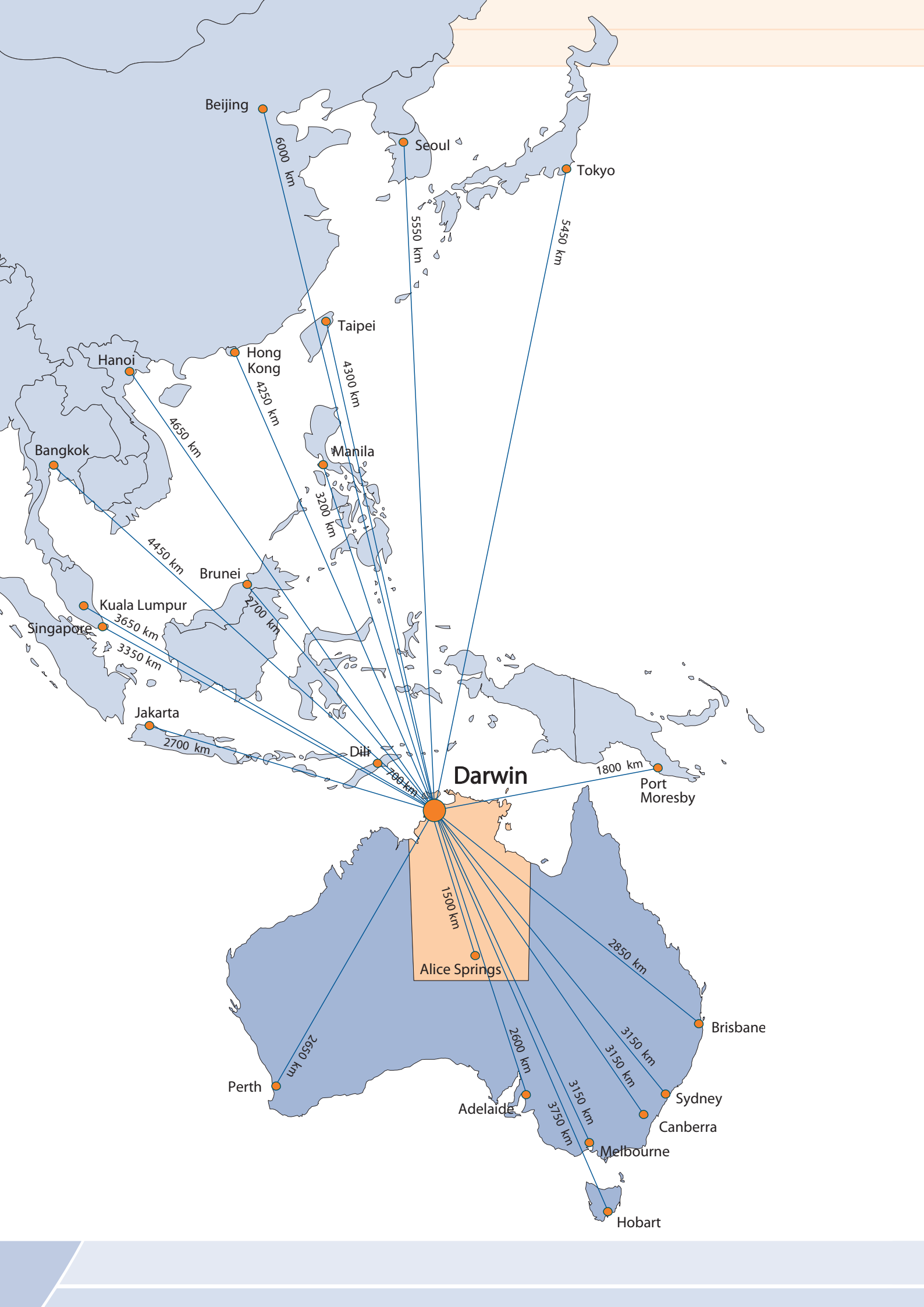




2007-08 Budget

Northern Territory Economy





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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 2006-07

Onshore Economy

Growth in the onshore economy is estimated to moderate in 2006-07, driven by lower business investment associated with the completion of mega projects. The contribution of growth in household consumption expenditure is also estimated to moderate from the very strong growth reported in 2005-06. This is influenced by interest rate increases, declining housing affordability and relatively high fuel prices.

Gross State Product

Following an increase of 7.5 per cent in 2005-06, Territory gross state product (GSP) is estimated to increase by 7.2 per cent in 2006-07. The major contributor to growth is strong export activity, with volumes increasing substantially, along with a significant decline in imports. Peak production of liquefied natural gas (LNG), as well as peak production at the Bayu-Undan fields (gas, condensate and liquid petroleum gas), and increased alumina production from Alcan, are the major contributors to growth. In addition to the growth in the mining and manufacturing industries, a range of other industries in the Territory is estimated to report stronger than average income growth in the year. This is in line with solid resident employment and population growth. The boost to net exports will more than offset the impact of the estimated 6.5 per cent decline in total investment, associated with the completion of mega projects. Reflecting this decline in investment levels, which more than offsets the contribution of consumption growth, state final demand (SFD) is estimated to rise by a modest 0.3 per cent in 2006-07.

Population

Population growth is estimated to remain relatively high at 1.6 per cent in 2006-07. The moderation from the 2.0 per cent growth rate reported for 2005-06 reflects the return to more typical net interstate migration patterns, after the unprecedented four quarters of positive net interstate migration in 2005.

Labour Force

The Territory labour market continued its strong performance in 2006-07 with estimated resident employment growth of 4.4 per cent and an estimated average unemployment rate of 3.5 per cent (down from 5.7 per cent in 2005-06) as strong employment conditions prevail. Related indicators, such as the Sensis Business Index, the ANZ job advertisements series and the Department of Employment and Workplace Relations skilled vacancy survey, point to strong employment growth and a shortage of skilled labour.

Prices

Darwin's Consumer Price Index (CPI) increased by 4.4 per cent in 2006. The 2006 result was the second highest inflation rate of the capital cities (behind Perth), and higher than the 3.5 per cent increase recorded nationally. It was largely driven by the significant increase in Darwin house prices, as well as increases in fuel and fruit and vegetable prices (particularly bananas) as a result of Cyclone Larry. As house price growth moderates and fruit prices return to more typical levels, Darwin inflation is set to moderate.

Wages Solid wages growth in 2006, both in the Territory and nationally, reflects tight labour market conditions and skilled labour shortages prevalent throughout the year. In the year to December 2006, the Territory Wage Price Index (WPI) increased by 3.9 per cent, compared to 4.1 per cent nationally. This reflects a moderation in wages growth in the Territory, from the 4.5 per cent reported in 2005.

Outlook for 2007-08

Gross State Product Economic growth is forecast at 3.7 per cent in 2007-08, as business investment levels associated with the Alcan expansion decline even further, and the contribution from exports stabilises as peak production is maintained. In addition, income growth across a wide range of industries, including construction, retail and wholesale trade, and agriculture, forestry and fishing, is forecast to moderate in 2007-08, in line with population and employment growth.

State Final Demand Territory SFD is forecast to decrease by 2.1 per cent in 2007-08, due to the significant decline in total investment expenditure as major projects are completed. Engineering construction activity in the Territory will decline in 2007-08, with the Alcan G3 refinery expansion completed in June 2007. Engineering work for the Darwin Waterfront Development and new projects such as the development of the Blacktip to Amadeus gas pipeline, will ensure that engineering activity in the Territory remains at robust levels. In addition, both household and public sector consumption expenditure are forecast to moderate.

Population Population growth is forecast to moderate to 1.4 per cent in both 2007 and 2008, with net interstate migration returning to longer term averages due to the completion of some major employment generating projects.

Employment Resident employment is forecast to increase by 2.3 per cent in 2007-08. Construction activity in the Territory is forecast to become less concentrated in 2007-08, with mega projects such as the LNG plant and Alcan replaced with numerous smaller residential and engineering projects. Nevertheless, a number of larger projects such as the Darwin Waterfront Development and continued work on the construction of the Blacktip to Amadeus pipeline will have a significant impact on employment demand in the medium term.

Despite strong labour demand associated with high levels of construction activity and strong economic conditions, growth in employment may be partially constrained by limited availability of skilled labour. The ability of Territory employers to attract and retain suitable skilled workers will continue to be a critical factor in determining employment growth in the Territory, as will the effectiveness of Northern Territory Government training initiatives aimed at alleviating skill shortages.

Prices and Wages Inflation in the Territory is expected to moderate in 2007 and 2008, remaining within the Reserve Bank of Australia's target band of 2 to 3 per cent. Darwin CPI growth of 3 per cent is estimated for 2007, with a further moderation to 2.5 per cent in 2008. The continued softening of inflationary pressures in 2008 is attributed to lower crude oil prices and house prices, as well as moderating fruit and vegetable prices. This fall is expected to be partially offset by continued skilled labour shortages and the prevailing tightness of the labour market, as well as the expected depreciation in the Australian dollar which could lead to inflationary pressure in the economy, particularly in the manufacturing and tourism sectors.

Wages growth in the Territory is expected to moderate in 2007 as the Alcan G3 refinery expansion is completed and growth in public sector wages is restrained. Nevertheless, ongoing skilled labour shortages and a tight labour market are expected to flow through to growth in the Territory's WPI averaging around 3.5 to 4.0 per cent over the year.

Summary of Territory Economic Indicators

	2002-03 % ch	2003-04 % ch	2004-05 % ch	2005-06 % ch	2006-07 ^e % ch	2007-08 ^f % ch
Real GSP	0.2	0.2	6.0	7.5	7.2	3.7
Resident Employment	-0.1	-2.2	-2.0	4.0	4.4	2.3
Population ¹	0.1	0.3	1.2	2.0	1.6	1.4
Darwin CPI ²	2.2	2.1	1.6	2.6	4.4	3.0

e: estimate; f: forecast

¹ As at December, annual percentage change (compares latest quarter with the same quarter in previous year)

² As at December, year on year percentage change (compares latest 12 months to previous 12 months)

Source: ABS Cat. Nos 6202.0, 3101.0, 6401.0, 5220.0 and NT Treasury

Beyond 2007-08

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.
- Potential for construction of Train Two of the Wickham Point LNG plant to begin construction in 2009, resulting in increased exports of LNG by around 2013.
- Negotiations between Timor-Leste and Australian governments regarding the division of revenues from the Greater Sunrise fields concluded in January 2006 with the signing of the Treaty on Certain Maritime Arrangements in the Timor Sea. At this stage, the Greater Sunrise field is expected to be developed over the next ten years following the ratification of the treaty by both governments.
- 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.
- An area at Glyde Point (on the Gunn Point Peninsula) has been identified as a potential site for a major gas-based industrial estate and associated port facilities. Possible gas manufacturing projects include further production of LNG, or gas-based products such as methanol, ethane, ammonia/urea fertilisers and various petrochemicals.
- Continued construction of the Darwin Waterfront Development, with the addition of residential apartments, retail outlets and a hotel.
- Potential for the construction of a condensate processing facility at East Arm, to begin mid to late 2008.

Chapter 1 Structure of the Economy

Key Points

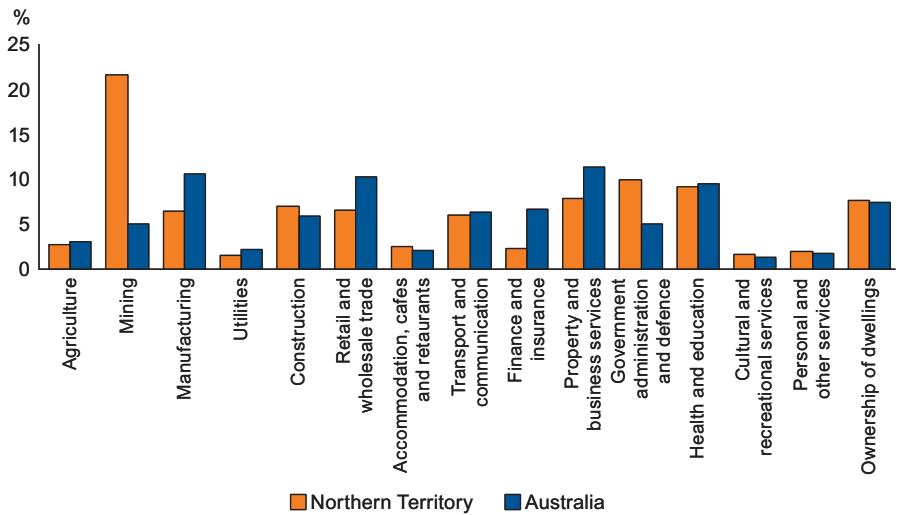
- » The Northern Territory economy is markedly different to other Australian jurisdictions. It has an abundance of natural resources, a large public sector and a significant defence presence.
- » The Territory economy is highly influenced by global economic conditions due to its relatively small size and commodity-focused base.
- » The importance of mining and mining-related production will grow as production reaches full capacity following the completion of major infrastructure projects.
- » The manufacturing base has increased with the liquefied natural gas (LNG) plant at Wickham Point commencing production in February 2006, and will significantly further increase when the Alcan G3 expansion is completed in the first half of 2007.
- » A relatively large mineral and energy sector means that the Territory economy is capable of high growth as resources are developed.

Territory gross state product (GSP) accounts for about 1.3 per cent of national gross domestic product (GDP) at about \$11.5 billion. Key activities in the Territory economy include mining, defence, alumina production, LNG production and government services.

Notable differences between the Territory and the national economy include a greater contribution from mining, construction, and government administration and defence, and a comparatively small contribution from manufacturing, finance and insurance, and property and business services (Chart 1.1). The contribution of the manufacturing sector to Territory GSP will increase significantly in coming years as the LNG produced at Wickham Point is exported to Japan, and the completed Alcan G3 expansion increases alumina production levels from 2 million tonnes to 3.8 million tonnes per annum by July 2007. Prior to the expansion of the Alcan facility, bauxite was both exported as a commodity and processed into alumina (for export). With the completion of the expansion to the refinery it is expected that Alcan will process all of the extracted bauxite into alumina, no longer exporting bauxite as a raw commodity. In 2005-06, there were four full months of LNG production, adding only a relatively small amount to manufacturing production but, in 2006-07, the contribution of manufacturing to the total GSP figure will reflect a full year of LNG production.

International exports of goods and services from the Territory are an important source of demand, averaging around 39 per cent of Territory GSP for most of the past decade compared to 19 per cent nationally.

Chart 1.1: Industry Proportion of GSP and GDP, 2001-02 to 2005-06 (five year average)



Source: ABS Cat. No. 5220.0

Industry Structure

In terms of contribution to GSP, mining is the most significant Northern Territory industry, accounting for 24.6 per cent of GSP in 2005-06, more than three times the national figure of 6.8 per cent (Table 1.1). The Territory's figure is significantly influenced by activity associated with the Laminaria-Corallina oilfields in the Timor Sea, production from which is attributed to the Territory, and liquid petroleum gas production (condensate) from Bayu-Undan.

A relatively high proportion of Territory GSP is attributed to government administration and defence services. This reflects the diseconomies of scale associated with providing public services to a small and dispersed population combined with the high needs of the Territory's relatively large Indigenous population. The defence presence in the Territory is also large compared to other jurisdictions.

Other notable differences between the Territory economy and the national economy are the greater proportion of tourism-related production (accommodation, cafes and restaurants, and cultural and recreational services) in the Territory and the higher proportion of construction production compared to most other jurisdictions. Construction is currently a key contributor to the GSP of the three resource-rich jurisdictions of Western Australia, Queensland and the Territory, as income derived from the mining boom fuels construction. The contribution of the manufacturing sector is also significantly lower in the Territory than in most other jurisdictions, but will increase as production from the completed Wickham Point LNG plant reaches full capacity in 2006-07 and the completed Alcan G3 expansion increases alumina production.

The proportion of the Territory's economic production attributed to service industries (all industries excluding agriculture, forestry and fishing, mining and manufacturing) is the second lowest in Australia at 53 per cent. The proportion of the national economy's output attributed to service industries is 62 per cent. However, in employment terms, the Territory has a high proportion of people employed in the services sector, representing 93 per cent of employment compared to 85 per cent nationally.

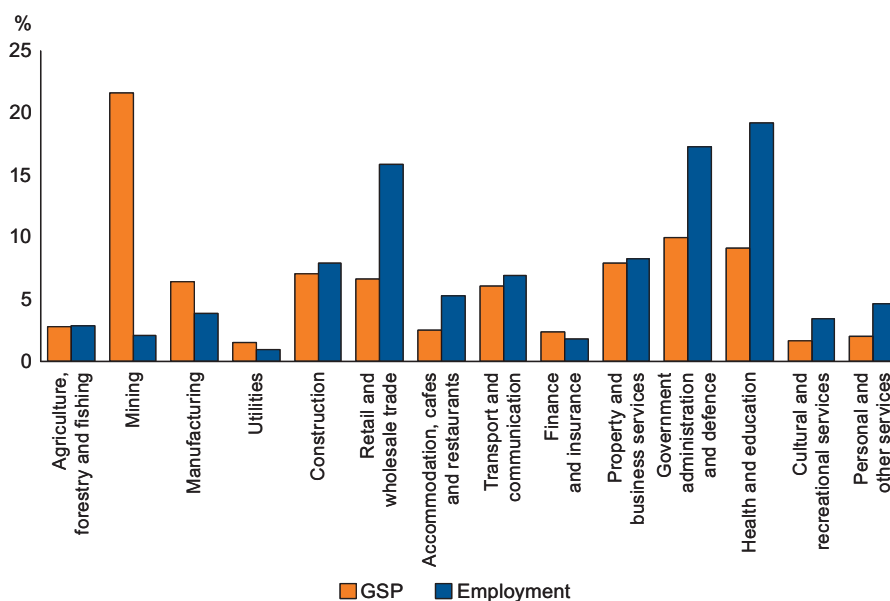
Table 1.1: Industry Proportions of GSP and GDP, 2005-06

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
Agriculture, forestry and fishing	1.6	2.6	3.7	4.8	3.1	6.1	2.3	0.0	2.7
Mining	2.2	1.5	11.2	2.9	25.0	1.9	24.6	0.0	6.8
Manufacturing	9.8	12.2	8.0	13.4	7.1	13.0	5.6	1.9	9.8
Electricity, gas, and water	1.9	2.6	1.8	2.8	2.3	4.3	1.3	2.3	2.2
Construction	6.1	5.7	7.2	5.2	7.3	4.9	6.5	7.1	6.3
Wholesale trade	4.8	5.2	4.1	3.8	3.3	3.3	1.9	1.7	4.4
Retail trade	5.3	5.3	6.5	5.5	4.4	6.8	4.2	4.5	5.4
Accommodation, cafes, and restaurants	2.2	1.5	2.6	2.0	1.3	2.4	2.4	1.8	2.0
Transport and storage	3.7	3.6	4.1	3.8	3.7	3.8	3.4	2.1	3.7
Communication services	2.4	3.0	2.0	2.2	1.9	2.1	2.0	2.3	2.4
Finance and insurance	9.6	7.6	4.6	5.6	3.4	5.3	2.2	3.3	6.9
Property and business services	13.2	12.3	8.9	8.6	9.5	5.4	7.3	11.8	11.2
Government administration and defence	3.1	2.1	3.6	2.9	2.0	4.9	6.6	24.7	3.3
Education	4.0	4.5	3.9	4.6	2.7	4.9	3.7	5.3	4.0
Health and community services	5.7	6.1	5.6	7.2	4.9	8.7	5.4	5.8	5.8
Cultural and recreational services	1.4	1.5	0.9	1.3	0.9	1.2	1.5	2.4	1.3
Personal and other services	1.6	1.5	1.9	2.1	1.5	1.9	1.9	2.5	1.7
Ownership of dwellings	8.0	7.1	7.1	7.6	5.5	6.6	9.2	8.0	7.3
General government	1.6	1.4	2.0	1.8	1.3	2.4	2.6	5.0	1.7
Taxes less subsidies	11.7	12.6	10.2	12.0	8.8	10.0	5.6	7.5	11.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ABS Cat. No. 5220.0

Chart 1.2 compares GSP and employment by industry in the Territory. The mining industry is a relatively small employer, despite its contribution to GSP. The health and education sector is the largest employer in the Territory, followed by government administration and defence.

Chart 1.2: Territory Employment and GSP Proportions, 2001-02 to 2005-06 (five year average)



Source: ABS Cat. Nos. 5220.0, 6291.0.55.003

Export Propensity

In 2005-06, international trade exports of goods and services accounted for 26 per cent of Territory GSP, a decline on the previous two years, mainly due to the fall in oil production from the Laminaria-Corallina oilfields. However, the proportion of exports to GSP in the Territory is still higher than the national figure of 18 per cent.

The significance of international exports to the Territory economy means that it is somewhat more exposed to conditions in world markets than other jurisdictions. 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 to medium term, continued strength in global demand, especially from the rapidly growing economy of China, is expected to lead to increased demand for Territory minerals.

Expenditure Patterns

Overall, the balance between consumption and investment expenditure in the Territory and nationally is quite similar, with consumption expenditure accounting for about three-quarters of state final demand (SFD).

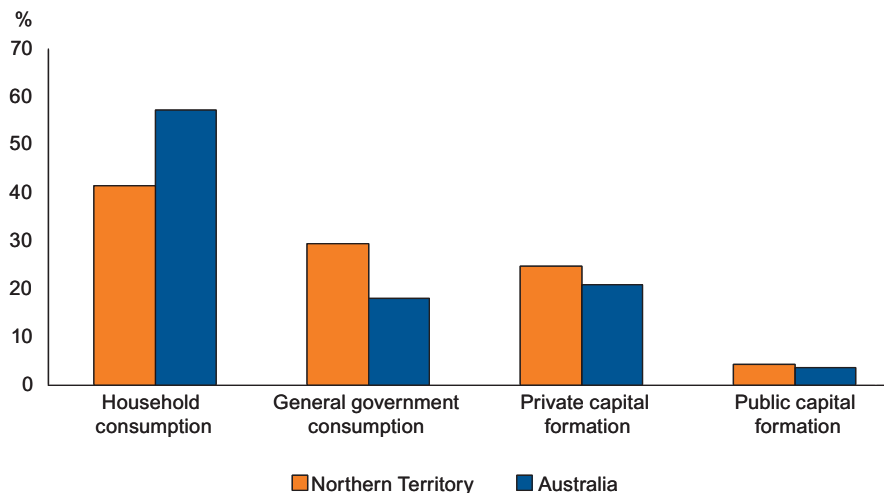
Consumption

General government consumption in the Territory accounts for a significantly higher share of total consumption expenditure compared to the national figure, while household consumption is lower (Chart 1.3). This reflects the larger presence of government administration and defence in the Territory compared to other jurisdictions.

Capital Formation

Private capital formation in the Territory accounts for a marginally higher share of total capital formation expenditure compared to the national figure, while public capital formation is similar in the Territory and nationally. This reflects the major projects that are currently in progress in the Territory, contributing a large proportion to Territory SFD.

Chart 1.3: Proportion of SFD, 2001-02 to 2005-06 (five year average)

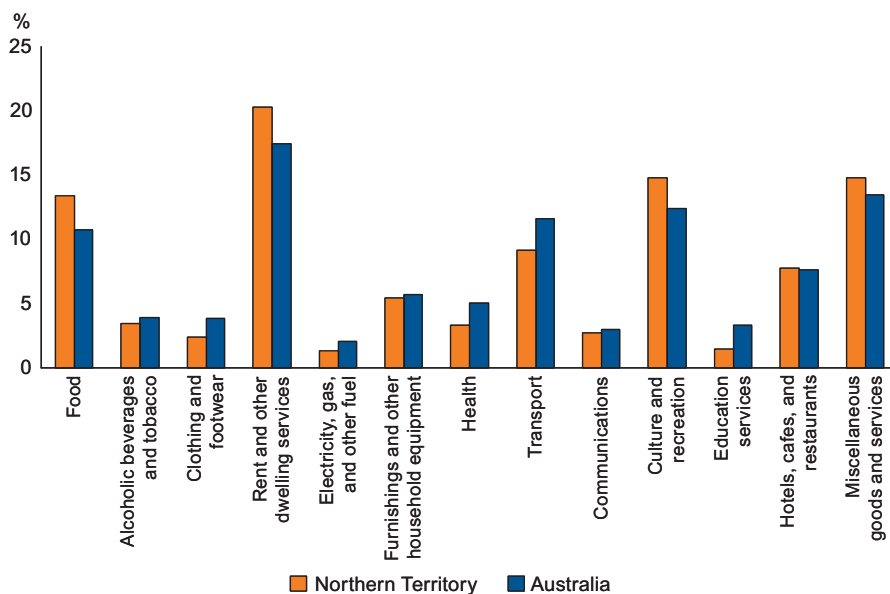


Source: ABS Cat. No. 5220.0

Patterns of household consumption are somewhat different in the Territory compared to nationally (Chart 1.4). Territory consumers spend relatively more (as a proportion of consumption expenditure) on rent and other dwelling services, food, and culture and recreation than Australian consumers in general. In relation to rent and other dwelling services, this reflects the significant increase in Territory house prices and rent in 2005-06. In 2005-06, the Darwin CPI reported the highest increases on record for both house purchases and rents. This increase in house purchase costs in Darwin

was more than double the increase at the national level, while the increase in Darwin rents exceeded the national increase by 32 per cent. Food prices in the Territory are higher due to freight costs for most goods, combined with weaker competitive pressures relating to the small market size. Culture and recreation consumption is relatively higher in the Territory due to tourist consumption, which is a key component of the Territory economy.

Chart 1.4: Household Final Consumption Expenditure, 2005-06



Source: ABS Cat. No. 5220.0

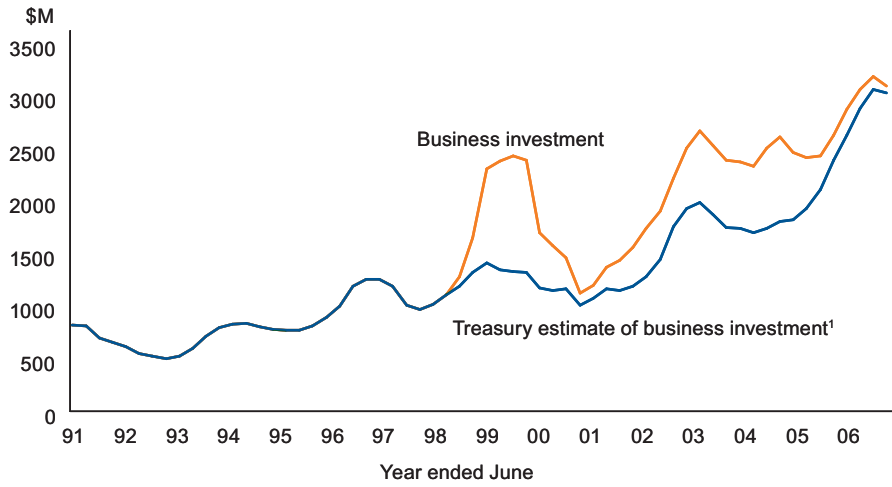
Lower proportional expenditure on clothing is presumably due to climate, while lower transport expenditure may reflect shorter commuting distances for urban-dwelling Territorians. Lower expenditure on electricity, gas and other fuels reflects subsidies provided by the Northern Territory Government and a larger household size, combined with relatively high average household incomes. Lower private consumption of health and education services in the Territory reflects the relatively low provision of private sector services relative to other jurisdictions.

Business Investment

Private sector business investment in the Territory has increased steadily from 10 per cent of SFD in 1994-95 to 27 per cent in 2005-06. Private investment in the Territory is extremely volatile, as the timing of investment for major resource projects such as the Alcan G3 refinery expansion at Gove and the Wickham Point LNG plant continue to have a major impact on business investment. The gap between total Territory business investment and business investment excluding Laminaria-Corallina and the Bayu-Undan stage 1 and stage 2 pipeline is narrowing, indicating that expenditure on these projects is declining (Chart 1.5).

Business investment is expected to remain at high levels in the medium term as a number of large-scale mining and gas-related projects proceed. Defence and social infrastructure projects are expected to boost public sector investment in coming years, as will ongoing works of major projects such as the Darwin Waterfront Development.

Chart 1.5: Territory Business Investment (moving annual total)



¹ Excludes Laminaria-Corallina and Bayu-Undan stage 1 and stage 2 pipeline
 Source: Northern Territory Treasury, ABS Cat. No. 5220.0

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.
- » The Territory economy grew by 6 per cent in 2004-05, with strong growth in consumption and investment boosted by major projects.
- » In 2005-06, gross state product (GSP) grew by a further 7.5 per cent with strengthening consumption, and a substantial increase in business investment associated with major resource projects, along with the commencement of liquefied natural gas (LNG) exports. In addition, most industry sectors reported stronger than average income growth, reflecting higher growth rates in both resident employment and population.
- » The major influence on estimated GSP growth of 7.2 per cent in 2006-07 is strong export activity, along with a significant decline in imports. Peak production of LNG, along with peak production at the Bayu-Undan fields (gas, condensate and liquid petroleum gas (LPG)), and increased alumina production from Alcan, are the major contributors to growth. In addition to the growth in the mining and manufacturing industries, a range of other industries in the Territory are estimated to report stronger than average income growth in the year in line with continued robust population and employment growth.
- » Economic growth is forecast to continue in 2007-08 with growth of 3.7 per cent. Business investment levels will return to more usual levels as the Alcan expansion is completed. Exports are expected to stabilise as peak production is reached. In addition, income growth across a wide range of industries, is forecast to moderate in 2007-08, in line with population and employment growth.

Table 2.1: Territory Economic Growth Profile

Period	GSP Growth %	Comment
5 years to 2003-04	1.5 ¹	Main developments over this period include moderating onshore economy offset by commencement of oil production from the Laminaria-Corallina fields in 2000-01. Rail-related investment boosts onshore economy in 2001-02 despite declining oil production through to 2003-04.
2004-05	6.0	Onshore recovery broadens. Strengthening in construction, mining and tourism. Business investment falls.
2005-06	7.5	Construction for major projects continues, and liquified natural gas (LNG) production commences. Strengthening in mining and energy sectors. Population growth supports solid residential construction activity. Waterfront project proceeds.
2006-07e	7.2	Ongoing strong economic growth, despite declining construction activity associated with the completion of the Alcan alumina refinery expansion, led by a full year of LNG exports and increasing mineral exports, including alumina.
2007-08f	3.7	Business investment returning towards expected levels with completion of mega projects. Exports maintain high levels and population, employment and consumption continue growth trends.

e: estimate; f: forecast

¹ Average growth rate

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

Table 2.2: Territory SFD and GSP

	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07e	07-08f
	\$M ¹										
Private Consumption	3 652	3 849	4 099	4 246	4 517	4 721	5 085	5 330	5 634	5 853	6 045
Public Consumption	2 905	3 073	3 316	3 358	3 371	3 457	3 582	3 705	3 786	3 877	3 912
Total Consumption²	6 561	6 927	7 420	7 606	7 889	8 178	8 667	9 035	9 420	9 730	9 956
Private Investment											
Dwellings	500	718	537	320	331	363	356	493	491	501	522
Business Investment	1 242	2 348	1 412	1 389	2 143	2 311	2 525	2 542	2 999	2 721	2 117
Total Private Investment ³	1 820	3 127	1 998	1 767	2 569	2 775	2 989	3 150	3 615	3 327	2 724
Public Investment	392	262	374	547	650	435	440	554	528	548	639
Total Investment²	2 238	3 343	2 372	2 341	3 242	3 210	3 427	3 704	4 143	3 875	3 363
SFD²	8 786	10 294	9 776	9 933	11 130	11 386	12 094	12 739	13 564	13 605	13 319
International Trade – export of goods	2 522	2 481	3 654	4 749	3 677	3 271	2 495	2 340	2 313	3 384	3 397
International Trade – import of goods	-807	-583	-1 622	-616	-710	-922	-960	-1 990	-2 535	-2 099	-1 792
Balancing Item	-2 270	-3 492	-3 132	-4 963	-4 776	-4 252	-4 049	-2 865	-2 257	-3 015	-2 564
GSP²	8 670	9 252	9 356	9 870	10 028	10 051	10 073	10 678	11 476	12 299	12 750
	Percentage change										
Private Consumption	12.2	5.4	6.5	3.6	6.4	4.5	7.7	4.8	5.7	3.9	3.3
Public Consumption	9.7	5.8	7.9	1.3	0.4	2.6	3.6	3.4	2.2	2.4	0.9
Total Consumption	11.1	5.6	7.1	2.5	3.7	3.7	6.0	4.2	4.3	3.3	2.3
Private Investment											
Dwellings	13.4	43.6	-25.2	-40.4	3.4	9.7	-1.9	38.5	-0.4	2.1	4.1
Business Investment	27.1	89.0	-39.9	-1.6	54.3	7.8	9.3	0.7	18.0	-9.3	-22.2
Total Private Investment ³	21.8	71.8	-36.1	-11.6	45.4	8.0	7.7	5.4	14.8	-8.0	-18.1
Public Investment	9.5	-33.2	42.7	46.3	18.8	-33.1	1.1	25.9	-4.7	3.8	16.6
Total Investment	19.4	49.4	-29.0	-1.3	38.5	-1.0	6.8	8.1	11.9	-6.5	-13.2
SFD	13.1	17.2	-5.0	1.6	12.1	2.3	6.2	5.3	6.5	0.3	-2.1
International Trade – export of goods	-0.4	-1.6	47.3	30.0	-22.6	-11.0	-23.7	-6.2	-1.2	46.3	0.4
International Trade – import of goods	55.8	-27.8	178.2	-62.0	15.3	29.9	4.1	107.3	27.4	-17.2	-14.6
Balancing Item	21.8	53.8	-10.3	58.5	-3.8	-11.0	-4.8	-29.2	-21.2	33.6	-14.9
GSP	3.6	6.7	1.1	5.5	1.6	0.2	0.2	6.0	7.5	7.2	3.7
	Percentage point contribution to GSP										
Private Consumption	4.8	2.3	2.7	1.6	2.7	2.0	3.6	2.4	2.8	1.9	1.6
Public Consumption	3.1	1.9	2.6	0.4	0.1	0.9	1.2	1.2	0.8	0.8	0.3
Total Consumption	7.8	4.2	5.3	2.0	2.9	2.9	4.9	3.7	3.6	2.7	1.8
Private Investment											
Dwellings	0.7	2.5	-2.0	-2.3	0.1	0.3	-0.1	1.4	-0.0	0.1	0.2
Business Investment	3.2	12.8	-10.1	-0.2	7.6	1.7	2.1	0.2	4.3	-2.4	-4.9
Total Private Investment ³	3.9	15.1	-12.2	-2.5	8.1	2.1	2.1	1.6	4.4	-2.5	-4.9
Public Investment	0.4	-1.5	1.2	1.8	1.0	-2.1	0.0	1.1	-0.2	0.2	0.7
Total Investment	4.3	12.7	-10.5	-0.3	9.1	-0.3	2.2	2.7	4.1	-2.3	-4.2
SFD	12.2	17.4	-5.6	1.7	12.1	2.6	7.0	6.4	7.7	0.4	-2.3
International Trade – export of goods	-0.1	-0.5	12.7	11.7	-10.9	-4.0	-7.7	-1.5	-0.3	9.3	0.1
International Trade – import of goods	-3.5	2.6	-11.2	10.8	-1.0	-2.1	-0.4	-10.2	-5.1	3.8	2.5
Balancing Item	-4.9	-14.1	3.9	-19.6	1.9	5.2	2.0	11.8	5.7	-6.6	3.7
GSP	3.6	6.7	1.1	5.5	1.6	0.2	0.2	6.0	7.5	7.2	3.7

e: estimate; f: forecast

¹ 2004-05 base year² Chain volume measures are not additive. As such, the components do not add to the total measure³ Total private investment is equal to business investment plus dwelling 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.

The Expenditure Approach

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.

The Income Approach

The 'income approach' sums income accruing to the factors of production (primarily labour and capital) in an industry. This provides a measure of the total factor income earned in each industry, in each year, in current prices. The income measure of GDP and GSP also includes net taxes on production and net taxes on imports. The income approach provides an alternate way of measuring economic activity in the economy, with a focus on the industry or supply side dimension, in order to provide a complement to the expenditure or demand side measure.

Treasury estimates and forecasts GSP on both the expenditure and income side. Discussion in this chapter of estimated or forecast income growth by industry refers to anticipated changes in total factor income, based on the income approach to determining Territory GSP.

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. For example, the ABS initially reported economic growth of 3.6 per cent for the Territory in 2004-05. This growth rate was subsequently revised up to 6 per cent. The size of any revisions to ABS-reported GSP 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. For example, SFD growth was weak in 2000-01 (consumption growth moderated to 2.5 per cent and dwellings investment fell by more than 40 per cent), but GSP increased by 5.5 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. However, the Woodside production facility was temporarily shutdown for repairs and maintenance during 2004-05, and following this, oil production increased in 2005-06 and 2006-07.

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. An important example is 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

2005-06 The Territory economy continued to experience very strong growth in 2005-06, with reported GSP growth of 7.5 per cent, the highest of the jurisdictions. This was supported by a recovery in net interstate migration and continued solid growth in resident population, significant income growth and very strong residential property markets. Business confidence maintained strong levels over the year and across a broad range of industries. SFD increased by 6.5 per cent in 2005-06, reflecting robust onshore economic activity, with consumption increasing by 4.3 per cent and investment by 11.9 per cent. The Australian Bureau of Statistics (ABS) reported Territory dwellings investment declined by 0.4 per cent in 2005-06, after reporting very significant growth of 38.5 per cent in the same period a year earlier. The 2005-06 result was unexpected, as other property and construction indicators, such as ABS measures of construction activity, reported strong growth in the year. Business investment increased by 18 per cent, primarily reflecting investment expenditure on major projects. Territory established house prices increased by 19.8 per cent over 2005-06, while growth in the purchase of new motor vehicles maintained historically high levels and retail turnover performed solidly. Table 2.3 provides a summary of key Northern Territory economic indicators.

Territory output in 2005-06 was supported by the production of liquids (condensate and liquid petroleum gas) from the Bayu-Undan fields, as well as five months of exports of LNG from Wickham Point, and a recovery in oil production from the Laminaria-Corallina fields following temporary shut-downs in 2004-05.

2006-07 The Northern Territory economy is estimated to grow by a further 7.2 per cent in 2006-07, driven by a full year of LNG exports contributing to strong growth in the manufacturing industry, and supported by strengthening export volumes of alumina, oil and minerals. At the same time imports to the Territory will decline substantially with the completion of the importation of 20 passenger aircraft by Jetstar, as well as the completion of substantial machinery and equipment imports associated with major projects. The GSP growth estimate is also based on continued strong employee income growth, as well as solid increases in both employment and population. In addition to the strong income growth estimated in both the mining and manufacturing industries, other industries such as retail and wholesale trade, accommodation, cafes and restaurants, culture and recreation, and property and business services are also estimated to report strong income growth in 2006-07. This is in line with continued robust population and employment growth.

Onshore Economy

Strength in the onshore economy will moderate in 2006-07, with SFD estimated to increase by 0.3 per cent, largely driven by declining levels of business investment associated with mega projects. The moderation in business investment over the past two years reflects the completion of the Wickham Point LNG plant in December 2005 and completion of the Alcan alumina refinery expansion in June 2007. Some of the decline in business investment will be offset by modest increases in dwellings investment, in line with strength in residential construction markets. In addition public sector investment will contribute positively in 2006-07 with investment in infrastructure for the Darwin Waterfront Development, completion of works at the Defence Bradshaw training facility and ongoing site works at the Lyons residential development.

Household consumption is expected to moderate from the very strong growth rates reported in 2005-06, reflecting the impact of interest rate rises, declining housing affordability and relatively high petrol prices. Public sector consumption expenditure is estimated to report modest growth in 2006-07, reflecting in part the outcome of the enterprise bargaining agreement negotiated with the general Northern Territory Public Sector in 2004 (which excludes medical officers, nurses, teachers and educators, police, fire and emergency workers), as well as restrained growth in public sector employment levels.

Table 2.3: Northern Territory Economic Indicators

Economic Indicators ¹	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Latest available ⁴	
Real Retail Turnover	5.8	-0.7	4.1	2.2	5.1	5.3	2.8	Dec 06	6.2
New Motor Vehicle Sales	-8.8	-4.2	-0.3	3.3	8.4	10.7	0.0	Feb 07	-2.2
Tourist Accommodation Takings	16.8	1.5	-1.0	-0.1	2.8	13.6	3.4	Dec 06	9.5
Number of Dwellings Approved	-30.6	-28.4	-13.8	0.0	23.4	18.4	-1.8	Feb 07	13.9
Number of Dwellings Commenced	-21.1	-34.0	0.1	-4.1	6.0	29.1	1.3	Dec 06	-12.3
Employment	-2.3	1.1	5.4	-0.1	-2.2	-2.0	4.0	Feb 07	5.9
Unemployment rate (year average)	4.4	5.6	6.8	5.8	5.2	6.3	5.7	Feb 07	3.9
Darwin Consumer Price Index	1.4	5.4	2.2	2.3	1.4	2.2	3.4	Dec 06	4.4
AWOTE ²	4.6	3.7	2.3	5.0	6.5	7.0	3.9	Dec 06	0.8
Wage Cost Index	2.5	2.8	3.1	3.0	3.3	3.7	4.4	Dec 06	3.9
Population as at June (levels – thousands)	196	198	199	199	200	203	207	Sep 06	208
Population (annual % change)	1.5	1.1	0.5	-0.1	0.6	1.8	1.6	Sep 06	1.6
Net Interstate Migration (number) ³	-907	-1592	-2596	-3389	-2108	5	-386	Sep 06	-207
Financial Indicators									
Interest Rates									
90 Day Bank Bill (as at 30 June)	6.17	5.02	5.11	4.67	5.50	5.66	5.97	Apr 07	6.47
10 Year Govt Bond Yield (as at 30 June)	6.16	6.04	5.99	5.01	5.87	5.11	5.79	Apr 07	5.89
Exchange Rates									
US\$ per A\$ (year average)	0.63	0.52	0.52	0.58	0.71	0.75	0.75	Apr 07	0.77
US\$ per A\$ (as at 30 June)	0.60	0.51	0.56	0.67	0.69	0.76	0.74	Apr 07	0.82
Special Drawing Rights per A\$ (as at 30 June)	0.45	0.41	0.43	0.48	0.47	0.52	0.51	Apr 07	0.54
Trade Weighted Index of A\$ (as at 30 June)	53.6	49.7	52.3	59.4	59.1	64.5	62.2	Apr 07	66.6

¹ Year on year percentage change unless indicated otherwise

² Average Weekly Ordinary Full-Time Earnings

³ Year to date

⁴ The 12 months to the latest available date

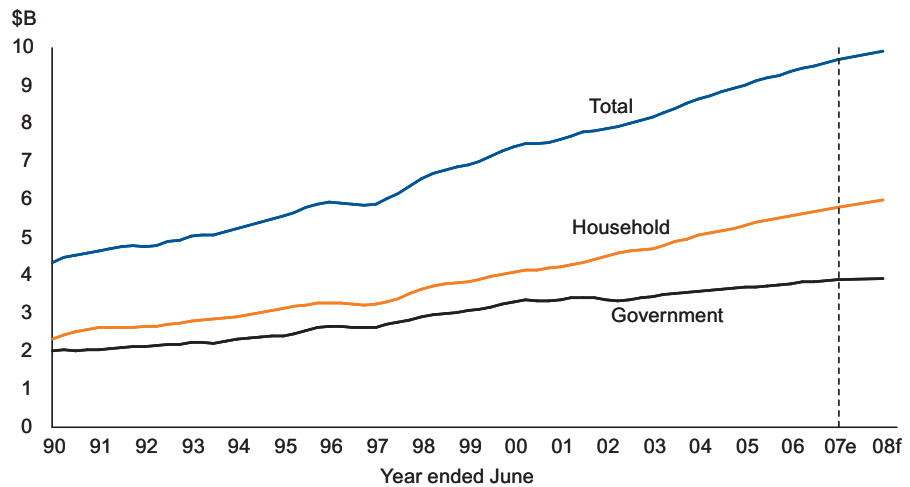
Source: Northern Territory Treasury, Reserve Bank of Australia, ABS data

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 at around 60 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 2006-07, total consumption expenditure by households and government is estimated to increase by 3.3 per cent.

