Chapter 5 Prices and Wages

Key Points

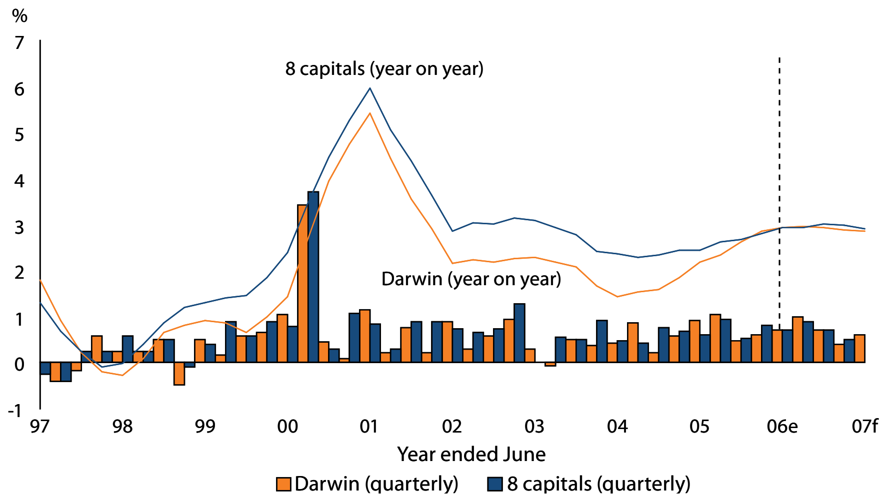
- In 2005, Darwin's Consumer Price Index (CPI) increased by 2.6 per cent, compared to a 2.7 per cent increase nationally.
- Inflation in the Territory is expected to continue to track closely to the national rate, and remain at the higher end of the Reserve Bank's target band of 2 to 3 per cent in the short to medium term.
- Darwin CPI growth of 2.9 per cent and 2.6 per cent is forecast for 2006 and 2007 respectively.
- 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 around 4 per cent as economic activity remains strong and skilled labour shortages persist.

Prices and wages in the Territory generally move in line with national trends. Nevertheless, there have been short run variations that reflect periods of weaker or stronger economic growth in the Territory compared to growth experienced at the national level. This was particularly evident in 2005, with stronger economic growth in the Territory than nationally, leading to higher wages and prices outcomes.

Consumer Price Index

In 2005, Darwin's Consumer Price Index (CPI) increased by 2.6 per cent in 2005 compared to a 2.7 per cent increase nationally (Table 5.1). This is in sharp contrast to the previous five calendar 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 of Territory and national inflation in 2005 was primarily due to stronger growth in the Territory economy, especially in the construction and property sectors. The national skills shortage has been more pronounced in the Territory and has also contributed to the narrowing CPI differential.

Chart 5.1: Consumer Price Index



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

Table 5.1: Consumer Price Index

	Consumer Price Index		Annual % Change		Year on Year % Change	
	Darwin	8 capitals	Darwin	8 capitals	Darwin	8 capitals
December 1995	119.20	118.5	4.8	5.1	4.2	4.6
December 1996	121.70	120.3	2.1	1.5	3.1	2.6
December 1997	120.80	120.0	-0.7	-0.2	0.2	0.3
December 1998	122.70	121.9	1.6	1.6	0.7	0.9
December 1999	123.60	124.1	0.7	1.8	0.7	1.5
December 2000	130.6	131.3	5.7	5.8	3.9	4.5
December 2001	133.5	135.4	2.2	3.1	3.6	4.4
December 2002	136.2	139.5	2.0	3.0	2.2	3.0
December 2003	138.5	142.8	1.7	2.4	2.1	2.8
December 2004	141.1	146.5	1.9	2.6	1.6	2.3
December 2005	145.4	150.6	3.0	2.8	2.6	2.7
December 2006e	149.8	155.3	3.0	3.1	2.9	3.0
December 2007f	153.4	159.2	2.4	2.5	2.6	2.7
Compound Annual Growth %						
1995-96 to 2005-06e	2.1	2.6				
2000-01 to 2005-06e	2.3	2.8				

