

## Chapter 5 Prices and Wages

### Key Points

- Price pressures in Australia are expected to increase in 2004-05, although annual inflation is forecast to remain within the Reserve Bank of Australia's (RBA) 2 to 3 per cent target band.
- 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.
- Increasing upside risks to inflation, such as a tighter labour market, increasing labour costs, continuing capacity constraints and domestic demand are likely to place upward pressure on inflation in the coming year.
- Year on year inflation in the Territory is forecast to increase to 2.3 per cent in 2005-06, compared to 2.6 per cent nationally.

Inflation in Darwin generally moves in line with trends Australia-wide, indicating that price movements are largely driven by national (and international) factors.

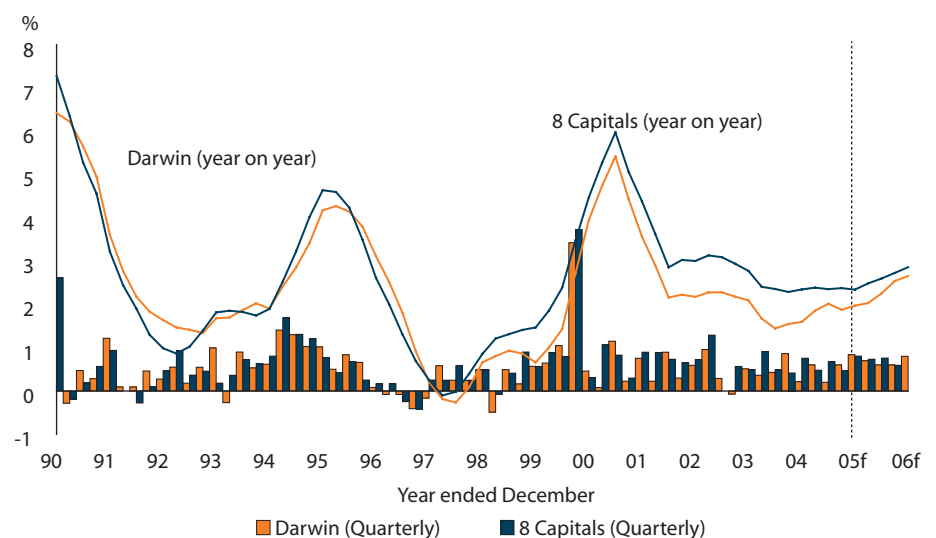
### Drivers of Inflation

The major determinants of inflation are wages and productivity growth, domestic demand, import prices and the level of competition in the economy. Items such as food and petrol are generally more expensive in Darwin than other capital cities, although over time price differentials have fallen considerably. Since 1982, the CPI has increased by around 119 per cent in Darwin compared to around 143 per cent for the eight capitals weighted average.

### One-off Impacts

The introduction of the GST on 1 July 2000 led to a one-off spike in the CPI, both in the Territory and nationally. Nationally, in the past couple of years, one-off price rises across a range of CPI categories have kept inflation at the upper end of the RBA's preferred target range of 2 to 3 per cent (across the economic cycle).

Chart 5.1: Consumer Price Index



e: estimate; f: forecast  
Source: NT Treasury, ABS Cat. No. 6401.0

## Recent price movements

**CPI Data** Darwin's CPI increased by 0.2 per cent in the December quarter 2004 to be 1.9 per cent higher when compared with the December quarter 2003 period. Nationally, the CPI increased by 0.8 per cent (quarterly) and 2.6 per cent (annually). On average, annual CPI inflation in the Territory has been below national levels by an average 0.7 percentage points over the past four years, due in part to the weak local economy (relative to nationally). While quarterly and annual CPI movements can be volatile, the more stable year on year measure (that is, comparing four quarters of data with the preceding four quarters) provides a lagged, although often better, measure of inflation outcomes (see Chart 5.1).

In the year to December 2004, household equipment and alcohol and tobacco contributed more to CPI growth in the Territory than nationally, while education, transportation, health, housing, food and miscellaneous components contributed less (see Chart 5.2). Recreation and clothing and footwear made negative contributions to growth in the Territory and nationally.