Since 1990-91, government consumption has declined as a proportion of total consumption, from about 45 per cent to 39 per cent in 2006-07. 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)



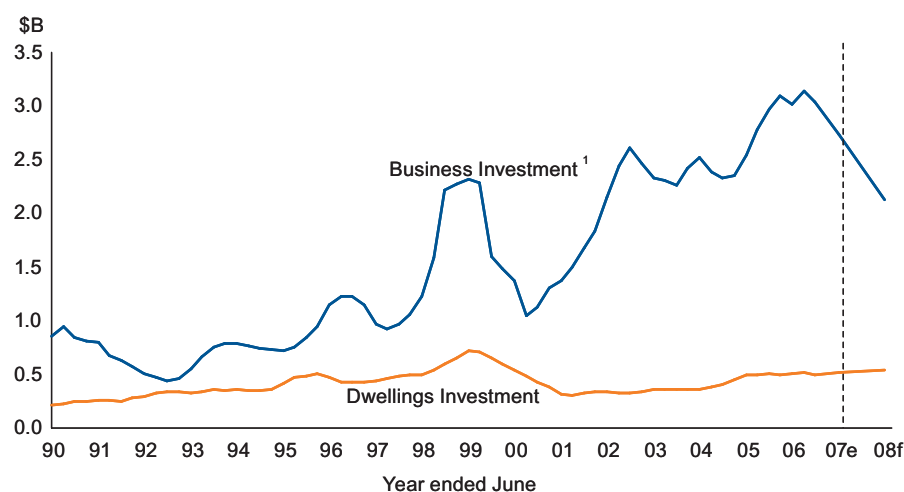
e: estimate; f: forecast
Source: Northern Territory Treasury, ABS Cat. No. 5206.0

Investment

Investment is the other component of SFD and includes 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. Returning to more normal levels, Territory investment is estimated to decrease by 6.5 per cent in 2006-07. The decrease in total investment is being driven by declining levels of business investment in the Territory, which continue to be heavily influenced by major infrastructure works and resource projects. The LNG plant at Wickham Point was completed in December 2005, and the Alcan G3 refinery expansion at Gove is to be completed in June 2007. The construction of these two projects saw business investment in the Territory rise to historic levels, from which it is now returning to more normal levels. Other projects completed in 2006-07 include the biodiesel plant and associated storage facility at East Arm, along with the works at Robertson Barracks designed to accommodate the relocation of the 1st Aviation Regiment to Darwin.

The level of dwelling investment in 2006-07 may have been impacted by both interest rate increases and diminished housing affordability, as Territory house prices continue to increase. Growth in non-residential building activity moderated in 2006-07, though maintaining high levels, supported by investment expenditure associated with the Darwin Convention and Exhibition Centre (Stage 1 of the Darwin Waterfront Development), continued work on the Outrigger Pandanas serviced apartments, the China Town carpark and the completion of work on the Bradshaw training facility.

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



e: estimate; f: forecast

¹ Private investment less dwelling investment and ownership transfer costs

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

Economic Outlook

Following strong growth in 2006-07, GSP is forecast to increase by a further 3.7 per cent in 2007-08, predominantly driven by LNG production reaching capacity levels, the increased production and export of alumina, manganese and gold, as well as the commencement of iron ore exports from the Frances Creek mine near Pine Creek. Modest growth in exports, combined with declining imports, will act to partly offset the impact on the onshore economy of business investment returning to more normal levels. In 2007-08 oil production will decrease in line with falling reserves in the Laminaria-Corallina fields. Nevertheless full capacity production of LNG, spread evenly over the next 15 years, will more than compensate for the declining oil production. Growth in income across a range of industries, including construction, retail and wholesale trade and agriculture, forestry and fishing, are forecast to moderate in 2007-08, in line with population and employment growth.

Employment in 2007-08 will continue to be underpinned by major projects, such as the Darwin Waterfront Development, and the Blacktip to Amadeus pipeline, as well as residential construction. The number of fly-in fly-out workers will decline and the composition of employment is expected to change substantially, resulting in lower real growth in employment income, down to 2.5 per cent in 2007-08 from 8 per cent in 2006-07.

Consumption

After peaking in 2003-04, private consumption growth has moderated in each subsequent year, and 2007-08 is forecast to continue this trend. Interest rates increases, housing affordability and fuel price rises underpin the conservative outlook for private consumption growth. Public consumption is expected to continue to moderate with forecast growth of 0.9 per cent in 2007-08. This reflects in part the introduction of the Northern Territory Government Wages Policy, and constrained expenditure growth across the general government sector.

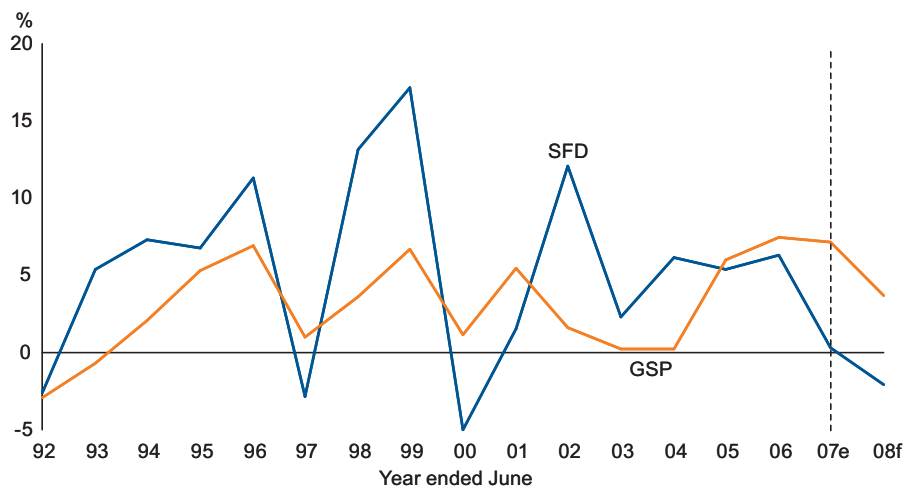
Investment Total investment is forecast to decline by 13.2 per cent in 2007-08. This decrease completely reflects lower private sector business investment, as public investment is forecast to strengthen. Private investment is forecast to decline by 18.1 per cent. The two mega projects, the Alcan G3 refinery expansion and the LNG plant, raised private investment in the Territory to unprecedented levels in 2005-06 and, with their completion, private investment levels are returning towards more long-run trends. Dwellings investment is forecast to increase by 4.1 per cent in 2007-08, following modest growth of 2.1 per cent in 2006-07. The expected increase in public investment expenditure, of 16.6 per cent in 2007-08, reflects a significant increase in expenditure by the Power and Water Corporation, as well as expenditure for community infrastructure at the Darwin Waterfront Development (including walkways, wave pool, parks and picnic areas).

Territory SFD is forecast to decrease by 2.1 per cent in 2007-08, due to the significant decline in total investment expenditure. Although total consumption is forecast to increase by 2.3 per cent in 2007-08, making a positive contribution to growth, total investment is forecast to decrease by 13.2 per cent, more than offsetting the increase in consumption.

Engineering Work With the Alcan G3 refinery expansion at Gove drawing to a close in late 2006-07, engineering construction activity in the Territory will decline in 2007-08. However, new projects such as the \$690 million Montara, Skua and Swift oilfield developments in the Timor Sea, the \$750 million development of the Blacktip gas field in the Joseph Bonaparte Gulf and the \$190 million GEMCO manganese processing expansion at Groote Eylandt will ensure that engineering activity in the Territory remains at levels above historical averages in 2007-08.

Exports 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 retreat from current highs, with a predicted decline in global demand for commodities (especially from China) and increased global supply.

Chart 2.3: Territory SFD and GSP
(chain volume measure,
annual percentage change)



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

Chapter 3 Population

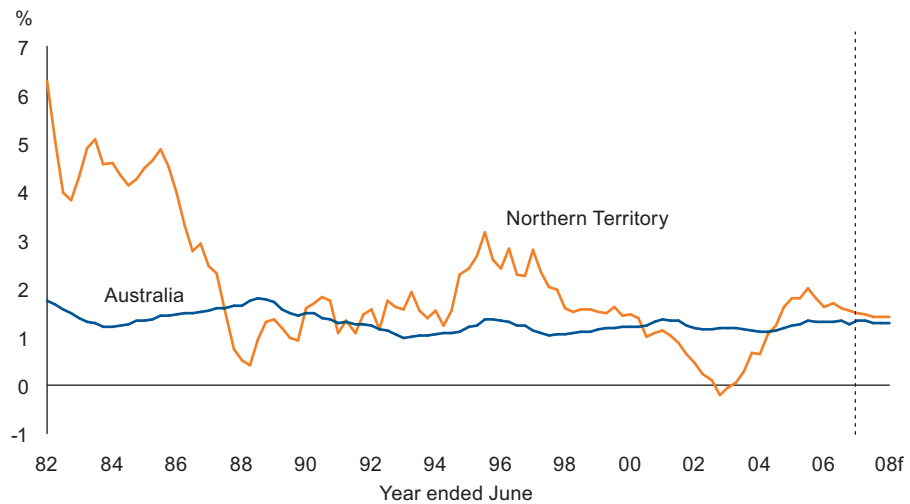
Key Points

- » The Northern Territory is sparsely settled, with a relatively young and highly urbanised population. A far higher proportion of the Territory's population is Indigenous (29 per cent) than in other jurisdictions.
- » Natural increase (births minus deaths) contributes more to total growth in the Territory than in other jurisdictions in part due to high rates of Indigenous fertility.
- » Interstate migration is the most variable component of population growth. After contributing strongly to population growth in 2005, quarterly interstate migration returned to more volatile patterns in 2006-07.
- » Population growth weakened slightly in 2006, although still strong, to an estimated 1.6 per cent, after stronger than expected 2005 growth of 2 per cent.
- » Population growth of 1.4 per cent per annum is forecast for 2007 and 2008.

In many ways, the characteristics of the Territory's population and population growth are different to those of other Australian states and territories. The Territory's population has a larger proportion of both young and Indigenous people, more volatile interstate migration and a large 'population churn' amongst the non-Indigenous population. As both the supply of labour and source of demand for goods and services, population may either drive or be partially driven by economic growth. Net interstate migration, for example, often responds to economic growth. It is important to note, however, that significant economic growth can still occur in the absence of increases in the resident population due to the increasing reliance on fly-in fly-out workers as a source of labour for major projects in the Territory. In addition, capital-intensive major projects, such as those related to mining, do not demand high levels of labour but contribute significantly to the economy. An awareness of the Territory's population change is important to understand the likely demands on future essential services and the associated costs, as well as the broader implications for the Territory economy. This chapter provides a general overview of the Territory's population and growth compared to other jurisdictions. A more detailed analysis of Territory population's ageing is provided in *Budget Paper No. 2*.

The accurate estimation of population is of critical importance to the Territory, as population estimates produced by the Australian Bureau of Statistics (ABS) are used by the Australian Government to apportion goods and services tax (GST) revenues which comprise a substantial proportion of Territory total revenue. Mobility in the Territory is far higher than any other jurisdiction. Because of this, the Northern Territory Treasury has had concerns about the reliability of the enumeration methods used by the ABS to estimate the Territory's very mobile population. These concerns relate to the probable underestimation and the relatively high levels of uncertainty attached to the estimates. The Northern Territory Government and the ABS are working in partnership to improve the reliability of population estimates. During 2006, Northern Territory Government agencies collaborated closely on the Census of Population and Housing (the Census) with the aim of increasing both public awareness of, and enumeration levels from, the Census.

Chart 3.1: Annual Population Growth



f: forecast

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

Recent Population Growth

Territory population growth is volatile (Chart 3.1). Periods of strong or weak population growth are largely due to variations in interstate migration. The post-Cyclone Tracy reconstruction of the 1980s and the expanded defence presence in the Territory during the mid-1990s were associated with strong population growth. The lagged effect of the downturn of the Territory onshore economy in 1999-2000 and 2000-01 was associated with higher net interstate migration losses and low population growth. More recently, population growth has strengthened. Based on ABS estimated resident population (ERP), Territory annual population growth increased to 2.0 per cent in 2005, following growth of 1.2 per cent in 2004 and 0.3 per cent in 2003 (Table 3.1). In 2005-06, Territory estimated population growth was 1.6 per cent, the third consecutive year where the Territory population growth rate exceeded the national growth rate. Population growth in the Territory is forecast to remain at 1.6 per cent to December 2006 and is expected to ease slightly to 1.4 per cent, but remain above national growth in 2007 and 2008.

Table 3.1: Annual Population

To December	Northern Territory		Australia	
	Population (000)	Annual % Change	Population (000)	Annual % Change
1998	191.3	1.6	18 814.3	1.1
1999	194.3	1.6	19 038.3	1.2
2000	196.3	1.0	19 272.6	1.2
2001	198.0	0.9	19 529.3	1.3
2002	198.2	0.1	19 754.8	1.2
2003	198.7	0.3	19 982.5	1.2
2004	201.2	1.2	20 206.4	1.1
2005	205.2	2.0	20 476.2	1.3
2006	208.5	1.6	20 747.0	1.3
2007e	211.4	1.4	21 011.0	1.3
2008f	214.4	1.4	21 278.0	1.3

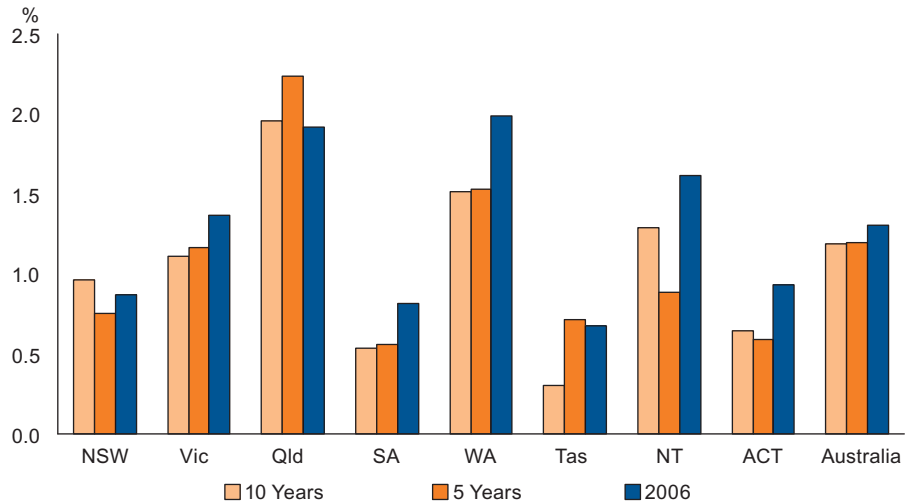
e: estimate f: forecast

Source: Northern Territory Treasury, ABS Cat No. 3101.0

Interstate Comparison

Over the past 10 years, the Northern Territory had the third highest population growth rate of the jurisdictions (1.3 per cent), behind Queensland and Western Australia (Chart 3.2). National growth averaged 1.2 per cent over the same period. However, the Territory's average population growth over the past five years (0.9 per cent) was well below the national rate of 1.2 per cent, largely due to more than two years of interstate migration outflows resulting from the slowing onshore economy. In 2005-06, population growth in the Territory returned to stronger levels and, at 1.6 per cent, was the third highest growth rate of the jurisdictions, behind Western Australia and Queensland.

Chart 3.2: State and Territory Population Growth Rates, to June 2006



Source: ABS Cat. No. 3101.0

Regional Growth

Knowing the size and distribution of population in cities and towns, and how this changes over time, informs government, business and service deliverers of future infrastructure and service needs, including schools, roads, housing and policing, in communities across the Territory. Regional population data below has been presented for Census years only, because Treasury and ABS share concerns about the existing ABS methodology for estimating regional population figures in inter-censal years. Because of the unavailability of accurate births, deaths and migration information relating to remote areas, the inter-censal methodology assumes that no growth has occurred in some remote areas since the Census year, and attributes the increase in the total Territory population to Darwin and other regional towns. This most likely results in an underestimated population in some remote areas, and overestimated population growth in urban and regional centres. Regional population data based on the 2006 Census will be presented in future Budget Papers. Treasury will continue to work with the ABS to identify alternative methods of estimating regional population growth for the inter-censal period 2006 to 2011.

Between 1991 and 2001 there was a steady increase in the proportion of the Territory's population living in the greater Darwin area and a small decrease in the population of the Territory's five main towns of Jabiru, Katherine, Nhulunbuy, Tennant Creek and Alice Springs (Table 3.2). The population residing in all remaining parts of the Territory (the balance) increased as a proportion of the total population.

Table 3.2: Territory Population
Estimates by Main Centre,
as at 30 June

	1991		1996		2001	
	Population	%	Population	%	Population	%
Darwin	68 188	41.2	68 889	37.9	68 710	34.7
Palmerston	8 557	5.2	13 343	7.3	22 559	11.4
Litchfield	9 670	5.8	13 597	7.5	15 573	7.9
Darwin Region	86 415	52.2	95 829	52.7	106 842	54.0
Jabiru	1 454	0.9	1 457	0.8	1 181	0.6
Katherine	8 347	5.0	9 443	5.2	8 956	4.5
Nhulunbuy	4 020	2.4	3 759	2.1	3 800	1.9
Tennant Creek	3 238	2.0	3 694	2.0	3 002	1.5
Alice Springs	24 250	14.7	25 040	13.8	26 520	13.4
Rest of Territory	37 769	22.8	42 621	23.4	47 467	24.0
Total NT	165 493	100.0	181 843	100.0	197 768	100.0

Source: ABS Cat. No. 3218.0.55.001

Population Characteristics

Population figures can be measured in a variety of ways. The concept of population used in this chapter is estimated resident population (ERP), which is the official population figure as measured by the ABS. It includes all people who usually live in a place. To measure ERP, the ABS needs information about the number of usual residents as well as information about the numbers of births and deaths and interstate and overseas migrants. ERP does not include fly-in fly-out workers, temporary visitors or holiday makers.

There are a number of other population concepts that can be of interest, for example, population counts from the ABS Census of Population and Housing. These can be based on place of enumeration (where people are actually counted on Census night) or place of usual residence (the place where people have lived or intend to reside for at least six months). Service providers and planners may be interested in service populations. However, service populations are not easily defined and measured, as they may include tourists and other visitors.

Small Population, Large Land Area

The Territory is sparsely populated, with a density of 0.15 persons per square kilometre, lower than any other jurisdiction and well below the national density of 2.6 people per square kilometre.

Highly Urbanised

Despite the low overall population density, more than three-quarters of the Territory's population live in the main town centres. At the 2001 Census, the Darwin region accounted for around 54 per cent of the Territory's population and Alice Springs for 13 per cent, while the other regional town centres (Katherine, Nhulunbuy, Tennant Creek and Jabiru) accounted for about 9 per cent in total (Table 3.2). This pattern of settlement, particularly for non-Indigenous people, is related to employment opportunities such as in government administration, defence and construction in Darwin, hospitality and other service industries around Alice Springs, and mining and service industries in the other towns.

Urban Drift

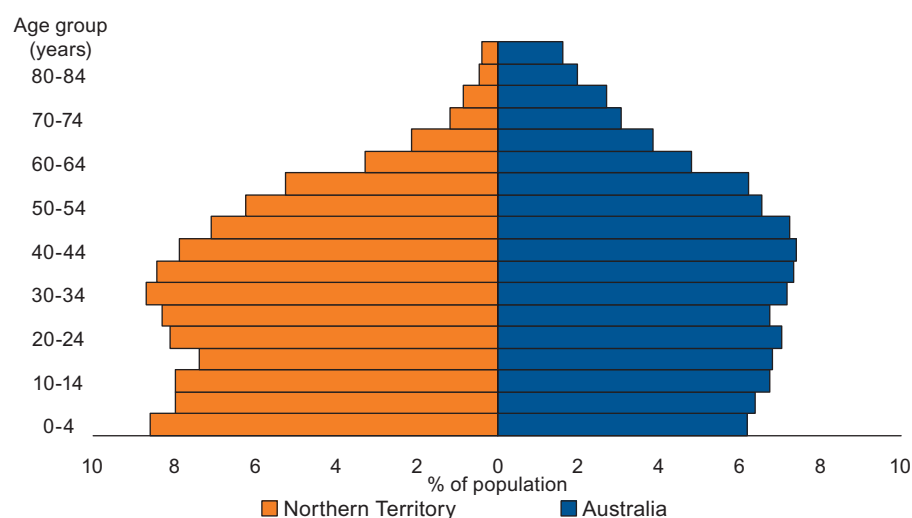
Urban drift, the trend over time for people to move from rural and regional areas to urban centres and their environs, is becoming a much discussed feature of population movement both in the Territory and interstate. However, it is unclear to what extent this occurs in the Territory. For example, between the 1996 and 2001 Censuses, there was a small increase in the proportion of the population living in the Darwin region, and a similar growth in the proportion living in remote areas. Work by Wilson and Barnes¹ provides some evidence for the movement of the non-Indigenous population towards Palmerston and Litchfield in the Darwin region and for the movement away from all other areas of the Territory.

Taylor² conducted analyses of Census data and found that there has been a net migration gain of Indigenous people in the Darwin region from 1996 to 2001 while most remote areas of the Territory have suffered a net migration loss of Indigenous people. However, even with a migration loss, remote areas continue to experience population growth because of strong natural increase. Urban migration among the Indigenous population is probably driven by the need to access health and other services as well as better employment opportunities. Little is known about the scale and trend of this movement within the Territory because of the lack of adequate and relevant data, as well as data quality problems that complicate interpretation of the results. The Census, which is the major source of data, does not capture the patterns of short-term and circular movement that are often said to characterise Indigenous mobility. As the remote Indigenous population grows, it will become increasingly important to understand more about these demographic shifts.

Young Population

The Territory's population is the most youthful of any jurisdiction in Australia (Chart 3.3). It consistently has the largest proportion of people under 15 years of age and the smallest proportion aged 65 and over of any state or territory. The proportion of the Territory's population under the age of 15, for example, is 25 per cent, compared to 19 per cent nationally, reflecting the younger age profile of Indigenous Territorians and higher birth rate. The Territory also has a small proportion of people aged 65 years and over, at 5 per cent, compared to 13 per cent in Australia, due to lower life expectancy of Indigenous Territorians and out-migration of non-Indigenous Territorians at middle and older ages. The Territory has a higher proportion (71 per cent) of its population in the typical working age group of 15-64 years, compared to the Australian population (67 per cent). Refer to *Budget Paper No. 2* for more information about population ageing.

Chart 3.3: Age Distribution of Territory Population, June 2006



Source: ABS Cat. No. 3201.0

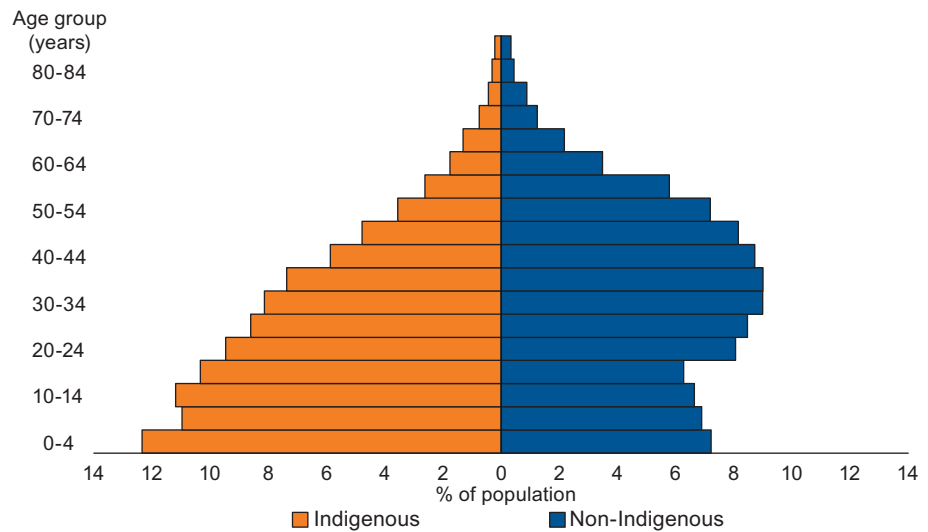
As at 30 June 2006, the median age of Territorians was estimated by the ABS at 31.0 years. This is the youngest of any jurisdiction and almost six years below the national median age of 36.9 years. However, over the past five years, the Territory's population has aged markedly faster than the national population. The median age in the Territory rose from 29.6 years in 2001 to 31.0 years in 2006, compared to an increase nationally from 35.7 years to 36.9 years over the same period.

Indigenous Population

The Indigenous population constitutes 29 per cent of the Territory's total population, a far larger proportion than any other jurisdiction, according to ABS experimental estimates of the Indigenous population for 2001. The Territory Indigenous population is much younger than the non-Indigenous population, with a median age of 21.8 years at June 2001 compared with 32.4 years for the non-Indigenous population.

The ABS experimental estimates are based on the 2001 Census usual residence counts and take into account instances in which Indigenous status is not stated, the extent to which the ABS estimates that Indigenous people are undercounted and a number of other minor demographic adjustments. At 30 June 2001, the Indigenous population in the Territory was estimated to be 56 875 persons, accounting for 12 per cent of the national Indigenous population of 458 520, which was 2.4 per cent of Australia's total population. Between 1991 and 2001, the Territory's Indigenous population had average annual growth of 2 per cent compared to 1.7 per cent for the non-Indigenous population. Chart 3.4 shows projections for the Indigenous population. The Indigenous population is projected to grow to 62 500 by 30 June 2006. See *Budget Paper No. 2* for more information on these projections.

Chart 3.4: Age Distribution of Territory Population, June 2006



Source: Northern Territory Government-Charles Darwin University population projections (unpublished)

Household Size

Between June 1996 and June 2001, the number of resident households in the Territory was estimated by ABS to have increased by 11 per cent (based on 1996 and 2001 Census data). Household growth was significantly faster than population growth of 9 per cent based on equivalent data, and is associated with a drop in the average number of people per household from 3.1 to 3.0. Although this seems a small decrease, the potential impact on housing demand is substantial. The ongoing decline in the average size of Territory households reflects an ageing population, a declining birth rate and an increasing proportion of single person households, consistent with national trends. Despite the decline, household size in the Territory remains the largest of all jurisdictions, partly reflecting high rates of overcrowding among Indigenous households as well as larger families, particularly in remote communities.

Male to Female Ratio The Territory has significantly more males than females, with an estimated 112 males (56 per cent) for every 100 females (44 per cent) as at 30 June 2006. This contrasts with the national ratio of 99 males for every 100 females. The ratio becomes more extreme in older age groups until 75 years and over, progressing from 107 males for every 100 females in 0-19 year olds, to 126 males to 100 females in 55-74 year olds. Corresponding national figures are 105 males for every 100 females aged 0-19 years and 99 males for every 100 females aged 55-74 years.

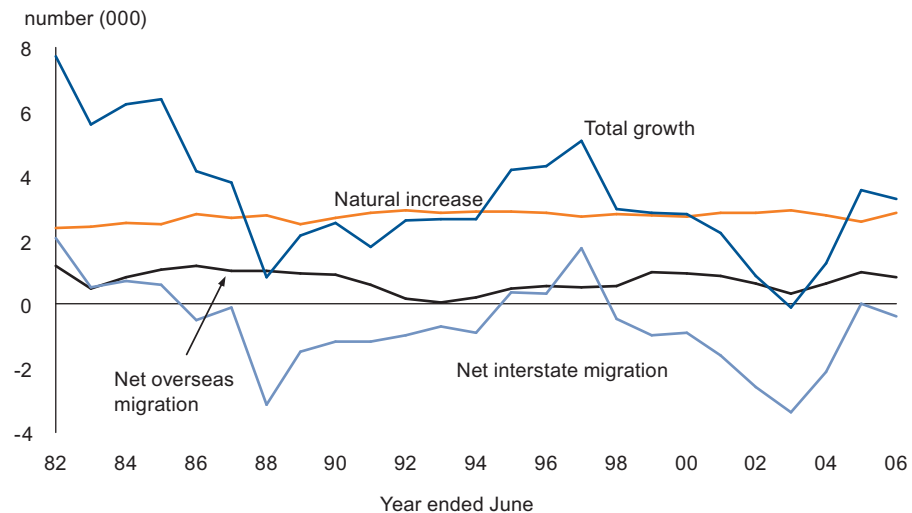
Overseas Born 2001 Census results show that 22 per cent of the enumerated Territory resident population was born overseas, with many from non-English speaking backgrounds. This is similar to the proportion of overseas-born people recorded in both the 1991 and 1996 Censuses (21 per cent), and is similar to the total Australian proportion. In the Territory, of those born overseas, the main countries of birth were the United Kingdom (17.7 per cent), New Zealand (8.2 per cent), the Philippines (3.9 per cent), the United States (2.8 per cent), Germany (2.4 per cent) and Greece (2.4 per cent).

Population Ageing Population ageing is a trend being experienced in developed nations around the world. By 2045, one in four Australian residents will be aged over 65, compared with about one in eight currently. The Territory's population is also ageing rapidly, faster even than the national rate, although the actual numbers of population in older age groups will be small compared to other jurisdictions. Northern Territory Government and Charles Darwin University (CDU) projections show that the proportion of the non-Indigenous population aged 65 years and over will increase from about 5 per cent in 2007 to almost 9 per cent in 2027, and 10 per cent in 2045. For the Indigenous population a more significant rate of ageing will occur in the outer years between 2027 and 2045, with the proportion of the Indigenous population over 65 increasing from 3 per cent to 5 per cent between 2007 and 2027 and then to about 8 per cent in 2045. In the absence of significant policy change, the implications of ageing are lower labour force participation, potentially reduced labour productivity and increased government expenditure on services such as health care. A recent Productivity Commission report³ suggests Australia could increase its workforce participation and productivity by changing workforce incentives and increasing the health and education levels of the population. For a more detailed discussion on ageing and the economic implications of ageing in the Territory, refer to the population chapter in *Budget Paper No. 2*.

Components of Population Growth

There are two components to population growth – natural increase, which is the excess of births over deaths, and migration. At the Australian level, migration consists of net overseas migration while at the state and territory level, interstate migration must also be taken into account. The components of Territory population growth and total population growth are shown in Chart 3.5.

Chart 3.5: Territory Population Growth by Component



Source: ABS Cat. No. 3101.0

Natural Increase

Chart 3.5 shows the strong and relatively stable contribution that natural increase makes to total Territory population growth. Over the past five years, natural increase has contributed 1.4 percentage points to total annual growth, consisting of around 3700 births and 900 deaths each year (Table 3.3). This is much higher than the Australian average of 0.6 percentage points per annum. Natural increase in the Territory's Indigenous population accounts for about 40 per cent of the total contribution of natural increase to Territory population growth.

Table 3.3: Population Components, as at 30 June

	1999	2000	2001	2002	2003	2004	2005	2006
	(000)							
Northern Territory	192.7	195.6	197.8	198.7	198.5	199.8	203.4	206.7
Natural Increase	2.7	2.7	2.9	2.8	2.9	2.8	2.6	2.8
Births	3.6	3.6	3.7	3.8	3.8	3.7	3.5	3.8
Death	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0
Overseas Migration	1.0	0.9	0.9	0.7	0.3	0.6	1.0	0.8
Net Interstate Migration	-1.0	-0.9	-1.6	-2.6	-3.4	-2.1	0.0	-0.4
New South Wales	6 411	6 486	6 575	6 634	6 682	6 721	6 769	6 828
Victoria	4 686	4 741	4 805	4 857	4 911	4 963	5 023	5 092
Queensland	3 501	3 562	3 629	3 711	3 801	3 888	3 977	4 053
South Australia	1 498	1 505	1 512	1 519	1 526	1 533	1 542	1 555
Western Australia	1 850	1 874	1 901	1 925	1 950	1 978	2 011	2 051
Tasmania	471	471	472	473	477	482	486	489
Australian Capital Territory	312	315	319	322	323	324	326	329
Australia	18 926	19 153	19 413	19 641	19 873	20 092	20 340	20 606

Source: ABS Cat. No. 3101.0

Births

The Territory's total fertility rate (TFR, the number of children per woman during lifetime) in 2005 was 2.3 babies per woman, the highest of any state or territory. Over the past 20 years, the Territory's TFR has remained around this level while Australia has experienced a small decline in the TFR over the same period from 1.9 to 1.7 before an increase over the past year to 1.8. The Australian Government's 'baby bonus' policy and changes to the family tax benefits scheme may see this rise further. Such policies are aimed at reversing Australia's falling fertility rate which is below replacement level (the level of fertility at which a cohort of women are just replacing themselves with daughters – in Australia a TFR of about 2 is required).

The Territory's high TFR is strongly influenced by high fertility rates among Indigenous women. In 2005, there were 1485 births registered as Indigenous, 41 per cent of total births (3659) in the Territory. Nationally, Indigenous births made up nearly 5 per cent of all births. The TFR for Territory Indigenous women in 2005 was 2.5. Indigenous women tend to be younger when they give birth, with a median age of 23.6 years compared with 27.9 years for all Territory mothers. Age-specific fertility rates are higher among younger women, particularly Indigenous women, in the Territory than they are elsewhere. The age-specific fertility rate for 15 to 19 year old Indigenous women in the Territory in 2005 was four times that of non-Indigenous Territory women and seven times higher than that of Australian women aged 15 to 19.

Half the Territory's births in 2005 were to women living outside the Darwin region. The TFR for the Darwin region was 2.1 compared with 2.5 for the rest of the Territory. This reflects the high proportion of Indigenous people living in regional and remote areas of the Territory.

Deaths

In 2005, 985 deaths were registered in the Territory. The Territory's younger age structure means that it has a lower crude (unadjusted) death rate than other states and territories. In 2005, the Territory's crude death rate was 4.8 per 1000 population compared with 6.4 for Australia. The median age at death in the Territory was 56.7 years compared with 79.8 years for Australia.

The crude death rate conceals important aspects of mortality in the Territory such as the high death rate of Indigenous people. Once adjusted by the ABS for differences in the age structure of the Territory and Australia, the Territory's death rate rises to 8.6 per 1000 compared with 6.0 for Australia. Although, the age-standardised death rate has dropped from 13.2 per 1000 to 8.6 over a 20-year period, the Territory's rate remains the highest of all the jurisdictions.

While about one in three Territorians is Indigenous, deaths registered as Indigenous accounted for nearly half of all deaths in 2005. This partly reflects the tendency of older non-Indigenous Territorians to leave the Territory on retirement, however high mortality rates at young ages among Indigenous people explain most of this over-representation in the death statistics. For the period 2001 to 2003, Indigenous males in the Territory died at 2.7 times the rates of all Australian males. The ratio for Indigenous females was slightly lower at 2.6. The greatest differential lay in the 30 to 44 year old age group where Indigenous males and females died at up to 11 times the rate of their Australian counterparts.

Non-Indigenous male and female death rates in the Territory were similar to those of all Australian males and females. Reflecting deaths at younger ages, the median age at death for Territory Indigenous males was 45.8 years compared with 63.7 for non-Indigenous males, and 50.4 years for Indigenous females compared with 70.5 for non-Indigenous females. Cardiovascular disease is the leading cause of death for Indigenous males and females while cancer is the leading cause of death among non-Indigenous Territorians.

Life Expectancy

The higher death rates of Indigenous people and at earlier ages result in lower life expectancy. For 2001-03, estimated life expectancy at birth (the number of years a baby born in the period could expect to live if no changes in future death rates occur) in the Territory was 59.4 years for Indigenous males and 78.6 years for non-Indigenous males compared with 79.2 years for all Australian males. The corresponding figures for females are 67.9 years for Indigenous females, 84.3 years for non-Indigenous females and 84.8 years for all Australian females.

A recent Charles Darwin University (CDU) study has shown that there may have been greater improvements in life expectancy for Indigenous Territorians than previously thought. The study showed that Indigenous life expectancy in the Territory increased by 8 years for males and 14 years for females between 1967 and 2004. The improvements are a combination of lower infant mortality and lower mortality at older ages. Despite the improvements, the gap between Indigenous and non-Indigenous life expectancy has not closed at all for males and only somewhat for females. This is partly because non-Indigenous life expectancy has also increased over time, and also because Indigenous mortality rates remain high. Future gain in life expectancy will occur mainly through reduced mortality over the middle ages of 40 to 60 years⁴.

Overseas Migration

On a net basis, the Territory has gained about 700 overseas migrants each year for the last five years, a contribution of 0.35 percentage points per annum to total population growth. Although the contribution to growth is small, it can be volatile from year to year (ranging from 0.2 to 0.5 of a percentage point per annum during the last five years). However, the Territory's share of the total Australian migrant intake (on average 0.5 per cent) is less than its share of the Australian population (1 per cent).

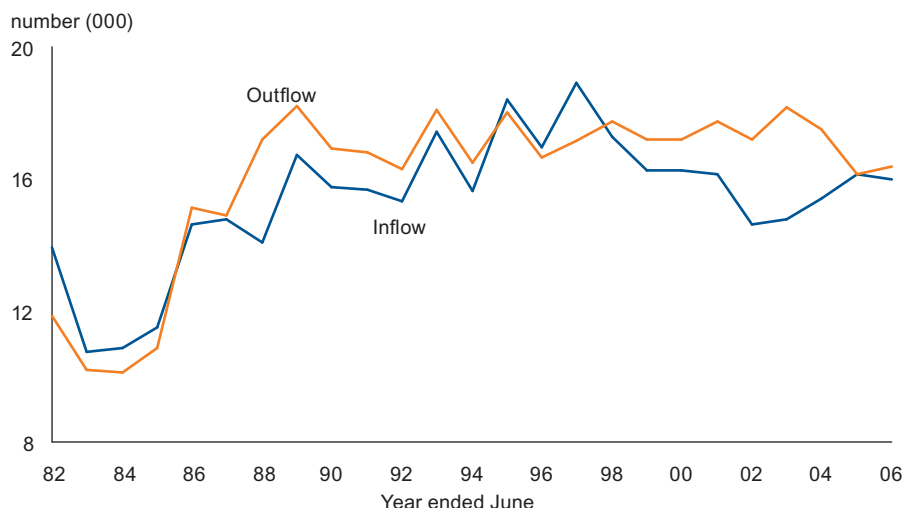
Recent times have seen an increase in the numbers of skilled migrants to the Territory, as a result of new Australian Government programs and policies as well as the need for the Territory to meet employment demand within Australia's skill shortage climate. Between 2004-05 and 2005-06, the number of skilled entrants grew by nearly 80 per cent from 154 to 274 (Department of Immigration and Multicultural Affairs (DIMA) statistics). The Territory also takes about 100 humanitarian entrants each year. In recent years, skilled and humanitarian migrants have increased as a proportion of total migrants, while the proportion of family migrants has decreased.

The ABS has developed a new methodology for estimating net overseas migration and the first results based on the new method will be reported in June 2007.

Interstate Migration

Interstate migration remains the 'wildcard' of Territory population growth. Net interstate migration (NIM), as measured by the ABS, has fluctuated from negative 3400 per annum to positive 1700 per annum over the last 20 years, however it most commonly takes the form of a loss to the Territory. Over the past five years, net interstate migration has subtracted on average 0.9 percentage points from annual growth, an average net loss of around 1700 people each year. Periods of positive net inflows occurred in the mid-1990s during the defence force build up and more recently, in 2005, there was a period of small positive inflow with the influence of major employment-creating projects such as the Wickham Point liquefied natural gas (LNG) plant and the Alcan G3 refinery expansion (Chart 3.6).

Chart 3.6: Territory Interstate Migration Flows



Source: ABS Cat. No. 3101.0

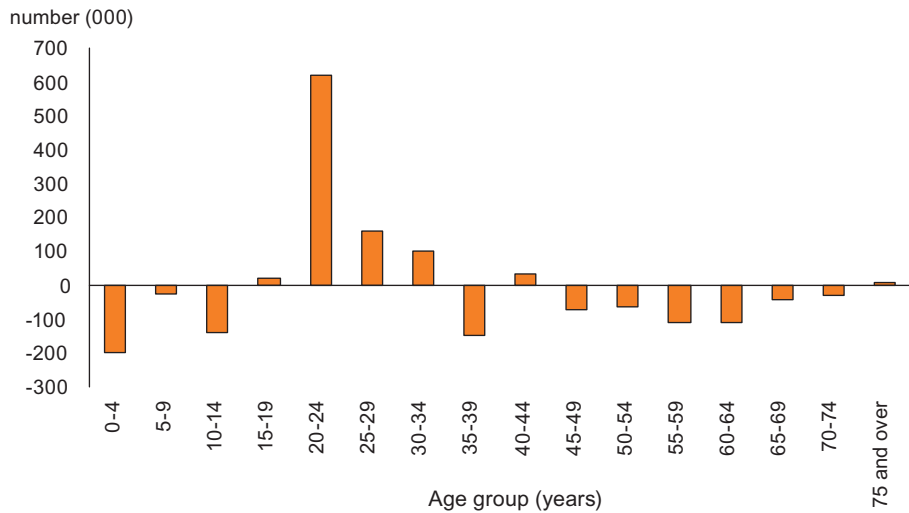
A recent telephone survey (the Territory Mobility Survey) of 1500 Territory residents aged 18 and over provided the first evidence-based look at who migrates to the Territory and why, as well as who stays. The survey was part of demographic research being conducted in partnership between the Territory Government, CDU and the ABS.

The results confirmed the transient nature of the Territory's population but they also showed that about 60 per cent of Territory residents born outside the Territory had lived here for 10 years or more, and 25 per cent had lived here 20 years or more. In terms of future intentions, 37 per cent of respondents who were living in the Territory said they would move away from the Territory at some point and 55 per cent indicated they would stay permanently.

The survey results show that the most common reasons for moving to the Territory are work-related, although lifestyle and social connections also rank highly. Reasons for leaving the Territory are being explored through other surveys conducted as part of the Territory Government-CDU partnership. Results will be available later in the year.

