



# Economy Overview

## Structure of the Economy

The Northern Territory economy is markedly different to other Australian jurisdictions. It has an abundance of natural resources, a large public sector and a significant defence presence. It is highly influenced by global economic conditions due to its relatively small size and commodity-focused economic base.

The importance of mining and mining-related production will grow as production reaches full capacity following the completion of major infrastructure projects.

## 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 Territory's strong growth was predominately due to the defence relocation program. Growth began to weaken in 1999-2000.

In 2000-01 and 2001-02, the relative weakness of the onshore economy was masked by significant increases in offshore oil production leading to solid gross state product (GSP) growth. This situation was reversed in 2002-03 and 2003-04, when the strengthening of the onshore economy was offset by a significant decline in offshore oil production.

In 2004-05, GSP grew by 3.6 per cent compared to 4.4 per cent growth in state final demand (SFD) over the same period. Some of the strength in the economy was offset by growth in imports, particularly aircraft for Jetstar.

The major influence on estimated GSP growth of 6.7 per cent in 2005-06 is strong onshore activity, with work on major projects leading to strong investment and SFD growth.

Economic growth is forecast at 5.8 per cent in 2006-07. A full year of liquefied natural gas (LNG) production, peak production at the Bayu-Undan gas and condensate fields and increased alumina production from Alcan, are the major contributors to growth.

Table 8.1: Summary of Territory Economic Indicators

Year on Year % Growth	2001-02	2002-03	2003-04	2004-05	2005-06e	2006-07f
Real GSP	1.2	0.1	0.2	3.6	6.7	5.8
Employment	5.4	-0.1	-2.2	-2.0	2.1	2.3
Population <sup>1</sup>	0.9	0.1	0.3	1.1	1.7	1.5
Darwin CPI <sup>2</sup>	3.6	2.2	2.1	1.6	2.6	2.9

e: estimate; f: forecast

<sup>1</sup> As at December, annual percentage change.

<sup>2</sup> As at December.

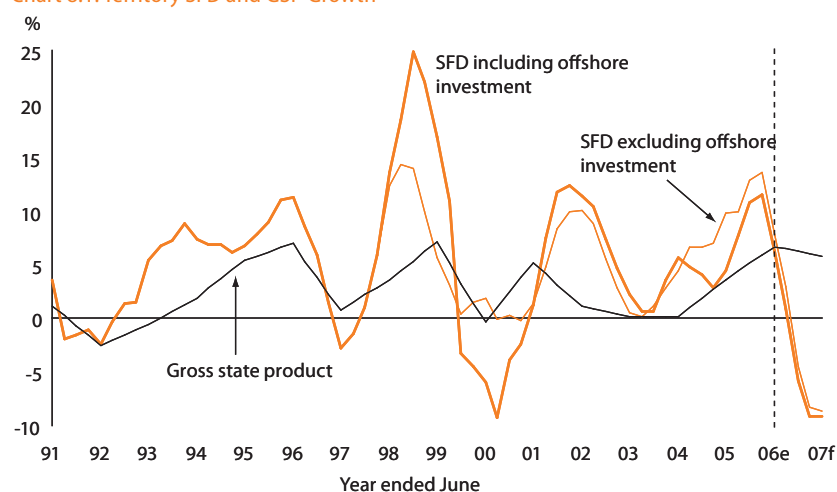
Table 8.2: Territory Economic Growth Profile

Period	GSP Growth %	Comment
1995-96 to 1999-2000	3.6	Strong growth phase, associated with impetus from defence force relocation program.
2000-01	5.2	Weak onshore activity. Headline GSP boosted by offshore oil production.
2001-02	1.2	Pick up in onshore activity. Rail-related investment surge boosts construction and property and business services.
2002-03	0.1	Sharp fall in offshore oil production a major influence on weak headline result.
2003-04	0.2	Offshore oil production continues to fall. Recovery in onshore economy gains momentum, boosted by strong construction activity.
2004-05	3.6	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.
2005-06e	6.7	Construction for major projects continues, and LNG production commences. Strengthening in mining and energy sectors. Population growth supports solid residential construction. Darwin Waterfront Development proceeds. Recovery in tourism continues. Resident employment growth.
2006-07f	5.8	Pick up in economy led by exports of LNG and alumina will largely offset slower onshore economy, as investment for the LNG plant and Alcan G3 refinery expansion concludes. Solid population and employment growth.

e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 5220.0.

Chart 8.1: Territory SFD and GSP Growth



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 5206.0, 5220.0.



## Population

The Northern Territory is sparsely settled, with a relatively young and highly urbanised population. A far higher proportion of the Territory population is Indigenous (29 per cent) than any other jurisdiction.