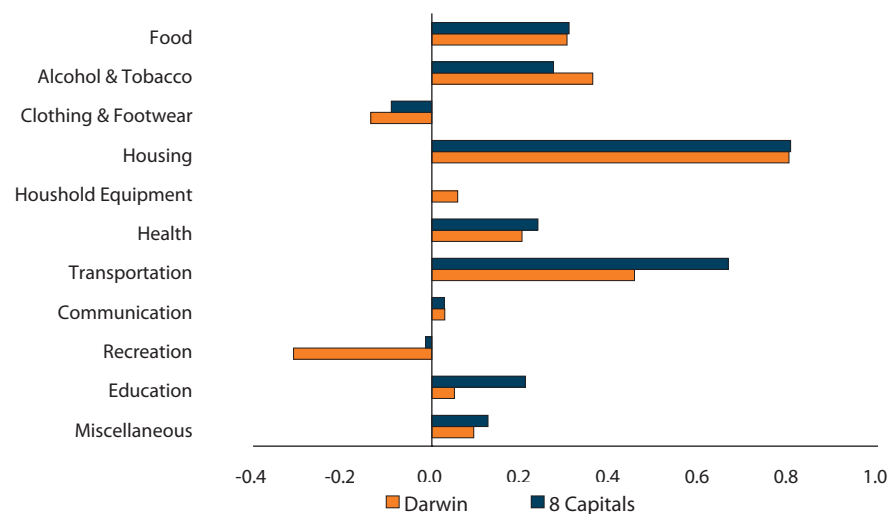
Darwin's CPI growth is one of the parameters used to develop the 2005-06 Budget. Darwin's All Groups CPI growth of 1.6 per cent in the year to the December quarter 2004 (the latest available data) is used as a deflator and applied to the forward estimates model (see Table 5.1).

## Comparable Consumer Prices

**Cost of Living Study** In 1993, the Committee on Darwin study compared the cost of living for wage and salary earners in Darwin, Perth and Sydney. The study concluded that the cost of living in Darwin was 5.5 per cent higher than in Perth and 2.7 per cent higher than in Sydney, with higher costs for food, hospitality and motor vehicles and lower costs for clothing and footwear.

An update of this study, using CPI data to December 2004, suggests that the gap between Darwin and Perth has narrowed to 0.9 per cent, and that the cost of living in Darwin is around 3.1 per cent lower than in Sydney. Prices growth in Sydney relative to Darwin is most pronounced for food, household equipment, clothing, transportation and recreation and education related goods and services over the 11 year period. Prices growth in Perth relative to Darwin is most evident for health and personal care, tobacco and alcohol, transportation and recreation and education related goods and services over the same period.

Chart 5.2: Percentage Point Contribution to Change in CPI (year to December 2004)



Source: ABS Cat. No. 6401.0

ABS 'Weighted Basket' Data

Another measure of cost relativities, based on Australian Bureau of Statistics (ABS) Average Retail Prices data for December 2004 and Household Expenditure suggests that a weighted basket of goods, dominated by food items, is around 14 per cent more expensive in Darwin than the eight capitals average, compared to 18 per cent more expensive in December 1982 when the series first began. Since December 1982, the estimated cost of the weighted basket of goods has increased by 166 per cent in Darwin (compound annual growth rate of 4.6 per cent) compared to an increase of 177 per cent for the eight capitals average (compound annual growth of 4.7 per cent). Over the same period, the food component of the CPI increased 127 per cent in Darwin compared to a 155 per cent increase in the eight capital cities average. In Darwin, the increase in the cost of the basket of goods over the period was the lowest of the capital cities.

Table 5.1: Consumer Price Index  
(year ending December)

Year ending December	Consumer Price Index		Annual % Change		Year on Year % Change	
	Darwin	8 Capitals	Darwin	8 Capitals	Darwin	8 Capitals
1986	83.5	79.8	9.6	9.8	8.4	9.1
1987	89.2	85.5	6.8	7.1	8.6	8.5
1988	93.3	92.0	4.6	7.6	5.7	7.3
1989	99.4	99.2	6.5	7.8	5.5	7.5
1990	106.4	106.0	7.0	6.9	6.4	7.3
1991	108.2	107.6	1.7	1.5	3.6	3.2
1992	109.2	107.9	0.9	0.3	1.6	1.0
1993	111.7	110.0	2.3	1.9	1.7	1.8
1994	113.7	112.8	1.8	2.5	1.9	1.9
1995	119.2	118.5	4.8	5.1	4.2	4.6
1996	121.7	120.3	2.1	1.5	3.1	2.6
1997	120.8	120.0	-0.7	-0.3	0.2	0.3
1998	122.7	121.9	1.6	1.6	0.7	0.9
1999	123.6	124.1	0.7	1.8	0.7	1.5
2000	130.6	131.3	5.7	5.8	3.9	4.5
2001	133.5	135.4	2.2	3.1	3.6	4.4
2002	136.2	139.5	2.0	3.0	2.2	3.0
2003	138.5	142.8	1.7	2.4	2.1	2.8
<b>2004</b>	<b>141.1</b>	<b>146.5</b>	<b>1.9</b>	<b>2.6</b>	<b>1.6</b>	<b>2.3</b>
<b>2005e</b>	<b>144.3</b>	<b>150.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.0</b>	<b>2.3</b>
2006f	148.2	154.6	2.7	3.0	2.7	2.9
Compound Annual Growth %						
1985-86 to 2004-05e	2.9	3.4				
1985-86 to 1989-90	5.3	6.2				
1990-91 to 1994-95	2.4	2.3				
1995-96 to 1999-00	1.9	2.4				
2000-01 to 2004-05e	2.0	2.6				
1994-95 to 2004-05e	1.9	2.4				

