Northern Territory Government

ECONOMIC UPDATE

April 2009

Global economy

The global economy continues to contract and this global recession is deeper than previous recessions.

- The IMF world economic outlook released on 22 April 2009 shows the recession will be deeper and the global economy will decline by 1.3 % in 2009 (Table 1). These projections assume continued strong macroeconomic policy support from countries around the world.

Table 1: IMF world economic outlook

Countries	Economic growth projections	
	2009	**2010**
Japan	-6.2	0.5
China	6.5	7.5
Korea	- 4.0	1.5
Euro Area	- 4.2	-0.4
US	-2.8	0.0
India	4.5	5.6
Indonesia	2.5	3.5
Singapore	-10.0	-0.1
Australia	-1.4	0.6
World	-1.3	1.9

- World economic growth is forecast to 're-emerge' in 2010 with the rate of global contraction to moderate from the second quarter of 2009 onwards. However, the recovery is expected to be slow and gradual. The decline in global demand will continue as output per capita is projected to contract in countries representing 75% of the global economy.
- Trade has been the engine of world growth for the last 50+ years. The IMF forecasts global trade to decline by 11% in 2009, with a marginal growth in 2010, significantly affecting leading exporting countries. Many of the East Asian countries have experienced year-on-year declines of between15% to 42%.

- The IMF said "while there have been some encouraging signs of improving sentiments since the G20 meeting in early April, confidence in financial markets is still low, weighing against the prospects for an early recovery". The advanced economies are forecast to decline by 3.8 % in 2009, and the emerging and developing economies are projected to grow by 1.6%.
- Further fiscal and monetary stimulus continues in many countries such as Japan's new $212 billion stimulus, the US Federal Reserve initiative to buy $1.2 trillion worth of government and mortgage related debt, further cuts in interest rates in Euro Zone, India and Australia. These measures are now beginning to have some effect on reducing the degree of risk aversion prevailing in the global economy.
- The IMF global financial stability report maintains that the global financial system remains under severe stress. The considerable government stimulus packages and private sector adjustments are contributing to some stabilisation. However, further decisive policy actions and international coordination is deemed necessary by the IMF.
- At its summit the G20 group pledged a global recovery plan to:
  - restore confidence, growth and jobs
  - repair the financial system to restore lending
  - strengthen financial regulation to re-build trust
  - fund and reform the international financial institutions to overcome this crisis and prevent future ones
  - promote global trade and investment and reject protectionism, to underpin prosperity
  - build an inclusive, green, and sustainable recovery.

Australian economy

The Reserve Bank of Australia (RBA) now acknowledges that the Australian economy will slide into a recession in 2009, albeit a mild recession.

- The Australian economy contracted by 0.5% (seasonally adjusted) in the December quarter 2008 and the annual GDP currently stands at 0.3%. It is believed that the economic situation would have been worse in the absence of the first stimulus package and other measures that Government took late last year.
- A closer look at the GDP components shows softness across the board. Consumption expenditure grew marginally (0.1%) compared with the previous quarter. Private business investment grew by 1.1% driven by 2.2% growth in engineering construction but dwelling investment declined (-1.2%). Overall, private investment remained unchanged. Public investment on the other hand, declined by 1.5%. Both exports and imports declined, by 0.8% and 6.8% respectively.
- On the production side of the economy, industry sectors that declined included manufacturing, construction, wholesale trade, finance and insurance, property and business, cultural and recreational, and personal and other services.
- The Westpac-Melbourne Institute Leading Index points to continued economic contraction. The index fell to -5.1% (annualised growth rate) in February 2009, far below its long term trend of 2.9%. The index has declined from 0.5% in September 2008 to -5.1% in February 2009. This run of negative reads is consistent with the lead up to previous recessions.

