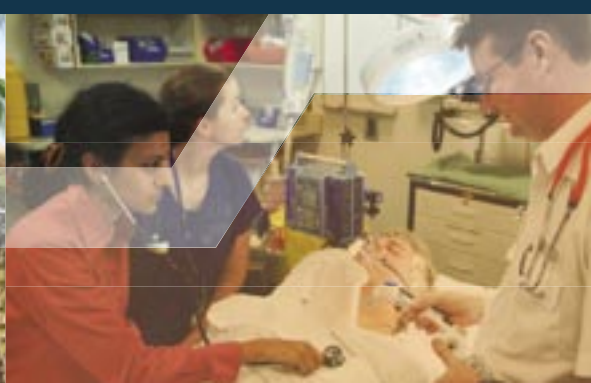




NORTHERN TERRITORY

Budget 2005-06

NORTHERN TERRITORY ECONOMY
OVERVIEW



Structure of the Economy

- 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. This, in conjunction with a high reliance on tourism, particularly international, contributes to an economy that has significant exposure to the world economic cycle.
- In the Territory, this is exacerbated by the relatively small size and narrow base of the economy.
- A key driver of structural change in the Territory economy was the increase in defence personnel 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.
- Construction of the Alice Springs to Darwin rail link and the LNG plant at Wickham Point have boosted onshore economic activity over the past few years.
- Significant infrastructure and resource investment will continue in coming years, which will act to broaden the economy in key industries such as manufacturing and services.
- Manufacturing and mining output will increase as the liquefied natural gas plant at Wickham Point commences production in 2006 and as bauxite processing capacity expands at Alcan's Gove alumina plant.

Economic Growth

- 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.
- During the mid to late 1990s the impetus provided by the defence relocation program led to increased population growth, strong demand for labour and a construction boom.
- As the stimulus from the defence force program eased back, growth began to weaken, with GSP declining in 1999-00.
- In 2000-01 and 2001-02, GSP was boosted by significant increases in offshore oil production which acted to mask the weakness in the onshore economy.
- In 2002-03 and 2003-04, offshore oil production declined significantly, more than offsetting the strengthening in the onshore economy.
- The major influence on estimated GSP growth of 7.3 per cent in 2004-05 is strong onshore activity, with work on major projects leading to strong income growth.
- Economic growth is forecast at 6.2 per cent in 2005-06. The commencement of LNG production and peak production at the Bayu-Undan gas and condensate fields are the major contributors to growth.

Table 1: Summary of Territory
Economic Indicators

Year on Year Percentage Change	Estimate Forecast					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Real GSP	5.7	2.3	0.2	0.4	7.3	6.2
Employment	1.1	5.4	-0.1	-2.2	-1.3	2.0
Population*	1.0	0.9	0.1	0.4	1.2	1.1
Darwin CPI [#]	3.9	3.6	2.2	2.1	1.6	2.0

* Based on middle of the financial year, December estimates, annual percentage change

[#] Based on middle of the financial year, December estimates, year on year percentage change

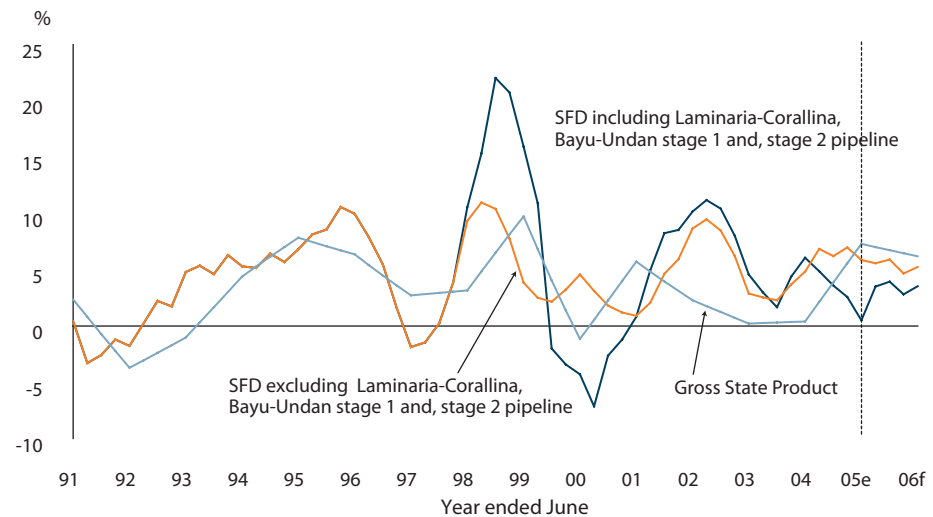
Table 2: Territory Economic Growth Profile