Natural increase (births minus deaths) is a higher contributor to total growth in the Territory due to high rates of Indigenous fertility.

Interstate migration is the most variable component of population growth, but has contributed to stronger growth during 2005-06.

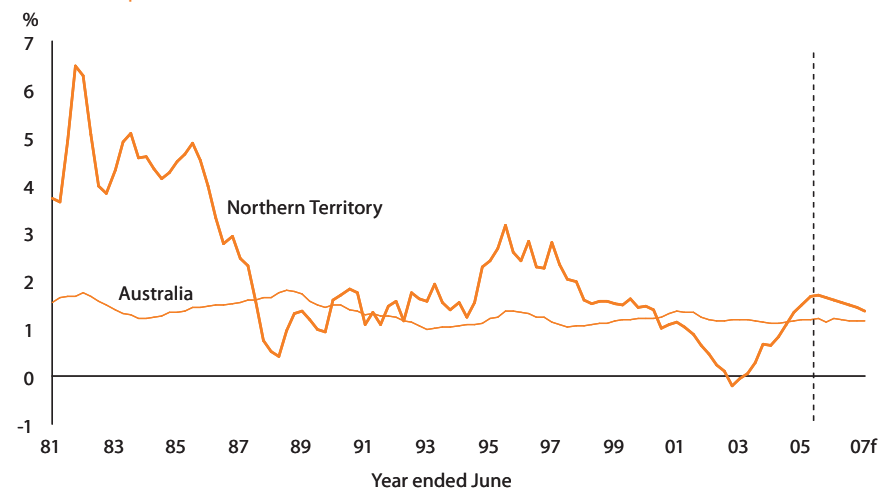
Interstate migration is clearly tied to employment opportunities. Improved interstate migration has reflected strong growth in the construction sector, in particular the construction phase of the LNG plant at Wickham Point.

The Territory's population shows greater interstate mobility than any other jurisdiction, with around 9 per cent of the population moving interstate each year, compared to 2 per cent nationally.

Population growth strengthened to 1.1 per cent in 2004, with a further 1.7 per cent expected in 2005, due to positive net interstate migration inflows for the first time since 1997.

Population growth of 1.5 per cent is forecast for 2006, easing to 1.2 per cent in 2007.

Chart 8.2: Population Growth



e: estimate; f: forecast

Source: Northern Territory Treasury, Access Economics, ABS Cat. No. 3101.0.

## Labour Market

The Territory's labour market profile differs significantly from that of the rest of Australia, largely as a result of remoteness, transience and seasonality of demand.

The Northern Territory labour market continued to strengthen in 2005-06 as buoyant onshore economic conditions prevailed.

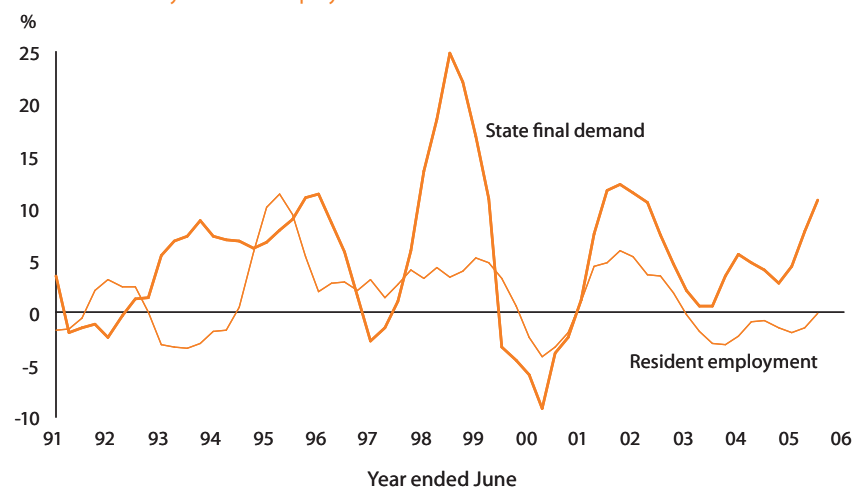
Although there is no quantitative measure of Territory jobs, related indicators point to strong employment growth and a shortage of skilled labour in 2005-06, which is expected to continue into 2006-07.

Following a decline of 2 per cent in 2004-05, as reported by the Australian Bureau of Statistics (ABS), resident employment is expected to increase by 2.1 per cent in 2005-06.

Resident employment growth of 2.3 per cent is forecast for 2006-07, supported by construction work on the Darwin Waterfront Development, residential construction and tourism growth.

ABS-reported resident employment does not include defence personnel or fly in fly out workers and is subject to significant volatility. It is not a good measure of the number of jobs in the Territory, and can sometimes create a contradictory picture of the state of the Territory economy (see chart). In calendar year 2005, for example, Territory state final demand increased by almost 11 per cent while resident employment fell by 0.1 per cent.

