

# Impact of decreasing demand of iron ore in australia



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#### Introduction:

In the course of recent years, the State's iron ore industry has encountered a time of major development fuelled in the primary by interest from China. The yearly development in the estimation of offers amid this period has been 30% every annum and yield has expanded 12 % every annum. In 2013-14, iron ore sales yield increased by 119 Mt, or 23%, from 2012-13 to attain to a record of 631 Mt. The value of sales increased 31% to achieve a record of \$73. 7 billion. Accordingly, iron ore kept on being the most important asset segment in Western Australia, representing 61% of the aggregate estimation of the State's mineral and petroleum sales. China kept on accepting the majority of share of Western Australia's iron ore sales, representing 77% or \$54 billion of the aggregate sum dispatched in 2013-14. Other real markets included Japan (12 %), South Korea (8%) and Taiwan (2%) (Western Australian mineral and petroleum statistics digest 2013 -14).

To the large extent, iron ore is completely consumed as inputs in the worldwide generation of steel. Therefore iron ore and metallurgical coal exports have been displayed in view based on estimated demand and supply curves for moderate inputs to worldwide steel production. The intersection of these curves creates a conjecture of the amount of worldwide steel production and the marginal input costs associated with that level of production. This in turn implies the global level of iron ore and metallurgical coal production and their associated global prices (The Treasury 2014).

Decreased demand of iron ore:

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On the demand side, China is a major participant in the market which consumes nearly 70% of the annual commodity for its steel industry. Seaborne trade in 2013 for iron ore totalled about 1.2 billion tonnes.

The statistics showed that China's crude steel production has continued to grow at an annual pace of 6%, to a record 801 million tonnes for the year to August 2014. In association with the growth in crude steel production, China's demand for iron ore was also continuously growing. China's imports of iron ore to September 2014 grew to a record 921 million tonnes (16% annually). China had been investing heavily in infrastructure which had a profound impact on steel production and the estimates for China's infrastructure spending for 2014 were \$1.8 trillion, targeting urban facilities and its rail network (Lennox, D & Prophets, F 2014).

Australia's miners began to invest heavily to fulfil the stronger demand from China for metals and energy and the price was higher from just before 2011 but a new model of Chinese economic growth was causing the demand to decelerate and prices to fall (AFR Weekend April 6 2015). China's economic growth came under close scrutiny as its economic growth declined lower from 12% annual growth in 2010 to only 7.35% in the most recent quarter as of September 2014 (Lennox, D & Prophets, F 2014).

As a result, there was a decreased in demand of iron ore. Ker (2015) for Sydney Morning Herald has written that the shipment of 72.5 million tonnes from its global operations was weaker than expectation of the analyst, while the amount of iron ore mined was also less than two previous quarters at 74.66 million tonnes. The biggest metal groups have revealed lower iron ore

shipments in the March quarter than the December quarter. Across the major companies, the reduction was close to 11 million tonnes (Ker, P 2015).

However, Garnaut (2015) has written that as Chinese economic growth matures, the reusing of scrap will get to be more imperative. Not for a long time to come in the extents of the old modern nations, yet enough to lift steel production from scrap from 100 million tonnes a year in the recent past to a few hundred million tonnes by 2030. So demand for the iron ore is predicted to fall more quickly than aggregate steel production (Garnaut, R 2015).

Therefore, the change in Chinese economic growth of China will have its effect in the demand of iron ore which is concentrated in investment rather than consumption. The fall in the ratio of investment to GDP will further lead to a large fall in steel demand. There will be new railway systems, urban apartments, and airports to build but less each year than when overall growth was higher. This change in the rate of growth will drive changes in demand for capital goods.

#### Fall In Price of Iron Ore:

The lowest price in a decade was seen for iron ore. Due to the weak demand, the price of iron ore has fallen below \$US50 a tonne, extending a run of losses that began a week ago in early April, 2015. Iron ore delivery to the port of Tianjin in China fell to \$US49 a tonne, from \$US51, while iron ore at the port of Qingdao was \$US49. 53. The price fall was due to a combination of the world's largest miners such as Rio Tinto and BHP Billiton flooding

the market with supply as demand from China's steel producers has fallen (News.com.au, April 3, 2015).

Ingram (2015) has said that the iron ore price has wiped \$74 billion from the value of Australia's key iron ore mining stocks since January 2014, and as the price for the commodity slid, analysts expected share prices to continue to fall. Rio Tinto, BHP Billiton, Fortescue Metals Group, Mount Gibson Iron, Atlas Iron, BC Iron, Arrium and Grange Resources together endured significantly as ore prices fell 60% from \$US134 a tonne in January 2014 to \$US50.93 a tonne on April 20, 2015. A consolidated \$73.7 billion (22%) has been expelled from their business capitalisations since January 2, 2014 (Ingram, T 2015).

Impacts of sliding iron ore price:

Hutchens (2015) has written about the various impacts of sliding iron ore prices. Fall in commodity prices will lead to a fall in the dollar, which in turn will spread any profit-hits broadly through the economy. Iron ore which is roughly an \$80-billion-a-year industry, but could lose between \$20 and \$25 billion in revenue. Job cut could be another impact (Hutchens, G 2015).

Conclusion:

Even with the lowered price, the demand is still weak. The demand for iron ore is inelastic and at current costs, iron ore records for around one quarter of the last estimation of steel, however the interest for steel is very low essentially by low interest from the construction, infrastructure and manufacturing sectors. As a material with couple of substitutes, the buyers

of steel have a tendency to request steel in view of their need, not the falling price. Reduction in overall revenues is the result of expanding supply in markets with inelastic demand in the free market. It can create a circumstance where buyers get a greater amount of the item for less of their price. As being what is indicated, upstream investment in unprofitable production can make economic sense in a convoluted manner (The Conversation 9 May 2014). The result of decline in prices will prompt mining companies to cut jobs and drive down costs in other ways (Hoyle, R 2014).

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