

TREASURY EXECUTIVE MINUTE

Minute No. 20120190

30 January 2012

Deputy Prime Minister and Treasurer

DELOITTE ACCESS ECONOMICS INVESTMENT MONITOR — DECEMBER 2011

Timing: This publication is **under embargo** until 12.01am, Wednesday 1 February.

Recommendation/Issue:

- That you note the attached summary of the Deloitte Access Economics *Investment Monitor*.

Noted

Signature:/...../2012

KEY POINTS

- The *Investment Monitor* shows the total value of projects over \$20 million increased 2.1 per cent (\$18.7 billion) in the December quarter to be \$912.8 billion.
 - The net increase comprises the revaluation of \$4.8 billion worth of projects, 29 new projects worth a total value of \$27.3 billion, less the completion of \$13.4 billion worth of projects.
 - This issue of the *Investment Monitor* lists the Ichthys LNG project as 'under consideration' at a value of \$30.8 billion. The March 2012 *Investment Monitor* will reflect the final investment decision on 13 January 2012 at a value of US\$34 billion.
 - The mining sector accounts for \$405.9 billion, or 44.5 per cent, of the total value of all projects.
- Deloitte Access note the major role that resources investment is expected to play in driving growth in the near-term and that 'it is economic activity to the north and west which is defining Australia's prospects ... the value of projects underway provides a healthy buffer against a potential global slowdown in 2012' (pages 3-4).
- According to Deloitte Access, the medium-term outlook for Australia's resources sector is strong as 'the industrial revolution underway in Asia is already well advanced, but it still has a decade or two ahead of it' (page 5) and that reductions in investment activity are likely to 'revolve around supply side constraints (skill shortages and a lack of infrastructure)' (page 4).

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ADDITIONAL INFORMATION

- The Deloitte Access Economics *Investment Monitor* follows the release of the Deloitte Access Economics *Business Outlook* on Monday 23 January 2012 (Domestic Economy Division provided a separate briefing on 20 January).

Project Pipeline

- The Deloitte Access 'project pipeline' of \$912.8 billion represents the total value of all recorded investment projects over \$20 million as at the end of December 2011 (Table 1 and Chart 1).¹

Table 1: Value of projects by status

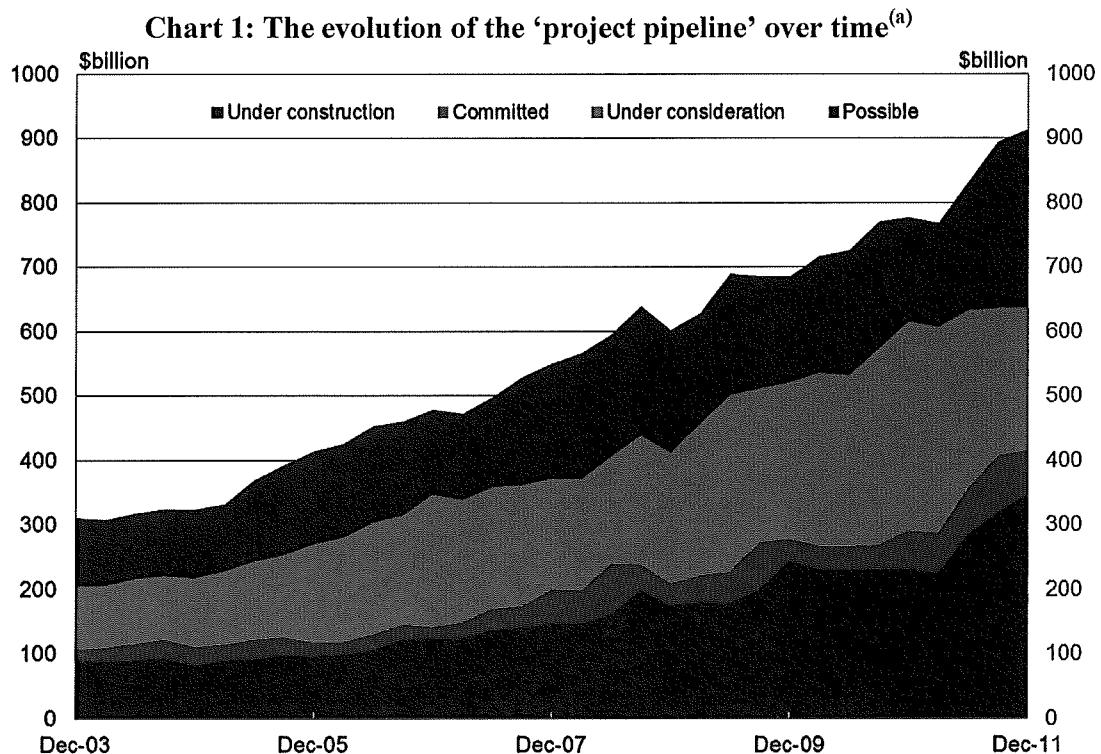
	Dec-10	Sep-11	Dec-11	Quarter ^(a) Per cent growth	Annual ^(b) Per cent growth
		\$billion			
Under construction	231.0	318.9	347.0	8.8	50.2
Committed	59.6	87.8	68.4	-22.1	14.8
Under consideration	325.8	230.4	221.5	-3.9	-32.0
Possible	160.2	256.9	275.9	7.4	72.1
Total	776.6	894.1	912.8	2.1	17.5

