



# Overview

The small size of the Northern Territory economy means that 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 the world economy generally.

## The Economy in 2005-06

- Onshore Economy** The onshore economy continued to strengthen in 2005-06, boosted by strong income growth associated with work for major projects, notably construction of the liquefied natural gas (LNG) plant at Wickham Point and work on the Alcan G3 refinery expansion. Stronger population growth supported increased residential construction activity and the tourism sector continued to rebound, with strong growth in international visitor arrivals.
- Gross State Product** Following an increase of 3.6 per cent in 2004-05, Territory gross state product (GSP) increased by an estimated 6.7 per cent in 2005-06. The major contributor to growth was strong onshore activity, with work on major projects leading to strong investment and state final demand (SFD) growth. SFD increased by an estimated 6.3 per cent, with consumption increasing by 4.2 per cent and investment by 11.8 per cent.
- Population** Population growth strengthened to 1.1 per cent in 2004, and further to an estimated 1.7 per cent in 2005, with net interstate migration inflows for the first time since 1997. The increase in population reflects the improving prospects for the Territory economy and employment, particularly in construction and tourism.
- Employment** The 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 all point to strong employment growth and a shortage of skilled labour. Resident employment increased by an estimated 2.1 per cent in 2005-06, while overall jobs growth, including the high number of fly in fly out workers for the Alcan G3 refinery expansion and the LNG plant, was probably much stronger.
- Prices** Darwin's Consumer Price Index (CPI) increased by 2.6 per cent in the year to December 2005, compared to a 2.7 per cent increase nationally. This is in sharp contrast to the previous five years where year on year CPI inflation in the Territory had been, on average, 0.6 percentage points below the national level, due in part to the weaker local economy. The convergence reflects solid growth in the Territory economy and a more pronounced labour skills shortage than nationally.
- Wages** Solid wages growth in 2005, both in the Territory and nationally, reflects tight labour market conditions and skilled labour shortages prevalent throughout the year. In the year to December 2005, the Territory Labour Price Index (LPI) increased by 4.5 per cent, compared to 4.1 per cent nationally.

## Outlook for 2006-07 and Beyond

**Gross State Product** Growth is forecast to remain strong, but is expected to moderate to 5.8 per cent in 2006-07. Growth will be predominantly driven by production of LNG for export. Increased alumina production from the Alcan G3 refinery expansion and a full year of production at the new Bootu Creek mine near Tennant Creek will also boost output.

The strong growth in exports will act to largely offset the significant decline in business investment resulting from the completion of work on the Alcan G3 refinery expansion and the LNG plant. These projects were substantial, and investment on this scale again is unlikely, at least in the short term. Continued growth will be supported by the positive employment and population outlook, linked to the strengthening outlook for the tourism industry, residential construction and major employment-creating projects such as the Darwin Waterfront Development and the condensate processing facility.

**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 as major projects are completed. Engineering construction activity in the Territory will be substantially lower in 2006-07, with the Alcan G3 refinery expansion due to be completed in October 2006 and construction work on the LNG plant already completed. However, engineering work for the Darwin Waterfront Development and new projects such as the development of the Blacktip gas field and the condensate processing facility will ensure that engineering activity in the Territory remains at levels well above historical averages.

**Population** The positive economic outlook, employment opportunities and continuing net migration inflows underpin forecast population growth of 1.5 and 1.2 per cent in 2006 and 2007 respectively.

**Employment** Resident employment is forecast to increase by 2.3 per cent in 2006-07, supported by construction work on the Darwin Waterfront Development, continuing high levels of residential construction and the continuing rebound in international visitor numbers. The increase in resident employment will be partially offset by an expected fall in fly in fly out employment associated with the Alcan G3 refinery expansion and construction of the LNG plant.

**Prices and Wages** 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. Wages growth is expected to moderate in 2006 and 2007, but remain high as economic activity remains strong and skilled labour shortages persist.

### Summary of Territory Economic Indicators (year on year percentage change)

	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*	0.9	0.1	0.3	1.1	1.7	1.5
Darwin CPI#	3.6	2.2	2.1	1.6	2.6	2.9

e: estimate; f: forecast

\* As at December, annual percentage change

# As at December, year on year percentage change



### Looking Ahead

The economic base of the Territory is expected to expand significantly over the next decade:

- The completion of the Adelaide to Darwin rail link in 2004 was a milestone in the development of the Territory's transport infrastructure. It provides significant opportunities for regional development, particularly as a cost-effective method for the transport of bulk commodities from mining production, and better access to southern markets for local manufacturers.
- A strong world economy and continuation of the current resources boom will encourage further substantial growth in mining-related activity. Existing projects are expected to increase production, while the prospect of new projects coming on line is supported by an increase in exploration activity in recent years.
- The Territory remains on the verge of a major development phase for gas reserves and for gas-based manufacturing. Should efforts to bring more Timor Sea gas onshore prove successful, it could be used as feedstock for further production of LNG or other gas-based products such as methanol, ethane, ammonia/urea fertilisers and various petrochemicals. It also has the potential to provide cheap and efficient energy for the manufacture of alumina, magnesium and other ore concentrates, and for the production of electricity that could advance local value-adding opportunities.
- The medium term outlook for tourism, which is an important source of local employment, is positive. The recent steady increase in visitor numbers is expected to continue, and will be supported by major tourism-related projects, including the Darwin Convention and Exhibition Centre and a planned low-rise tropical resort at Little Mindil.