Although movement to and from the Territory occurs at all ages, most Territory 'in' migrants are young people. The median age of Territory interstate 'in' migrants in 2004-05 was 27 years, equal lowest with the Australian Capital Territory. Chart 3.7 shows a typical age profile of net interstate migration for the Territory, with a net inflow of people in their 20s and early 30s. With few exceptions, more people aged below 20 and over 35 years tend to leave the Territory than come to it.

Chart 3.7: Age of Territory Net Interstate Migrants, 2004-05

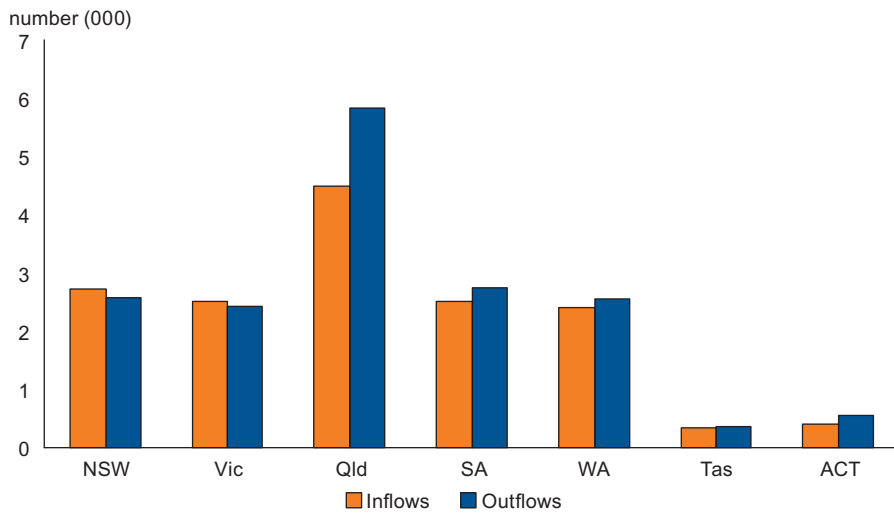


Source: ABS Cat No. 3412.0

Interstate mobility is more significant in the Territory than in other jurisdictions. About 21 per cent of Territory residents in 2001 were not living in the Territory five years earlier. Although the Australian Capital Territory had a similar rate to the Territory, the figure ranged from 6 per cent to 11 per cent for the states. Over the five years to June 2006, about 9 per cent of the population left the Territory each year for interstate destinations while nationally, only about 2 per cent of the population moved interstate.

More of the Territory exchange is with Queensland than other states. In the five years to June 2006, 29 per cent of the combined population flows were with Queensland, while the other large states accounted for most of the remainder (Chart 3.8). About one-third of respondents in the Territory Mobility Survey said Queensland was their preferred destination should they leave the Territory in the future.

Chart 3.8: Territory Interstate Migration Flows by Jurisdiction, 2001-02 to 2005-06 (annual average)



Source: ABS Cat no. 3101.0

Population Outlook

Territory population growth has remained strong during 2005-06 with growth for the year being 1.6 per cent and similar growth estimated for the year to December. Population growth weakened slightly from the 2 per cent annual growth recorded for the year to December 2005, however it remained strong and above the national average. Major employment creating projects are the key drivers of change in population growth in the Territory, however with the completion of the Wickham Point LNG plant, and anticipated completion of the Alcan G3 expansion project in mid-2007, and few other major projects on the horizon, it is possible that population growth will continue to moderate. Net interstate migration losses are likely to return to their long-run average of around -1000 per annum. Residential construction is strong, as evidenced by the many rapidly rising apartment blocks in the CBD, and this should continue in the short term. Vacancy rates are low and continue to maintain residential construction activity, however some of the demand may be investor driven rather than driven by population growth. The Darwin Waterfront Development Stage 1 will provide significant employment opportunities during 2007 and 2008, while the Blacktip pipeline set to commence in mid-2008 will provide limited short-term employment. However, based on current knowledge, the most significant future project for the Territory would be Train 2 of the LNG plant, possibly commencing in early 2009. If employment prospects for this project are the same as, or better than, for Train 1, this should provide a substantial boost to population growth.

Net overseas migration should remain strong in the mid-term as the skill shortage continues and access to regional skilled migration visas is facilitated. However, the skill shortage also means demand for workers is strong in other parts of Australia such as Western Australia and Queensland, and the Territory has to remain competitive to attract and keep both interstate and overseas workers here.

For the remainder of the decade, population growth is forecast to average around 1.4 per cent. Beyond 2007-08, forecasting is difficult because of the uncertainty surrounding future major employment creating projects.

Endnotes

¹ Wilson, T and Barnes, T 2006, *The spatial patterns of Northern Territory non-Indigenous internal migration, 1996-2001*, Working Paper, School for Social and Policy Research, Charles Darwin University, Darwin.

² Taylor, J 2006, *Population and Diversity: Policy Implications of Emerging Indigenous Demographic Trends*, Centre for Aboriginal Economic Policy Research, Australian National University, Canberra.

³ *Productivity Commission 2006*, Report to the Council Of Australian Governments, Canberra.

⁴ Wilson, T, Condon, JR and Barnes, T 2007, 'Northern Territory Indigenous life expectancy improvements, 1967-2004'. *Australian and New Zealand Journal of Public Health*, vol. 31, no. 2, pp. 184-188.

Chapter 4 Labour Market

Key Points

- » The Territory labour market continues to strengthen in 2006-07 as buoyant onshore economic conditions prevail.
- » Labour market statistics and related indicators point to strong employment growth and a shortage of skilled labour in 2006-07, which is expected to continue into 2007-08.
- » Following an increase of 4.0 per cent in 2005-06, as reported by the Australian Bureau of Statistics (ABS), resident employment is expected to increase by 4.4 per cent in 2006-07.
- » Resident employment growth of 2.3 per cent is forecast for 2007-08, supported by ongoing construction work on the Darwin Waterfront Development, residential construction and engineering projects such as the condensate processing facility and the Blacktip gas pipeline.
- » ABS-reported employment data does not include defence personnel or fly-in fly-out (FIFO) workers and as such does not capture all types of employment in the Territory. Even more importantly, ABS employment data for the Territory is subject to very high levels of volatility and must be interpreted and considered in conjunction with a range of other economic indicators.

Labour is a critical input in the production of goods and services, making economic growth and employment growth highly interdependent.

The Territory's labour force profile is highly service oriented. Services account for almost 90 per cent of employment in the Territory, compared to just over 80 per cent nationally. The largest employers are retail trade, government administration, health, education, and property and business services. The Territory also has a relatively young, mobile workforce which is reflected in its large interstate migration flows.

Territory Employment

Measurement Issues

There are a number of data quality issues associated with the ABS estimates of Territory employment that make analysing the Territory labour market difficult without using a range of economic indicators.

These issues mean that broad economic conditions in the Territory are not always reflected in ABS reported resident employment levels or the resident unemployment rate. For example, in the three years to 2004-05, both the size of the labour force and the number of employed declined, in contrast to the strong growth in state final demand (SFD) and alternative indicators of employment such as ANZ job advertisements over the same period. It is Treasury's view that this outcome is a result of a number of data quality issues associated with the ABS Labour Force Survey (LFS), including the coverage of the survey and the high degree of volatility in the survey estimates (see 'Labour Force Survey Data Quality Issues' below for more detail).

2005-06 Following strong economic growth in 2004-05, the Territory's economy continued to strengthen in 2005-06, with SFD and gross state product (GSP) increasing by 6.5 per cent and 7.5 per cent respectively. Economic growth was largely boosted by high levels of private investment expenditure, adding 3.7 percentage points to SFD growth. This was driven by ongoing construction work for major projects, most notably, the ConocoPhillips liquefied natural gas (LNG) plant at Wickham Point and the Alcan G3 refinery expansion at Gove, as well as a substantial increase in mineral exploration.

A number of other indicators suggested strong demand for labour during 2005-06. The Sensis Business Index for Small and Medium Enterprises indicated that a net balance of small and medium enterprises (SMEs) increased the size of their workforce in the year, while the ANZ Job Advertisement Series displayed moderate year on year growth of 2.6 per cent in 2005-06. In addition, Territory newspaper job advertisements remained at near record levels throughout most of the year, following year on year growth of 29.9 per cent on 2004-05.

Recent LFS data has shown a significant turnaround, with year on year resident employment growth increasing from -2.0 per cent in 2004-05 to 4.0 per cent in 2005-06, and the resident unemployment rate falling from an annual average of 6.3 per cent in 2004-05 to 5.7 per cent in 2005-06. ABS monthly trend estimates have shown even greater volatility, with unemployment falling from a peak of 7.7 per cent in September 2004 to 4.8 per cent in June 2006.

Part of the recent strong growth in employment may also reflect a lagged impact that large employment-creating projects have had on the local economy, as well as the propensity for the latest projects to employ a higher proportion of Territory residents.

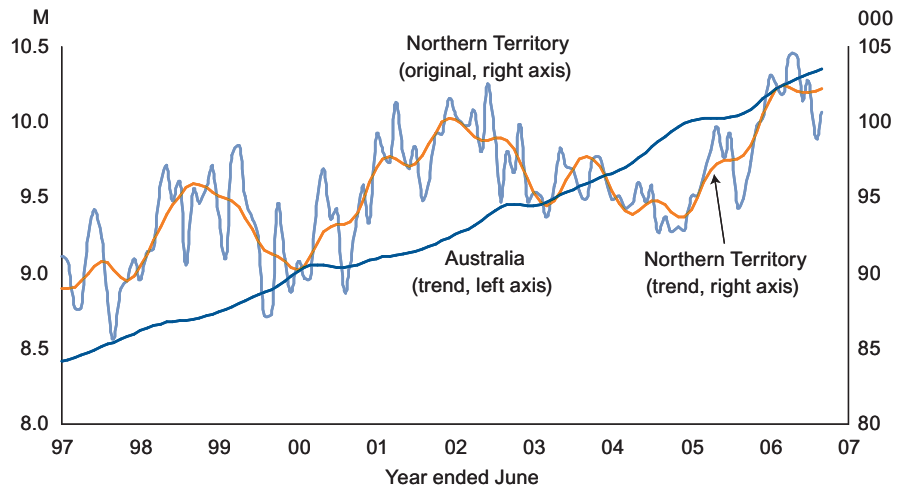
2006-07 The Territory's labour market strengthened further in 2006-07, as buoyant onshore economic conditions continued. GSP is estimated to increase by 7.2 per cent in the year, while SFD growth is estimated at 0.3 per cent, as engineering construction activity decreases, driven in part by the completion of the Wickham Point LNG plant in 2005-06. Nevertheless, construction activity remained near record levels, as work on the Alcan G3 refinery expansion continued and residential construction activity strengthened. Construction activity was also supported by continuing work for the \$1 billion Darwin Waterfront Development and residential construction projects including numerous high rise apartment developments.

Latest data indicates that job advertisements strengthened in 2006-07, with growth of 5.9 per cent in the year to February 2007. In addition, the Sensis Business Index for Small and Medium Enterprises reports that a net balance of 21 per cent of SMEs expected to increase the size of their workforce in the three months to April 2007, consistent with recent strong trends.

ABS-Reported Resident Employment

Despite the limitations of ABS Labour Force estimates for the Territory, particularly in relation to measuring short-term movements, in the long term the estimates are clearly correlated with actual labour market outcomes, and tend to reflect broader economic trends. Employment is generally pro-cyclical, with strong employment growth normally associated with overall strength in the economy, while growth in unemployment is largely counter-cyclical.

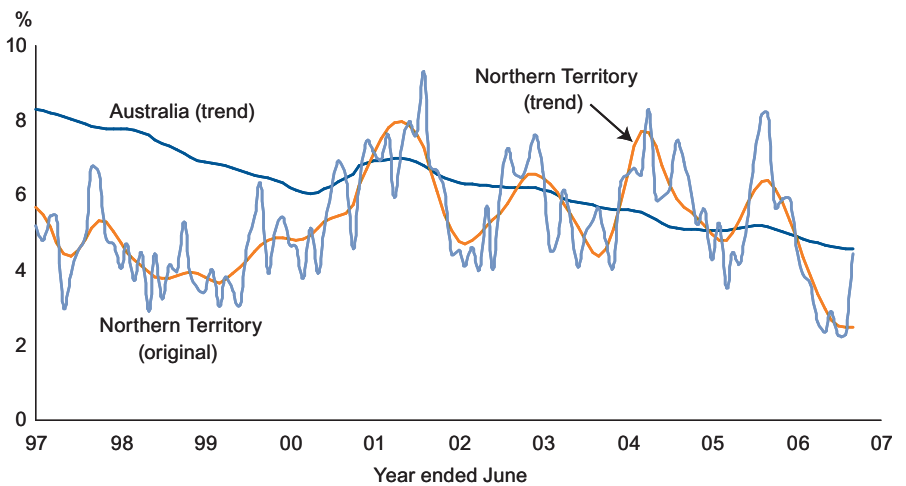
Chart 4.1: ABS-Reported Resident Employment



Source: ABS Cat. No. 6202.0

Following negative growth in 2004-05, ABS-reported resident employment rebounded in 2005-06 with growth of 4.0 per cent, and continued to expand in 2006-07 with growth estimated at 4.4 per cent. The labour force (the number of employed persons plus the number of unemployed) reported similar growth of 3.4 per cent in 2005-06, while the unemployment rate fell from 6.3 per cent in 2004-05 to 5.7 per cent in 2005-06 and an estimated 3.5 per cent in 2006-07.

Chart 4.2: ABS-Reported Resident Unemployment Rate



Source: ABS Cat. No. 6202.0

It is important to note that, as the previous labour force estimates were likely to have underestimated true employment growth and overestimated the unemployment rate, growth in employment in 2005-06 and 2006-07 may not have been as strong as the LFS suggests. A significant proportion of the increase may be due solely to volatility in the LFS data.

Volatility in the ABS labour force estimates is an ongoing issue, and there remains the potential for future deviation between ABS estimates and actual employment outcomes in the Territory.

**Table 4.1: Territory ABS-reported
Labour Force and Employment
(annual average)**

Year ended June	Civilians 15 yrs and over		Labour Force		Participation	Employed		Unemployment
	000	% Change	000	% Change	Rate %	Persons 000	% Change	Rate %
1998	134.4	2.2	94.5	2.6	70.3	89.8	3.3	4.9
1999	137.3	2.2	98.5	4.3	71.7	94.5	5.3	4.0
2000	139.9	1.9	96.6	-1.9	69.0	92.3	-2.3	4.4
2001	141.5	1.1	99.0	2.5	69.9	93.4	1.1	5.6
2002	142.5	0.7	105.6	6.7	74.1	98.4	5.4	6.8
2003	143.0	0.3	104.4	-1.1	73.0	98.3	-0.1	5.8
2004	143.3	0.2	101.4	-2.8	70.8	96.1	-2.2	5.2
2005	145.1	1.2	100.5	-0.9	69.3	94.2	-2.0	6.3
2006	148.6	2.4	103.9	3.4	69.9	98.0	4.0	5.7
2007e	152.0	2.3	106.0	2.0	69.7	102.3	4.4	3.5
Compound Annual Growth %								
1986-87 to 2006-07e	1.7		1.5			1.7		
2001-02 to 2006-07e	1.3		0.1			0.8		

e: estimate

Source: Northern Territory Treasury, ABS Cat. No. 6202.0

Full-time and Part-time Employment

The recent strong growth in ABS-reported employment has been driven by growth in full-time positions, which increased by an average of 6.0 per cent per year since January 2005. Full-time employment growth was partially offset by declining part-time employment, down by an average of 5.1 per cent a year over the same period. This has resulted in an increase in full-time employment as a percentage of total employment, up from 77.3 per cent in January 2005 to 80.9 per cent in January 2007. The increasing proportion of full-time employment in the Territory contrasts with national employment trends, where the proportion of full-time employment has been declining over the past 20 years, and now stands at 71.5 per cent.

Skills Shortages

The Northern Territory has traditionally experienced difficulty in attracting and retaining skilled labour, with recruitment difficulties even greater in regional areas. Lack of suitable skilled labour can have a significant impact on the economy, constraining the rate of economic growth and putting upward pressure on wages as employers try to attract workers.

In recent years, strong growth in the Territory economy and labour demand associated with major projects has exacerbated skills shortages across a broad range of industries. In particular, acute shortages have been reported by the Department of Employment, Education and Training in most trade occupations, and professional occupations such as engineering, nursing, education and child care.

In the February 2007 Sensis Business Index for Small and Medium Enterprises, 26 per cent of small and medium enterprises (SMEs) reported that finding quality staff was their prime concern, compared to 16 per cent nationally. According to Sensis, the issue of staff recruitment for SMEs has risen substantially in recent years. Since late 2004, the percentage of SMEs reporting staff recruitment as their primary concern has ranged between 25 and 30 per cent, compared to around 10 per cent in the early part of the decade. The index also reported that 22 per cent of SMEs expect to increase staff in the next quarter, compared with 15 per cent nationally.

The recent strong growth in employment and skilled labour shortages is highlighted by the Department of Employment and Workplace Relations (DEWR) skilled vacancy survey, which reports that the Northern Territory vacancy index increased by an average of 18 per cent a year over the past five years to March 2007, while the ANZ job advertisement series grew at an average of 11 per cent a year over the same period.

Population growth and employment growth are highly interdependent, and both interstate and overseas migration are valuable sources of skilled labour for the Territory. Population growth has recovered from the 2003 low point, and was 1.6 per cent through the year to June 2006. A major driver of the increase is the recovery in interstate migration during 2005, recording the first positive net migration figures this decade. However, the latest interstate migration figures have shown more mixed results, with net outflows recorded in two of the past three quarters.

Overseas migration is typically a net contributor to the Territory's population growth, on average adding more than 700 people per year to the Territory's population. Almost 40 per cent of these enter under the skilled stream of Australia's migration program. The number of skilled stream migrants intending to settle in the Territory has risen significantly in recent years, increasing at an average annual rate of 31 per cent over the three years to 2005-06.

There has also been a growing trend in the number of workers coming to the Territory under the Temporary (long stay) Business Visa (subclass 457). The 457 visas are designed to allow Australian employers to sponsor skilled workers from overseas for a period of up to four years, providing there are no suitably skilled Australian workers available. Holders of 457 visas can bring eligible family members with them under a secondary 457 visa. Secondary visa holders can work or study while in Australia.

Recent data indicates significant increases in the number of 457 visas granted in the Territory. In 2005-06, the number of primary 457 visa holders entering the Territory almost doubled to 690, following growth of 75 per cent in 2004-05. As at 30 June 2006, there were 871 people in the Territory under 457 visas, 592 of whom were primary visa holders. This represents the highest number of primary 457 visa holders relative to population of the jurisdictions.

Government Strategies

A number of major initiatives are under way aimed at reducing skill shortages in key industries in the short to medium term. The Territory Government's policy, Jobs Plan, aims to reduce the shortage of skilled tradespeople through a range of strategies including the expansion of pre-vocational training for apprentices, provision of financial incentives for employers to take on apprentices and increasing the number and range of school-based apprenticeships.

In the 2005-06 Budget, as part of the Jobs Plan strategy, the Territory Government committed to a training program that is intended to see 10 000 Territorians being trained over four years. The commitment is to be achieved using the strategies outlined above, with employer incentives offered to businesses in skill shortage areas and small businesses with ten employees or less. In 2006, more than 2500 Territorians commenced training, bringing the total number of current trainees and apprentices to more than 3100. Among new trainees, 860 were apprentices in traditional trades, 980 were women and 660 were Indigenous.

The 2007-08 Budget sets out a total of \$21.3 million over four years for Jobs Plan 3, including \$12.8 million previously committed, and additional funding of \$8.5 million. The new initiative will build on programs and incentives provided under Jobs Plan 1 and Jobs Plan 2, and includes additional employer incentives (including employer incentives for disadvantaged groups), up to 200 extra apprenticeship/traineeship places per year, and initiatives aimed at addressing training and employment needs of Indigenous adults.

In early 2005, to address the immediate skilled labour shortages, the Northern Territory Government implemented a Territory Skilled Worker campaign that featured national, as well as New Zealand, advertisements designed to attract skilled workers and their families to the Territory. The campaign has generated more than 5500 enquiries, with most interest coming from people in the mining and construction industries.

Labour Force Survey Data Quality Issues

The scope of the ABS LFS, combined with issues of volatility and reliability of the resident employment series, can sometimes create a contradictory picture of the state of the Territory economy when resident employment is analysed in conjunction with other economic activity data.

This was particularly evident in the two years to December 2005, when growth in SFD progressively increased to a peak of more than 10 per cent year on year, influenced by major projects such as the Wickham Point LNG plant and the Alcan G3 expansion. Over the same period, the number of people employed in the Territory, as reported by the ABS, was declining, a result more consistent with a slowing economy.

The disparity between the LFS employment estimate and other economic indicators, in particular SFD, is due to a number of issues including:

- the very large standard errors for Territory labour force estimates;
- the scope of the LFS being limited to the usually resident, civilian population, while SFD captures all economic activity of workers in the Territory, regardless of whether the labour is resident in the Territory; and
- the potential for SFD to include large items that do not have a direct impact on employment numbers in the Territory.

Large Sampling Error

A number of characteristics of the design and methodology of the ABS LFS limit its accuracy for the Territory. The LFS is a sample survey and does not directly measure the whole population. Although the ABS samples 1 in 98 dwellings for the Territory, a high sampling fraction compared to other jurisdictions, the sample is still relatively small due to the Territory's relatively small population. This results in volatile estimates with very large standard errors. Standard errors are even greater for estimates of the Territory unemployment rate.

Volatility in the estimates is increased by the:

- heterogeneous nature of the Territory's population;
- constraints imposed on sampling design as a consequence of many dispersed remote communities; and
- transient nature of the population.

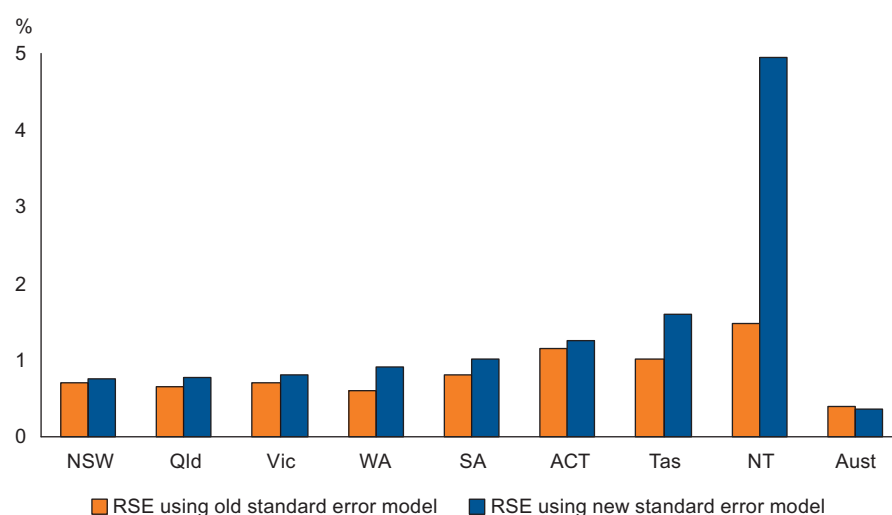
In addition, and consistent with the method used for other jurisdictions, the ABS adjusts the survey results to ensure that the resulting estimates conform to the characteristics of the total population. While this is essential for generating

representative results, in the Territory it can sometimes exaggerate the effect of outliers in the sample.

Revised Standard Errors

In August 2005, the ABS introduced new models for estimating standard errors for labour force estimates. Although the ABS is confident that the new models for calculating standard errors are more accurate, they have resulted in a very large increase in the standard errors for Territory estimates. Standard errors for national estimates, the primary concern of the ABS, have improved marginally, while for other jurisdictions only slight deterioration has occurred (Chart 4.3).

Chart 4.3: Employment Estimates
Relative Standard Errors, July 2005



Source: ABS Cat. No. 6202.0

Such large standard errors mean that ABS resident employment and unemployment estimates for the Territory are highly unreliable. For example, in February 2007, the LFS estimate of Territory resident employment was 100 700 people, with a standard error of 5000 people and a 95 per cent confidence interval of 90 700 to 110 700 people. The 95 per cent confidence interval is the range within which we can be 95 per cent confident that the true value lies, and is equivalent to the estimate plus or minus two standard errors. Confidence intervals of this width are of little value for interpreting short-term changes in employment levels.

The ABS is aware of Treasury's concerns regarding the LFS, and acknowledges that the estimates for the Territory are inadequate. The ABS has put considerable effort into investigating ways to improve Territory employment estimates, and intends to introduce a number of changes to the survey methodology. Changes include a small increase in the sample size, and a change in the calculation of trend numbers designed to reduce the volatility of the current estimate and the size of subsequent revisions. However, it is doubtful these changes will reduce volatility sufficiently to materially improve the ABS labour force statistics.

Sample Rotation

Changes will also be made to reduce volatility resulting from the rotation pattern of the survey sample. Each month, one-eighth of households are rotated out of the sample and replaced with new households. If the employment status of the residents of the new dwelling is significantly different to those of the outgoing dwelling, it can result in large changes to the employment and unemployment statistics that are not necessarily reflective of the total population.

A number of strategies are to be adopted to address this issue, including the introduction of a composite estimation method, which will provide more overlap and correlation between samples, and the replacement of outgoing households with households of like socio-demographic characteristics.

However, the above changes are anticipated to result in only minor improvements. The ABS has concluded that, ultimately, little can be done to reduce volatility in Territory estimates without substantially increasing the sample size, which would result in a significant increase in cost, and additional respondent burden for Territory residents.

Scope of the LFS

The ABS LFS reports on those parts of the currently economically active population defined as employed, unemployed or not in the labour force. It does not measure the total number of people working in the Territory, as is sometimes presumed. The scope of the LFS is limited to the civilian, usually resident, population of the Territory aged 15 years and over and does not include:

- FIFO personnel who are usually resident in other jurisdictions;
- full-time Australian defence personnel;
- personnel usually resident overseas and temporarily residing in Australia; and
- diplomatic personnel of overseas governments and non-Australian defence personnel (and their dependants) stationed in Australia.

Nationally, these excluded groups have a negligible impact on the number of jobs in the economy, as they make up a relatively small percentage of the Australian population. However in the Territory, due to its relatively small and transient population and its share of defence personnel being ten times higher than the Territory's population share, these groups account for a significant proportion of employed persons. The exclusion of these groups from the scope of the ABS LFS leads to a significant differential between resident employment and the number of Territory jobs.

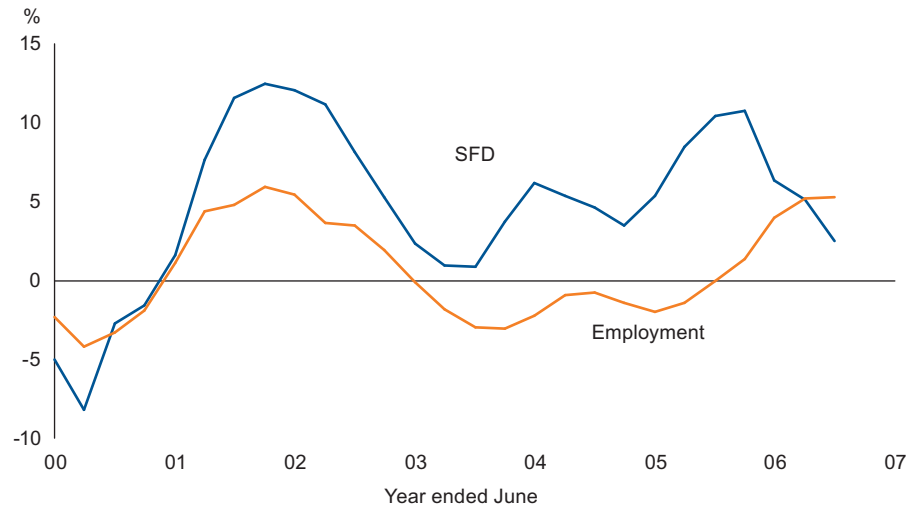
Employment Versus State Final Demand

Employment is pro-cyclical, increasing during periods of strengthening economic activity and contracting during periods of low growth. However, in smaller jurisdictions, economic activity indicators such as SFD can be impacted by the importation of large, sometimes one-off, items.

An example of this is the importation of pre-assembled modules (PAMs) for the Alcan G3 refinery expansion from 2005 to mid-2007. While the refinery expansion has had a significant impact on the Territory businesses involved, the overwhelming majority of work done constructing PAMs has occurred in Malaysia, Thailand and New South Wales. When the PAMs are transported to Gove and connected to the existing refinery, the investment component is attributed to Territory SFD. This boosts SFD growth while at the same time having little impact on Territory resident employment or other aspects of the onshore economy.

This has contributed to the recent discrepancy between growth in resident employment and SFD. In calendar year 2005, resident employment was reported to have declined by 0.1 per cent, in apparent contradiction to the 10.3 per cent growth in Territory SFD over the same period (Chart 4.4). However, it is important to note that, while the importation of PAMs has contributed to the strong growth outcome, the strength in the broader economy over this period was more consistent with strong growth in total employment in the Territory.

Chart 4.4: Territory State Final Demand and Employment Growth (year on year)



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

The Territory's Labour Market Profile

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 labour demand.

Remoteness

About 24 per cent (or 47 000) of the Territory's resident population lives outside major regional centres and is therefore considered to live in a remote area. Of this total, 33 000 people are Indigenous, and 14 000 are non-Indigenous. Lack of critical mass and distance from major employment markets make employment opportunities limited in many of these areas. Developing local economies and creating links between residents of remote areas and existing employment markets are major challenges.

Young and Mobile Workforce

Compared to the rest of Australia, the Territory attracts a disproportionately large number of young, mobile workers who often view their stay as short to medium term. This is reflected in large interstate migration flows, whereby about 9 per cent of the Territory's population relocates interstate each year, around four times the level of other jurisdictions (apart from the Australian Capital Territory). This leads to a high rate of employee turnover which imposes significant recruitment and training costs on employers. It also results in skill shortages and a loss of expertise, which can be accentuated by large projects requiring specialised labour.

Seasonality of Demand

Consistent with other jurisdictions, a proportion of the Territory's economic activity and demand for labour is seasonal, in particular, activity and employment in the tourism and agricultural industries. However, these seasonal effects can be exacerbated in the Territory due to the relatively small size of the resident population and pool of available labour. These two industries have historically supplemented their workforce by using backpackers and other non-resident labour to fill vacancies.

Indigenous Employment

In May 2006, the ABS released the latest experimental estimates of the labour force characteristics of Indigenous Australians, based on information collected in the LFS. The estimates indicate substantial differences in unemployment rates and participation rates between Indigenous and non-Indigenous Territorians. In 2005, the unemployment rate for Indigenous Territorians was reported as 20.3 per cent, compared to 5.4 per cent for the Territory as a whole. The Indigenous participation rate for the same period was 40.7 per cent, compared to the total Territory participation rate of 68.9 per cent. Further, the LFS reports Indigenous employment

has progressively decreased from 18 300 in 2002 to 12 800 in 2005, contributing to both an increase in estimated unemployment and a decline in the Indigenous participation rate.

The ABS cautions that these estimates are subject to significant non-sampling and sampling error and, as such, are substantially less reliable than the labour force estimates for the Territory as a whole.

Non-sampling error results mainly from response errors in the interview process and non-response bias. ABS notes that in Indigenous communities these errors may be particularly significant due to high population mobility, high turnover of trained interviewers and difficulties in applying standard labour force concepts in different cultural settings.

Sampling error is likewise higher than the standard labour force estimates due to the very small sample size associated with the Indigenous labour force estimates. For example, the standard error of the estimated unemployment rate in 2005 indicates that the 95 per cent confidence interval for the true unemployment rate is from 13.3 per cent to 27.3 per cent. Confidence intervals of this size significantly limit the value of the estimates, particularly in relation to analysing changes in Indigenous employment over time.

Community Development Employment Projects

A significant proportion of the population of Indigenous Territorians is employed under the Community Development Employment Projects (CDEP) scheme, funded by the Australian Government. Under the scheme, Indigenous communities and organisations receive a grant, similar in value to the collective unemployment benefit entitlements of participating community members, in order to undertake a range of community development projects. CDEP participants are employed by communities to undertake work in return for a wage at least equivalent to the unemployment benefit and are counted as employed in the ABS LFS. In the past nine years, CDEP participant numbers in the Territory have increased from about 6000 to the current level of about 8500 participants. This represents about 8.5 per cent of the Territory's labour force, a significantly higher proportion than other jurisdictions.

DEWR has announced plans to remove CDEP programs in all cities with an unemployment rate below 7.1 per cent. As such, the CDEP program will cease in Darwin from the 1 July 2007. It is anticipated that 220 CDEP recipients in Darwin will be transferred to enhanced Structured Training and Employment Projects, designed to move current CDEP recipients into training or job placement. The impact of the changes on the Territory's employment figures will depend on how many of the former CDEP recipients are successful in finding mainstream jobs. However, it is likely that, in the short term at least, a significant number will be counted as unemployed in the ABS labour force estimates.

Employment by Industry

The Territory's labour market profile also differs from the national profile in its distribution of employment across industries (Table 4.2).

Table 4.2: Employment by Industry, 2001

	Australia		Northern Territory	
	Employment Level	Proportion of Total	Employment Level	Proportion of Total
	(000)	%	(000)	%
Agriculture, forestry and fishing	330.8	4.0	2.3	2.7
Mining	75.2	0.9	1.9	2.2
Manufacturing	1 010.2	12.2	3.5	4.2
Electricity, gas and water	60.7	0.7	0.7	0.9
Construction	558.6	6.7	5.2	6.2
Wholesale trade	437.1	5.3	3.0	3.5
Retail trade	1 211.3	14.6	10.4	12.4
Accommodation, cafes and restaurants	410.6	4.9	5.1	6.1
Transport and storage	355.9	4.3	4.4	5.2
Communication services	148.5	1.8	0.9	1.1
Finance and insurance	312.4	3.8	1.4	1.6
Property and business services	920.3	11.1	7.1	8.4
Government administration	303.1	3.7	9.9	11.8
Defence	66.8	0.8	5.0	5.9
Education	595.4	7.2	6.8	8.1
Health and community services	806.2	9.7	7.4	8.8
Cultural and recreational services	202.5	2.4	2.5	3.0
Personal and other services	300.7	3.6	4.1	4.9
Non-classifiable economic units	47.9	0.6	0.8	0.9
Not stated	144.6	1.7	1.5	1.8
Total	8 298.6	100.0	83.8	100.0

Note: Due to the very high standard errors associated with the ABS estimates of Territory employment by industry derived from the LFS, the above Census data, while dated, is considered to be a more reliable measure. Nevertheless, there has been significant growth and development in the Territory economy over the past six years. Employment is now more than 20 per cent higher than is indicated in the table, and the industry proportions are likely to have changed to a certain extent.

Source: ABS 2001 Census of Population and Housing

Government Administration

In 2001, employment in government administration in the Territory accounted for about 12 per cent of total employment compared to only 4 per cent nationally. The high share of employment attributed to government administration in the Territory reflects the diseconomies of providing public services to a small and widely dispersed population.

Defence

During the 1990s, the Australian Government relocated substantial defence resources to the Territory. This resulted in the Army Presence in the North program which saw the number of defence personnel, including civilians, stationed in the Territory increase from around 2300 in 1990 to 4978 in 2001. Consequently, the proportion of Territory residents employed in defence over this period increased to 5.9 per cent, compared to 0.8 per cent nationally.

Manufacturing Historically, the manufacturing sector has employed a relatively large proportion of the national workforce in a diverse range of industries. In the Territory, however, remoteness from major markets and a small population base has resulted in a relatively small manufacturing sector and a much lower proportion of people employed compared to the national proportion (one-third of the national figure).

Mining Reflecting the Territory's abundant mineral and energy resources, the proportion of people employed in the mining industry is 2.5 times higher than nationally. Given record commodity prices and exploration expenditure in the Territory in the past two years, a surge in mining activity and employment is expected in the future.

Participation Rate

The demographic changes occurring both nationally and in the Territory mean that policies aimed at sustaining Australia's workforce participation rate will become increasingly important. As the Australian population ages, and growth in the working age population is exceeded by growth in the older segments of the population, lower labour force participation will place increased pressure on health and aged-care services, and may negatively impact on productivity.

In the Territory, labour force participation is a particularly challenging issue. Although the Territory has the highest participation rate of the jurisdictions, this is largely a product of the population's age profile, with a higher proportion of people in the 20 to 40 year age bracket. In age-standardised terms however, labour force participation in the Territory is the lowest of the jurisdictions, reflecting to a large extent the lower rates of labour force participation in remote Indigenous communities.

National Reform Agenda In February 2007, the Productivity Commission released a report on the potential long-term benefits that could accrue from the National Reform Agenda (NRA). Among the potential impacts of the human capital stream of reforms (encompassing health, education and training, and work incentives) is an increase in the Territory labour force participation rate by 7.3 per cent by 2030, and an increase in labour productivity of 1.5 per cent over the same period.

The report noted that the estimates represented an 'outer-envelope' assessment of the potential benefits of the NRA, and were dependent on the full achievement of the goals established as part of the human capital stream of reforms. Among these goals, and of particular relevance to the Northern Territory, is the closing of the gap between Indigenous and non-Indigenous children in relation to health and education, which represents a significant policy challenge for both the Northern Territory and Australian governments.

Welfare to Work On 1 July 2006, the Australian Government introduced Welfare to Work, a series of measures aimed at increasing the Australian labour force participation rate. The legislation specifically addresses the employment requirements associated with the receipt of income support. The Welfare to Work measures seek to increase the participation rate of older Australians, parents, people with a disability and the long-term unemployed. Although in the short term this is expected to have a negligible impact on employment growth in the Territory, it is expected to result in an expansion of the labour force and an increase in the long-term average participation rate.

Industrial Relations Reform

Work Choices In late 2005, the Australian Government's *Workplace Relations Amendment (Work Choices) Act 2005* was passed. It includes a new framework for negotiating workplace agreements and the removal of unfair dismissal protection for employees of companies with 100 employees or less.

Since the new legislation came into effect in March 2006, the number of AWAs signed in the Territory has risen significantly, from an average of 200 per month in the June quarter 2006 to more than 400 per month in the December quarter 2006. Similar rates of increase have occurred across the jurisdictions.

There is limited data available on the impacts of the legislation on wages and employment conditions, apart from anecdotal reports. In a national survey by the Office of the Employment Advocate, covering 250 AWAs lodged in April 2006, more than 60 per cent of agreements excluded leave loading and penalty rates, and over half excluded shiftwork loading. Of the sample, 84 per cent contained wage provisions greater than the minimum standard, and 89 per cent included annual leave provisions equal to the standard. However, in the absence of Territory-specific data, it is difficult to say what impact the legislation has had on wages and employment conditions in the Territory. Likewise, the potential longer-term implications of the legislation for employment growth and labour productivity, both nationally and in the Territory, remain uncertain.

Outlook

Understanding the labour market within the Territory is not possible without analysis of several economic indicators and related data sources. Nonetheless, forecasting is based on LFS data and the reader should be aware of volatility and accuracy issues.

Resident employment growth of 2.3 per cent is forecast for 2007-08. In recent years, construction activity associated with major projects has been a major driver of employment growth. With construction of the Wickham Point LNG plant complete, and the Alcan G3 refinery expansion scheduled to finish in the June quarter 2007, construction activity has been declining, but will nevertheless remain at historically high levels in 2007-08. However, the conclusion of the Alcan expansion is not anticipated to significantly affect employment figures, as the majority of workers are employed on a FIFO basis.

Construction activity in the Territory is forecast to become less concentrated in 2007-08, with mega projects such as the LNG plant and the Alcan expansion replaced with numerous smaller residential and engineering projects. Nevertheless, a number of larger projects such as the Darwin Waterfront Development, and construction of the Blacktip gas pipeline and the condensate processing facility, will have a significant impact on employment demand in the medium term.

Despite strong labour demand associated with high levels of construction activity and strong economic conditions, growth in employment may be partially constrained by limited availability of skilled labour. The ability of Territory employers to attract and retain suitable skilled workers will continue to be a critical factor in determining employment growth in the Territory, as will the effectiveness of Territory Government training initiatives aimed at alleviating skill shortages.

In the longer term, increasing Indigenous employment and labour force participation represent significant challenges, and will be important factors in maintaining and improving the Territory's long-term participation rate and employment growth.

Chapter 5 Prices and Wages

Key Points

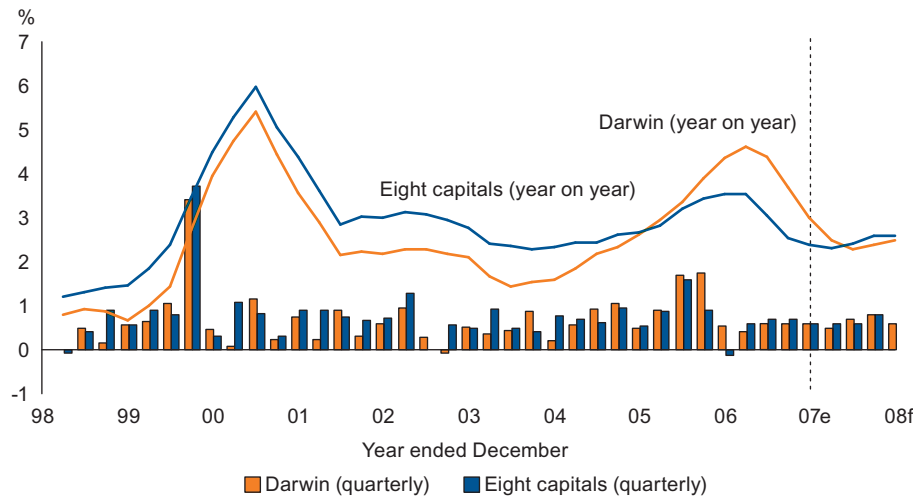
- » In 2006, Darwin's Consumer Price Index (CPI) increased by 4.4 per cent, compared to a 3.5 per cent increase nationally.
- » Inflation in the Territory is expected to fall significantly in 2007, largely reflecting moderating growth in housing prices and lower fuel and banana prices.
- » Darwin CPI growth of 3.0 per cent and 2.5 per cent, is forecast for 2007 and 2008 respectively.
- » In 2006, the Territory's Wage Price Index (WPI) increased by 3.9 per cent compared to 4.0 per cent nationally.
- » Strong wages growth in the Territory and nationally over the past two years reflects the impact on wages growth of the tight labour market and skilled labour shortages, especially in construction, mining and health.
- » Wages growth in the Territory is expected to moderate in 2007 as the Alcan G3 refinery expansion is completed and growth in public sector wages is constrained by the Territory Government's public sector wages policy. Nevertheless, ongoing skilled labour shortages and a tight labour market are expected to flow through to growth in the Territory's WPI, averaging around 3.5 to 4.0 per cent over the year.

Prices and wages in the Northern Territory generally move in line with national trends. Nevertheless, there have been short run periods where the Territory differs from the national trend, typically reflecting weaker or stronger economic growth. This has been particularly evident over the past two years, with the Territory reporting the strongest economic growth of the jurisdictions, leading to higher wage and price growth outcomes.