Chart 8.3: Territory Resident Employment and SFD Growth



Source: Northern Territory Treasury, ABS Cat. Nos. 5206.0, 6202.0.

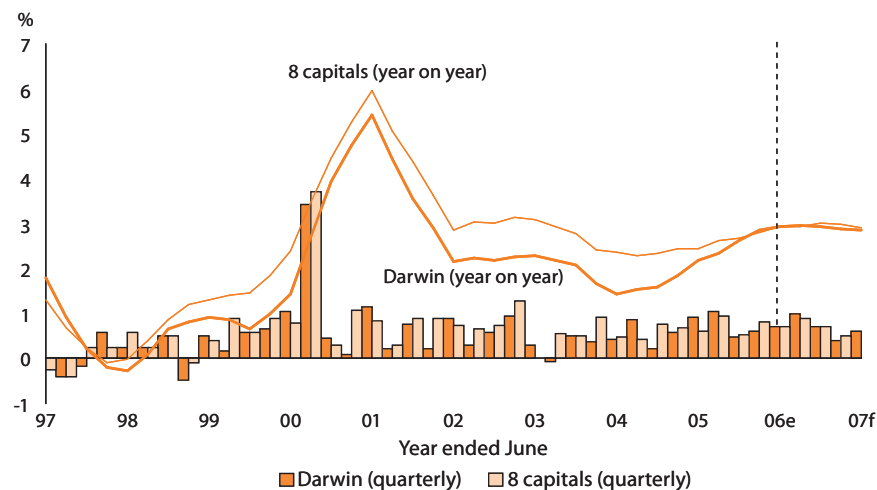
## Prices and Wages

In 2005, Darwin's Consumer Price Index (CPI) increased by 2.6 per cent, compared to a 2.7 per cent increase nationally.

Inflation in the Territory is expected to continue to track closely to the national rate, and remain at the higher end of the Reserve Bank's target band of 2 to 3 per cent in the short to medium term.

Darwin CPI growth of 2.9 per cent and 2.6 per cent is forecast for 2006 and 2007 respectively.

Chart 8.4: CPI Growth



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 6401.0.

In 2005, the Territory Labour Price Index (LPI) increased by 4.5 per cent compared to 4.1 per cent nationally.

Strong wages growth in the Territory and nationally in 2005 reflects the tight labour market and skilled labour shortages, especially in construction, mining, education and health.

Wages growth in the Territory is expected to moderate in 2006 and 2007, but remain at around 4 per cent as economic activity remains strong and skilled labour shortages persist.

Table 8.3: Wages (LPI) Growth

Year on Year % Growth	2000	2001	2002	2003	2004	2005
<b>Northern Territory</b>	<b>2.6</b>	<b>2.9</b>	<b>3.1</b>	<b>3.1</b>	<b>3.3</b>	<b>4.5</b>
Public	2.6	2.9	3.2	3.7	3.3	4.8
Private	2.6	2.9	3.1	2.6	3.4	4.1
<b>Australia</b>	<b>3.0</b>	<b>3.6</b>	<b>3.2</b>	<b>3.6</b>	<b>3.6</b>	<b>4.1</b>
Public	2.8	3.7	3.3	4.4	4.1	4.6
Private	3.1	3.5	3.3	3.3	3.4	3.9

Source: ABS Cat. No. 6345.0.

## External Economic Environment

Global economic conditions are expected to remain favourable throughout 2006-07.

The outlook beyond 2006-07 is less certain, and will depend heavily on the extent to which the very strong growth seen in China in recent years can be maintained. Another important influence will be the strength of the United States economy, which has recorded steady growth since moving into a recovery phase in 2003, and the Japanese economy, which is emerging from a sustained period of low growth and price deflation.

Consensus Economics forecasts world economic growth of 3.4 per cent in 2006 and 3.1 per cent in 2007.

Negotiations on a free trade agreement between China and Australia are continuing and, if successful, will provide further impetus to the already strong trade links between the two countries.

Australian economic growth in 2006-07 is expected to be supported by continuing strong commodity demand and high prices, strong demand for exports from China and solid household consumption.

Consensus Economics forecasts Australian economic growth of 3.2 per cent in 2006 and 3.4 per cent in 2007.

