

Chapter 1 Structure of the Economy

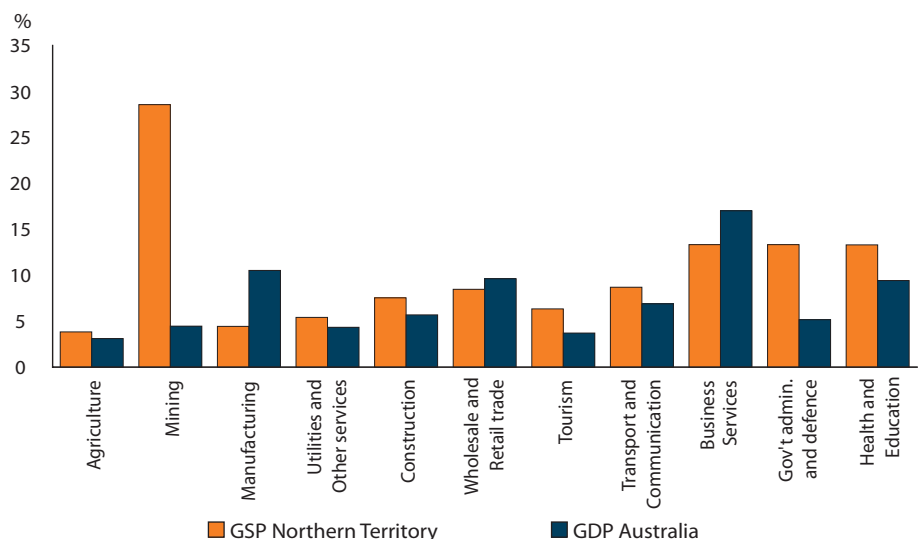
Key Points

- The structure of the Northern Territory economy is markedly different to other Australian jurisdictions, reflecting its abundance of natural resources, its comparatively large public sector and the importance of the large defence presence.
- A relatively large mineral and energy sector means that the Territory economy is capable of high growth as resources are developed. 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 as the defence presence plateaued.
- The next few years will see another phase of infrastructure and resource investment, which in turn 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.

Dominant Industries

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

Chart 1.1: Industry Proportions of GSP/GDP (five year average to 2003-04)



Source: ABS Cat. No. 5220.0

International exports of goods and services from the Territory are an important source of demand, averaging around 36 per cent of Territory GSP for most of the past decade compared to 19.6 per cent nationally. The Territory's economy is not as diverse as nationally, with the top four industries in the Territory accounting for 42.0 per cent of GSP relative to the top four for Australia at 34.5 per cent. However, the balance between consumption and investment expenditure both in the Territory and nationally is quite similar, with consumption expenditure accounting for around three-quarters of final demand.

Industry Structure

As Table 1.1 shows, mining was the most significant Territory industry in 2003-04, accounting for 18.8 per cent of GSP, more than four times the national proportion of 4.0 per cent. This figure is heavily influenced by activity associated with the Laminaria-Corallina oilfields in the Timor Sea, production from which is attributed to the Northern Territory.

Public Sector

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

Table 1.1: Proportion of GSP (current) 2003-04

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
Agriculture, forestry and fishing	1.8	2.9	3.8	5.4	4.2	5.1	2.9	0.1	2.9
Mining	1.5	1.3	5.9	1.9	16.2	1.2	18.8	0.0	4.0
Manufacturing	10.5	12.9	8.7	12.3	8.1	12.4	3.4	1.5	10.5
Electricity, gas and water	1.9	2.3	2.1	3.2	2.5	5.2	2.0	2.2	2.2
Construction	5.7	5.4	7.0	6.1	7.4	5.9	7.2	7.4	6.1
Wholesale Trade	5.0	5.3	4.9	4.0	4.1	3.7	2.4	2.0	4.8
Retail Trade	4.5	4.9	6.2	4.8	4.7	6.1	4.6	4.0	5.0
Accommodation, cafes and restaurants	2.1	1.5	2.6	1.9	1.4	2.5	2.6	2.1	2.0
Transport and storage	4.3	4.0	5.3	4.2	4.6	4.7	4.7	2.6	4.4
Communication	2.7	2.9	2.4	2.2	2.1	2.3	2.8	2.1	2.6
Finance and insurance	9.0	7.9	4.8	5.7	4.3	5.9	2.7	3.3	7.0
Property and business services	11.8	10.9	8.1	7.8	9.2	4.9	8.4	12.8	10.2
Government administration and defence	3.1	2.3	3.9	2.9	2.1	5.0	7.6	23.8	3.4
Education	3.7	4.4	4.0	4.3	3.3	4.6	4.5	5.1	4.0
Health and community services	5.2	5.6	5.4	6.7	5.1	8.1	6.2	5.4	5.5
Cultural and recreational services	1.8	1.7	1.3	1.5	1.2	1.3	2.3	2.4	1.6
Personal and other services	1.8	2.0	2.3	2.5	2.2	2.1	2.3	2.7	2.1
Ownership of dwellings	9.0	7.4	7.3	7.9	5.8	6.9	6.2	7.7	7.8
General government	1.7	1.5	2.2	1.8	1.5	2.5	2.8	4.1	1.8
Taxes less subsidies	12.9	13.0	11.8	13.3	10.0	9.6	5.5	8.9	12.2
Total	100	100	100	100	100	100	100	100	100

