

## Overview

Economic growth in the Northern Territory tends to be volatile from year to year. The small size of the economy means large, typically resource-based, projects can have a substantial impact on investment and income streams, resulting in volatile growth patterns. The structure of the economy reflects significant natural resources, the Territory's importance in national defence and the relatively large tourism and public sectors. 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, in turn, the world economy.

### The Economy in 2003-04

#### On Shore Economy

The onshore economy has continued to strengthen, boosted by activity from the construction of the liquefied natural gas (LNG) plant at Wickham Point and buoyant consumer sentiment and expenditure. Population growth has remained weak, but positive, and dwelling investment and property markets have continued to strengthen. Employment growth has been weak as construction of the Alice Springs to Darwin leg of the rail link to Adelaide came to an end and the tourism sector has continued to struggle. Tourism continued to be affected by the tail end of the world economic slowdown, and the impact of terrorist attacks, the war in Iraq and severe acute respiratory syndrome on discretionary international travel. Despite these setbacks, employment growth did start to pick up in late 2003-04.

#### Gross State Product

Despite strengthening onshore economic conditions, Northern Territory GSP is estimated to have increased by only 0.3 per cent in 2003-04 as falling offshore oil production, which has limited links to the onshore economy, was a major drag on reported growth for the second consecutive year. State Final Demand continues to strengthen, increasing by an estimated 4.4 per cent in 2003-04, as investment was boosted by the start of construction of the liquefied natural gas (LNG) plant at Wickham Point and private consumption continued along at a solid pace.

#### Population

Following slightly negative growth in 2002-03, the Territory population is estimated to increase by 0.3 per cent in 2003-04. Subdued population growth in recent years has been associated with increased net interstate migration outflows. The recent increases in the net interstate outflows reflects the lagged impact of the downturn in the Territory economy and the relative attractiveness of other jurisdictions, driven by increased job opportunities, notably in the construction sector. Setbacks to tourism, a key labour intensive sector, also contributed to the magnitude of the net interstate outflow.

#### Employment

Territory employment continues to be weak, and current estimates are that it will decrease by 1.4 per cent in 2003-04 as the labour market continues to adjust from the sharp 5.7 per cent, railway-induced spike in employment levels in 2001-02. Nonetheless, trend employment showed consistent signs of improvement in the latter half of 2003-04. As with the broader economy, Territory employment tends to be volatile, with extreme growth rates (both positive and negative) often associated with the labour-intensive construction phase of major investment projects. With several significant projects underway and proposed, this is likely to continue to be a feature of the Territory labour market over the next few years.

Territory price and wage inflation has been below national rates in the past few years, partly due to subdued demand pressures and property markets, but also associated with the Territory benefiting relatively more from efficiency gains, notably in the transport sector. Darwin's annual inflation rate is estimated at 1.5 per cent in the June quarter 2004, below the national rate of 1.8 per cent. Territory wages growth, as measured by the wage cost index, was 3.1 per cent in the year to December 2003 compared to growth of 3.6 per cent nationally.

### Outlook for 2004-05 and beyond

The onshore Territory economy is forecast to continue to improve in 2004-05. A full year of condensate production from Bayu-Undan is expected to offset falling oil production from Laminaria-Corallina. The 2004-05 forecast assumes that a small amount of work will commence on the Alcan alumina project in late 2004-05.

#### Gross State Product

Territory GSP is forecast to increase by 5.8 per cent in 2004-05, as the improvement in onshore economic activity in recent years gains momentum. Consumption is forecast to increase by 2.8 per cent, moderating from estimated growth of 3.8 per cent in 2003-04. Investment is forecast to fall marginally, but remain at a very high level, supported by increased public sector expenditure. Offshore oil production from Laminaria-Corallina is forecast to fall by 30 per cent in line with a typical oil well production profile. However, the impact on GSP of weaker mining and energy sector output will be cushioned somewhat as a full year of condensate production from the Bayu-Undan stage one comes on stream.

Engineering work for Bayu-Undan stage two will be the key driver of Territory investment in 2004-05 as the investment impact of the railway, East Arm Port, and Bayu-Undan stage one comes to an end. With capital investment of around \$2.8 billion, the Bayu-Undan stage two LNG plant and pipeline is the largest project ever undertaken in the Northern Territory. Investment for Bayu-Undan stage two will have a much stronger, positive impact on the onshore economy than construction of the offshore structures for stage one. The construction phase for Bayu-Undan stage two will take almost three years to complete and will employ around 1 200 people during peak periods. First LNG exports from the Territory are scheduled for 2006.

#### Population

Population growth is expected to continue to be below the national rate in the medium term. Annual growth is expected to be maintained at the 2003-04 rate of 0.3 per cent in 2004-05, before increasing to 0.5 per cent in 2005-06 and 2006-07.

#### Employment

Despite weak population growth, employment is forecast to increase by 2.9 per cent in 2004-05. Work associated with the construction of the Wickham Point LNG plant will provide a major boost to employment, but will be supported by increased residential and non-residential building work and the expected strengthening in tourism-related activity. Further out employment growth will be heavily influenced by whether or not major projects proceed.

#### Prices and Wages

Increased employment in higher paying industries and a tighter labour market in the Territory is expected to result in stronger wages growth in 2004-05, putting upward pressure on inflation. Annual inflation in Darwin is forecast to increase to 2.2 per cent in 2004-05 compared with 2.6 per cent forecast nationally.