

Chapter 2 Economic Growth

Key Points

- 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 2.1: 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

Table 2.2: Territory SFD and GSP

| | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 00-01 | 01-02 | 02-03 | 03-04 | 04-05e | 05-06f |
|---------------------------------------|--|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| | \$ million | | | | | | | | | | |
| Private Consumption | 3 188 | 3 117 | 3 339 | 3 513 | 3 770 | 3 839 | 3 982 | 4 207 | 4 475 | 4 750 | 4 986 |
| Public Consumption | 2 445 | 2 428 | 2 669 | 2 825 | 3 022 | 3 045 | 3 034 | 3 117 | 3 219 | 3 334 | 3 435 |
| Total Consumption | 5 633 | 5 545 | 6 008 | 6 338 | 6 792 | 6 884 | 7 016 | 7 324 | 7 694 | 8 084 | 8 421 |
| Private Investment | | | | | | | | | | | |
| Dwellings | 364 | 348 | 396 | 574 | 424 | 254 | 259 | 302 | 303 | 347 | 389 |
| Business Investment* | 966 | 896 | 1 127 | 2 101 | 1 274 | 1 247 | 1 907 | 2 243 | 2 520 | 2 161 | 2 271 |
| Total Private Investment | 1 441 | 1 349 | 1 607 | 2 698 | 1 767 | 1 573 | 2 239 | 2 606 | 2 893 | 2 588 | 2 746 |
| Public Investment | 323 | 361 | 402 | 256 | 360 | 525 | 635 | 412 | 379 | 425 | 447 |
| Total Investment | 1 764 | 1 710 | 2 009 | 2 954 | 2 127 | 2 098 | 2 874 | 3 018 | 3 275 | 3 013 | 3 194 |
| State Final Demand | 7 398 | 7 259 | 8 024 | 9 303 | 8 904 | 8 977 | 9 891 | 10 341 | 10 969 | 11 097 | 11 615 |
| International Trade - export of goods | 1 993 | 2 216 | 2 207 | 2 171 | 3 198 | 4 157 | 3 219 | 2 864 | 2 183 | 1 961 | 1 860 |
| International Trade - import of goods | -478 | -517 | -806 | -582 | -1 618 | -614 | -716 | -932 | -967 | -2 561 | -2 595 |
| Balancing Item | -1 549 | -1 394 | -1 622 | -2 329 | -2 020 | -3 572 | -3 241 | -3 100 | -2 975 | -615 | -385 |
| Gross State Product | 7 364 | 7 564 | 7 803 | 8 563 | 8 464 | 8 948 | 9 153 | 9 173 | 9 210 | 9 882 | 10 495 |
| | Percentage Change | | | | | | | | | | |
| Private Consumption | 7.8 | -2.2 | 7.1 | 5.2 | 7.3 | 1.8 | 3.7 | 5.7 | 6.4 | 6.1 | 5.0 |
| Public Consumption | 10.2 | -0.7 | 9.9 | 5.8 | 7.0 | 0.8 | -0.4 | 2.7 | 3.2 | 3.6 | 3.0 |
| Total Consumption | 8.8 | -1.6 | 8.3 | 5.5 | 7.2 | 1.4 | 1.9 | 4.4 | 5.1 | 5.1 | 4.2 |
| Private Investment | | | | | | | | | | | |
| Dwellings | 12.3 | -4.4 | 13.8 | 44.9 | -26.1 | -40.1 | 2.0 | 16.6 | 0.3 | 14.6 | 12.0 |