Consumer Price Index

Darwin's Consumer Price Index (CPI) increased by 4.4 per cent in 2006, (comparing the four quarters in 2006 with the four quarters in 2005). This was the second highest inflation rate of the capital cities (behind Perth), and higher than the 3.5 per cent increase recorded nationally. Higher fuel, fruit and vegetable prices over the year were the primary drivers of inflation in most capital cities with the exception of Darwin and Perth, where rising property and rent prices were the most significant contributors. This reflects the stronger economic and population growth rates that the Northern Territory and Western Australia have experienced over the past two years compared to those experienced nationally. This has been largely driven by the global boom in the demand for resource commodities, which has flowed through to historically high levels of investment expenditure in the mining, construction and property sectors.

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, as at December Quarter

	Consumer Price Index		Annual % Change		Year on Year % Change	
	Darwin	8 Capitals	Darwin	8 Capitals	Darwin	8 Capitals
1996	121.7	120.3	2.1	1.5	3.1	2.6
1997	120.8	120.0	-0.7	-0.2	0.2	0.3
1998	122.7	121.9	1.6	1.6	0.7	0.9
1999	123.6	124.1	0.7	1.8	0.7	1.5
2000	130.6	131.3	5.7	5.8	3.9	4.5
2001	133.5	135.4	2.2	3.1	3.6	4.4
2002	136.2	139.5	2.0	3.0	2.2	3.0
2003	138.5	142.8	1.7	2.4	2.1	2.8
2004	141.1	146.5	1.9	2.6	1.6	2.3
2005	145.4	150.6	3.0	2.8	2.6	2.7
2006	152.6	155.5	5.0	3.3	4.4	3.5
2007e	156.0	159.6	2.2	2.6	3.0	2.4
2008f	160.1	163.8	2.6	2.6	2.5	2.6
Compound Annual Growth %						
1996 to 2006	2.3	2.6				
2001 to 2006	2.7	2.8				

e: estimate; f: forecast

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

Components

The annual movements between the inflation rate reported in a quarter in a year and the corresponding quarter in the previous year is a more volatile measure. On this basis Darwin's CPI increased by 5.0 per cent in the December quarter 2006. The largest contributing factor to Darwin's annual consumer inflation rate in 2006 was rising housing costs (house purchases, repairs and maintenance, rent, utilities and property rates and charges), which contributed 2.1 percentage points to growth. Around 70 per cent of this increase was attributable to the house purchase category, reflecting the robust increase in Darwin median house prices through the year. This was mirrored in the Australian Bureau of Statistics (ABS) House Price Index, which reported established house price growth of 17.6 per cent in Darwin over this period.

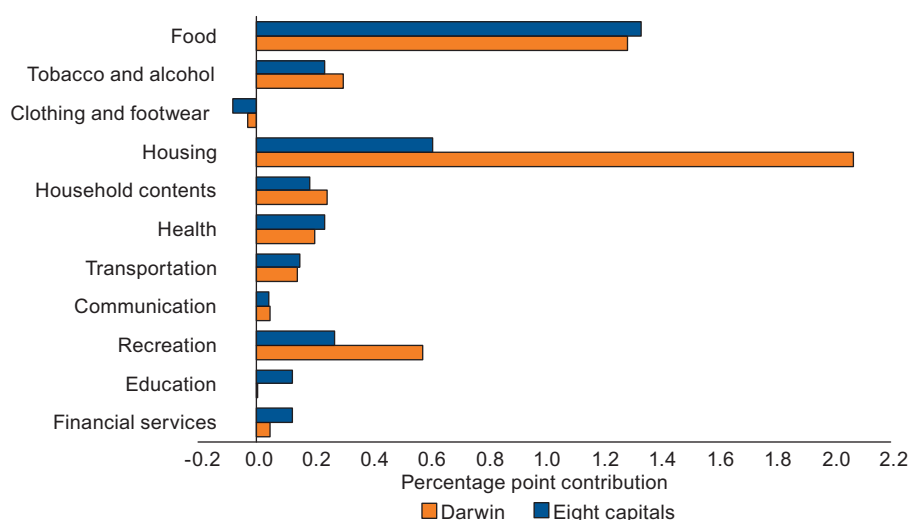
Rising rents, fuelled by strong population growth and low residential vacancy rates, were also a significant contributor to growth in the housing category of the Darwin CPI.

Increased prices of products in the food category of the CPI were the second largest component of the annual Darwin inflation rate, contributing 1.3 percentage points. This reflects the ongoing national supply constraints and price effects following Cyclone Larry in March 2006, especially for bananas, as well as rising vegetable prices in the second half of the year as the impact of the drought led to shortages in the supply of a number of vegetables.

Increased prices of products in the recreation category were the third largest contributor to annual inflation in Darwin, contributing 0.6 percentage points. Increased prices for domestic holiday travel and accommodation accounted for the majority of the upward movement in this category.

Clothing and footwear made small negative contributions to CPI growth in the Territory and nationally. This primarily reflects the impact of competition from China and other emerging economies on lower textile manufacturing prices.

Chart 5.2: Annual Percentage Point Contribution to Change in CPI, 2006



Source: ABS Cat. No. 6401.0

Underlying Inflation and Interest Rates

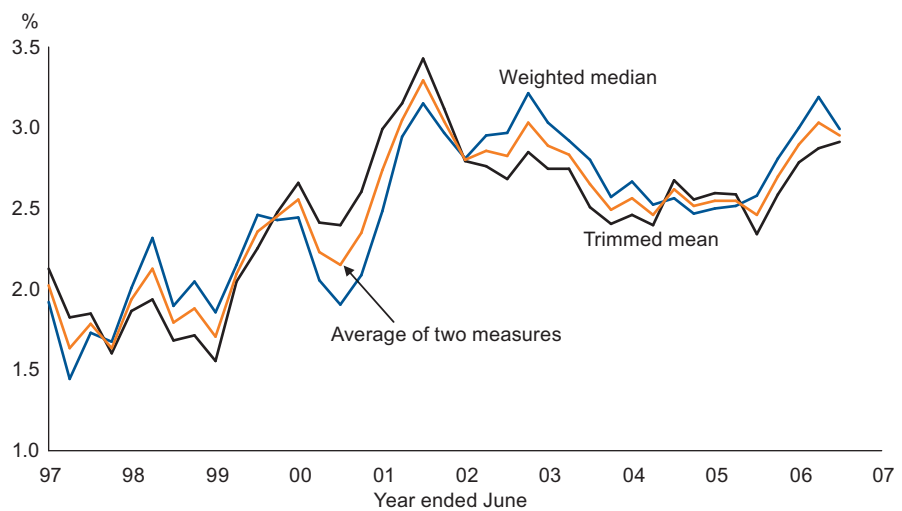
Despite three increases in interest rates during 2006, Australian household confidence levels moderated only temporarily before recovering to the levels reported prior to each increase. This was reflected in retail sales data nationally and in the Territory, suggesting households have quickly adjusted their spending patterns to accommodate the increases in interest rates. A tight labour market nationally and ongoing skilled labour shortages were the primary drivers of this resilience as individuals, feeling secure in their jobs, were more willing to continue spending. A strong Australian dollar, Australian Government tax cuts in the middle of 2006 and falling fuel and fruit prices over the second half of the year were also additional factors. This ongoing confidence, coupled with a period of sustained strong growth in fuel prices, flowed through to a strengthening in Australia's underlying inflation rate (the CPI less volatile items) over the year.

Although there are a number of ways to derive a measure for underlying inflation, the Reserve Bank of Australia (RBA) has two preferred measures: the trimmed mean and the weighted median. The RBA's trimmed mean ranks all the price changes in the CPI for everything from petrol to bananas from the largest rise to the largest fall, then

trims off the top and bottom, leaving only the middle 70 per cent of price changes. The weighted median ranks all price changes, then takes the increase in the middle item as the inflation rate.

In annual terms, both the trimmed mean and weighted median (the RBA does not specify a preference for either method as the benchmark for underlying inflation), increased to around 3 per cent by the third quarter of 2006. This increase was a significant factor behind the decision to raise interest rates by a total of 0.75 percentage points over the year. Although growth in the average of the two measures moderated slightly in the December quarter 2006, the RBA has maintained its tightening bias for interest rates in 2007. This primarily reflects tight labour markets and ongoing skilled labour shortages across Australia. These constraints on growth are not likely to moderate significantly over 2007 and may flow through to increased inflationary pressure on wages nationally. This has the potential to see growth in underlying inflation moving back up towards 3 per cent, placing additional pressures on the RBA to increase rates by at least 0.25 percentage points in 2007.

Chart 5.3: Reserve Bank of Australia, Underlying Measures of Inflation (annual percentage change)



Source: Reserve Bank of Australia

Cost of Living Study

The 1995 'Report of the Committee on Darwin' compared, amongst other factors, the cost of living for wage and salary earners in Darwin, Perth and Sydney. The study concluded that the cost of living in Darwin was 5.5 per cent higher than in Perth and 2.7 per cent higher than in Sydney, with higher costs for food, hospitality and motor vehicles and lower costs for clothing and footwear.

Using ABS CPI data, Northern Territory Treasury has updated the results to December 2006. This update suggests that the gap between Darwin and Perth has narrowed to 0.6 per cent, and that Darwin's cost of living is around 0.9 per cent lower than Sydney's. Prices growth in Sydney and Perth relative to Darwin is higher for all categories of the CPI except housing and clothing and footwear.

Fuel Prices

Crude Oil Crude oil prices exhibited significant volatility in 2006, rising strongly to a record high of around US\$79 a barrel in August (as measured by the Tapis benchmark) before falling to US\$65 by the end of December. Volatility in prices was primarily affected by the significant reduction in global spare oil production capacity over the year, which increased the sensitivity of oil prices to unexpected supply disruptions and changes in consumer demand. This was particularly evident in the first half of the

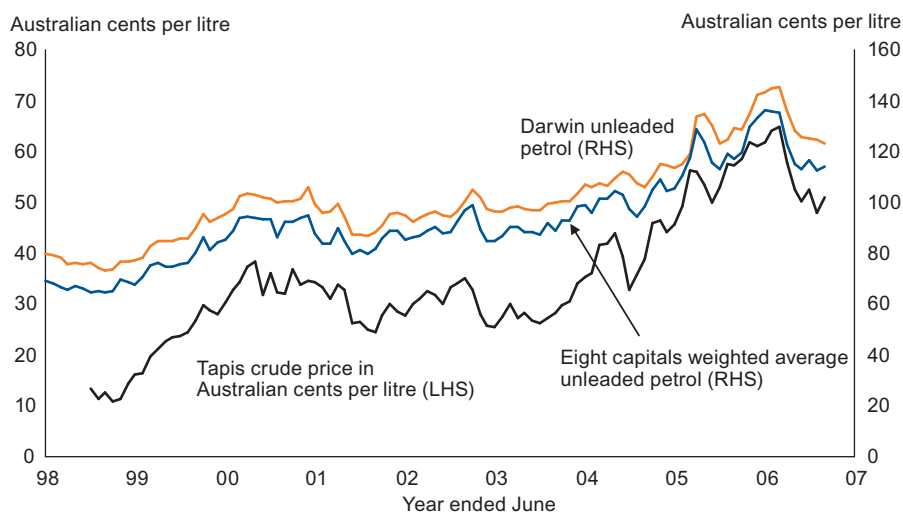
year as geopolitical issues such as the conflict in Lebanon and rising tensions in Iran and the Korean Peninsula led to increased stockpiling of oil by refineries on supply concerns. The fall in prices that occurred from September 2006 was associated with an easing of these concerns as the end of the conflict in Lebanon coincided with a relatively uneventful hurricane season in the United States (US) and strong growth in non-OPEC (Organisation of Petroleum Exporting Countries) oil supplies.

The outlook for 2007 is for Tapis crude oil prices to average around US\$60 a barrel, 15 per cent lower than the average of US\$70 a barrel in 2006. This mainly reflects higher production from non-OPEC countries, an increase in OPEC spare capacity, and moderating growth in global oil consumption as increased demand in developing economies is partially offset by lower demand in the European Union and Japan. Nevertheless, the significant reduction in global spare oil production capacity that has occurred over the past few years will mean oil prices continue to remain sensitive to any unexpected supply disruptions.

Retail Fuel Prices

Retail fuel prices in Darwin and regional centres across the Territory are consistently higher than in comparable sized locations in Australia and are a direct consequence of the remoteness of the market. These factors lead to Territory distributors and retail outlets having higher operational cost structures and lower fuel turnover than their interstate counterparts. This in turn limits their ability to achieve significant economies of scale that can be passed on to consumers in the form of lower prices. Higher prices also reflect the absence of widespread competition both at the distributor and retail level (especially outside Darwin, although Katherine is a notable exception at the retail level) and the lack of a large scale oil refinery. The lack of a refinery and lower volume turnover also results in considerable price 'stickiness' (whereby fuel prices do not decrease as quickly as falls in crude oil prices and vice versa) being observed in Territory retail fuel prices, as was the case in 2006.

Chart 5.4: Unleaded Retail Petrol and Crude Oil Prices



Source: Australian Automobile Association, Reserve Bank of Australia, Energy Information Administration

In the first eight months of 2006, average unleaded petrol prices increased significantly across the Territory, reaching record highs in August, before falling over the remainder of the year. This was in contrast to the movements in prices observed nationally, which not only peaked two months earlier but also increased by smaller amounts, highlighting the stickiness in Territory fuel prices and lower levels of competition compared to nationally.

The Australian Automobile Association (AAA) reports that within the Territory, Tennant Creek consistently had the highest fuel prices of the regional centres (the AAA does

not report data for Nhulunbuy) in 2006, reflecting its distance from refineries and low volume turnover. Darwin was generally the cheapest place to purchase fuel over the year, highlighting the increased levels of competition, volume turnover and the shorter distance (and subsequent lower transport costs) fuel has to travel from refineries in Singapore. For short run periods of the year, Katherine had the lowest automotive fuel prices in the Territory, reflecting the highly competitive nature of retail outlets in the region.

Table 5.2: Unleaded Retail Petrol and Crude Oil Prices

Retail petrol price	Dec 05 cpl	Dec 06 cpl	Change %
Darwin	123.1	125.0	1.5
Alice Springs	130.4	125.7	- 3.6
Katherine	124.2	125.2	0.8
Tennant Creek	130.6	129.7	- 0.7
8 Capitals weighted average	113.1	116.5	2.9
Tapis Crude price in US\$ per barrel	61.7	65.5	6.1
Tapis Crude price in A\$ per barrel	84.1	83.3	- 1.0

Source: Australian Automobile Association, Energy Information Administration, Reserve Bank of Australia

Fuel Taxes and Subsidies

The Territory Government does not directly collect any taxes or excises on fuel sold in the Territory. Following the introduction of the GST in 2000, the Australian Government introduced the Fuel Sales Grant Scheme rebate to compensate motorists for the greater impact of the GST on regional fuel prices. The rebate, which ranged from 1 to 3 cents per litre (cpl), was phased out by the Government on 1 July 2006 and was replaced by a new Fuel Tax Credits System. Under the new scheme, the previous system of fuel grants, rebates and remissions (including the energy grants credit scheme) has been replaced with a single fuel tax credit. It is expected that the fuel tax credit will lower compliance costs and reduce fuel tax on a significant number of individual businesses and households.

The Territory Government offers a general subsidy of 1.1 cpl to automotive fuel suppliers through its Fuel Subsidy Scheme (FSS). The FSS is designed to ensure that consumers who purchase their petrol and diesel direct from a retail fuel outlet obtain the benefits of the subsidy through it being incorporated into the price of the fuel at the time of purchase. A general subsidy of 1.1 cpl is also provided to bulk end users of diesel where it is purchased directly from a fuel supplier (other than a retail outlet) and the diesel is to be used for on-road purposes.

In 2005-06, over \$3 million was spent by the Territory Government on this scheme.

New LPG Subsidies

In October 2006, in response to concerns over rising automotive fuel costs for families, the Australian Government introduced a subsidy of \$1000 per new liquid petroleum gas (LPG) vehicle and \$2000 for the conversion of existing vehicles to LPG. The subsidy is only available for vehicles used for private use (not business or commercial use) and applies to vehicles that have a gross vehicle mass of less than 3.5 tonnes (most passenger and sports utility vehicles are in this weight range). Ongoing liaisons between Northern Territory Treasury, the Automobile Association of the Northern Territory and LPG installation businesses suggest that, although there was a significant increase in demand for LPG conversions as fuel prices increased strongly and peaked in August 2006, demand has since returned to slightly above normal conditions as fuel prices have decreased. Businesses around Darwin report, on average, two to three conversions being undertaken weekly. This relatively low take-up rate of conversions primarily reflects the higher cost of LPG in the Territory compared to nationally that makes conversions a less economically attractive option,

especially when the relative inefficiency of LPG is factored into the decision-making process. It may also reflect the trend away from the purchase of large vehicles over 2006 in the Territory and nationally. LPG conversions are less likely to be undertaken for smaller vehicles due to significant space constraints and the fact that motor vehicle manufacturers currently do not produce LPG fuelled vehicles for the small car market in Australia.

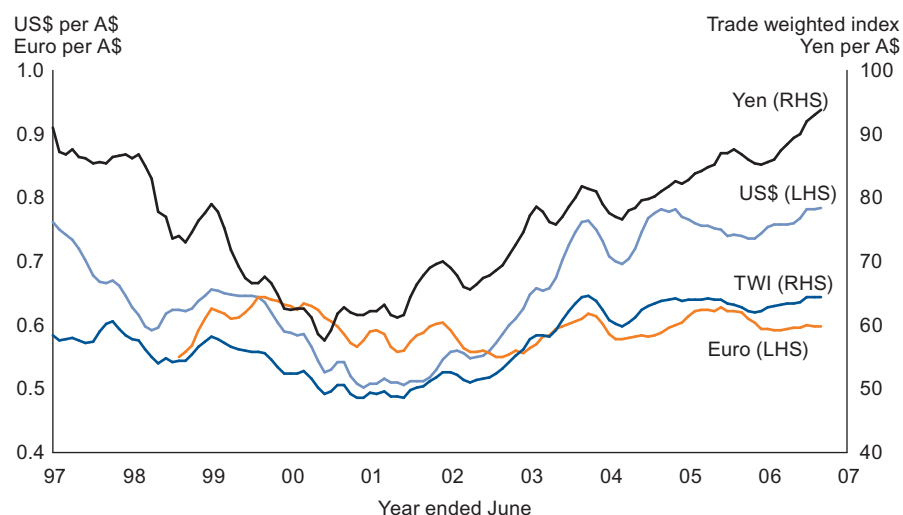
Exchange Rates

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

On a trade weighted basis, the Australian dollar increased by 3.5 per cent in 2006. This largely reflected the strong performance of the Australian dollar against the US dollar and the Japanese Yen, while weakening against the Euro. The appreciation against the US dollar reflected the declining prospects of additional interest rate rises by the US Federal Reserve over the second half of 2006 as US economic growth forecasts were revised downwards. Strong demand for Australian corporate debt by Japanese investors was a primary driver of the appreciation of the Australian dollar against the Yen. The Australian dollar was also supported by strong global demand for resource commodities, in particular from China, which flowed through to significant increases in export prices and Australia's terms of trade.

With the differential between Australian and global interest rates expected to narrow over 2007 and increasing global supplies of resource commodities expected to come onto the market (leading to significant falls in some resource commodity prices), the outlook is for the Australian dollar to depreciate against major world currencies over the later part of 2007, with continued declines in 2008. This is expected to place upward pressure on the prices for imported goods and services in 2008 that may flow through to higher inflation in the Territory and nationally.

Chart 5.5: Exchange Rates
(3 month moving average)



Source: Reserve Bank of Australia

Grocery Prices

Since 2000, Northern Territory Treasury has conducted surveys of grocery prices in most major Territory centres, plus Cairns and Mount Isa, for comparative purposes. The latest Grocery Price Survey (GPS) was conducted in December 2006 (Table 5.3).

Table 5.3: Grocery Price Survey, December 2005 to December 2006

	Dec 05 \$	Jun 06 \$	Dec 06 \$	Annual change %
Darwin	173.53	182.39	186.38	7.4
Alice Springs	167.17	173.15	179.67	7.5
Katherine	173.61	181.51	184.80	6.4
Yulara	218.69	213.27	216.06	-1.2
Nhulunbuy	201.99	212.01	221.97	9.9
Cairns	167.57	173.82	177.75	6.1
Mount Isa	170.06	179.11	180.94	6.4

Source: Northern Territory Treasury

Grocery prices in the Territory, as measured by the GPS, demonstrated considerable volatility in 2006. This was first observed in the six months to June 2006, with the GPS reporting that the cost of the basket of groceries across the Territory increased by more than 3.5 per cent (a notable exception was the IGA supermarket in Yulara which recorded a decline in prices of 2.5 per cent). A primary driver of this growth was a 233 per cent increase in banana prices, largely reflecting the large fall in the supply of bananas following the devastation of the north Queensland crop by Cyclone Larry in March 2006. Another factor may have been the 17 per cent increase in fuel prices observed over this period and its impact on packaging and freight costs (especially to regional centres).

Prices growth, although high by historical standards, moderated in the six months to December 2006. Strongly rising vegetable prices, due to drought conditions expanding across Australia, more than offset any savings due to declining fuel and banana prices. The highest growth in prices in this period was at Nhulunbuy which recorded a 4.7 per cent increase in the cost of the basket. This may reflect the additional inflationary impacts of the \$3 billion Alcan G3 refinery expansion on the regional economy, flowing through to increased grocery prices.

Household Expenditure Survey

The ABS Household Expenditure Survey (HES) is conducted every five years. It is a comprehensive survey of incomes and expenditure patterns in households residing in private dwellings across Australia's capital cities. The latest HES data relates to the 2003-04 financial year.

Table 5.4: Average Weekly Expenditure by Category and Household Income

	1998-99			2003-04		
	Darwin \$	8 Capitals \$	Difference %	Darwin \$	8 Capitals \$	Difference %
Goods and Services						
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 Darwin housing costs in 2003-04, which increased by 25 per cent 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.

Wages

Continued strong economic activity in the Territory, combined with tight labour market conditions and ongoing skilled labour shortages, flowed through to another year of solid (although moderating) wages growth in 2006.

Table 5.5: Wage Price Index
(year on year to December
percentage change)

	2001	2002	2003	2004	2005	2006
	%	%	%	%	%	%
Northern Territory						
Public	2.9	3.2	3.7	3.3	4.8	4.4
Private	2.9	3.1	2.6	3.4	4.1	3.5
Total	2.9	3.1	3.1	3.3	4.5	3.9
Australia						
Public	3.7	3.3	4.4	4.1	4.6	4.3
Private	3.5	3.3	3.3	3.4	3.9	3.9
Total	3.6	3.2	3.6	3.6	4.1	4.0

Source: ABS Cat. No. 6345.0

Despite a tight labour market and employer groups reporting ongoing skilled labour shortages, growth in the Territory's Wage Price Index (WPI) moderated to 3.9 per cent in 2006. The reported moderation in growth in the WPI from 2005 to 2006 needs to be interpreted carefully. A six month delay in the implementation of the 2006 minimum wage decision by the Australian Fair Pay Commission (AFPC), from June 2006 to December 2006, means that growth in the September quarter 2006, and hence the year on year WPI figure, was lower than would otherwise be the case. With the results of this decision soon to be reflected in the data, an increase in the year on year growth of the WPI is expected in the first half of 2007.

The moderation in wages growth was most notable in the private sector, with growth in the WPI increasing by 3.5 per cent in the year compared to 4.1 per cent a year earlier. This may reflect the reduced inflationary pressures on wages in the Territory (especially in the construction industry) following the completion of construction for the liquefied natural gas (LNG) plant at Wickham Point in early 2006 and the approaching completion of the Alcan G3 refinery expansion at Gove. It may have also been influenced by the increased use of the Temporary (long stay) Business Visa (subclass 457) by employers in the Territory and nationally to alleviate skilled labour shortages. Sufficient data has yet to be made publicly available by the Department of Employment and Workplace Relations to fully assess the impacts of the Australian Government's Work Choices legislation on wages growth in the Territory and nationally.

Growth in the Territory's public sector WPI also moderated in 2006, increasing by 4.4 per cent, compared to 4.8 per cent a year earlier. This sector comprises all Northern Territory Government, local government and university employees, as well as Australian Government employees located in the Territory. This primarily reflects lower enterprise bargaining agreements (EBAs) wages growth outcomes negotiated over the past couple of years coming into effect in 2006. The most notable of these EBAs was the Northern Territory Public Sector 2004-2007 Certified Agreement, covering about 9500 Northern Territory public servants, 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 increases in both August 2005 and August 2006. Nurses, teachers and members of the police service received significantly higher growth in wages over the year, reflecting particularly acute skilled labour shortages in these sectors.

Australian Fair Pay Commission

The AFPC was established as part of the Australian Government's changes to industrial relations legislation (Work Choices) in Australia in 2006 and replaces the wage-setting and adjusting functions of the Australian Industrial Relations Commission, which retains its role as a national tribunal dealing with employment disputes. The AFPC's first wage setting decision, that took effect from 1 December 2006, comprised the following elements:

- an increase of \$27.36 per week in the standard federal minimum wage;
- an increase of \$27.36 per week in all pay scales up to and including \$700 per week; and
- an increase of \$22.04 per week in all pay scales above \$700 per week.

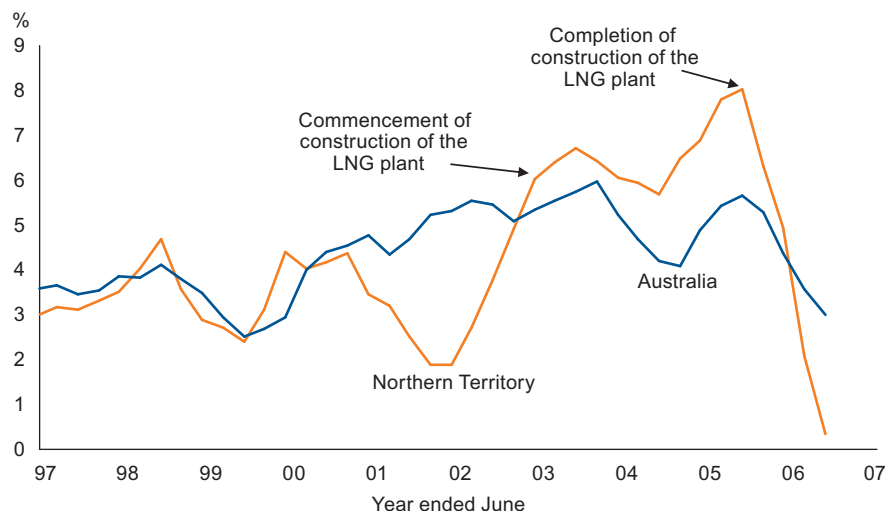
The Commission's next minimum wage review decision is expected in mid 2007, with a decision relating to junior wage rates expected to be announced later in the year.

Average Weekly Full Time Adult Total Earnings

After three years of Territory growth exceeding that reported nationally, growth in average weekly full time adult total earnings (AWFTE) moderated significantly in 2006, increasing by 0.3 per cent to \$1095. This may reflect the reduced inflationary pressures on wages in the Territory (especially in the construction industry) following the completion of construction for the LNG plant at Wickham Point in early 2006 and the approaching completion of the Alcan G3 refinery expansion at Gove. It may have also been influenced, as with the WPI, by the six-month delay in the AFPC wages setting decision for employees on minimum awards (suggesting an upward spike in growth in the first quarter of 2007) and the increased use of the Temporary (long stay) Business Visa (subclass 457) by employers in the Territory and nationally to help alleviate skilled labour shortages.

AWFTE data should be viewed with caution as, unlike the WPI, 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 economy, as well as survey volatility.

Chart 5.6: Average Weekly Full-Time Adult Total Earnings (year on year percentage change)



Source: ABS Cat. No. 6302.0

Regional Wage and Salary Statistics 2003-04

In March 2007, the ABS published Territory regional wage and salary earner statistics for 2003-04. Compiled from the Australian Taxation Office's (ATO) Individual Income Tax Return Database, the statistics provide regional estimates of the number of wage and salary earners and their characteristics, including age, sex, occupation and income. It is important to note that wage and salary earners in this data relate to persons aged 15 years and over who have submitted an individual income tax return and for whom wage and salary income was the main source of income for the financial year. This is in contrast to ABS data that report on wages which generally focus on the employment status of a person at a particular time or survey businesses about employee numbers and payroll. Consequently, this data is not comparable with other ABS measures of wages such as average weekly earnings or the Wage Price Index.

Table 5.6: Wage and Salary Earner Statistics by Statistical Subdivisions and Selected Statistical Local Areas, 2003-04

Statistical Subdivision	Number	Income	Average Income \$	Median Income \$ ¹
Darwin City	32 374	1 346 959 678	41 606	38 997
Palmerston-East Arm	11 182	445 322 251	39 825	39 415
Litchfield Shire	7 021	277 307 132	39 497	37 644
Finniss	488	16 850 732	34 530	32 882
Bathurst-Melville	260	7 825 810	30 099	25 889
Alligator	1 431	55 793 052	38 989	35 190
Jabiru ²	483	21 775 892	45 085	40 600
Other	948	34 017 160	35 883	na
Daly	426	12 919 747	30 328	26 473
East Arnhem	3 209	152 237 329	47 441	40 899
Groote Eylandt ²	313	18 344 534	58 609	52 600
Nhulunbuy ²	1 144	55 857 352	48 826	43 680
Other	1 752	78 035 443	44 541	na
Lower Top End NT	4 632	172 625 101	37 268	36 229
Barkly	1 348	47 561 621	35 283	33 464
Central NT	13 482	501 757 157	37 217	34 593
Unknown NT	202	7 102 481	35 161	31 200

¹ Median not calculated for areas with < 100 wage and salary earners

² Statistical Local Area

na: not applicable

Source: ATO Individual Income Tax Return Data

The data highlight the impacts of the mining industry on incomes in the Territory, and in regional areas in particular, with the Statistical Local Areas (SLA) of Groote Eylandt (Gemco manganese mining operations), Nhulunbuy (Alcan bauxite and alumina operations) and Jabiru (ERA uranium mining operations) reporting the highest average annual wage and salary incomes at \$58 609, \$48 826 and \$45 085 respectively. The next two SLAs reporting higher incomes were The Gardens and Ludmilla in the Darwin City statistical subdivision.

Outlook

The Territory's inflation rate is expected to fall significantly in 2007 as growth in house prices moderates, crude oil prices track lower and the last of the inflationary effects of Cyclone Larry on banana prices unwind. Nevertheless, ongoing skilled labour shortages and the prevailing tightness of the labour market should continue to

flow through to relatively strong inflationary growth over the year. Consequently, the Darwin CPI is forecast to increase by 3.0 per cent in 2007.

Despite a slowing Territory economy in 2008, growth in the Darwin CPI is forecast to moderate only to 2.5 per cent as the expected depreciation in the Australian dollar fuels inflationary forces throughout the economy, particularly in the tradeable sectors of manufacturing and tourism.

Wages growth in the Territory is expected to continue to moderate over 2007 as major projects such as the Alcan G3 refinery expansion are completed and growth in public sector wages is constrained by the Territory Government's public sector wages policy. Nevertheless, ongoing skilled labour shortages and the prevailing tightness of the labour market will continue to see wages growth above long-term trend levels. Despite an expected spike in the Territory's and national WPI in the March quarter 2007, as the effects of the six-month delay in the AFPC wages setting decision for employees on minimum awards is factored into the data, the Territory's WPI is expected to average around 3.5 to 4.0 per cent over the year.

Chapter 6 External Economic Environment

Key Points

- » Global economic conditions are expected to remain favourable for the Australian economy, primarily reflecting strong Chinese demand for commodities.
- » Countries that are key destinations for Territory exports are expected to continue to experience robust economic growth.
- » Risks to the generally positive outlook include the possibility of inflationary pressures leading to further increases in interest rates and a greater than expected slowdown in the United States (US) economy.

Northern Territory

Demand for Territory goods both internationally and from other Australian states and territories is very important for the Territory economy. Overseas demand constitutes almost 20 per cent of Territory final demand, while interstate demand accounts for a further 10 per cent.

Many of the Territory's primary products are exported to Asia for use in the manufacture of goods that are subsequently exported worldwide. Exports to Asia are one of the key links through which global economic conditions affect the Territory economy. Major Territory exports include crude oil, liquefied natural gas (LNG), mineral ores, live cattle and tourism-related services. The major destination markets for mineral ores are the United States, China and Japan. LNG is predominantly exported to Japan. Live cattle are exported mainly to the Philippines and Indonesia. Oil is exported primarily to Singapore, China, the US and South Korea. International visitors also form an important component of Territory demand and come mainly from Europe, Japan and North America. Table 6.1 provides a summary of the economic outlook for the major Territory export destinations.

Global Economy

Strong global economic growth has continued over recent years, with world output increasing in the first half of 2006 and Consensus Economics reported global economic growth of 5.4 per cent for the year. US economic growth moderated in the second half of 2006, while China and India continue to top world economic growth rates. Japan has maintained moderate growth, while the Eurozone economic expansion gathered momentum.

The sustained world economic growth has fuelled demand for commodities, with average base metals prices increasing 60 per cent during 2006. Although oil prices have eased by about 20 per cent from the August 2006 high of about US\$80 a barrel, the high price of oil during 2006 significantly contributed to global inflation. Inflationary pressure from the increase in commodity prices, along with capacity constraints, prompted many central banks to take pre-emptive action by tightening monetary policy. Most central banks, including the Reserve Bank of Australia (RBA), tightened monetary policy by increasing interest rates.

Although unrest in the Middle East, the North Korean nuclear program and other geopolitical trouble spots challenged world stability during 2006, the global economy continued to perform strongly.

Australian Economy

The increasing numbers of bilateral free trade agreements are expanding market opportunities for Australian exporters and facilitating greater investment in Australia, which has free trade agreements with New Zealand, Singapore, Thailand and the US.

In the year to December 2006, gross domestic product (GDP) increased by 2.8 per cent, which was below the 4.1 per cent growth in domestic final demand. The disparity between the two measures is largely due to Australia's trade deficit. While the increase in GDP was modest and below the 3.6 per cent 10 year average, the economy continued to operate close to full capacity and experienced labour shortages and capacity constraints. There were large disparities in gross state product (GSP) recorded in 2005-06 between the states and territories, with strong growth recorded in the Northern Territory, Queensland and Western Australia, moderate economic growth in the Australian Capital Territory and Tasmania and weak economic growth in New South Wales and South Australia.

Employment growth in 2006 averaged 2.3 per cent, resulting in a 30 year low unemployment rate of 4.5 per cent. In the November Statement on Monetary Policy, the RBA reported that skill shortages persisted in 2006 and were across multiple industries.

Stimulated by the increase in petrol prices in mid-2006 and the one-off effect of Cyclone Larry on fruit prices, inflation was 3.5 per cent per cent in 2006, above the RBA target range of 2 to 3 per cent, prompting the RBA to raise the official cash rate in May, August and November.

In the Mid-Year and Economic Fiscal Outlook, the Australian Government forecasts the fiscal balance (the difference between government revenue and government expenditure) to record an \$11.8 billion surplus, continuing to underpin the strength of the currency. The Australian dollar has remained strong against the US dollar, averaging \$0.755 in 2006 and contributing to the pressure experienced by Australian exporters, particularly in the manufacturing sector.

The widespread drought has resulted in significant declines in general farm production. The cropping sector has been the hardest hit, with winter crop production estimated by the Australian Bureau of Agricultural and Resource Economics (ABARE) to fall by about 60 per cent. Overall, the drought is estimated by the RBA to cut GDP by one-half of a percentage point in the 2006-07 financial year.

The commodity boom, bolstered by strong Chinese demand, continued to drive mineral and most other prices higher and has resulted in Australia's terms of trade (that is, the ratio of export prices to import prices) reaching its highest level since the wool boom of the 1950s. In 2006, the commodity price index increased by 22.7 per cent in year on year terms, moderating from the historically high growth of 32.5 per cent reported in May 2006. Commodities in the 'base metals' category, which account for 16 per cent of the total index, increased by 62 per cent in the year. The national trade balance continues to recover from the historic deficits of early 2005. Strong increases in resource export prices have supported the recovery while increases in resource export volumes were moderate. However, with a number of resource projects which will add to capacity recently completed or nearing completion, volumes are expected to strengthen. In line with the narrowing trade deficit, the current account is expected to decrease from 5.8 per cent of GDP in 2005 to 5.1 per cent in 2006.

Outlook

Global Economy

Global growth is forecast by Consensus Economics to ease slightly to 4.7 per cent in 2007. Economic growth is expected to be strong in China, India and many South East Asian countries. The US economy is expected to slow in 2007. However, with more economies continuing to contribute greater proportions to global growth, the world economy is considerably more resilient to withstand a greater than expected slowdown in the US economy.

Global inflationary pressures have lessened due to the significant decline in oil prices and the easing of commodity prices. However, inflation still poses a risk to the global economy in 2007, and wage pressure in particular remains a possibility due to labour shortages and capacity constraints. The instability in some oil-producing nations could also result in supply shortages, resulting in significant rises in oil prices.

Australia

Consensus Economics forecasts Australian GDP growth of 2.9 in 2007. The resource-rich states of Western Australia, Queensland and the Northern Territory will continue to outperform the other states, although the disparity in economic growth rates will narrow in 2007.

The direction of future interest rate changes is uncertain. Consensus Economics forecasts inflation to be 2.7 per cent in 2007, which is near the top of the RBA's target band. Employment growth is expected to remain steady, keeping the unemployment rate at 30 year lows and, with the participation rate likely to remain unchanged, Consensus Economics notes that further large wage increases remain a possibility.

ABARE forecasts mineral and energy exports to increase by 20 per cent to about \$111 billion, with both value and volume increasing, and farm commodities exports are expected to decrease by 8 per cent to about \$25 billion due to lower volumes, predominantly as a result of the drought.

Prospects for the rural sector affected by the drought are improving with heavy rains in many drought-affected areas in early 2007, with ABARE forecasting a return to average seasonal conditions in 2007-08.

Negotiations are proceeding with China, Malaysia, Japan, Chile and Korea for free trade agreements. The negotiations between Australia and China, which began in early 2005, have received the greatest prominence.

Table 6.1: GDP Growth (annual percentage change)

	GDP Growth (%)					Comment
	2004	2005	2006	2007e	2008f	
North East Asia						
China	10.1	10.2	10.5	9.6	9.4	The government will continue to introduce measures to boost consumption aiming to make growth less dependent on exports and investment. International pressure will increase on China to substantially revalue the currency.
Korea	4.7	4.0	5.0	4.4	4.9	An expansionary fiscal policy should mitigate the expected decline in private consumption.
Japan	2.7	1.9	2.2	2.1	2.3	Strong business investment will continue to be the main driver of growth in 2007. The large government deficit will continue to impede sustained economic growth.
Taiwan	6.1	4.0	4.3	4.0	4.6	Taiwan is actively seeking to negotiate a free trade agreement with the US.
Hong Kong	8.6	7.3	6.5	5.1	5.0	Hong Kong manufactured exports should benefit from an appreciation in the Chinese currency which will widen the gap between the yuan and the Hong Kong dollar.
South East Asia						
Philippines	6.0	5.1	5.0	5.4	na	Strong export growth and buoyant remittances from expatriates are expected to keep the current account in surplus. Inflation should ease from 6.7 per cent to 5.5 per cent in 2007.
Indonesia	5.1	5.6	5.4	5.9	5.9	Interest rates are expected to decline from 9.75 per cent, however any declines are expected to be modest in order to reduce the risk of depreciation in the currency.
Malaysia	7.2	5.2	5.9	5.4	5.7	Growth is expected to soften moderately due to strong exports, particularly electronic and electrical products and growth in private consumption and investment.
Thailand	6.3	4.5	4.6	4.8	5.0	Following the military coup in September 2006, democratic elections are planned for late 2007, restoring consumer confidence and investor sentiment.
Singapore	8.7	6.4	7.7	5.2	5.5	Private consumption and investment should be the main contributors to growth and the property market is expected to continue to recover.
North America						
United States	3.9	3.2	3.3	2.4	3.0	The downturn in the housing market did not significantly impact on consumer and stock market sentiment, easing the severity of the expected slowdown. The current account is forecast to average close to 6 per cent of GDP in 2007 and 2008, placing downward pressure on the dollar.
Canada	3.3	2.9	2.7	2.4	2.9	Growth is expected to slow in 2007 with exports to the US weakening, however the economy is still expected to operate at near capacity.
Eurozone						
	1.8	1.5	2.8	2.3	2.1	Business conditions are expected to be positive with unemployment continuing to decline slowly in 2007.
Russia						
	7.2	5.5	6.5	6.5	na	Foreign investors in the energy sector will be limited to minority stakes and existing agreements will be renegotiated. High oil prices are expected to support domestic demand.
India						
	7.5	8.4	8.4	7.8	na	The merchandise trade deficit is expected to widen, however surpluses on the services and transfers accounts will limit the current account deficit to less than 3 per cent.
Australia						
	3.7	2.8	2.5	2.9	3.2	The resource rich states of WA, Qld and the NT will continue to out perform the other states, although the disparity in economic growth rates will narrow in 2007.
New Zealand						
	4.4	2.1	1.7	2.1	2.8	Modest growth is expected following the soft landing and the current account deficit is expected to narrow, although remaining at an unsustainable level.

e: estimate; f: forecast

na: not available

Source: Consensus Economics Consensus Forecasts (India: financial year reported); Russia, Philippines: International Monetary Fund

Chapter 7 International Trade

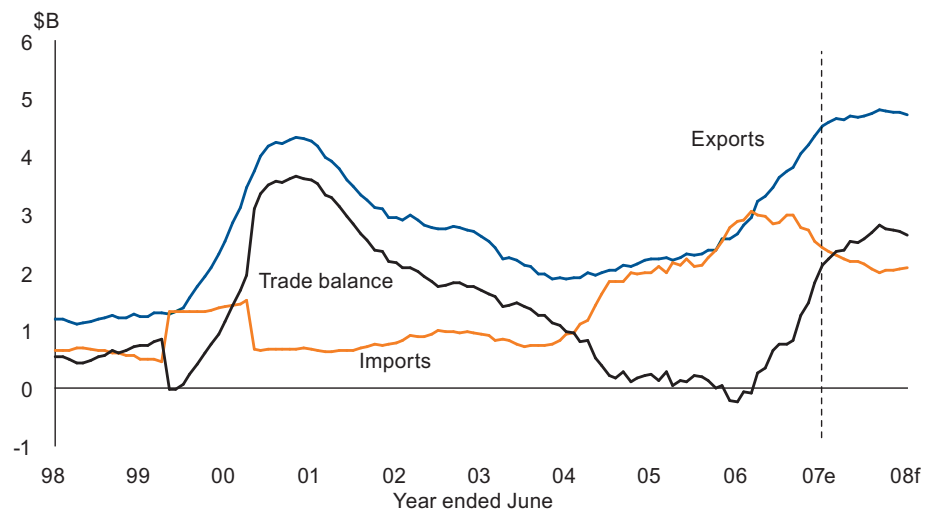
Key Points

- » In 2006-07, the Northern Territory's international trade surplus (that is, exports of goods and services less imports of goods and services) increased to an estimated \$2.6 billion, up from the \$179 million surplus in 2005-06.
- » The Territory's international merchandise trade balance increased to an estimated \$2.1 billion in 2006-07, up from the \$230 million deficit in 2005-06.
- » Mineral ores, mineral fuels and services related to international visitors (tourists and foreign defence personnel) dominate international exports in the Territory. In 2006-07, merchandise exports increased by 71 per cent to an estimated \$4.5 billion, largely due to increased global commodity demand and prices.
- » Merchandise exports is forecast to increase to an estimated \$4.7 billion in 2007-08, supported by a second full year of liquefied natural gas (LNG) production, manganese from Bootu Creek mine and alumina from Alcan's Gove refinery.
- » The major Territory imports are machinery and equipment (mostly industrial equipment for mining and construction activities) and refined fuels. In 2006-07, imports decreased by an estimated 16 per cent to \$2.4 billion, and are forecast to decline by a further 14 per cent to \$2.1 billion in 2007-08. The decline is primarily due to weakened demand for machinery and transport equipment (particularly for major oil and gas projects), and a reduction in national aircraft imports via Darwin.
- » The value of mineral fuel imports is forecast to decrease by about 2 per cent in 2007-08 as demand continues for the importation of feedstock gas for the Wickham Point LNG plant.

