

HD **Resources ills talk for the birds**

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The commodities boom might be over but the resources boom is not.

If that sounds contradictory it's because the game has changed - from one where rising commodity prices meant anyone could make money, to a situation where skill is required to control costs and improve productivity.

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Multiple indications of this transition to a new phase in Western Australia's economy can be measured, including:

- o the latest CommSec report on the 'State-of-the-States';
- o sharply higher Perth **property** prices;
- o revived interest in the mining sector by international investors;
- o a rebound in a forgotten industry, alumina; and
- o a quicker-than-expected recovery by mine-service contractors.

Before considering those points, and a few others, it's important to look at what's happening in WA's three most important buyers of our resources - **China**, Japan and South Korea.

While **China** is the big one, the other two should not be overlooked because of their status as both buyers of raw materials and investors in resource projects, such as the Gina Rinehart-led Roy Hill iron ore mine and the DeGrussa copper mine of Sandfire Resources.

China, which some critics see as an economy heading for a sustained slowdown, will remain WA's most important customer and will **buy** more (not less) because even a slower growth rate is off a spectacularly bigger base.

The current debate about whether **China** is growing at an annual 7.8 per cent or 7.7 per cent is farcical, given that the rate of growth was always going to slow as the country's economy got bigger. To put it another way, a larger **Chinese** economy growing at a slower rate contributes more to global growth than a smaller **China** growing faster.

Last week's CommSec report provides evidence that WA is adapting to a new and (hopefully) more productive phase of development not dependent solely on the easy pickings of rising commodity prices.

Given that the popular view of WA, especially in eastern Australia, is of a state that has fallen off an economic cliff since the commodities boom ended, it was amusing to see that WA remains the country's top-performing region by most measures, pipped only by the Northern Territory, a pretend state with a tiny population.

What's driving WA is a combination of residual capital investment and the era of big cash flows from the capital investment of the past decade, with Fortescue Metals **Group** a case study in cash with its easy ability to painlessly retire a few billion dollars in excess debt.

It is the inward flow of cash from goods **sold** to **China**, and the permanent jobs it is creating (rather than short-term construction jobs) that underpinned WA's 9.9 per cent rise in **residential property** prices last year - a time when popular opinion said the boom was over.

Reviving interest in mining by international investors can be seen in a number of recent reports, including a Credit Suisse report on commodity prices titled 'Light at the end of the tunnel', and a report by a rival investment bank, Citigroup, which included the comment that it has flipped from being a mining 'bear' into a mining 'bull', but not because of commodity prices but more because of the recovery in profits and improved industry productivity.

Alumina, the product of bauxite mining and precursor to aluminium, is a recovery story happening on Perth's doorstep - with four of world's biggest alumina refineries starting to enjoy the benefits of an improving price and demand outlook.

After several years in the doldrums, the alumina price is expected to rise from around \$US330 a tonne to \$US340/t this year and then up to \$US350/t next year, with the added boost of an even higher price on conversion to Australia's lower-value currency - perhaps the biggest single factor in WA's brighter-than-expected outlook.

Recovery in the resources-services sector is another surprise, mainly because it is coming faster than anyone imagined as last year's downturn becomes a distant memory and investment banks dust off their assessments of the major contractors.

Worley Parsons, Downer EDI and Mineral Resources have all returned to the **'buy'** lists of major banks, for two reasons. Firstly, because they were **sold** down so heavily last year and secondly because they are on the mend, employing fewer people but in much stronger financial shape.

The process through which WA is passing, or might already have passed, is exactly what a leading banker predicted just before Christmas.

Vaughan Wickins from South Africa's Standard Bank told a conference in London that the global resources boom could be compared with a famous sketch from the Monty Python comedy show about a dead parrot in which John Cleese says the parrot is not dead, it's "merely resting".

His presentation drew a few laughs, but he wasn't joking, and we're starting to see why.

Power failure

At risk of annoying the green brigade, it's getting rather tiresome hearing their excuses as to why solar and wind power are not proving to be the miracle cure for Australia's economic ills.

Last week's heat wave in eastern Australia, perhaps caused by global warming, was a test that solar and wind flunked alarmingly.

Despite billions of dollars invested in solar panels and wind turbines, neither made a useful contribution to power demand; and while it might be unfair to take a single week as a case study in failure, there is an absolutely critical question to ask.

What happens if Australia becomes even more dependent on solar and wind power and the reliability of the electricity grid declines? Do we simply close factories and apologise to customers?

Saving the planet from global warming is an admirable objective but at some point Australian governments need to ask 'at what price'?

Dollar dazzler

COLD comfort it might be for anyone craving a return to a high exchange rate, but the Australian dollar is not alone in suffering from decline against the US currency.

The dollar in resources-exposed Canada has just hit a four-year low against the \$US, triggering celebration in the frozen north which one government minister hailing the fall as a "remarkable opportunity" for the country's exports.

Ditto Australia.

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