| Business Investment* | 25.9 | -7.2 | 25.8 | 86.4 | -39.4 | -2.1 | 52.9 | 17.6 | 12.3 | -14.2 | 5.1 |
| Total Private Investment | 22.2 | -6.4 | 19.1 | 67.9 | -34.5 | -11.0 | 42.3 | 16.4 | 11.0 | -10.5 | 6.1 |
| Public Investment | -10.8 | 11.8 | 11.4 | -36.3 | 40.6 | 45.8 | 21.0 | -35.1 | -8.0 | 12.2 | 5.3 |
| Total Investment | 14.5 | -3.1 | 17.5 | 47.0 | -28.0 | -1.4 | 37.0 | 5.0 | 8.5 | -8.0 | 6.0 |
| State Final Demand | 10.0 | -1.9 | 10.5 | 15.9 | -4.3 | 0.8 | 10.2 | 4.5 | 6.1 | 1.2 | 4.7 |
| International Trade - export of goods | 6.3 | 11.2 | -0.4 | -1.6 | 47.3 | 30.0 | -22.6 | -11.0 | -23.8 | -10.2 | -5.2 |
| International Trade - import of goods | 8.4 | 8.2 | 55.9 | -27.8 | 178.0 | -62.1 | 16.6 | 30.2 | 3.8 | 164.8 | 1.3 |
| Balancing Item | 25.1 | -10.0 | 16.4 | 43.6 | -13.3 | 76.8 | -9.3 | -4.4 | -4.0 | -79.3 | -37.4 |
| Gross State Product | 6.4 | 2.7 | 3.2 | 9.7 | -1.2 | 5.7 | 2.3 | 0.2 | 0.4 | 7.3 | 6.2 |
| | Percentage Point Contribution to Gross State Product | | | | | | | | | | |
| Private Consumption | 3.3 | -1.0 | 2.9 | 2.2 | 3.0 | 0.8 | 1.6 | 2.5 | 2.9 | 3.0 | 2.4 |
| Public Consumption | 3.3 | -0.2 | 3.2 | 2.0 | 2.3 | 0.3 | -0.1 | 0.9 | 1.1 | 1.3 | 1.0 |
| Total Consumption | 6.6 | -1.2 | 6.1 | 4.2 | 5.3 | 1.1 | 1.5 | 3.4 | 4.0 | 4.2 | 3.4 |
| Private Investment | | | | | | | | | | | |
| Dwellings | 0.6 | -0.2 | 0.6 | 2.3 | -1.8 | -2.0 | 0.1 | 0.5 | 0.0 | 0.5 | 0.4 |
| Business Investment* | 2.9 | -1.0 | 3.1 | 12.5 | -9.7 | -0.3 | 7.4 | 3.7 | 3.0 | -3.9 | 1.1 |
| Total Private Investment | 3.8 | -1.2 | 3.4 | 14.0 | -10.9 | -2.3 | 7.4 | 4.0 | 3.1 | -3.3 | 1.6 |
| Public Investment | -0.6 | 0.5 | 0.5 | -1.9 | 1.2 | 1.9 | 1.2 | -2.4 | -0.4 | 0.5 | 0.2 |
| Total Investment | 3.2 | -0.7 | 4.0 | 12.1 | -9.7 | -0.3 | 8.7 | 1.6 | 2.8 | -2.8 | 1.8 |
| State Final Demand | 9.7 | -1.9 | 10.1 | 16.4 | -4.7 | 0.9 | 10.2 | 4.9 | 6.8 | 1.4 | 5.2 |
| International Trade - export of goods | 1.7 | 3.0 | -0.1 | -0.5 | 12.0 | 11.3 | -10.5 | -3.9 | -7.4 | -2.4 | -1.0 |
| International Trade - import of goods | -0.5 | -0.5 | -3.8 | 2.9 | -12.1 | 11.9 | -1.1 | -2.4 | -0.4 | -17.3 | -0.3 |
| Balancing Item | -4.5 | 2.1 | -3.0 | -9.1 | 3.6 | -18.3 | 3.7 | 1.5 | 1.4 | 25.6 | 2.3 |
| Gross State Product | 6.4 | 2.7 | 3.2 | 9.7 | -1.2 | 5.7 | 2.3 | 0.2 | 0.4 | 7.3 | 6.2 |