International trade is an integral part of the Territory economy. In 2006-07, the Territory's international trade surplus increased to an estimated \$2.6 billion, with international merchandise trade accounting for \$2.1 billion of the Territory's total international trade. Exports in the Territory are dominated by mineral and energy commodities and, to a lesser extent, the agricultural sector. The Territory's reliance on the mining and energy sector, which is often characterised by projects with long lead times, price fluctuations and exchange rate movements, can substantially impact on the Territory's trade performance. For example, the commencement of a full year of LNG production in 2006 has led to an increase in the Territory's level of exports by almost 50 per cent (Chart 7.1). The volatility in exports was also evident in 1999 and 2000 when production at the Laminaria-Corallina oilfields commenced, leading to a 68 per cent increase in Territory exports. Although the volume of LNG production will remain at current levels for the next five to ten years, the value of production will fluctuate, impacting on the Territory's international trade performance.

Caution is also required when interpreting international trade statistics for the Territory. Although the importation of some high value capital goods, such as the *Northern Endeavour* platform in 1999 and 20 passenger aircraft for Jetstar between 2004 and 2006, has a significant impact on Territory imports, it has minimal impact on the onshore economy. In addition, the majority of gold production in the Territory is exported through Perth, and is not considered a Territory international trade export, but rather as interstate trade.

Chart 7.1: Territory International
Merchandise Trade
(moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS data service 5432.0.65.001

Merchandise Trade Balance

Although historically the Territory is a net exporter, largely due to its abundance of mineral and energy resources, in 2005-06 the Territory's merchandise imports exceeded merchandise exports (mainly reflecting the importation of aircraft where Darwin was the port of entry into Australia). The Territory's major merchandise trading partners include North East and South East Asia (mainly China and Singapore). North America (mainly Canada) is another important trade region.

The Territory's international merchandise trade balance, as a ratio to gross state product (GSP), was -1.9 per cent in 2005-06 (Table 7.1), compared to the national ratio of -3.6 per cent. This ratio reflects a jurisdiction's relative international trade exposure. In the case of New South Wales and Victoria, the negative sign indicates a trade deficit, reflecting the fact that Sydney and Melbourne are Australia's primary ports for imports which are then distributed across the nation. In 2006-07, the trade ratio is expected to be positive for the Territory, as exports exceed imports.

Table 7.1: International
Merchandise Trade,
2005-06¹

	Merchandise Exports	Merchandise Imports	Merchandise Trade Balance	Ratio of Trade Balance to GDP/GSP
New South Wales	28 481	65 100	-36 619	-11.8
Victoria	19 599	47 793	-28 194	-12.4
Queensland	27 229	23 119	4 110	2.4
South Australia	8 610	5 874	2 736	4.5
Western Australia	40 003	16 775	23 228	21.5
Tasmania	2 574	498	2 076	12.5
Northern Territory	2 313	2 535	- 222	-1.9
Australian Capital Territory ²	11	3	8	0.0
Australia	128 820	161 697	-32 877	-3.6

¹ Chain volume measures. International trade, as a component of GSP, is included in the GSP expenditure account which is expressed in chain volume terms. Therefore the comparison of the trade balance to GSP ratio across jurisdictions is reported in chain volume terms (not current prices).

² Merchandise trade from the ACT is limited due to its size and geographic location.

Source: ABS Cat. No. 5220.0 and ABS data service 5432.0.65.001

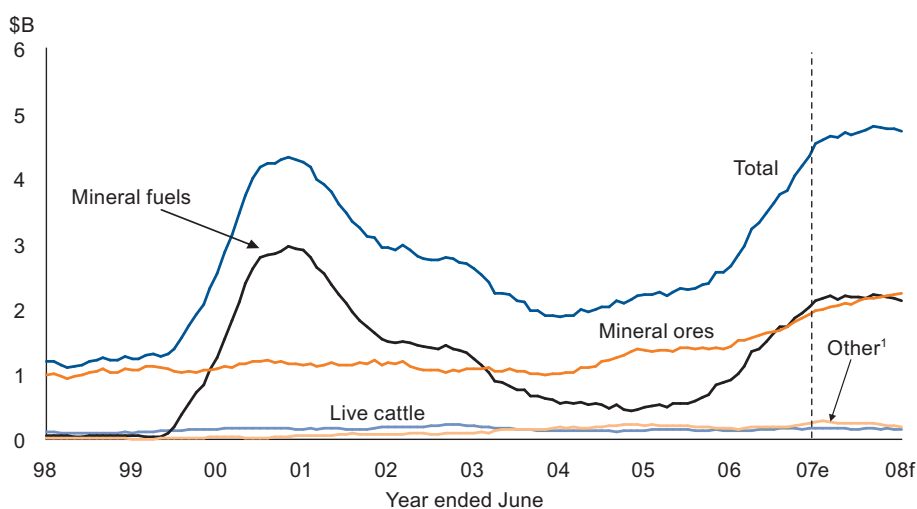
The Territory's international merchandise trade surplus increased to an estimated \$2.1 billion in 2006-07, up from the \$230 million trade deficit in 2005-06 (in current prices). The substantial improvement in the Territory's trade balance is primarily due to the increased value and production of LNG during this period. Other factors include the demand for, and increased prices of, mineral and energy commodities (such as alumina and manganese), together with weakened demand for manufacturing imports, following the completion of the Alcan G3 expansion.

Merchandise Exports

Mineral and energy exports comprise a large proportion of the Territory's international merchandise exports. Multi-billion dollar land-based mining and sea-based oil and gas extraction projects have a significant impact on the Territory's economy and trade performance. Other important merchandise exports include live cattle, manufactured goods, chemicals and related products, machinery and transport equipment, and animal and vegetable oils.

Merchandise exports have been volatile in recent years, reflecting the combined impact of falling oil production from the Laminaria-Corallina oilfields, fluctuations in crude oil prices, increased production of LNG at Wickham Point and movements in the Australian dollar. In current prices, the value of Territory merchandise exports increased by 71 per cent to an estimated \$4.5 billion in 2006-07. The main contributors to the increase in merchandise exports are mineral fuels, mineral ores and live cattle exports.

Chart 7.2: Territory Merchandise Exports by Major Group (moving annual total)



e: estimate; f: forecast

¹ 'Other' includes beverages and tobacco, manufactured goods, machinery and equipment and miscellaneous manufactured articles

Source: Northern Territory Treasury, ABS data service 5432.0.65.001

Mineral Fuels

In 2006-07, the value of mineral fuel exports increased by 133 per cent to an estimated \$2.1 billion, due to the value and production of LNG production rising from \$300 million in 2005-06 to more than \$1.3 billion in 2006-07 (after a full year of LNG production). The peak in merchandise exports in mid 2001 (Chart 7.2) was due to oil production from the Laminaria-Corallina oilfields, a weak Australian dollar and increasing oil prices. Mineral fuel exports are expected to remain at an estimated \$2.1 billion as full production of LNG continues at the Wickham Point processing plant and the production of oil at the Laminaria-Corallina field in the Timor Sea increases.

Mineral Ore

The dominant mineral ore exports in the Territory include alumina, manganese, lead-zinc concentrate and uranium. The value of mineral ore exports increased by

38 per cent to an estimated \$2.0 billion in 2006-07, reflecting an increase in demand for, and prices of, such resources.

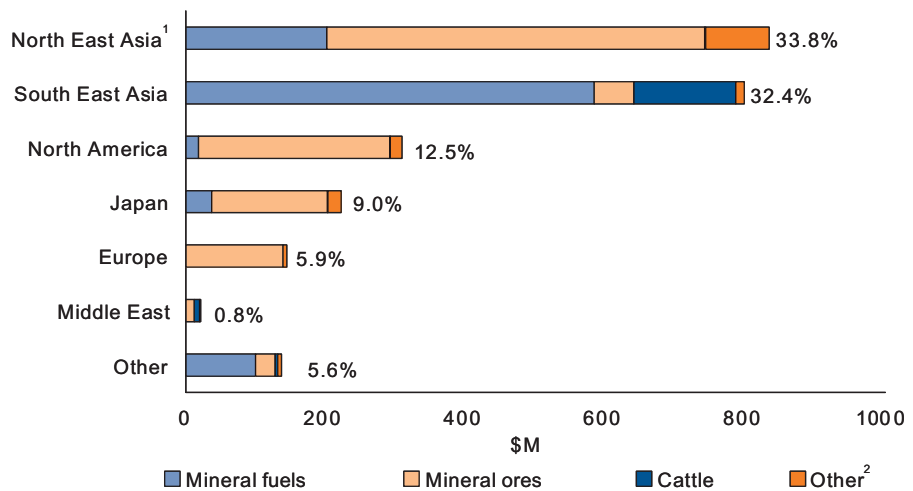
Following Xstrata’s decision to cease underground mining operations at its McArthur River lead-zinc mine in September 2005, a proposal to expand the mine to allow open cut operations was approved by the Territory Government in late 2006. The mine is expected to reopen for production in late 2007 with a 15 year extension of mine life. The McArthur River mine contributed more than \$200 million a year to mineral ore exports over the past decade. The Bootu Creek manganese mine and the reopening of the gold mine and processing plant at Pine Creek have partially offset the reduced exports from McArthur River.

Live Cattle Territory live cattle exports are influenced by the economic conditions in the major importing countries such as Indonesia, as well as other factors including drought and the value of the Australian dollar relative to the currencies of Asian trading partners. In 2006-07, the value of live cattle exports from the Territory increased by 25 per cent to an estimated \$170 million. This increase is largely due to the combined effects of higher cattle prices and growth in live cattle export demand by South East Asian countries such as Brunei, Indonesia and Malaysia. Although the drought has affected cattle farms in Central Australia, the export of live cattle from the Territory is expected to remain stable in 2007-08.

Other Merchandise Exports Other merchandise exports for the Territory include manufactured goods, beverages and tobacco, machinery and equipment and miscellaneous manufactured articles. In 2006-07, the value of other merchandise exports increased by 55 per cent to an estimated value of \$270 million. The increase primarily reflects the higher demand for manufactured goods which accounted for about 70 per cent of all other merchandise exports from the Territory in 2006-07.

Key Export Markets In the five years to 2005-06, about 75 per cent of Territory merchandise exports went to Asia (Chart 7.3). Of all mineral ore exports from the Territory, 44 per cent are sent to North East Asia, with the other major destinations including North America, Japan and Europe. The Territory exports 62 per cent of its mineral fuel to South East Asia, with the other major destinations including Japan and North America. More than 90 per cent of all live cattle exports were to South East Asia in the five years to 2005-06.

Chart 7.3: Territory Merchandise Export by Region of Destination and Commodity, 2001-02 to 2005-06, (five year average)



¹ Excluding Japan

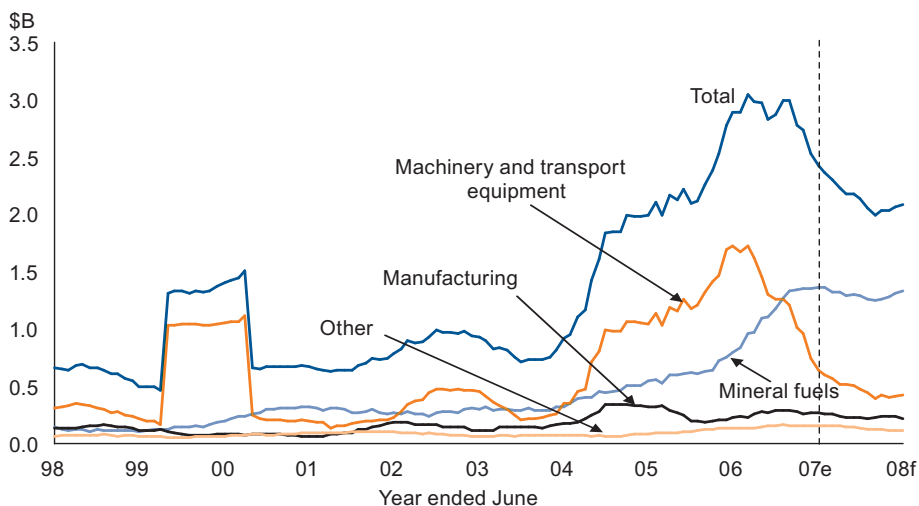
² 'Other' is primarily alumina and may also include beverages and tobacco, manufactured goods, machinery and equipment and miscellaneous manufactured articles

Source: ABS data service 5432.0.65.001

Merchandise Imports

In 2006-07, the value of imports decreased by 16 per cent to an estimated \$2.4 billion as major construction projects near completion, limiting demand for machinery and transport equipment imports. This contrasts with the previous two years when machinery and transport equipment imports were particularly high due to the importation of equipment for major construction projects, the import of aircraft for Jetstar and higher fuel imports. The Territory's major international merchandise imports are mineral fuels and machinery and transport equipment (Chart 7.4).

Chart 7.4: Territory Merchandise Imports by Major Group (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS data service 5432.0.65.001

Mineral Fuels

Gas production at the Wickham Point LNG plant has had a significant impact on the Territory's international trade. Feedstock gas for manufacture into LNG is piped via a sub-sea pipeline from the Bayu-Undan fields in the Joint Petroleum Development Area (JPDA). The JPDA is jointly managed by Australia and Timor-Leste and as such is classified as a country for international trade purposes. Half of all feedstock gas from Bayu-Undan is reported as a Territory import.

In 2006-07, the value of fuel imports increased by 71 per cent to an estimated \$1.4 billion, the combined effect of stable oil prices and the appreciation of the Australian dollar increasing the demand for fuel by mining and construction companies. The solid increase in international fuel imports since 1999 reflects, in part, a shift in the source of supply, with less being sourced from Australian refineries and more being sourced from Singapore. In 2005-06, the international price of crude oil reached record levels largely due to the supply constraints caused by Hurricane Katrina, continued instability in Iraq and uncertainty of supply from Venezuela and Nigeria. According to Access Economics, crude oil prices are expected to weaken in 2006-07 from record levels as supply increases, impacting on the value of fuel imports to the Territory in the future.

Machinery and Transport Equipment

The value of machinery and transport equipment imports decreased from \$1.7 billion in 2005-06 to an estimated \$640 million in 2006-07, and represented more than a quarter of Territory merchandise imports. In 2005-06, the peak in machinery and transport equipment was primarily due to Darwin being the first Australian port of call for Jetstar's fleet of 20 new Airbus A320s, contributing more than \$900 million to Territory merchandise imports. It is expected that imports will return to levels reported in 2003-04, following the completion of Jetstar's fleet purchases in late 2006 and slowing demand for industrial machinery and transport equipment by mining and construction companies.

Manufacturing

The Territory has a small manufacturing base, with the majority of manufactured products imported from interstate and overseas. In the five years to 2005-06, manufactured imports accounted for 13 per cent of international merchandise imports. In 2006-07, the value of manufactured imports increased by 15 per cent to an estimated \$270 million.

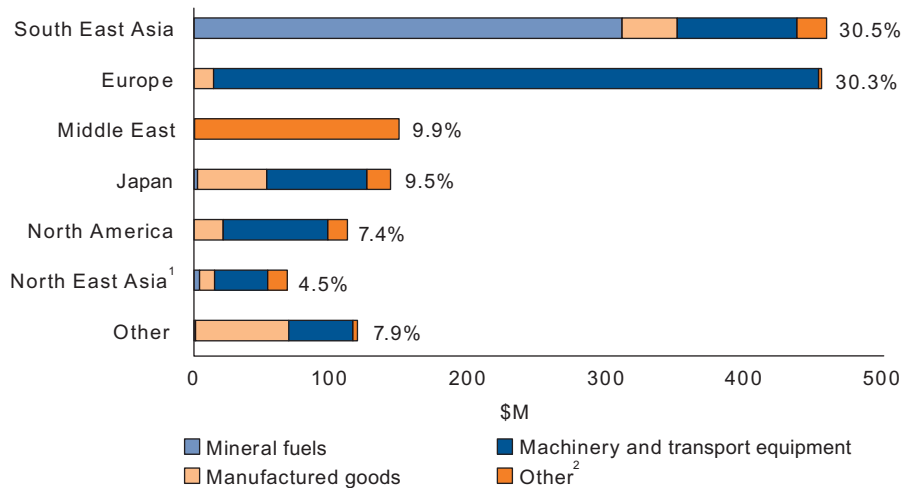
Other Merchandise Imports

In 2006-07, other merchandise imports increased by 13 per cent to an estimated \$160 million. Other merchandise imports include food and live animals, beverages and tobacco, crude materials, animal and vegetable oil, chemicals and related products, and unclassified commodities. Accounting for 63 per cent of all other merchandise imports in 2006-07, miscellaneous manufacturing includes furniture, apparel, travel goods and prefabricated buildings.

Key Import Markets

In the five years to 2005-06, almost two thirds of all Territory merchandise imports came from South East Asia and Europe (each accounting for 30 per cent of Territory imports). South East Asia is the major supplier of the Territory's fuel requirements, with more than 95 per cent being sourced from that region. In 2005-06, Europe as the Territory's second largest import source, largely due to the Airbus A320 aircraft imports from France (contributing 58 per cent of all machinery and transport equipment imports to the Territory).

Chart 7.5: Territory Merchandise Import by Region of Origin and Commodity, 2001-02 to 2005-06, (five year average)



¹ Excluding Japan

² 'Other' includes; beverages and tobacco, food and live animals, crude materials, chemicals and related products, animal and vegetable oils and unclassified commodities

Source: ABS data service 5432.0.65.001

Service Exports

The Territory recorded the highest level of service exports per capita of the jurisdictions in 2005-06. This was due to the relatively large contribution of the tourism industry in the Territory as well as the Territory's status as a rest and recreation destination for foreign defence personnel.

In August 2006, the Australian Bureau of Statistics (ABS) made revisions to the calculation of international trade in services exports, which has led to a significant change in the value of services exports for all jurisdictions. For example, the value of travel services exports in 2004-05 was reported as \$138 million of total Territory service exports and, as a result of the ABS revisions, travel services exports are now valued as \$356 million of total Territory service exports. Previously, travel services exports were apportioned to jurisdictions based on the main state of stay, an indicator more likely to favour larger states. However the revised methodology utilises the

number of stop-over nights, a better indicator of travel services exports. The following service export figures were calculated using the new ABS methodology.

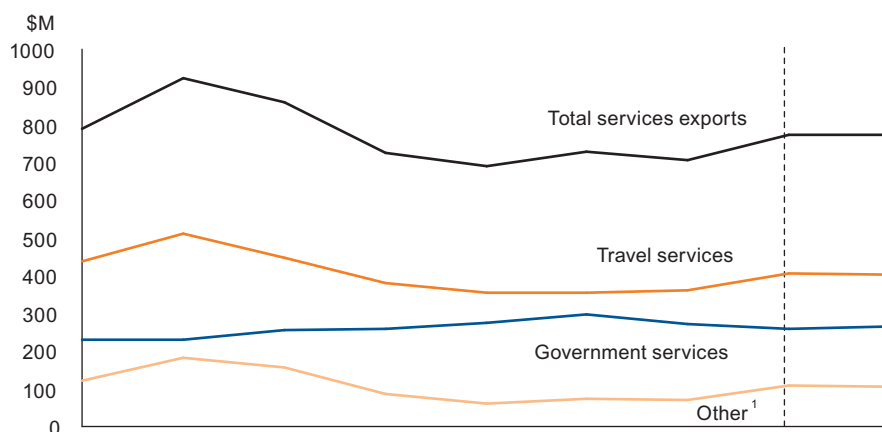
Travel Services

Travel services exports include the expenditure by overseas tourists, business travellers and students on services such as meals, accommodation, entertainment and sightseeing tours. In 2005-06, travel services were valued at \$361 million, accounting for more than half of total Territory services exports. Since 2000-01, the value of Territory travel service exports has declined by almost 30 per cent (Chart 7.6), largely due to a series of international terrorist attacks affecting worldwide tourism. In 2006-07, the value of travel services is expected to increase by about 12 per cent as overseas consumers take advantage of discount airlines providing services to Australia.

Government Services

Expenditure by foreign government personnel on services such as meals, accommodation, entertainment and sightseeing tours is included as government services exports. The majority of government services exports in the Territory comprise visiting defence personnel, particularly from the United States. In 2005-06, the value of government services exports was \$273 million, representing 39 per cent of total Territory services exports. The value of government services exports is expected to decrease by about 5 per cent to an estimated \$260 million in 2006-07. This decline is a result of fewer defence missions planned for the Top End region, reducing the number of visiting foreign navy ships.

Chart 7.6: Territory Services Exports



e: estimate; f: forecast

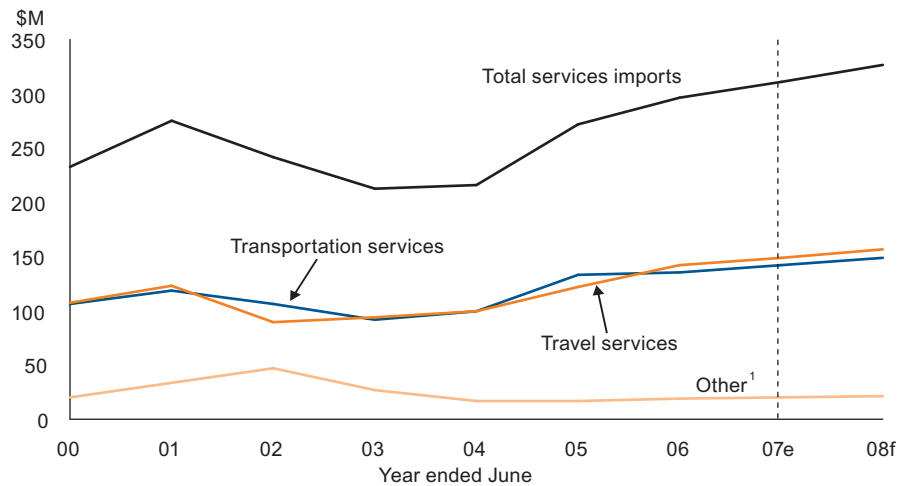
1 'Other' includes transportation and communication services

Source: ABS data service 5368.0.55.001 and 5368.0.55.001

Service Imports

Territory services imports are dominated by Territory-based demand for travel services (consumed by Territorians travelling overseas) and transportation services (shipment and freight services provided by foreign operators), each of which represented close to half of all services imports in 2005-06. The total value of services imports in 2005-06 was \$296 million, up from \$272 million in 2004-05. In 2006-07, the value of services imports in the Territory is expected to increase by about 5 per cent as demand for transportation services (particularly rail freight) and travel services continues to strengthen.

Chart 7.7: Territory
Services Imports



e: estimate; f: forecast

1 'Other' includes communication services and confidential items

Source: ABS data service 5368.0.55.001 and 5368.0.55.001

Outlook

The Territory's trade surplus is forecast to be \$3.1 billion in 2007-08 as exports of goods and services continue to exceed imports of goods and services. The merchandise trade surplus is estimated to increase to \$2.6 billion, up from the \$2.1 billion trade surplus in 2006-07, and a substantial turnaround from the \$230 million deficit in 2005-06. The Territory's balance of trade is forecast to remain in surplus for 2007-08 as a result of factors such as falling import prices, weakening demand for major imports (such as machinery and transport) and an appreciating Australian dollar.

Merchandise Exports

The current value of merchandise exports is estimated to increase by 71 per cent to \$4.5 billion in 2006-07 and forecast to increase to \$4.7 billion in 2007-08. The growth in merchandise exports is associated with a full year of LNG production, manganese from Bootu Creek mine and increased production from Alcan's Gove refinery. The value of mineral fuels exports is forecast to remain stable at \$2.1 billion in 2007-08, as LNG production levels reach full capacity and production of oil from Laminaria-Corallina increases. Commodity prices, particularly in the mining and energy sectors, are expected to weaken from current highs as the Chinese economic growth moderates from unsustainable highs and a subsequent decline in global demand, reducing the value of Territory commodities exports.

In the next 12 months, the following major resource developments may increase Territory exports:

- production at the new mineral sand mine in the Tiwi Islands is forecast to process 850 000 tonnes over the next three to four years and will begin exporting to China by mid-2007;
- iron ore production at the Frances Creek mine near Pine Creek is expected to commence mid-2007, with maximum production levels reaching 2 million tonnes per annum; and
- the new LNG deposit in the Timor Sea is expected to further extend the life of the project at Wickham Point.

Merchandise Imports

The current value of Territory international imports is forecast to further decline to \$2.1 billion in 2007-08 following a decrease of 16 per cent to \$2.4 billion in 2006-07. The decline in merchandise imports is primarily due to the completion of Jetstar's fleet purchase and weakened demand for machinery and transport equipment by Alcan as the G3 refinery expansion is completed. Additionally, the value of mineral fuel imports is forecast to decrease by 2 per cent as a result of the stable demand for feedstock gas at the Wickham Point LNG plant.

Trade in Services

The trade services balance is estimated to increase by 13 per cent to \$463 million in 2006-07 and slightly moderate to \$445 million by 2007-08. Trade services exports in 2006-07 are estimated to increase by 10 per cent to \$774 million and remain stable for 2007-08. This increase largely reflects greater demand for travel services (in particular personal travel services) as consumers access low cost airlines such as Tiger Airways. The value of trade services imports is expected to increase by about 5 per cent to an estimated \$311 million and further increase to \$326 million by 2007-08. The increase in trade service imports will be driven by higher demand for transportation services (mostly rail freight) and travel services, as cheaper airfares and the value of the Australian dollar strengthen demand.

Chapter 8 Mining and Energy

Key Points

- » In terms of output, mining is the largest industry in the Territory, accounting for 25 per cent of gross state product (GSP) in 2005-06, compared to 7 per cent nationally.
- » Mining output is volatile as production is dominated by a small number of large projects. 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, declining output from the Laminaria-Corallina oilfield in the Timor Sea has been partially offset by increasing gas and condensate production from Bayu-Undan, as well as liquefied natural gas (LNG) production at the Wickham Point plant.
- » Mineral production and processing is expected to significantly increase in the next few years, with growth driven largely by increased production of alumina, gold and manganese.
- » Mineral and energy production is estimated to increase by 26.1 per cent to \$6.3 billion in 2006-07. More moderate growth of 6.6 per cent is expected for 2007-08.
- » In the medium to long term, the level of exploration is expected to continue to increase, supported by strong commodity prices and Northern Territory Government initiatives.

Mining

Mining is the most significant industry in the Territory, accounting for 25 per cent of GSP in 2005-06 (the latest year for which jurisdictional data is available), compared to 7 per cent nationally (Table 8.1). However, its high contribution to GSP is not reflected in its share of Territory employment. The Australian Bureau of Statistics (ABS) estimated resident employment in the mining industry in 2005-06 to have totalled 1900 or 1.9 per cent of total resident employment. An additional 3000 employees are associated with the Territory mining and energy industry as: fly-in fly-out (FIFO) workers; manufacturing workers at Alcan's Gove alumina plant and the Wickham Point LNG plant; and construction workers on mining and energy projects, especially the Alcan G3 expansion at Gove.

Table 8.1: Mining as a Percentage of GSP, 2005-06

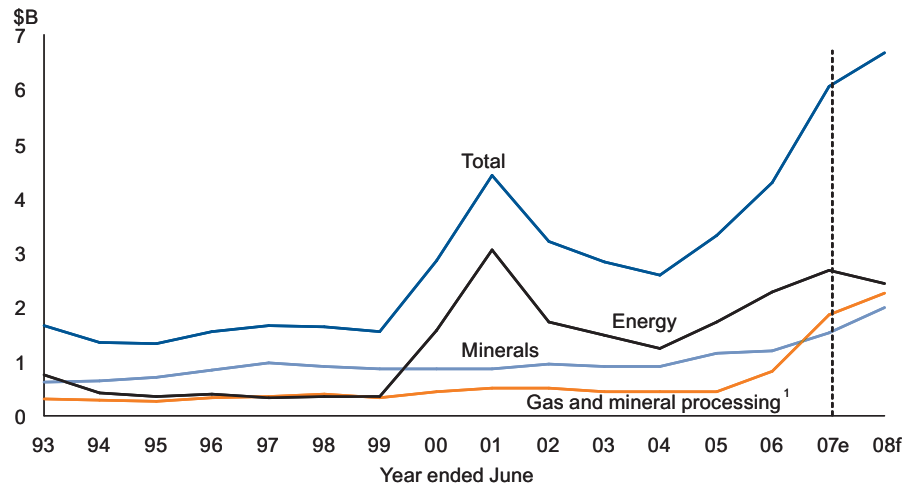
	%
New South Wales	2.2
Victoria	1.5
Queensland	11.2
South Australia	2.9
Western Australia	25.0
Tasmania	1.9
Northern Territory	24.6
Australian Capital Territory	0.0
Australia¹	6.8

¹ Mining as a percentage of GDP
Source: ABS Cat. No. 5220.0

Mining is a source of Territory Government revenue through royalties for most onshore mining operations. Royalty revenues have grown significantly in recent years, increasing by 95.1 per cent to an estimated \$75.1 million in the two years to 2006-07. The Australian Government also pays a grant to the Territory Government in lieu of uranium royalties, estimated at \$3.6 million in 2006-07. Offshore gas and oil falls under the Australian Government's tax jurisdiction.

In 2006-07, the value of mining and energy production is estimated to increase to a record level, up 41.3 per cent to an estimated \$6.1 billion. The major contributors to the increase are increased LNG production at the Wickham Point plant and increased production of oil at the Laminaria-Corallina field in the Timor Sea (Chart 8.1).

Chart 8.1: Value of Mining and Energy Production and Processing (nominal dollars)



¹ Includes alumina and LNG manufacturing

e: estimate; f: forecast

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

Minerals

Bauxite and alumina production at Gove, manganese production at Groote Eylandt and Bootu Creek, and lead-zinc production at McArthur River account for an estimated 81 per cent of the total value of mineral production in 2006-07, and the four mines are expected to continue to dominate production in the medium term. The McArthur River mine is in the process of being converted from an underground to an open cut operation, and mining is expected to recommence in the December quarter 2007.

Other important mineral resources and operations include:

- gold mines located in the Tanami Desert and Pine Creek areas;
- phosphate deposits near Tennant Creek;
- garnet sands and vermiculite near Alice Springs;
- magnesite and a major polymetallic deposit of lead, cobalt, copper, nickel and silver in the Batchelor area; and
- the Merlin diamond field south-east of Borroloola.

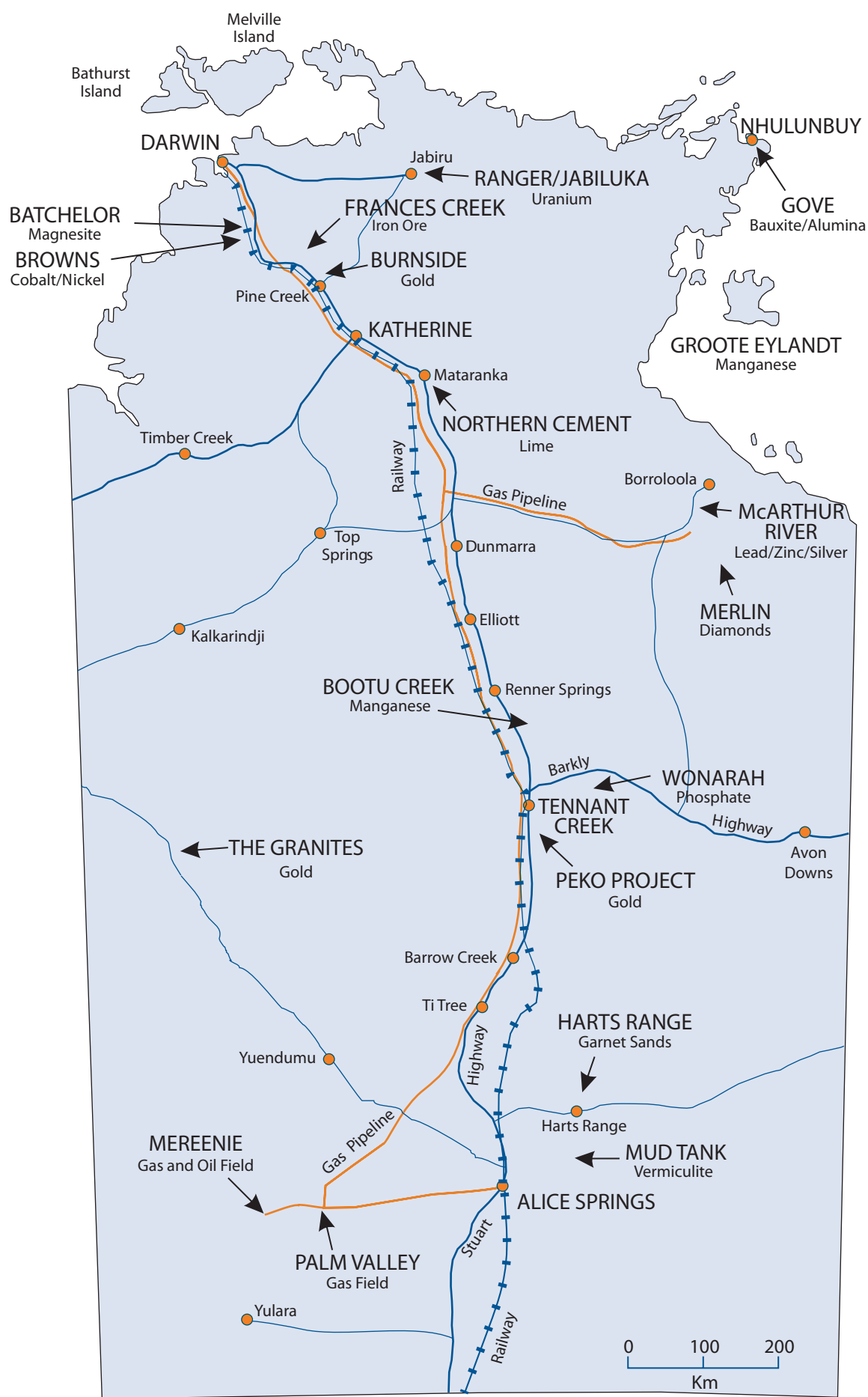
Uranium mining is reported under the 'Energy' section below.

2006-07 Mineral Production

The nominal value of mineral production and processing, including manufacturing of alumina, is estimated to increase by 33.8 per cent to \$2.3 billion in 2006-07 (Chart 8.2).

The nominal value of gold production in 2006-07 is estimated to increase by 46.2 per cent to \$396 million, due to commencement of production at Burnside, a

Onshore Mineral and Energy Resources



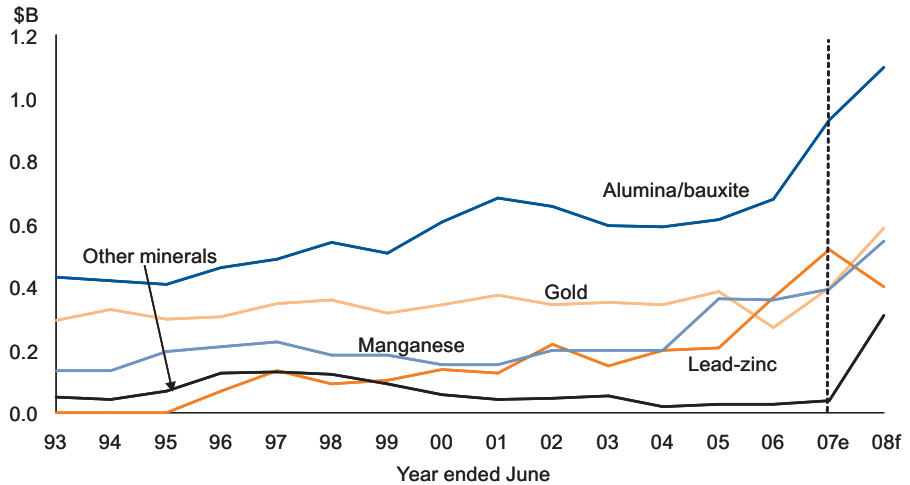
multiple orebody project near Pine Creek. The increase is estimated to be partially offset by a decline in production at The Granites mine in the Tanami region.

The value of bauxite and alumina production is estimated to increase by 37.1 per cent to \$930 million in 2006-07. The increase is largely due to greater volumes as production recovers from interruptions associated with the Alcan G3 refinery expansion, and as the new refinery capacity began to ramp up in the June quarter 2007. The value of production will also be boosted by higher alumina prices, up by an estimated 13.7 per cent in 2006-07.

The value of lead-zinc production is estimated to increase by 41.3 per cent in 2006-07 to \$519 million. After receiving approval from the Territory Government, Xstrata is in the process of converting the McArthur River mine to an open cut operation. Underground operations ceased in September 2005, causing production to decline in 2005-06, however the value of production continued to rise due to an increase in price of 165.9 per cent. Production in 2006-07 is recovering as feedstock from the test pit is being processed.

The value of manganese production is estimated to increase by 9.2 per cent to \$393 million in 2006-07, driven by increased production at both the GEMCO mine at Groote Eylandt and the Bootu Creek mine, which will more than offset a decline in manganese prices.

Chart 8.2: Value of Mineral Production and Processing (nominal dollars)



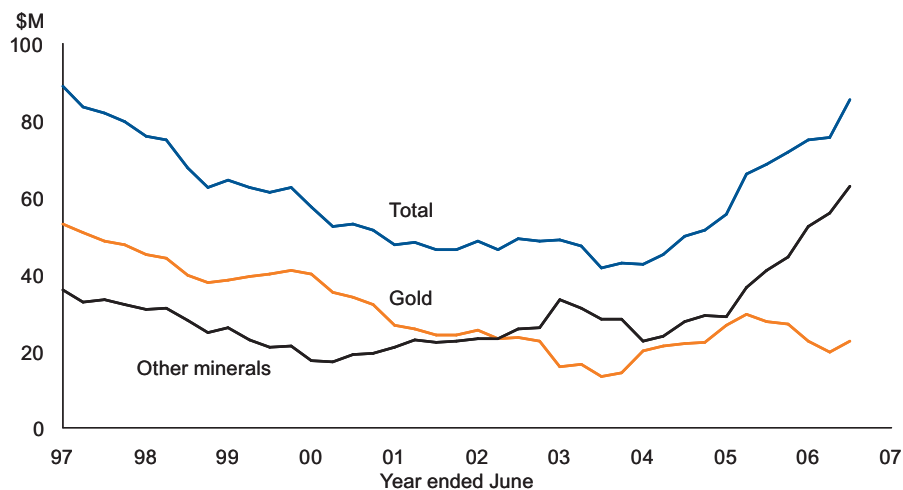
e: estimate; f: forecast
 Source: Northern Territory Treasury, Department of Business, Economic and Regional Development, Department of Primary Industry, Fisheries and Mines

Exploration

Mineral exploration in the Territory and nationally increased significantly in 2005-06, the latest year for which data on exploration is available, in response to increased commodity prices and demand, particularly from China. In the Territory, private mineral exploration expenditure (including exploration for uranium) increased by 34.5 per cent to \$75 million in 2005-06. Expenditure on gold exploration, at \$22 million in 2006-07, has remained fairly steady over recent years, and now accounts for less than one-third of mineral exploration expenditure. Expenditure on exploration for other minerals has almost doubled in the last year to \$52 million. In the six months to December 2006, expenditure on mineral exploration further increased to a total of \$52 million (Chart 8.3).

Increased exploration expenditure has been influenced by the Territory Government's initiative, *Building the Territory's Resource Base*, introduced in 2003. The four year initiative provides pre-competitive geoscientific data to promote prospectivity in the Territory. The initiative also supports liaison with indigenous land owners and enhances the capacity of the Department of Primary Industry, Fisheries and Mines to process exploration and mining titles. The initiative is scheduled to end in June 2007, and will be replaced by a new initiative, *Bringing Forward Discovery* (see 'Outlook' below for more detail).

Chart 8.3: Northern Territory Mineral Exploration (moving annual total)



Source: ABS Cat. No. 8412.0

Energy

The significant energy resources in the Territory are oil, uranium, natural gas, liquid petroleum gas (LPG) and condensate (a light hydrocarbon liquid used to manufacture petrol and petrochemicals, and often found mixed with deposits of natural gas). The Territory's major energy resources and operations include:

- Ranger uranium mine, and undeveloped uranium resources Jabiluka and Koongarra in west Arnhem Land;
- onshore gas and oil operations in the Amadeus Basin at Palm Valley and Mereenie;
- offshore oil operations at Laminaria-Corallina, Jabiru and Challis/Cassini in the Timor Sea; and
- undeveloped offshore gas and condensate deposits, including Greater Sunrise, Evans Shoal, Petrel/Tern, and Crux/Argus in the Timor Sea.

In addition, 50 per cent of the value of oil and gas production from the Joint Petroleum Development Area (JPDA) is also attributed to the Territory. Currently, the two producing fields in the JPDA are Bayu-Undan (gas, LPG and condensate) and Elang/Kakatua (oil).

2006-07 Energy Production

The nominal value of energy production is estimated to increase by 46.2 per cent to \$3.8 billion in 2006-07, driven by increased production of offshore oil and LNG.

