

QRC STATE OF THE SECTOR

MARCH QUARTER 2018



CEOS POINT TO JOBS ON THE HORIZON

Since the commodity price lows of 2015-16, the Queensland resources sector has enjoyed a sustained period of positive economic fortune. The recent announcements through May 2018 embody this optimism. Santos and its GLNG Partners announced its plan to invest over \$400 million in the 137-well Arcadia gas project in the Bowen Basin, Sojitz acquired the Gregory Crinum coal mine for \$100 million, and the Australian Bureau of Statistics found Queensland greenfield exploration in the March 2018 quarter increased by 39 per cent compared to the March 2017 quarter.

The improved positivity and investor interest in the sector has translated into jobs. For example, jobs in the Mackay region grew by 7.5% in the year to April 2018. As a result, the Mackay region now has the lowest unemployment rate in Queensland at 3.8%—well below the Queensland average of 6.1%.

Chart 1 below shows the correlation between Queensland mining job advertisements commodity prices — with a six-month lag apparent between the two. While job advertisements in the sector are well below the

peaks of 2011-12, it's still another positive sign of growth.

Queenslanders have several reasons to expect resources jobs growth to continue.

According to SEEK's latest employment report, Queensland was the leading state for growth in job advertisements in May 2018—enjoying a 46 per cent increase in advertisements compared to this time last year.

Looking ahead, the results from our latest CEO Sentiment survey confirms the positive job outlook for the Queensland resource sector (Chart 2).

52% of QRC member CEOs expect to increase the total workforce at their Queensland operations over the next 12 months—with 13% planning a substantial increase. Only 9% of CEOs said they planned to reduce their workforce in coming 12 months, with none of those expecting a substantial decrease.

CHART 1: COMMODITY PRICES VS. QLD MINING JOB ADVERTISEMENTS

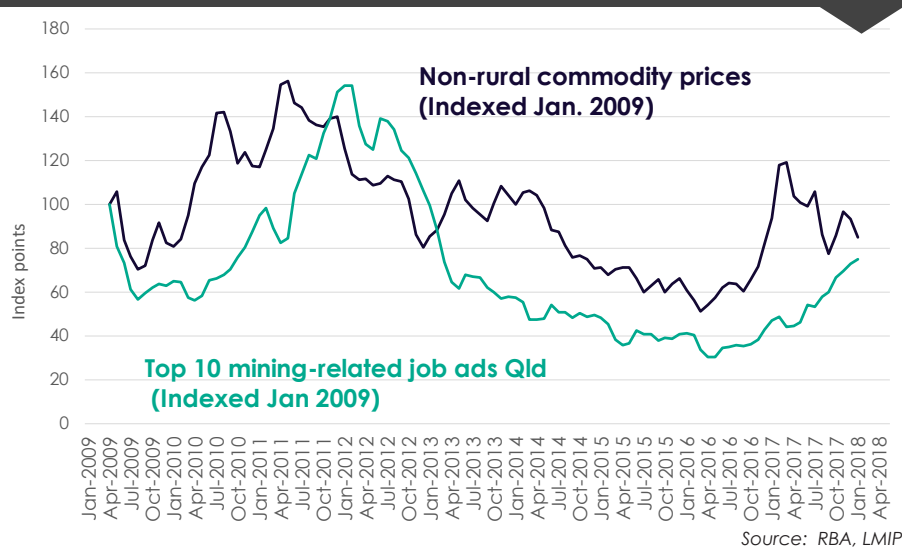
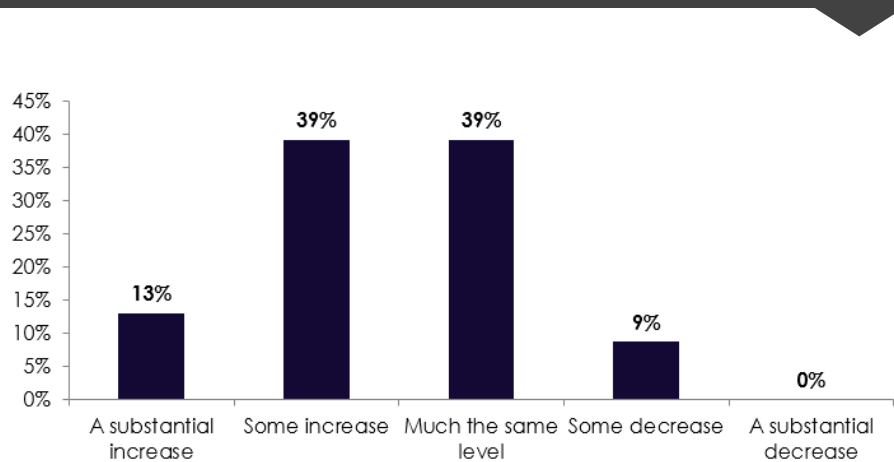