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

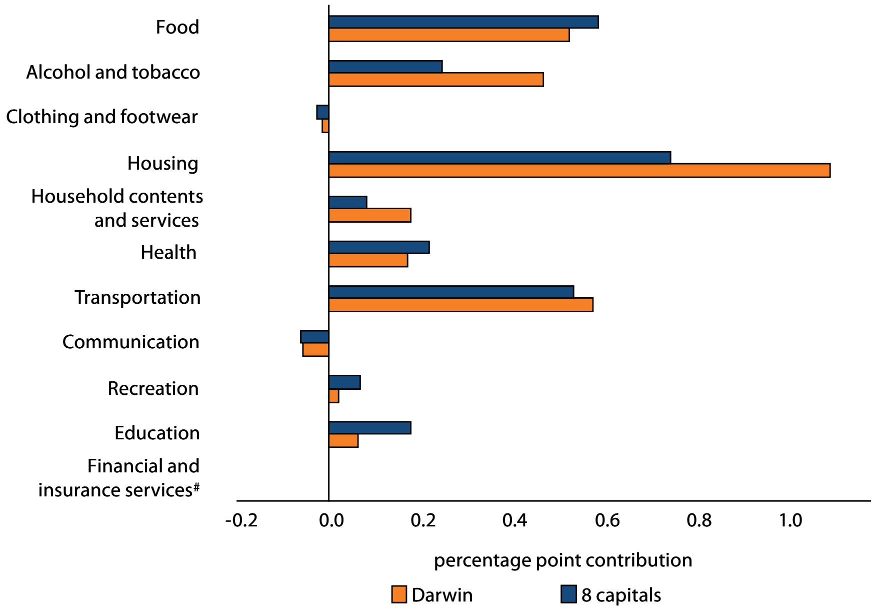
In the long run, slower price growth in the Territory compared to nationally probably reflects improvements in transport infrastructure and the impact of population growth on improving the feasibility of local supply.

Components

Reflecting the strong performance of the property and construction markets in the Territory in 2005, the housing, and household contents and services, categories contributed significantly more to CPI growth in the Territory than nationally (Chart 5.2). Increasing transportation (including petrol) prices also contributed more, reflecting the lower levels of competition in the Territory. Although the Adelaide to Darwin rail link is expected to lower transportation costs, including costs built into the prices of consumer goods, it is still too early to assess its impact.

Communication, clothing and footwear made negative contributions to CPI growth in the Territory and nationally. This primarily reflects the maturing (and saturation) of the mobile phone market and the impact of competition from China and other emerging economies on lower imported and local textile manufacturing prices.

Chart 5.2: Annual Percentage Point Contribution to Change in CPI, 2005



insufficient data available

Source: ABS Cat. No. 6401.0

Updated Weights

The September quarter 2005 CPI release included an update of the CPI component weights to better reflect current household expenditure patterns. The changes, which are part of the Australian Bureau of Statistics (ABS) 15th series review, reflect the outcome of the 2003-04 Household Expenditure Survey (HES) and the inclusion of financial services (such as bank fees and credit card charges) in the CPI basket. In August 2005, the ABS published a summary of results from the 2003-04 HES, which collects information on the expenditure, income, net worth and other characteristics of Australian households (Table 5.2).

Table 5.2: Average Weekly Expenditure by Category and Household Income

	1998-99			2003-04		
	Darwin $	8 capitals $	Difference %	Darwin $	8 capitals $	Difference %
Current housing costs (selected dwellings)	149.63	107.40	39.3	187.76	160.39	17.1
Domestic fuel and power	22.43	18.57	20.8	29.41	23.96	22.7
Food and non-alcoholic beverages	157.57	134.58	17.1	172.12	160.37	7.3
Alcoholic beverages	35.52	20.63	72.2	38.99	23.58	65.4
Tobacco products	17.16	10.04	70.9	14.43	10.99	31.3
Clothing and footwear	26.66	35.67	-25.3	34.58	38.30	-9.7
Household furnishings and equipment	54.09	44.45	21.7	56.06	53.59	4.6
Household services and operation	55.65	43.48	28.0	64.38	56.73	13.5
Medical care and health expenses	31.41	35.03	-10.3	42.50	49.88	-14.8
Transport	141.63	123.33	14.8	149.58	142.40	5.0
Recreation	121.00	95.88	26.2	188.96	121.55	55.5
Personal care	15.26	15.14	0.8	18.82	18.62	1.1
Miscellaneous goods and services	78.38	62.98	24.5	87.37	87.01	0.4
Total goods and services expenditure	906.40	747.18	21.3	1 084.95	947.37	14.5
Mean gross household income per week	1 196.07	957.17	25.0	1 415.00	1 210.00	16.9

Source: ABS Cat. Nos. 65350, 65350.055.001

In 2003-04, Darwin average weekly household income of $1415 remained above the eight capital cities average of $1210, but the differential declined significantly from 25 per cent in 1998-99 to 17 per cent in 2003-04. The decline reflects strong economic conditions in the Territory during the 1998-99 reference period, which was followed by a period of relative weakness. The 2003-04 reference period captures the beginning of a recovery phase.