e: estimate; f: forecast

* Private investment less dwellings investment and ownership transfer costs

Source: NT Treasury, ABS Cat. Nos. 5206.0, 5220.0

Measurement of Economic Growth

There are two key headline measures used to report economic growth. These are gross state product (GSP) and state final demand (SFD) as measured by ABS. Both measures are important indicators and provide essential information for analysis purposes. However, because of the small size of the Northern Territory economy and the large influence of major projects and offshore activity, an understanding of these as well as other measures, particularly consumption, are necessary in order to gain an overall view of the Territory economy.

State Final Demand SFD is a measure of the demand for goods and services in an economy. Demand can be for consumption or investment purposes. Investment can be volatile, particularly due to the influence of large projects on the Territory's relatively small economy. Consumption is a more stable element of economic activity and is influenced by population, employment and income growth as well as interest rates and consumer confidence. Public consumption includes defence-related consumption expenditure. SFD, like GSP, is a broad measure of economic activity.

Gross State Product Reported GSP is a measure of value adding that occurs in an economy. Broadly speaking it represents income accruing to individuals and firms in the economy as wages, profits and other forms of compensation (such as superannuation). GSP measures income generated onshore and offshore. In the Territory offshore income is dominated by oil production.

All jurisdictions report on the GSP headline measure of economic growth. Nonetheless, the GSP measure of economic growth is experimental and volatile, with the series open to significant revisions. This is exacerbated in the Territory by the dominance of a few industries in the structure of the economy. Revisions to data in any of these major industries can contribute to significant changes in historical estimates. For example, GSP for 1995-96 was first reported by the ABS as 1.9 per cent but its latest estimate is 6.4 per cent.

Onshore and Offshore Activity Further complicating the interpretation of Territory GSP results in recent years has been the impact of offshore economic activity on reported headline GSP. In effect, there have been dual economies reported in GSP data over the past five years. The onshore economy was weak in 2000-01 (consumption growth fell from 7.2 per cent to 1.4 per cent and private housing investment fell by more than 40 per cent), but GSP increased by 5.7 per cent as exports increased by 30 per cent, largely due to the huge impact of Laminaria-Corallina (offshore) oil production. Laminaria-Corallina oil production peaked in 2000-01 and has since been declining. This has had a significant, negative impact on reported GSP.

Broad measures of economic activity such as headline GSP and SFD therefore need to be analysed with a broad set of other economic data in assessing the state of the Territory economy.

SFD versus GSP The level of investment activity reported by the ABS can vary significantly with the timing of major projects. SFD is measured as consumption and investment. Investment demand attributed to the Territory can include the value of some activity undertaken outside of the Territory. This can at times overstate the actual benefit to the Territory economy. GSP on the other hand is a measure of value adding and, as such, the two measures are not directly comparable. For example, the 260 pre-assembled modules (PAMs) required for the Alcan expansion at Gove will be built primarily in Malaysia and Thailand. Engineering work done relating to the construction of the PAMs will be attributed to the Territory once they are installed. This element of the project will have a significant impact on reported SFD, but limited impact on GSP.

Economic Performance

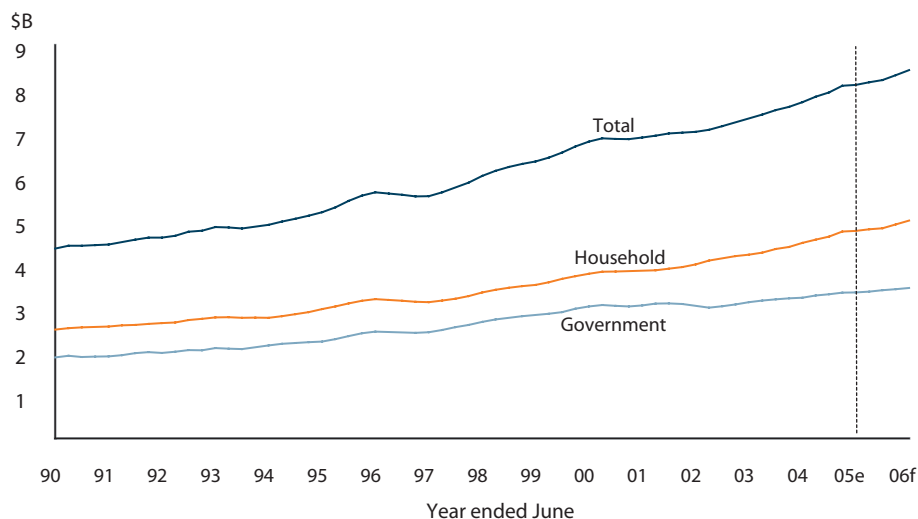
2003-04 Onshore economic activity showed positive signs in 2003-04 with SFD increasing by 6.1 per cent. Despite reported weak population growth and declining employment, consumption increased 5.1 per cent and investment by 8.5 per cent. Business investment increased by 12.3 per cent, dwellings investment reported weak growth of 0.3 per cent, affected somewhat by the incentive induced pull forward of activity in previous years. The Territory GSP growth of 0.4 per cent in 2003-04 was in line with the 0.3 per cent estimated at the time of the 2004-05 budget.

