

Mine demand ramps up

Mining industry suppliers can feel the turnaround, writes **Emma Connors**.

Mining equipment and services supplier Atlas Copco was surprised last year by the speed with which mining companies slammed on the brakes as the global financial crisis unfolded.

Now the supplier is furiously ramping up production facilities in Europe and the US as miners in this country clamour for big-ticket items such as underground trucks, loaders and drill rigs for surface and underground operations. These are big machines, where prices start around the \$1 million mark.

"We've been caught out twice," said Sergio Camozzi, managing director of Atlas Copco Australia. "When the downturn came, everyone was very quick to put a stop to equipment purchases. Some 14 mines went into maintenance mode and we all suffered because of that.

"Now prices for minerals are back at decent levels again, people are optimistic China and everyone else will keep buying at the same rate or even better, most mines are back in production, and they have to catch up after making no investment for the last 18 months."

The resurgence in global demand for coal and iron ore has lit up capital expenditure plans for the next financial year, with mining companies indicating they expect to spend \$49 billion in 2010-11, a 38.2 per cent increase on the equivalent estimates for 2009-10.

"Already demand is higher than all of us anticipated six months ago," Mr Camozzi said.

Atlas Copco is furiously ramping up manufacturing facilities in Sweden and the United States but it takes time to get subcontractors in line and put on the necessary extra staff. So some customers will have to wait.

The company says it will take



Ausco Modular's order book is strong, says CEO Paul Bailey. Photo: GLENN HUNT

until the end of 2010 before it is producing at sufficient levels to meet the level of customer orders it expects in the next financial year.

In the meantime, "lead times are extending very quickly", said Mr Camozzi. "Something that was available from stock three months ago will now take six to 12 months to deliver. With some products, lead times are back to where they were two years ago."

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CBA economist, Michael Blythe

Overall, the first estimate for capital expenditure in 2010-11 across the economy is \$101.4 billion, up 15.3 per cent on the equivalent estimate for the current financial year. "This first reading is a very bullish result of the [capital expenditure] outlook," said Commonwealth Bank of Australia chief economist Michael Blythe.

It's particularly good news for Brisbane-based Ausco Modular,

which designs and manufactures portable buildings for sale and hire, and builds and operates remote mining villages.

The company managed the downturn in business spending last year better than other suppliers that concentrate on a single sector. Ausco picked up plenty of work from the school-building program and the infrastructure sector stayed strong.

Some mining and resources project work continued into early last year. Then the sector went quiet until the December quarter. Now it is "the most optimistic area of the business", said Paul Bailey, Ausco Modular chief executive.

He nominates coal, oil and gas projects in Queensland and iron ore mines in Western Australia as leading drivers. He said the company's order book had strengthened across the country, however the outlook for general construction was still bleak with little funding for commercial and industrial work.

"We are not seeing any turnaround there," Mr Bailey said.