e: estimate; f: forecast

Source: NT Treasury, ABS Cat. No. 6401.0

Table 5.2: Consumer Price Index  
(year ending June)

Year ending June	Consumer Price Index		Annual % Change		Year on Year % Change	
	Darwin	8 Capitals	Darwin	8 Capitals	Darwin	8 Capitals
1986	78.6	75.6	8.0	8.5	8.3	8.4
1987	86.3	82.6	9.8	9.3	9.0	9.3
1988	91.8	88.5	6.4	7.1	7.1	7.3
1989	96.3	95.2	4.9	7.6	4.9	7.3
1990	102.4	102.5	6.3	7.7	6.2	8.0
1991	106.6	106.0	4.1	3.4	5.7	5.3
1992	108.4	107.3	1.7	1.2	2.2	1.9
1993	110.0	109.3	1.5	1.9	1.4	1.0
1994	112.4	111.2	2.2	1.7	1.9	1.8
1995	116.8	116.2	3.9	4.5	2.8	3.2
1996	120.8	119.8	3.4	3.1	4.1	4.2
1997	121.5	120.2	0.6	0.3	1.8	1.3
1998	121.8	121.0	0.2	0.7	-0.3	-0.0
1999	122.7	122.3	0.7	1.1	0.9	1.3
2000	125.7	126.2	2.4	3.2	1.4	2.4
2001	132.2	133.8	5.2	6.0	5.4	6.0
2002	135.0	137.6	2.1	2.8	2.2	2.9
2003	137.9	141.3	2.1	2.7	2.3	3.1
<b>2004</b>	<b>139.6</b>	<b>144.8</b>	<b>1.2</b>	<b>2.5</b>	<b>1.4</b>	<b>2.4</b>
<b>2005e</b>	<b>142.2</b>	<b>148.2</b>	<b>1.9</b>	<b>2.3</b>	<b>2.0</b>	<b>2.4</b>
2006f	146.2	152.3	2.8	2.8	2.3	2.6
Compound Annual Growth %						
1985-86 to 2004-05e	3.2	3.6				
1985-86 to 1989-90	6.3	7.0				
1990-91 to 1994-95	2.5	2.5				
1995-96 to 1999-00	1.8	2.2				
2000-01 to 2004-05e	1.8	2.6				
1994-95 to 2004-05e	2.3	2.7				

e: estimate; f: forecast

Source: NT Treasury, ABS Cat. No. 6401.0

Nonetheless, in absolute terms, average retail price data report that in the December quarter 2004 Darwin was the most expensive for 20 of the 52 items surveyed and was not the cheapest for any item. This compares to Darwin recording 22 of the most expensive items and four of the cheapest a year ago. Fresh fruit and vegetable prices in Darwin were 20.1 per cent higher than the eight capitals average in the December quarter 2004 compared to 31.2 per cent higher when the series began in 1982.

### Price Differentials

The large price differential between Darwin and the other capital cities is primarily attributed to higher freight and storage costs, reflecting Darwin's isolation from supply centres. Further, the relatively small market size in the Territory suggests lower levels of competition, although economic and population growth have acted to reduce this differential over time as more national firms enter the market.

**Freight Costs** While the operation of the recently completed Adelaide to Darwin rail link is expected to lower transportation costs over time, it is still too early to ascertain whether it has resulted in unambiguously lower freight costs since it began operations in early 2004. While increased competition in the long-haul transport sector could be expected to lead to efficiency gains as firms compete for market share, the extent of the flow through of efficiency gains to retailers, combined with the level of competition in the retail market, will determine the impact on consumer prices.