CHART 2: CEO'S 12 MONTH OUTLOOK FOR WORKFORCE EMPLOYMENT



A growing workforce comes with its own challenges. QRC member CEOs almost universally said that the major challenge in achieving their workforce targets over the next months would be skills demand. CEOs said:

“The uptick in coal demand, globally, is reason for some optimism — finally. The knock-on effect will be increased competition for human resources in an environment where skilled technical staff are becoming more difficult to attract”

“A general ramp up in industry activity is making attraction and retention of our people increasingly difficult. This is the first flush on the next cycle”

QRC member CEO sentiment survey, March 2018

Resource jobs are well paid jobs. The mining industry has by far the highest average weekly full time adult earnings out of any industry at \$2,659 — or over \$138,000 per annum. Yet there's a real concern from CEOs that the next generation of university students and apprentices are looking elsewhere — and competition for future candidates will continue to increase:

“Lack of training and supply of good quality candidates. Mining has taken such a beating we are now seeing a large shortage of younger well-trained graduates and trades people”

“Attracting people to the resources industry given the general negative perception in society”

“Mining isn't the only industry seeking these skills”

QRC member CEO sentiment survey, March 2018

While some CEOs are saying it's difficult to get candidates to work in the regions:

“Job seekers are more reluctant to leave the city to work in our central Queensland location”

“[Our main challenge is] attraction and retention on remote locations requiring residential employment, due to competition with opportunities elsewhere”

QRC member CEO sentiment survey, March 2018

In the short-term, skill shortages will lead to competition for skilled employees and strong wage inflation. But the real pain will be felt in the longer term, as higher costs can often lead to fewer new projects — and that means less jobs and less royalties for Queenslanders.

CEOS POINT TO JOBS ON THE HORIZON CONTINUED

Recent industry data already points to an industry that is battling input costs. ABS data shows input costs to the coal mining industry have achieved the highest two consecutive quarters of growth since the June/September 2012 quarters¹. These growing input costs haven't escaped the attention of QRC member CEOs — who have identified cost pressures on several fronts:

“Competition for skilled labour due to expansion or operations coming back into play. People are starting to throw money at the issue”

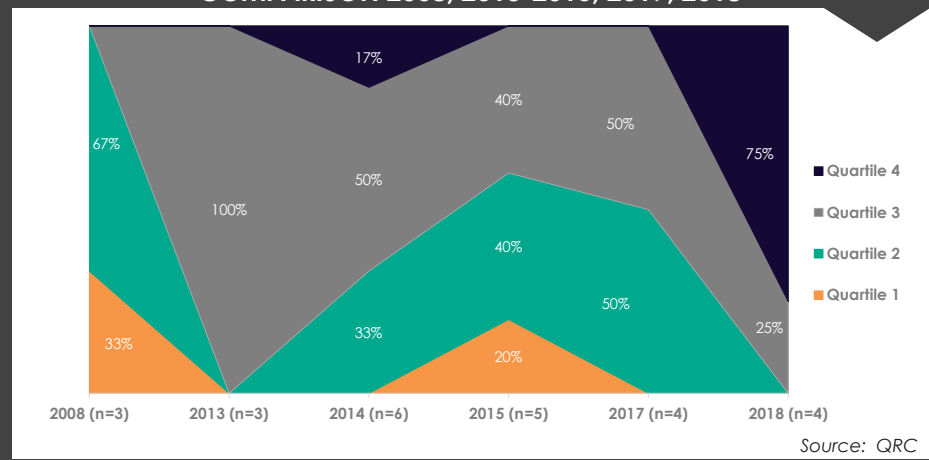
“Controlling costs is tough enough but regulation and its enforcement in Queensland is hurting”

QRC member CEO sentiment survey, March 2018

To track our cost competitiveness, the QRC regularly asks CEOs how they rate their Queensland operations against their global competitors. The survey results from the March 2018 quarter results show costs are hurting some QRC members.

