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Mining industry braced for pullback

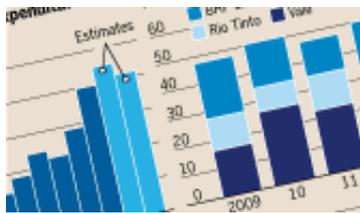
By Helen Thomas in London



The mining industry is braced for a pullback in investment spending as the biggest companies reassess their capital expenditure plans amid escalating cost pressures and an uncertain growth outlook.

[BHP Billiton](#) and [Rio Tinto](#) last week said they were re-evaluating plans to spend tens of billions of dollars on vast development projects as China's growth rate slows and some investors lobby for a

greater focus on cost control and returning funds to shareholders.



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The pair, who are expected to account for about a third of total capital investment in the industry this year, signalled that they could slow or delay projects as they prioritise their most profitable opportunities and seek to match spending with cash flows.

Analysts at [Citigroup](#), who follow estimates for about 40 mining companies globally, expect spending in the sector to

rise only 13 per cent this year, down from a 34 per cent forecast just a few weeks ago. They now expect a fall in 2013.

In the bank's latest survey of mining companies in April, half said they were considering lowering their budgets compared to less than a fifth three months before.

The cuts could spell the end of a buoyant period for suppliers to the industry, such as [Caterpillar](#), [Joy Global](#) of the US and Sweden's [Atlas Copco](#), which have benefited as demand for trucks, excavators, belt systems and draglines picked up to feed China's rapacious appetite for raw materials.

"This is certainly a negative development for sentiment around the mining equipment suppliers," said Natalia Mamaeva, analyst at Citi.

"They have done extremely well from the commodities and capex boom, and it has been a

sellers' market, so pricing has benefited too.”

Suppliers such as Caterpillar – which has been booked to deliver mining trucks into 2014 and has a long lead time on other large pieces of equipment – may be cushioned in the near term from shrinking expenditure.

Falling capital expenditure could, however, help ease cost increases for labour, equipment and materials in the mining industry.

“If the miners become more selective, it does have an impact for suppliers and for cost inflation,” said Jeff Largey, analyst at Macquarie. “A lot of the cost inflation is driven by everyone trying to build projects at the same time. Projects are not like a light switch that you can turn on and off but the rising capital intensity of projects should start to abate.”

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