

Really 2016! What lies ahead in 2017

**The
Economist**

FEBRUARY 27TH-MARCH 4TH 2016

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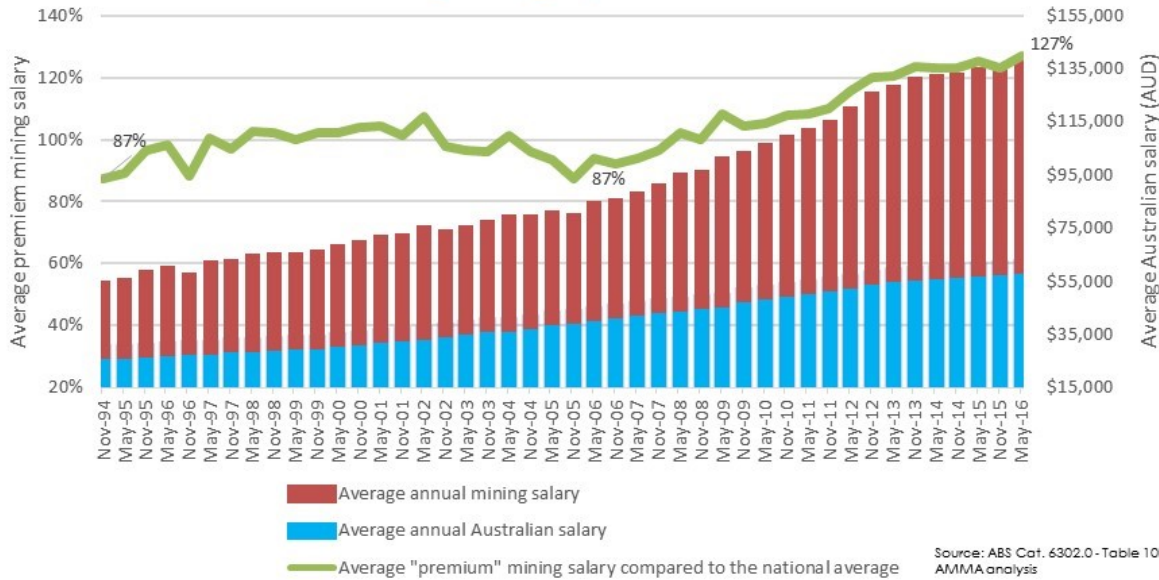
A tragic split



Headline - National economy

	2015	2016	2017 forecast
Annual GDP growth rate (as at Sept')	2.4%	1.8%	2.6% (* 1.5% to 2.5%)
Wage price Index (as at Sept')	2.3%	1.9%	2.1%
CPI (as at Sept')	1.5%	1.3%	2%
Cash rate (as at Oct')	2%	1.5%	1.25%
Unemployment rate (as at Oct')	5.9%	5.6%	6.1%

Mining wage price bubble

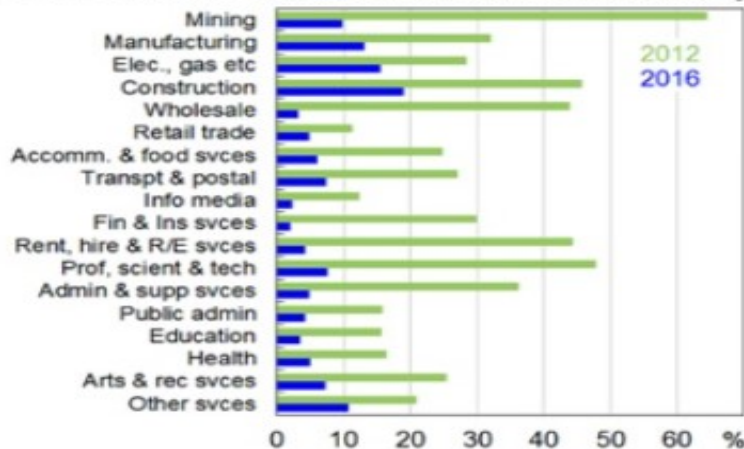


Key points:

- Mining wage 'premium' now 40% above the long-term 'premium' average.
- Average annual mining salary without 40% premium: \$112,886.
- Average mining salary today \$137,020.
- Mining companies/employees are choosing to downsize their workforce rather than reduce individual wages.
- Height of the resources commodity and construction 'boom' in 2012, >60% of mining industry employees received wage increases greater than 4%, today <10% of mining employees are receiving that level of wage increase.