### Grocery Price Survey

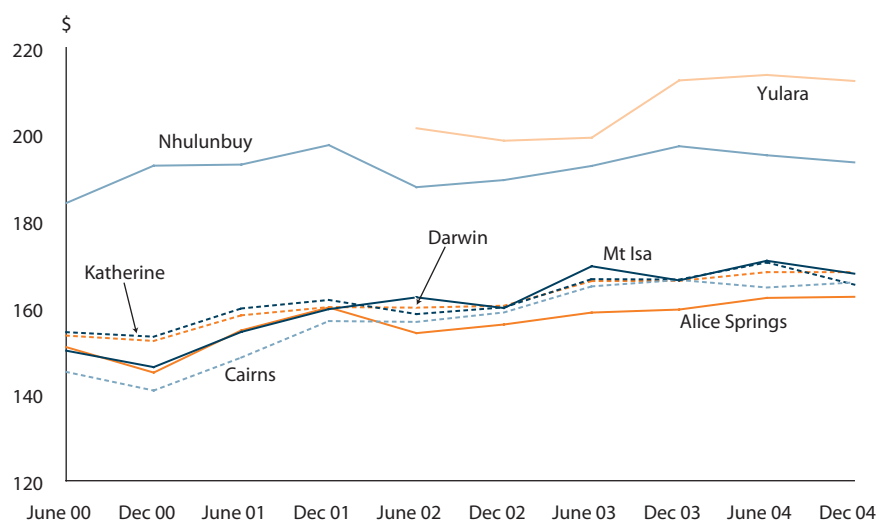
**Parliamentary Inquiry on Prices** The Northern Territory Legislative Assembly established a Select Committee on Territory Prices, which reported its findings in August 1999. A key recommendation of the committee was that Government develop guidelines to monitor grocery prices across the Territory and with results to be published on a regular basis.

**Grocery Price Survey** In response to the Select Committee's recommendations, Northern Territory Treasury developed a survey to monitor grocery prices. The survey measures the cost of an average basket of goods at each major supermarket in the Territory and, for comparative purposes, supermarkets in Cairns and Mount Isa. Survey areas in the Territory are Darwin, Alice Springs, Palmerston, Nhulunbuy, Katherine and, more recently, Yulara.

The basket comprises 132 items, with food (excluding take-away items) accounting for about three-quarters of the items. Household supply and personal care products make up the remainder. The items were selected as a representative sample of goods purchased by households. The survey began in the March quarter 2000 as a quarterly survey but is now conducted twice a year.

**Measure of Prices Growth** As measured by the Grocery Price Survey, Territory grocery price movements are broadly in line with price movements in the CPI. However, since mid 2002, survey prices in the Territory have increased at a lower rate than the food component of the CPI at both the Territory and national level. During this period, restaurant and take-away meals (which are not included in the grocery survey) made significant contributions to the increase in the food component of the CPI.

Chart 5.3: Grocery Price Survey



Source: NT Treasury

**Volatile Items** In the six months to December 2004, the cost of a standard basket of goods increased in Cairns and Alice Springs, but fell in Katherine, Mount Isa, Nhulunbuy and Yulara. In Darwin the cost of the basket was virtually unchanged from the June 2004 survey, decreasing by 1 cent. Fruit and vegetable prices, which can be volatile between quarters and even between years, fell after increasing in the previous three survey periods. Volatility in this category along with the meat and seafood category is common, reflecting a range of seasonal and other factors, such as drought, that can affect supply.

**Prices Convergence** Since the Grocery Price Survey began, the cost differential between Darwin and Cairns has narrowed, from Darwin being \$10.67 (8.2 per cent) more expensive in mid 2000 to \$2.37 more expensive (1.4 per cent) in late 2004.

The historical price differential reflects the degree of competition in the market, distance from major supply centres and higher input and operating costs associated with smaller, more remote populations that experience climatic extremes.

In December 2004, of all Territory centres surveyed, Alice Springs recorded the lowest average cost for the basket (3.4 per cent lower than in Darwin). Katherine was the next cheapest Territory centre surveyed and was 1.7 per cent cheaper than Darwin. Darwin ranked third cheapest. Nhulunbuy and Yulara were more expensive than Darwin by 15.1 per cent and 26.2 per cent respectively. Higher costs in these two centres reflect additional freight and storage costs, and the lack of economies of scale and competition. Outside the Territory, the average cost of the basket of goods in Cairns was 1.4 per cent cheaper than in Darwin, while Mount Isa was 1.5 per cent more expensive than Alice Springs.