Table 8.4: Australian and International Economic Growth

Annual % Growth	2003	2004	2005	2006f	2007f
<b>North East Asia</b>					
China	10.0	10.1	9.9	9.1	8.7
Korea	3.1	4.6	4.0	5.0	4.7
Japan	1.8	2.3	2.7	2.9	2.1
Taiwan	3.4	6.1	4.1	4.1	4.1
Hong Kong	3.2	8.6	7.3	5.3	4.5
<b>South East Asia</b>					
Philippines	4.9	6.0	5.1	4.7	4.7
Indonesia	4.7	5.1	5.6	5.1	5.5
Malaysia	5.4	7.1	5.3	5.4	5.2
Thailand	7.0	6.2	4.5	4.8	5.0
Singapore	2.9	8.7	6.4	6.0	5.2
<b>North America</b>					
United States	2.7	4.2	3.5	3.3	3.0
Canada	2.0	2.9	2.9	3.0	2.7
<b>European Union</b>					
European Union	1.0	2.3	1.6	2.2	2.0
<b>Russia</b>	7.3	7.2	5.5	5.2	na
<b>India</b>	8.5	7.5	7.9	7.3	na
<b>Australia</b>	3.1	3.6	2.5	3.2	3.4

na: not available; f: forecast

Source: Consensus Economics Forecasts (for India, financial year is reported), (for Russia, data is from the International Monetary Fund).

## International Trade

Major Territory exports are mineral ores, mineral fuels and services related to international visitors (tourists and foreign defence personnel).

Merchandise exports increased by 18 per cent to an estimated \$2.6 billion in 2005-06, largely due to increased global commodity demand and prices.

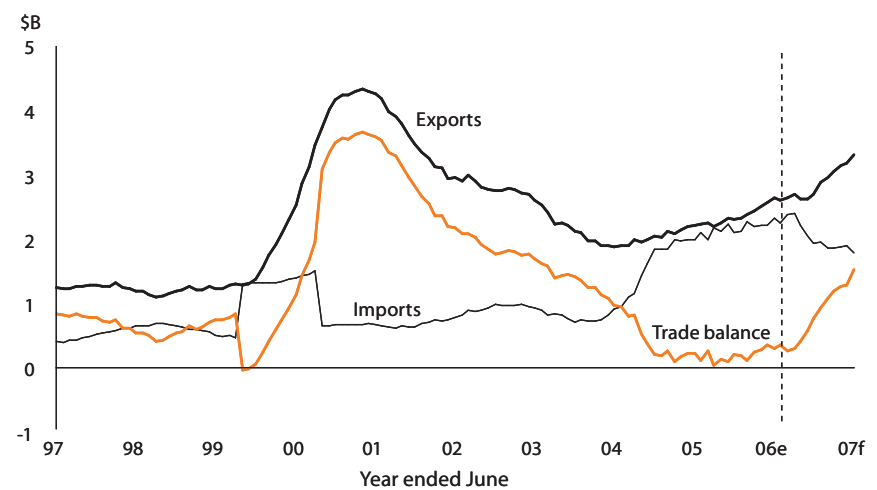
Strong growth (26 per cent) in merchandise exports is forecast for 2006-07, supported by a full year of LNG production, manganese from the new Bootu Creek mine and increased alumina from Alcan's Gove refinery.

Major Territory imports are machinery and equipment (mostly industrial equipment for mining and construction activities) and refined fuels.

In 2005-06, imports increased by an estimated 17 per cent to \$2.3 billion, largely due to equipment imported for the Bayu-Undan gas and condensate development and higher prices for refined fuel. The import of aircraft via Darwin for the Jetstar fleet also contributed to this increase.

Imports are forecast to decrease by 23 per cent in 2006-07, due in large part to completion of work on the Alcan G3 refinery expansion and the completion of Jetstar's fleet purchases. Mineral fuel imports are forecast to increase significantly (32 per cent) with import of feedstock gas for the Wickham Point LNG plant.

Chart 8.5: Territory International Merchandise Trade



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS data series 5432.0.65.001.

## Mining and Energy

In terms of output, mining is the largest industry in the Territory, accounting for 19 per cent of GSP in 2004-05, compared to 5 per cent nationally.

Mining output is volatile and production levels can jump markedly as new projects come on line. Global supply and demand conditions and the impact of exchange rate movements on competitiveness are key factors affecting production levels and price.