(a) Quarterly growth

(b) Through the year change

- The value of definite (under construction and committed) projects rose by \$8.7 billion, or 2.1 per cent, in the December quarter. This includes the commencement of Fortescue Metals Group's \$4.0 billion Solomon iron ore project, and Liquefied Natural Gas Co/HQC's \$2.2 billion LNG plan at Fisherman's Landing Wharf near Gladstone changing status to 'committed' during the December quarter.
- The value of planned (under consideration and possible) projects rose by \$10.0 billion, or 2.1 per cent, in the December quarter. This includes the announcements of the Victorian Government's \$9.4 billion development of the Port of Hastings, and BHP Billiton's \$5 billion development of the South East Longtom gas field in Bass Strait.

¹ Deloitte Access records major capital investment projects under four categories: Possible, Under consideration, Committed and Under construction. Possible — the project is just an idea, or in early stages of planning; Under consideration — serious feasibility studies are underway or budget approval for the project is pending; Committed — when a decision to proceed is announced; and Under construction — construction on the project commences.



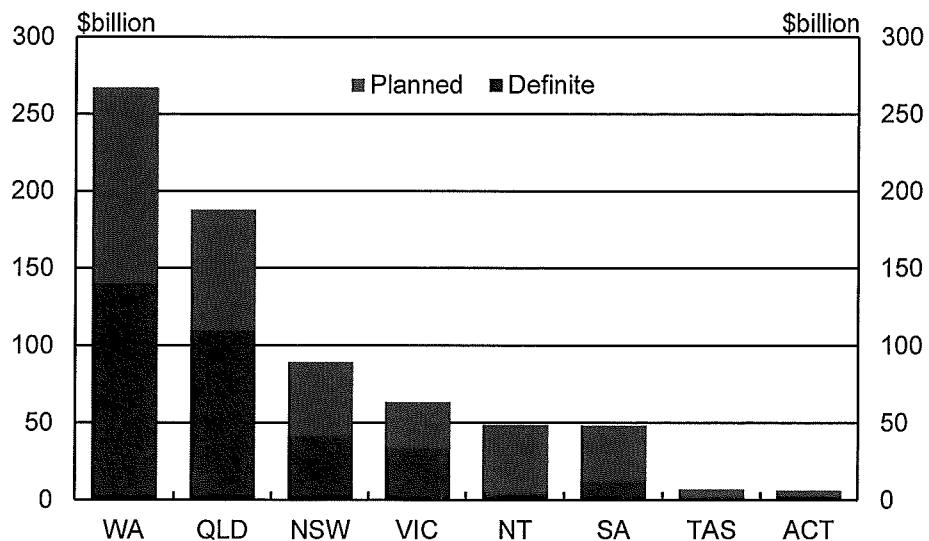
^(a)Note that the *Investment Monitor* now only includes projects involving investment spending of \$20 million or more. It previously also included projects valued between \$5 million and \$20 million. This series has been adjusted to reflect these changes.