## Fuel Prices

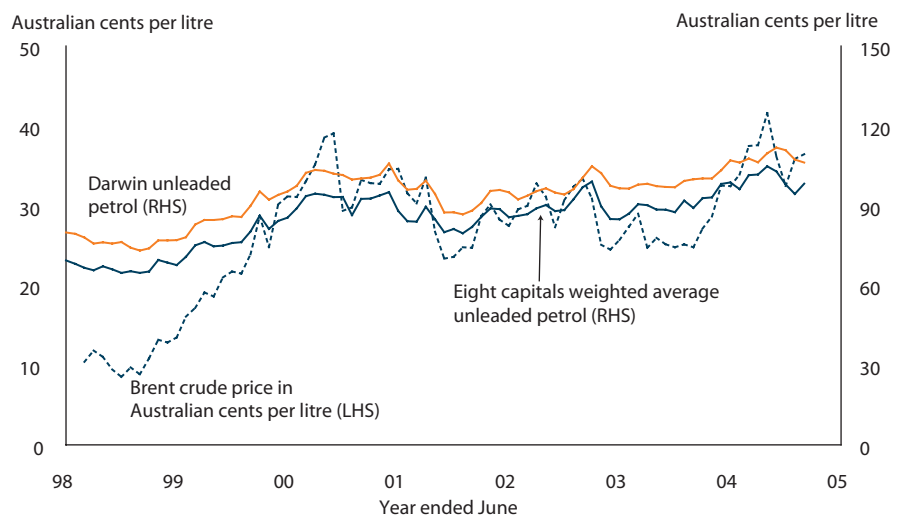
Fuel prices affect CPI growth because they are a significant element of household non-discretionary expenditure. Crude oil is the major input cost to automotive fuel production, with changes in crude oil prices flowing through to consumer prices and ultimately to household budgets.

**Prices Reflect National Movements** Movements in Darwin retail fuel prices typically mirror national trends, but tend to be higher than other capital cities given distance from refineries and competitive factors. Higher retail prices reflect a smaller population and lack of economies of scale, especially for sales volumes. Higher prices in the Territory also reflect the absence of a significant independent discount chain, the absence of any large-scale petrol refinery in the Territory (resulting in higher freight costs) and the absence of regular price discounting cycles as observed in other capital cities. Generally, these pricing effects intensify with the degree of remoteness of a location.

**Higher Prices in Darwin** On average, prices in Darwin tend to be around 10 per cent higher than the national average price. For short periods of time Darwin fuel prices exceed this, most recently in late 2004, reflecting the 'stickiness' of downward price movements in the Territory, and could reflect operators compensating for less than full pass through of price increases in periods when crude oil and wholesale prices are high.

**Competition Prospects** The recent entry (and proposed expansion) of independent retailer United Petroleum to the Top End market and the increased presence of supermarket chains are expected to promote increased price competition in the retail fuel market in the short term, with the possibility of some industry rationalisation in the longer term.

Chart 5.4: Unleaded Retail Petrol and Crude Oil Prices



Source: Australian Automobile Association, Reserve Bank of Australia, Oilnergy

### Independent Inquiry into Fuel Prices

Recent concerns about the price of fuel in the Territory being significantly higher than in other parts of the country has led the Northern Territory Government to commission an independent inquiry into petrol prices. Tom Parry – the current NSW Natural Resources Commissioner and former Foundation Executive Chairman, Independent Pricing and Regulatory Tribunal of New South Wales and Associate Commissioner of the ACCC – heads the inquiry. A public report is expected to be released in May 2005.

### Petrol Prices

Since February 2004, the Darwin average unleaded petrol price increased by 6.3 cents per litre (6.3 per cent) to 106.2 cents per litre, while the eight capital cities average price increased by 9.1 cents per litre (10.2 per cent) to 98.2 cents per litre.

### Oil Prices

In Australian dollar terms, crude oil prices remain volatile, increasing by 47.1 per cent in the 12 months to February 2005. The sharp increase in oil prices during the latter half of 2004 and early 2005 was associated with strong global demand (notably from China), coupled with supply constraints and a significant risk premium factored into prices. Crude oil is the major input cost in fuel production, and has contributed to recent large fuel price increases.