Source: ABS Cat. No. 5220

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

Services Sector

The proportion of the Territory economic output attributed to services (that is, all industries excluding agriculture, mining and manufacturing but also excludes ownership of dwellings and taxes less subsidies) is the fourth lowest in Australia at 63.2 per cent. This figure has increased from 62.1 per cent in 2002-03, largely due to the decline in the significance of the mining sector. The proportion of the national economy attributed to services is 62.6 per cent, while the Australian Capital Territory has the largest proportion at 81.8 per cent.

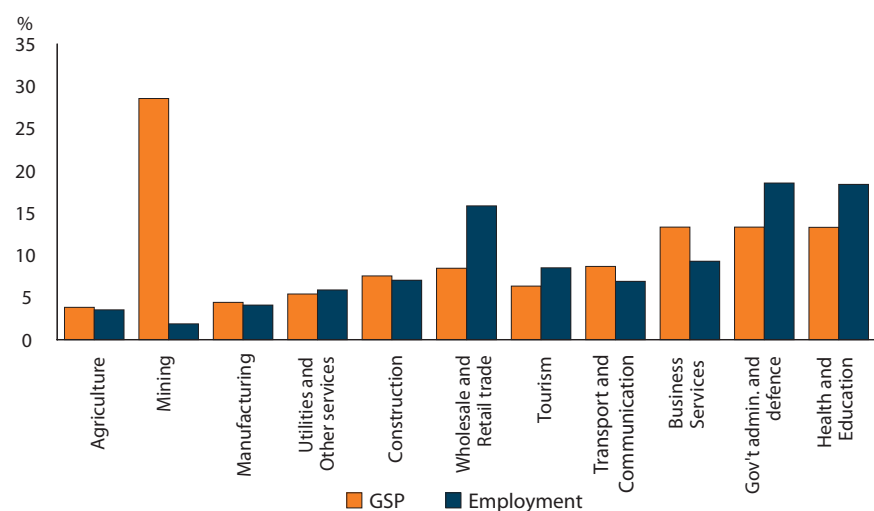
The distribution of Territory employment and GSP is compared in Chart 1.2, which contrasts the capital-intensive nature of mining with the labour-intensive industries such as retail, other tourism-related sectors, and health and education.

In terms of employment the Territory has a large proportion of people employed in its services sector, representing 90.5 per cent of employment in 2003-04. This compares to 82.8 per cent nationally. The public sector is the largest employer in the Territory, followed by the retail sector.

Export Propensity

International exports of goods and services averaged around one-third of Territory GSP for most of the past decade. In 2003-04, exports accounted for more than 28 per cent of GSP, compared to 19 per cent nationally. This is a substantial decline from 2002-03, when exports accounted for more than 37 per cent of Territory GSP. The main reason for the decline in exports is falling oil production from the Laminaria-Corallina oilfields impacting on merchandise exports.

Chart 1.2: Territory Employment and GSP (five year average to 2003-04)



Source: ABS Cat. Nos. 5220.0, 6202.0

International Exports The significance of international exports to the Territory economy means that it is somewhat more exposed to conditions in world markets than other jurisdictions. Furthermore, Territory merchandise exports are primarily minerals, energy and agricultural commodities, which are prone to significant price fluctuations. Global supply and demand conditions and the impact of exchange rate movements on competitiveness are key factors affecting production and income. 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.