Period	GSP (A% Ch)	Comment
Five years 1995 to 2000	4.1 per cent	Strong growth phase, associated with impetus from defence force relocation program. High population growth, strong demand for housing and other economic and social infrastructure. Construction boom.
2000-01	5.7 per cent	Weak onshore activity. Headline GSP boosted by offshore oil production. Falling retail sales, rising unemployment rate. Major net interstate migration outflow.
2001-02	2.3 per cent	Pick up in onshore activity. Recovery in consumption. Rail-related investment surge boosting construction and property and business services. Stronger defence-related output, partially offset by a fallback in offshore oil production. Weak population growth and the setback to tourism.
2002-03	0.2 per cent	Sharp fall in offshore oil production major influence on weak headline result. Onshore economic performance was mixed. Consumption strengthened and business investment at a high level. Further weakening in population growth. Employment fell and further tourism shocks.
2003-04	0.4 per cent	Offshore oil production continues to fall. Recovery in onshore economy gains momentum, boosted by strong construction activity. Employment and population growth weak, but start to recover. Continued weak tourism activity.
2004-05	7.3 per cent (e)	Onshore recovery broadens. Strengthening in construction, mining and tourism. Private consumption growth moderates. Business investment falls, but greater level of local value-adding. Population growth continues to recover. Skills shortages lead to increased fly-in fly-out employment. Resident employment reported as declining.
2005-06	6.2 per cent (f)	Construction for major projects continues, and liquefied natural gas production commences. Population growth supports solid residential construction activity. Waterfront project proceeds. Recovery in tourism continues. Employment growth.

e: estimate; f: forecast

Source: NT Treasury, ABS Cat. No. 5220.0

Chart 1: Territory SFD and GSP (chain volume, annual percentage change)



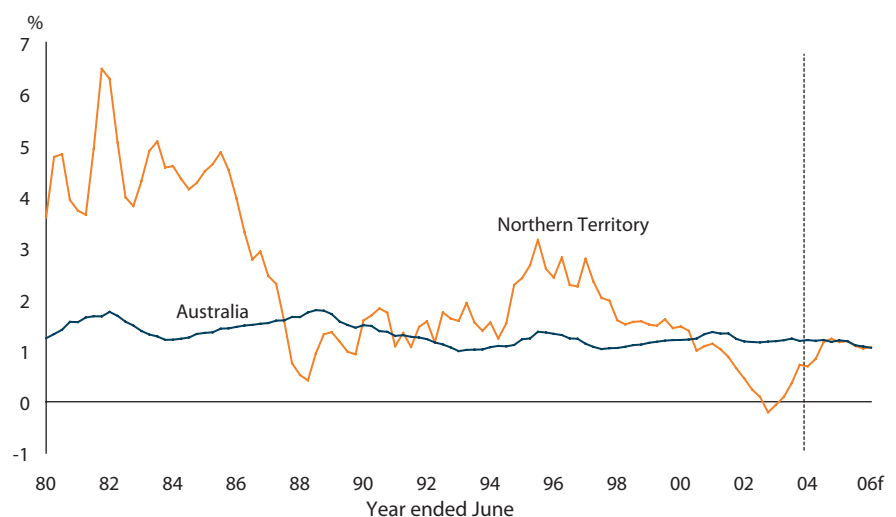
e: estimate; f: forecast

Source: NT Treasury, ABS Cat. No. 5206.0, 5220.0

Population

- Population growth is a key driver of Territory economic growth. Population growth occurs through natural increase and interstate and overseas migration.
- The Territory has a history of strong population growth, with 4 to 5 per cent annual growth in the early 1980s, 1 to 2 per cent in the late 1980s and early 1990s, and 2 per cent during the late 1990s.
- Except for the period during the defence relocation to the north, the Territory has typically experienced negative net interstate migration.
- Completion of the main defence force build up in the Top End saw growth decline to 0.9 per cent in 2001 and to 0.1 per cent in 2002, before beginning to recover in 2003.
- There was weak population growth of 0.4 per cent in 2003, the major influence being a net interstate migration outflow of 2895 people.
- In recent years, interstate migration patterns indicate that annual outflows have remained relatively stable at 17 000 to 18 000, with inflows declining steadily from 1997 to 2002, from a peak of more than 18 000 to less than 16 000. Inflows continued to recover in 2004.
- Treasury estimates that Territory population growth will continue to strengthen, with growth of 1.2 per cent in 2004, and forecasts 1.1 per cent growth in 2005, easing to around 1.0 per cent in 2006.
- As the Territory's population ages into the future, the proportion which is of working age (15-64 years) is likely to increase. Looking forward, nationally, the proportion of the population of working age is expected to decline.