2004-05 Northern Territory GSP growth for 2004-05 is estimated at 7.3 per cent, up from 5.8 per cent forecast at the time of the 2004-05 budget. Strong income growth, associated with employment for major projects, notably the construction of the LNG plant at Wickham Point, is the major contributor to growth. Onshore economic activity continued to strengthen in 2004-05, with SFD estimated to increase by 1.2 per cent. Despite employment being reported as declining for the third consecutive year, household consumption reported solid growth for the third consecutive year while business investment decreased by 14.2 per cent. Business investment while remaining high in historical terms, was coming off a high base associated with offshore activity in 2003-04.

Onshore Economy Onshore economic conditions were buoyant in 2004-05, boosted by activity for the construction of the LNG plant at Wickham Point and initial work for the Alcan G3 alumina expansion at Gove and the Darwin Waterfront project. Solid income growth supported consumer sentiment which was reflected in strong retail trade turnover and strengthening residential construction and property markets. Population growth improved and is estimated to be 1.2 per cent in 2004. Stronger population growth further supported residential construction. Tourism-related activity is estimated to rebound solidly after four years of negative growth. The previously high growth international visitor market has been particularly affected over the past four years, but is forecast to rebound strongly in 2004-05 supported by increased marketing activity. International visitor numbers are expected to rebound by 24 per cent in 2004-05.

Consumption Final consumption expenditure provides an indication of household and government demand and is a key element of economic growth. Consumption also tends to reflect household and business confidence. Consumption typically accounts for around three-quarters of final expenditure in the Territory, with household consumption just over 58 per cent of total consumption (compared to about 75 per cent nationally). Given the distortionary effect of large, often offshore, resource projects on broad economic indicators, consumption expenditure is often used as an indicator of the state of the Northern Territory onshore economy. It is estimated that in 2004-05 total consumption expenditure by households and government increased by 5.1 per cent.

Chart 2.1: Territory Consumption
(chain volume measure, moving annual total)