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

Diversity

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

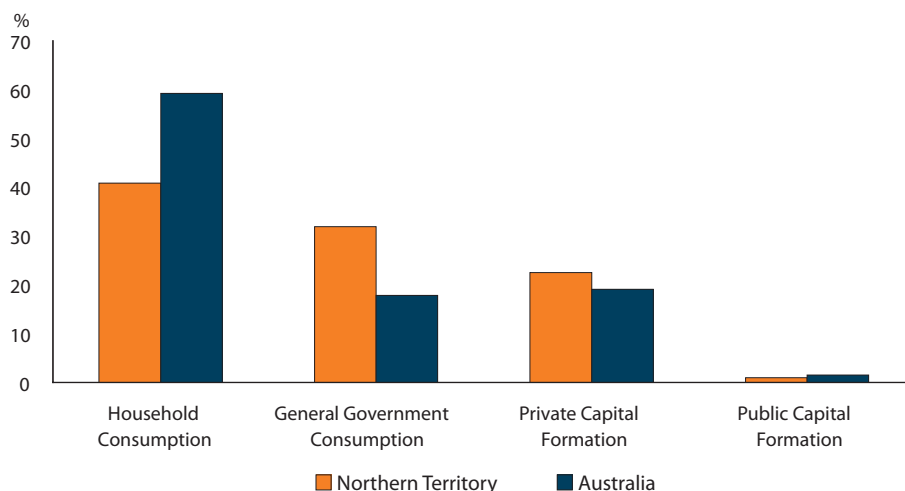
The four largest Territory industries in 2003-04 were mining (18.8 per cent), property and business services (8.4 per cent), government administration and defence (7.6 per cent), and construction (7.2 per cent), representing in total 42 per cent of GSP. Nationally, the four largest industries in 2003-04 were manufacturing (10.5 per cent), property and business services (10.2 per cent), ownership of dwellings (7.8 per cent), and finance and insurance (7.0 per cent), representing in total 35.5 per cent of GDP.

Expenditure patterns

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

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

Chart 1.3: Proportion of Final Demand (five year average to 2004)



Source: ABS Cat. No. 5220.0

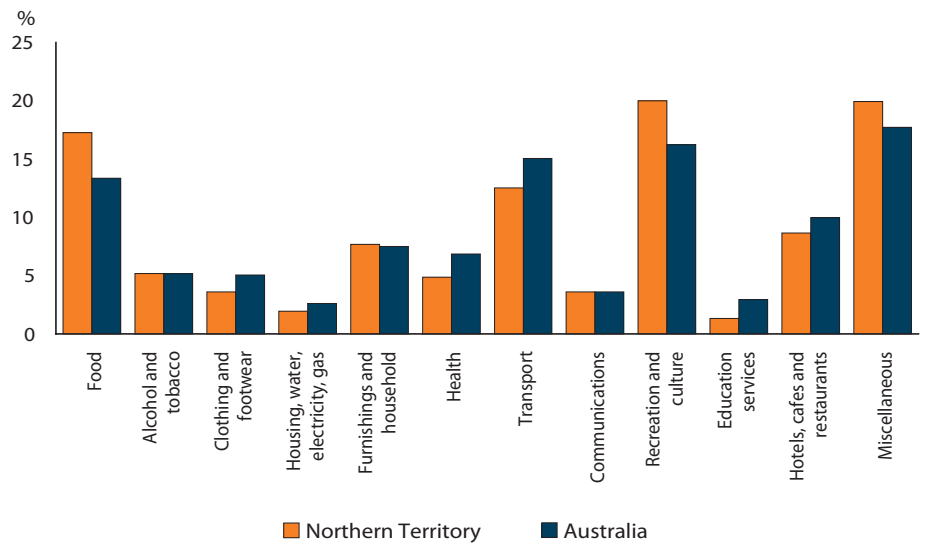
Capital Investment

Similarly, the maturing of the Territory's economy has seen private sector capital investment steadily increase as a proportion of final demand. Although typically 'lumpy' and heavily influenced by investment for resource projects, private investment levels are expected to remain high over the next five to ten years as a number of large-scale mining and gas projects proceed. Public sector capital investment, which includes national and local government expenditure, was boosted in 2001 and 2002 by contributions to the construction of the Alice Springs to Darwin leg of the rail link with Adelaide. Investment levels fell back in 2003 and 2004 in line with railway investment. Defence and other social infrastructure projects are expected to boost public sector investment in coming years, as will contributions to major projects such as the Darwin City Waterfront Redevelopment.

Patterns of household consumption are quite different in the Territory. As shown in Chart 1.4, Territory consumers spend relatively more (as a proportion of consumption expenditure) on food, recreation and culture than Australian consumers in general. This reflects higher food prices associated with higher freight costs for most goods combined with typically weaker competitive pressures associated with the small market size.

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

Chart 1.4: Household Final Consumption Expenditure, 2003-04



Source: ABS Cat. No. 5220.0