Chart 2: Annual Population Growth Rates

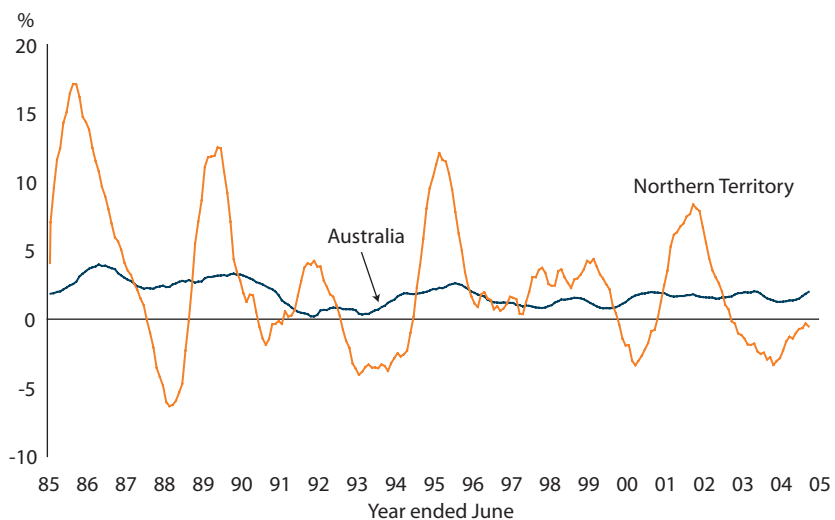


e: estimate; f: forecast
Source: NT Treasury, ABS Cat. No. 3101.0

Employment

- The Territory's resident workforce of around 100 000 people is typically young, mobile and transient, and includes about 8000 Indigenous participants in the Community Development Employment Projects (CDEP) program. In addition, there are more than 5500 defence force personnel resident in the Territory and significant numbers of interstate-based fly-in fly-out workers that are not included in workforce estimates in the ABS labour force statistics.
- The Territory's labour force relies on large interstate migration flows to overcome skills shortages to meet the short to medium term employment demands of major infrastructure projects.
- For a variety of reasons Northern Territory labour force data are characterised by month to month, and year to year volatility. As such, analysis and interpretation of available data can be difficult.
- Despite stronger activity in key employment industries, based on ABS data, resident employment is estimated to decline by 1.3 per cent in 2004-05.
- Employment is forecast to increase by 2 per cent in 2005-06. Major projects such as the Alcan G3 alumina plant expansion at Gove and the Trans-Territory Pipeline, the Darwin City Waterfront Redevelopment project and solid residential construction activity will be contributors to growth.
- Stronger prospects for the tourism sector and the cyclical upswing in the economy will support jobs growth. An anticipated shortage of locally based skills is likely to constrain ABS-reported resident employment growth, with increased fly-in fly-out employment on major projects.

Chart 3: Labour Force Growth
(moving annual average, annual percentage change)

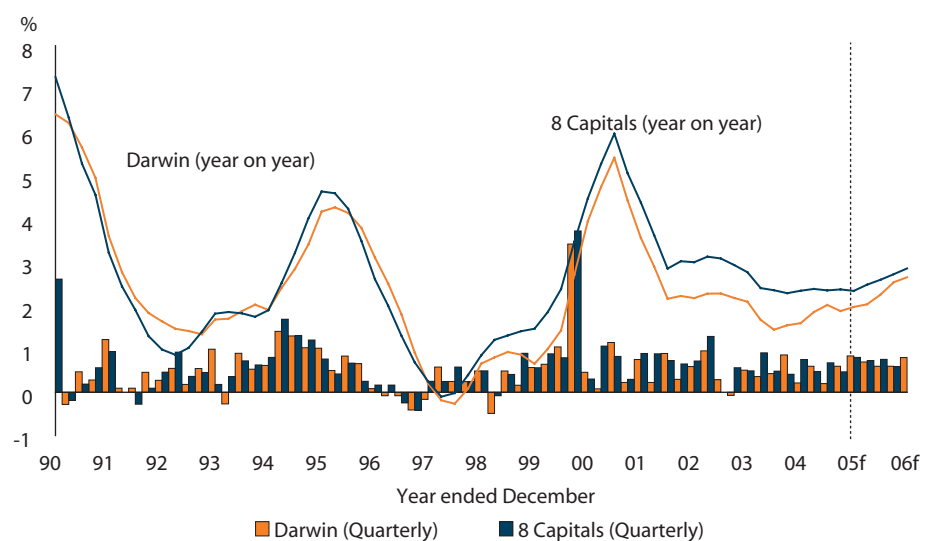


Source: ABS Cat. No. 6202.0

Prices and Wages

- Over the past couple of years, the appreciation of the Australian dollar has helped keep inflation within the Reserve Bank of Australia's target range of between 2 and 3 per cent over the business cycle.
- The downward impact on consumer price inflation of the exchange rate appreciation has now passed and, assuming a relatively stable exchange rate looking forward, changes in import prices will more readily flow through to consumer prices and put upward pressure on inflation.
- Nationally, year on year growth in the Consumer Price Index (CPI) is expected to remain at 2.4 per cent in the June quarter 2005.
- In the Territory, upward wage and price pressures are expected to result in CPI growth for Darwin increasing from an estimated 1.4 per cent in the year to June 2004 to 2.0 per cent in the year to June 2005.
- Based on CPI and other data, the relative difference in consumer prices between Darwin and the other Australian capitals continues to narrow.
- Further, continued strong domestic demand, together with supply and capacity constraints in some industries, the tightening in the labour market in industries such as construction and the likely impact on wages growth and the significant pick up in domestic producer prices, suggest that inflationary pressures are likely to strengthen in the short term.
- Year on year inflation in the Territory is forecast to increase to 2.0 per cent in 2005, compared to 2.3 per cent nationally.

