QUEENSLAND resources COUNCIL

QRC **STATE OF THE SECTOR**

JUNE QUARTER 2020


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CONTENTS

INDUSTRY'S 'PEOPLE FIRST' STRATEGY LEADS TO MORE LOCAL OPPORTUNITIES

More than three months responding to a global pandemic did not stop the Queensland resources sector from powering through 2019-20. The sector's people-first COVID response meant Queensland could continue supplying its materials for economic growth to the world. Queensland exported a record 22.1 million tonnes of LNG across the year— or 2% above the 21.6 million tonnes in 2018-19[1]. Coal exports also maintained their strength at 220 million tonnes in 2019-20—less than 3% shy of their 2018-19 export record.[2]

The Queensland Premier and Treasurer have both recognised the sector's achievement through adversity:

> *"The resources sector is one of Queensland's greatest strengths…. I want to recognise the constructive approach the resources sector has taken to quickly implement COVID Safe Industry plans to protect workers while keeping our critical supply chains open."*[3]
>
> Queensland Premier and Minister for Trade, The Honourable Annastacia Palaszczuk MP

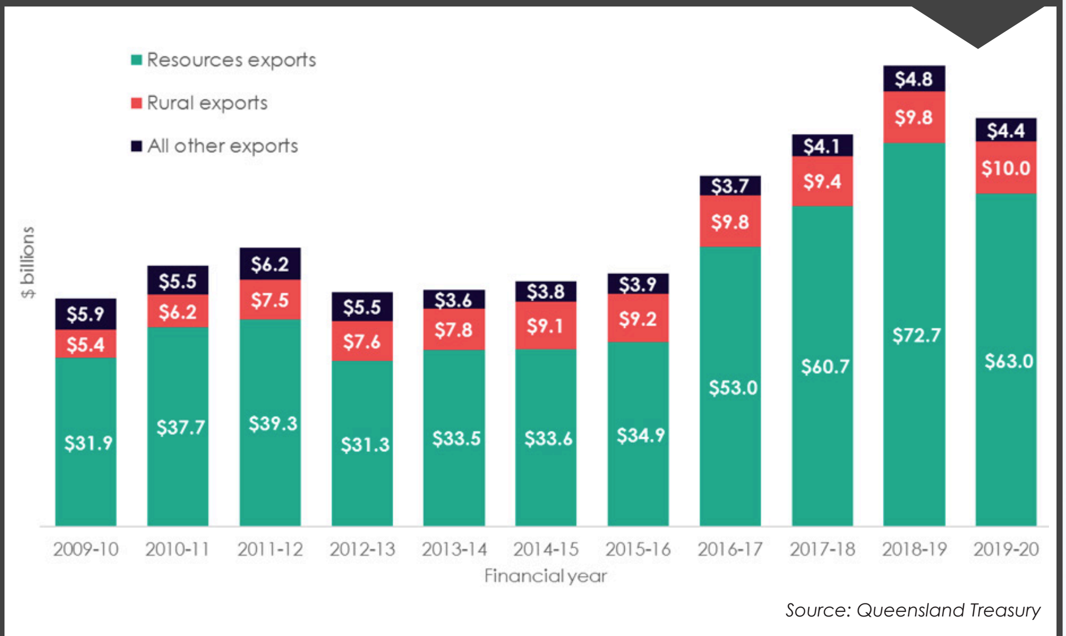
> *"While our small business, tourism, hospitality and retail sectors have been among the hardest hit,* ***our mining and agriculture industries have helped us to power on, generating important export dollars that have also delivered dividends for the people of Queensland.****"*[4]
>
> Queensland Treasurer, The Honourable Cameron Dick MP

It's a good thing Queensland's top exports, resources and rural goods, could continue. More than 80% of Queensland's exports are resources. When combined with rural goods, the two make up nearly 95% of Queensland exports (see chart 1). Worth $63 billion in 2019-20, the resource export dollars earned for the Queensland economy is significant — greater than the Queensland Government's budgeted expenditure for the same year ($60 billion).[5]

The sector's mostly Queensland-based workforce helped it to mitigate the border impacts of COVID-19.