Trends/Issues

- The value of mining projects totals \$405.9 billion, or 44.5 per cent of the total value of all projects in the *Investment Monitor*.
 - Mining accounts for 38.3 per cent of all investment projects currently under construction, 82.7 per cent of all committed projects and 70.2 per cent of projects that are under consideration.
 - Deloitte Access notes that the recent growth in mining investment 'is not likely to be the end of the investment surge in Australia', expecting investment levels to continue rising in 2011-12 and the following two years (page 6).
- The manufacturing investment pipeline fell 4.5 per cent through the year, despite strength in resource-related manufacturing projects.
- Western Australia and Queensland continue to dominate investment, between them accounting for 49.9 per cent of the value of projects in the *Investment Monitor* (Chart 2).
 - According to Deloitte Access, the Inpex LNG project in the Northern Territory and the BHPs Olympic Dam expansion in South Australia would see Australia's investment boom expand its geographical profile from 'the gang of two to the gang of four' (page 15).
 - Outside of resource-related investment, assessments of the non-residential pipeline (both public and private) across the states range from relatively modest in NSW,

Queensland, South Australia and Tasmania to ‘solid’ in Victoria and Western Australia (pages 15-18).

Chart 2: Value of projects by state



Special Focus

- The December quarter issue of the *Investment Monitor* includes three special focus articles on tourism, oil and gas, and Western Australia.
 - Deloitte Access notes that while discretionary income in Australia has grown over the last decade, domestic tourism ‘has been relatively stagnant’. An appreciating exchange rate in recent years has increased outbound tourism and reduced inbound tourism. However, opportunities exist as income growth in China and India, and increasing capacity and number of inbound flights generates additional tourist arrivals (page 28).
 - Deloitte Access notes that Australia’s crude oil reserves are limited, and while a rising world oil price has prompted growing exploration expenditure, oil production has been declining over the past decade. However, Australia’s gas reserves are ‘extensive’, with a large amount of investment underway with ‘the economic development of Asia, and the push towards cleaner energy sources’. While the rapid expansion of the LNG industry raises the possibility of an oversupply of LNG in the next few years, Deloitte Access has not observed any slowdown in further expansion, with new supply contracts between Australian projects and customers in Asia continuing to be signed (page 24).
 - The WA economy has experienced substantial growth as it ‘scrambles to catch up to the business opportunities on offer … amid the fastest growth spurt in global industrial commodity demand ever recorded’. The strength of investment in WA is underpinned by mining, which constitutes 81 per cent of the total value of investment projects in the State (page 21). However, Deloitte Access notes that higher wage and material costs and skill shortages continue to adversely impact the non-mining industries in the region (page 20).

Key Quotes — Macro Trends

- ‘The value of projects underway provides a healthy buffer against a potential global slowdown in 2012. Indeed, it is already providing the bulk of growth for the Australian economy at the moment. Engineering construction activity accounted for all of the growth in Australia’s economy during the September quarter of 2011’ (page 1).
- ‘The area north and west of the Brisbane Line accounts for only 20% of Australia’s employment. Yet when it comes to major investment projects under construction that part of Australia above the Brisbane Line dominates, with \$161.3 billion of investment under construction, or 46% of the total. The project pipeline is even more skewed, with \$323.5 billion of investment committed or in planning above the Brisbane line – a massive 57% of total investment committed or in planning’ (page 1).
- ‘With Australia’s economic fortunes now in large part reliant on activity which is so far removed from our major population centres, some major challenges are created. In particular these revolve around supply side constraints (skill shortages and a lack of infrastructure), which are still more likely to be the culprit if investment starts to wane than any lack of demand. Australia’s track record in labour mobility is not great – now is the time to improve it’ (page 4).
- ‘The industrial revolution underway in Asia is already well advanced, but it still has a decade or two ahead of it – years in which demand for Australian resources is expected to continue to climb, albeit with the title of ‘growth gorilla’ passing from China to India in the coming decade. That means the demand driver for resource sector capacity expansion in Australia is likely to be long lasting’ (page 5).