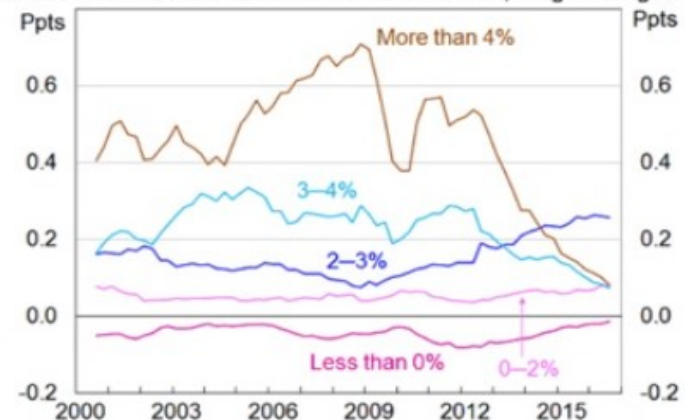
* "mining" includes oil, gas and petroleum.

GRAPH 5 – SHARE OF WAGE RISES LARGER THAN 4%, By Industry



Sources: ABS; RBA

CONTRIBUTION TO AGGREGATE WAGE GROWTH, Wage changes of different sizes*



* Contributions smoothed using a 4-quarter trailing average
Sources: ABS; RBA

2017 commodity price forecast

Revised forecast commodity prices (nominal in USD)

	Copper (\$/mt)	Iron Ore 62% Fe, CFR China	Zinc (\$/mt)	Crude oil avg. spot (\$/bbl)	Aluminium (\$/mt)	Gold (\$/toz)	Natural gas Japan (\$/mmbtu)	Thermal coal (\$/t), 6,700 kcal/kg, FOB	Metallurgical coal (\$/t), HCC, FOB
2017 forecast commodity price	↓ \$5,057	↓ \$47.40	↓ \$2,442	↑ \$55.05	↓ \$1,607	↑ \$1,240	↑ \$6.90	↓ \$57.00	↓ \$107.50
Price as at 25 November 2016	\$5,853	\$76.93	\$2,712	\$49.00	\$1,775	\$1,186	\$6.38 (Oct 16' price)	\$98 (6,300 kcal/kg GAR FOB)	\$306.25