According to the QRC's 2018-19 economic contribution data, 95% of the sector's workers lived in Queensland prior to COVID, with 79% of Queensland workers living outside of the Brisbane region.

CHART 1: RESOURCES AND THE REST — QUEENSLAND'S GOODS EXPORTS BY FINANCIAL YEAR ($ BILLIONS)



Source: Queensland Treasury

[1]Cargo Comparisons [2]IHS Ports Data [3]Premier's address to CEDA State of the State, Brisbane, 20 August 2020
[4]Economic Recovery Strategy [5]Queensland Government, 2019–20 Mid-Year Fiscal and Economic Review

That meant most workers lived far away from major COVID clusters and were unaffected by the necessary border closures.

Some specialist skills and experts can only be accessed from interstate, but those instances are a small minority of the workforce. According to this quarter's QRC member CEO survey, nearly half of CEOs (42%) said they did not rely on interstate residents in their workforce prior to COVID. For those CEOs that did, on average, interstate residents made up 13% of their workforce.

Since the latest Queensland border restrictions came into effect in early August, the number of interstate residents working in the sector has dropped to near zero. The sector continues to do whatever is necessary to protect workers and the community and closely with the Queensland Government and office of the Chief Health Officer to prevent the spread of COVID.

Looking beyond COVID, CEOs said they expect the growth in Queensland workforces to continue. Across those QRC members with interstate workers— 43% of CEOs said they planned to decrease their use of interstate workers in the long term. CEOs said they'd instead provide more opportunities for Queenslanders by providing more opportunities for local workers and Queensland residents.

With tourism and hospitality hit hard by the pandemic, the focus on increasing Queensland workers comes at the right time for the Queensland economy. According to the ABS's July 2020 labour force data, nearly a quarter of a million Queenslanders are looking for work, handing the state the unenviable title of the highest unemployment rate in the country.[6]

There are plenty of reasons to believe Queensland is well positioned to begin a resources-led recovery in the medium term. According to BHP's latest economic and commodity outlook "Population growth and rising living standards are likely to drive demand for energy, metals and fertilisers for decades to come" with "China, India, ASEAN and the multi–decadal impact of China's Belt and Road initiative … all expected to provide additional demand"[7]. Similarly, Aurizon reports the "fundamentals of Australian metallurgical and thermal coal remain strong, driven by steel and energy demand in Asia, supporting coal export growth of 1-2%pa over the next decade."[8] That growing demand for Queensland's resources can only be a good thing for growing job opportunities for Queenslanders.

[6]ABS, Cat. No. 6202.0, Labour Force, Australia, Jul 2020 [7]BHP, Economic and commodity outlook (FY20 full year) [8]Aurizon FY2020 results

INDUSTRY LOOKS TO A MORE FLEXIBLE FUTURE

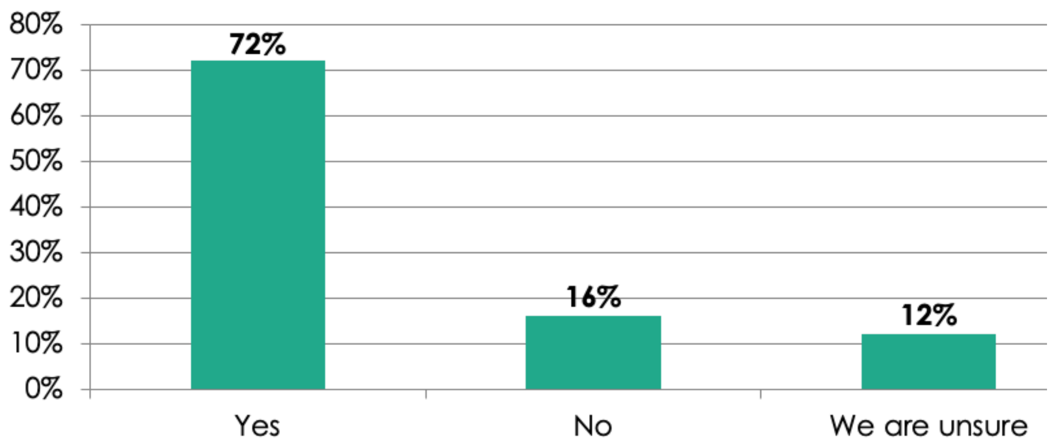
COVID has accelerated existing trends and created new ones. In this quarter's QRC survey, member CEOs said COVID has affected their entire business— from how they get to work to where their exports end up.