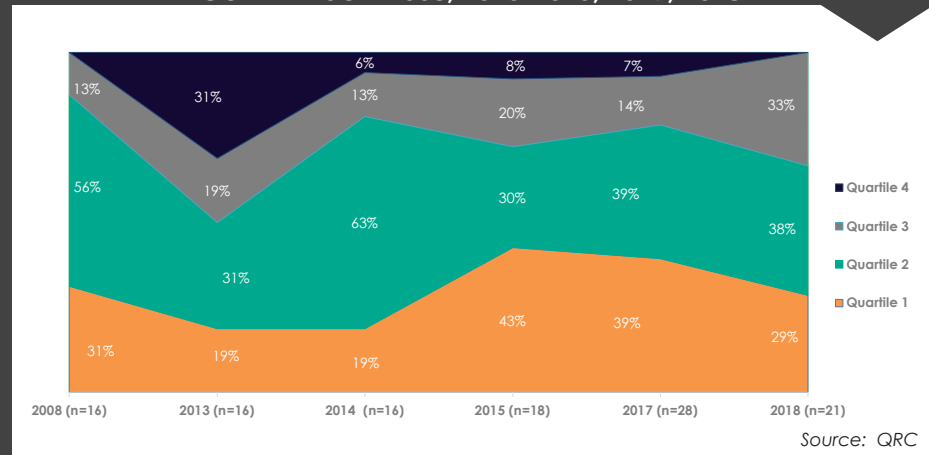
Queensland's oil and gas producers continue to face significant cost pressures—with all Queensland oil and gas producers in the high cost half of the cost curve, and 75% in the highest cost quartile. Only 12 months earlier, 50% of Queensland oil and gas producers were in quartile 2.

CHART 3: QUEENSLAND OIL & GAS OPERATIONS COST QUARTILE COMPARISON 2008, 2013-2015, 2017, 2018



The result for QRC's mining members is more positive. Two-thirds of producers remain in the first and second quartile, or the lowest half of the cost curve—down from 78% last year. Meanwhile, all producers have moved out of the highest cost quartile, an excellent result. However, the proportion of miners in the lowest cost quartile has decreased from 39% last year, to 29% in 2018—an early warning sign of concern.

CHART 4: QUEENSLAND MINING OPERATIONS COST QUARTILE COMPARISON 2008, 2013-2015, 2017, 2018



Australian coal producers have typically enjoyed a competitive edge through its coal transport infrastructure² and given most Queensland coal is exported, we must continue to hold that edge. However, Aurizon's decision earlier this year to implement its restrictive maintenance practices threatens to reduce Queensland's coal exports by up to 20 million tonnes per annum—harming Queensland's international reputation with coal buyers. An incredible own goal from a company whose vision aims to be a “business that partners with customers for growth”. Given these headwinds, it's clear the sector must continue to innovate and compete to stay globally competitive just to retain our market share.

KEY INDICATORS

QRC PRODUCTION VOLUME INDEX

A new record

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, silver, zinc and LNG as of the December 2016 quarter.

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

The QRC's Production Volume Index for the December 2017 quarter (latest available data) has increased by 23 points, to 141 points, which is the highest level quarterly increase since the index began June 2006 quarter and a new production volume record—6 percentage points higher than the previous record in December 2014.

Recovering coal exports drove much of the bounce back in the QRC Production Volume Index. With Queensland thermal and metallurgical coal exports up 30% in the December quarter — on the back of coal exporters making up on their lost tonnes through Cyclone Debbie.

Lead achieved the largest gains (39%) over the quarter, with production returning to historical levels after a tepid September quarter. LNG production also increased 8%, alumina, bauxite and copper all increased production by 5%, while the biggest drops were in silver (-13%) and zinc (-6%) production.

