

Chapter 1 Structure of the Economy

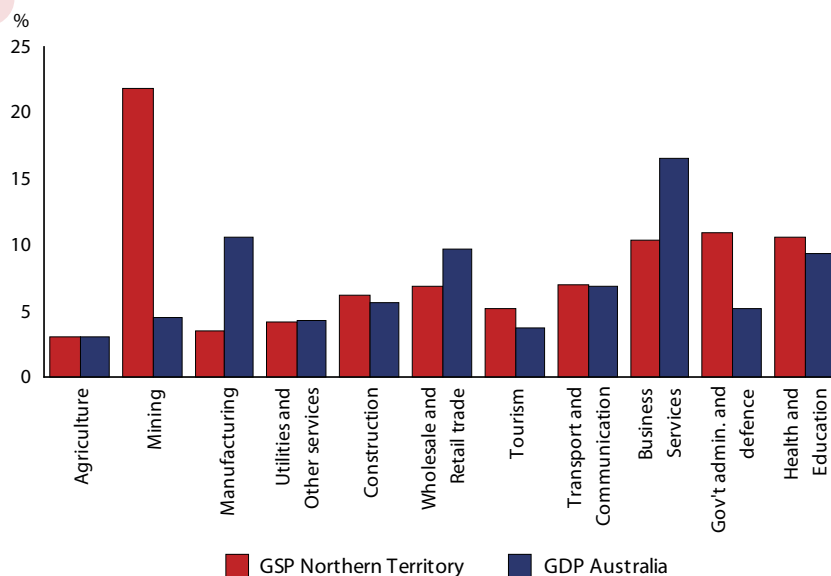
Key Points

- The structure of the Northern Territory economy is markedly different to other Australian jurisdictions, reflecting its abundance of natural resources, its comparatively large public sector, and the importance of the large defence presence.
- A relatively large mineral and energy sector means that the Territory economy is capable of high growth as resources are developed which, in conjunction with a high reliance on tourism (particularly international), contributes to an economy that has significant exposure to the world economic cycle.
- This growth volatility in the Territory is exacerbated by the relatively small size of the economy, which comprises 1.2 per cent of the Australian economy.
- A key driver in the structure of the Territory economy was the increase in defence numbers over the 1990s, leading to a major cycle in economic activity and a construction boom, followed by a downturn in the early years of this decade.
- The next few years will see another phase of infrastructure and resource investment, including increased capacity coming on stream in transport (with the Adelaide to Darwin rail link) and mining and energy (mainly oil and gas), which in turn will broaden the economy in key industries such as manufacturing and services.

Territory Gross State Product (GSP), at around \$9 billion, accounts for approximately 1.2 per cent of national Gross Domestic Product (GDP). Key activities in the Territory economy include mining, tourism, defence, alumina production and government services. Notable differences between the Territory and national economies include the greater contribution of mining and tourism-related industries in the Territory, the smaller contribution of ownership of dwellings than nationally, and the Territory's relatively small manufacturing industry.

International exports of goods and services from the Territory are an important source of demand, averaging around a third of Territory GSP for most of the past decade. The Territory's economy is not as diverse as nationally, with the top four industries in the Territory accounting for 44.6 per cent of GSP relative to the top four for Australia at 35.5 per cent. However, the balance between consumption and investment expenditure both in the Territory and nationally is quite similar, with consumption expenditure accounting for around three-quarters of final demand.

Chart 1.1: Industry Proportions of Gross State/Domestic Product (five year average to 2002-03)



Source: NT Treasury, ABS Cat. No. 5220.0

Industry Structure

As Table 1.1 shows, mining was the most significant Territory industry in 2002-03, accounting for 21.9 per cent of GSP, more than four times the national proportion of 4.6 per cent. This figure is heavily influenced by activity associated with the Laminaria-Corallina oil fields in the Timor Sea, production from which is attributed to the Territory.

