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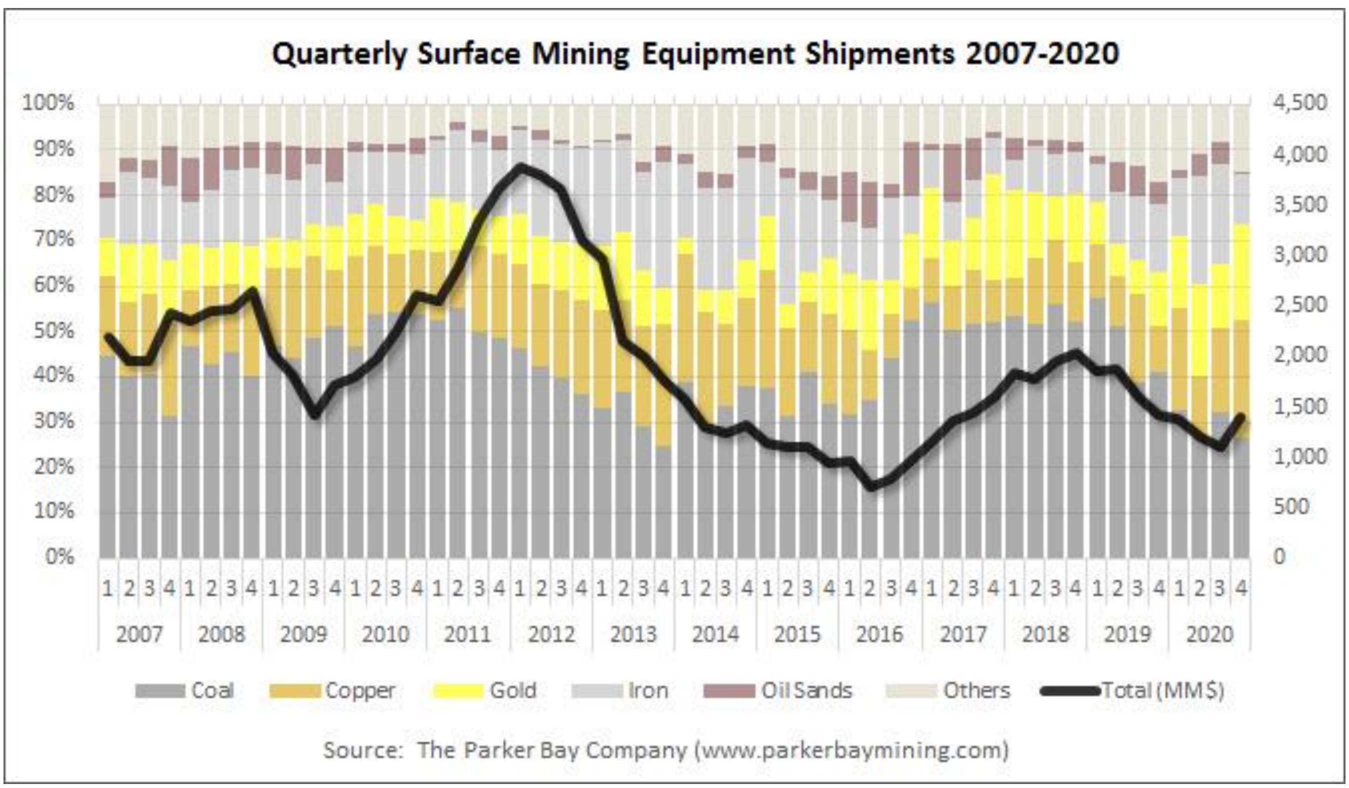
THE PARKER BAY COMPANY

Mining Equipment Market Shows Signs of a Recovery in Q4 2020

The total number of surface mining machines delivered during Q4 increased by 35% while the value of these machines was 26% higher than Q3. This is a substantial break from the contraction that began in Q1 2019 and which brought equipment markets down more than 40% over the seven quarters ending with Q3 2020. Manufacturers produced and delivered 761 machines during Q4, up from just 562 in Q3. This brought the annual total to just over 2,600; nearly one-third below the 2019 total. The value of Q4 shipments totaled US$1.4 billion vs US$1.1 billion for Q3. The annual total for 2020 barely topped US$5 billion, a 25% decline over 2019. For reference, during the peak of the Super Cycle that ended in 2012, annual shipments topped US$14 billion. It's an understatement to suggest there may be 'headwinds' as the global economy and mineral markets continue to deal with the pandemic and its impact on every facet of life. But a recovery in mining equipment markets does appear to be underway.