Chart 4: Consumer Price Index



e: estimate; f: forecast

Source: NT Treasury, ABS Cat. No. 6401.0

External Economic Environment

- Overseas export demand constitutes almost 20 per cent of Territory final demand, while demand from other Australian states and territories is estimated at more than 12 per cent.
- The significance of the mining and tourism industries makes the Territory economy particularly reliant on exports and susceptible to developments in key export markets.
- Indirect trade links between the Territory and the US are critical for the Territory's export demand. Many of the Territory's primary products are used in manufacturing production in Asia, for subsequent export to the US and other nations. It is through these demand linkages that economic conditions in the major growth centres of the world can affect the Territory economy.
- The global economy grew strongly in 2004, led by the United States and China.
- Global growth has been supported by expansionary monetary and fiscal policy settings in many of the world's major economies.
- Despite subdued export growth, the Australian economy has maintained a solid pace of growth in recent years supported by strong domestic demand.
- Nationally and globally, growth is expected to moderate in 2005, potentially leading to lower demand for Territory exports, including tourism-related services exports.

Table 2: Australian and Overseas Real GDP Growth Forecasts (percentage change, calendar year)

	1999	2000	2001	2002	2003	2004	2005f	2006f
United States	4.4	3.7	0.8	1.9	3.0	4.4	3.5	3.4
Japan	0.2	2.8	0.4	-0.5	2.5	2.9	1.1	1.8
China	7.1	8.0	7.3	8.2	9.3	9.5	8.4	7.8
European Union*	2.9	3.7	1.8	1.2	1.1	2.3	2.0	2.2
Australia	4.3	3.2	2.5	4.0	3.3	3.5	3.1	3.4
Hong Kong	3.4	10.2	0.5	1.9	3.2	7.8	4.7	4.5
Indonesia	0.8	4.9	3.8	4.3	4.5	4.9	5.2	5.5
Malaysia	6.1	8.9	0.3	4.1	5.3	7.1	5.3	5.5
New Zealand	4.0	3.8	2.6	4.7	3.4	4.8	2.5	2.8
Philippines	3.4	4.4	3.4	5.5	4.9	6.1	4.6	4.5
Singapore	6.9	9.7	-1.9	2.2	1.1	8.1	4.2	4.8
South Korea	9.5	8.5	3.8	7.0	3.1	4.7	3.9	4.7
Taiwan	5.4	5.9	-2.2	3.9	3.3	5.9	4.2	4.3
Thailand	4.4	4.8	2.2	5.3	6.9	6.1	5.3	5.4

* Prior to May 2004, the European Union comprised Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. From 1 May 2004, the European Union includes 10 new member states, primarily from Eastern Europe.