- The Access Economics March quarter 2009 forecast shows the Australian economy is expected to slow down to 0.1% in 2008-09 (-0.9% in the calendar year 2009) and contract by 0.2% in 2009-10. Access Economics predicts a “small” recession for the Australian economy, compared to other advanced economies. The IMF has considerably downgraded its outlook for the Australian economy, forecasting it will contract by 1.4% in 2009, with a marginal growth (0.6%) in 2010.
- Consumer sentiment increased in April 2009 by 8.3% to 92.7 compared to March 2009 (consumers are optimistic if the index is >100 and pessimistic if the index is <100). The national consumer sentiment index is volatile but is nevertheless tracking upwards gradually. The stimulus package, fall in mortgage costs and some improvement in share markets are the probable reasons for increased confidence.
- The Reserve Bank cut cash rates by 25 basis points to 3.0%. However the banks did not fully pass on the rate cuts to customers. The banks have also lifted the fixed rates. The Australian government and the ‘Big Four’ banks have agreed on a set of common principles for customers facing mortgage payment difficulties.
- Business confidence remains low (12% for small and medium sized business in February 2009).
- Unemployment is increasing. The unemployment rate rose (seasonally adjusted) to 5.7% in March 2009 compared to 5.2 % in February 2009.
- ANZ job ads declined by 8.5% in March 2009, taking the annual fall to 45%. Access Economics predicts unemployment to peak to around 8.4% by 2010- 2011 before easing somewhat.
- Australia’s construction sector remained weak in March 2009 due to sluggish demand and a lack of new projects. The AIG-HIA Performance of Construction Index rose marginally by 0.9% to 30.4, but remained below the key 50-point level that separates expansion from contraction.
- The States and Territories have signed up to a $31.7 billion roads and rail investment program. The Federal Government will contribute $26.4 billion and States/Territories will provide $5.3 billion.
- The number of overseas visitors is forecast to decline by 4.1% and domestic visitor nights by 0.9% in 2009. However, lower $A, and lower fuel prices will support tourism spending in Australia. Consequently total spending on tourism in Australia is expected to increase by 0.3% in 2009 with an increase in spending by the larger domestic visitor segment offsetting the decrease in international visitor spending.
- The Australian share markets are improving gradually but remain volatile. Many companies face shortfalls in their superannuation funds brought on by deterioration in bond and equity markets.
- Decline in demand and economic growth in Australia’s key trading partners such as Japan, China and USA is bearing down on the Australian economy.

Northern Territory economy

Unlike other Australian jurisdictions, the impact of the current crisis on the NT economy, so far, has been less severe. Stronger economic growth will depend on proposed large projects that are in the pipeline.

- NT domestic demand (State Final Demand - SFD) contracted by 0.7% (seasonally adjusted) in the December 2008 quarter from September 2008 quarter (4.7% growth), largely due to a reduction in government consumption, investment and slower growth in private investment. However, in year on year terms the Territory's SFD increased by 8.5% (original terms).

- Access Economics growth forecast (March 2009) is 4.1% for 2008-09. The economic growth for the NT is forecast to be much slower for the next three years if one or two anticipated large projects such as Inpex LNG do not come on stream. The Access Economics forecasts NT economic growth in 2009-10 of 1.3%, in 2010-11 of 1.0% and 2011-12 of 0.7%. Slower growth in the next few years is expected largely due to lower private sector investment expenditure. The Inpex LNG project is not factored into these forecasts. However, the Territory's longer term prospects remain excellent.
- Exports (merchandise) from the NT are performing strongly, driven by higher LNG production and mineral ores production. The export of merchandise goods increased by 25% (original data) in February 2009 compared to January 2009 and on a year on year basis increased by 57.5%. Although merchandise imports declined in February 2009, they increased by 55.8% on year on year terms.
- Investment remains high but easing.
- Retail sales are holding up better than other jurisdictions. Retail sales, seasonally adjusted, contracted by 0.1% in February 2009 compared to January 2009 and in year on year terms retail sales (original and not seasonally adjusted) increased by 12.3%.
- Business confidence in the NT is improving, 43% in February 2009 (24% in November 200 08) compared to 12% nationally!!
- Construction work remains strong (13.2% increase in December 2008 quarter (original terms) over September 2008 quarter) but there is anecdotal evidence of projects being put on hold due to more stringent credit conditions or growing risk aversion. The roll-out of the second stimulus package will boost construction activities.
- Labour market remains steady:
  - unemployment rate (4.0% February 2009) - unchanged from last month's revised figure. The Territory's unemployment is second lowest among all Australian jurisdictions, behind the ACT.
  - Employment grew by 0.6% in March 2009 compared to February 2009. This growth could be the result of stronger population growth.
- Increasing population – the Territory's population grew by 0.6% in the December quarter 2008, and by 2.2% on an annual basis (third highest among all Australian jurisdictions).