EXPORT OUTLOOK

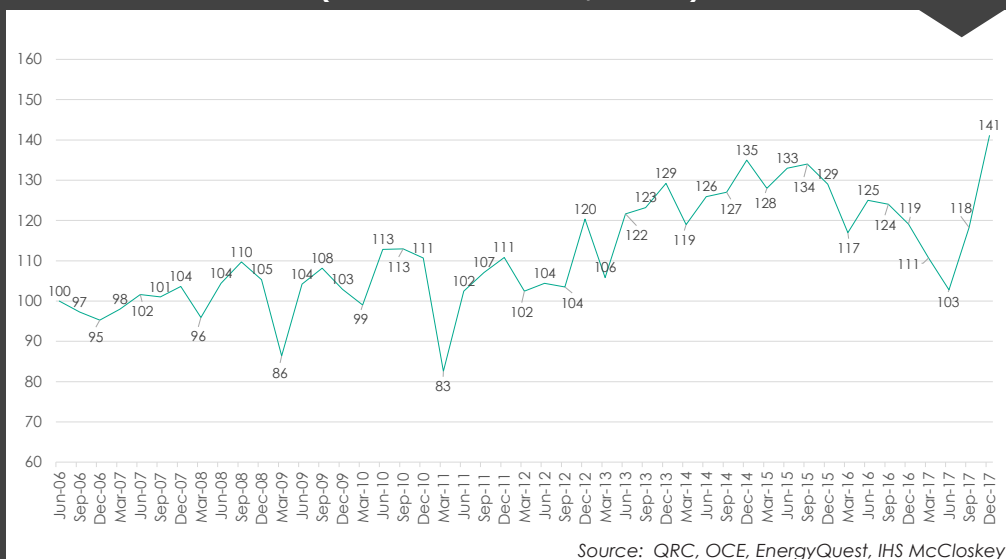
The Queensland resources sector can expect healthy demand for its commodities across the medium term. According to the Office of the Chief Economist, global industrial production is achieving solid growth that is well above its long-term trend — now rising at around 3.3 per cent per year. The growth in global production is creating demand for industrial materials including steel, cement, coal, zinc, nickel, and copper.

The Office of the Chief Economist expects many of our closest neighbours to bolster demand. The ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) are forecast to “remain on a heavily industrialised growth path, and stronger outcomes in these countries are likely to feed through into global commodity markets.” ASEAN countries are expected to maintain average growth of 5.3 per cent each year over the outlook period.

Similarly, India's economic growth is set to strengthen — averaging 7.9 per cent over the 5-year outlook period, reaching 8.2 per cent by 2023 as the country urbanises and its economic reforms take effect.

This is good news for export tonnes. Over the medium term to 2023, the Office of the Chief Economist expects Australian metallurgical coal exports to increase by 3.5% per annum, thermal coal exports to increase by 0.5% per annum, bauxite exports to increase by 3.3% per annum, while copper content will increase by 2.1 per annum. Gas production in the eastern market will increase by 0.6 per annum over the same period.³

CHART 5: QRC PRODUCTION INDEX (AS) (QUARTERLY)
(INDEX BASE JUNE 05/06=100)



Source: QRC, OCE, EnergyQuest, IHS McCloskey

QRC VALUE OF PRODUCTION INDEX

A new record

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 and therefore now includes LNG production from the December 2016 quarter onwards.

Over the December 2017 quarter, the QRC's Value of Production Index increased from 199 to 269 points — a new record since the index began in 2006.

In dollar terms, the value of the commodities produced by the sector reached A\$22.14 billion in the December 2017 quarter. This is a A\$5.7 billion (or 35%) increase in value since the previous quarter—again, largely due to the combination of recovering coal volumes and steady price growth for the remaining commodities.

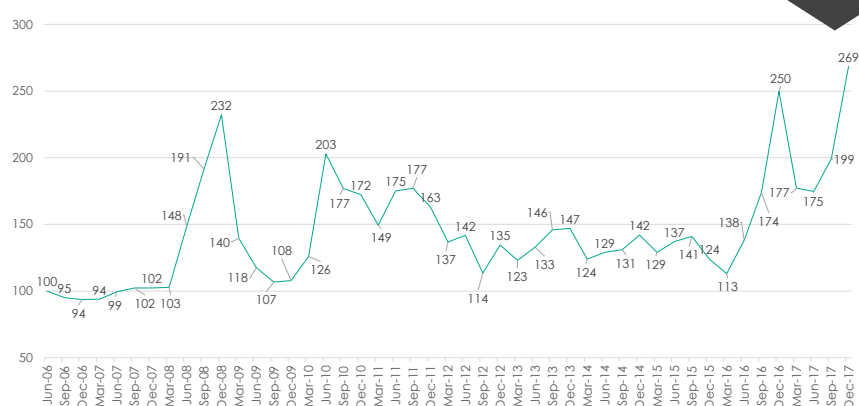
Chart 7 provides a breakdown of this quarter's average price changes for each commodity. Alumina achieved the largest price increase in the December quarter, increasing 34%. The remaining Queensland commodities all achieved moderate gains between 4% and 7% for the quarter. Silver was the only commodity to see a price decrease across the quarter, dropping 2%.

Continuing the positive news, Chart 8 shows both the volume and value of Queensland commodities skyrocketed in the December 2017 quarter. Queensland resources achieved a record production value since the index began in 2006.