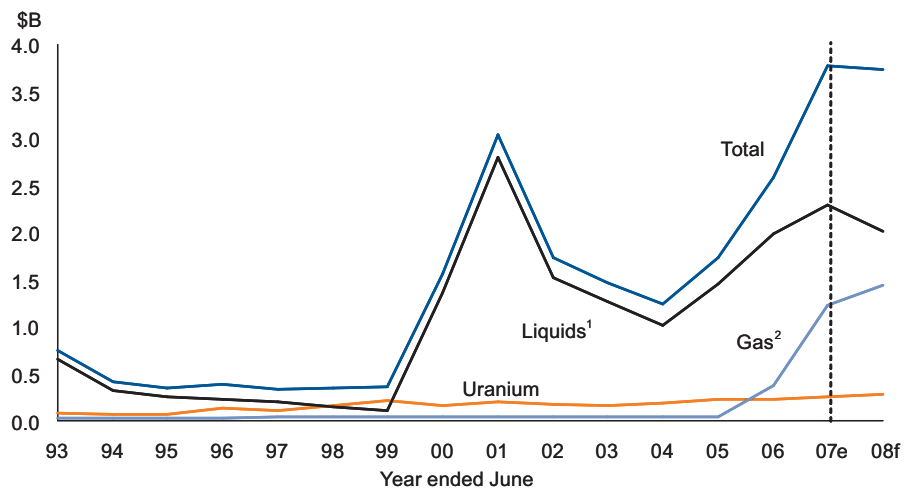
The value of oil production (excluding JPDA) is estimated to increase by 30.5 per cent to \$980 million, driven by an increase in production, but offset by lower prices. The increase is being driven by higher production at Laminaria-Corallina, as volumes continue to recover from a temporary shutdown in 2004-05 for repair work. Production at Laminaria-Corallina is expected to resume its decline in 2007-08.

The value of uranium ore production will increase by 9.7 per cent to an estimated \$256 million. Lower production caused by heavy rains in late February and early March 2007 is expected to be offset by higher uranium prices. The recent increases in uranium prices have been driven by increased global reactor requirements and decreasing supplies of secondary sources (mainly from blended-down weapons-grade uranium stocks).

The value of gas production, including LNG, will increase by 234.0 per cent to \$1.2 billion. The increase is being driven by the continuing ramp up of LNG production at the new Wickham Point facility using feedstock sourced from Bayu-Undan.

The value of JPDA oil, condensate and LPG production will increase by 6.6 per cent to \$1.3 billion, as higher prices offset a small decline in production.

Chart 8.4: Value of Territory Energy Production (nominal dollars)



1 Oil, condensate and liquid petroleum gas

2 Including LNG production

e: estimate; f: forecast

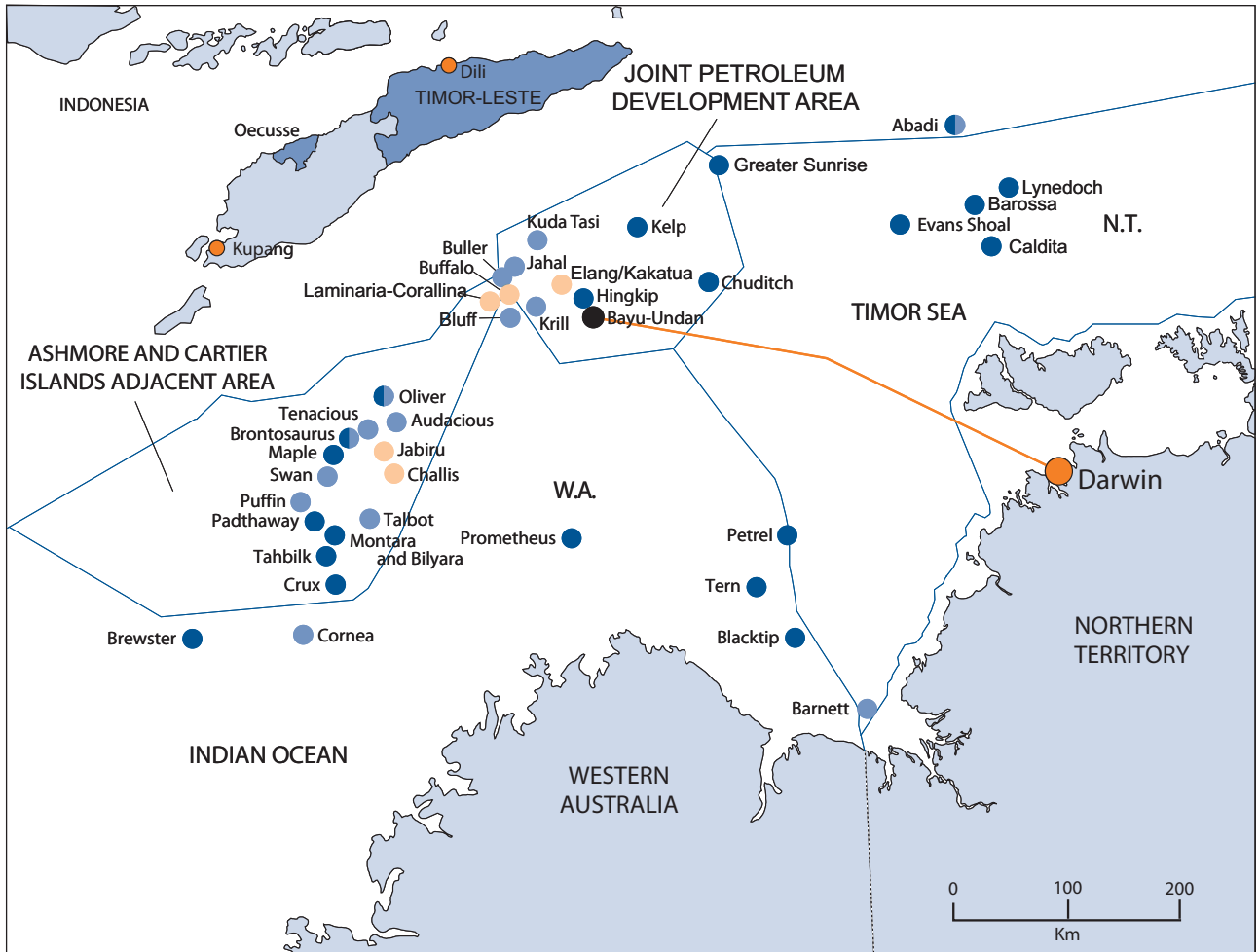
Source: Northern Territory Treasury, Department of Business, Economic and Regional Development, Department of Primary Industry, Fisheries and Mines

Exploration Relatively strong global economic growth and significant increases in oil and gas prices led to a resurgence in exploration activity in the past three years. Following a tripling of oil and gas exploration expenditure in 2004-05, expenditure tripled again in 2005-06, increasing from \$99 million to \$299 million. Expenditure is expected to increase further in 2006-07, with \$177 million recorded in the six months to December 2006.

Like mineral exploration, increased oil and gas exploration has been supported by the Territory Government's Building the Territory's Resource Base initiative through the provision of geoscientific information to explorers. The initiative has contributed to a major increase in the number of onshore exploration permits.

Uranium exploration, previously concentrated in west Arnhem Land and dominated by a few companies, expanded significantly in 2005-06, driven by strong increases in uranium prices since 2003. By June 2006 there were more than 40 companies active in almost every geological province in the Territory.

Timor Sea Oil and Gas



LEGEND

- Producing gas field
- Discovered undeveloped gas field
- Producing oil field
- Discovered undeveloped oil field
- Gas pipeline

Outlook

Growth in the total value of mineral and energy production is expected to moderate in 2007-08 to 10.3 per cent, resulting in a total value of production of \$6.7 billion.

Minerals

The outlook for minerals is determined by global supply and demand, with world economic growth and the exchange rate being major influences on demand. Global economic growth is expected to moderate in 2007-08, as growth slows in China, the United States and the European Union. Combined with increased global production, this will contribute to moderate to significant price declines of a number of the Territory's major commodities in 2007-08. Nevertheless, global commodity demand and prices are expected to remain high by historical standards, with strong demand continuing to be driven by ongoing growth in China. A potential depreciation of the Australian dollar in late 2007 or 2008 will also enhance the competitiveness of Australian producers.

The value of mineral production, including minerals processing, in the Territory is forecast to increase by 29.1 per cent to \$2.9 billion in 2007-08, largely due to expected increases in gold, manganese and alumina.

The value of gold production is forecast to increase by 48.3 per cent to \$587 million. Although prices are anticipated to remain steady, volumes will be boosted by production at the new Burnside project near Pine Creek, incorporating feedstock from numerous mines in the region and processing at the Union Reefs plant.

The value of manganese production is forecast to increase by 39.0 per cent to \$546 million in 2007-08. Prices are forecast to increase by 23.2 per cent on the back of stronger demand and constrained supply. Volumes will be boosted by increased production at Groote Eylandt and the continued ramp up of production at the Bootu Creek mine.

The value of alumina production is forecast to increase by 17.4 per cent to \$873 million in 2007-08, reflecting increased production volume associated with the completion of the Alcan G3 refinery expansion. Growth in the value of production will be partially offset by a forecast decline in price, driven by increasing global supply.

The value of Territory base metal production, including lead-zinc concentrate and copper concentrate, is forecast to fall in 2007-08 to \$412 million. Although production volumes at the McArthur River mine will be steady in the year, prices are expected to fall by 22.8 per cent, as increased global supply begins to come on line. The decline in the value of lead-zinc produced will be partially offset by the commencement of production at Browns oxide deposit near Batchelor (copper, cobalt and nickel concentrate). The same operator also intends later to develop a large sulphide orebody containing copper, cobalt, nickel, lead and zinc at the same site.

Production of iron ore at Frances Creek is anticipated to begin in May 2007, with the first load of ore scheduled to be transported by rail to Darwin for export through the port in the September quarter 2007. The value of production is forecast to be \$67 million in 2007-08, building up to \$136 million in the following years.

Oil Oil production will resume its decline in 2007-08 due to lower production from the Laminaria-Corallina field, which accounts for almost 98 per cent of oil production in the Territory. The fall in production at Laminaria-Corallina is a normal function of declining reserves and will continue. A number of other marginal oil discoveries in the Timor Sea await further appraisal and/or development, including Audacious, Barnett, Montara, Oliver, Puffin, Talbot and Tenacious.

The outlook for oil prices is uncertain, and depends not only on global supply and demand conditions, but also on geopolitical uncertainty regarding major oil producers. Although the Australian Bureau of Agricultural and Resource Economics (ABARE) has forecast moderate price declines in 2007 and 2008, ongoing tensions with Iran, in particular, have the potential to significantly drive up prices in the short to medium term.

Gas The value of gas production, including LNG, is forecast to increase by 17.5 per cent in 2007-08, reflecting increased LNG production at the Wickham Point facility using feedstock gas sourced from Bayu-Undan.

Looking further ahead, 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 new manufacturing industries. An area at Glyde Point, on the Gunn Point Peninsula to the east of Darwin, has been identified as a potential site for a major gas-based industrial estate and associated port facilities. Possible gas manufacturing projects include further production of LNG or gas-based products, such as methanol, ethane,

ammonia/urea fertilisers and various petrochemicals. Timor Sea gas also has the potential to provide a cheap and efficient energy source for the manufacture of alumina, magnesium and other ore concentrates, and for the production of electricity that could advance local value-adding opportunities.

Development of the Greater Sunrise gas field has progressed with the recent ratification by the Timor-Leste and Australian Governments of the revenue-sharing agreement signed in January 2006. The ratification gives Woodside greater certainty in moving ahead with developing the field, however there are a number of regulatory and technical issues that need to be resolved before the project can go ahead. In particular, an investigation needs to be completed on the relative merits of locating an LNG processing facility in Timor-Leste or Darwin.

The Northern Territory's Power and Water Corporation has signed an agreement with Eni Australia for the sale of gas from the Blacktip field, a Western Australian administered field 100 kilometres west of Wadeye in the Bonaparte Basin. The agreement secures the supply of gas from Blacktip to meet the Territory's long-term gas requirements from 2009.

Uranium ABARE has forecast a 43 per cent increase in uranium prices in 2007-08, with some moderation expected in 2008-09 as world supply increases.

In the Territory, uranium production is forecast to fall in 2007-08, as output from the Ranger mine continues to be impacted by the effect of recent heavy rains on the operating pit. However, the value of production is forecast to increase by 7.9 per cent in 2007-08, as higher uranium prices offset the decline in production.

ERA is planning to expand the current operating pit at the Ranger mine, which has the potential to extend the life of the pit to 2014-15. The expansion is possible due to the current high price of uranium, which makes it viable to mine and process lower quality ore.

The Jabiluka mine remains on a stand-by, care and environmental maintenance status, and the operator has given an undertaking to the traditional owners that mining will not begin without their consent. Reserves at Jabiluka are estimated to be sufficient to maintain production for nearly three decades.

Exploration Minerals exploration expenditure in the Territory has recovered significantly in the past three years, following a period of gradual decline over the seven years to 2003-04, while petroleum exploration has risen to record levels. 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. In particular, increased exploration expenditure is expected in 2007-08 for gold, uranium and base metals. Petroleum exploration is expected to continue growing in 2007-08, although at much lower rates compared to the previous two years.

The Territory Government initiative *Building the Territory's Resource Base* is scheduled to end in June 2007, and will be replaced by a new four year initiative *Bringing Forward Discovery*. The new initiative will continue the support provided by the previous initiative, including the provision of geoscientific data aimed at improving regional prospectivity, and the facilitation of greater exploration access to Indigenous land by supporting partnerships between government, industry and Indigenous organisations.

Chapter 9 Tourism

Key Points

- » Tourism plays a significant role in the Northern Territory economy, creating demand and generating employment in a range of different industries, including hospitality, retail trade and transport.
- » Since 2003-04, tourism's contribution to the economy has been measured by a new method.
- » In 2005-06, tourism gross value added was estimated at \$715.6 million, accounting for 7.2 per cent of Territory gross state product. Tourism consumption was \$2 billion in the Territory in 2005-06, which is 22 per cent of total consumption in the Territory.
- » Total visitor numbers including international, domestic overnight and domestic same day, declined moderately in 2005-06. Higher visitor expenditure resulted in minimal change in tourism expenditure levels in 2005-06.
- » In 2006-07, tourism in the Territory is expected to be broadly positive, with the outlook for 2007-08 forecasting steady growth.

Concepts and Definitions of Tourism

Tourism plays a significant role in the Territory economy, contributing more to gross state product (GSP) than in any other jurisdiction. Unique flora, fauna and geographical features, as well as Indigenous art and culture, are key attractions for visitors. Cruise and defence force ship visits also make a significant contribution to Territory tourism.

The growth in tourism over any period closely reflects prevailing economic conditions both domestically and internationally. Factors such as exchange rates and growth in disposable household income are key drivers. Tourism expenditure is largely a discretionary component of consumer expenditure, and as such, both income growth and consumer confidence can have a significant effect on tourism activity. International tourism is particularly sensitive to geopolitical conditions and health concerns, while the availability and cost of airfares and fuel prices can also impact on Territory tourism activity. Additionally, visitor numbers are influenced by large one-off events such as the Commonwealth Games, and regular events such as the Darwin Cup, Arafura Games, Masters Games and defence exercises.

Concept of Tourism

Tourism is defined differently to other standard industries, being defined by the nature of the consumer, rather than by the process in which goods and services are produced. That is, tourism is defined by the status of the customer as a visitor, and non-tourism by the status of the customer as a resident. Tourism is a component of many other standard industries, as tourists create demand in a range of industries including accommodation, cafes, restaurants, cultural and recreational services, retail trade and transport. In some standard industries, a high proportion of output is directly linked to tourism, and in others, only a small proportion may be attributed to tourism.

Tourism comprises the activities of visitors travelling to, and staying in, places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. This identifies tourism as more than just leisure travel, also including travel for business, health, education, religious and other reasons. It includes most short-term domestic and international travel away from the normal place of residence.

Definitions of Tourism Measures

Standard Australian Bureau of Statistics (ABS) measures of production are not available for tourism. As tourism output is included, in varying degrees, in all industries, the ABS uses a 'satellite' account to extract the tourism contribution in all industries and then totals them to get a proxy measure of total tourism activity in the Australian economy.

The tourism satellite account (TSA) calculates a measure of tourism activity using national accounts, and is not available at the state level. Recently however, in collaboration with Tourism NT, the Northern Territory Tourism Satellite Account (NT TSA) has been developed by the Sustainable Tourism Cooperative Research Centre (STCRC), and used to report the value of tourism activity in the Territory for 2003-04.

The measures of tourism activity generated from the TSA are tourism gross value added (TGVA), tourism gross state product (TGSP) and tourism consumption. Of the three tourism measures discussed in this chapter, TGVA and TGSP are supply side measures, while tourism consumption is a demand side measure. The measures are defined as follows:

- TGVA measures the value of production of tourism-related goods and services in all industries, less the value of inputs used to produce these goods and services. TGVA excludes taxes such as GST. This provides a measure of tourism's contribution to the economy from the industry or supply side.
- TGSP represents the total market value (inclusive of taxes less subsidies) of goods and services produced in the Territory that were consumed by visitors, after subtracting the cost of goods and services used in their production. Essentially, tourism GSP is a measure of the actual prices that visitors pay for goods and services.
- Tourism consumption measures expenditure by a visitor, or on behalf of a visitor, for and during their stay at the destination.

The difference between TGVA and TGSP reflects the difference between producer and market prices, namely taxes minus subsidies. Tourism consumption measures the total market value of the good or service, including the value added at each stage of the production process. By contrast, TGVA and TGSP measure the value added only at the final stage of production. As such, tourism consumption is significantly larger than TGVA and TGSP.

Tourism Measures 2003-04 to 2005-06

Northern Territory Treasury has used the estimates of TGVA, TGSP and tourism consumption as a benchmark for tourism activity, and moved them forward using Tourism Research Australia (TRA) expenditure data and ABS data, to estimate the contribution of tourism to the economy in 2004-05 and 2005-06. Table 9.1 presents the three measures of tourism for the Territory.

Table 9.1: Tourism Measures for the Northern Territory; TGVA, TGSP and Tourism Consumption

	2003-04	2004-05	% change	2005-06	% change
	\$M	\$M		\$M	
TGVA	532.1	624.3	17.3	715.6	14.6
TGSP	658.7	772.8	17.3	885.9	14.6
Tourism Consumption	1703.0	1995.9	17.2	1997.9	0.1

Source: Northern Territory Treasury, Tourism NT

Between 2003-04 and 2004-05, tourism consumption reported significant growth of 17.2 per cent. This was in line with growth in total visitor numbers, driven by strong increases in domestic overnight visitors. This could in part reflect the high levels of fly-in fly-out (FIFO) workers at the Wickham Point LNG plant and the Alcan G3 refinery expansion at Gove. In 2005-06, tourism consumption growth stabilises in line with visitor numbers.

Over the same period, TGVA and TGSP have reported solid growth in line with the broadly based expansion across the Territory economy.

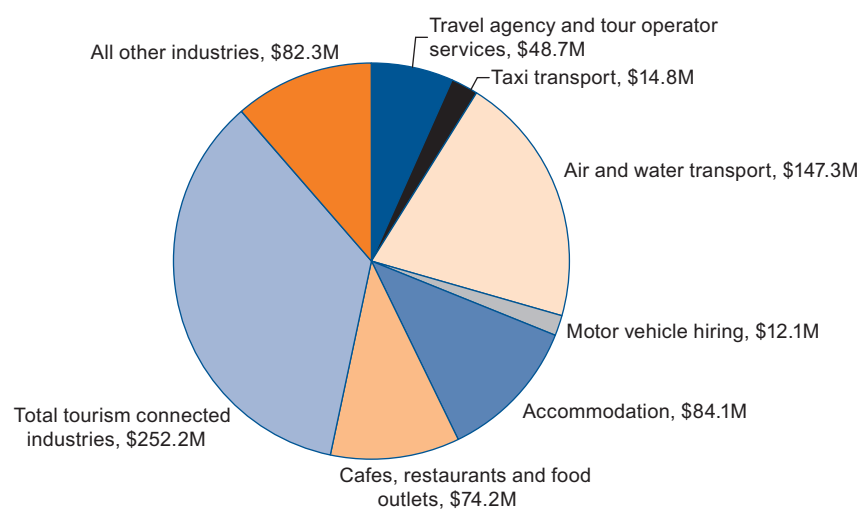
Tourism Gross Value Added

Using the STCRC 2003-04 figures as a base, Northern Territory Treasury estimates that in 2005-06, TGVA is \$715.6 million in the Territory. Air and water transport is the largest single contributor to tourism gross value added, contributing \$147.3 million. (For more information on air and water transport, see the Transport and Communication chapter.) The accommodation and cafes, and restaurants and food outlets industries are also major contributors to TGVA, measuring \$84.1 million and \$74.2 million respectively. Among the remaining tourism characteristic industries, travel agency and tour operator services contribute \$48.7 million, taxi transport contributes \$14.8 million, and motor vehicle hiring contributes \$12.1 million (Chart 9.1).

Total tourism-connected industries, including manufacturing, other transport, clubs, pubs, taverns and bars, and retail trade, are valued at \$252.2 million in 2005-06.

The residual component to TGVA is classified as all other industries, and is valued at \$82.3 million in 2005-06 in the Territory (Chart 9.1).

Chart 9.1: Tourism Gross Value Added



Source: Tourism NT, Northern Territory Treasury

In the Territory, tourism accounts for 7.2 per cent of GSP in 2005-06, compared to 3.7 per cent at a national level. TGSP is valued at \$886 million in the Territory in 2005-06.

Historically, compared to other jurisdictions, tourism's contribution to GSP is higher in the Territory than any other jurisdiction, and significantly higher than the national level.

Tourism Consumption

Tourism consumption, as reported in the NT TSA, is derived from Tourism Research Australia (TRA) expenditure data and is adjusted by STCRC to include a number of additional components, including prepaid airfares and package tours purchased overseas, as well as imputed non-market services such as actual and imputed rent on holiday houses.

Tourism consumption in the Territory in 2005-06 is estimated by Treasury using a methodology to move TRA data forward based on movements in total visitor expenditure, which accounts for 80 per cent of consumption. In 2005-06, tourism consumption is estimated to be \$2 billion in the Territory.

Total visitor expenditure comprises international visitor expenditure, domestic overnight visitor expenditure, and same day visitor expenditure.

Time series data is not available for TRA expenditure data before 2004-05. In 2005-06, total visitor expenditure to the Territory is estimated to increase by \$10 million to \$1.65 billion. The Territory has the second lowest recorded growth in total visitor expenditure of the jurisdictions behind Queensland in 2005-06, at 0.6 per cent. Nationally, total visitor expenditure has risen by 5.0 per cent (Table 9.2).

In 2005-06, both international and same day visitor expenditure decreased in the Territory, by \$12 million and \$4 million respectively. This decrease is offset by domestic overnight expenditure, which increased by \$26 million in 2005-06 (Table 9.2).

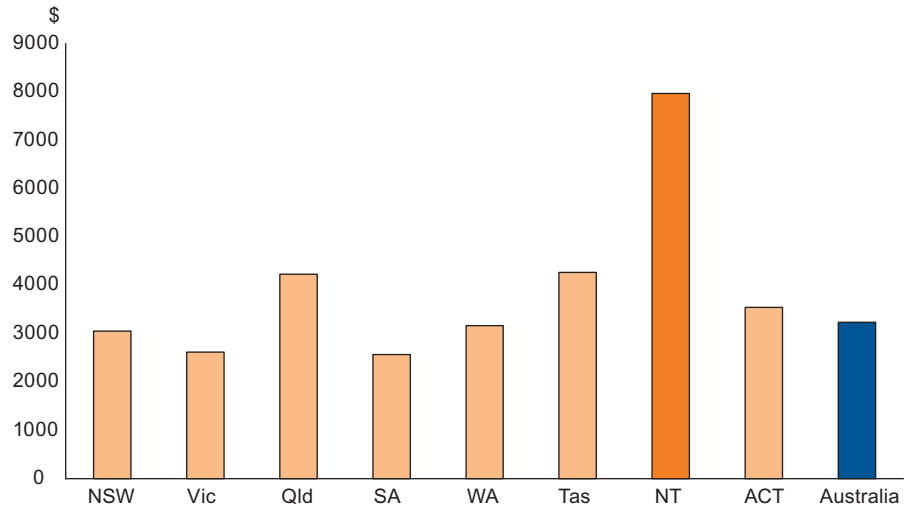
Table 9.2: TRA Visitor Expenditure, 2004-05 to 2005-06

	International \$M	% change	Domestic overnight \$M	% change	Same day \$M	% change	Total \$M	% change
NSW	4 959	6.2	11 569	2.5	4 328	12.0	20 856	5.2
Vic	2 494	4.6	7 931	8.5	2 891	8.8	13 316	7.8
Qld	3 388	7.7	11 149	-1.5	2 602	0.7	17 139	0.5
SA	512	25.2	2 583	4.8	895	5.9	3 990	7.3
WA	1 305	6.5	3 979	5.4	1 213	15.3	6 497	7.4
Tas	211	30.2	1 487	9.8	387	14.5	2 085	12.5
NT	383	-3.0	1 165	2.3	99	-3.9	1 647	0.6
ACT	149	-2.0	822	14.2	195	13.4	1 166	11.7
Australia	13 402	6.8	40 691	3.3	12 611	8.6	66 704	5.0

Source: Tourism Research Australia

Tourism is worth more to Territory residents than in any other jurisdiction. Illustrating the importance of tourism to Territory residents, the Territory records the highest level of total visitor expenditure per capita at \$7969, compared to \$3237 nationally (Chart 9.2).

Chart 9.2: Tourism Expenditure Per Capita, 2005-06



Source: Northern Territory Treasury, Tourism Research Australia, ABS Cat. No. 3101.0

Tourism Visitors

International Visitors

In 2005-06, international visitor expenditure in the Territory is \$383 million, down from \$395 million in 2004-05. International visitor expenditure comprised 23 per cent of total visitor expenditure in 2005-06.

Despite an increase of 8.7 per cent in international visitors to the Territory in 2005-06 (Chart 9.3), a 3.2 per cent fall in average visitor nights over the same period contributed in part to a fall in total international visitor expenditure of 3.0 per cent.

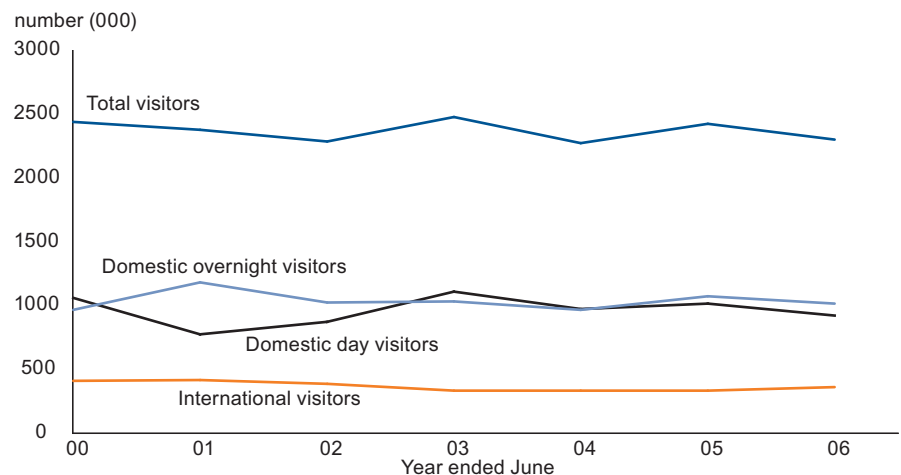
Domestic Overnight Visitors

The domestic overnight visitor category includes both interstate and intra-Territory overnight visitors, with interstate visitors accounting for around two-thirds of the total.

The domestic overnight market is typically the largest contributor to tourism visitor expenditure in the Territory. In 2005-06, domestic overnight expenditure increased by \$26 million to \$1165 million, making up 71 per cent of total visitor expenditure in the Territory.

The increase in domestic overnight visitor expenditure is attributed to growth in interstate visitor numbers and expenditure per visitor. This increase may be a result of positive wages growth, as well as the greater affordability of flights. Although holiday visitors formed the majority of interstate visitors in 2005-06, business visitors, such as FIFO visitors working on large engineering projects such as the Alcan G3 refinery expansion in Gove, also contributed to the increase in interstate visitors.

Chart 9.3: Territory Visitors



Source: Tourism Research Australia

Same Day Visitors

Same day visitor expenditure largely represents intra-Territory visitors, although interstate same day visitors are also a significant component.

In 2005-06, same day visitor expenditure made up 6 per cent of total visitor expenditure, and was valued at \$99 million, \$4 million less than in 2004-05. A fall of 94 000 domestic day visitors, partly due to interstate visitors staying for longer periods in 2005-06, as well as a decline in intra-Territory day visitors (Chart 9.3) is leading to the decrease in same day visitor expenditure (Table 9.2).

Tourism NT states that lower intra-Territory visitor numbers in 2005-06 may be due to the introduction of low-cost carrier Tiger Airways to the Territory, resulting in a shift of interest from intra-Territory visitation to outbound travel, combined with higher fuel prices and competition from other household goods and services. Further, the transient nature and demographic mix of Territorians may influence trends in intra-Territory visitors.

For further insight into tourism activity indicators, see figures and comments in Table 9.3 at the end of the chapter.

Tourism Initiatives

In 2003-04, the Northern Territory Tourist Commission (now Tourism NT) received a funding increase of \$27.5 million over three years aimed at helping rebuild tourism demand following the 2001 downturn. An ongoing funding increase of \$10 million per year from 2006-07 has enabled continuation of marketing and tourism development activities, following a major update of the Northern Territory's tourism brand in March 2005.

The Australian Government has launched a major tourism project Australia wide. The National Landscapes initiative, a partnership between conservation management and tourism sectors in Australia, was established in 2006 as a marketing strategy to enhance tourism and benefit regional economies. The initiative aims to capture distinctive areas in Australia with "superlative" natural and cultural resources, and market them globally. In December 2006, the Red Centre Way, an area stretching from Alice Springs to Uluru, was announced as Australia's first National Landscape. As part of the National Landscape Initiative, the Red Centre Way will be promoted nationally and internationally through joint Northern Territory and Australian government marketing operations.

The sealing of the Mereenie loop road (linking Alice Springs and Yulara via Kings Canyon) and the Litchfield loop road providing better access to Litchfield National Park over the next few years will improve basic tourism infrastructure. At a total cost of \$58 million, these are significant longer term investments in the Territory's tourism industry.

Outlook

Tourism NT is forecasting international visitor expenditure in the Territory will increase by 8.0 per cent in 2006-07, before moderating due to competition from inter-Asian destinations. International visitor numbers are forecast to increase by 1.9 per cent in 2006-07, and grow steadily to 2.6 per cent in 2008-09.

The limited availability of cheap flights to the Territory has, in the past, resulted in low dispersal of both interstate and international visitors in Australia beyond east coast destinations. With more affordable domestic and international airfares in 2006-07 and beyond, interstate and international visitors to the Territory are expected to increase, with interstate visitors increasing by 1.6 per cent in 2006-07 and 2.4 per cent in

2007-08. Interstate visitor expenditure is forecast to grow at an average annual rate of 2.2 per cent to 2008-09.

Following a significant decrease in tourism activity and expenditure in 2005-06, intra-Territory visitor activity is expected to increase in the short term and then stabilise. Intra-Territory expenditure is forecast to increase by 2.9 per cent in 2006-07. The increase in expenditure is due to an expected increase of 3.3 per cent in intra-Territory visitors, driven by solid wages growth, low unemployment and lower fuel prices.

Table 9.3: Tourism Indicators

Northern Territory	2004-05	2005-06	Year on Year	5 yr Average Growth	Comment
Visitor numbers (000)	2426	2303	-5.1	-0.6	Total visitors were down in 2005-06, due to interstate and intra-Territory visitors decreasing, despite solid growth in international visitors.
Domestic day	1017	923	-9.2	3.5	
Domestic overnight	1 075	1 017	-5.4	-3.0	
International	334	363	8.5	-2.8	
Visitor nights (000)	9 226	9 225	0.0	-4.9	Nights remained unchanged despite a large fall in intrastate nights, due to strong growth in interstate and international nights.
Territory	1 325	1 063	-19.8	-7.5	
Interstate	5 196	5 322	2.4	-3.2	
International	2 705	2 840	5.0	-6.7	
Average nights per visitor	6.5	6.7	2.1	-2.0	Growth in average nights per visitor was up for intra-Territory visitors, but down for interstate and international visitors in 2005-06.
Territory	2.8	2.9	3.3	-1.4	
Interstate	8.5	8.1	-4.8	-2.3	
International	8.1	7.8	-3.2	-4.1	
Total expenditure within (\$M)	1 637	1 647	0.6	-2.1	Suggesting a strong interstate tourist market, total expenditure and average expenditure of domestic visitors were up in the Territory in 2005-06. Total expenditure of international visitors decreased in 2005-06 in the Territory indicating shorter visits to the Territory, as well as reflecting the high cost of living in the Territory. Total average expenditure per visitor and per night both recorded strong growth over the past five years.
Domestic	1 242	1 264	1.8	-1.1	
International	395	383	-3.0	-5.2	
Average expenditure per visitor	675	715	6.0	-1.5	
Domestic	594	652	9.7	-0.9	
International	1 181	1 055	-10.7	-2.5	
Average expenditure per night	177	179	0.6	2.9	
Domestic	190	198	3.9	3.0	
International	121	113	-6.6	4.4	
United Kingdom	na	147	na	na	
Germany	na	107	na	na	
Other Europe	na	138	na	na	
North America	na	166	na	na	
Japan	na	248	na	na	
Other countries	na	94	na	na	
International backpacker numbers (000)	108.5	120.8	11.3	na	Backpacker numbers and nights recovered strongly in 2005-06 in the Territory.
International backpacker nights (000)	1 125.0	1 237.6	10.0	na	
Self-drive visitors entering NT (000)	169	241	42.2	-0.5	Visitors entering the Territory by self-drive transport increased by 42.2% in 2005-06. Reflecting the fall in intra-Territory visitors and high fuel prices, self-drive visitors within the Territory fell by 9.6% in 2005-06.
Domestic	134	194	44.6	-0.1	
International	35	47	33.3	-2.0	
Self-drive visitors within NT (000)	564	510	-9.6	-4.3	
Domestic	490	439	-10.4	-3.2	
International	74	71	-4.1	-9.9	
Cruise ship visits¹	33	44	33.3	14.9	Cruise and defence ship visits were both up in 2005-06, although visit days for defence ships decreased.
Defence ship visits¹	77	93	20.8	-7.2	
Defence ship days¹	267	213	-20.2	-33.1	National Park visitor numbers continue to fall, decreasing by 3% in 2005-06. The only park to record an increase in visitor numbers was Kakadu National Park, which has also started a new methodology to calculate visitors.
National park visitor numbers (000)	1 270	1 232	-3.0	-2.0	
Kakadu	165	196	19.0	0.5	
Uluru-Kata Tjuta	357	352	-1.4	-2.4	
Nitmiluk	232	234	1.0	-1.1	
Watarrka	258	219	-15.1	-4.1	
Litchfield	258	231	-10.6	-2.3	

1 Calendar year data.

Chapter 10 Construction and Property

Key Points

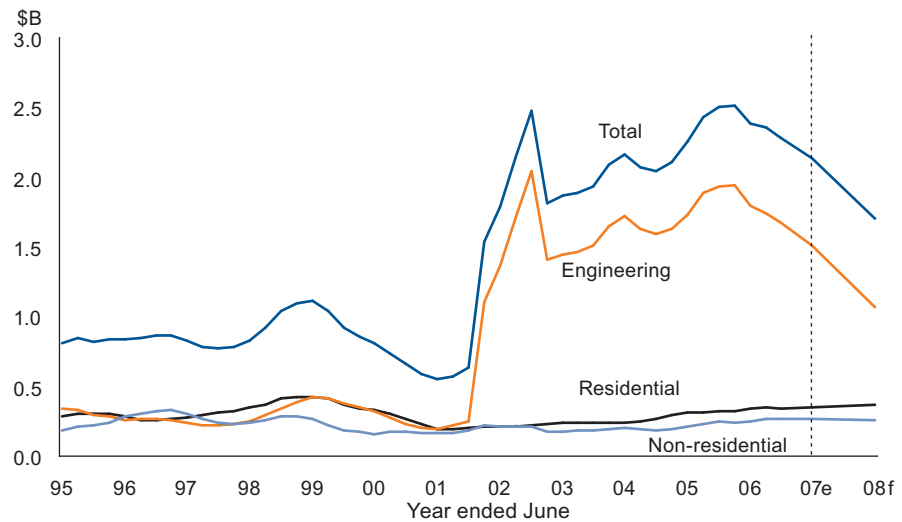
- » The Territory construction industry accounted for about 7 per cent of gross state product (GSP) on average over the past five years to 2005-06, and employed about 7.8 per cent of the workforce.
- » Projects such as the Alcan G3 refinery expansion at Gove have a huge impact on the value of construction work done in the Territory. They are significant both on a Territory and a national scale and can lead to substantial volatility in the value of construction work done.
- » In 2005-06, total construction activity increased by 5.9 per cent to \$2.4 billion, supported by major resource-based engineering projects such as the Darwin liquefied natural gas (LNG) plant at Wickham Point and the \$3 billion Alcan refinery expansion.
- » Declining construction growth in 2006-07 comes as investment for Bayu-Undan stage 2 (LNG plant and associated sub-sea pipeline) and the Alcan refinery expansion, the main drivers of engineering work done, are completed.
- » Northern Territory construction activity will contract substantially in 2007-08. However, new mining and engineering based projects will ensure that total construction activity will remain at levels above historical averages over 2007-08.
- » Property, as defined in this chapter, is a key factor influencing residential construction activity and includes the sale and availability of residential land, movements in residential property markets and Government public housing initiatives.

Construction

Construction comprises residential building, non-residential building and engineering construction. The construction industry plays an important role in the Territory economy, accounting for about 7 per cent of gross state product (GSP) on average over the five years to 2005-06 and for about 7.8 per cent of total employment.

The significant increase in construction activity from 2001-02 to the present is due to the impact of mega projects on the Territory's relatively small economy. At the beginning of this decade, construction activity slowed markedly as economic and population growth weakened following the major defence force relocation to the Top End (Chart 10.1). Engineering construction activity picked up in 2001, driven largely by construction of the Alice Springs to Darwin railway and Bayu-Undan stage 1, before reaching record levels during the construction phases of the major resource-based engineering projects such as the \$1.3 billion Darwin LNG plant at Wickham Point and the \$3 billion Alcan G3 refinery expansion at Gove. In 2005-06, total construction activity increased by 5.9 per cent to \$2.4 billion.

Chart 10.1: Territory Construction Work Done (moving annual total)



e: estimate; f: forecast

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

Although major projects such as the Alcan expansion create a significant number of jobs in the Territory, this is not necessarily reflected in resident employment figures reported by the Australian Bureau of Statistics (ABS). The primary reason is that the very large scale of these projects, combined with a limited pool of skilled local workers, results in a strong reliance on fly-in fly-out (FIFO) employees who are not attributed to Northern Territory resident employment levels by the ABS labour force survey. This means the official employment contribution of the construction industry in the Territory underestimates the real employment effect.

Similarly, such major projects can have a huge impact on the value of construction work done and cause substantial volatility in reported activity. However, the impact of these projects on underlying economic activity may be less substantial due to their location, often in remote areas or offshore, use of FIFO workers and the importation of equipment and construction materials from outside the Territory.

Residential Construction

Residential construction includes the building of new houses and other residential buildings (townhouses, units), residential conversions (converting non-residential buildings into residential buildings), and alterations and additions to existing residential buildings. Residential construction activity occurs in both the private and public sectors. In 2005-06, residential construction accounted for approximately 14 per cent of total construction.

Demographic, social and economic factors have strong influences on the demand for residential dwellings and, in turn, on construction. Residential construction is closely linked to population growth and the underlying strength of the economy, while other key factors affecting the demand for housing include:

- the rate of new household formation;
- the distribution of income and wealth;
- the availability and cost of land and housing;
- the price of new dwellings relative to existing dwellings;
- government housing policies; and
- availability and cost of finance.

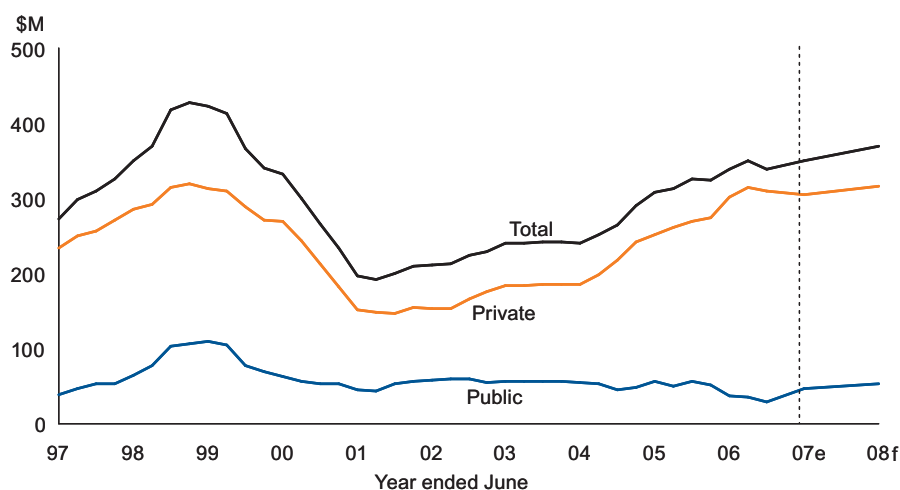
In the short term, interest rates and business and consumer confidence are also

major influences on the building cycle.

Throughout the late 1990s, sustained strong levels of residential construction activity reflected the impact of the increased defence presence which, in conjunction with activity in tourism and other sectors, boosted economic and population growth and demand for dwellings. Combined with relatively low interest rates and tax incentives for investors, this growth generated strong investor and developer confidence in the residential market, particularly in the Darwin area and notably for units and high-rise apartment complexes (Chart 10.2).

In 2005-06, total residential building work done increased by 9.5 per cent, supported by strong population growth, low vacancy rates and various Government housing initiatives such as the HomeNorth and HomeNorth Xtra schemes. In 2006-07, growth in private residential building activity is expected to moderate, reflecting the decline in dwelling commencements in 2006 together with the dampening effect of interest rate rises and the deterioration of home loan affordability. However, public residential building activity is estimated to partly offset moderating growth levels in the private sector, with construction work done at the Lyons Estate, a joint public-private sector development. While growth in total residential construction activity is expected to moderate to 3.6 per cent in 2006-07, total activity will remain at high levels.

Chart 10.2: Territory Residential Building Work Done (moving annual total)



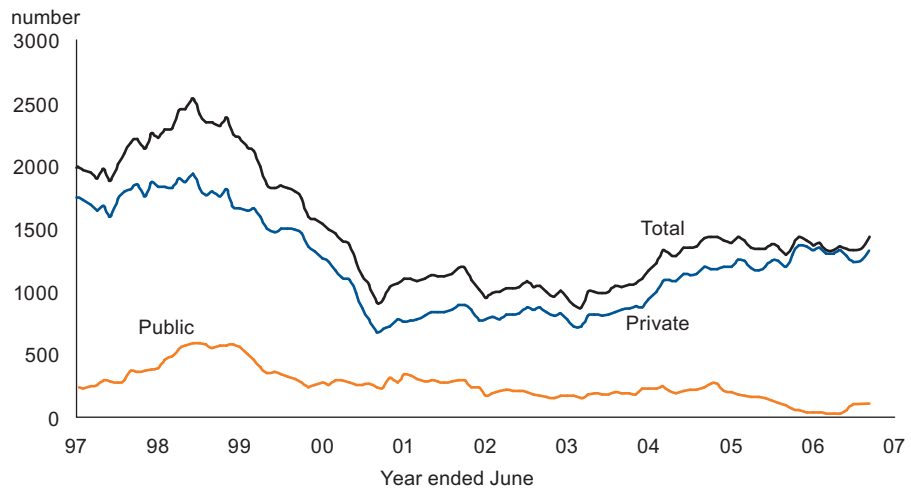
e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 8752.0

Residential Building Approvals

Residential building approvals are a lead indicator of short-term dwelling construction activity. In the year to February 2007, approvals increased by 13.9 per cent to 1468. New house approvals increased by 2.9 per cent to 718 and 'other' dwellings (units and townhouses) increased by 17.6 per cent to 686. A large increase in private sector 'other' dwellings approvals was the primary driver of this increase.