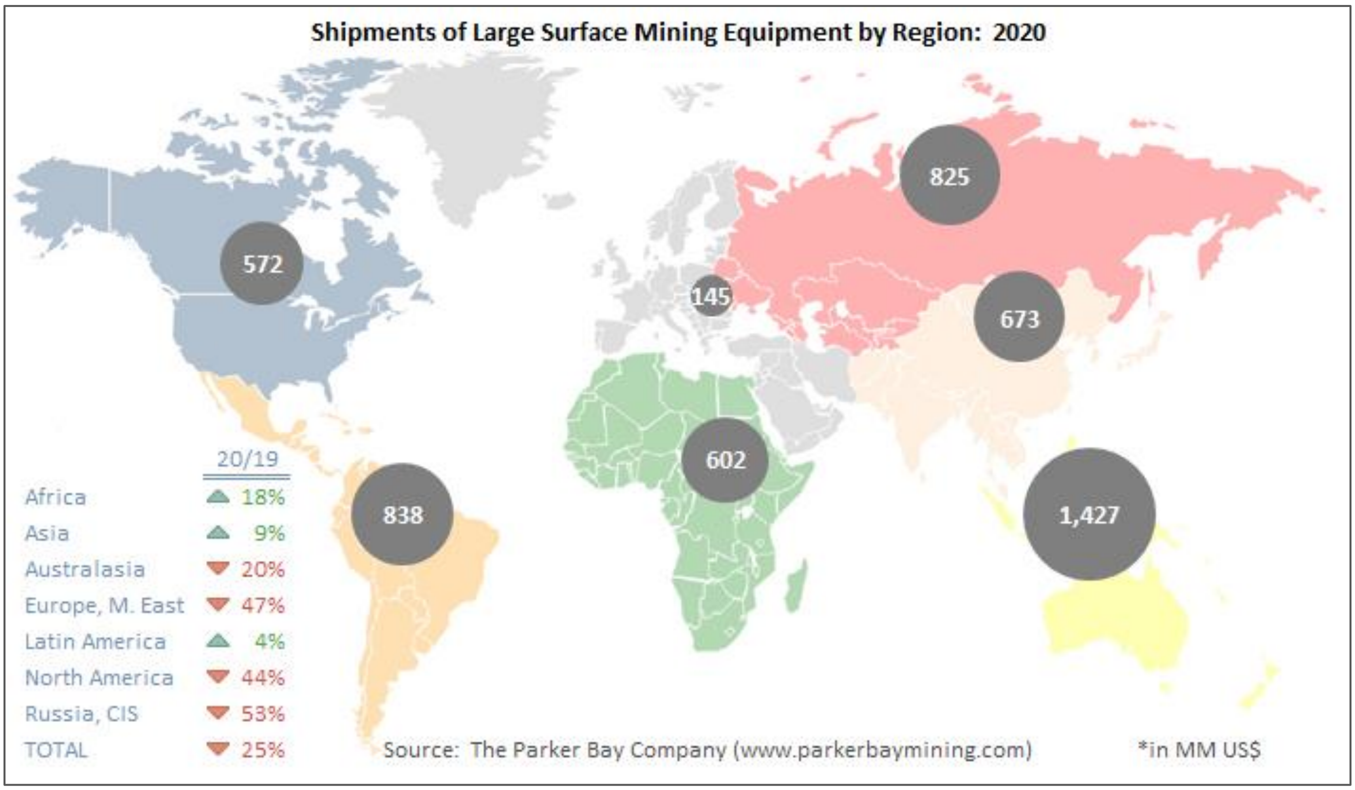
Quarterly Surface Mining Equipment Shipments 2007-2020
Source: The Parker Bay Company (www.parkerbaymining.com)