Since the QRC's value of production index began in June 2006, the export value of Queensland's resources has more than tripled—from \$6.5 billion in June 2006 to \$22.14 billion in December 2017.

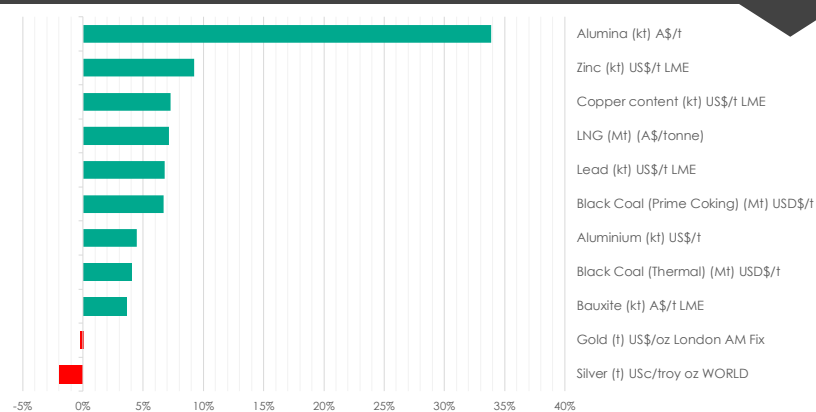
Chart 9 provides a breakdown of the value of Queensland's resource production in the December quarter. In the December 2017 quarter, coal production made up 75% of all of Queensland's resources production. LNG was in second place, with 12% of the sector's production value in the quarter.

CHART 6: QRC VALUE OF PRODUCTION INDEX (A\$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)



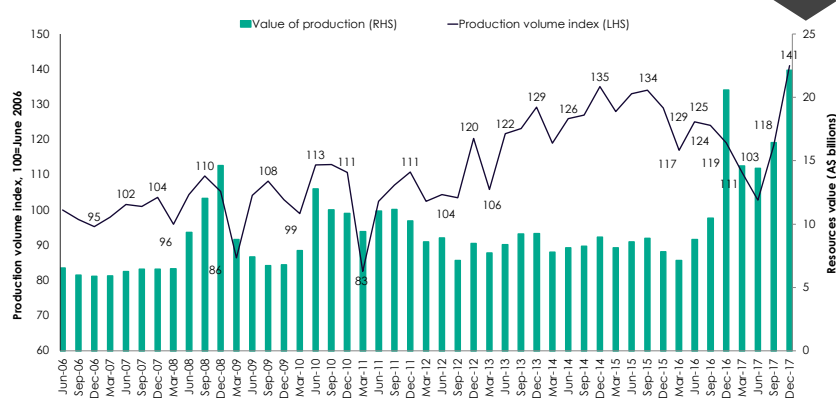
Source: QRC, OCE, EnergyQuest, IHS McCloskey

CHART 7: AVERAGE QUARTERLY COMMODITY PRICES CHANGES - DECEMBER QUARTER 2017



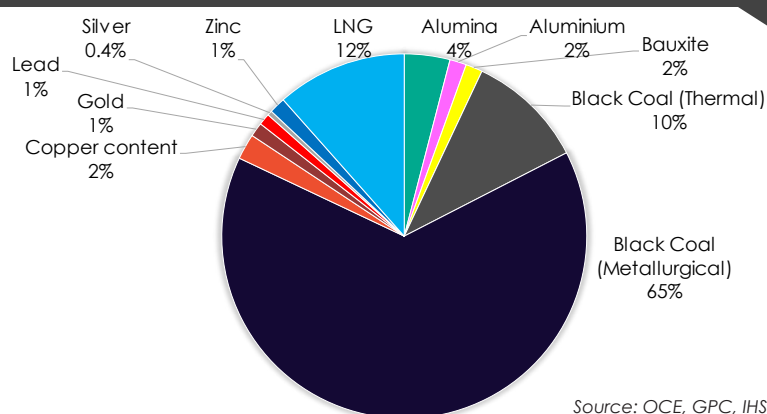
Source: OCE, IHS Markit

CHART 8: QUEENSLAND COMMODITY VOLUMES VERSUS VALUES



Source: QRC, OCE, EnergyQuest, IHS McCloskey

CHART 9: QUEENSLAND RESOURCES PRODUCTION VALUE IN DECEMBER QUARTER 2017



Source: OCE, GPC, IHS Markit

QRC CEO SENTIMENT INDEX

The QRC CEO Sentiment Index is collected through a quarterly survey of QRC's producer and explorer members with the typical response rates between 20-35 companies. The companies surveyed cover mining and energy, minerals processing, contracting, exploration, electricity generation and oil and gas extraction activity in Queensland.