A gradual easing of crude oil prices is expected in 2005 as global demand moderates in line with the economic growth outlook. Despite OPEC increasing production, prices are not expected to fall below US\$45 per barrel in the short term, due to capacity constraints and the significant 'risk premium' (associated with uncertainty regarding security of supply) factored into prices.

### Fuel Sales Grant Scheme

Taxation of fuel in the Territory is among the lowest of the jurisdictions, with the Territory Government providing a retail fuel rebate of 1.1 cents per litre and the Australian Government providing the Fuel Sales Grant Scheme (FSGS) rebate. The FSGS was introduced in mid 2000 to compensate for the greater impact of the Goods and Services Tax on regional retail fuel prices. All motorists in the Territory should receive the benefit of the grant (1 to 3 cents per litre). However, the Australian Government has announced that it will phase out the FSGS from July 2006. Lack of transparency in monitoring whether the grant is actually passed through to motorists is cited by the Australian Government as one of the reasons for abolishing the scheme. Savings from the abolition of the FSGS will be redirected to the national Roads to Recovery program, with jurisdictions competing against each other for a share of a nominated pool of funds. At this stage it is unknown what the net impact of the policy change will be on aggregate transport funding the Northern Territory receives. Nonetheless, retail fuel prices are expected to increase with the phasing out of the scheme, and Territory motorists will pay more tax per litre of fuel than previously.

Table 5.3: Unleaded Petrol Prices

Retail petrol price (cpl)	Feb 04	Jan 05	Feb 05	% Change	
				Month	Year
Darwin	99.9	107.3	<b>106.2</b>	-1.0%	6.3%
Alice Springs	103.5	114.0	<b>114.1</b>	0.1%	10.2%
Katherine	103.6	110.0	<b>101.3</b>	-7.9%	-2.2%
Tennant Creek	101.5	112.5	<b>117.0</b>	4.0%	15.3%
8 Capitals weighted average	89.1	94.4	<b>98.2</b>	4.1%	10.2%
<b>Brent Crude price in A\$ per barrel</b>	39.40	57.02	<b>57.95</b>	1.6%	47.1%
<b>Brent Crude price (A\$ cpl)</b>	24.78	35.86	<b>36.45</b>		

Source: Australian Automobile Association, Oilnergy

## Electricity and Water Prices

### Electricity

The higher cost of electricity generation in the Territory reflects the absence of cheaper fuel sources and the lack of economies of scale. The Territory Government-owned Power and Water Corporation is currently the only major supplier of electricity in the Territory. The bulk of fuel costs (for gas-generated power) in the Territory are fixed costs associated with the financing of the Amadeus Basin (in Central Australia) to Darwin gas pipeline.

While the future development of offshore gas fields has the potential to provide a cheap and efficient energy source, negotiations to secure supply are continuing.

### Commercial Consumers

The Northern Territory electricity market was opened to competition on 1 April 2000. Choice of electricity supplier was introduced to commercial consumers on a staged basis according to annual electricity usage. The Territory Government has introduced oversight of Power and Water Corporation's generation business to ensure that prices are similar to those that would occur in a competitive environment.

### Contestable Customers

As at 30 June 2004, contestable electricity customers (customers who can choose their electricity retail supplier) using more than 750 000 kWh per annum have prices that are set individually, based on load profile, location and the cost to deliver the service. The threshold for contestability has been reduced gradually since the first electricity customers became contestable in April 2000. On 28 February 2003 it was announced that, due to the lack of competition in the Territory's electricity market, the original timetable for full retail contestability by April 2005 would be deferred until 2010.

### Non-contestable Customers

The standard tariff for non-contestable commercial customers in the Territory (using less than 750 000 kWh) comprises a fixed charge of 43.14 cents per day and a usage charge of 16.30 cents per kWh. The GST component of the charge is creditable and lowers the net cost for GST-registered customers. Power and Water Corporation also offers non-contestable commercial customers alternative pricing options to the standard tariff. These options deliver greater flexibility and greater cost effectiveness to businesses based on their demand profile. The 'time-of-use' tariff offers a fixed charge of 43.14 cents per day, and usage charges of 20.87 cents per kWh for consumption between 6am and 6pm, and 11.74 cents per kWh for consumption between 6pm and 6am. The 'variable demand' tariff is available to customers using more than 160 000 kWh per annum. This tariff tends to benefit customers with a relatively constant electricity load and has five charging components. Across these charging options, average charges are 16.63 cents per kWh in the Territory, the fifth cheapest of the jurisdictions and above the national average of 14.94 cents per kWh.

