

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 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 masked by a significant decline in offshore oil.
- In 2004-05 GSP grew by 3.6 per cent with strengthening construction, mining and tourism.
- 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 state final demand 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 2.1: 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 liquefied natural gas (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

Table 2.2: Territory State Final Demand (SFD) and Gross State Product (GSP)

	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06e	06-07f
	\$ millions*										
Private consumption	3 156	3 558	3 747	3 997	4 144	4 391	4 573	4 936	5 133	5 339	5 570
Public consumption	2 647	2 901	3 041	3 208	3 210	3 226	3 308	3 386	3 526	3 678	3 705
Total consumption	5 803	6 464	6 792	7 207	7 354	7 614	7 881	8 323	8 658	9 018	9 275
Private investment											
Dwellings	406	460	660	493	294	304	340	332	414	500	465
Business investment	898	1 181	2 284	1 309	1 277	2 006	2 191	2 366	2 330	2 540	1 257
Total private investment#	1 426	1 747	3 003	1 899	1 692	2 426	2 626	2 799	2 850	3 156	1 830
Public investment	352	391	257	369	539	641	412	411	535	629	533
Total investment	1 778	2 138	3 260	2 268	2 231	3 067	3 038	3 210	3 385	3 785	2 363
State final demand	7 585	8 614	10 072	9 468	9 587	10 681	10 919	11 533	12 043	12 803	11 638
International trade – export of goods	2 101	2 092	2 060	3 032	3 942	3 051	2 715	2 070	1 942	2 638	3 700
International trade – import of goods	-485	-757	-547	-1 520	-577	-665	-864	-899	-1 865	-2 327	-1 792
Balancing item	-1 247	-1 713	-2 764	-2 190	-3 704	-3 712	-3 404	-3 323	-2 402	-2 745	-2 575
Gross state product	7 954	8 236	8 821	8 790	9 248	9 355	9 366	9 381	9 718	10 369	10 971
	Percentage Change										
Private consumption	-1.0	12.7	5.3	6.7	3.7	6.0	4.1	7.9	4.0	4.0	4.3
Public consumption	-0.4	9.6	4.8	5.5	0.1	0.5	2.5	2.4	4.1	4.3	0.7
Total consumption	-0.8	11.4	5.1	6.1	2.0	3.5	3.5	5.6	4.0	4.2	2.8
Private investment											
Dwellings	-6.5	13.3	43.5	-25.3	-40.4	3.4	11.8	-2.4	24.7	20.8	-7.0
Business investment	-14.7	31.5	93.4	-42.7	-2.4	57.1	9.2	8.0	-1.5	9.0	-50.5
Total private investment#	-12.4	22.5	71.9	-36.8	-10.9	43.4	8.2	6.6	1.8	10.7	-42.0
Public investment	11.4	11.1	-34.3	43.6	46.1	18.9	-35.7	-0.2	30.2	17.6	-15.3
Total investment	-8.5	20.2	52.5	-30.4	-1.6	37.5	-0.9	5.7	5.5	11.8	-37.6
State final demand	-2.7	13.6	16.9	-6.0	1.3	11.4	2.2	5.6	4.4	6.3	-9.1
International trade – export of goods	11.3	-0.4	-1.5	47.2	30.0	-22.6	-11.0	-23.8	-6.2	35.8	40.3
International trade – import of goods	8.0	56.1	-27.7	177.9	-62.0	15.3	29.9	4.1	107.5	24.8	-23.0
Balancing item	-7.6	37.4	61.4	-20.8	69.1	0.2	-8.3	-2.4	-27.7	14.3	-6.2
Gross state product	0.8	3.5	7.1	-0.4	5.2	1.2	0.1	0.2	3.6	6.7	5.8
	Percentage Point Contribution to Gross State Product										
Private consumption	-0.4	5.1	2.3	2.8	1.7	2.7	1.9	3.9	2.1	2.1	2.2
Public consumption	-0.1	3.2	1.7	1.9	0.0	0.2	0.9	0.8	1.5	1.6	0.3
Total consumption	-0.6	8.3	4.0	4.7	1.7	2.8	2.9	4.7	3.6	3.7	2.5
Private investment											
Dwellings	-0.4	0.7	2.4	-1.9	-2.3	0.1	0.4	-0.1	0.9	0.9	-0.3
Business investment	-2.0	3.6	13.4	-11.1	-0.4	7.9	2.0	1.9	-0.4	2.2	-12.4
Total private investment#	-2.6	4.0	15.3	-12.5	-2.4	7.9	2.1	1.8	0.5	3.1	-12.8
Public investment	0.5	0.5	-1.6	1.3	1.9	1.1	-2.4	-0.0	1.3	1.0	-0.9
Total investment	-2.1	4.5	13.6	-11.2	-0.4	9.0	-0.3	1.8	1.9	4.1	-13.7
State final demand	-2.7	12.9	17.7	-6.8	1.4	11.8	2.5	6.6	5.4	7.8	-11.2
International trade – export of goods	2.7	-0.1	-0.4	11.0	10.4	-9.6	-3.6	-6.9	-1.4	7.2	10.2
International trade – import of goods	-0.5	-3.4	2.5	-11.0	10.7	-1.0	-2.1	-0.4	-10.3	-4.8	5.2
Balancing item	1.3	-5.9	-12.8	6.5	-17.2	-0.1	3.3	0.9	9.8	-3.5	1.6
Gross state product	0.8	3.5	7.1	-0.4	5.2	1.2	0.1	0.2	3.6	6.7	5.8