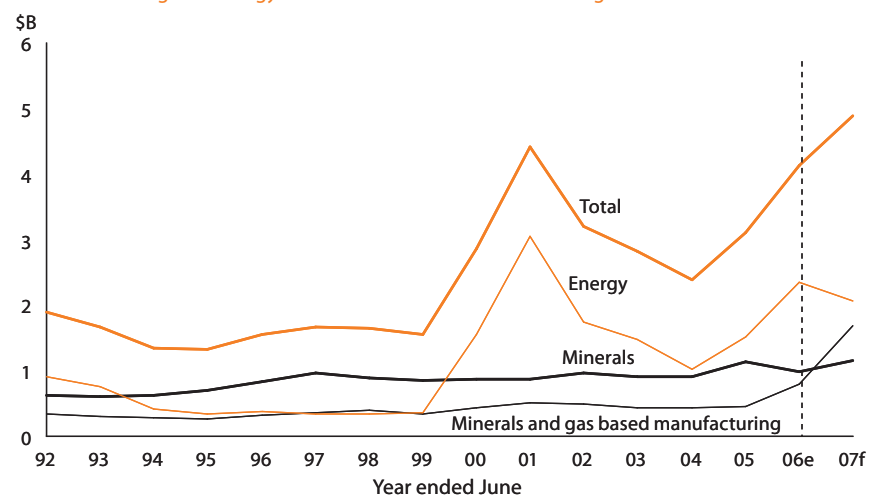
In recent years, output has been dominated by oil production from the Laminaria-Corallina oilfields in the Timor Sea, but has been declining as reserves are depleted.

In the short to medium term, production will be dominated by gas and condensate production from Bayu-Undan, half of which is attributed to the Territory. LNG production at the new Wickham Point plant using feedstock gas from Bayu-Undan began in December 2005.

Strong growth in the value of minerals production, particularly alumina, manganese and gold is expected in 2006-07, with higher production and prices. Prices are expected to moderate beyond 2006-07 as global supply increases.

In the medium to long term, the level of exploration is expected to continue to increase, consistent with Australian trends and supported by Territory Government initiatives and strong commodity prices.

Chart 8.6: Mining and Energy Value of Production and Processing



e: estimate; f: forecast

Source: Northern Territory Treasury, Department of Business, Economic and Regional Development, Department of Primary Industry, Fisheries and Mines.



# Tourism

Tourism is an important part of the Territory economy, creating demand and generating employment in a range of different industries, including hospitality, retail trade, transport and construction.

In 2004-05, the tourism industry accounted for 7.4 per cent of GSP, and was a major employer in the Territory.

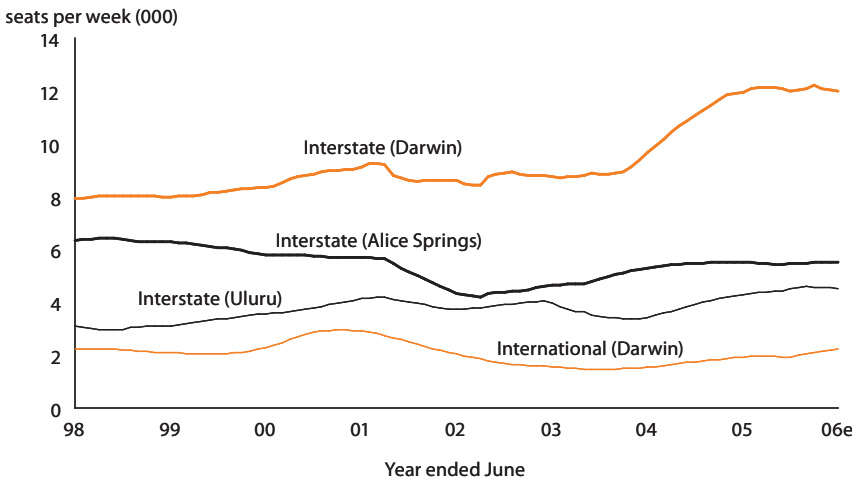
The tourism industry, both nationally and in the Territory, experienced a number of setbacks in recent years, including the global economic slowdown in 2001, terrorist attacks in New York, London, Madrid and Bali, the collapse of Ansett and the SARS virus outbreak.

In 2004-05, the tourism industry in the Territory showed signs of recovery, with visitor numbers increasing by 8.4 per cent.

Tourism-related investment has also been increasing, with a number of projects currently under way or scheduled to start in 2006. These include projects to develop additional tourist accommodation and the Darwin Waterfront Development.

The outlook for tourism in the Northern Territory is broadly positive. Nationally, continued low unemployment and solid wages growth should support further growth in both intra-Territory and interstate visitor numbers.

Chart 8.7: Territory Airline Capacity



e: estimate

Note: Cairns-Gove and Cairns-Groote Eylandt services are not included. The Cairns-Gove service has a capacity of 805 seats per week; the Cairns-Groote Eylandt service ceased in 2003.

Source: Department of Planning and Infrastructure.

## Rural Industries and Fisheries

Rural industries and fisheries accounted for 2.8 per cent of Territory GSP in 2004-05 and 2.6 per cent of resident employment.