### Domestic

Household customers continue to have their electricity costs subsidised through the Government's uniform tariff policy. This policy aims to ensure these customers pay the same for electricity no matter where they live in the Territory, regardless of the costs to deliver such services. The subsidy is estimated at around \$36.7 million in 2005-06.

Domestic electricity charges (generally applying to households) in the Territory comprise a fixed daily charge of 27.62 cents and usage charge of 14.02 cents per kWh for a standard meter. These charges are based on the simple average rate that applies to the consumption of 1250 kWh per month (household average). The average Territory residential consumption is 2028 kWh per quarter.

The total average domestic electricity charge in the Territory is 16.04 cents per kWh, higher than the national average of 15.15 cents per kWh. Higher charges in the Territory reflect higher costs influenced by the absence of cheaper fuel sources and economies of scale.

**Water** Compared to an average national household consumption of 450 kilolitres (kL) per annum, Darwin domestic annual consumption is 437 kL. Territory annual average water charges (at \$408) are significantly lower than the average for Australia (\$577), and the second lowest of the jurisdictions after Tasmania.

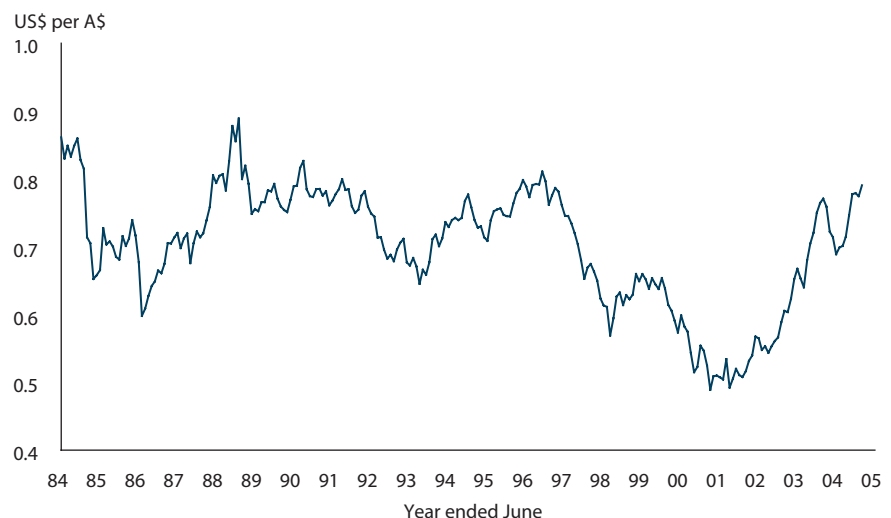
## Exchange Rates

**Exchange Rate Impact** The exchange rate affects inflation through its impact on import prices for preliminary, intermediate and final consumption goods. Changes in the exchange rate can flow directly through to consumer prices and inflation, depending on competitive pressures, as final consumption goods account for around 30 per cent of imports nationally. Also, producer prices provide a measure of input costs and can provide a lead indicator of consumer price inflation to the extent that imported goods and services are used in the production process.

The substantial depreciation of the Australian dollar against the major global currencies between 1997 and 2001 was a significant factor in the corresponding rise in inflation from below 2.0 per cent in 1998 to about 3.0 per cent in 2002-03.

**Strong A\$ Appreciation** Since the low point in March 2001, the Australian dollar has strengthened by more than 50 per cent against the US dollar, and by 2 per cent over the year to March 2005. However, the strength of appreciation against the US dollar reflects not only stronger demand for Australian currency but, importantly, the significant weakening of the US dollar relative to most currencies. Over the past few years, the coincident and lagged effects of the appreciation of the exchange rate have acted to subdue underlying inflation through its impact on the prices of traded goods. However, the dampening impact of the exchange rate appreciation on prices growth has now largely passed, with imported goods price changes expected to flow through to prices growth.

Chart 5.5: Exchange Rate (US\$ per A\$)



Source: Reserve Bank of Australia

**Annual Inflation** The ABS reports that, nationally, annual inflation to the December quarter 2004 was 1.4 per cent for traded goods and 3.5 per cent for non-traded goods, with CPI inflation of 2.6 per cent. With producer price inflation for final goods running at 5.5 per cent for local inputs and -2.2 per cent for imported inputs over the same period, non-traded goods inflation is expected to remain high in the short term.