* 2003-04 base year

Total private investment is equal to business investment plus dwellings investment and ownership transfer costs.

Source: Northern Territory Treasury, ABS Cat. Nos. 5206.0, 5220.0



Measurement of Economic Growth

At the national level, an economy's size is measured by gross domestic product (GDP). Australia's states and territories have an equivalent concept in the gross state product (GSP). Both measure the production undertaken in an economy in a particular year. The value of production can be estimated using different approaches.

Gross State Product

The 'expenditure approach' for calculating GDP and GSP is the sum of all final expenditures by residents (Table 2.2). It includes final consumption expenditure by households and government, gross fixed capital expenditure (investment) by the private and public sectors, changes in inventories (that is, output produced in the year but not yet sold) and net exports. Another method of estimating GDP and GSP is the 'income approach', which sums the income accruing to the factors of production (primarily labour and capital). The income measure of GDP and GSP also includes net taxes on production and net taxes on imports. The 'income approach' is used by the Australian Bureau of Statistics (ABS) to provide the yearly GSP estimate for each state and territory.

Volatility of GSP

All jurisdictions report on the GSP measure of economic growth. Nonetheless, the GSP measure is experimental and volatile, with the series open to significant revisions. This can be exacerbated in the Territory due to the dominance of a few industries and the small size of the economy.

State Final Demand

A component of GSP, calculated using the 'expenditure approach', is state final demand (SFD). SFD is a measure of the demand for goods and services in an economy. SFD data is released quarterly, in contrast to GSP, which is released once a year and as such is a more readily available measure of economic activity. SFD includes expenditure for both consumption and investment purposes. As shown in Table 2.2, the investment component of SFD can be volatile, particularly with 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.

Onshore and Offshore Activity

Complicating the interpretation of Territory GSP is the impact of offshore economic activity. In effect, there have been dual economies reported in GSP data. For example, SFD growth was weak in 2000-01 (consumption growth moderated to 2.0 per cent and dwellings investment fell by more than 40 per cent), but GSP increased by 5.2 per cent driven by increased exports, 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.

Major Projects

In a small jurisdiction such as the Territory, it is possible for major projects to have a substantial impact on SFD, particularly via business investment, and on GSP via income earned by factors of production. However, if the acquired machinery and equipment is assembled overseas, the investment expenditure attributed to the Territory can have a limited impact on the local economy, despite a large impact on SFD. Examples include the importation of the *Northern Endeavour* for oil production in the Timor Sea in 1998-99, and the importation of the pre-assembled modules (PAMs) for the Alcan G3 refinery expansion at Gove primarily in 2005-06. In the same way, the income accruing to factors of production employed on major projects will be reported in GSP but may not flow on fully to the local economy through private consumption expenditure and dwellings investment, as many of the employees are not permanent residents of the Territory.

Economic Performance

2004-05 The Territory economy continued to experience strong growth in 2004-05, with a recovery in net interstate migration and population growth, solid income growth and strong residential property markets. Business confidence also improved over the year and across a broad range of industries. SFD increased by 4.4 per cent in 2004-05, reflecting robust onshore economic activity, with consumption increasing by 4.0 per cent and investment by 5.5 per cent. Dwellings investment reported strong growth of 24.7 per cent, following weak growth in the same period a year earlier, while business investment decreased by 1.5 per cent.

Growth in GSP of 3.6 per cent in 2004-05 was below the 5.8 per cent estimated at the time of the 2005-06 Mid Year Report. The major influence for the lower than expected GSP figure was the downward revision by the ABS to one component, compensation of employees growth, from 19 per cent to 9 per cent, due to concerns about the reliability of the data in a number of jurisdictions and, to a lesser extent, the Trans-Territory Pipeline from Wadeye to Gove not proceeding.

