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The Importance of Western Australian Resources Industry Continues to Grow

In 2008 the value of the mineral and petroleum industry reached \$71.8 billion, representing a 35 per cent increase compared to the previous year. Strong overseas demand and high prices in the first half of the year for the States mineral and petroleum commodities helped to counteract the effect of slowing demand and falling commodity prices in the fourth quarter of the year.

Most of the increase in value for 2008 came from the iron ore and petroleum sectors. Together, these two sectors accounted for 75 per cent (\$53.6 billion) of total sales value of the States resources industry.

In 2008 there was a huge 93 per cent increase in the value of iron ore sales out of Western Australia, with 303 million tonnes exported at a value of \$31.3 billion. The iron ore industry is the largest resource sector, representing 44 per cent of the total value of the States resources industry.

High oil prices maintained the petroleum industrys prominence in merchandise sales. In 2008 the States petroleum industry grew in value by 33 per cent to \$22.3 billion. The total sales value of this industry which includes crude oil, gas and LNG represents a third of the total value of Western Australias resource industry. Western Australias petroleum industry also now accounts for 71 per cent of gas and 66 per cent of oil and condensate production nationally.

Exploration investment

Expenditure on petroleum exploration in Western Australia in 2008 grew by 29 per cent to \$2.5 billion. Total petroleum exploration expenditure in Australia for the same period grew by 26 per cent to \$3.4 billion. Western Australia continues to attract the lions share of petroleum exploration dollars. In 2008 Western Australia accounted for 73 per cent of the national total.

Mineral exploration in Western Australian expanded by \$362 million in 2008 to \$1.4 billion. Western Australia attracted 54 per cent of the total Australian mineral exploration budget of \$2.6 billion. This percentage share is still short of the highs of the last boom during the mid to late 1990s when the State share was around 62 per cent.

The Australian Bureau of Statistics (ABS) private new capital expenditure statistics for Western Australia show a very significant rise in the value of new capital expenditure over the past three years increasing a cumulative 50 per cent since 2006. In 2008 the amount of capital expenditure on mining in Western Australia alone amounted to \$21.3 billion, which was a 42 per cent increase compared to the previous year. This also represented 77 per cent of Western Australias total (\$27.8 billion) new capital expenditure in 2008.

Mining Investment

Total national mining investment in 2008 amounted to \$32.6 billion, an increase of 33 per cent compared to the previous year. In 2008, Western Australia accounted for 65 per cent of the total national mining investment.

It is important to note that the figures reported above do not capture all mining investment as the ABS uses classifications specified in the 1993 edition of the Australian and New Zealand Standard Industrial Classification (ANZSIC) (ABS catalogue number 1292.0). Accordingly, mining is broadly defined as the extraction of minerals occurring naturally as solids such as coal and ores, liquids such as crude petroleum and natural gas. Downstream mining activities such as smelting of minerals or ores (other than preliminary smelting of gold) or refining are classified as manufacturing activities under the ANZSIC. Products such as coke and alumina are also included in the ANZSIC manufacturing category.

During 2008, the Australian dollar weakened against the US dollar by 1.7 per cent, averaging US\$0.85. For the first six months of 2008 the Australian dollar was trading at around ninety cents and by mid-July it reached a high of US\$0.98 only to fall three months later to US\$0.61. The dollar stayed in the US sixty cent range for the remainder of the year helping to offset lower commodity prices and weakening demand.

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Highlights in 2008

During the last ten years the value of Western Australias mineral and petroleum industry has grown on average by an impressive 18 per cent per annum. Also highlighting the importance to both the State and national economies, the mining and petroleum sectors contributed 89 per cent (\$74.65 billion) toward total Western Australian merchandise exports in 2008 of \$83.96 billion. Western Australia contributed 41 per cent (\$88.5 billion) of Australian Merchandise exports.

The effect of the world economic crisis arrived on Western Australias doorstep mid-way through 2008 in the form of slowing demand coupled with dramatically falling commodity prices.

During the past three years, escalating commodity prices played an important role in pushing up the value of Western Australian mineral and petroleum sales. High demand and constricted supply saw record prices being reached for oil, iron ore, gold, cobalt and lead. LNG returns were also boosted in 2008 by the higher oil price. However, after these previous massive increases, from June 2008 nickel and zinc prices underwent downward price corrections of 46 per cent and 44 per cent respectively (in Australian dollar terms). The following table lists the overall average commodity price movements in 2008:

Commodity	US\$ Terms	A\$ Terms
Iron Ore	Up 70%	Up 72%
Crude Oil	Up 35%	Up 30%
Tin	Up 27%	Up 25%
Cobalt	Up 26%	Up 22%
Gold	Up 25%	Up 23%
Alumina	Up 4%	Up 3%
Nickel	Down 43%	Down 46%
Zinc	Down 42%	Down 44%
Lead	Down 19%	Down 21%
Copper	Down 2%	Down 6%

Several commodities recorded decreased output volumes. These included: lead, gold, domestic natural gas, LPG and heavy mineral sands. However stronger prices for gold, domestic natural gas, LPG butane and propane increased revenues despite these lower volumes.