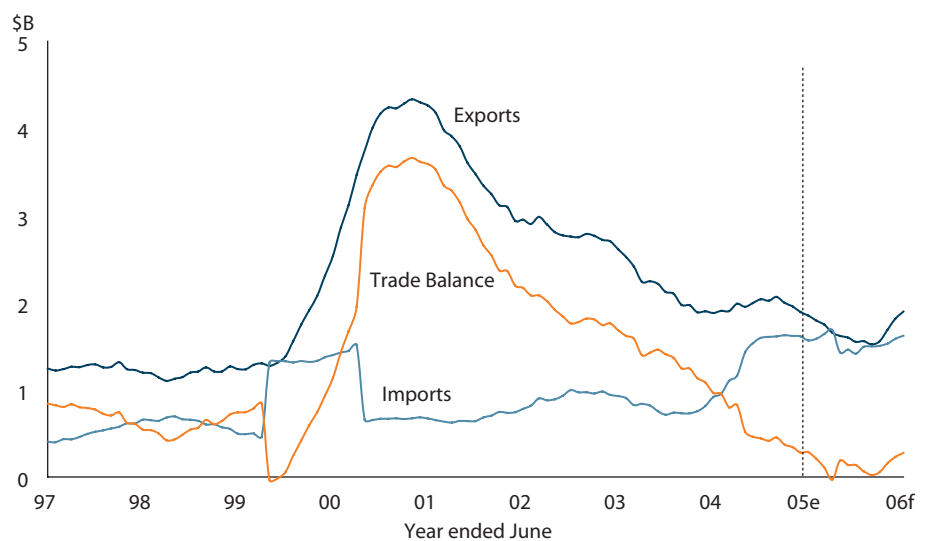
e: estimate; f: forecast

Source: Consensus Economics, IMF

International Trade

- Mineral and energy commodities dominate Northern Territory international merchandise exports, while tourism-related activities are the major international services exports.
- Refined fuels, manufactured goods and machinery and equipment make up the majority of international imports. Significant levels of international imports enter the Territory via other states and are therefore classified as interstate imports.
- Oil production has had a significant impact on Territory export levels since the Laminaria-Corallina fields commenced operation in 1999-2000.
- Territory exports are estimated to fall marginally in 2004-05 as declining oil production is largely offset by higher oil prices. Imports are forecast to increase significantly as material for the liquefied natural gas (LNG) plant and fuel tank facility enter the Territory and significant aircraft imports are attributed to the Territory.
- In 2005-06, exports are forecast to increase by 4 per cent as LNG production late in the period more than offsets the continuing decline in oil production. Imports are forecast to increase marginally, and remain at a high level, as work on major projects continues.
- Over time, the operational phase of the Adelaide to Darwin railway is expected to generate increased international trade opportunities. Landbridge trials are continuing, and by 2007 it is anticipated that 50 000 containers of international freight will be moved by rail through the East Arm Port.

Chart 5: Territory International Merchandise Trade



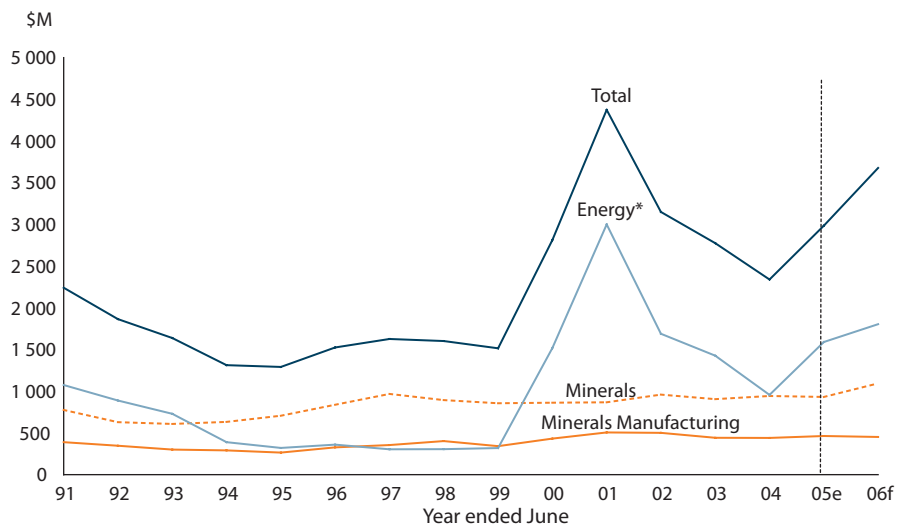
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Source: NT Treasury, ABS data service 5432.0.65.001

Mining and Energy

- In terms of output, mining is the largest industry in the Territory, accounting for 18.8 per cent of Gross State Product in 2003-04, compared to 4 per cent nationally.
- Like most commodity-based industries, mining output is volatile. Global supply and demand conditions and the impact of exchange rate movements on competitiveness are key factors affecting production and income. Output can also jump markedly as new projects commence production.
- The Territory produces a diverse range of mineral products, most notably oil, bauxite, manganese, lead/zinc and uranium.
- Output has been dominated in recent years by oil production from the Laminaria-Corallina oilfields in the Timor Sea.
- For developments in the Joint Petroleum Development Area in the Timor Sea, half the production will be attributed to the Northern Territory for national accounts purposes.
- The delivery of gas onshore will continue to create significant opportunities for the Territory economy, particularly gas-related manufacturing of LNG and helium and for electricity generation at Gove and for the Territory electricity grid.
- In the short term, strengthening global demand is expected to lead to increased demand for minerals, although increased supply globally is expected to result in price falls for many Territory-produced minerals.

Chart 6: Mineral and Energy Production and Processing



*Includes JPDA Production

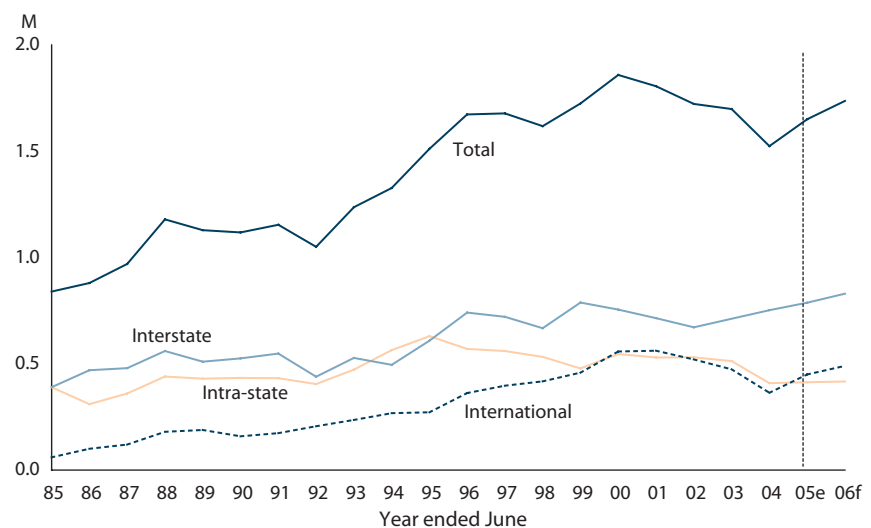
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Source: NT Treasury, Department of Business, Industry and Resource Development

