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Perth gears up for another mining boom

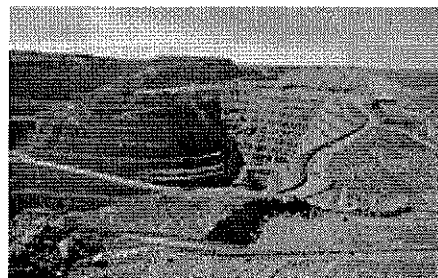
The gloom of a year ago is fading fast as the good times return to Western Australia.

By Bonnie Malkin

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In mid-2008 Perth was a city holding its breath. Sweeping lay-offs by the big miners had prompted an exodus that was threatening to turn the powerhouse of Australia's minerals boom into a ghost town.

A slump in demand from China, the sector's largest export partner, had sent commodity prices plunging. New projects were mothballed and many existing mines suspended production. Perth's symptoms were acute. House prices shed 10pc to 20pc of their value in a matter of months, while jobs and retail sales shrank faster than anywhere else in the country.



Resource base: the Super Pit open cut gold mine in Kalgoorlie Boulder, Western Australia

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Western Australia, for so long a quarry for Asia's largest economies, appeared dangerously vulnerable to the global financial crisis. One year on, however, and the pessimism of those dark months seems almost a distant memory on the city's streets. Ripples from China's stimulus have reached the shores of Western Australia and sent commodity prices leaping. Investment is pouring into the region in the form of billion-dollar new gas and gold mining projects and house prices have shown their first positive growth for 18 months.

Skills shortages are back, base metal prices have rebounded from their lows and coal and iron ore spot prices are trading comfortably above their contract price levels. A recent report by Access Economics declared that the state had effectively "outrun" the global recession and was perfectly placed to make the most out of a recovery.

"Crises come and go, while the demand to feed industrial developments in Asia will be with us for many decades ahead," it said. The report predicted that energy and minerals would have a better year in 2009-2010, gaining 1.2pc. Iron ore production is already booming, with output increasing by 23pc in the June quarter of 2009 alone, driven by increased production at Rio Tinto's Hamersley, Robe River and Hope Downs operations, as well as at mines operated by the Fortescue Metals Group and Mount Gibson Iron.

Peter Kenyon, professor of economic policy at Curtin University in Perth, said optimism was back and that

Perth was poised for a new boom. "There was complete doom and gloom in October, November and December last year when the financial crisis hit. Everybody was talking about it being worse than the Great Depression, but consumer confidence is back, business confidence is back and interstate and overseas migration continues."

Prof Kenyon said that Perth was in a phase of healthy recovery, having suffered less from the downturn than originally feared. "Perth more or less dodged the recession. The boom here was pretty substantial before the global crisis hit, so Perth had a long way to fall before it got into serious trouble. The fundamentals of the economy were still very sound, the resource base was still there and still in demand."

Base metal prices, while nowhere near as high as their peak in 2007, were "bouncing back," he said.

As well as the growing commodity price, the new boom has been bolstered by investment pouring in. Last month, the federal government gave the green light to the massive Gorgon Liquid Natural Gas project. The \$50bn development on Barrow Island off the state's mid-north coast is the largest investment project ever in Australia, and will generate some 10,000 jobs.

Other important projects in the pipeline include the \$11.2bn Pluto gas development in the North West Shelf region, the \$2.5bn expansion of the Worsley Alumina refinery at Collie, south of Perth, and the \$1.7bn third stage of Rio Tinto's Argyle diamond mine near Kununurra.

Denver-based Newmont Mining has just poured the first gold at its new Boddington mine, south of Perth. The huge open-pit operation will be Australia's largest gold mine, with an annual production of about one million ounces a year for the first five years. The mine is expected to push Australian gold production up 15pc in 2009-2010.

Perth is also getting a new hospital, a new highway, a \$470m multi-purpose indoor entertainment and sports complex and a \$425m retail and office redevelopment. The state government has also announced plans for a \$500m cultural and social museum to be constructed from 2012.

The city will need the new infrastructure, because population is also booming. Western Australia, home to little more than 10pc of the nation's population, has the fastest population growth within Australia – four times the population growth of the UK. With 110 people moving into the state each day, a rapid rebound in its housing activity – which has slumped by around a third since mid-2005 – is widely predicted. House prices were up by 1.5pc in the September quarter after 18 months of negative growth, and are expected to keep climbing steadily.

Chris Richardson, head of Access Economics, said there was nowhere better in the world to capitalise on the boom in development in Asia, but he cautioned that the new boom may not last. "Western Australia has Asia wants and is relatively close. It might be a China story today but it's an India story tomorrow and for decades to come.

"But there are a few ties that come with that relationship. One is that if you are tied to the development cycle, you are subject to boom and bust. . . Western Australia's prosperity at the moment is tied to the nature of China's stimulus and that's not going to run on indefinitely."

Mr Richardson said there was a "magnificent buzz" in Perth. "But I worry people are a little too confident. It won't be this easy when China pulls back its purchasing power."

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