

No recovery in investment in the mining industry is forecast for 2016

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On-going reductions in investment by global mining companies is continuing to limit demand for some types of construction and earth moving equipment that are used in the mining industry. Latest forecasts suggest no improvement in demand from the mining market in 2016, and the likelihood of further reductions.

Demand for equipment in the global mining industry has been declining since 2012, when commodity prices and capital expenditure peaked. Since 2012, profitability amongst mining companies has been declining due to lower commodity prices, and in response, cost cutting and reductions in capital expenditure budgets have been widespread. SNL Metals & Mining estimates that annual capital expenditure by mining companies will have declined by 30% by the end of 2015, compared with the 2012 peak, as illustrated below. It is estimated that investment in equipment accounts for c.30-40% of overall investment by mining companies, so as a result, demand for equipment has been reducing year on year due to reduced spending amongst mining companies.

DECLINING EQUIPMENT DEMAND SINCE 2012

The Parker Bay Company monitors deliveries of surface mining equipment on a quarterly basis, as shown below. This shows a consistent decline in equipment deliveries, consistent with reduced spending by mining companies. Parker Bay's analysis of surface equipment includes deliveries of excavators, wheel loaders and dump trucks, as well as more specialist mining equipment such as hydraulic shovels.

The second half of 2015 shows a continuing decline in the value of shipments to the mining industry. Q4 showed a 5% reduction on Q3 levels, and was 26% below Q4 2014 shipments. Overall, this means that current shipments are nearly 75% below the peak level reached in Q1 2012. The only positive news in the Q4 update is that the number of units shipped rose by 6%.

RECOVERY OF INVESTMENT LEVELS NOT FORESEEN BEFORE 2018

This reflects a pick up in shipments of smaller, lower value classes of equipment, while heavier classes of equipment declined. Parker Bay do not think that this improvement in demand is a sign of a recovering

market, more a reflection of the need to replace ageing equipment fleets to maintain activity in the mines.

Citigroup conduct a quarterly survey of investment intentions amongst global mining companies, which includes spending on equipment, both surface and underground. The latest survey was published at the end of January, and this indicates a further 5% reduction (year on year) in spending on new equipment, as illustrated below. This is the third consecutive quarter that the survey has indicated a step down in expectations since the period in 2013 and 2014 when the survey showed some improvement, and provided hope that spending on equipment may stabilise.

From their research and analysis work, Citigroup also publish a model which forecasts future capital investment spending by global mining companies. The latest update in January 2016 suggests that overall investment (including equipment) will show further reductions of 25% in 2016 and 9% in 2017.

The only encouraging news that can be gained from this gloomy forecast is that Citigroup anticipate that further reductions in mining company spending will be focused mainly on infrastructure, and that spending on equipment may have “bottomed”. Significant recovery in investment levels by mining companies is not forecast until 2018.

EUROPEANS LEAD IN EQUIPMENT SUPPLY TO MINING INDUSTRY

It is difficult to assess the impact on the equipment and component manufacturing industry within Europe of the global mining market downturn. Estimates of the mining equipment market suggest that Western and Eastern Europe together account for approximately 10-15% of global demand for mining equipment, and approximately 15-20% of global production, with Germany being a leading global producer.

As Europe has a leading position as an equipment supplier to the mining industry, exposure to continued reductions in investment within the global mining industry will continue to be felt amongst European equipment manufacturers, and offset some of the improvements being experienced from improved demand from the construction industry.

Source: CECE