

## Overview

The small size of the Northern Territory 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 2004-05

- Onshore Economy** The onshore economy continued to strengthen in 2004-05, boosted by strong income growth associated with work for major projects, notably construction of the LNG plant at Wickham Point. Stronger population growth supported increased residential construction activity and the tourism sector continued to rebound, with strong growth in international visitor arrivals. Nonetheless, based on ABS data, resident employment is estimated to have declined for the third consecutive year. This was at odds with a variety of other indicators that suggested a tight labour market characterised by skills shortages.
- Gross State Product** After increasing by 0.4 per cent in 2003-04, Northern Territory GSP is estimated to increase by 7.3 per cent in 2004-05. Although not reflected in reported employment statistics, compensation of employees, which has strong links to the onshore economy, was the major contributor to growth. State Final Demand increased by an estimated 1.2 per cent in 2004-05, with consumption increasing by 5.1 per cent. Although at a very high level, investment is estimated to have declined by 8 per cent. Business investment in the Territory continues to be heavily influenced by major infrastructure works and resource projects.
- Population** Following estimated growth of 1.2 per cent in 2004, the Territory's population is forecast to increase by 1.1 per cent in 2005 as the recovery that has been underway since 2003 continues. Stronger growth has been associated with increased interstate migration inflows as onshore economic activity has strengthened.
- Employment** Based on ABS data, Territory resident employment is estimated to have decreased by 1.3 per cent in 2004-05. Data quality continues to be an issue in analysing Northern Territory labour market data. Nonetheless, trend employment did report consistent signs of improvement in the latter half of 2004-05. As with the broader economy, Territory employment tends to be volatile, with extreme growth rates (both positive and negative) often associated with the commencement and conclusion of 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.
- Prices and Wages** Territory price and wage inflation have been below national rates in the past few years, partly due to subdued demand pressures, but also associated with the Territory benefiting relatively more from efficiency gains, notably in the transport sector. Darwin's inflation rate is estimated at 2.0 per cent in the year to June 2005, below the estimated national rate of 2.4 per cent. Territory wages growth, as measured by the labour price index, was 3.3 per cent in the year to December 2004 compared to 3.6 per cent nationally.

## Outlook for 2005-06 and beyond

Following strong growth in 2004-05, Territory GSP growth is forecast at 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.

**Gross State Product** 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, as well as 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.

**Population** Solid interstate migration outcomes will underpin forecast population growth of 1.0 per cent in 2006. Net interstate and international migration will be supported by initiatives to attract skilled workers. Annual growth beyond 2006 will be heavily influenced by prevailing employment and economic conditions.

**Employment** Employment is forecast to increase by 2.0 per cent in 2005-06, as local employment at the Alcan G3 alumina expansion at Gove and the Trans-Territory Pipeline more than compensate for the loss of jobs as construction work for the LNG plant winds down. Employment will also be boosted by defence infrastructure development and construction for the Darwin City Waterfront Redevelopment project. Stronger prospects for residential construction and the tourism sector, combined with 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, with increased fly-in fly-out employment on major projects.

**Prices and Wages** Developing skills shortages and a tighter labour market in the Territory are expected to result in stronger wages growth in 2005 and 2006, putting some upward pressure on inflation. Year on year inflation is forecast to increase to 2.0 per cent in 2005, compared to 2.3 per cent nationally.

Table: 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 <sup>#</sup>	3.9	3.6	2.2	2.1	1.6	2.0

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

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