e: estimate; f: forecast
Source: NT Treasury, ABS Cat. No. 5206.0

Table 2.3: Latest Territory Economic Indicators

| Economic Indicators (year on year ended June) | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | Latest | Annual * |
|--|----------|---------|---------|---------|---------|---------|---------|-----------|----------|
| | % Change | | | | | | | | |
| Real Retail Turnover | 1.8 | 5.9 | 5.9 | -0.7 | 4.1 | 2.2 | 5.1 | Dec Q 04 | 4.1 |
| New Motor Vehicle Sales | 17.0 | -3.4 | -8.8 | -4.2 | -0.3 | 3.3 | 8.4 | Feb Q 05 | 11.6 |
| Tourist Accommodation Takings | 0.7 | 7.0 | 16.8 | 1.5 | -1.0 | -0.1 | 2.8 | Dec Q 04 | 15.0 |
| Number of Dwellings Approved | 11.6 | 0.0 | -30.6 | -28.4 | -13.8 | 0.0 | 23.4 | Feb Q 05 | 32.0 |
| Number of Dwellings Commenced | 26.6 | -9.7 | -21.1 | -34.0 | 0.1 | -4.1 | 6.0 | Dec Q 04 | 14.7 |
| Employment | 3.3 | 5.3 | -2.3 | 1.1 | 5.4 | -0.1 | -2.2 | Mar Q 05 | -3.0 |
| Unemployment (year average) | 4.9 | 4.0 | 4.4 | 5.6 | 6.8 | 5.8 | 5.2 | Mar Q 05 | 1.5ppt |
| Darwin Consumer Price Index (year average) | -0.3 | 0.9 | 1.4 | 5.4 | 2.2 | 2.3 | 1.4 | Dec Q 04 | 1.9 |
| AWOTE* (year average) | 4.9 | 3.1 | 4.6 | 3.7 | 2.3 | 5.0 | 6.5 | Dec Q 04 | 6.0 |
| Wage Cost Index (year average) | n.a. | 2.8 | 2.5 | 2.8 | 3.1 | 3.0 | 3.3 | Dec Q 04 | 3.0 |
| Population as at June (levels – thousands) | 189.9 | 192.7 | 195.6 | 197.8 | 198.7 | 198.5 | 199.9 | Sep Q 04 | 0.8 |
| Population (annual % change) | 1.6 | 1.5 | 1.5 | 1.1 | 0.5 | -0.1 | 0.7 | Sep Q 04 | 0.8 |
| Net Interstate Migration (levels – number) | -472 | -953 | -907 | -1 592 | -2 596 | -3 389 | -2 108 | Sep Q 04 | - 148 |
| Financial Indicators | | | | | Rate | | | | |
| Interest Rates | | | | | | | | | |
| 90 Day Bank Bill (as at 30 June) | 5.2 | 4.9 | 6.2 | 5.0 | 5.1 | 4.7 | 5.5 | 31 Mar 05 | 5.9 |
| 10 Year Govt Bond Yield (as at 30 June) | 5.6 | 6.3 | 6.2 | 6.0 | 6.0 | 5.0 | 5.9 | 31 Mar 05 | 5.7 |
| Exchange Rates | | | | | | | | | |
| US\$ per A\$ (year average) | 0.68 | 0.63 | 0.63 | 0.54 | 0.52 | 0.58 | 0.71 | 31 Mar 05 | 0.74 |
| US\$ per A\$ (as at 30 June) | 0.61 | 0.66 | 0.60 | 0.51 | 0.56 | 0.67 | 0.69 | 31 Mar 05 | 0.77 |
| Special Drawing Rights** per A\$ (as at 30 June) | 0.46 | 0.49 | 0.45 | 0.41 | 0.43 | 0.48 | 0.47 | 31 Mar 05 | 0.51 |
| Trade Weighted Index of A\$ (as at 30 June) | 57.9 | 58.4 | 53.6 | 49.7 | 52.3 | 59.4 | 59.1 | 31 Mar 05 | 63.8 |

* Quarter on corresponding quarter the previous year

** A measure of the Australian dollar against an IMF determined, weighted basket of currencies consisting of the US dollar, the Euro, the yen and pound sterling

* Average weekly ordinary full-time earnings

Source: NT Treasury, Reserve Bank of Australia, ABS data

Consumer Sentiment Private consumption has continued to strengthen in 2004-05, supported by wealth effects associated with strengthening property markets and buoyant consumer sentiment. Nationally consumer sentiment was at historically high levels over 2004, buoyed by solid economic growth over the first half of the year, strong employment growth, low interest rates and the positive impact of the strengthening Australian dollar on the price of imported goods. The sharp deterioration in national consumer sentiment in early 2005 reflected the impact of the sharp slowdown in economic growth, as reported by the ABS. The weaker consumer sentiment nationally is not reflected in the Territory economy.

In the Territory, earnings growth combined with low inflation and interest rates supported household spending, with retail turnover and sales of new motor vehicles continuing to grow strongly in 2004-05. Real retail turnover in the Territory is estimated to increase by 3.5 per cent in 2004-05, moderating from 5.1 per cent in 2003-04. Consumption was further boosted by the pick up in housing construction activity, leading to increased demand for household goods.

Public consumption is estimated to grow by 3.6 per cent in 2004-05, compared to 3.2 per cent in 2003-04. Defence expenditure has been boosted in recent years by the East Timor relief effort and increased border patrol activities.

Investment Investment is the other component of domestic demand and includes private investment for dwellings, business investment and public expenditure for economic and social infrastructure. Investment is typically more volatile than consumption, reflecting the impact of capital-intensive resource projects on the relatively small Territory economy. Although at a very high level, Territory investment is estimated to have declined by 8 per cent in 2004-05. Business investment in the Territory continues to be heavily influenced by major infrastructure works and resource projects. Strengthening dwelling construction over 2004-05 has been associated with stronger population growth and supported by low interest rates and Northern Territory and Australian Government incentives. After several years of housing stock surplus associated with over investment in the late 1990s, the more balanced Territory housing market is reflected in lower residential vacancy rates. Solid rental yields have also encouraged investors to enter the market over the past 18 months.