The differential between average weekly household expenditure in Darwin and the eight capital cities average declined from 21 per cent in 1998-99 to 15 per cent in 2003-04, mirroring the decline in the average income differential. A significant factor in the decline was weaker growth in current housing costs, which increased by 25 per cent in Darwin compared to 49 per cent for the eight capital cities. This reflects the strong growth in the property market and residential construction nationally, which was not observed in the Territory during this time. Consistent over both survey periods, the additional weekly earnings in Darwin relative to the eight capital cities is mainly allocated to additional expenditure rather than savings.

Housing

The high contribution of housing and household contents and services to CPI growth in Darwin compared to the eight capital cities in 2005 reflects strong growth in property prices and residential construction in the Territory.

House and unit prices increased solidly across the Territory in 2005. The median house price in Darwin increased by 26 per cent to $328 000, while the unit and townhouse median price increased by 38 per cent to $242 000. Consistent with these price rises, the Real Estate Institute of Australia reported a 2.5 per cent decline in housing affordability in Darwin through the year to December 2005. Housing affordability is determined by average monthly loan repayments and median weekly family income.

Fuel

Oil

Crude oil prices, in Australian dollar terms, increased by 52 per cent in 2005. The sharp increase was primarily associated with:

- strong global demand (notably from China);
- limited excess capacity coupled with supply disruptions (following Hurricane Katrina);
- speculative holdings by investment funds;
- geopolitical instability; and
- a 6 per cent depreciation of the Australian dollar against the United States (US) dollar.

Continued steady growth in global demand for oil, combined with only modest increases in production capacity and continuing geopolitical instability, are expected to keep crude oil prices around US$60 on average through 2006.

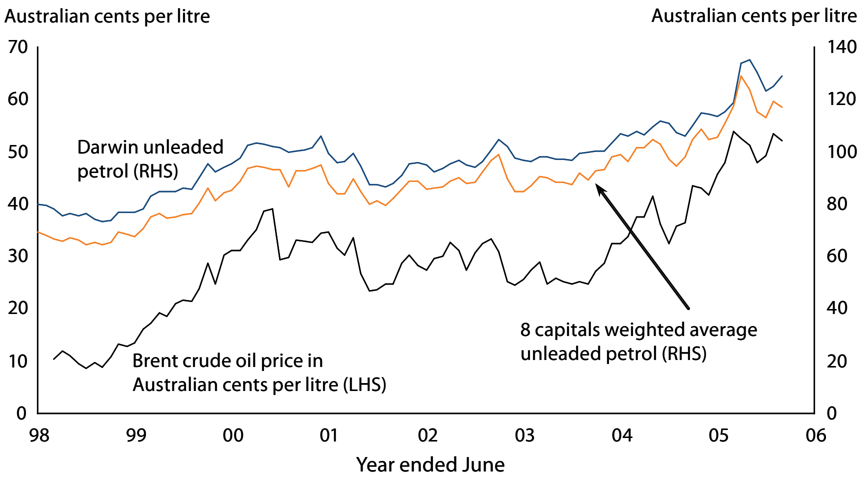
Retail Fuel Prices

On average, retail fuel prices in Darwin tend to be about 8 per cent higher than the national average.

Higher retail prices reflect a smaller population and lack of economies of scale in sales volumes. Higher fuel prices in the Territory also reflect the absence of a significant independent discount chain, the absence of any large-scale petrol refinery (resulting in higher freight costs) and the absence of regular price discounting cycles as observed in other capital cities. The expansion of independent retailer United Petroleum in the Top End market and the increased presence of supermarket fuel retailing may promote increased price competition in the retail fuel market in the short term, with the likelihood of some industry rationalisation in the longer term.

In 2005, the average unleaded petrol price for Darwin increased by 12.3 cents per litre to 123.1 cents per litre, while the average price in eight capital cities increased by 15.9 cents per litre to 113.2 cents per litre (Chart 5.3).