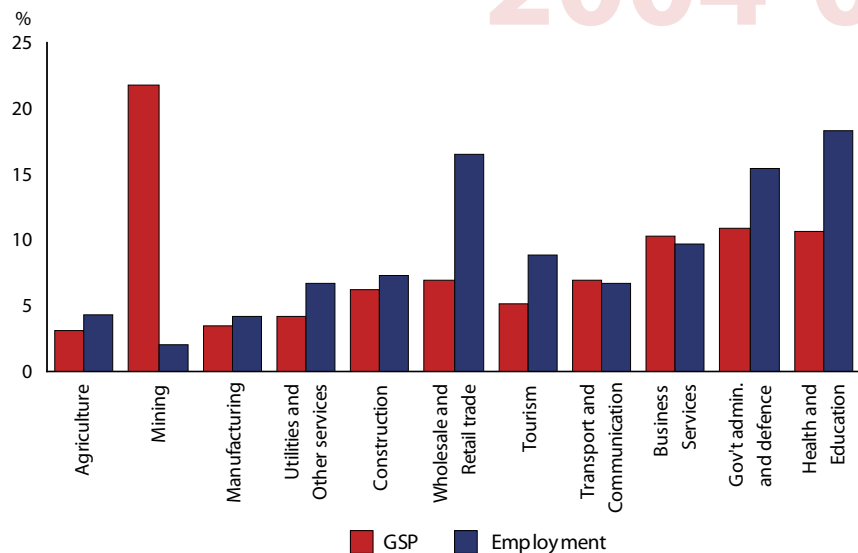
Like the Australian Capital Territory, there is a relatively high contribution of government administration and defence services to GSP due to the significant presence of the public sector. In the Territory, this not only reflects the diseconomies of providing public services to a small and dispersed population with a large Indigenous component, but also the increasing defence force presence in the Top End over the past ten years.

Table 1.1: Composition of State Economies (percentage of Gross State Product, 2002-03)

Industry	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUST
Agriculture, forestry and fishing	1.5	2.6	3.8	4.7	2.6	5.6	2.6	0.1	2.5
Mining	1.7	1.5	6.9	2.2	18.3	1.3	21.9	0.0	4.6
Manufacturing	10.2	12.6	8.8	12.8	8.2	12.5	3.4	1.5	10.3
Electricity, gas and water	1.9	2.3	2.1	2.1	2.5	4.9	1.6	3.3	2.2
Construction	5.4	5.2	6.8	6.2	7.3	5.7	7.0	7.1	5.9
Wholesale trade	5.1	5.4	5.0	4.1	4.2	3.7	2.4	1.9	4.9
Retail trade	4.6	4.8	6.2	4.9	4.8	5.9	4.6	4.1	5.0
Accommodation, cafes and restaurants	2.1	1.5	2.6	1.9	1.5	2.5	2.5	2.1	2.0
Transport and storage	4.1	3.8	4.9	4.1	4.3	4.6	4.3	2.1	4.1
Communication	2.6	3.0	2.5	2.2	2.1	2.3	2.7	2.2	2.6
Finance and insurance	8.5	7.6	4.6	5.6	4.2	6.0	2.8	3.6	6.7
Property and business services	11.8	11.0	8.2	8.0	9.1	4.8	8.6	11.8	10.3
Government admin and defence	3.1	2.3	3.9	3.1	2.1	5.0	7.1	24.0	3.4
Education	3.6	4.4	4.2	4.6	3.3	4.7	4.5	5.3	4.0
Health and community services	5.2	5.6	5.4	7.1	5.2	8.2	6.3	5.6	5.5
Culture and recreational services	1.8	1.7	1.3	1.5	1.3	1.4	2.3	2.5	1.7
Personal and other services	1.8	2.1	2.5	2.6	2.3	2.3	2.5	2.8	2.2
Ownership of dwellings	10.3	7.5	6.9	8.0	5.8	7.4	5.1	7.6	8.2
General government	1.8	1.5	2.4	1.9	1.6	2.8	3.0	4.3	1.9
Taxes less subsidies	13.0	13.7	10.9	12.5	9.4	8.6	4.9	8.0	12.1
All industries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NT Treasury, ABS Cat. No.5220