Tourism

- During the 1990s, the Territory's tourism sector expanded considerably, driven by solid growth in international visitor numbers which increased at an average rate of around 13 per cent per year.
- In the period 2001 to 2004 international discretionary travel declined as weaker global economic conditions were exacerbated by terrorist attacks, geopolitical uncertainty and the Severe Acute Respiratory Syndrome (SARS) outbreak. Over the past year, the appreciation of the Australian dollar has also acted to constrain the pickup in international visitors to Australia.
- In the Territory, after four years of negative growth, visitor numbers are estimated to have increased by around 8 per cent (to 1.65 million) in 2004-05 with growth of 5 per cent (to 1.74 million) expected in 2005-06. International visitor numbers are expected to rebound by 24 per cent in 2004-05 and by a further 9 per cent in 2005-06.
- The Northern Territory Tourist Commission estimates that total expenditure by tourists to the Territory increased by 7.5 per cent to \$1161 million in 2003-04, of which international visitors accounted for 26 per cent.
- Stronger demand for the Ghan passenger service has led to a second weekly return service to Darwin during the peak season in 2005.
- The appreciation of the Australian dollar is a major risk to the outlook. A strong dollar will act to constrain the strength of the upswing in international visitors while encouraging Australians to travel abroad.

Chart 7: Visitor Numbers



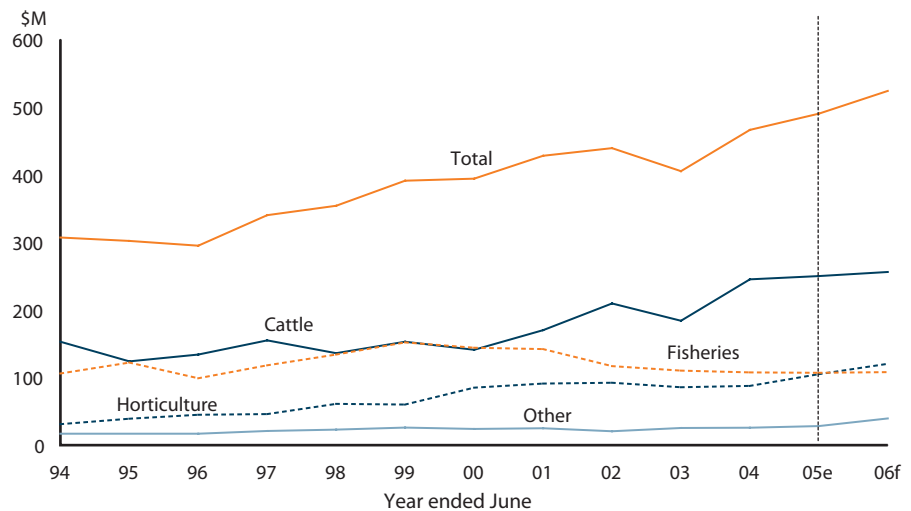
e: estimate; f: forecast

Source: NT Treasury, Northern Territory Tourist Commission

Rural Industries and Fisheries

- Rural industries in the Territory comprise cattle and other livestock (buffalo, crocodiles, poultry, pigs and camels), horticulture (fruit, vegetables, nursery and cut flowers) and mixed farming (field crops, hay and seeds, and forestry). The fisheries industry comprises harvesting of wild catch and aquaculture.
- The Territory enjoys certain comparative advantages due to its capacity to supply markets with a range of early-season and out-of-season produce, and benefits from its 'clean' image.
- Output growth in the industry tends to be volatile due to variable weather conditions, while the exchange rate can have a significant effect on international demand. In the Territory, average annual output growth has been below broader economic growth over the past 10 years.
- Rural industries accounted for 2.9 per cent of Territory GSP in 2003-04, in line with the national proportion.
- The value of rural industries production was estimated at \$490 million in 2004-05, an increase of 5 per cent from 2003-04.
- The value of production is forecast to increase by 7 per cent to \$524 million in 2005-06.