> *COVID has changed everything – supply chain, risk management, social licence, and markets."*
>
> QRC member CEO, August 2020

COVID's accelerated transformation of the workplace is perhaps the most pronounced. Prior to COVID, QRC member CEOs had recognised the personal and business benefits of flexible work practices with 64% of QRC member CEOs providing work from home opportunities for their employees. For those that did, CEOs said that on average, around one quarter (24%) of their workforce worked from home regularly.

CHART 2: MORE RESOURCES EMPLOYEES TO WORK FROM HOME

Q: Post-COVID, do you anticipate offering greater opportunities for your employees to work from home?



Source: QRC

However, since March 2020, that proportion has grown substantially. 92% of CEOs said they provided opportunities for their employees to work remotely. For those that did, on average, 41% of their staff worked from home regularly.

Many resources roles can't be performed remotely, but CEOs pointed to office functions like finance, IT, human resources and operational support roles as opportunities for greater remote working—while several CEOs reported their entire corporate office continues to work from home regularly.

In May, KPMG predicted that post-COVID, "work will be regarded as a thing you do, rather than a place you go"[9] and most QRC member CEOs seem to agree. 72% of CEOs said they're looking to expand opportunities for employees to work from home (chart 2), while 13% of CEOs said they were considering shifting business functions away from Brisbane and into regional Queensland. It's uncertain what workplaces will look like in the future, but the sector's willingness to explore new ways of doing business can only be a good thing.

> *Work will be regarded as a thing you do, rather than a place you go"*
>
> KPMG

[9] KPMG Insights

KEY INDICATORS

QRC PRODUCTION VOLUME INDEX -
SMALL DECLINES OVER THE QUARTER

The QRC's quarterly Production Volume Index tracks changes in the total production of Queensland's major commodity exports—alumina, aluminium, bauxite, coal, copper, gold, lead, LNG, silver and zinc.

