

Good prospects of quiet times as long boom sinks in the West

- David Lague, Perth
- November 15, 2008
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Too quiet: Mining executive Darryl Harris. Photo: *Tony Ashby*

IN THE brilliant late spring sunshine flooding the streetside deck at Black Tom's Oyster Bar in West Perth, mining executive Darryl Harris turns to survey the four other occupied breakfast tables.

"This feels quiet, let me tell you," he said. "A year ago you would have had 30 people in here sitting around having coffee and talking deals."

While the bar and seafood eatery nestled between the low-rise headquarters of mining and exploration companies remains a favourite rendezvous for industry high rollers, business has slowed as signs emerge that the global downturn is starting to bite in Australia's export powerhouse.

Manager Simon Hagen is new to the restaurant that recently changed hands, but he confirmed in a telephone interview that trade is down based on previous figures.

He said he was unsure if the economy was to blame but predicts business will "pick up dramatically" after a planned food and service makeover.

It might not be so easy for local mining giants to turn things around.

In a week where Rio Tinto and Fortescue Metals Group slashed their projected iron ore output from the Pilbara and aluminium giant Alcoa shelved a \$2.2 billion refinery expansion in the state's south-west, it became clear that the boom is over or at least on hold in the West.

Fortescue also said it would delay a planned \$2 billion project to expand production capability.

"I don't think the show is over, but we are probably in the intermission," said Mr Harris, chairman of Perth-based Indo Mines Ltd.

As the financial crisis hammered global markets, there was some optimism that Western Australia's economic embrace with China, the world's fastest-growing major economy, would insulate the state from the worst of the financial pain.

Mineral and energy shipments from Western Australia account for almost 64% of Australia's exports to China, according to State Government statistics.

Since 2003, the value of the state's annual exports to China, mainly iron ore, climbed 385% to reach almost \$17 billion for the year to June. **Continued...**

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The Asian giant now relies on Western Australia for 40% of its iron ore.

But, industry experts warn that China's growth is likely to remain significantly lower than the average annual expansion recorded over the past three decades despite the Chinese Government's decision this week to pump \$885 billion into public works over the next two years in a bid to stimulate the domestic economy.

"Demand from China has decreased dramatically, especially for iron ore," said Sandra Liu, a Perth City councillor and China marketing consultant, whose clients include Fortescue Metals Group. "Even China's biggest steel producer, Baosteel, is going to cut production."

A steep downturn in WA will have implications for the Rudd Government's efforts to prevent a recession.

Economists have noted that the mining boom has created a two-track national economy where resource-rich states such as WA and Queensland have grown at much faster rates than the rest of the country.

As the mining boom headed towards its peak in 2006, WA's economic growth at times even outstripped supercharged China, according to the State Government.

Economic expansion at that pace seems unlikely to be repeated in the near future.

After Rio Tinto and Fortescue announced they would cut annual iron ore output by 10%, WA Premier Colin Barnett this week acknowledged tougher times lay ahead, although a plunging Australian currency would provide a buffer.

"I don't think there will be a great impact on royalty revenue given that while their production is reduced, the fall in the Australian dollar tends to compensate," he said.

"But, there is no doubt that in the next six to 12 months, Western Australia is going to be affected by the international financial crisis."

Well before the big miners announced their cuts, there were signs that the West had peaked.

Perth's median home price has dropped 10% since the December quarter last year and there are now plenty of homes for sale the city's most desirable suburbs.

The Motor Trade Association reported this week that car sales in the West were at their lowest levels since the GST was introduced in 2000.

For now, Western Australia's best chance of a return to headlong growth appears to rest on China recovering its hunger for raw materials.

"You can't just turn off an economy of 1.3 billion people," said Mr Harris who has extensive experience of the Chinese minerals processing industry.

"At some point they have to keep expanding."