Changes to the distribution of Q4 shipments by mineral varied widely from +87% for gold miners to -81% for oil sands (due in large part to fact that oil sands accounts for just 3-4% of equipment markets long-term). A better measure of changes among the major mineral sectors is the annual changes 2020/2019: Gold increased by 50% as mines attempted to take advantage of substantially higher gold prices by boosting capacity. Copper mines increased acquisition of new equipment by a much more modest 13% and iron mines by 5%. On an annual basis, oil sands mines still stood out with a 57% decline vs 2019 presumably reflecting significantly lower oil prices. While not as great percentage wise as oil sands, coal mines reduced their acquisition of new equipment by 55% in 2020. While demand from these mines remains strong in some countries, e.g., Russia, India, coal mining in many others is impacted by substantial and increasing environmental constraints with the sector in many countries in secular decline.

Breaking down the Q4 shipments data by product line reveals significant differences, not all of which are indicative of longer-term trends. Mining trucks, by volume and value, accounted for 60% of the total industry deliveries during Q4 – an increase of 40% from the very depressed Q3 volume and the sharpest growth across all product lines. They were followed by dozers (crawler/wheel) and wheel loaders which were both up over 30% for the quarter. In contrast, hydraulic shovel/excavator shipments declined by 10%, while highly volatile and very low volume electric shovel deliveries declined by over 60%.

Truck shipments were down 37% 2020 vs 2019 with aggregate value off by a significantly lesser 29% reflecting a shift toward larger capacity units (clients may want to break these numbers down by individual size-class). Dozer shipments were down 23%; hydraulic excavators -30% and wheel loaders just 4% lower.

Geographically, shipments to Australasian mines (predominantly Australia and Indonesia) declined by 9% during Q4 but remained the largest region for overall deliveries. This held true for full-year numbers, but the decline YoY was 20%. Deliveries to Latin American mines doubled between Q3 and Q4. And for all of 2020, shipments to the region were up 4%, a sharp contrast to the 25% annual decline globally. This can be attributed to the region's greater dependence on relatively strong copper, gold and iron markets vs a much lower dependence on very weak coal markets. North American mines arrested what has been a very steep decline with shipments up 4%. But this only served to limit the annual decline to 44%. North America was second only to Australasia in market size 10-12 years ago; in 2020, it ranked behind all other regions except Europe, Middle East. Shipments to African mining operations were 12% higher in Q4 and 18% year-over-year. While total 2020 shipments remain behind all other regions besides North America and Europe/Middle East, they have grown faster and may continue to do so during the expected expansion cycle. Shipments to mines in Russia/CIS have been highly variable quarter to quarter: after contracting by 30% during Q3, they increased by 141% during Q4. Despite this, total deliveries declined by more than 50% for the year. This follows the 148% increase between 2016 and 2018 and may indicate additions to mine capacity got ahead of the underlying demand for such machines. Asia mining shipments declined by 13% during Q4 but the region was second only to Africa with an annual growth of 9% for all of 2020. Finally, Q4 shipments to mines in Europe, Middle East declined by 18% bringing the 2020 contraction to -47%. The mining sector in this region as a whole has been in a secular decline and now constitutes only 3% of global shipments.



Overall, it appears markets are recovering but it should be noted that this is a single quarterly gain, albeit a strong one. Should global economies continue to recover despite the adverse constraints imposed by the virus pandemic, the mining sector is expected to improve through 2021 and beyond. And along with it, mining equipment markets are expected to show significant gains. How significant is an open question.

Interested parties are encouraged to contact Parker Bay at info@parkerbaymining.com or by visiting the Company website www.parkerbaymining.com. Additional details on the Surface Mining Equipment Index are available at: http://parkerbaymining.com/industry-information/surface-mining-equipment-index.htm