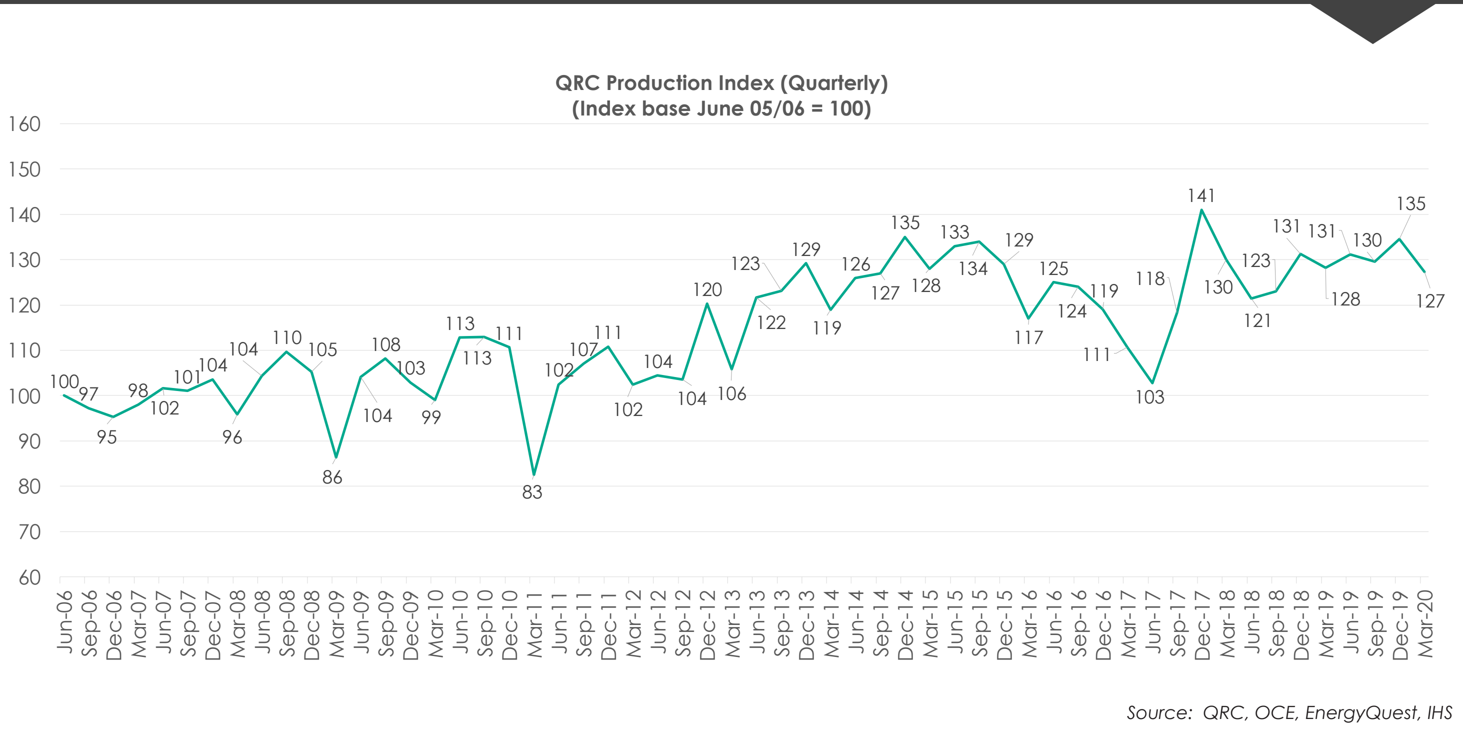
The Production Volume Index is weighted by the production volume of each commodity. This means changes in the volume of coking coal (which is over half of the total index value) has a larger impact on the quarterly index result than, for example, changes in thermal coal volumes (representing approximately 10–15 % of total value).

For this quarter, the QRC's Production Volume Index decreased to 127 points, eight points down on the December 2019 quarter and one point down on the same quarter in 2019. Despite the mild fall, the latest result means Queensland's resources production is 27% higher than when the index first began in 2006.

For this quarter, Queensland's copper (-12%), bauxite (-11%) and coal (-8%) production drove the decline, while silver was one of the few bright spots, increasing by 8% across the quarter.

The production data used in the Index is published with a lag, so the full impact of COVID-19 is yet to appear in the Production Volume Index. However, ports data from 2019-20 (discussed above) shows that production volumes have not experienced a repeat of the Global Financial Crisis, where the QRC's Production Index plunged to 86 points between the September 2008 and March 2009 quarters.

