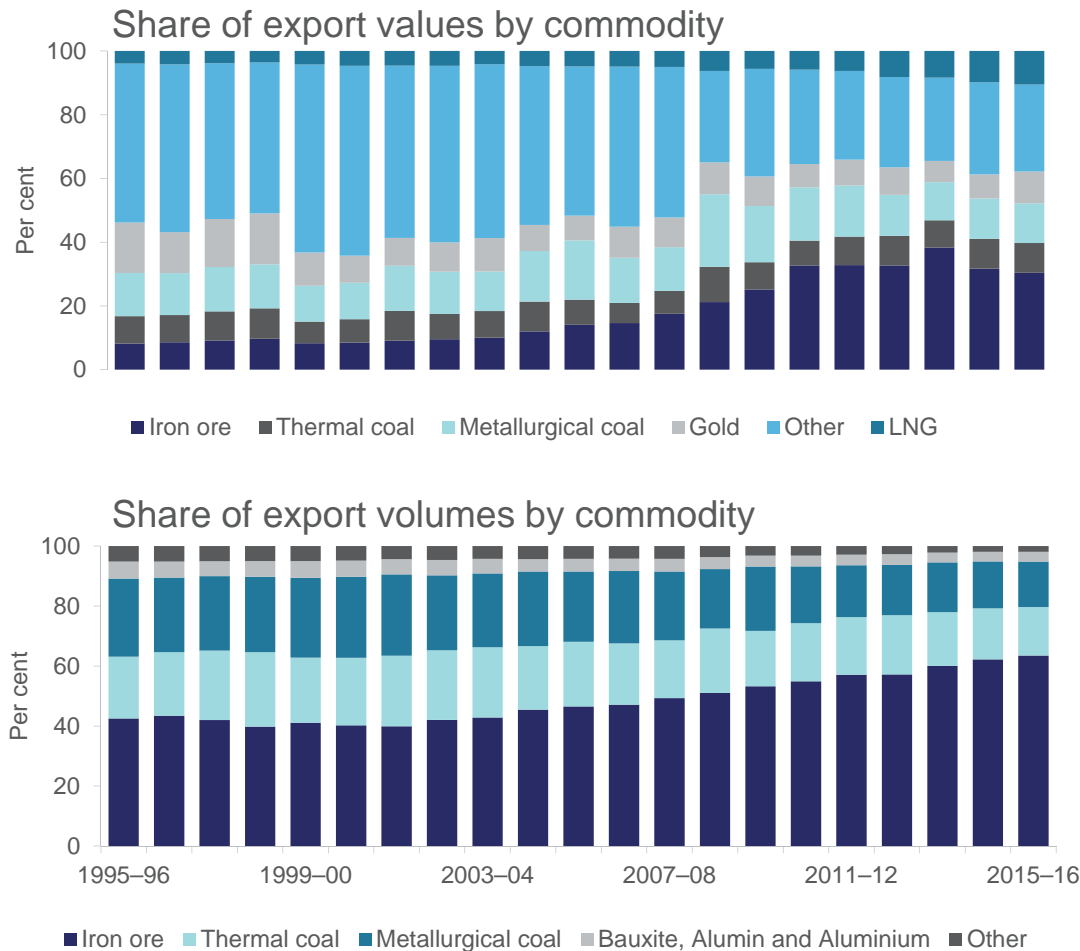
2011–12 to 2015–16



Source: ABS (2016) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2016)

Notes: Size of bubbles reflects total export values in last period relative to other commodities in the period

Shifting (iron)sands



Export earnings have increased 355 per cent over the last two decades

Bulk commodities have increasingly formed a large share of exports, both by value and volumes

While iron ore and coal accounted for 52 per cent of export earnings in 2015-16, they accounted for 95 per cent of export volumes

Source: Department of Industry, Innovation and Science (2016)