2005-06 Northern Territory GSP growth for 2005-06 is estimated at 6.7 per cent, reflecting stronger employment and population growth, with output also boosted by the commencement of LNG production and Bayu-Undan stage 1 output doubling as production reaches design capacity, contributing to strong growth in the mining and energy industry.

Onshore Economy The onshore economy continued to strengthen in 2005-06, with SFD estimated to increase by 6.3 per cent, boosted largely by activity associated with the construction of the LNG plant at Wickham Point (completed in December 2005), peak construction activity for the Alcan G3 refinery expansion at Gove and the commencement of the Darwin Waterfront Development. With resident employment showing positive signs in 2005-06, following three years of reported decline, household consumption is expected to report solid growth for the fourth consecutive year. Stronger population growth of 1.7 per cent in 2005-06 and solid income growth supported strong residential construction and property markets in the Territory. Business investment is estimated to increase by 9.0 per cent, boosted by investment associated with major projects.

LNG Production In 2005-06, the predominant driver of economic growth in the Territory has been the onshore economy, with a significant contribution from LNG production at Wickham Point. By 2006-07, the contribution of LNG production is forecast to increase substantially with a full year of production from Wickham Point. This will largely offset the significant decline in total investment (associated with the completion of major projects in 2006-07) and the more modest decline in total consumption. Full capacity production of LNG, spread evenly over the next 15 years, will more than compensate for the declining oil production from the Laminaria-Corallina oilfields.

Table 2.3: Northern Territory Economic Indicators

Economic Indicators*	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Real retail turnover	5.9	5.9	-0.7	4.1	2.2	5.1	5.3
New motor vehicle sales	-3.4	-8.8	-4.2	-0.3	3.3	8.4	10.7
Tourist accommodation takings	7.0	16.8	1.5	-1.0	-0.1	2.8	13.6
Number of dwellings approved	0.0	-30.6	-28.4	-13.8	0.0	23.4	18.4
Number of dwellings commenced	-9.7	-21.1	-34.0	0.1	-4.1	6.0	28.2
Darwin Consumer Price Index	0.9	1.4	5.4	2.2	2.3	1.4	2.2
AWOTE#	3.1	4.6	3.7	2.3	5.0	6.5	7.0
Labour Price Index	2.8	2.5	2.8	3.1	3.0	3.3	3.7
Employment	5.3	-2.3	1.1	5.4	-0.1	-2.2	-2.0
Unemployment rate (year average)	4.0	4.4	5.6	6.8	5.8	5.2	6.3
Population as at June (thousands)	192.7	195.6	197.8	198.7	198.5	199.8	201.8
Population (annual % change)	1.5	1.5	1.1	0.5	-0.1	0.6	1.5
Net interstate migration (number)	-953	-907	-1 592	-2 596	-3 389	-2 108	5.0
Financial Indicators							
Interest rates							
90 day bank bill (as at 30 June)	4.9	6.2	5.0	5.1	4.7	5.5	5.7
10 year government bond yield (as at 30 June)	6.3	6.2	6.0	6.0	5.0	5.9	5.1
Exchange Rates							
US\$ per A\$ (year average)	0.63	0.63	0.54	0.52	0.58	0.71	0.75
US\$ per A\$ (as at 30 June)	0.66	0.60	0.51	0.56	0.67	0.69	0.76
Special drawing rights per A\$ (as at 30 June)	0.49	0.45	0.41	0.43	0.48	0.47	0.52
Trade Weighted Index of A\$ (as at 30 June)	58.4	53.6	49.7	52.3	59.4	59.1	64.5

* Year on year percentage change unless indicated otherwise

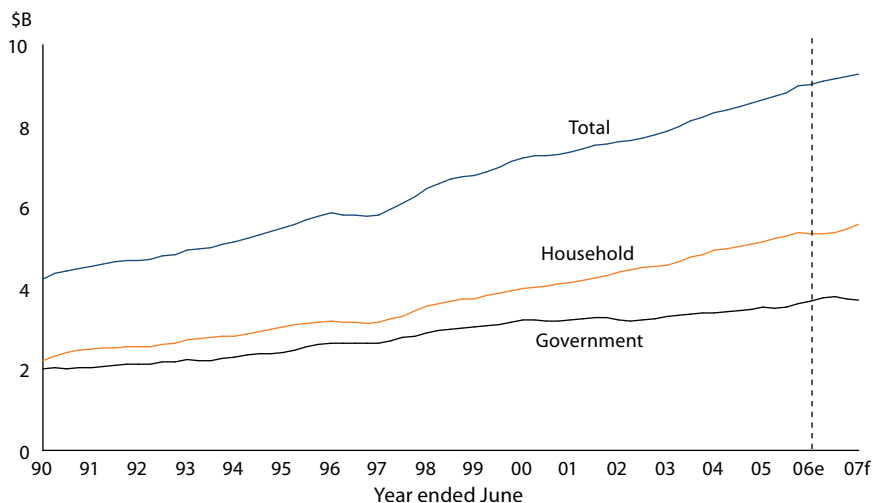
Average weekly ordinary full-time earnings