Chart 1.2: Territory Employment and GSP, percentage of Total (five year average to 2002-03)



Source: NT Treasury, ABS Cat. Nos. 5220.0, 6202.0

Other notable differences between the Territory and national economies include the greater contribution of tourism-related industries (accommodation, cafes and restaurants; and cultural and recreational services) in the Territory, and the smaller contribution of ownership of dwellings (estimated as notional rent on owner-occupied housing) than nationally. This reflects the low, but growing, rate of home ownership in the Territory, with virtually no private home ownership occurring in remote Indigenous communities. As noted, the manufacturing sector is also significantly less developed than in other jurisdictions, with the exception of the Australian Capital Territory.

The proportion of the Territory economy attributed to services (all industries excluding agriculture, mining and manufacturing) is the third lowest in Australia at 62.1 per cent. This figure has increased from 60.3 per cent in 2001-02, largely related to the decline in the significance of the agriculture sector.

In terms of employment, however, the Territory has a large proportion of people employed in its services sector, representing 89.5 per cent of average employment in 2002-03. This compares to the national average of 81.7 per cent. The public sector is the largest employer in the Territory, followed by the retail sector. The distribution of Territory employment and GSP are compared in Chart 1.2, which contrasts the capital-intensive nature of mining with the labour-intensive industries such as retail, other tourism-related sectors, and health and education.

Export Propensity

International exports of goods and services averaged around a third of Territory GSP for most of the past decade. In 2002-03, exports accounted for more than 37 per cent of GSP, compared to 23 per cent nationally. This is a substantial decline from 2000-01, when exports accounted for more than 60 per cent of Territory GSP. The main reason for the decline in exports has been falling oil production from the Laminaria-Corallina oilfields. This has been exacerbated by weaker tourism-related exports in recent years.

The significance of international exports to the Territory economy means that it is somewhat more exposed to conditions in world markets than other jurisdictions. Furthermore, Territory exports are primarily minerals, energy and agricultural commodities, which are prone to significant price fluctuations. The slow pace of the global recovery and the recent appreciation of the Australian dollar against the US dollar will impact on the Territory's propensity to export goods, as demand and competitiveness are affected.

The Territory's major international services exports relate to travel (services provided to overseas tourists), education (international student expenditure) and government services (dominated by expenditure related to visiting military forces).

Diversity

A measure of the diversity of the economy is the extent to which the largest industries dominate output (its concentration ratio).

The largest Territory industries in 2002-03 were mining (21.9 per cent), property and business services (8.6 per cent), construction (7.0 per cent), and government administration and defence (7.1 per cent). The largest national industries in 2002-03 were manufacturing (10.3 per cent), property and business services (10.3 per cent), ownership of dwellings (8.2 per cent), and finance and insurance (6.7 per cent). The latter two were again boosted by strong growth in construction and property markets.

Expenditure patterns

Overall, the balance between consumption and investment expenditure both locally and nationally is quite similar, with consumption expenditure accounting for around three-quarters of final demand.