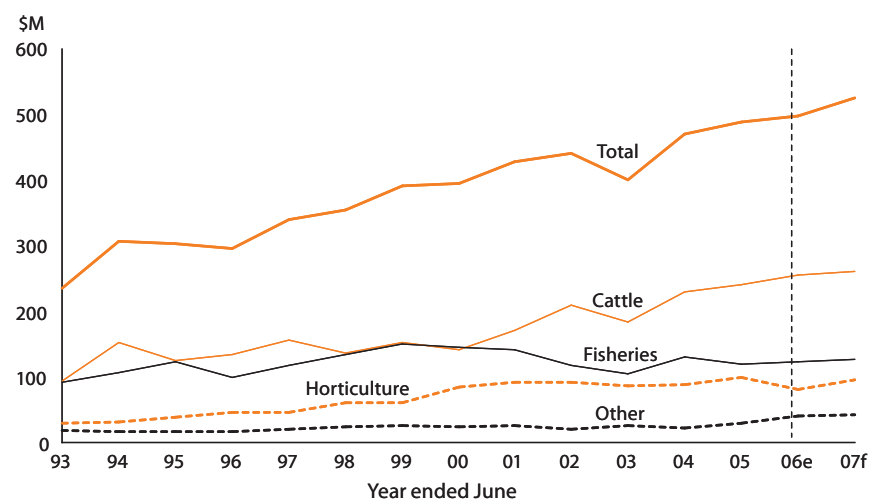
The Territory enjoys certain comparative advantages due to its capacity to supply markets with a range of early season and out of season produce, and benefits due to an environmentally clean image.

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.

The value of rural industries production was estimated at \$496 million in 2005-06, an increase of 1.6 per cent from 2004-05.

The value of production is forecast to increase by 5.5 per cent to \$524 million in 2006-07.

Chart 8.8: Rural Industries and Fisheries Value of Production



e: estimate; f: forecast

Source: Department of Business, Economic and Regional Development.

## Construction

Over the past five years, the construction industry has on average accounted for 6.5 per cent of Territory GSP and employed 7.3 per cent of the workforce.

The period immediately following the major defence force relocation to the Top End coincided with a marked reduction in construction activity, as economic and population growth weakened.

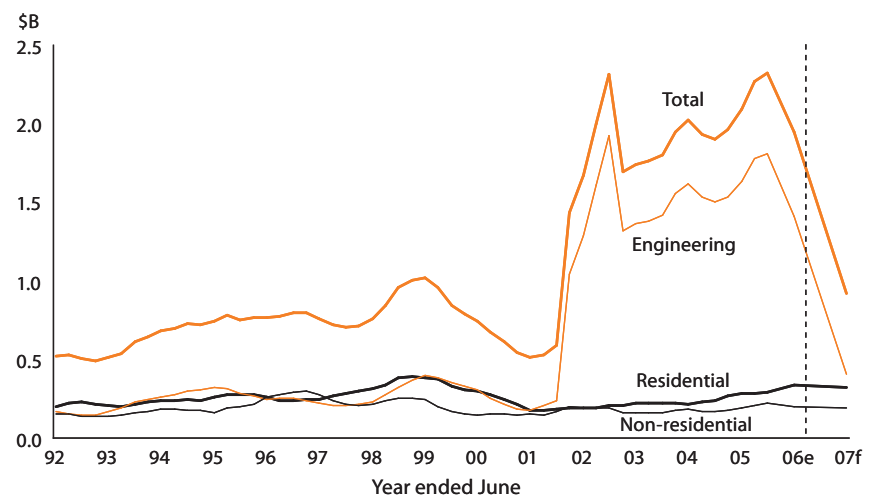
Major infrastructure projects such as the Bayu-Undan oil and gas development and the LNG plant at Wickham Point, as well as the Alcan G3 refinery expansion, have kept engineering construction at record levels in recent years.

Property markets have strengthened significantly since 2004. After increasing by 3.9 per cent to \$2.1 billion in 2004-05, the value of construction work done is estimated to decrease by 7.3 per cent to \$1.9 billion in 2005-06.

In 2006-07, the value of construction work done is forecast to decrease by 52 per cent to \$916 million. The completion of work on the Wickham Point LNG plant is the major factor contributing to the decline.

In 2006-07, construction activity will again be underpinned by engineering work for major projects, particularly the Alcan G3 refinery expansion, and will be further supported by solid residential activity associated with recovering population growth in the Darwin region.

Chart 8.9: Territory Construction Work Done



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos. 8752.0, 8762.0, 8782.0.65.001.

## Manufacturing

The Territory has a small and narrowly based manufacturing sector, dominated by alumina production at Alcan’s Gove refinery. In 2004-05 manufacturing accounted for 7 per cent of GSP and about 3 per cent of resident employment.

Manufacturing production will be increased significantly in 2006-07 with increased alumina production from the expanded Alcan refinery and LNG production from the new Wickham Point facility.