Source: Northern Territory Treasury, Reserve Bank of Australia, ABS data

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 a more stable indicator of the state of the Territory onshore economy. In 2005-06, total consumption expenditure by households and government increased by an estimated 4.2 per cent.

Since 1990-91, government consumption has declined as a proportion of total consumption, from about 45 per cent to 41 per cent in 2005-06. This reflects the growing significance of private sector (household) consumption expenditure in the Territory (Chart 2.1).

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



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

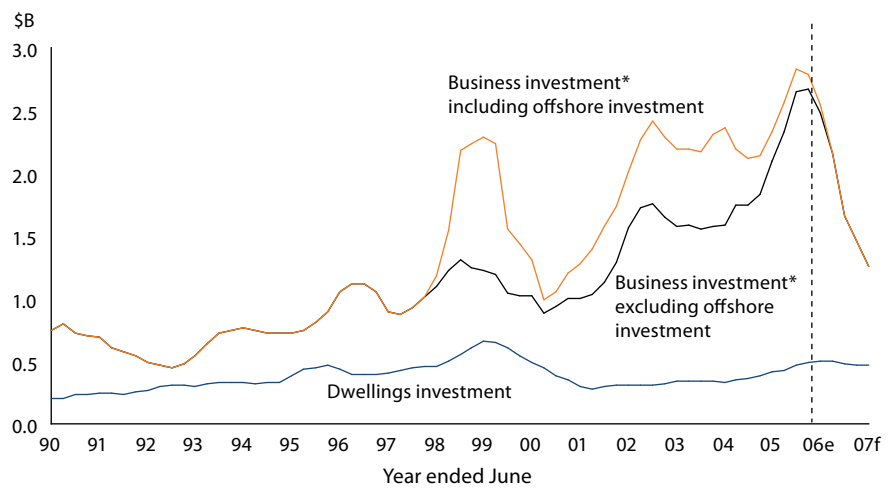
Investment

Investment is the other component of SFD 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. Remaining at a very high level, Territory investment increased by an estimated 11.8 per cent in 2005-06. Business investment in the Territory continues to be heavily influenced by major infrastructure works and resource projects. Major projects currently under way include the Alcan G3 refinery expansion at Gove and the Darwin Waterfront Development. The LNG plant at Wickham Point was completed in December 2005. Other projects that commenced in 2005-06 include the biodiesel plant and associated storage facility at East Arm.

Strong dwelling construction over 2005-06 has been associated with stronger population and employment growth, supported by low interest rates and Territory Government incentives. These include the First Home Owners Grant, the stamp duty concession threshold and the HomeNorth Scheme. After several years of housing stock surplus associated with over investment in the late 1990s, a more balanced Territory housing market is reflected in lower residential vacancy rates. Solid rental yields and a booming property market have also encouraged investors to enter the market over the past two years.

Non-residential building also strengthened in 2005-06, due largely to investment expenditure associated with the commencement of the Darwin Waterfront Development, stage 1 of the Darwin Chinatown development and the Outrigger Pandanas serviced apartments.

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



* Private investment less dwelling investment and ownership transfer costs

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

Economic Outlook

Following strong growth in 2005-06, GSP is forecast to increase by a further 5.8 per cent in 2006-07, which will be predominantly driven by production and export of LNG. Strong growth in exports will act to largely offset the impact of the weakening onshore economy, particularly the significant decline in business investment.

Nevertheless, continued growth will be supported by the positive employment and population outlook, linked to employment-creating projects such as the Darwin Waterfront Development. Although a full year of LNG production from Bayu-Undan will be the most significant factor, growth will also be supported by manganese production from the new Bootu Creek mine and increased production from the Alcan G3 refinery expansion at Gove.