Chart 8: Rural Industries and Fisheries Value of Production



e: estimate, f: forecast
Source: Department of Business, Industry and Resource Development

Construction

- In the Territory, the construction industry accounted for 5.9 per cent of Gross State Product (GSP) on average during the past five years, and employed almost 7.2 per cent of the workforce.
- Construction activity slowed markedly in the period immediately following the major defence force relocation to the Top End, as economic and population growth weakened.
- Although starting to improve, residential and non-residential building and property markets were relatively weak in the early years of the decade. Property markets have strengthened markedly since 2004.
- Major infrastructure projects such as construction of the Alice Springs to Darwin railway line and work to develop the Bayu-Undan oil and gas project have kept engineering construction at record levels in recent years.
- After increasing by around 16 per cent to \$2 billion in 2003-04, the value of construction done is estimated to decrease by 8 per cent to \$1.8 billion in 2004-05. Activity is coming off a high base. In 2003-04, activity was inflated by offshore expenditure attributed to the Territory for the Bayu-Undan stage 1 platforms and the stage 2 pipeline.
- In 2005-06, the value of construction work done is forecast to increase by 9 per cent to \$2 billion. Construction will again be underpinned by engineering work for major projects, but will be supported by strengthening residential and non-residential building activity associated with recovering population growth in the Darwin region.

Chart 9: Territory Construction Work Done (moving annual total, 2002-03 dollars)



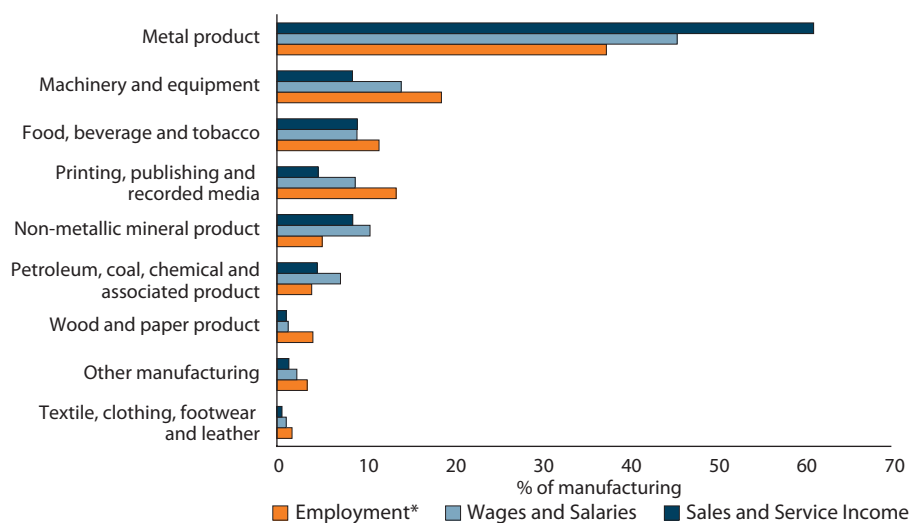
e: estimate; f: forecast

Source: NT Treasury, ABS Cat. Nos. 8752.0, 8762.0, 8782.0.65.001

Manufacturing

- Manufacturing currently represents a small proportion of Northern Territory output, averaging around 3.8 per cent of GSP over the past decade, compared to 11.3 per cent nationally.
- Manufacturing in the Territory is narrowly based and is dominated by the metal products subdivision (primarily alumina production at Gove), which is typically around 60 per cent of manufacturing value added.
- Construction of the Wickham Point LNG plant near Darwin is continuing, with production scheduled to start in 2006. LNG is defined as a manufactured product and will provide a significant boost to manufacturing output.
- The expansion of the Alcan Gove alumina refinery is also currently under way, with alumina production planned to nearly double from 2007. Combined with the commencement of LNG production, Territory manufacturing will be boosted significantly (but narrowly) over the next few years.
- In the medium to long term, natural gas extracted from the Timor Sea could be used as an input for gas-related manufacturing industries and a cheaper energy source, with the potential to significantly broaden the Territory's economic base.
- In the longer term, the new Alice Springs to Darwin rail link has the potential to complement increased manufacturing activity in the Territory. Nonetheless, development of both local and export-oriented opportunities will depend on the cost effectiveness of manufacturing processes and transport links.

Chart 10: Territory Manufacturing Industry Selected Indicators (2002-03)



* Employment data is for 2000-01
Source: NT Treasury, ABS Cat. No. 8221.0

Retail and Wholesale

- Retail and wholesale trade accounted for 7 per cent of Northern Territory Gross State Product (GSP) and 16 per cent of employed persons in 2003-04.
- Compared to nationally, Territory consumers tend to spend more on food relative to other retail categories (in part due to the higher freight and storage costs), while relatively less is spent on recreational goods and clothing and footwear.
- Retail turnover typically represents around 40 per cent of household consumption.
- Population, employment and household disposable income growth are major determinants of retail trade growth. In the Territory, the significance of the tourism sector means the number of interstate and overseas visitors can also have a significant impact on retail turnover.
- Following solid growth of 5.1 per cent in 2003-04, Territory real retail turnover growth is estimated to moderate to 3.5 per cent in 2004-05. After being adversely affected by the tourism downturn, hospitality and services retailing is estimated to contribute to turnover growth in 2004-05.
- Territory retail turnover is forecast to increase by 5 per cent in 2005-06, supported by the improved outlook for employment and population growth and the strengthening tourism sector.
- Over the short to medium term, interest rates and petrol prices will continue to play an important role in influencing discretionary disposable household income, consumer confidence, consumption expenditure and the pattern of retail activity. Interest rate increases and the flow through to household budgets and consumption are the major risks to the forecast.