Chart 5.3: Unleaded Retail Petrol and Crude Oil Prices



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

Parry Fuel Price Inquiry

In February 2005, the Territory Government commissioned an independent inquiry into petrol prices. It concluded that although Territory motorists pay consistently higher prices for fuel than motorists in other comparably sized locations in Australia, the differential was not 'unreasonable'. The inquiry made a series of recommendations focused on improving consumer awareness to encourage market efficiency.

Fuel Taxation

Taxation of fuel in the Territory is the third lowest in the nation behind Queensland and Tasmania, with the Territory Government providing a retail fuel rebate of 1.1 cents per litre. The Australian Government has announced that it will phase out its Fuel Sales Grant Scheme from July 2006, with the savings to be redirected to the national Roads to Recovery Program. The scheme provides rebates of between 1 and 3 cents per litre in rural and remote areas.

Grocery Prices

Since 2000, Northern Territory Treasury has conducted a six-monthly survey of grocery prices in major Territory centres, plus Cairns and Mount Isa for comparative purposes. The latest survey was conducted in December 2005 (Table 5.3).

Table 5.3: Grocery Price Survey, December 2004 to December 2005

	December 2004 $	June 2005 $	December 2005 $	Annual change $
Darwin	168	171	174	3.2
Alice Springs	162	164	167	3.0
Katherine	165	172	174	5.0
Yulara	212	203	219	3.2
Nhulunbuy	195	204	202	3.6
Cairns	166	166	168	1.1
Mount Isa	167	167	170	1.7

Source: Northern Territory Treasury

In December 2005, the cost of a standard basket of groceries increased by 3.0 per cent or more across all Territory centres surveyed, when compared to December 2004. Higher freight costs associated with fuel price rises may have contributed to this increase. Fuel prices in 2005 (as reported by the Australian Automobile Association) in Darwin, Alice Springs and Katherine increased by more than 10.0 per cent over this period.

In Darwin the cost of the basket increased by 3.2 per cent from the December 2004 survey. This is marginally higher than the increase in the Darwin CPI of 3.0 per cent over this period, but is equal to the increase in the food category of the CPI. Fruit and vegetable prices, which can be volatile between quarters and even between years, increased by 8.0 per cent and were the major contributor to prices growth in the basket over the year.

Of all Territory centres surveyed, Alice Springs recorded the lowest average prices in the latest survey (3.7 per cent lower than in Darwin). Darwin was the next cheapest Territory centre surveyed, followed by Katherine. Nhulunbuy and Yulara were more expensive than Darwin by 16 per cent and 26 per cent respectively. Higher costs in these two centres reflect additional freight and storage costs, and a lack of economies of scale and competition. The average cost of the basket of goods in comparable cities in Queensland was similar to their Territory counterparts, that is, Cairns was 3.4 per cent cheaper than Darwin, and Mount Isa was 1.7 per cent more expensive than Alice Springs. Further information on the Grocery Price Survey can be found at www.nt.gov.au/ntt.

Exchange Rates

Changes in the exchange rate affect the prices of imported and, to a lesser extent, domestically produced consumer goods and services.

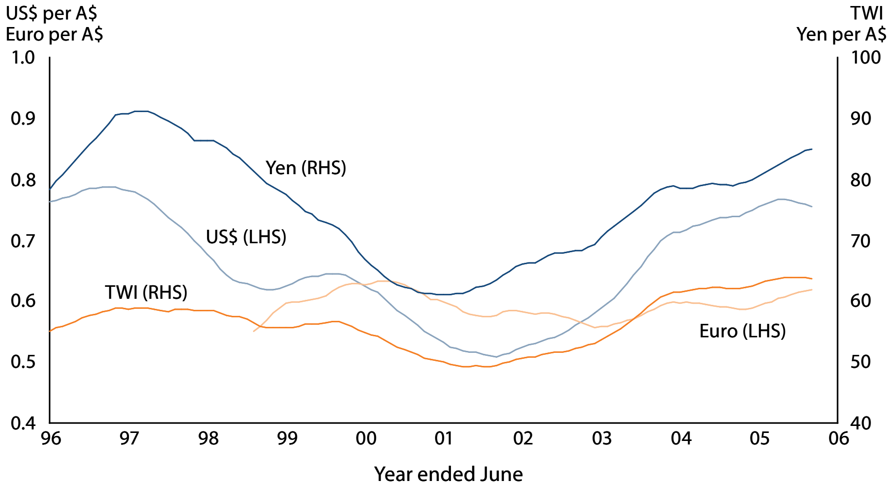
2005

On a trade weighted basis (TWI), the Australian dollar traded in a narrow range over 2005 and ended the year only marginally lower than a year earlier. This reflects the differing performance of the Australian dollar relative to major world currencies, with the Australian dollar depreciating against the US dollar and a number of Asian currencies while appreciating against the Euro and the Yen (Chart 5.4).