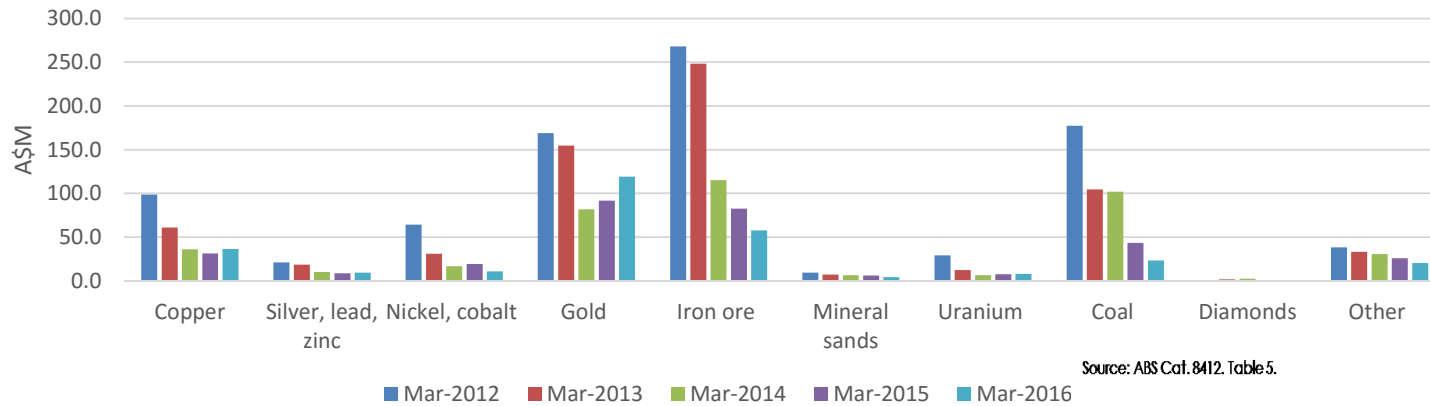
Source (forecasts): Averaged prices from the Office of the Chief Economist - Resources and Energy Quarterly, World Bank Commodity markets outlook.

Source (current price): UBS and World Bank Examples of key events to look out for in 2017

- Changes in US Trade deals / FTA's – Trump TPP “its dead, buried and cremated”
- US stimulus packages (nationalistic packages)
- US Fed speculation of, and changes to cash rates
- OPEC deals (consensus to cut supply)
- Chinese growth (at 6.5% - as per their 13th 5 year plan target)
- BREXIT (what happens) and contagion
- Syrian refugee crisis
- Speculation / adherence to the Paris Accord
- Changes to the Chinese government's implementation of the 276 working day production controls – for coal (from 330 – speculation that controls may be eased).
- Eurozone changes (exits and entrants) – impacts on European banks and bonds

Exploration

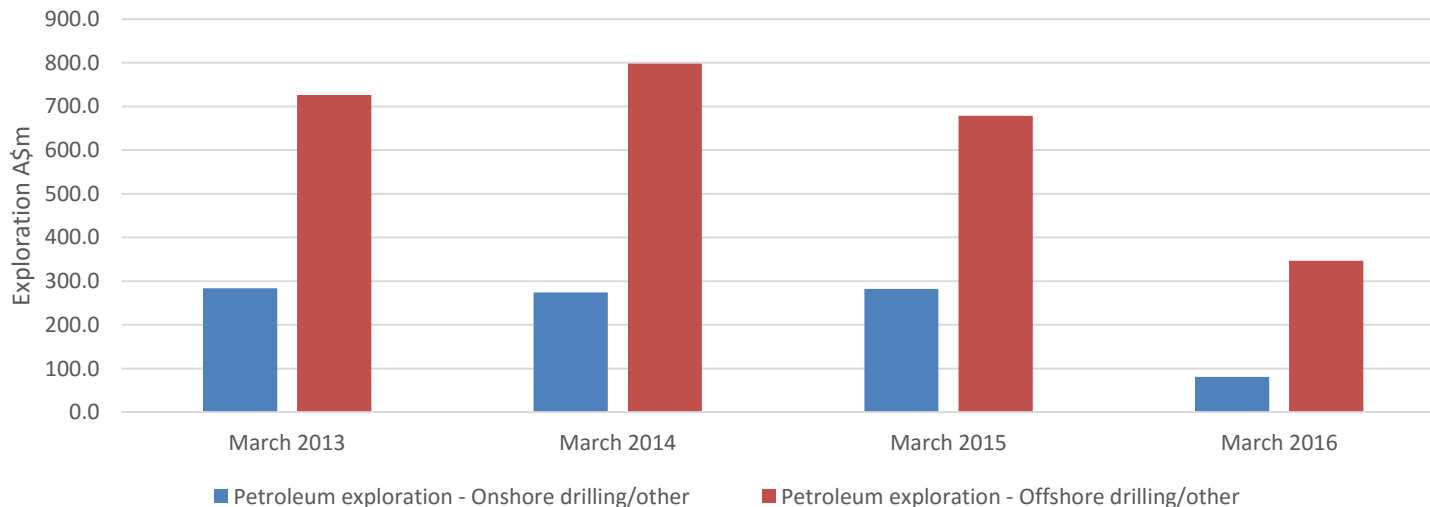
Australia: Annual mineral and selected base metal exploration expenditure spend