CHART 4: QRC PRODUCTION VOLUME INDEX - MARCH 2020 QUARTER (A$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)



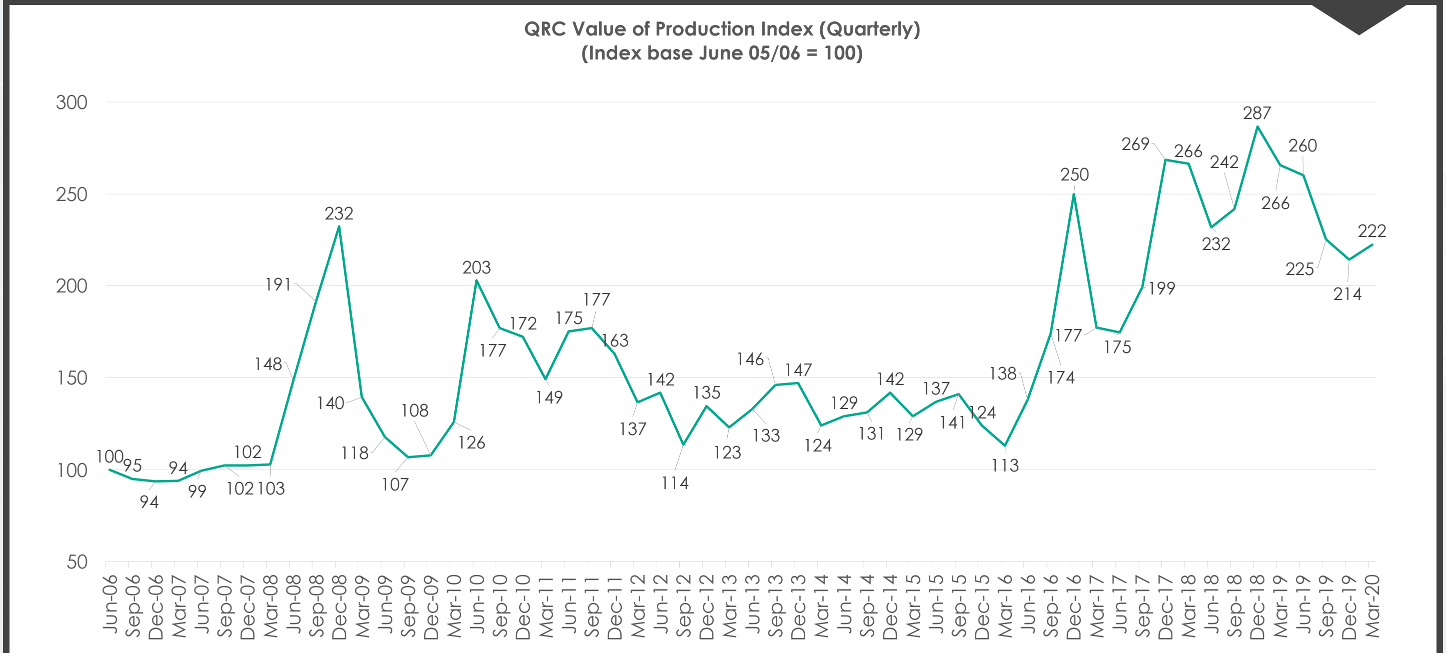
QRC VALUE OF PRODUCTION INDEX

QRC's Value of Production Index reflects changes in the prices of the resources that Queensland produces. The weighted index reflects the same mix of commodities as the QRC production volume index, which includes LNG production from the December 2016 quarter.

Over the March 2020 quarter, the QRC's Value of Production Index improved 8 points —from 214 to 222 points. For the March quarter, strong price increases in hard coking coal (7%), gold (7%) and LNG (3%) more than offset declines in zinc (-11%), lead (-10%), and copper (-4%). Thanks to the increasing prices of key Queensland commodities, this index result shows Queensland's resources production value remains over twice the size it was in 2006.

Like the Production Volume Index above, the full impact of COVID-19 is yet to appear in the QRC Value of Production Index, which relies on lagged production and price data. Production volumes have remained steady for most commodities during the pandemic to date. However, spot prices for many of Queensland's commodities have weakened, suggesting declines in the Index can be expected in future quarters.