Notes: Volumes exclude oil and gas

Chinese demand has been the key driver of growth

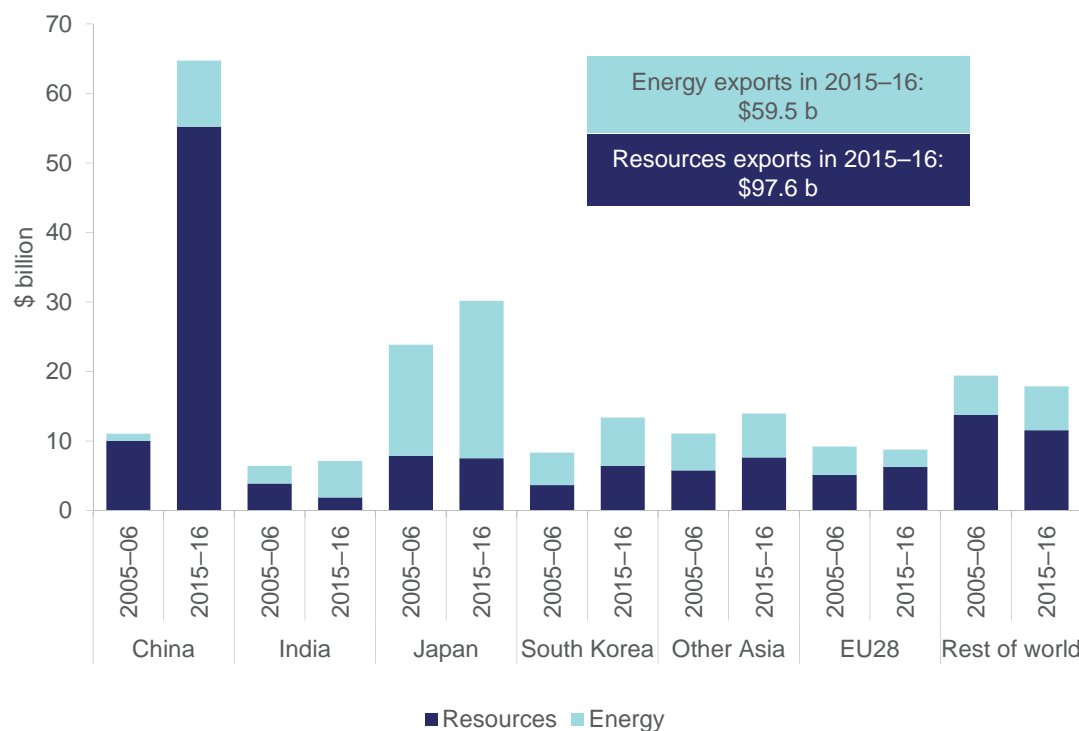
Resources exports have grown 88 per cent (+\$46 billion)

Energy exports have grown 51 per cent (+\$20 billion)

Resources exports to China are over 5 times what they were a decade ago (+\$45 billion)

Energy exports to China are over 9 times what they were a decade ago (+\$9 billion)

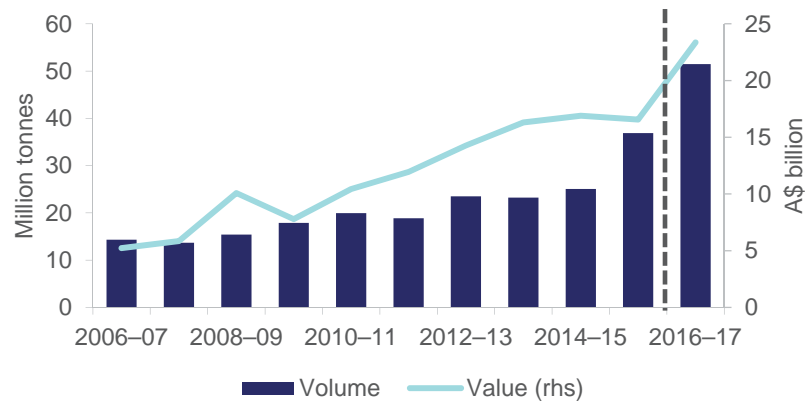
Principal markets for Australia's resources and energy exports