Weak spots in the NT economy

- Weaker housing sector but improving:
  - residential building approvals decreased by 5.1% (trend) in February 2009 and on an annual basis declined by 14.8% . Year on year approvals declined by 35.9% (original terms). The low levels of affordability, land availability and tighter credit conditions are constraining demand. Nationally residential building approvals declined by 2%.
  - dwelling commencements increased 92.5% in the December quarter 2008 but decreased by 26.4% for the year 2008. The turn around in the December quarter was expected and was due to lower interest rates and government home ownership incentives.
  - housing finance commitments (seasonally adjusted) declined by 3.1% in February 2009 compared to January 2009 and on an annual basis increased by 3.5% and declined by 18.0% in year on year terms. However, over the last 6 months housing finance commitments has trended upward.

  - housing affordability is still low but improving: 40.7 in the December quarter 2008 – up from the September quarter (due to lower interest rates). Affordability declined by 5.1% on an annual basis and declined by 9.7% in year on year terms.
  - On a positive note, there is a greater underlying demand for housing.

- Leading indicators signify a softening of the NT labour market:
  - Newspaper job ads remain volatile. They increased by 19.2% (seasonally adjusted) in March 2009 compared to a decline of 33.8% in February 2009. However, they fell 16% over the year (ANZ January 2009 Job Ad Survey). At the national level newspaper job advertisements decreased by 53.4%. Access Economics forecast unemployment to rise in 2009-10.
- Shortage of credit and tightening credit conditions, and slowing demand for credit are impediments to economic expansion and growth.
- Lower commodity prices are reducing returns to resource sector projects and activities but with some commodities like live cattle, export trade and LNG exports are expected to do well.
- Mineral exploration expenditure in the NT increased by 8% in the December quarter 2008 compared to the September quarter. Mineral exploration expenditure in other jurisdictions declined in the December quarter (except Tasmania – marginal increase). However, the NT had the largest fall of all jurisdictions in petroleum exploration expenditure of $40.2 million (58%) in the December quarter 2008.
- The sale of new vehicles has been tracking downwards since March 2008. New motor vehicle sales declined by 16.7% (seasonally adjusted) in March 2009 and declined by 40% on an annual basis. Nationally car sales decreased by 3.2%.
- Economic growth will be constrained by the slow down in the economies of NT‘s trading partners (China, Japan, other Australian States, etc).
- The NT accommodation sector is yet to feel the impact of a slowing demand for travel services. The tourist accommodation data released recently for the December quarter 2008 show that guest nights occupied were steady compared to the December quarter 2007 (634,000 nights in both quarters). Takings increased by 6.1% over the same period. Room occupancy rates decreased by 3.8 percentage points as 4 additional establishments (428 additional rooms) were added to the accommodation supply.

Release dates for key economic data for Australia and the NT

- Access Economics Business Outlook June quarter 2009 – Mid July 2009
- ABS Australian National Accounts March quarter 2009 – 3 June 2009
- ABS State Accounts 2008-09 – 14 November 2009
- ABS Construction Work Done (Preliminary) March quarter 2009 – 27 May 2009
- ABS Dwelling Commencements, March quarter 2009 – 17 June 2009
- ABS Labour force, Australia (monthly) April 2009 – 7 May 2009
- ABS Retail Trade Trends, Australia (monthly) March 2009 – 6 May 2009