Economic Outlook

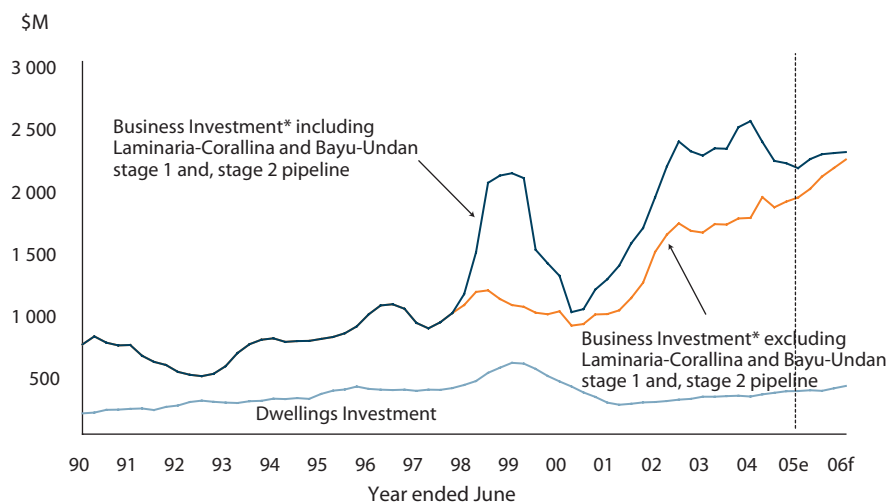
Following strong growth in 2004-05, Territory GSP growth is forecast to moderate to 6.2 per cent in 2005-06. Continued strong growth reflects the improving employment outlook, population growth maintaining a solid pace and the continuation of the cyclical recovery across a range of industries. Output will also be boosted by the commencement of LNG production and, manganese production from Bootu Creek. Offshore, Bayu-Undan stage one output is forecast to double as production reaches its design capacity. Each of these projects will make significant contributions to GSP growth.

Employment associated with major projects will continue through 2005-06, though the focus of activity will shift to the Alcan G3 alumina expansion as construction of the LNG plant is largely completed in early 2006. The strengthening outlook for the tourism sector and residential construction will also contribute to forecast employment growth of 2 per cent in 2005-06. The start of work on the Darwin Convention and Exhibition Centre will further support employment and output growth. Condensate production from Bayu-Undan is expected to offset the fall in oil production from Laminaria-Corallina, though the accuracy of production forecasts for these fields will be a major determinant on the final GSP result.

Territory SFD is forecast to increase by 4.7 per cent in 2005-06. Consumption growth is forecast to moderate to 4.2 per cent in 2005-06 but will still make a significant contribution to growth. Investment is forecast to increase and will remain at a very high level supported by increased public sector expenditure. Offshore oil production from Laminaria-Corallina is expected to fall by a further 33 per cent in volume terms in 2005-06.

Engineering Work Engineering construction work for the Alcan G3 alumina expansion at Gove will reach peak levels in 2005-06, offsetting the slowing of construction activity for the LNG plant. Work for the Trans-Territory Pipeline will also commence in 2005-06. In aggregate, there is expected to be a marginal increase in the level of engineering work done in 2005-06. Investment for Bayu-Undan stage two and the Alcan expansion will have a much stronger, positive impact on the onshore economy than construction of the offshore structures for Bayu-Undan stage one and the subsea pipeline from the field to Darwin.

Chart 2.2: Territory Dwelling and Business Investment (chain volume measure, moving annual total)*



* Private investment less dwelling investment and ownership transfer costs
Source: NT Treasury, ABS Cat. No. 5206.0

The construction for Bayu-Undan stage 2 is scheduled to be completed in early 2006, with first LNG exports scheduled for mid 2006. Work for the Alcan G3 expansion began in late 2004, with construction for the plant expansion and the Trans-Territory Pipeline scheduled to be completed by mid 2007.