**Drivers Behind Strong A\$ Appreciation** A number of factors have supported the recent appreciation of the Australian dollar, yet the major influence has been the marked depreciation of the US dollar. Other contributing factors have been the strong global economy and its impact on demand and prices for Australian commodities, interest rate differentials favouring Australian dollar assets and the continuing momentum of the Australian economy. As some of these factors start to ease there will be downward pressure on the Australian dollar. Any depreciation of the Australian dollar is expected to have an immediate impact on import prices, putting upward pressure on producer prices.

## Interest Rates

The RBA uses interest rates to manage domestic demand to maintain annual inflation within a 2 to 3 per cent band over the business cycle.

**2002 and 2003** The RBA tightened interest rates in mid 2002 as strong national domestic demand associated with a strong rebound in the housing market put broad upward pressure on prices. Interest rates were on hold through 2002-03 as weak world economic growth and the drought impacted on exports, which reduced the strength of the national economy.

**2003 and 2004** In late 2003, the RBA again raised interest rates largely due to concerns about the rate of credit growth and house prices and the strengthening prospects for the global economy and hence exports. The RBA kept rates on hold throughout 2004 as credit growth and asset prices risks abated and the impact of the exchange rate appreciation put downward pressure on prices growth.

**2005** The RBA raised interest rates by 0.25 percentage points in March 2005 as a number of factors put upward pressure on the outlook for inflation. Continued strong domestic demand, together with supply and capacity constraints in some industries, the tightening in the labour market (and its 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.

## Wages

Wage inflation is important in assessing the outlook for price inflation. At the national level it is estimated that about 90 per cent of wage increases, less productivity growth, flow through to price increases over the following four to six quarters.

Table 5.4: Labour Price Index (year on year to December percentage change)

	% Change					
	1999	2000	2001	2002	2003	2004
<b>Northern Territory</b>						
Public	2.9	2.6	2.9	3.2	3.7	3.3
Private	2.5	2.6	2.9	3.1	2.6	3.4
Total	2.7	2.6	2.9	3.1	3.1	3.3
<b>Australia</b>						
Public	3.7	2.8	3.7	3.3	4.4	4.1
Private	2.8	3.1	3.5	3.3	3.3	3.4
Total	3.1	3.0	3.6	3.2	3.6	3.6

Source: ABS Cat. No. 6345.0

**Labour Price Index** The ABS Labour Price Index (LPI) series provides information on the cost of purchasing a fixed quantity and quality of labour. Accordingly, the LPI is a good indicator of wages growth as it abstracts from changes in the composition of the workforce.

The Territory LPI increased by 3.3 per cent in the 2004 calendar year, slightly below the national rate of 3.6 per cent. The private sector LPI increased by 3.4 per cent, while the public sector recorded an increase of 3.3 per cent. Influenced by relatively weak prices growth in the economy, the Territory LPI has increased by about 9 per cent over the past three years compared to around an 11 per cent increase nationally.

In an historical sense, the compositional shift in the Territory labour market has reflected structural changes in the economy over the past 20 years. A decline in the significance of the high wage sectors has meant that average Territory earnings are now more in line with national levels. As the Territory economy has matured and diversified, the relative importance of these sectors has shifted, with stronger employment growth in lower paying industries such as hospitality, retail and tourism.

**Enterprise Agreements** Nationally, average annual wages growth in new enterprise agreements to the year ended December quarter 2004 was 4.0 per cent. Wages growth in private sector agreements was 3.7 per cent, while public sector growth was 4.6 per cent. Recent enterprise bargaining agreements indicate that the tighter labour market is starting to impact on wage outcomes, with other indicators suggesting that labour costs are increasing at close to five-year records.

Over 2004, wages growth in existing enterprise agreements was unchanged from 2003 at around 4.0 per cent, the same as wage increases in new agreements. In the Territory, while recent ABS labour force data suggest a weaker labour market, other data sources and anecdotal evidence suggest otherwise.

## Inflation Outlook

Over the past couple of years, the appreciation of the Australian dollar has helped keep inflation within the RBA's target range of between 2 and 3 per cent over the business cycle. However, 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.

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.

The Territory's annual inflation rate is expected to remain at the higher end of the RBA's target band of 2 to 3 per cent in 2005-06, with growth forecast at 2.8 per cent. The forecast for the less volatile year on year measure is for inflation growth of 2.3 per cent in the Territory and 2.6 per cent nationally.