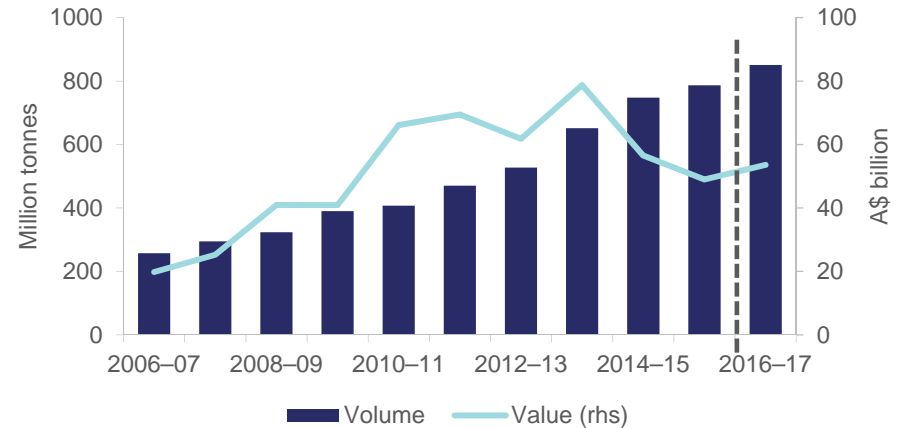
Source: ABS (2016) International Trade in Goods and Services, 5368.0

Exports of Australia's bulk resources and energy commodities

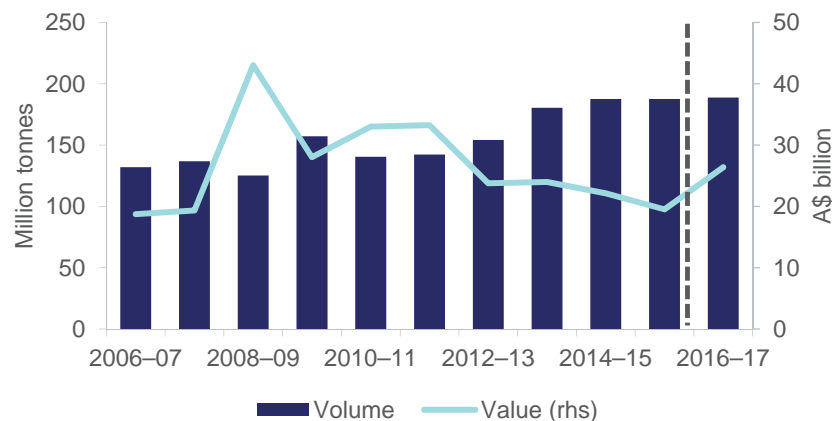
LNG will be the key driver of growth in Australian exports



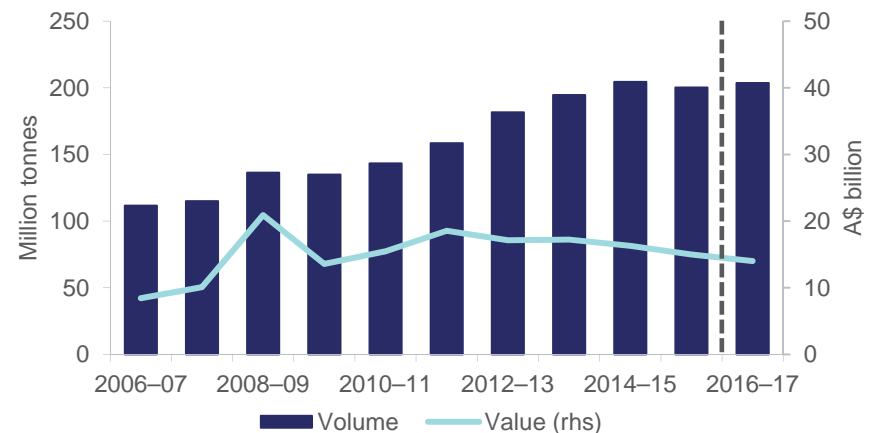
Increased volumes to drive **iron ore** earnings



Australia's export earnings to increase amidst global **metallurgical coal** price rally