Chart 11: Retail Turnover



e: estimate; f: forecast

Source: NT Treasury, ABS Cat. No. 8501.0

Transport and Communication

- Darwin's geographic location means it is strategically placed between Asian markets and Australia's south eastern states.
- With the completion of the Alice Springs to Darwin leg of the rail link to Adelaide and the new East Arm Port, Darwin has the infrastructure to be the regional transport and logistics hub.
- Rail is now the dominant transport mode on the north-south freight route. Nonetheless, road and air transport will continue to service niche freight markets.
- Access to sophisticated information and communications technology and increased coverage has facilitated improved and innovative service provision mechanisms in remote regions.
- In the short to medium term, the major influence on the outlook for the transport sector is value-adding and trade opportunities associated with the new rail link and port.
- Improvements in communications technology and coverage are expected to increase the scope and quality of public and private service provision, particularly in remote areas.

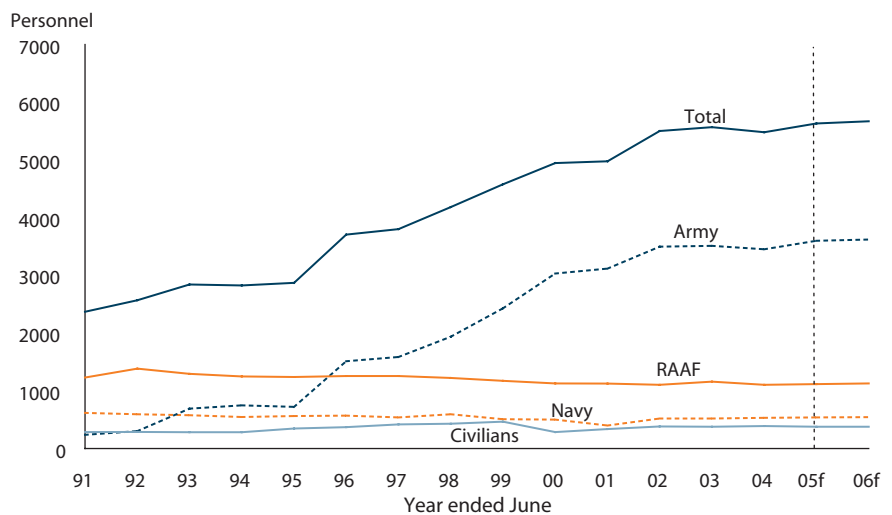
The Public Sector

- The public sector consists of the Australian, Territory and local governments and includes defence. It is a major contributor to the Northern Territory economy, providing a wide range of economic and social services.
- In 2003-04, government administration and defence, and the other predominantly public sector industries (health and education), together accounted for more than 21 per cent of the GSP. About 34 per cent of Territory State Final Demand was attributable to public expenditure, of which 89 per cent was consumption related.
- The proportion of public sector-related industries in Territory GSP continues to be well above the national average, in part because the cost of public sector service provision is relatively high in the Territory as a consequence of a small and widely dispersed population, compounded by higher average cost of servicing people in remote communities. These factors also contribute to fewer private sector providers.
- The importance of the public sector in the Territory has not diminished in significance over the past decade, reflecting the defence build up and increases in local and Territory government employment (partially offset by reductions in other Commonwealth non-defence government employment).
- There is expected to be modest growth in public sector employment in the Territory in coming years, due partly to increased defence personnel associated with greater defence functionality in the Top End and further service delivery initiatives flowing through to employment.

Defence

- The defence presence in the Territory has more than doubled since the early 1990s, with the number of defence personnel and their families increasing from around 6200 in June 1992 to an estimated 13 000 at 30 June 2004.
- Approximately 10 per cent of Australian defence force combat personnel are now based in the Territory.
- Since 1995, when the Army relocation began in earnest, defence expenditure attributed to the Territory has increased at an average rate of 11 per cent per annum.
- Major defence activities underway in the Territory include the relocation of the Army's 1st Aviation Regiment which includes a \$75 million building program at Robertson Barracks in Darwin, and construction of the \$65 million Bradshaw Field Training Area near Timber Creek.
- Some 200 defence personnel and their families are expected to relocate to Darwin with the 1st Aviation Regiment. The Defence Housing Authority (DHA) plans to invest around \$70 million to develop the new suburb of Lyons (at Lee Point). Over the next five years this project will comprise around 300 new DHA homes and a further 350 allotments will be available for private development.
- Territory-based support and maintenance for military hardware such as helicopters, tanks and patrol boats is expected to continue over coming years, fostering the development of local skills and business opportunities.

Chart 12: Defence Personnel Stationed in the Territory



f: forecast

Source: NT Treasury, Department of Defence