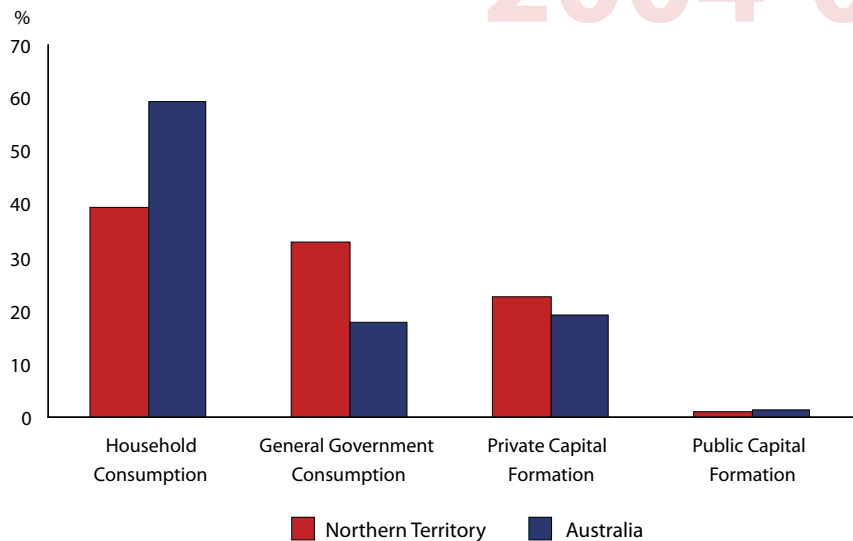
Consumption

As shown in Chart 1.3, the largest difference is that in the Territory, public sector consumption accounts for a significantly higher share of total consumption expenditure than nationally, while household consumption (as a proportion) is markedly lower. This is consistent with the larger presence of government administration and defence in the Territory. The importance of the public sector has, however, declined in relative terms in recent years, with the private sector increasingly taking the leading role in the provision of goods and services in the Territory economy.

Capital Investment

Similarly, the maturing of the Territory's economy has seen private sector capital investment steadily increase as a proportion of final demand. Although typically 'lumpy' and heavily influenced by investment for resource projects, private investment levels are expected to remain high over the next five to ten years as a number of large-scale mining and gas projects proceed. Public sector capital investment, which was boosted in 2001 and 2002 by contributions to the construction of the Alice Springs to Darwin leg of the rail link with Adelaide, fell back in 2003. Defence and other social infrastructure projects are expected to boost public sector investment in coming years, as will contributions to major projects such as the Darwin City Waterfront redevelopment.

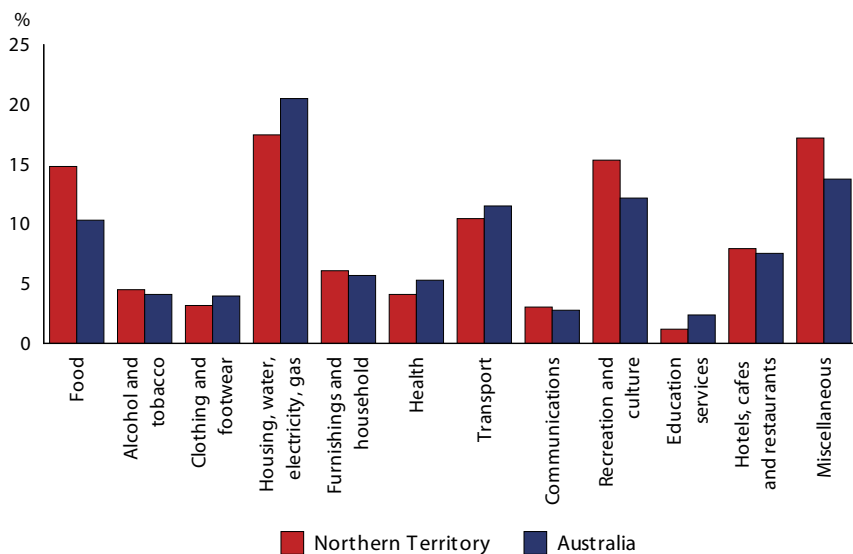
Chart 1.3: Proportion of Final Demand (five-year average to 2003)



Source: NT Treasury, ABS Cat. No. 5220.0

Patterns of household consumption are quite different in the Territory. As shown in Chart 1.4, Territory consumers spend relatively more (as a proportion of consumption expenditure) on food, recreation and culture than Australian consumers. This, in part, reflects higher food prices associated with the smaller market (which limits competition), combined with the higher freight cost for most goods, due to the Territory's isolation from major southern markets.

Chart 1.4: Household Final Consumption Expenditure, 2002-03



Source: NT Treasury, ABS Cat. No.5220.0

This is also partly a reflection of less need for expenditure in other areas. Lower proportional expenditure on clothing and heating bills is mainly due to the Territory's warmer weather, while lower transport expenditure may reflect shorter journey-to-work times for urban-dwelling Territory residents. Lower private consumption of health and education in the Territory reflects the propensity to use public facilities, in part attributable to the relatively small private sector presence of these services in the Territory.