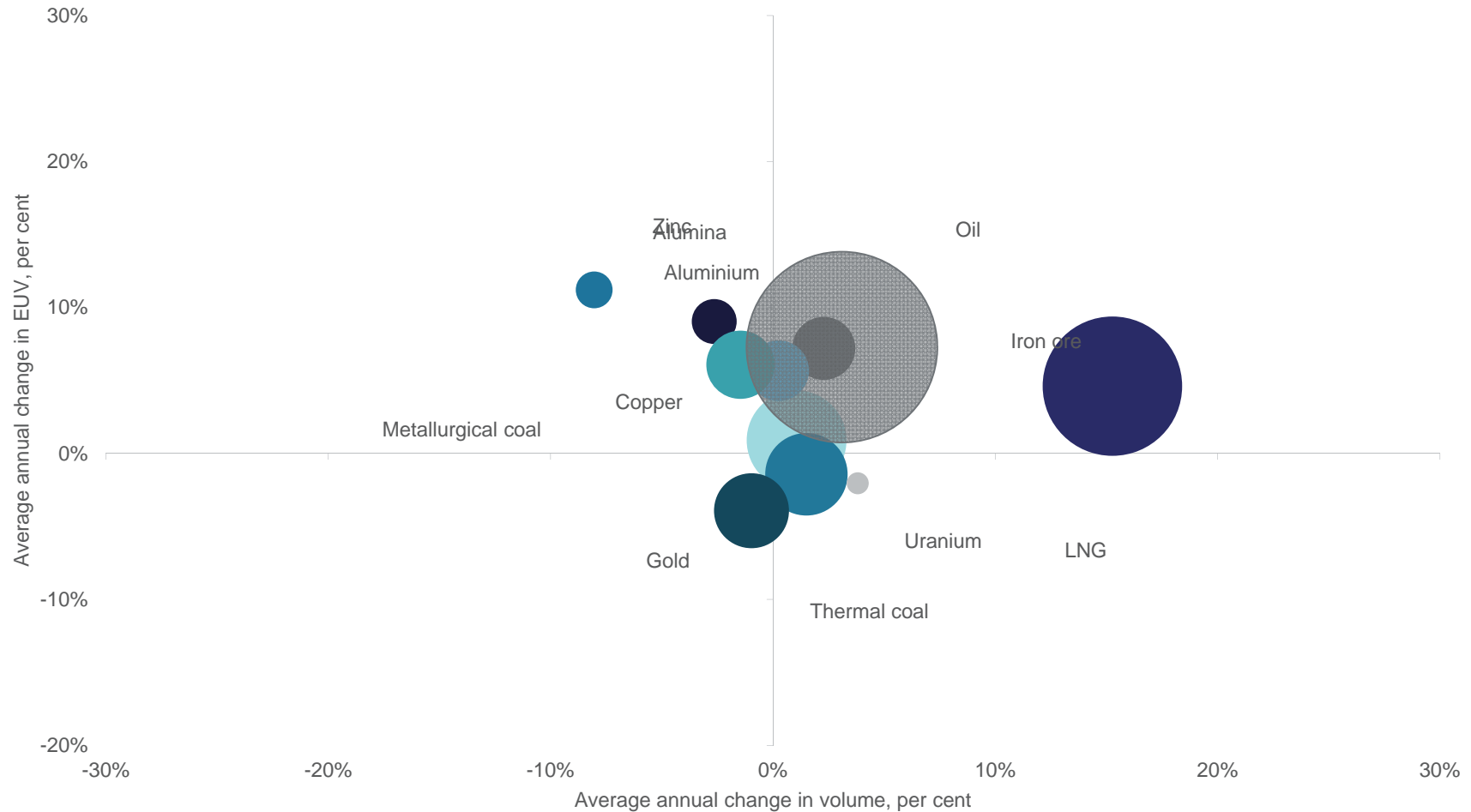


Thermal coal exports volumes forecast to increase despite decline in earnings



Outlook for Australia's resource exports

Average annual growth in prices and export volumes, 2015–16 to 2020–21



Source: ABS (2016) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2016)