CHART 5: QRC VALUE OF PRODUCTION INDEX - DECEMBER 2019 QUARTER (A$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)



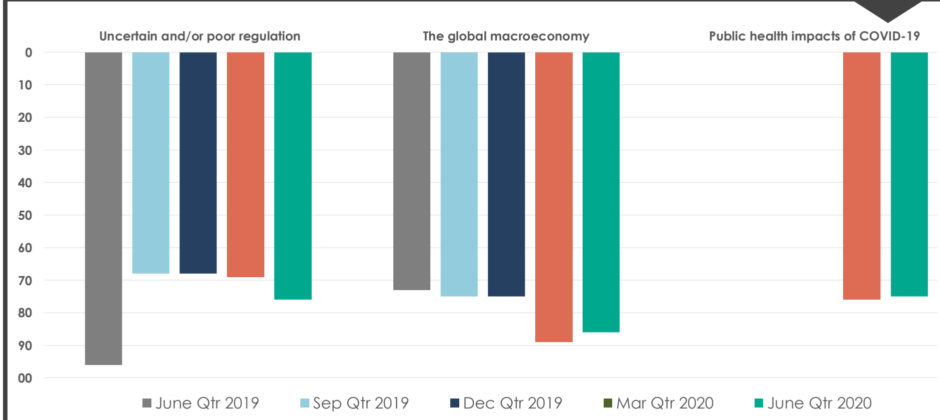
Source: QRC, OCE, IHS

QRC CEO SENTIMENT INDEX

Each quarter, the QRC prepares its CEO Sentiment Index by surveying its full member CEOs. The survey typically receives between 20-35 responses from mining and energy, minerals processing, contracting, exploration, electricity generation and oil and gas extraction members in Queensland. Each survey asks CEOs to nominate the extent they expect a series of eleven factors to impact on the objectives of their organisation over the next 12 months. Since the March 2020 edition, the QRC has also included "Public Health Impacts of COVID-19 as an additional sentiment factor. The QRC weights the responses to create a single sentiment value for each of the sentiment factors. The weighting means the factors generating the greatest concern receive the lowest scores and are lower down on the negative axis.

Last quarter (March 2020), the impact of COVID-19 was clearly visible in CEO's responses, with sentiment falling on several fronts. Now in the June quarter, the resilience of the sector has shone through with CEO sentiment improving across 10 of the 12 sentiment categories.

CHART 6: CEO SENTIMENT INDEX RESULTS-TOP 3 CONCERNS FOR QRC



Note: Public health impacts of COVID-19 is a new sentiment factor for the March 2020 quarter.
Source: QRC

The global economy remains the chief concern for CEOs this quarter—its fourth quarter in first place. Sentiment towards the global economy slightly improved by three points since the beginning of the pandemic, yet CEOs clearly remain troubled by conditions:

A reduction in the coal price and an appreciating Australian dollar is creating significant pressure on bottom line profitability. Anything that prevents action being taken to reduce costs will impact on the business"

"I'm most concerned by COVID's knock-on impacts on oil and gas markets"

"Global macroeconomic environment is likely to create high volatility in metal prices"

QRC member CEOs, August 2020

Despite being recognised as an essential activity by all levels of government, CEOs have not found support closer to home. Sentiment towards uncertain and/or poor regulation slid a further seven points in the June quarter, with CEOs pointing to several Queensland policy concerns:

Queensland Government approval processes remain a major barrier to investment in Qld"

"The upcoming state election and lack of clear decision making on many issues and policy will compound our concerns."

"Queensland's regulatory changes without true consultation can have significant impacts."

QRC member CEOs, August 2020

Finally, sentiment towards the public health impacts of COVID-19 improved by one point but remained deeply negative. Risk management and crisis planning are core processes for resources companies with COVID remaining a key focus:

All of our thinking is linked to global COVID impacts"

"COVID continues to generate uncertainty"

QRC member CEOs, August 2020

Chart 6 illustrates the change in sentiment over recent quarters for our member CEOs' top three concerns.

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