Chart 10.3: Territory Building Approvals for Residential Dwellings (moving annual total)



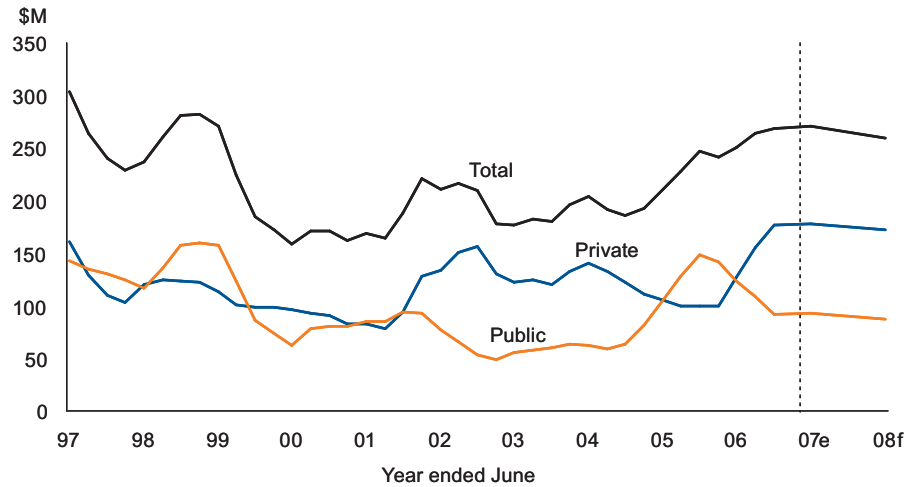
Source: ABS Cat. No. 8731.0

Non-Residential Building

Non-residential building includes hotels, shopping centres, factories, offices, schools, hospitals and cinemas. The level of private sector investment in non-residential building is determined by several factors, including the adequacy of existing capital stock, interest rates, anticipated future demand and general business confidence.

Public sector expenditure on non-residential building is targeted to meet medium to long-term needs and provide social and economic infrastructure such as schools, hospitals and roads.

Chart 10.4: Territory Non-Residential Building Work Done (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos. 9752.0, 8755.0

In 2005-06, non-residential activity increased by 19 per cent, supported by both private and public investment expenditure. Most notable contributors were the 26-storey Outrigger Pandanas serviced apartments development, continued works associated with the Bradshaw Field Training Area and the Darwin Waterfront Development joint private and public sector project. Total growth in non-residential building activity is estimated to moderate to 8.2 per cent in 2006-07 (Chart 10.4).

Private Sector

Private sector non-residential construction increased by 20.1 per cent in 2005-06, supported by projects such as the Darwin Waterfront Development, the Outrigger Pandanas development, stage one of the Darwin Chinatown development and a number of other apartment and hotel complexes. Continued activity, primarily on the Darwin Convention Centre and Outrigger Pandanas apartments, is expected to sustain growth into 2006-07, estimated at 40 per cent.

Public Sector Public investment for non-residential building in 2005-06 included expenditure associated within the Darwin Waterfront Development, the relocation of the 1st Aviation Regiment to Darwin and the Bradshaw Field Training Area projects, the Palmerston Recreation Centre, additions and upgrades to Alice Springs Hospital, and expansionary works on several urban schools. In 2006-07, public sector non-residential construction activity is estimated to have fallen by 25 per cent, driven by the conclusion of works on the Bradshaw Field Training Area early in 2007 and activity related to the 1st Aviation Regiment in mid-2006. Completion of other projects also contributed to the decline, though to a much lesser extent than the completion of the defence projects. These other projects include, the Darwin Correctional Centre, the hospice at Royal Darwin Hospital, the renal unit at Tennant Creek Hospital, several health clinics in remote communities and a number of urban school upgrades.

Engineering Construction

Traditionally, engineering construction activity in the Territory has been funded by the public sector and largely focused on infrastructure development. However, as a proportion of work done, private sector engineering construction has grown over the past decade.

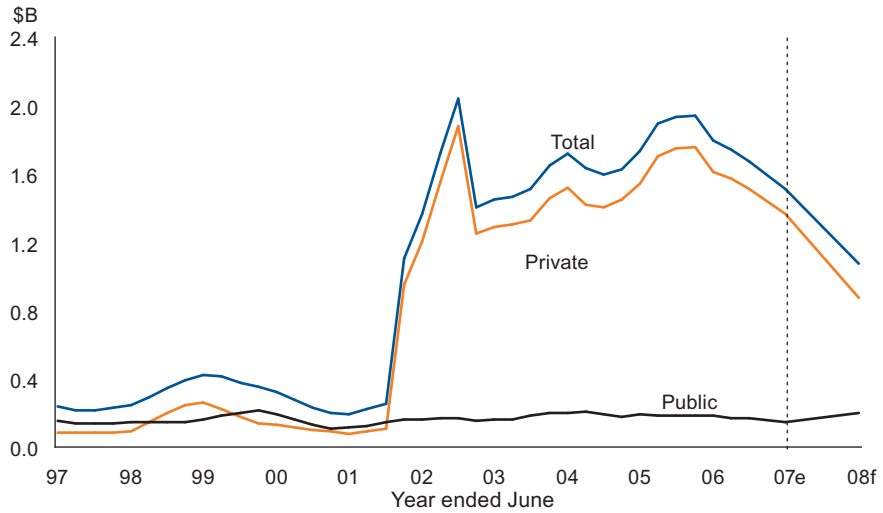
Engineering construction work increased by 19 per cent to more than \$1.6 billion in 2003-04 and by 0.6 per cent in 2004-05. The significant increase was mainly due to work for Bayu-Undan stage 2 commencing in mid 2003, including the construction of the \$1.3 billion LNG plant at Wickham Point and a \$650 million sub-sea pipeline. Completion of the Wickham Point plant in December 2005 marked the conclusion of the construction phase of the Bayu-Undan project.

In late 2004, work commenced on the Alcan G3 refinery expansion at Gove. This is the first major project in the Territory to make use of pre-assembled modules (PAMs). Over the life of the expansion, Alcan reported cost revisions attributable to a tight construction market, a boom in the commodities market and gains of the Australian dollar relative to the American currency. This equated to cost revisions in September 2006 to US\$1.9 billion up from an original US\$1.5 billion and a further revision to US\$2.3 billion in January 2007, translating in Australian dollar terms to approximately \$3 billion. The Alcan expansion is expected to be completed in 2007, substantially increasing the capacity of the refinery.

Other major engineering projects commencing in 2006-07 include the \$750 million Blacktip project by Eni Australia, the \$190 million GEMCO manganese processing expansion, the \$110 million change of operations at McArthur River mine and the \$100 million Puffin Oil development project by Australian Energy Developments (AED). The Blacktip project involves the construction of an onshore treatment plant near Wadeye with two connecting pipelines, one to the Blacktip gas field in the Joseph Bonaparte Gulf, and the other to the existing Amadeus Basin to Darwin pipeline.

Based on current projects, growth in engineering activity will decline by an estimated 15.7 per cent in 2006-07, although remaining at relatively high levels. Declining growth in 2006-07 comes as investment for Bayu-Undan stage 2 and the Alcan refinery expansion, the main drivers of engineering work done, are completed (Chart 10.5).

Chart 10.5: Territory Engineering Work Done (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos 8762.0, 9762.0.0.65.001

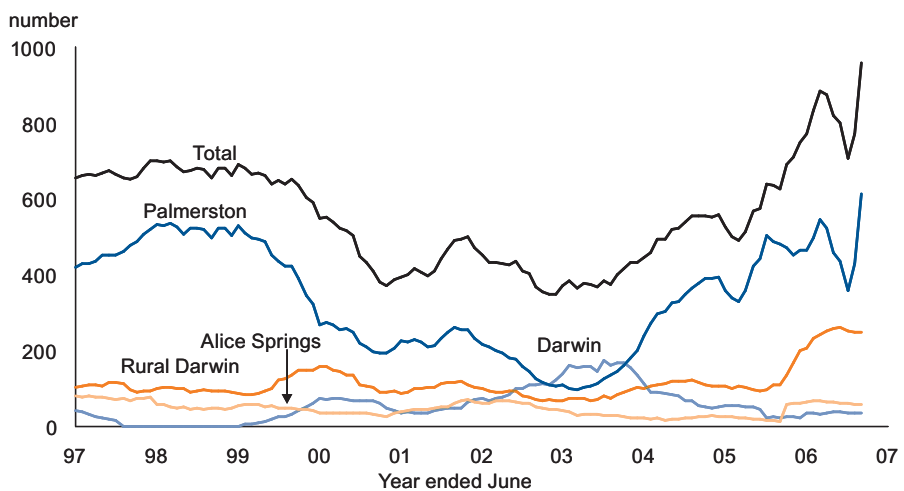
Property

In this chapter, property consists of factors that are closely linked with residential construction activity. Such factors include the sale and availability of residential land, movements in residential property markets and Government public housing initiatives.

Land

The completion of the defence build up and a general downturn in the onshore economy from 2000 saw land sales decline over the period to 2003. Land sales began a steady improvement in line with stronger housing demand in 2004, before reaching peak levels in 2005 and 2006, driven largely by strong property market activity and population growth. In 2006, land sales increased by 10.5 per cent, although moderating from very high levels. In 2006, Palmerston accounted for 50.8 per cent of all residential land sales, down from 78.4 per cent a year earlier, while Darwin accounted for 40.7 per cent of sales in 2006, up from 19.1 per cent in 2005, and Alice Springs accounted for 8.5 per cent of sales, up from 2.5 per cent (Chart 10.6).

Chart 10.6: Territory Residential Land Sales (moving annual total)



Source: Australian Valuation Office

Alice Springs In Alice Springs, a shortage of residential land for development over the past decade was associated with native title restrictions on the release of crown land. A landmark Indigenous Land Use Agreement (ILUA) between the Territory Government and the Lhere Artepe native title holders was finalised in April 2004. The agreement led to the release of 40 residential blocks in the new subdivision of Stirling Heights.

In November 2006, auction of the second stage release at Larapinta, comprising 39 residential lots, was passed in for the second time as the reserve price was not met. Currently ILUA negotiations are under way to allow the subdivision at Mt John Valley to proceed, which is expected to yield in excess of 70 lots and is anticipated for release in 2008. Approximately 25 urban blocks have been made available at the North Edge subdivision, and preliminary works have commenced on a 62 rural lot subdivision in Ragonesi Road, south of Heavitree Gap, with the developer proposing 256 lots in six stages. Approval has now been obtained for a 94 rural lot subdivision on Stegar Road.

Darwin Darwin's newest suburb, Lyons, is a joint public-private sector development of 690 residential lots on ex-defence land near Lee Point. The suburb will see the development of 350 houses for Defence Housing Australia, with the balance of the lots being made available to the public. Lyons lots will be released through public ballot, and the home sites have attracted great interest. The Stage One ballot was conducted in November 2006, with all 31 lots sold.

The proposed Muirhead subdivision, adjacent to Lyons, also to be developed as a DHA joint venture, is expected to commence on completion of the Lyons development and is estimated to release 1100 lots over five years.

There is also a proposal for a 94 small lot subdivision in the Frances Bay area. Traditionally, land in this area has been progressively developed for medium density housing. The continued construction of medium and high density dwellings now provides a wide array of housing options in the inner Darwin area.

Palmerston Strong population growth from 1995 to 1998 associated with the defence build up, combined with the limited supply of land for housing development in Darwin was the primary stimulus for the rapid growth of Palmerston. Palmerston's ready supply of land has seen the suburbs of Durack (Fairway Waters), Gunn (The Chase), Bakewell, Farrar and Rosebery develop and grow substantially in a relatively short time. Demand has recovered rapidly from the low levels experienced in 2002-03, bolstered by owner-occupier and investment demand, and supported by increased home ownership incentives offered through the Territory Government's HomeNorth Scheme.

The development of Palmerston has seen the release of 907 lots during the period of 2004 to 2006. In January 2007, a further 243 lots were released on to the market. Several of the development leases are now nearing completion and advice from the developers is that in excess of 50 per cent of the remaining 275 lots to be released have been pre-sold.

Bellamack will be the next land release for Palmerston, and the Territory Government will be calling for expressions of interest in 2007 for the proposed subdivision of over 650 lots. It is anticipated that the first titles will issue in 2008-09.

Property Markets

Movements in property markets continue to be the largest influence on the residential construction sector in the Territory. The building industry and property markets are subject to strong fluctuations in activity, real estate prices and sales volumes.

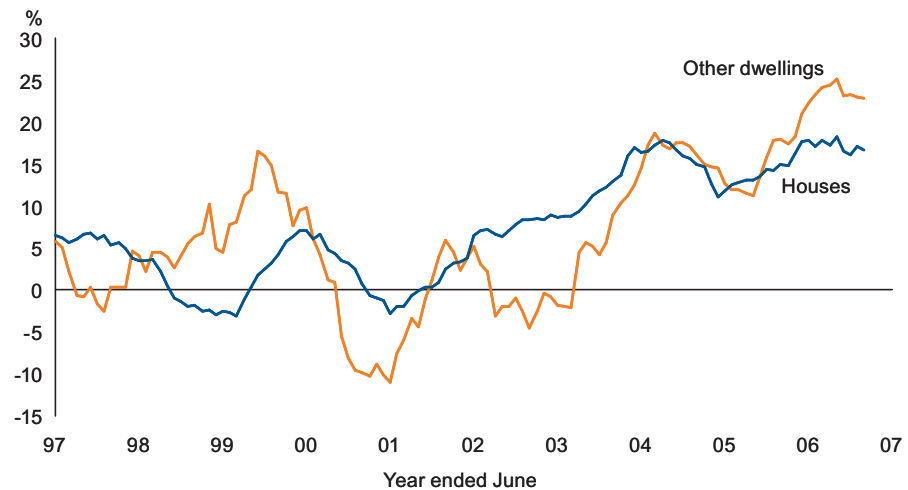
The Territory did not participate in the national housing price boom that occurred earlier this decade. However, since late 2003, Territory house prices have experienced strong growth. The Real Estate Institute of the Northern Territory (REINT) reports that established house prices in Darwin increased by just over 40 per cent in the two years to December 2006 and by 95 per cent in the five years to December 2006.

REINT reported that average median house prices over 2006 increased by 21.8 per cent in Darwin. The strength in house prices reflects stronger population growth in the Territory as well as the economic multiplier effect from high commodity prices and related resources boom. However, three interest rate rises by the RBA in 2006, and the potential for another rise in 2007, are likely to have a dampening effect on the Northern Territory property market in 2006-07.

The housing price boom is having a significant impact on housing affordability in the Territory, and for the first time in five years the Territory no longer has the most affordable housing of the jurisdictions. In 2006, home loan affordability in the Territory decreased by 8.5 per cent, with approximately 20 per cent of family income going to loan repayments. Nevertheless, the Territory still has the second most affordable housing of the jurisdictions, behind the Australian Capital Territory.

The 'other dwellings' market (townhouses and units) tends to be significantly more volatile than the market for houses (Chart 10.7), with prices fluctuating with the release of major new developments, changes in investor sentiment and distinct cycles of under and over supply.

Chart 10.7: Territory House and Other Dwellings Average Prices



Source: Australian Valuation Office

The REINT estimates that other dwellings prices in Darwin increased by 24.0 per cent to \$300 000 in December 2006 when compared to the same time last year. Through the five years to December 2006, other dwellings median prices increased by just over 98.9 per cent, compared to just under 95 per cent for houses.

Sales numbers for both houses and other dwellings have improved markedly since the trough in mid-2001 (Chart 10.8). Growth has been driven equally by sales of other dwellings and houses over this period, although the proportion of unit sales has increased significantly over the past five years. In 2006, although staying at high

levels, sales growth slowed markedly for both houses and other dwellings, declining by 4.4 per cent and 11.2 per cent respectively.

Chart 10.8: Territory House and Other Dwelling Sales (moving annual total)



Source: Australian Valuation Office

Territory rental vacancy rates were at relatively high levels for several years until early 2002, reflecting a general over supply. Over the past four years, vacancy rates have fallen to levels that suggest demand will outpace supply in the short to medium term. REINT reports the average residential vacancy rates in 2006 as:

- Darwin – 2.7 per cent for houses and 2.9 per cent for units;
- Palmerston – 2.2 per cent for houses and 1.6 per cent for units;
- Alice Springs – 5.4 per cent for houses and 3.5 per cent for units; and
- Katherine – 5.2 per cent for houses and 4.1 per cent for units.

According to the REINT, rental income for a three-bedroom house in Darwin averaged \$305 per week in 2006, the highest average weekly rental income on record, up from \$284 in 2005. A two-bedroom unit generated average weekly rental income of \$226 for the same period, up from \$213 in 2005. However, in 2006, average rental yields experienced a decline for both houses and units when compared to 2005. A three-bedroom house and two-bedroom unit in Darwin attracted an average rental yield of 4.4 per cent in 2006, compared to 5 per cent for a three-bedroom house and 5.1 per cent for a two-bedroom unit in 2005.

Public Housing

Housing Assistance

In the Territory the main provider of housing assistance is Territory Housing, which manages the Territory Government's Indigenous, public and government employee housing stock. Defence Housing Australia (DHA) manages defence housing. These organisations provide partially or fully subsidised accommodation to eligible low-income earners, Indigenous Territorians, public sector employees and defence personnel.

In the Territory, the number of households in public housing is relatively high, with 2001 Census data reporting that 9.2 per cent of dwellings were public housing.

Territory Housing

Territory Housing owns and manages more than 6900 dwellings throughout the Territory.

Construction work since 2003-04 has concentrated on increasing the maintenance and upgrade program to address the deterioration in condition and amenity of Territory Housing stock. In addition, a number of public housing complexes were redeveloped to reduce density and minimise antisocial behaviour. There has also

been an increased emphasis on the provision of government employee housing and supported accommodation for clients with special needs in remote areas.

In 2005-06, Territory Housing invested a total of \$49.5 million in the building and construction industry to support economic activity throughout the Northern Territory through construction, repairs and maintenance.

Significant Territory Housing projects in 2005-06 included the investment of \$13 million in the construction of 55 new government employee dwellings in remote localities and the completion of the \$1.6 million Bernhard Street Complex redevelopment in Katherine. In addition, major programs undertaken in 2005-06 included the provision of \$1.54 million in grants to community organisations to construct, purchase, upgrade and repair buildings under the Community Housing Program and the Crisis Accommodation Program.

Territory Housing supports home ownership through the HomeNorth Scheme. A revamped HomeNorth Scheme was introduced on 1 July 2004, which saw the uptake of home loans increase to 435, an increase of 241 over the previous financial year.

In 2005, the scheme became HomeNorth Xtra and the income threshold eligibility was increased by 6 per cent to \$1166 per week and the property price increased from \$240 000 to \$260 000. Since the inception of HomeNorth Xtra, Territory Housing has funded 404 loans and shared equity purchases to the value of \$76.9 million. In 2007, the Territory Government introduced changes to the scheme to better target low to middle income households and align the scheme to regional house prices.

Indigenous Housing

In 2005-06, a new Indigenous Housing and Infrastructure Agreement and Common Policy Framework were finalised and signed by respective Australian Government and Northern Territory Government Ministers.

In order to maintain Indigenous input into the delivery of Indigenous housing services, a Northern Territory Indigenous Housing Advisory Board was established and appointed in December 2005. The Board advises the Minister for Housing on policy matters and strategic plans to improve housing and related housing infrastructure outcomes for Indigenous Territorians.

During 2005-06, \$23 million was invested in the construction of 68 new dwellings and 74 dwellings were upgraded and renovated in remote areas. The Territory Government provides support to Indigenous Community Housing Organisations (ICHOs) to increase their capacity to train and employ Indigenous people in all roles of Indigenous housing, infrastructure and essential services. In 2005-06, \$15.2 million of Territory funding was provided to the 84 ICHOs for Indigenous housing repairs and maintenance.

In late 2006, the Northern Territory Government announced its intent to invest an extra \$100 million in remote housing over the next five years. Negotiations with the Australian Government are taking place to contribute an additional \$140 million as a matching investment to this initiative and as part of a package to improve outcomes for Indigenous Territorians.

Defence Housing

DHA provides housing for defence personnel through its ownership of dwellings, development activity, and through the leasing of properties from the private sector. DHA-managed stock in the Territory has increased from about 1250 dwellings in 1992 to 2240 dwellings in June 2006. DHA is also a partner in the development of the new Darwin suburb of Lyons near Lee Point. In May 2006, civil works for the first stage of the project commenced, with construction expected to continue over the next five years.

Construction Outlook

Given the uncertainty surrounding many of the factors influencing the decision to proceed with construction activity, timing can be unpredictable. These factors include the investment climate, access to capital, the outlook for global economic growth, commodity prices, the value of the Australian dollar and perceptions about the Territory's comparative advantages.

Construction activity in the Territory is forecast to decrease by 20 per cent to \$1.7 billion in 2007-08. The value of residential construction is forecast to increase by 5.4 per cent to \$369 million, non-residential construction is forecast to decrease by 4.3 per cent to \$259 million and engineering construction is forecast to fall by 29.2 per cent to \$1.1 billion.

Residential Construction

Residential construction work done is forecast to increase by 5.4 per cent in 2007-08, supported by ongoing activity for a number of high rise apartment developments in the Darwin CBD, and continuing high levels of housing construction in Palmerston and the new suburb of Lyons.

Major ongoing residential developments in 2007-08 include:

- the 33-storey Evolution on Gardiner residential and commercial development (\$60 million);
- the residential component of the Darwin Waterfront Development (\$90 million);
- the residential component of the 26-storey Pandanas Outrigger development (\$100 million);
- the 1 Thirty Esplanade high rise development (\$100 million); and
- the joint venture development of the Darwin suburb of Lyons (\$280 million).

Population and employment growth, although moderating, will also continue to support overall residential construction activity in the Territory.

Looking further ahead, land availability is sufficient for several years of development at current take-up rates in both Darwin and Palmerston.

Non-residential Construction

After two years of relatively high levels of activity, non-residential building work is forecast to decrease by 4.3 per cent to \$259 million in 2007-08. This primarily reflects the completion of Outrigger Pandanas development, the Darwin Convention Centre and water recreation facilities in early 2008. However, the decline in growth of non-residential construction is expected to be partly offset by activity associated with the Chinatown development, and works on the Darwin Waterfront Medina hotel with serviced apartments and a 100-room Vibe Hotel.

Engineering Construction

Engineering construction in 2006-07 is forecast to fall by 29.2 per cent to \$1.1 billion, as major engineering projects draw to a close. With engineering work for the Alcan G3 refinery expansion completed mid 2007, engineering construction activity in the Territory will contract substantially in 2007-08. However, new projects such as the \$690 million Montara, Skua and Swift oilfields development in the Timor Sea, the \$750 million development of the Blacktip gas field in the Joseph Bonaparte Gulf, and the \$190 million GEMCO manganese processing expansion at Groote Eylandt, will ensure that engineering activity in the Territory remains at levels above historical averages in 2007-08.

Longer Term Outlook

As the Territory continues to develop as a service and manufacturing hub for the northern Australian mining and energy sectors, further opportunities are likely to be created for the Territory construction industry.

Chapter 11 Retail and Wholesale Trade

Key Points

- » Retail trade and wholesale trade accounted for 6.1 per cent of Northern Territory gross state product (GSP) and 15.9 per cent of resident employment in 2005-06.
- » In 2006, real retail turnover grew by 6.2 per cent despite the uncertainty surrounding interest rates and petrol prices.
- » Territory real retail turnover is forecast to increase by 7.5 per cent in 2006-07 and moderate to 2.0 per cent in 2007-08.

Retail trade is the trade in goods purchased from wholesalers or manufacturers and subsequently sold to the general public, businesses and government entities via stores and, increasingly, online. The Australian Bureau of Statistics (ABS) definition of retail trade, when calculating its contribution to GSP and employment, also includes repairs to household equipment and motor vehicles but does not include full service transactions provided by cafes, restaurants, hotels and motels.

Wholesale trade is the resale of new or used goods to businesses and institutional users but excludes government users, as government transactions are final. Wholesalers buy large quantities of goods from producers, and resell them in smaller quantities. This structure allows for the efficient transfer of goods by wholesalers acting as intermediaries in the process of bringing goods from producers to the final customer.

The retail trade and wholesale trade industries constitute a notable proportion of the Territory's economy. The combined contribution of these industries to GSP is 6.1 per cent, with retail trade the larger of the two and directly contributing 4.2 per cent of GSP. In comparison to other Australian states, the contribution to GSP by wholesale trade in the Territory is relatively small at 1.7 per cent compared to 4.4 per cent nationally. The remoteness and small population of Territory centres tend to be unfavourable for many wholesale activities. Therefore, a significant amount of wholesale activity occurs interstate, with goods sourced directly from interstate suppliers.

Although retail trade is a significant contributor to the Territory's GSP, the contribution to resident employment is considerably larger, accounting for 12.6 per cent of resident employment and reflecting the labour intensive nature of the industry. The combination of wholesale and retail trade accounts for 15.9 per cent of total resident employment.

Table 11.1: Retail and Wholesale Trade

	Percentage and number of total employment 2006				Percentage and value of total GSP/GDP 2005-06			
	Retail trade		Wholesale trade		Retail trade		Wholesale trade	
	%	No. 000s	%	No. 000s	%	\$M	%	\$M
New South Wales	14.7	485.1	4.9	161.1	5.3	16 904	4.8	15 209
Victoria	14.2	360.0	5.2	132.1	5.3	12 387	5.2	12 233
Queensland	15.5	321.3	3.9	80.0	6.5	11 792	4.1	7 555
South Australia	14.8	110.9	4.3	31.9	5.5	3 437	3.8	2 394
Western Australia	14.3	153.9	4.3	46.5	4.4	5 227	3.3	3 969
Tasmania	14.9	33.2	4.2	9.2	6.8	1 167	3.3	568
Northern Territory	12.6	12.7	3.3	3.3	4.2	508	1.9	233
Australian Capital Territory	11.6	21.8	1.6	3.0	4.5	871	1.7	332
Australia	14.6	1 495.9	4.6	467.2	5.4	52 293	4.4	42 492

Source: ABS Cat. Nos 5220.0 and 6291.0.55.003

Consumption Profile

The ABS conducts a Household Expenditure Survey (HES) every five years which, for the 2003-04 period, reported that for Darwin the average weekly expenditure was \$1085, the highest of all the capital cities. In addition, the HES found that for all households in the Territory average weekly expenditure was \$1044, considerably higher than the national average of \$893. However, this figure should be treated with caution since the scope of the HES as defined by the ABS excluded very remote districts and Indigenous communities, which accounted for about 23 per cent of the Territory population. If the scope of the HES was expanded to include all areas of the Territory, average weekly earnings and expenditure would be lower because the excluded population is largely dependent on income support.

The HES reported that consumers in the Territory spend more than the national average in most of the household expenditure categories, due partly to higher freight costs and less competition, resulting in higher retail prices.

Retail turnover is a major component of household consumption expenditure, which in turn is a significant component of final demand and economic growth. The 2003-04 HES reported that Territory consumers spend relatively more than the national average on:

- recreation, alcoholic beverages and tobacco products;
- housing; and
- housing services (particularly pest control).

Territory consumers spend relatively less on clothing and footwear, which is indicative of climate and lifestyle factors. They also spend relatively less on medical and health services, reflecting the young and transient population as well as the limited availability of private health care options.

Drivers of Retail and Wholesale Trade

The economic environment and population growth are the main drivers of retail and wholesale turnover.

Population

Population growth impacts positively on retail trade and wholesale trade by supplying labour, increasing the number of consumers and generating a favourable

environment for the establishment of new businesses. Since December 2004, Territory population growth has been above the national average, coinciding with strong economic growth. Through the year to June 2006, the Territory's resident population increased by 3284 to 206 688. The major contributor to the increase in resident population was from natural increase. Net interstate migration continues to challenge the Territory, with a small loss in the year to September 2006 after positive net interstate migration in 2005 coinciding with peak employment on the construction of the liquefied natural gas plant at Wickham Point.

Household Disposable Income

Household disposable income is a major driver of retail trade turnover. The 2003-04 HES identified that the Northern Territory had the second highest household disposable income of the states and territories. For the same period, the Australian Taxation Office calculated the mean individual taxable income for the Territory at \$43 026, the third highest of the jurisdictions and above the national average. Both these measures support relatively stronger retail turnover in the Territory.

In the year to November 2006, the ABS reported national gross disposable income growth of 5.7 per cent (current prices). Strong average weekly earnings growth, combined with personal income tax cuts and increases to the family tax benefit introduced by the Australian Government on 1 July, saw household income growth outpace consumption spending growth, improving the net household savings ratio. In addition, the growth in the value of both housing and financial assets has increased household net worth. This 'wealth effect' has been linked to increased consumer spending. However, with personal credit growth at 13 per cent in 2006 and household debt remaining at historical highs, consumers are far more sensitive to interest rate increases than in the past.

Employment

The strong economic growth of 7.5 per cent reported for the Territory economy in 2005-06 has continued into 2006-07, resulting in strong employment growth. In the year to February 2007, resident employment in the Territory grew by 5.9 per cent and the ABS reported average weekly earnings in November 2006 of \$1091. The robust employment environment and a Territory participation rate of 68.6 per cent, nearly 4.0 percentage points higher than the national average, may have contributed to increased consumer confidence. This has been reflected in the Sensis Consumer Report.

Consumer Sentiment

Consumer confidence predominantly influences discretionary spending, particularly for more expensive items and non-essential goods, such as travel, which are often purchased on credit. Weak consumer confidence may result in delayed purchases and the propensity for consumers to substitute lower priced items.

Sensis undertakes a nationwide quarterly survey designed to measure the confidence and behaviour of Australia's population. The survey is weighted to reflect age, gender and location based on the latest ABS population figures. The March 2007 Sensis Consumer Report found that Territory consumers were the second most confident in the nation, with 61 per cent feeling confident about their financial prospects for the year ahead (Chart 11.1). The main reasons Territory consumers gave for feeling confident were having a secure job, followed by 'everything going well'. Those consumers who were worried about their financial prospects for the year ahead cited their main concern as the high cost of living.

Nationally, consumer confidence rebounded in late 2006 and early 2007 to 55 per cent, its highest level since February 2006. The two major factors positively influencing consumer confidence in December 2006 and January 2007 were the low inflation result for the December quarter, enabling interest rates to remain steady,

and strong employment prospects reflected in the 31-year low unemployment rate of 4.5 per cent.

Chart 11.1: Consumer Sentiment, (feeling confident)



Source: Sensis Consumer Report, March quarter 2007

Interest Rates

In May, August and November 2006, the Reserve Bank of Australia (RBA) raised the official cash rate in response to rising inflation fuelled by high petrol prices and the effect of Tropical Cyclone Larry on fruit prices. The *Lags of Monetary Policy* report by the RBA found that there is generally a lag of up to 18 months between interest rate movements and changes in consumer behaviour. It appears consumer spending was largely unaffected by the three rate increases, although there has been a significant softening in commitments for housing finance for owner occupation. In 2006, retail turnover was strong nationally and in the Territory, with the December quarter recording the strongest growth of all the quarters in 2006. The resilience in retail spending may be in part attributable to strong employment growth in 2006, the decline in petrol prices in the latter part of 2006 and the moderation in fruit prices by the December quarter.

Retail Trade Turnover

The ABS includes the full service transactions provided by cafes, restaurants, hotels and motels when calculating retail turnover. Following very strong growth of 6.4 per cent in real retail turnover in 2004, growth in 2005 remained robust despite moderating to 3.0 per cent. The growth in retail spending was boosted by high levels of consumer confidence, relatively low interest rates, wages growth, steady population growth and competitively priced imports, particularly from China.

In 2006, year on year retail growth slowed to 1.7 per cent in March as consumers moderated their spending in response to the uncertainty surrounding interest rates and fuel prices. However, the continuing strength of the local construction industry, property markets and continuing employment growth, coupled with falling unemployment, saw retail growth increase throughout the rest of the year, despite two further interest rate increases, to record 6.2 per cent growth in the year to December 2006.

Retail Turnover by Sector

Food Expenditure on food is by far the largest category in retail sales and accounts for about 45 per cent of all retail sales in the Territory, noticeably higher than the national average of around 40 per cent. The higher than national average expenditure on food in the Territory is largely accounted for by freight costs and the less competitive retail market, both leading to higher prices.

In 2006, expenditure on food increased by 3.2 per cent to exceed \$920 million. The growth in expenditure on food is predominantly accounted for by the increase in population and higher average food prices.

The food category consists of supermarket and grocery items, fish and poultry, fruit and vegetables, liquor, bakery products and takeaway food.

Hospitality and Services

Hospitality and services expenditure which includes hotels, pubs, taverns, clubs, cafes and restaurants, video hire outlets, hairdressing and beauty salons increased by 6.2 per cent to \$393 million in 2006, following 20 per cent growth in 2005. This is the second largest expenditure category in the Territory. The very significant growth of turnover in this category is consistent with a buoyant economy and strong consumer sentiment. In addition, tourist numbers significantly impact on the total turnover, as tourist expenditure is predominantly spent in this category.

Other

Department store retail turnover is a separate category, despite many components appearing in other categories, and includes furniture, household appliances and clothing. In 2006, expenditure in department stores increased to \$353 million, an increase 5.8 per cent over 2005.

Household Goods

Household goods retailing recorded very strong growth in 2006 with total turnover reaching \$299 million, an increase of 14.6 per cent compared to 2005. Household goods include furniture and floor coverings, domestic houseware, appliances and hardware. Demand for household goods is closely linked to dwellings investment.

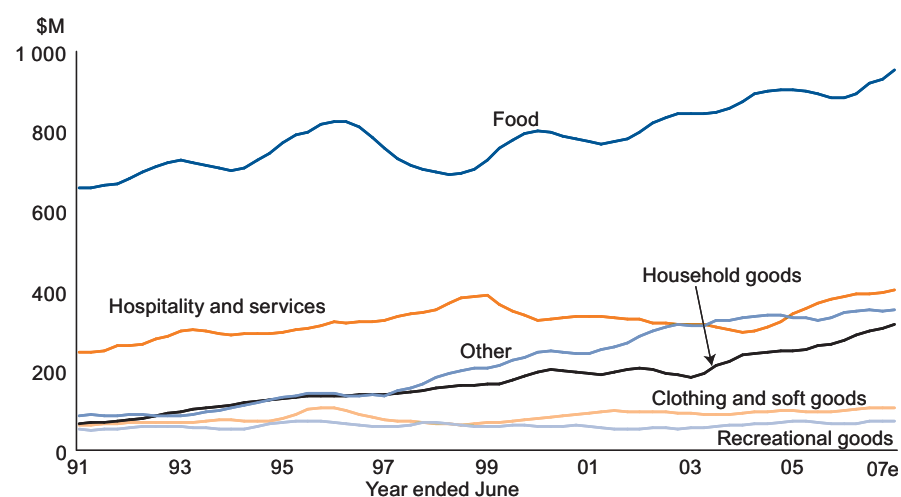
Clothing and Soft Goods

Clothing and soft goods comprises of clothing and clothing accessories, footwear and textiles. During 2006, turnover increased by 8.3 per cent to \$105 million.

Recreational Goods

Recreational goods, the smallest category, includes sport and camping equipment, toys and games, marine equipment, newspapers, books and stationery, and photographic equipment, and increased by 2.9 per cent to \$72 million in 2006.

Chart 11.2: Territory Real Retail Turnover (moving annual total)



e: estimate

Source: NT Treasury, ABS unpublished data

Retail Space

During 2006, retail floor space expanded considerably with the completion of the Bunnings warehouses in Palmerston and Darwin, contributing a further 22 267 square metres of retail floor space and the expansion of Jape Homemaker Village adding a further 3000 square metres.

Retail floor space is expected to grow moderately in 2007, reflecting the absence of any large retail projects. The current high level of vacant retail space in the Darwin central business district is expected to ease with the completion of several major

residential projects in 2007 despite some of these projects also incorporating some retail floor space.

Outlook

Nationally, retail trade turnover is forecast to grow by 3.0 per cent in 2006-07. Solid wages and employment growth are expected to be the main drivers in retail growth. Territory retail turnover in 2006-07 is expected to exceed the national average and is estimated to grow by a strong 7.5 per cent. The strong growth in retail turnover in the Territory is consistent with retail turnover growth in the other resource-rich states. The commodity boom, strong construction activity and record low unemployment are expected to maintain consumer confidence at high levels and drive consumer spending, particularly discretionary spending.

In 2007-08, retail turnover is expected to strengthen at the national level to 4.2 per cent. The growth rates among the states are expected to converge, although any further interest rate increases will negatively affect retail turnover.

Following very strong growth in 2006-07, Territory retail turnover growth is expected to moderate in 2007-08 to 2.0 per cent, largely due to the unsustainable cumulative growth from June 2006, and to a lesser extent the lag effect of the interest rate increases during 2006, although turnover is expected to remain at record levels. The continuing strength of retail trade turnover will be supported by strong wages and employment growth, and resident population growth continuing above the national increase.

Chapter 12 The Public Sector

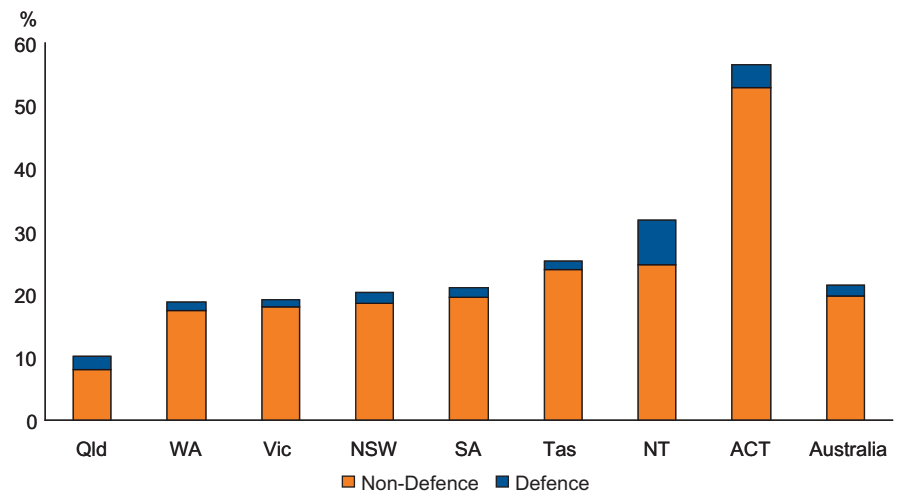
Key Points

- » The public sector consists of Australian, Territory and local government activity including defence, although in this chapter defence is excluded. The public sector is a major contributor to the Territory economy, providing a wide range of economic and social services.
- » In 2005-06, the non-defence public sector accounted for about 24.7 per cent of state final demand (SFD) – higher than most other jurisdictions.
- » The non-defence public sector is the largest employer in the Territory, accounting for about 27 per cent of total employment in 2005-06 (32 per cent when defence is included).
- » The size of the non-defence public sector relative to the size of the Territory economy has declined over the past two decades, reflecting the maturation and diversification of the Territory economy.

The public sector includes Australian, Northern Territory and local government activity. The focus of this chapter is the non-defence public sector in the Territory, defence activity is discussed in more detail in Chapter 13.

Despite declining in relative size over the past two decades, the public sector in the Territory remains a significantly larger component of the economy than in most other jurisdictions, accounting for about 24.7 per cent of SFD in 2005-06. Nationally, the public sector accounted for just 19.8 per cent of domestic final demand (DFD) (Chart 12.1). The Australian Capital Territory (ACT) is the only jurisdiction with a larger public sector, due to its large Australian Government presence.

Chart 12.1: Public Sector Expenditure as a Proportion of SFD, 2005-06



Source: ABS Cat. No. 5206.0

Expenditure

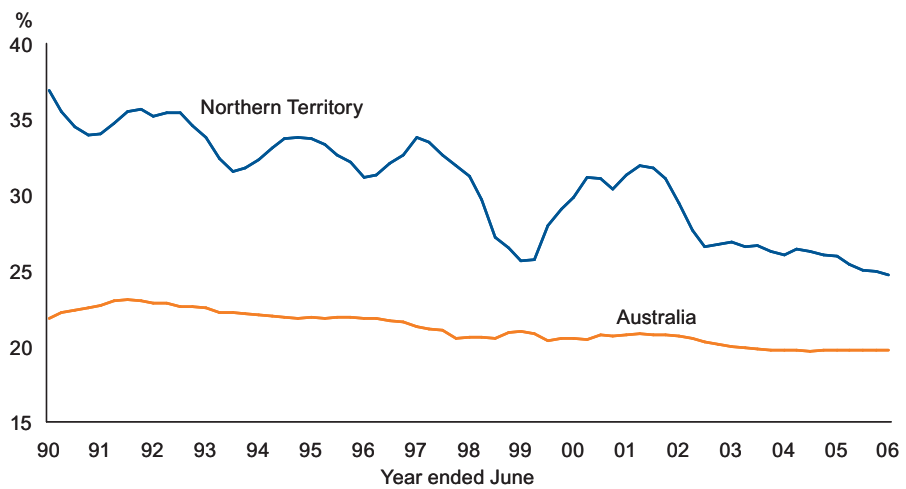
In 2006-07, public sector consumption and investment expenditure in the Territory totalled an estimated \$4.4 billion, a 2.7 per cent increase on 2005-06. In relative terms, public sector expenditure is much higher in the Territory than in most other jurisdictions. In 2005-06, public sector expenditure was \$16 284 per capita, compared to \$9197 per capita nationally. The ACT had the highest public sector expenditure per capita at \$50 207 and South Australia the lowest at \$8213 per capita. As a proportion of SFD, Territory public sector expenditure is also the second highest (24.7 per cent) behind the ACT (52.9 per cent). The high level of public sector

expenditure in the Territory reflects, among other factors, the relatively high cost of providing core government functions to a small, widely dispersed population.

Since 1991-92, public sector expenditure as a proportion of SFD has declined, reflecting both the ongoing development and diversification of the Territory economy (Chart 12.2). Over this period, SFD has increased by an annual average of 6.0 per cent, with the private sector contribution to SFD growing by 7.1 per cent compared to the public sector component growth of 3.4 per cent.