A further increase is expected in 2007-08 with completion of the condensate processing facility at East Arm, the helium plant at Wickham Point, and a full year of production from the new renewable fuels (biodiesel) facility.

In the medium to long term, natural gas from the Timor Sea could be used as an input for gas-related manufacturing industries and as a cheaper energy source for mining-related value adding.

## Retail and Wholesale

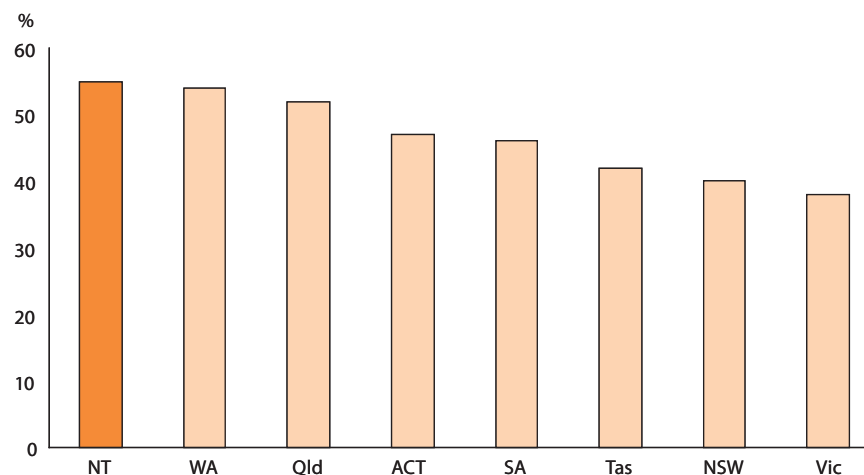
Retail and wholesale trade accounted for 6.6 per cent of Northern Territory gross state product and 16 per cent of resident employment in 2004-05.

Following solid growth of 5.3 per cent in 2004-05, Territory real retail turnover growth is expected to moderate to 2.5 per cent in 2005-06. Major contributors to growth in 2005-06 were household goods, hospitality and services.

Territory retail turnover is forecast to increase by 4.5 per cent in 2006-07, supported by strong employment, a positive outlook for the housing market and stable interest rates.

Territory consumers are more confident than consumers in any other state or territory.

Chart 8.10: Consumer Sentiment, December Quarter 2005



Source: Sensis Consumer Report.

## Transport and Communication

Good transport and communication links are critical to the Territory's development, given the small size of the local market, relative isolation from major markets in southern Australia and the small and widely dispersed Territory population.

In 2004-05, the transport and communication sector accounted for 6.3 per cent of GSP and represented about 7 per cent of Territory resident employment.

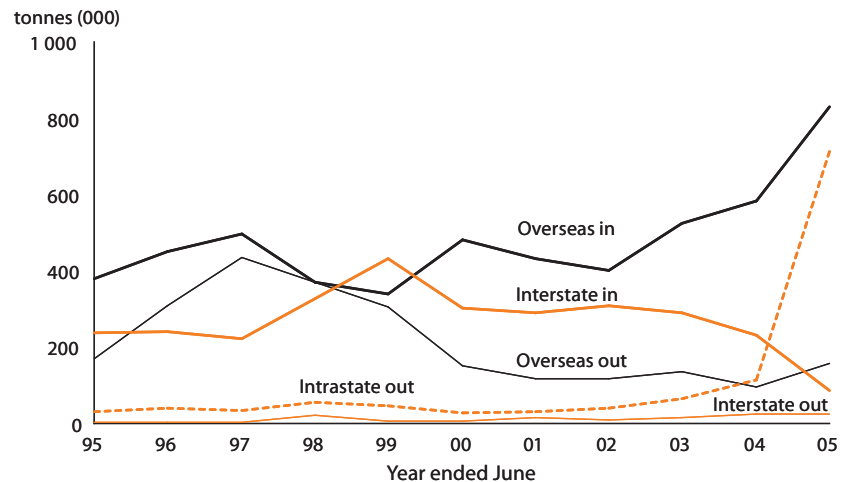
The completion of the Adelaide to Darwin rail link in late 2003 represented a major milestone in the development of the Territory's transport infrastructure. Rail is now the dominant mode of transport for the north-south freight route. It also provides opportunities for regional development, particularly as a cost-effective method for the transport of bulk commodities.

The volume of freight through the Port of Darwin continues to increase, and is expected to grow further with recent improvements to facilities at East Arm, including a bulk liquids terminal and equipment to facilitate the transfer of oil.

Both international and domestic air capacity has grown strongly over the last 12 months, with Tiger Airways commencing operations on the Darwin-Singapore route and the arrival of Qantas subsidiary Jetstar.

A new contract with Telstra to provide Territory Government information and communication technology services includes an industry development program that is expected to generate 170 new jobs.

