

Territory Economy

The following section provides an overview of the Territory economy, including the overall performance of the economy in 2008-09 and the outlook for 2009-10. Updates of key economic indicators are published regularly and can be downloaded at www.nt.gov.au/ntt/economics.

Structure of the Economy

The Northern Territory accounts for 19 per cent of Australia's total land mass and just over 1 per cent of Australia's total population. About one-third of the Territory's population is Indigenous. The Territory has an abundance of natural resources and an economy dominated by mining and energy production. The Territory is also characterised by a large public sector and a significant Australian Defence Force presence. The significance of the mining and energy sector means that the Territory economy is capable of high growth as resources are developed, which can result in volatile growth patterns from year to year. The significance of the mining and tourism industries makes the Territory economy particularly reliant on exports and susceptible to developments in key export markets and the world economy generally.

Gross State Product

Despite the slowdown in the Australian and global economies, the Territory economy proved remarkably resilient in 2008-09, with estimated growth of 4.1 per cent. Increased economic activity was underpinned by strong growth in business investment, reflecting work undertaken for a number of resource-related major projects such as the GEMCO refinery expansion on Groote Eylandt, work associated with Eni's Blacktip gas project in the Bonaparte Gulf and the associated Bonaparte gas pipeline. Growth in the Territory economy was also supported by strong growth in public consumption and investment expenditure, reflecting a record Territory Government capital works program.

Economic growth is forecast to moderate to 2 per cent in 2009-10, with large declines in business investment expected to be more than offset by increasing public investment, residential construction activity and a widening trade surplus. The slowdown in growth primarily reflects the completion of a number of

major projects, increased risk aversion by financial institutions limiting credit growth and moderating private consumption expenditure as households remain cautious in their spending during the global financial crisis (GFC).

External Economic Environment

The Territory's commodity-based economy depends on strong interstate and international demand to maintain solid growth. Overseas demand constitutes about 25 per cent of Territory final demand, while interstate demand has averaged about 15 per cent annually since 2002. Major Territory exports include liquefied natural gas (LNG), crude oil, mineral ores, live cattle and tourism-related services.

The International Monetary Fund has forecast the global and Australian economies to contract by 1.4 and 0.5 per cent respectively in 2009. The contraction is predominantly attributed to the GFC, constraining investment opportunities and curbing consumption spending.

The Territory economy has not been immune from the effects of the GFC. The realisation of global credit constraints has placed significant restrictions on lending, forcing many investors to postpone or cancel new and existing investment projects in the Territory. Tighter credit markets and the slowing national and global economies have also acted to constrain household consumption in the Territory in 2009.

International Trade

An abundance of rich mineral and energy resources and a limited local market mean that the Territory is a net exporter, and international trade forms an integral part of the Territory economy.

Despite the large decline in international trade globally, the Territory has continued to experience strong demand for its resource commodities, coupled with the benefit of contract prices locked in prior to the GFC. Imports into the Territory are expected to reach near record levels in 2008-09 in line with increased prices for feedstock gas from the Bayu-Undan gas field in the Timor Sea, increased petroleum imports and record levels of machinery and equipment expenditure. In volume terms, the Territory's trade surplus is estimated to widen by 1.4 per cent to \$2 billion in 2008-09.



Darwin city wharves – image courtesy of Darwin Port Corporation.

Despite signs of strengthening economic growth in key export markets such as China, the value of Territory exports is forecast to decline in 2009-10. This reflects lower contract prices for key Territory resource commodities negotiated at the peak of the GFC and is despite higher volumes of alumina, manganese, zinc concentrate and iron ore exports in the year. Large falls in import volumes, as major projects are completed and consumer spending moderates, is expected to be the primary driver behind the Territory's trade surplus widening by a forecast 5.5 per cent to \$2.1 billion in 2009-10.

Population

In 2008 the Territory's resident population grew by 2.0 per cent compared to 1.9 per cent nationally. However, the Territory's population growth has been moderating since the peak in December 2007. Territory population growth is forecast to moderate to 1.8 per cent in 2009 and to 1.5 per cent in 2010. The forecast moderation in population growth is primarily driven by a slowing onshore economy and an absence of any large-scale projects. Net interstate migration is expected to slow as employers wind back their demand for skilled workers. Large, unconfirmed projects, including the Inpex LNG project and Train 2 of the ConocoPhillips LNG plant at Wickham Point, have the potential to create significant demand for workers in the future, which will result in a return to strong population growth levels.

Labour Force

The Territory's labour market remained buoyant in 2008-09, with employment growth of 4.2 per cent and a record low average unemployment rate of 3.7 per cent. Strong growth in employment reflects historically high levels of construction and mining activity over the year,

a booming retail sector and high levels of business and consumer confidence.