Iron ore is the largest individual mineral sector by value and accounts for 44 per cent of the value of the overall mineral and petroleum sectors output for 2008. On the back of strong demand from China, continued support from traditional markets, a 15 per cent increase in output and significant price increases, iron ore reached a record sales value of \$31.3 billion. This represents a massive 93 per cent rise from 2007. The quantity sold in 2008 also broke records, increasing by nearly 15 per cent to reach 303 million tonnes.

High oil prices were a feature of the first half of 2008. **The Tapis oil price** averaged US\$96.74 a barrel in January 2008 and climbed steadily to reach a record US\$153.12 a barrel in July 2008. However, this record level was short-lived and by the end of September, with global demand slowing, the Tapis oil price was averaging around the US\$100 a barrel mark.

Considering supply/demand projections for 2009 and in an effort to stabilise the oil price at around US\$100 per barrel, the Organisation of Petroleum Exporting Countries (OPEC) started implementing production cuts in September 2008 totalling 4.2 million barrels a day, the last cut effective 1 January 2009. It would appear that these cuts have been overwhelmed by a collapse in crude demand amid the global slowdown and by year end the price was averaging a little over US\$40 a barrel.

For the first time since 1983, world oil consumption decreased in 2008 by a total of 0.05 million barrels a day compared to 2007. A drop in US oil consumption is considered the major factor behind the vanishing growth in oil demand in 2008.

Crude oil prices in the short-term are likely to remain sensitive to uncertainty of demand due to global financial instability and unexpected changes in world economic growth.

Western Australian **Crude oil** output remained almost static rising by one per cent to 83.8 million barrels. However high oil prices saw the value of sales increase by around 32 per cent to reach \$9.7 billion. **Condensate** output decreased by two per cent due to reduced gas production to reach 36 million barrels with the sales value increasing by almost nine per cent to reach \$3.5 billion.

LNG output remained static however the influence of high oil prices saw the sales value increasing by a massive 61 per cent for a record value of \$7.2 billion. This resulted in LNG holding the position of third most valuable individual commodity in the State.

Aluminas steady performance continued through 2008 to claim fourth place. A small output increase of one per cent resulted in a record 12.2 million tonnes being shipped for the year. The value of alumina sales in 2008 rose four per cent to reach another record of \$4.9 billion.

Gold output fell by 14 per cent in 2008 to 4.2 million ounces (131,421 kg) due in part to producers taking advantage of strong gold prices to process lower grade ore. This sector is now placed fifth with a value of \$4.4 billion, an increase of seven per cent from 2007. Whilst gold averaged US\$872 per ounce for 2008, in March 2008 the gold price achieved new highs of US\$1,033 per ounce, averaging US\$925 per ounce for the quarter. The weakening Australian dollar in the third quarter saw gold reach A\$1374 per ounce in October 2008.

After achieving record prices in May 2007, **Nickel** has been on a downward spiral. During 2008 the price of nickel fell 43 per cent in US dollar terms. The value of this industry in Western Australia is now down by 40 per cent to \$4.2 billion, placing it sixth in order of value for 2008. Sales quantities dropped by 16 per cent to 188 thousand tonnes.

Base metals were down in terms of overall value by seven per cent to \$1.7 billion in 2008.

Zincs sales volumes increased by a modest three per cent to reach 186 thousand tonnes however an average 42 per cent fall in the US dollar price of zinc saw sales values drop by 24 per cent to \$522 million.

The value of **Copper** rose by eight per cent to \$1.1 billion even though the price of copper fell on average by six per cent in Australian dollar terms. Output rose by seven per cent to reach 128 thousand tonnes.

Lead production was down in 2008 to 21 thousand tonnes from the previous years 42 thousand tonnes. Lead prices fell by 19 per cent in US dollar terms and a similar amount in Australian dollar terms. The value of lead sales for 2008 fell 46 percent to \$62 million.

Domestic natural gas sales fell by seven per cent to 8.5 billion cubic meters in 2008 due to the Varanus Island incident. The sales value of this gas rose by almost 19 per cent to \$1.2 billion. **LPG** butane and propane output fell by 14 per cent, however the strong prices helped to return a sales value of \$731 million which is nearly a seven per cent increase on the previous year.

The total value of **mineral sands** sales fell by three per cent to \$755 million. Sales volumes were down for most types of mineral sands with the exception of zircon which rose 13 per cent. The fall in the quantities for mineral sands output needs to be interpreted with caution because falls in output for most types of mineral sands are partly attributed to products being sourced from private land and therefore not reported to the Department.

Cobalt sales volumes were almost static, up by just under two per cent. On average cobalt prices increased 26 per cent in US dollar terms to return an overall increase in sales value of 16 percent or \$397 million.

Diamond sales volumes decreased by ten per cent from 23.5 to 21.2 million carats.

Coal output was up by 16 per cent to 6.7 million tonnes and included several export shipments. Sales revenue was up by a similar amount (15 per cent) to \$306 million.

The volume of **salt** sales increased by five per cent in 2008 to 10.9 million tonnes and the value of these salt sales rose by 12 per cent in 2008 to \$257 million.

The States Mineral and Petroleum resources in order of value for 2008 are:

	Billion
Iron Ore	\$31.30
Crude Oil and Condensate	\$13.25
LNG	\$7.18
Alumina	\$4.90
Gold	\$4.37
Nickel	\$4.19
Others	\$6.60

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