Each quarter CEOs are asked to nominate to what extent they expect a series of eleven factors will impact on the objectives of their organisation over the next 12 months. All responses are weighted to arrive at a single sentiment value for that factor. The weighting means the factors generating the greatest concern receive the lowest scores and are lower down on the negative axis.

Based on the results from the March quarter 2018, *uncertain and/or poor regulation* remains the chief concern for CEOs. However, CEOs are less concerned than the previous quarter (December 2017)—with sentiment improving by 6 points. CEOs called out a few uncertainties for their business:

“Threats of the Australian Domestic Gas Security Mechanism and government intervention in the domestic gas market continue to be of concern coupled with possible changes to the Petroleum Resource Rent Tax and ongoing reductions in allowable deductions in Queensland royalties”

“Delays in federal environmental approvals remain a concern”

“There seems to be a stream of new, complex and restrictive legislation generated by the current Queensland Government”

High input costs is the number two concern for CEOs—steadily rising since its June 2017 low. Several QRC member CEOs outlined the link between uncertain or poor regulation and input costs:

“Input costs are experiencing upward pressure as the mining sector maintains robust commodity prices and the suppliers have less availability of products or services”

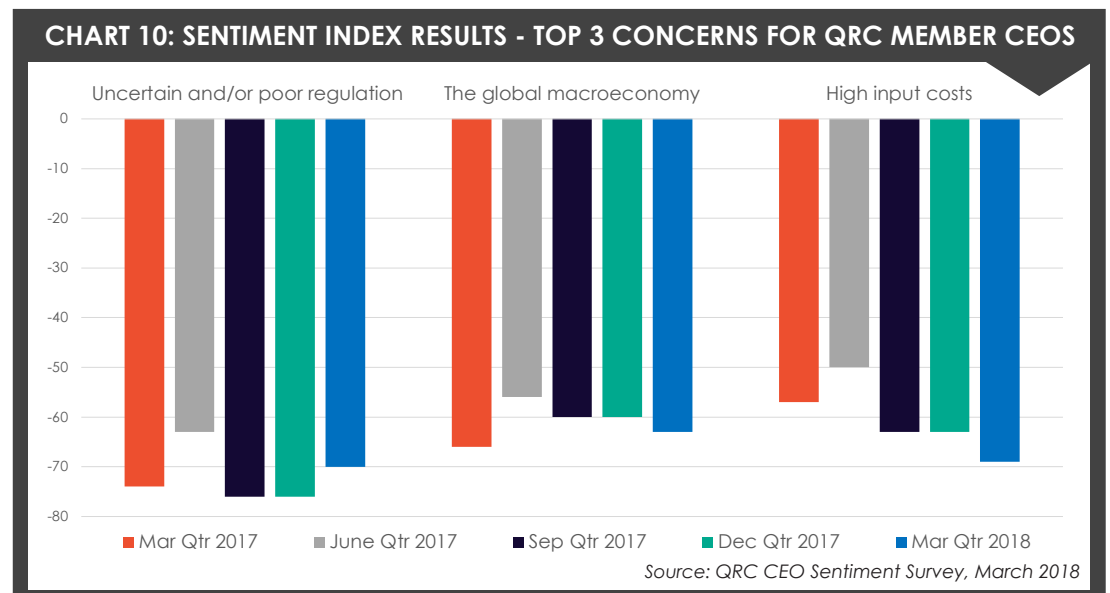
Concern over the *global macroeconomy* has increased steadily since last June 2017—making it back into to top three concerns for CEO this quarter. A number of CEOs said they are watching global conditions closely:

“The increase level of risk and volatility in commodity markets makes achieving a steady growth in our balance sheet difficult”

“As a miner exporting finished goods the currency exchange between A\$, US\$ and RMB will impact our business, either positively or negatively”

Chart 10 illustrates the change in sentiment over recent quarters for our member CEOs' top three concerns.

Despite ongoing concern in the comments from CEO's, *attracting and retaining skilled employees* improved by 9 points—dropping out of the top three to fourth spot.





QUEENSLAND RESOURCES
COUNCIL

LEVEL 13
133 MARY STREET
BRISBANE 4000
QUEENSLAND
AUSTRALIA

T (07) 3295 9560
F (07) 3295 9570
E info@qrc.org.au
W www.qrc.org.au

PUBLISHED JUNE 2018

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