Employment associated with major projects, notably the Alcan G3 refinery expansion and the Darwin Waterfront Development, will continue through 2006-07, although the focus of activity will shift to the Waterfront Development as work on the Alcan expansion concludes in late 2006. Although resident employment is forecast to experience solid growth in 2006-07, the number of fly in fly out workers will decline and the composition of employment is expected to change substantially, resulting in lower growth in employment income, down to 3.5 per cent in 2006-07 from 5 per cent in 2005-06.

Consumption

After peaking in 2003-04, private consumption growth moderated in 2004-05 with growth remaining unchanged in 2005-06 before recovering in 2006-07. Household consumption is forecast to increase by 4.3 per cent in 2006-07. Continued low interest rates, the strengthening outlook for employment and continuing solid population growth underpin strengthening consumption. Public consumption is expected to moderate with forecast growth of 0.7 per cent in 2006-07.

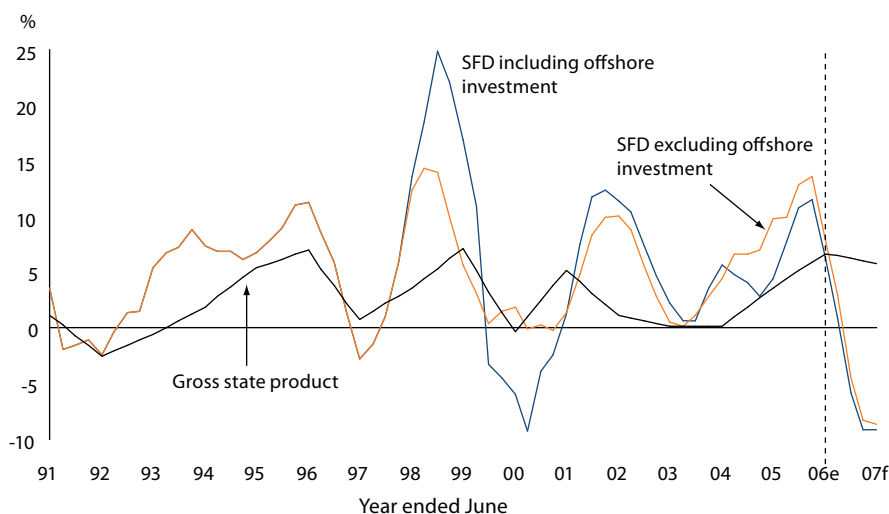
Investment Total investment is forecast to decline by 38 per cent in 2006-07. Although the decrease mainly reflects lower private sector business investment, public investment is also forecast to decline. Private investment is forecast to decline by 42 per cent from the historically high levels of 2005-06. The two mega-projects, the Alcan G3 refinery expansion and the LNG plant, raised private investment in the Territory to unprecedented levels in 2005-06. Dwellings investment is also forecast to decrease by 7 per cent in 2006-07, following strong growth of 21 per cent in 2005-06. The expected decline in public investment expenditure, of 15 per cent in 2006-07, reflects the significant drop in expenditure for defence-related projects, with the Bradshaw Field Training Area completed in 2005-06. The Robertson Barracks development was 70 per cent complete in 2005-06, with the remaining 30 per cent of work to be completed in 2006-07.

State Final Demand Territory SFD is forecast to decrease by 9.1 per cent in 2006-07, due to the significant decline in total investment expenditure. Although total consumption is forecast to increase by 2.8 per cent in 2006-07, making a significant contribution to growth, total investment is forecast to decrease by about 38 per cent, more than offsetting the increase in consumption.

Engineering Work With major engineering work for Bayu-Undan stage 2 complete and the Alcan G3 refinery expansion at Gove drawing to a close in late 2006, engineering construction activity in the Territory will return to more normal levels in 2006-07. However, engineering work for the Darwin Waterfront Development and new projects such as the Territory's proportion of the \$750 million development of the Blacktip gas field (expected to begin in 2007-08) and the \$450 million condensate processing facility, will ensure that engineering activity in the Territory remains at levels well above historical averages.

Exports Territory exports, which have been dominated by oil in recent years, are forecast to increase by around 40 per cent in 2006-07, contributing substantially to growth in GSP. The increase will be driven by mineral fuels exports associated with a full year of LNG production from Bayu-Undan and increased alumina production from the Alcan refinery at Gove. External demand for Territory commodities is expected to remain strong in the short term, but moderate somewhat in value in the medium term as commodity prices back away from current highs, with a predicted decline in global demand (especially from China) and increased supply capacity.

Chart 2.3: Territory State Final Demand and Gross State Product (chain volume, annual percentage change)



e: estimate; f: forecast
 Source: Northern Territory Treasury, ABS Cat. No. 5206.0, 5220.0