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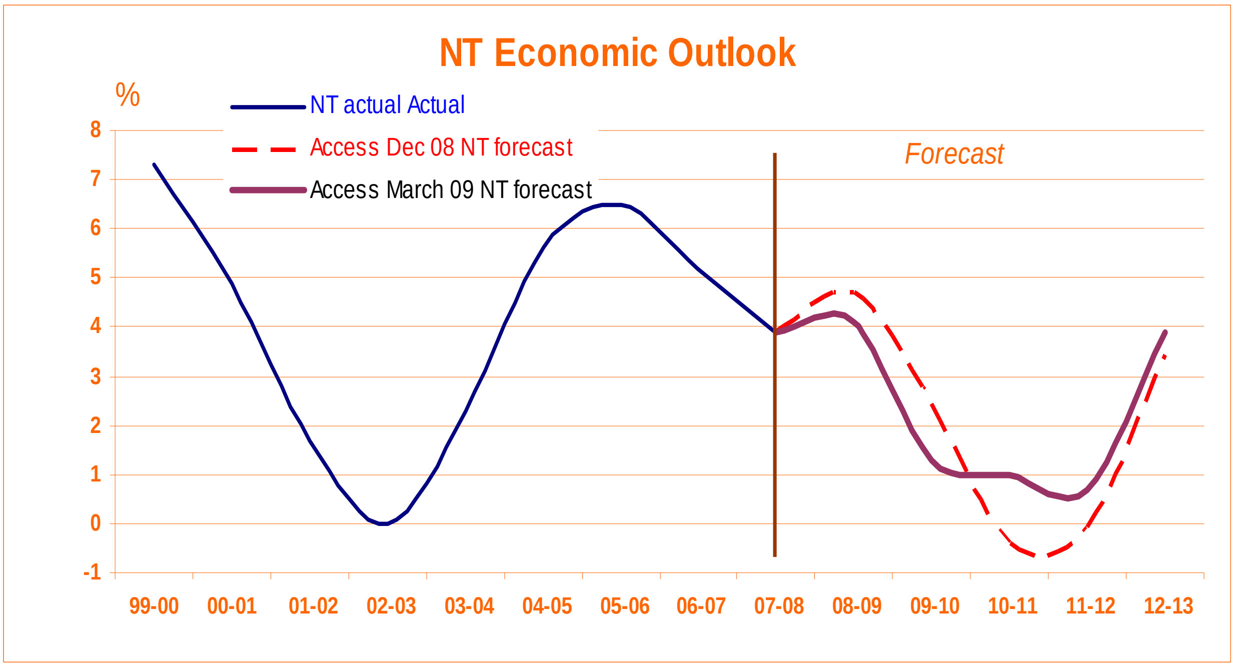
27/04/09


NT Economic Outlook
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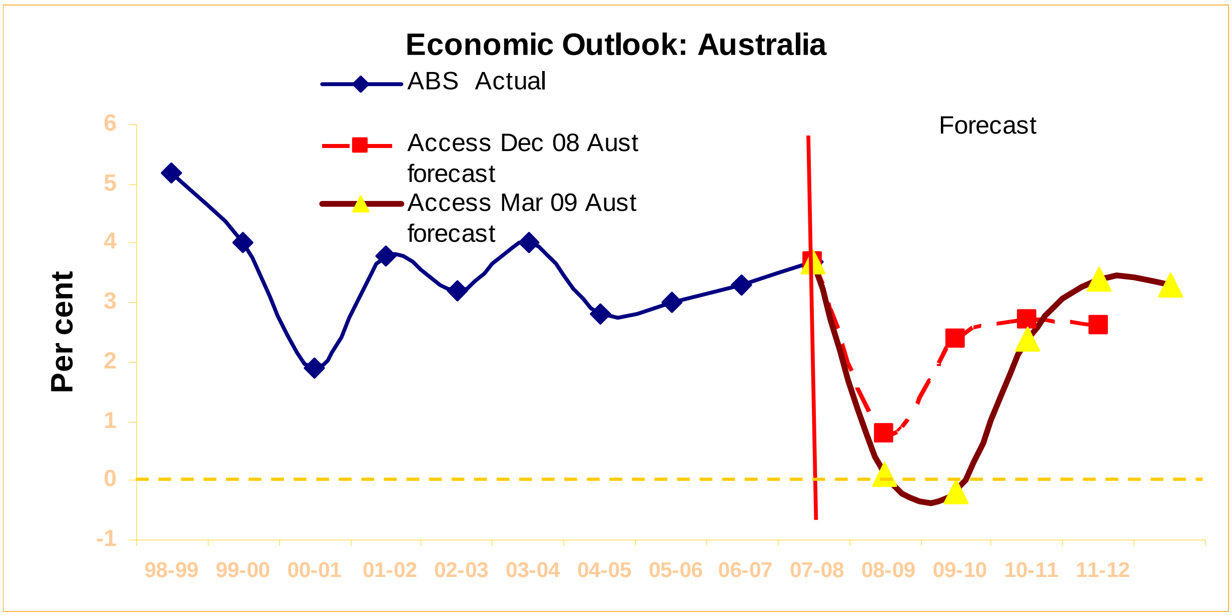
Economic Outlook: Australia
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