Chart 8.11: Trade through Port of Darwin



Note: The large increase in 'Intrastate Out' in 2004-05 is armour rock used for the construction of the Bayu-Undan sub-sea gas pipeline.

Source: Department of Planning and Infrastructure.

## The Public Sector

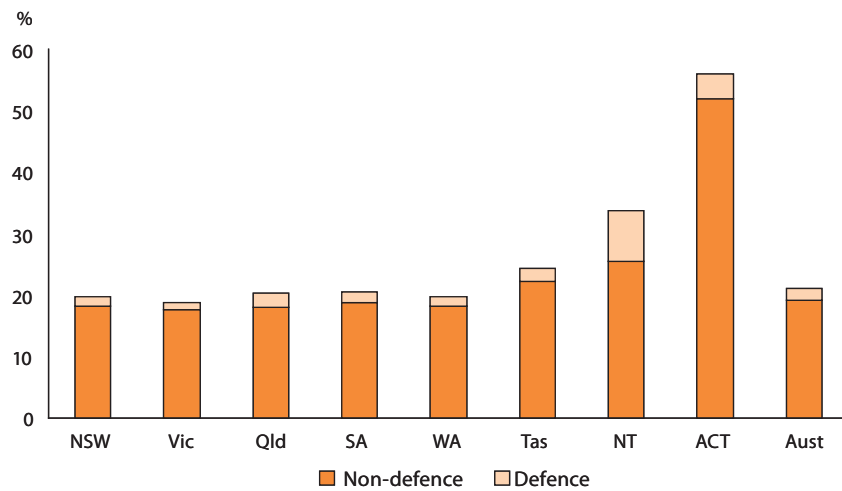
The public sector consists of Australian, Territory and local government activity including defence. It is a major contributor to the Northern Territory economy, providing a wide range of economic and social services.

In 2004-05, government administration, defence and the other predominantly public sector industries (health and education) accounted for about 19 per cent of GSP and about 34 per cent of SFD – much higher than most other jurisdictions.

The non-defence public sector is the largest employer in the Territory, accounting for about 28 per cent of total employment (33 per cent when defence is included).

The relative importance of the non-defence public sector has declined steadily over the past two decades, reflecting the maturing Territory economy.

Chart 8.12: Public Sector Expenditure as a Percentage of SFD, 2004-05



Source: ABS Cat. No. 5206.0.



# Defence

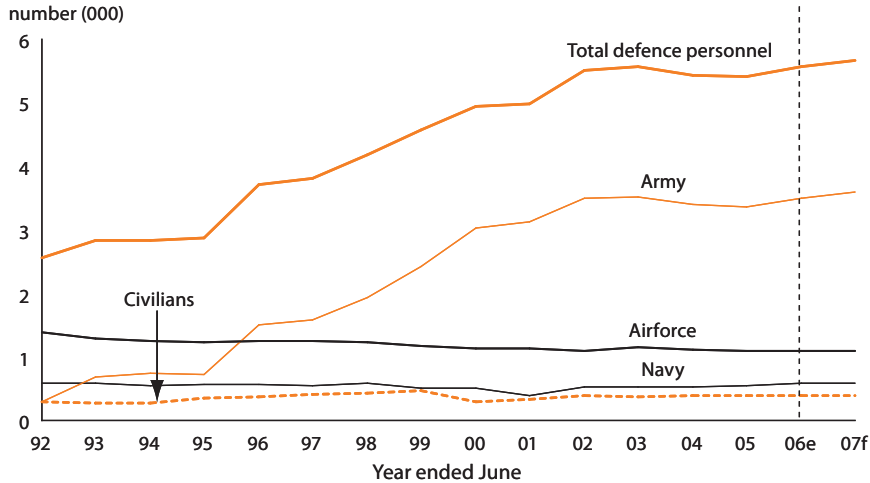
The Australian Defence Force contributes significantly to the Northern Territory economy. The defence presence in the Territory has more than doubled since the early 1990s, with the number of defence personnel and their families increasing from about 6200 in June 1992 to an estimated 12 900 in June 2006.

About 10 per cent of Australian permanent defence force personnel are now based in the Territory. Recurrent defence expenditure in the Territory totalled \$839 million in 2004-05.

Major defence activities under way in the Territory include the construction of the \$65 million Bradshaw Field Training Area near Timber Creek and the development of the \$170 million new suburb of Lyons (at Lee Point).

Supply and support contracts for the new Armidale Class patrol boats, Abrams tanks and Tiger helicopters will provide significant and ongoing benefits to the Territory economy.

Chart 8.13: Defence Personnel Stationed in the Territory



e: estimate; f: forecast

Source: Northern Territory Treasury, Department of Defence.