Exports

Territory exports, which have been dominated by oil in recent years will continue to decline in 2005-06, in line with falling production from the Laminaria-Corallina oil fields. Territory exports do not include condensate production from Bayu-Undan stage one (see discussion below). LNG production is scheduled to commence in mid 2006 for markets in Japan, and will make a significant contribution to export growth when full production commences in 2006-07. More broadly, external demand for Territory commodities is expected to improve in the short term as the global economy strengthens and national growth maintains a solid pace.

Improving external conditions should also act to boost demand for Territory services exports, notably international tourism. Although international visitor numbers to Australia are recovering, the more competitive national market for these visitors has been a factor in the weaker than expected recovery in international visitors to the Territory to date.

Exports will continue to be dominated by mineral and energy production, but strengthening international tourism activity, with its stronger linkages to the onshore economy, will have a greater impact on onshore activity and employment. The major risk to the export outlook is the strength of the Australian dollar, which will act to undermine the Territory's competitiveness in international markets.

Joint Petroleum Development Area

The Bayu-Undan gas and condensate fields are in the Joint Petroleum Development Area (JPDA). For national accounting purposes, the JPDA is classified as a separate country and Bayu-Undan production is not included in Territory international merchandise exports. However, 50 per cent of condensate and gas production from Bayu-Undan will be attributed to the Territory economy in the State Accounts. Accordingly, Bayu-Undan stage one will have an impact on measured income and Territory GSP from 2004-05 onwards. In 2004-05 this will be associated with condensate production, and from 2005-06 will include gas production which is used as feedstock to manufacture LNG in Darwin. Gas entering the Territory will be classified as an international import. As value-adding to manufacture LNG occurs in the Territory, LNG exports (less gas inputs) will be wholly attributed the Territory in the State Accounts. LNG production will have significantly greater links to the onshore economy than activity at the offshore oil and gas fields.

Consumption After peaking in 2003-04, private consumption growth will continue to moderate in 2005-06. Some easing back is to be expected after three consecutive years of solid growth. Nonetheless, continued low interest rates, the strengthening outlook for employment and increased demand for household items related to solid dwellings construction activity should continue to underpin growth. Interest rates and consumer confidence will play an important role in determining how strongly retail sales and other consumption expenditure grow, with national consumer sentiment falling sharply following the March 2005 interest rate increase. Also, as population growth continues at a solid pace, consumption can be expected to strengthen further. After providing strong stimulus to the economy during the mid to late 1990s, public consumption is expected to continue its moderate growth of recent years, and is forecast to increase by 3.0 per cent in 2005-06.

Residential Investment Following estimated growth of 14.6 per cent in 2004-05, dwellings investment is forecast to increase by 12 per cent in 2005-06, contributing 0.4 percentage points to GSP growth. Vacancy rates have fallen markedly over the past two years, and although increasing somewhat in late 2004, appear to be at a level approaching equilibrium. In the short term, the risk is that stronger population growth will put pressure on the available stock of dwellings, though significant investor interest in residential construction over the past 18 months will assist in alleviating any shortfall as dwellings are completed. The major impact of short term incentives offered by the Australian and Northern Territory Governments to boost construction has now passed, and activity is reflecting underlying supply and demand dynamics. Nonetheless, governments continue to offer incentives and programs to promote home ownership. A risk to the longer term outlook for dwelling construction activity is the strength of population growth and rates of new household formation in the Territory, and importantly, housing affordability and the outlook for interest rates.