Key points:

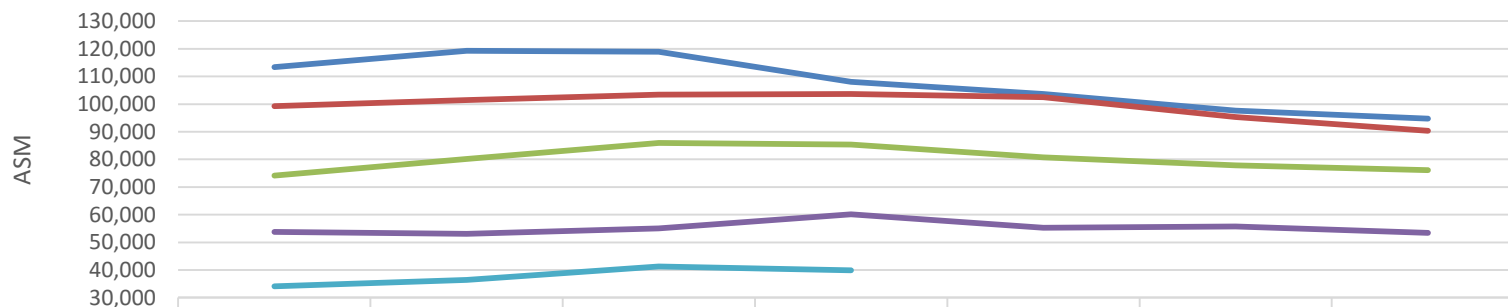
- Exploration spend has fallen to critically low levels. This of significant concern as it jeopardises the long-term sustained viability of the industry.
- From April 2015 to March 2016, mineral exploration expenditure (in original terms) fell 9%.
- Mineral exploration is now trending 51% lower than the 10-year quarterly average.
- Petroleum exploration has plummeted. Onshore drilling exploration is down 71%, offshore drilling exploration is down 49%, (March 2015 to March 2016).

Annual March Quarter Petroleum Exploration Spend (original)



Capital resource expenditure

Expected total resource capital expenditure - 2017



	Estimate 1: 12 months expectation as reported in Jan-Feb of previous financial year	Estimate 2: 12 months expectation as reported in Apr-May of previous financial year	Estimate 3: 12 months expectation as reported in Jul-Aug	Estimate 4: 3 months actual and 9 months expectation as reported in Oct-Nov	Estimate 5: 6 months actual and 6 months expectation as reported in Jan-Feb	Estimate 6: 9 months actual and 3 months expectation as reported in Apr-May	Estimate 7: 12 months actual; Resource; Total
Jun-2013	113396	119290	118984	108065	103622	97587	94710
Jun-2014	99224	101482	103379	103608	102528	95365	90393
Jun-2015	74199	80201	85927	85327	80752	77832	76117
Jun-2016	53820	53058	54991	60110	55251	55696	53389
Jun-2017	34143	36438	41224	39896			

Source: ABS Cat 5625, Table 12A

Key points:

- Total capital resource expenditure in 2016 ended the year 29% down on 2015 levels. Down from \$76.1bn to \$53.4bn.
- The outlook for 2017 looks bleak and uncertain. On early forecasts, total resource capital expenditure is projected to end the year around the \$40bn mark. This is down approximately \$14bn or 25% on depressed 2016 levels.
- Aging assets appears to be an emerging risk for resource organisations – as this will have a resultant impact on productivity.