Notes: Size of bubbles reflects projected export values in 2020–21

Major risks to the short run outlook



China

Slowing economic growth

Transition toward consumption-led growth

Reversal of the recent improvement in China's housing market



Emerging economies

Slowdown in growth



Developed economies

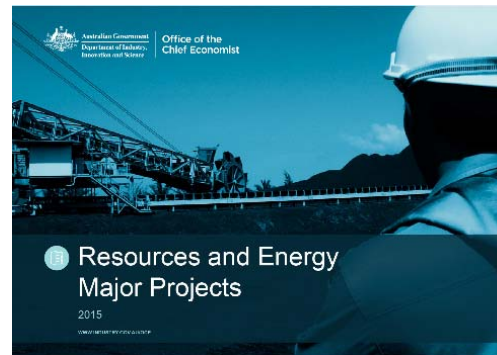
Outcome of the US election

US Federal interest rate

Global uncertainty



Further information



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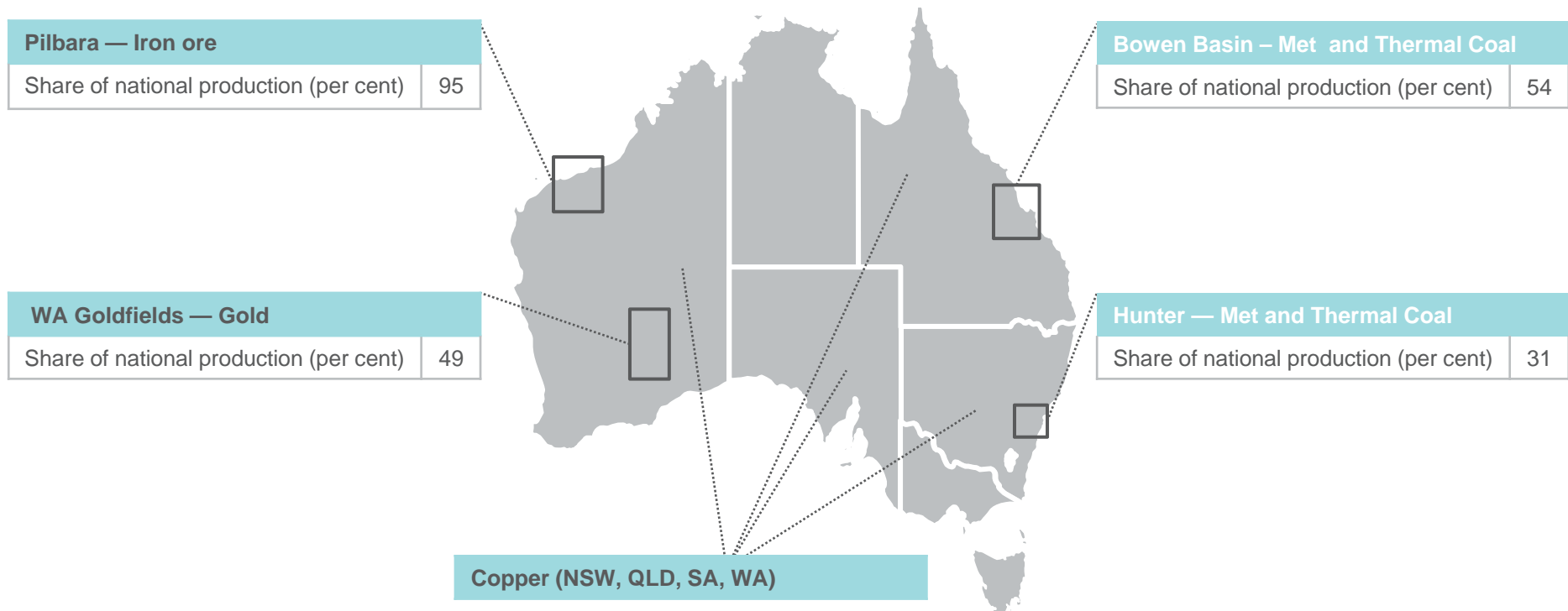
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Australia's major resource regions



Source: ABS 5204.0 table 5; ABS Census 2011; Cost curve estimates from AME.