The relative stability of the Australian dollar was due to two powerful offsetting forces:

- The value of the Australian dollar was supported by strong growth in export prices (particularly commodities) combined with a decline in import prices (especially manufactured goods from China) that resulted in Australia recording its highest terms of trade (the ratio of export prices to import prices) in 30 years.
- Downward pressure resulted from a narrowing of the interest rate differential between Australia and other countries (particularly the US). The differential between the US and Australian benchmark rate narrowed by 2 percentage points in 2005, and was the primary driver behind the 6 per cent depreciation in the Australian dollar against the US dollar over this period.

Chart 5.4: Exchange Rates (moving annual average)



Source: Reserve Bank of Australia

Wages

Solid wages growth in 2005, both in the Territory and nationally, reflect tight labour market conditions and skilled labour shortages prevalent throughout the year, especially in the construction, mining, education and health sectors. This was particularly pronounced in the Territory, where buoyant property and construction markets, a shortage of medical professionals and enterprise bargaining outcomes for public servants led to wages growth, as reflected in the Labour Price Index (LPI), of 4.5 per cent in the year (Table 5.4).

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

	2000 %	2001 %	2002 %	2003 %	2004 %	2005 %
Northern Territory						
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
Total	2.6	2.9	3.1	3.1	3.3	4.5
Australia						
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
Total	3.0	3.6	3.2	3.6	3.6	4.1

Source: ABS Cat. No. 6345.0

In 2005, the public sector LPI recorded an increase of 4.8 per cent, reflecting the implementation of a number of enterprise bargaining agreements (EBAs) that provided wage increases significantly above CPI in their first year. The Northern Territory Public Sector 2004-2007 Certified Agreement, covering about 9500 Northern Territory public servants, was certified on 21 January 2005. It included a 5 per cent increase in salaries in the first year, backdated to August 2004, and 3 per cent in both August 2005 and August 2006. Nurses, teachers and members of the police and fire services also received significantly above CPI wage increases in 2005.

Wages growth in the Territory private sector in 2005, while not as strong as growth in the public sector, increased at a greater rate in the Territory than nationally. The private sector LPI for the Territory increased by 4.1 per cent compared to 3.9 per cent nationally. Chronic skills shortages in growth industries such as construction and mining, combined with labour demand from major construction projects such as the Alcan G3 refinery expansion at Gove and the liquefied natural gas plant at Wickham Point, were instrumental in raising the benchmark wage rate.

In 2005, Territory average weekly full-time adult earnings (AWFTE) increased by 6.9 per cent to $1098, above the national average of $1078. Growth in Territory AWFTE has exceeded national growth since early 2004, largely as a result of the impact of major mining and energy projects, which offer higher wages to attract interstate workers. AWFTE data should be viewed with caution as, unlike the LPI, which is designed to measure changes in the cost of employing a constant quantity and quality of labour, the AWFTE measure of wages is heavily influenced by compositional changes in the survey sample.

Outlook

Prices

A number of factors are expected to continue to put upward pressure on inflation nationally and in the Territory in 2006-07.

- Interest rate differentials between Australia and a number of countries are likely to narrow further, most notably the differential between Australia and the United States, putting downward pressure on the Australian dollar.
- Crude oil prices are expected to remain high at above US$60 throughout this period.
- Ongoing skilled labour shortages will continue to put upward pressure on aggregate wages growth and encourage price inflation.

The main factors likely to offset this upward pressure on inflation are:

- the increased likelihood of at least one 0.25 per cent increase in official interest rates during this period; and
- the continued global downward pressure on prices of manufactured products from low-cost producing countries, especially China.

The Territory's inflation rate 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.

Wages

Wages growth in the Territory is expected to moderate in 2006 and 2007 as higher EBA-negotiated wage increases for the majority of Northern Territory public servants in 2005 are included in the base and construction work for the Alcan G3 refinery expansion is completed. Nevertheless, the LPI for the Territory is expected to remain above 4 per cent as overall economic activity remains robust and skilled labour shortages persist.