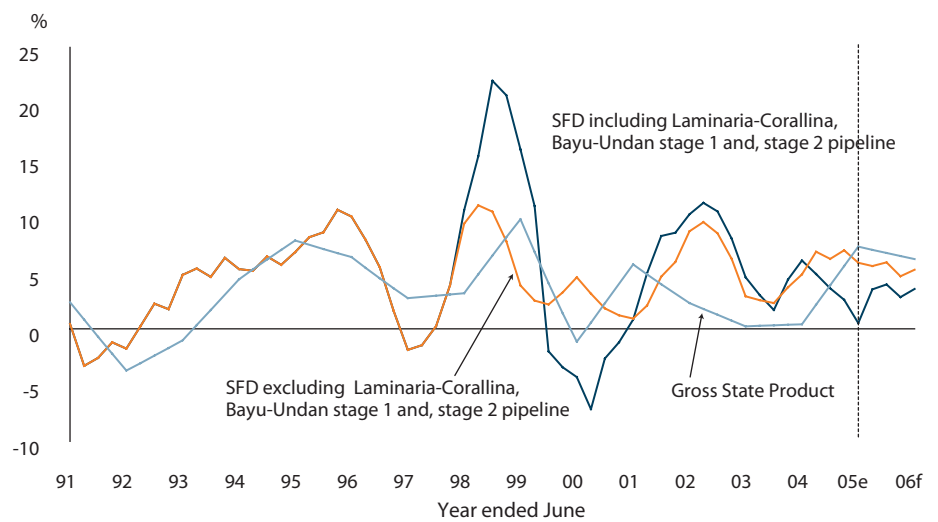
Business Investment After falling in 2004-05, business investment is forecast to continue as an important driver of growth in 2005-06, and is forecast to increase by 5.1 per cent. As Bayu-Undan stage two activity tapers off it will be replaced by work for the Alcan G3 expansion. Activity for these projects will generate significant and localised flow-on benefits during their construction phase, with local contracts and employment acting to underpin economic activity and supporting consumer confidence and business sentiment.

Non-residential building activity is forecast to increase by 10 per cent in 2005-06. Growth is based on a handful of relatively large projects going ahead in both the private and public sectors, with the largest contribution to growth to come from defence-related investment. Work will also commence on the Darwin Convention and Exhibition Centre.

In line with positive economic outlook, the Sensis Business Index for Small and Medium Enterprises reports that Territory businesses are positive regarding their prospects for the coming year.

Population and Employment Population and employment growth in 2005-06 will support consumption growth and contribute to increased housing demand. Both population and employment have been characterised by weak growth in recent years, but are forecast to increase solidly in 2005-06. Population growth is estimated to recover to 1.1 per cent in 2005, with forecast growth of 1 per cent in 2006. As employment prospects strengthen, net interstate migration is expected to improve through higher migration inflows from other states leading to improved population growth. Although official employment data for the Territory are characterised by extreme volatility, Treasury forecasts employment to increase by 2 per cent in 2005-06.

Chart 2.3: Territory SFD and GSP
(chain volume, annual
percentage change)



e: estimate; f: forecast

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

Railway

The operational phase of the railway, which commenced in early 2004, will provide an important link to southern Australia for freight and passenger services. Combined with the new East Arm Port, the railway has the potential to see Darwin develop into a nationally important transport hub with significantly increased land-to-sea international freight. The Ghan passenger service to Darwin will also benefit the tourism industry. The popularity of The Ghan was stronger than anticipated in its first year of operation, and with solid forward bookings, seating capacity is scheduled to double during the 2005 peak tourist season.

In the longer term, the operational phase of the railway should also help create a more robust and competitive Territory economy. One major impact flowing from a reduction in freight rates will be falls in the cost of living and the cost of conducting business throughout the Territory. Increased competitiveness of Territory business is expected to stimulate industry investment and result in a further diversification in economic activity, job opportunities and stronger population growth.

Economic Growth Prospects Further Out

The economic base of the Territory is expected to expand significantly over the next decade, with Timor Sea gas and mining developments, opportunities associated with the operational phase of the railway, the recovery in the tourism sector and further opportunities arising from the defence presence.

In the short to medium term, a number of significant projects will continue to dominate business investment, notably the \$2.5 billion Alcan G3 alumina plant expansion and Trans-Territory Pipeline to Gove, the Darwin City Waterfront Redevelopment project and defence-related investment.

The commencement of LNG production in mid 2006 is an important base for further gas-related manufacturing opportunities. This already includes the production of helium from LNG production by-products. Increased LNG production, methanol and fertiliser projects based in the Territory have all been proposed, utilising offshore gas as feedstock.

Although tending to be cyclical, ongoing employment opportunities will support population and dwellings investment growth as well as the development of commercial and social infrastructure to support the broadening economic base.