In 2009-10, employment growth in the Territory is forecast to moderate to 1.5 per cent and the unemployment rate is forecast to rise in line with the slowing economy, although at a moderate rate, as skilled labour shortages in the past are expected to make employers less willing to shed key workers. Despite large falls in business investment in 2009-10, employment growth is expected to be underpinned by record levels of public investment expenditure, reflecting the Northern Territory Government's \$1.3 billion capital works program, increased defence infrastructure spending and strengthening levels of residential construction activity.

Prices

The Darwin Consumer Price Index increased by 4.0 per cent in 2008, the second lowest consumer inflation rate of the eight capital cities and lower than the national average rate of 4.4 per cent. Rising house purchase and rental prices were the largest contributors to growth and reflect the buoyant Darwin property market. Strong growth in Darwin housing prices over 2008 was driven by a number of factors such as declining interest rates since September 2008, temporary government housing initiatives and the announcement by the Japanese oil and gas company Inpex of Darwin as its preferred location to build an LNG plant to service the Ichthys gas and condensate field in the Browse Basin off Western Australia.

In 2009, prices are forecast to moderate to 2.6 per cent, due to lower fuel and transport costs, moderating growth in house prices, subdued consumer spending and weaker commodity prices.

Mining and Energy

The mining industry is the largest contributor to the Territory economy, accounting for 23.6 per cent of Territory GSP in 2007-08, compared to 7.6 per cent of Gross Domestic Product nationally. In 2008-09, mining and energy production is estimated to have increased by 16.9 per cent to \$6.7 billion, supported by commodity prices locked in prior to the GFC and increased volumes of manganese, alumina and iron ore and increased production from the Bayu-Undan gas field. The higher value of manganese production from the GEMCO mine on Groote Eylandt and the Bayu-Undan field helped offset a decline in offshore oil production due to a temporary shutdown at the Puffin oilfield due to cyclones and the natural decline in production at the Laminaria-Corallina oilfield.

In 2009-10, Territory mineral and energy production is forecast to decrease by 7.8 per cent to \$6.2 billion. Declining production is predominantly due to lower contract prices for a number of key commodities negotiated at the peak of the GFC. Conversely, energy and oil production is forecast to increase as repair and replacement works boost production at the Laminaria-Corallina oilfields and production from the Skua and Swift oilfields commences.

Construction

In 2008-09, construction activity in the Territory is estimated to have increased by 17.6 per cent to \$2.3 billion, driven by a number of major projects such as the GEMCO manganese refinery expansion, the Darwin Waterfront Redevelopment project and a record Territory Government capital works program.

Overall construction activity is forecast to decrease significantly in 2009-10, reflecting the completion of a number of major projects and increased risk aversion by financial institutions and investors. Nevertheless, construction activity is expected to remain above long-term historical levels, supported by Minemakers Wonarah phosphate project, ongoing activity at the Skua and Swift oilfields and the Territory Government's \$1.3 billion capital works program. Historically low rental vacancy rates for Territory dwellings, Territory and Commonwealth housing initiatives, low interest rates and increasing residential land releases will also be major contributors to overall construction activity in 2009-10.

Tourism

Tourism is an important part of the Territory economy, creating demand and generating employment in a range of industries, including hospitality, retail trade, transport and construction, and contributes relatively more to GSP than other jurisdictions.

Territory visitor numbers and expenditure moderated in 2007-08, reflecting the appreciation of the Australian dollar during this period and a slowdown in global tourist activity. Looking forward, uncertain economic conditions in Australia and globally are expected to constrain tourist activity in the short term as discretionary spending patterns are replaced by increased precautionary saving. Recent expenditure on tourism infrastructure, including the Darwin Convention Centre, the cruise ship terminal and increased accommodation stock and airline capacity places the Territory in a good position to benefit from future tourism growth.

Longer Term Economic Outlook

Despite the current deterioration of the global economy, and expectations for economic activity to remain subdued in the medium term, the prospects for the Territory economy over the long term remain very positive. This largely reflects the Territory's abundant resource base and close proximity to Asia, placing it in a strong position to quickly capitalise on the eventual recovery in the global economy. The Territory economy is projected to return toward long-term rates of growth over the three forward years from 2009-10, with economic growth projected to average 3.25 per cent per annum. These projections assume that global economic growth will return to long-term trend levels as the global financial system recovers. It is important to note that these projections do not include the potential for a proposed expansion of the Wickham Point LNG plant or the Inpex Ichthys project, construction of which may commence in 2010.