

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2014 - 2015

Department/Agency – Treasury

Question: BET 193-194

Topic: Budget economic forecasts

Reference: written - 12 June 2015

Senator: Waters, Larissa

Question:

Budget economic forecasts

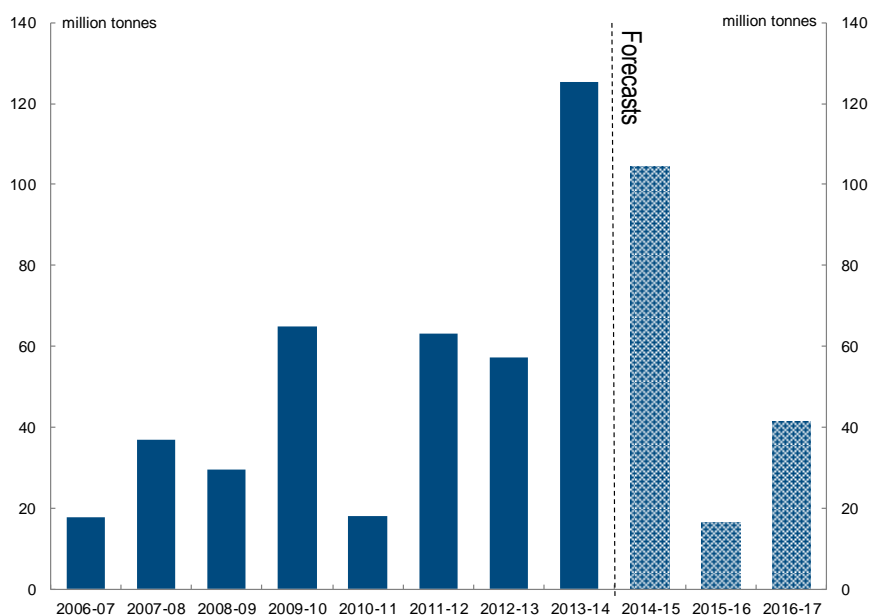
193. What's the exact source for the iron ore export volume projections in the Budget Papers?
194. The economic restructuring in China also has many people suggesting steel consumption there to have peaked. China is 70% of the seaborne iron ore market. How do you expect volumes to increase by 40% (as projected by the Dept. of Industry) while the major global consumer declines?

Answer:

Iron ore exports volumes set out in the 2015-16 Budget papers are based on Treasury forecasts until 2016-17 and then used projections developed by the Department of Industry set out in their March edition of *Resources and Energy Quarterly* from 2017-18 until 2019-20.

Rio Tinto, BHP and Fortescue Metals Group currently constitute around 90 per cent of Australia's iron ore production. Regular guidance provided publicly by these companies and announcements by minor producers, are the key sources underpinning Treasury's projections. Treasury also takes into account factors that may affect companies' abilities to reach their production guidance, such as the pace of infrastructure development.

Chart 1: Treasury's forecasts of growth in iron ore export volumes



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Source: Treasury

Concerns relating to Chinese steel demand remain a downside risk to the overall outlook. As noted in Budget, continued weakness in China's housing sector is expected to weigh on China's demand for iron ore in the near term. This reflects the substantial stock of unsold housing that has built up over recent years, as housing starts have consistently outstripped sales.

In spite of these risks in the short term, the Department of Industry note that China's population is anticipated to continue urbanising over the outlook period to around 60 per cent in 2020, as around 100 million people move to the cities. To accommodate this migration, China's investment in housing and transport infrastructure, particularly rail, is expected to continue growing over the longer term. This will underpin ongoing steel demand growth.

Major Australian producers have some of the lowest costs globally and are comparatively well-placed to withstand a more competitive market environment. Australia's share of China's total iron ore imports has continued to grow over the past year and is quite high at around 65 per cent.