Although the decline in public sector expenditure as a proportion of SFD has also occurred nationally, the rate of decline in the Territory has been much faster. The proportion of Territory SFD attributed to the public sector has declined from about 35 per cent in 1991-92 to about 25 per cent (\$3.3 billion) in 2005-06. Over the same period, the national proportion declined by just 3 percentage points, from about 23 per cent to 20 per cent.

Chart 12.2: Public Sector Expenditure (excluding defence) as a Proportion of SFD



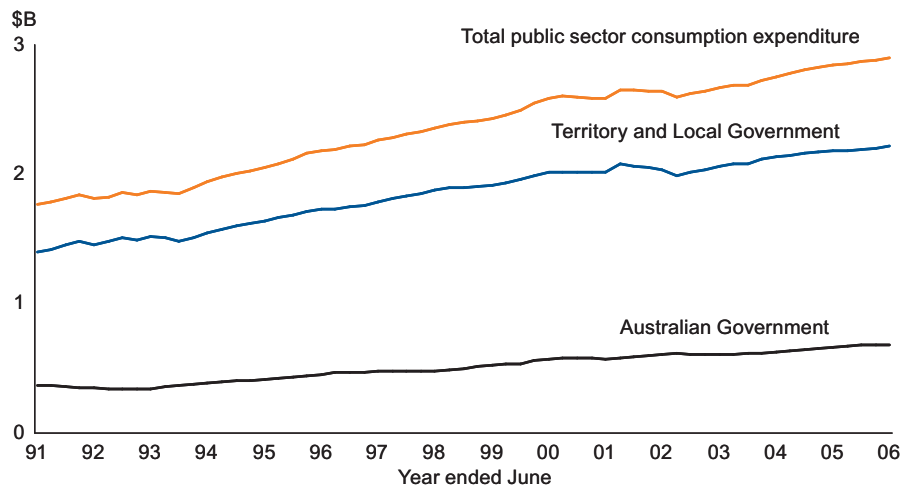
Source: ABS Cat. No. 5206.0

Consumption

In 2005-06, public sector consumption expenditure, including wages and salaries, office supplies, consultancy services and consumption of fixed capital, accounted for 86.6 per cent of total public sector expenditure in the Territory, and around one-third of total consumption (public and private). Territory and local governments accounted for 76 per cent of total public sector consumption, and the Australian Government accounted for the remaining 24 per cent.

Between 1991-92 and 2005-06, public sector consumption increased by about 60 per cent (Chart 12.3), but nevertheless declined as a proportion of total consumption from about 41 per cent to 34 per cent. This reflects the growing significance of private sector (household) consumption expenditure in the Territory.

Chart 12.3: Components of Public Sector Consumption Expenditure (excluding defence, moving annual total)



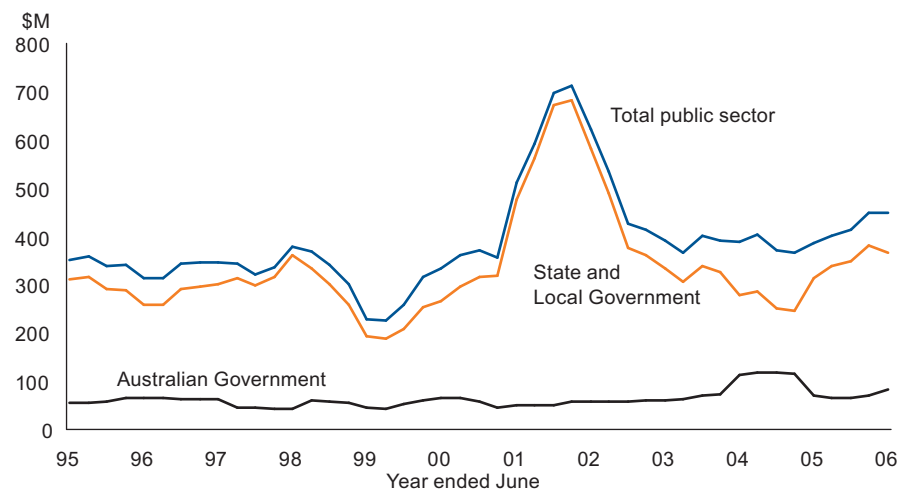
Source: ABS Cat. No. 5206.0

Investment

Public sector investment expenditure is volatile and can experience large fluctuations from year to year due to the small size of the Territory economy and the impact of funding for large one-off projects such as the Adelaide to Darwin rail link between 2001 and 2003 and, more recently, works on the bulk liquids berth, railway access, land reclamation and wharf extensions of the East Arm Wharf bulk loading facility and headwork, soil decontamination and provision of water and sewerage to the Darwin Waterfront Development. Other projects contributing to recent growth in public investment include works done on the Red Centre Way, Darwin Industry Fuel Terminal oil pipelines, expansionary works on several urban schools and a number of projects aimed at the delivery of Indigenous housing services across the Territory (Chart 12.4).

In 2005-06, public sector investment accounted for 13.5 per cent of total public sector expenditure and 12.5 per cent of total investment. Territory and local governments accounted for 59 per cent of the public sector investment, public corporations such as the Power and Water Corporation accounted for 32 per cent, and the Australian Government for the remaining 9 per cent.

Chart 12.4: Components of Public Sector Investment Expenditure (moving annual total)



Source: ABS Cat. No. 5206.0

Employment

The public sector is the largest employer in the Territory. In 2005-06, the public sector accounted for about 27 per cent of total employment. The Northern Territory Government accounts for 75 per cent of public sector employment, the Australian Government accounts for 13 per cent and local government for the remaining 12 per cent.

Since 1996-97, public sector employment is estimated to have increased at an annual average rate of 1.9 per cent (Table 12.1), more than the 1.2 per cent average annual population growth over the same period. Local government employment increased by an annual average rate of 4.7 per cent over the period, due in part to growth in the number of local governing bodies (largely community governments in remote areas), as well as growth in Community Development Employment Projects (CDEP), although not all CDEP programs are administered by local councils. Northern Territory Government employment increased at an annual average rate of 2.2 per cent, while Australian Government employment decreased by an annual average rate of 1.7 per cent over the period. However, the recent announcement by the Australian Government to change the CDEP program, coinciding with local government reforms in the Territory, will impact on public employment in the future, although the magnitude of changes is unclear.

Table 12.1: Public Sector Employee Numbers (year average)

Year ended June	Australian Government	Territory Government	Local Government	Total
1997	4 175	16 050	2 150	22 375
1998	3 500	16 200	2 625	22 325
1999	3 550	16 000	2 600	22 150
2000	3 450	15 975	2 600	22 025
2001	3 550	16 675	2 600	22 825
2002	3 850	17 050	2 950	23 850
2003	3 450	17 925	2 900	24 275
2004	3 400	18 625	3 325	25 350
2005	3 475	19 475	3 425	26 375
2006	3 400	19 850	3 275	26 525
2007e	3 500	20 000	3 400	26 900
Compound Annual Growth				
1996-97 to 2006-07e	-1.7	2.2	4.7	1.9
2001-02 to 2006-07e	-1.9	3.2	2.9	2.4

e: estimate

Source: Northern Territory Treasury, ABS Cat. No. 6248.0.55.001

Employment data referenced in Table 12.1 is based on the Australian Bureau of Statistics Wage and Salary Earners (WSE) Public Sector data series, which reports on the number of paid public sector positions in the Northern Territory across a range of industries such as health, education or general government.

The Northern Territory Office of the Commissioner for Public Employment (OCPE) provides a measure of Northern Territory Public Sector employment, limited to the full-time equivalent positions in the general government sector. This measure includes employees under the *Public Sector Employment and Management Act*, uniformed police, employees of the Northern Territory Tourist Commission, employees of the Aboriginal Areas Protection Authority and ministerial staff. The OCPE measure excludes Charles Darwin University, Centralian College, Batchelor

Institute of Indigenous Tertiary Education, Northern Territory Rural College, Menzies School of Health Research, Territory Insurance Office and Legal Aid Commission, which would be included in industry categories other than in general government. In calendar year 2007, OCPE reported the average number of full-time equivalent Northern Territory Public Service employees at 15 808, a 0.6 per cent increase from the calendar year 2006 average of 15 716.

Indigenous Employment

OCPE data reports that the number of self-identified Indigenous employees in the Northern Territory Government was 1154 in December 2005. The latest figures available from OCPE (February 2007) report the number of self-identified Indigenous employees to be 1382, just over 8.0 per cent of Northern Territory Government employment and an increase of 19.7 per cent from December 2005. Increased Indigenous employment reflects initiatives to promote Indigenous career development, as well as a possible increase in the propensity for employees to self-identify as Indigenous persons.

Outlook

The public sector will continue to play an important role in the Territory economy with modest growth in the public sector expenditure expected in 2007-08, reflecting continued works on the Darwin Waterfront Development and the middle schools project. Employment growth is expected to moderate or possibly decrease slightly in 2007-08, although remain at about 31 per cent of total employment. This is largely due to completion of major government initiatives to recruit more police, nurses and teachers in 2006-07, although impacts to future employment growth from changes to CDEP and Local Government reforms in the Territory remain uncertain.

Chapter 13 Defence

Key Points

- » 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 6223 in June 1992 to an estimated 12 935 in June 2007.
- » Of the total Australian permanent defence force personnel, 10 per cent are based in the Territory. Recurrent defence expenditure by the Australian Government in the Territory totalled \$954 million in 2005-06.
- » Major defence-related activities under way in the Territory include the \$170 million development of the new suburb of Lyons at Lee Point and the recent acquisition of land adjacent to Lyons (Muirhead). Defence activities nearing completion include the construction of the \$82 million Robertson Barracks 1st Aviation Complex and the \$65 million Bradshaw field training area near Timber Creek.
- » The Territory's economy will benefit from local supply and support contracts for the new Armidale Class Patrol Boats, Abrams tanks and Tiger helicopters and the replacement of field vehicles and trailers.

The Territory is an integral component of Australia's security strategy by virtue of location. The strategic decisions outlined in the most recent Defence White Paper have placed a greater emphasis on national security and increasing capabilities to respond to threats of terrorism, international emergencies and coastal surveillance.

The Australian Defence Force (ADF) is committing significant resources to increase its land, air and sea capabilities by gradually upgrading the current fleet of tanks, patrol boats, aircraft and helicopters Australia-wide. Major Territory defence sites are an integral component in protecting Australia's northern borders and will greatly benefit from the increase in capabilities. Defence will remain an important element of the Territory economy into the foreseeable future.

Defence Force Activity

The defence force is made up of the three primary services – Army, Navy and Air Force – along with other groups involved in support and coordination functions. Major defence sites in the Northern Territory include:

- Larrakeyah Barracks in Darwin;
- Robertson Barracks near Palmerston;
- HMAS Coonawarra in Darwin;
- RAAF Base Darwin;
- RAAF Base Tindal near Katherine; and
- the Joint (United States and Australia) Defence Facility Pine Gap near Alice Springs.

Other defence sites include the Defence Establishment Berrimah, Bradshaw field training area (near Timber Creek), Mount Bundy field training area (near the Mary River), Delamere Bombing Range (near Katherine) and the Jindalee Operational Radar Network (JORN) facility near Alice Springs.

Army The largest operational base in the Territory is Robertson Barracks, which is home to the Army's 1st Brigade. The defence force build up during 1992-2001 primarily reflects the major relocation of defence personnel to the Territory, which involved the relocation of the 1st Brigade over this period. In March 2007, the 1st Brigade's former fleet of Leopard tanks was replaced with 41 re-conditioned US M1A1 Abrams tanks (plus a variety of support vehicles). The Abrams tanks will be ready for deployment by July 2007.

The relocation of the 1st Aviation Regiment from Queensland to the Northern Territory in 2006 has contributed to the local economy through the construction of accommodation at Robertson Barracks and new support facilities to house a fleet of 16 Tiger Armed Reconnaissance helicopters.

The North West Mobile Force (NORFORCE) surveillance unit monitors the remote northern borders, more than 1900 kilometres of coastline, from poachers, illegal fishing and illegal immigration. When at full operational level NORFORCE has over 600 personnel, mostly reservists, when at full operational level. It is one of the largest employers of Indigenous people in the Territory, after the Northern Territory Government, with around 420 part-time reservists.

In August 2006, the ADF opened new depots in the Territory at Borrooloola and Tennant Creek and upgraded facilities at Wadeye.

Navy Border protection is the primary focus of the Royal Australian Navy (RAN) operations in the Territory. The Darwin-based patrol boats play an integral role in the surveillance of Australia's northern approaches and form part of Operation Resolute, that targets illegal fishing and smuggling in Australia's northern waters. The Australian Government allocated an estimated \$6.6 million in the 2006-07 Budget to establish foreign fishermen facilities in Darwin and Gove.

HMAS Coonawarra is home to the majority of the RAN's Armidale Class Patrol Boats. Ten of these patrol boats will be home ported in Darwin, of which two vessels will operate out of Port Dampier in Western Australia, with crew and services provided from Darwin. These patrol boats have replaced the former fleet of 10 Fremantle Class Patrol Boats that were decommissioned in early 2007, and will increase the RAN's surveillance and response capabilities, such as apprehending illegal fishing vessels. Construction at the naval base to provide accommodation for the larger Armidale Class Patrol Boats was due for completion by late 2006, however due to contracting delays and the Territory's building cycle, the revised completion date is late 2007.

Air Force The main operational and strategic air force base in the north is Royal Australian Air Force (RAAF) Base Tindal, home to a Fighter Attack (F/A)18C fighter squadron. RAAF Base Darwin is home to No. 396 Combat Support Wing, which commands squadrons based in Darwin, Townsville and Butterworth (Malaysia), and is used as a base for surveillance aircraft. RAAF Base Darwin is the forward operating base for RAAF operations and exercises, and regularly hosts foreign aircraft during these exercises.

The RAAF also operates the Delamere Air Weapons Range facility (south-west of Katherine) and one of Australia's three JORN surveillance units (near Alice Springs).

Headquarters Northern Command

Headquarters Northern Command (HQNORCOM), based at Larrakeyah Barracks, is the joint force headquarters responsible for the defence of northern Australia. Its jurisdiction includes the Territory, north Queensland and the northern half of Western Australia. HQNORCOM is engaged with the Joint Offshore Protection Command

Joint Defence Facility Pine Gap

and is responsible for the implementation, coordination and management of offshore maritime security, including the protection of offshore oil and gas assets.

The Joint Defence Facility at Pine Gap is a component of the United States' global missile defence and early warning system. The facility is jointly administered by the Australian and United States defence departments. It employs an estimated 900 personnel (of whom half are Australian) and, together with more than 3000 dependants, it represents about 12 per cent of the Alice Springs population.

Defence Population

The Territory has 10 per cent of all Australian permanent defence force personnel, a significant contribution to its population of 206 688 (as at 30 June 2006), which accounts for just 1 per cent of the total Australian population. Almost 6 per cent of the total defence expenditure occurs in the Territory and given the Territory's small population share, this is a significant proportion (Table 13.1).

Table 13.1: Population, Permanent Defence Force Members and Defence Expenditure Proportions, 2005-06

	Defence Personnel ¹	Defence Expenditure	Total Australian Population
	%	%	%
New South Wales	32.8	31.3	33.1
Victoria	11.4	16.8	24.7
Queensland	23.5	22.7	19.7
South Australia	5.1	6.3	7.5
Western Australia	7.6	8.8	10.0
Tasmania	0.3	1.6	2.4
Northern Territory	10.0	5.9	1.0
Australian Capital Territory	9.4	6.6	1.6
Australia	100.0	100.0	100.0

¹ Excludes civilians, reserve forces and personnel serving overseas

Source: Department of Defence, ABS Cat. No. 3101, unpublished ABS data

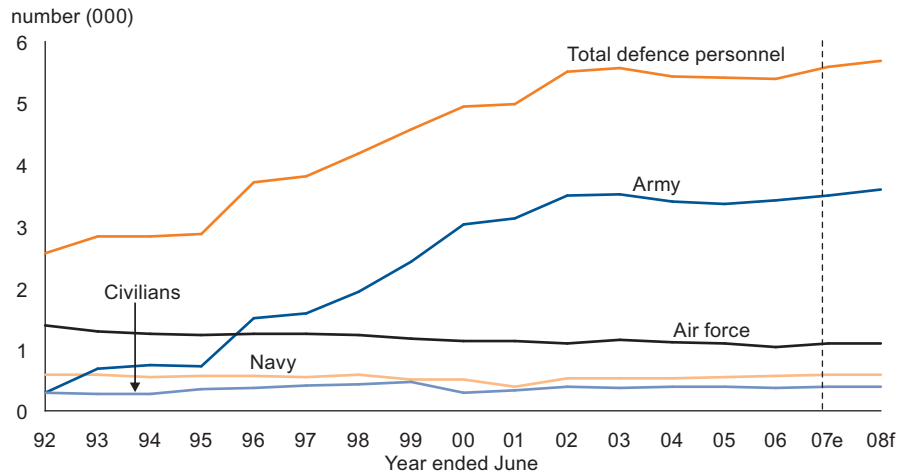
In 1992, the Territory's population was boosted by the Army Presence in the North (APIN) program, which involved the relocation of about 2300 defence personnel to Darwin over the period 1992-2001 from Holsworthy in New South Wales and Puckapunyal in Victoria.

Since the first major relocation in the early 1900s, the Territory's total defence community (including personnel and their families) has increased from 6223 in June 1992 to an estimated 12 935 in June 2007. This represents about 6 per cent of the Territory's population, up from 3.7 per cent in June 1992. The defence community has contributed 0.2 percentage points to the Territory's average annual population growth rate of 1.5 per cent since 1992.

In June 2007, an estimated 400 civilian defence personnel and 780 reservists will be based in the Territory. The most recent defence relocation to the Territory was the 1st Aviation Regiment from Queensland in 2006, which increased the total number of defence personnel and their families in the Territory by an estimated 300 people.

The number of defence force personnel based in the Territory (including Department of Defence civilians, but excluding reservists) increased from 2569 in June 1992 to an estimated 5589 in June 2007. Of this total there are an estimated 3500 army personnel, 589 navy personnel, 1100 air force personnel and 400 defence civilians (Chart 13.1).

Chart 13.1: Defence Personnel Stationed in the Northern Territory



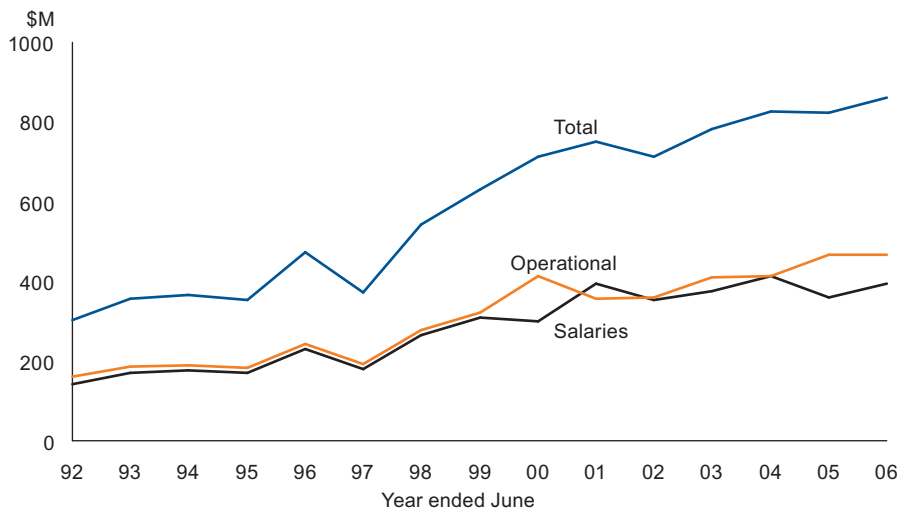
e: estimate; f: forecast
 Source: Northern Territory Treasury, Department of Defence

The defence presence contributes to the Territory economy through consumption and investment as well as through the partners of defence personnel, often skilled, who enter the Territory's labour force. Defence personnel do not, however, contribute to the official employment statistics published by the Australian Bureau of Statistics (ABS) which, for reasons of definition, focus on the resident civilian employment. Because of this, ABS employment statistics under-record the jobs in the Territory by at least 5 per cent (refer to chapter 4, Labour Market). The 2003 Defence Census found that around 56 per cent of defence partners who are not permanent defence force members worked full time. Of all defence partners, 48 per cent had formal qualifications (bachelor degree or higher, certificate or diploma, trade or vocational qualification) and 22 per cent were undertaking some form of study. The next Defence Census is expected to be conducted in May 2007, with results to be released later in the year.

Defence Recurrent Expenditure

Defence recurrent expenditure (which includes weapons and platforms, salaries and other operational expenses) is an important contributor to the Territory economy. The ABS estimated that defence recurrent expenditure in the Territory was \$954 million in 2005-06, equivalent to 8.3 per cent of the Territory's gross state product, up from \$858 million in 2004-05 (Chart 13.2).

Chart 13.2: Defence Recurrent Consumption Expenditure in the Northern Territory



Source: ABS unpublished data

Defence Salaries

Salaries paid to defence personnel equalled \$420 million in 2005-06 and typically represent close to 50 per cent of total recurrent defence expenditure (Chart 13.2). The increase in defence expenditure reflects a rise in salaries (returning to 2003-04 levels), which is an important driver of consumer demand in the Territory. The increase in salaries in part reflects a rise in the number of defence personnel deployed on missions to Timor during 2004-05 and Iraq during 2006-07. The flow-on effect of defence salaries as private consumption expenditure in the local economy has continued to be an important contributor to growth in the Territory.

Defence Operational Expenditure

In 2005-06, defence operational expenditure accounted for just over half of the total defence recurrent expenditure in the Territory (Chart 13.2). This expenditure category includes items such as weapons and platforms (including military assets such as aircraft carriers and tanks) and defence other (including ammunition, transport costs, catering and office supplies).

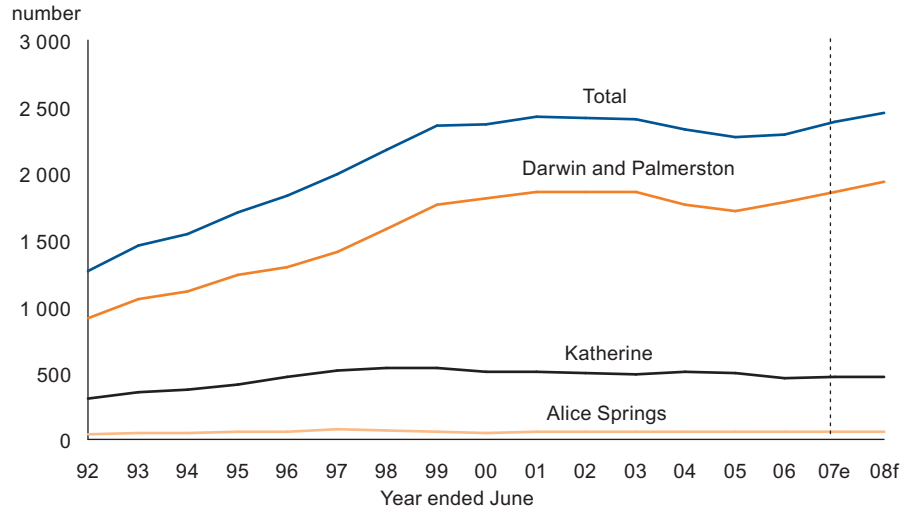
Defence contracts are also an important contributor to operational expenditure. The value and number of defence contracts with Territory businesses and greater levels of outsourcing of defence services has increased with the expanded defence presence. The increased capacity of local businesses to meet specialised defence requirements has contributed to the growth in defence operational expenditure in the Territory. Business relationships between the ADF and local enterprises have provided opportunities for new capacity and capability to be developed, broadening and enhancing the local economy. Examples of contracts awarded locally in 2006-07 include:

- Over 100 local contractors are involved in the supply and support services for the new Armidale Class Patrol Boats, which includes the provision of medical and security services.
- The 1st Aviation Regiment relocation awarded 90 per cent of its \$82 million building works to local construction companies. Construction included new facilities and working areas within Robertson Barracks to house the Tiger helicopters and defence personnel.
- Bradshaw field training area awarded 90 per cent of its \$65 million contracts to local businesses, including subcontracting projects to local Indigenous communities in remote areas.
- Maintenance and repair of the remaining Leopard tanks and Fremantle Class Patrol Boats will continue until decommissioned in early 2007.

Defence Housing

Since 1992, residential construction booms in the Territory have been impacted by defence demand for housing. The relocation of defence personnel and their families to the Top End has resulted in a significant and permanent increase in the Territory's population, with an associated increase in demand for housing and other goods and services. Defence Housing Australia (DHA) currently manages 2240 dwellings in the Territory, with the majority located in Darwin and Palmerston (Chart 13.3). Defence housing grew strongly between 1992 and 1999, with average annual growth in DHA dwelling stock of 9.4 per cent. The fall during 2003-05 is largely associated with a decline in new acquisitions and in the number of properties leased to DHA (which is generally for a term of 12 years).

Chart 13.3: Defence Housing Australia Dwelling Stock



e: estimate; f: forecast

Source: Northern Territory Treasury, Defence Housing Authority

The composition of defence housing varies to accommodate the different living arrangements of defence families. The number of off-base properties has increased nearly three-fold since the early 1990s. For example, in Darwin, 972 properties are off-base, of which the majority are houses (716) and the remainder are apartments (164) and townhouses (92).

Planned Housing Developments

Construction for the new suburb of Lyons at Lee Point in Darwin began in mid-2006. Over the next five years, DHA plans to invest around \$170 million in the Lyons development, with \$65 million already expended since construction began. This project will comprise 300 new DHA homes and a further 350 allotments will be made available for sale to the public. When completed, this project will increase DHA-managed dwelling stock by 14 per cent to about 2500 dwellings. DHA plans to take delivery of 75 lots per year starting in 2006, with an additional 75 lots made available to the public.

In late 2006, DHA purchased 152 hectares of land at Muirhead (adjacent to Lyons) at a total value of \$18 million. DHA plans to develop the new suburb once the Lyons development is completed in 2011. Muirhead has the potential to yield about 1100 allotments, of which more than half will be made available for sale to the public. This residential construction by DHA will ensure that increased defence demand for housing is met either as a consequence of further movements of personnel to Darwin or relocation from defence housing on-base.

There is a proposed redevelopment of the Larrakeyah Barracks, involving major renovations to the older DHA stock. As a result of the renovations, the on-base housing stock is expected to decrease.

There are no planned housing developments for Katherine or Alice Springs in the foreseeable future.

Defence Operations, Exercises and Deployments

Territory defence force personnel are involved in one ongoing primary defence operation, Operation Resolute. This defence operation is conducted primarily to protect Australia's Exclusive Economic Zone from illegal fishing, smuggling and unauthorised arrivals.

Territory-based defence personnel play a significant role in Australia's military involvement in Iraq, particularly in the areas of transport, security, air traffic control and medical support.

Defence Exercises

Defence exercises are regularly staged in the Territory. These provide a major boost to the economy through supply and support contracts and increased visitor numbers. In 2006-07, the Territory hosted five major exercises:

- Exercise Singaroo, held in July 2006, is a biennial naval/air exercise between Australia and Singapore, conducted in the Arafura Sea off the Territory coast.
- Exercise Pitch Black 06, conducted in July/August 2006, is a biennial exercise involving the RAAF and air forces from France, Singapore, Thailand, United Kingdom and the United States. It is the RAAF's largest exercise, involving about 1500 defence personnel.
- Exercise Cassowary, held in November 2006, was the primary bilateral naval exercise with Indonesia.
- Exercise Albatross Ausindo, conducted in December 2006, was a joint naval exercise with Indonesia.
- Exercise Talisman Sabre 07, a biennial exercise scheduled for two weeks in June and July 2007, is held primarily at Shoalwater Bay in Central Queensland. Some defence activities will be carried out at Bradshaw field training area and at Delamere Air Weapons Range.

Other Defence-Related Activities

The Territory economy benefits from other defence-related activities such as the private expenditure by visiting naval ship personnel and the Territory Government's involvement in defence-related support activities.

Navy Ships

Darwin is an important naval port, with a large number of RAN and international navy ships visiting the Territory when regular exercises, rest and recreation, and naval or humanitarian missions occur, such as relief operations (including the 2004 Asian tsunami and 2005 East Timor civil disturbance). These visits provide a significant economic contribution, particularly the expenditure by sailors on shore leave and re-supply and service stopovers in Darwin. Ships remain in port for an average of four days, with crew sizes between 100 and 1000. The Defence Support Division estimates that each United States Navy sailor spends \$150 to \$200 a day. In 2006, 59 navy ships visited the Port of Darwin for a total of 214 visit days, compared to 71 navy ships and 265 visit days in 2005.

Defence Support Division

The defence presence in the Territory provides significant opportunities for local industry. In 2003, the Territory Government established the Defence Support Division (DSD) to help facilitate the growth of Territory industry capability to capture defence-related opportunities.

Defence Outlook

Darwin's position at Australia's northern approach will remain of strategic relevance to Australia's defence. The most recent relocation of the 1st Aviation Regiment will increase already significant levels of defence investment and consumption expenditure in the Territory. The replacement of patrol boats and tanks based in the Territory and the arrival of the Tiger helicopters will provide opportunities for local business to undertake maintenance and other defence-related support activities, as well as attracting national and international business to the Territory.

The Territory's total defence community (including personnel and their families) is forecast to increase from an estimated 12 935 in June 2007 to 13 165 by June 2008. The number of permanent defence force personnel is forecast to increase by 100 over 2007-08 to 5289 by June 2008. The increase is expected as a result of the recruitment efforts made by the ADF to boost personnel numbers across Australia.

The \$170 million Lyons development project will boost the Territory economy over the next five years with the construction of an estimated 650 houses. When completed, it will bring DHA housing stock in the Territory to around 2500 dwellings. In the next five to ten years the development of Muirhead will further increase DHA housing stock to about 2900 dwellings.

In 2007-08, it is anticipated that the Territory Government will release 60 hectares of land adjacent to Robertson Barracks for the development of an industrial park, including the Defence Support Hub. This will provide a location for maintenance and support contracts to be carried out in the Territory. Defence estimates that around \$17 million will be injected into the Territory economy over the next 15 years and create about 100 new jobs for Territory business as a result of the Defence Support Hub.

Defence expenditure on proposed infrastructure projects is estimated to be more than \$250 million in 2007-08. In addition, an estimated \$13.4 million of maintenance contracts will provide opportunities for local industry over the same period (Table 13.2).

Table 13.2: Proposed Defence Infrastructure Program for 2007-08

Project	Estimated Total Value (\$ million)	Estimated Spend in 2007-08 (\$ million)	Nature of Project
Redevelopment of Robertson Barracks	82.0	76.6	<p>Construction began late 2005 and the revised completion date is mid 2007. The redevelopment consists of three stages.</p> <p>Stage 1 – redevelopment of existing accommodation and construction of new facilities, vehicle shelters and associated infrastructure (\$21.4 million).</p> <p>Stage 2 – construction of new facilities to support the Abrams tanks (\$7.2 million).</p> <p>Stage 3 – construction of facilities to support the Hardened and Networked Army initiatives (\$48 million).</p>
Upgrade of RAAF Darwin redevelopment stage two	36.0	36.0	Construction to begin mid-2007 and be completed by late 2008. Involves upgrades to existing facilities including fuel farms, workshops, airfield lighting and the construction of a new logistics headquarters.
RAAF Base Tindal redevelopment stage five (includes the Airborne Early Warning and Control Facilities)	90.0	50.0	Construction to begin mid-2007 and be completed by late 2008. Includes the construction of new facilities to support the Airborne Early Warning and Control aircraft and their staff.
Bradshaw field training area	65.0	4.7	Construction began late 2005 and is expected for completion by mid-2007. This will provide engineering services and infrastructure for the use of Bradshaw as a field training area by the 1st Brigade.
Lyons sub-division development	170.0	70.0	Construction began mid-2006 and is expected to continue to 2010. An estimated 300 new DHA homes and a further 350 residential allotments for sale to the public.
Darwin Naval Base extensions	19.2	13.9	Construction began in early 2005 and the revised completion date is late 2007. Includes construction of a new Stand-by Crew and Port Services facility to accommodate the Armidale Class Patrol Boats.
Darwin and Gove foreign fishing vessel crematoriums	6.6	6.6	Construction to begin in 2007-08. Includes the construction of boat destruction facilities at Darwin and Gove.
Mt Bundy training area urban terrain facilities	5.0	4.2	Construction began mid-2006. Upgrade of the Mt Bundy training area to increase capability of urban terrain facility.
Maintenance contracts (less than \$5 million per project)	13.4	13.4	Repairs to NORFORCE accommodation at Jabiru, replacement of water storage tanks at RAAF Base Tindal, refurbishment of Larrakeyah Barracks accommodation, and soundproofing the air traffic control at RAAF Base Darwin.
Total estimated value of projects	487.2	275.4	

Source: Northern Territory Treasury, Department of Defence Budget Statements 2006-07

Chapter 14 Manufacturing

Key Points

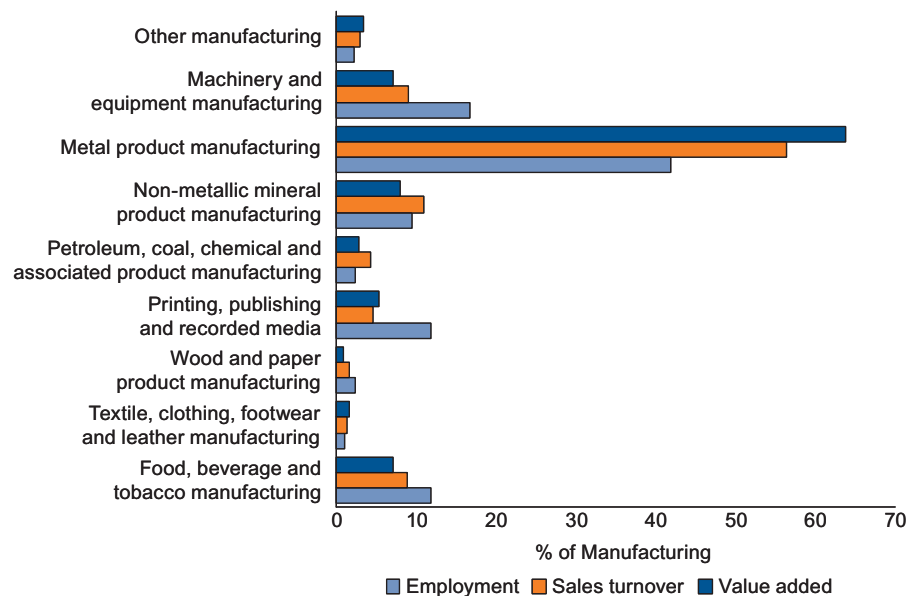
- » The Territory has a small and narrowly based manufacturing sector, dominated by alumina production at Alcan's Gove refinery.
- » In 2005-06, manufacturing accounted for 6 per cent of gross state product (GSP) (\$685 million) and about 3 per cent of total employment.
- » Manufacturing production will increase significantly in 2007 with increased alumina production from the expanded Alcan refinery, and a full year of production from both the Wickham Point liquefied natural gas (LNG) plant and the new renewable fuels (biodiesel) facility.
- » Further increases are expected over the next two years with the completion of the helium plant at Wickham Point in 2008, and the condensate processing facility at East Arm in late 2009.
- » 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 production.

The manufacturing sector in the Territory is small compared to other jurisdictions, accounting for 6 per cent of GSP in 2005-06 compared to 10 per cent nationally. About 2500 people are employed in the sector, accounting for 3 per cent of total employment in the Territory. The manufacturing base in the Territory is also narrow, reflecting the small local market and distance from other major markets. With the exception of export-focused alumina and LNG production, the majority of Territory manufacturing is for local consumption.

Composition

Chart 14.1 shows the proportions of value added (the value added by manufacturing businesses during production to the intermediate inputs used by the industry), employment and sales turnover attributable to each subdivision of the manufacturing industry for the Territory.

Chart 14.1: Territory Manufacturing Subdivisions Selected Indicators, 2004-05



Note: Based on latest available data: 2004-05 for 'Employment', 'Value Added' and 'Sales Turnover'
Source: Northern Territory Treasury, ABS Cat. No. 8221.0

Metal Products Manufacturing in the Territory is dominated by metal products manufacturing, which typically accounts for about 65 per cent of total manufacturing value added, compared to about 19 per cent nationally, and about 56 per cent of total Territory manufacturing sales turnover (Chart 14.1). Although it is much less labour intensive than most other manufacturing subdivisions, it accounts for about 42 per cent of Territory manufacturing employment due to its sheer size.

Metal products manufacturing is dominated by the conversion of bauxite to alumina at Alcan's Gove refinery, producing about 2 million tonnes of alumina, which accounted for 47 per cent of total sales turnover of metal products manufacturing in 2004-05, and directly employing about 1100 people in 2005-06. The Alcan G3 expansion will increase production from 2 million tonnes to 3.8 million tonnes of alumina and directly employ an additional 120 workers when the expansion is fully operational in July 2007. The metal products subdivision of the manufacturing industry also includes sheet metal fabrication and the production of materials used in the construction industry. The relatively high value for metal products manufacturing value added has been boosted by commodity price increases over the past two years, with the outlook for 2007 remaining positive.

Fuels and Chemicals Fuels and chemicals manufacturing in the Territory has been relatively small, accounting for about 3 per cent of total manufacturing value added, compared to 13 per cent nationally. This subdivision also only accounts for 2 per cent of Territory manufacturing employment. However, the importance of this subdivision is growing, as the Territory's gas-based processing infrastructure continues to develop.

Production of LNG at Wickham Point, which began in February 2006, has added significantly to the value of Territory manufacturing, although this will not be reflected until the 2005-06 data is released in late 2007. The plant is expected to produce 3.3 million tonnes of LNG per annum for export to Japan, and directly employ 80 to 100 permanent staff.

Completion of the \$80 million renewable fuels facility at the Darwin Business Park at East Arm officially began production in November 2006. The facility will produce 120 million litres of biodiesel and 12 000 tonnes of glycerine per annum for sale to domestic and export markets.

Machinery and Equipment Machinery and equipment manufacturing accounts for about 7 per cent of manufacturing value added in the Northern Territory, compared to 20 per cent nationally. This subdivision is relatively labour intensive, accounting for about 17 per cent of Territory manufacturing employment.

The maintenance requirements of the large, and still increasing, defence presence have the potential to significantly impact on and increase the contribution of machinery and equipment manufacturing in the Territory. The arrival of new Tiger Armed Reconnaissance helicopters and Abrams tanks in early 2007 will provide further opportunities for local machinery and equipment manufacturing.

Outlook

Alumina production is set to increase significantly from July 2007, with the expansion of Alcan's Gove refinery increasing production capacity from 2 million to 3.8 million tonnes per annum. Prior to the expansion of the Alcan facility, bauxite was both exported as a commodity and processed into alumina (for export). With the completion of the expansion to the refinery, it is expected that Alcan will process all of the extracted bauxite into alumina, no longer exporting bauxite as a raw commodity. The increased capacity is expected to create up to 120 additional onsite jobs.

Construction of a \$450 million condensate processing facility at East Arm is expected to commence in September 2007, with production planned to start in late 2009. The facility will source condensate from the Timor Sea and North West Shelf for the production of petroleum, diesel, liquid petroleum gas (LPG) and jet fuel. The construction of the facility will see 250 jobs created during the 30 months of construction and 60 permanent jobs once operational.

Approval has also been granted for the construction of a \$33 million helium plant at Wickham Point, which is expected to commence in mid 2007. The plant will use waste from the LNG plant to produce almost 900 tonnes of liquid helium per year for domestic and export markets.

In the medium to long term, the possibility of bringing more Timor Sea gas onshore offers significant manufacturing opportunities. Negotiations between the Timor-Leste and Australian governments concluded in January 2006 with the signing of the Treaty on Certain Maritime Arrangements in the Timor Sea. This treaty specifies the revenue sharing arrangements between Australia and Timor-Leste regarding that portion of the Greater Sunrise field outside the Joint Petroleum Development Authority (JPDA) (which has a separate revenue sharing agreement signed in 2002). Further, this latest agreement was ratified by the Timor-Leste parliament in February 2007. The Greater Sunrise field is expected to be developed over the next ten years.

Should efforts to bring Timor Sea gas onshore to the Territory prove successful, it could be used as feedstock for new manufacturing industries. An area at Glyde Point (on the Gunn Point Peninsula) has been identified as a potential site for a major gas-based industrial estate and associated port facilities. Possible gas manufacturing projects include further production of LNG, or gas-based products such as methanol, ethane, ammonia/urea fertilisers and various petrochemicals. Timor Sea gas also has the potential to provide a cheap and efficient energy source for the manufacture of alumina, magnesium and other ore concentrates, and for the production of electricity that could advance local value-adding opportunities.

Further increases in manufacturing production will occur in 2007-08 with the processing and refining of copper, cobalt and nickel at the Browns Oxide mine in Batchelor. In addition, copper, cobalt and magnetite will be processed at the Peko Tailings mine near Tennant Creek.

The medium to longer term impact of the AustralAsia railway on the Territory's manufacturing sector is still uncertain. Lower transport costs may increase the competitive pressures on local manufacturers of high-volume, low-value consumer goods such as foods and beverages. At the same time, lower transport costs may also provide new opportunities for local manufacturing by reducing input costs and providing more competitive access to southern markets.

Chapter 15 Transport and Communication

Key Points

- » 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 2005-06, the transport and communication sector accounted for 5.4 per cent of gross state product and represents about 6.9 per cent of total Territory employment.
- » Rail continues to grow as an important transport link between Darwin and Adelaide providing regular passenger services and carrying an increasing volume of freight. It also provides opportunities for regional development.
- » The Territory's road infrastructure continues to be improved, with flood mitigation a noteworthy focus.
- » A range of air industry operators continues to link Darwin with international, interstate and intrastate destinations in terms of passenger transfer and freight.
- » Improvements in access to information and communication technology to the large percentage of Territorians living in remote areas remains a priority.

Transport and communication industries are critical drivers of economic growth. Transport and communication represented 5.4 per cent of the Territory's gross state product (GSP) in 2005-06.

Of particular importance to the Territory economy are the roles of long-distance and interstate freight transportation and remote telecommunications infrastructure, given the Territory's size, remoteness and widely dispersed population.

The four major segments of the Territory's transport sector are road, rail, sea and air. All modes fulfil key roles in moving goods and people to, from and through the Territory. The rail link continues to emerge as an increasingly important factor in growing export activity through the Port of Darwin due to its capability to haul large volumes of mineral ore. Continued improvements in the scale and scope of facilities offered at Darwin's port is important to realising the full potential of Darwin to develop as a regional transport and logistics hub, more closely linking Australia with markets in Asia.

Table 15.1: Transport and Communication as a Proportion of GSP and GDP, 2005-06

	Transport %	Communication %	Total %
New South Wales	3.7	2.4	6.1
Victoria	3.6	3.0	6.6
Queensland	4.1	2.0	6.1
South Australia	3.8	2.2	6.0
Western Australia	3.7	1.9	5.6
Tasmania	3.8	2.1	5.9
Northern Territory	3.4	2.0	5.4
Australian Capital Territory	2.1	2.3	4.4
Australia	3.7	2.4	6.1

Source: ABS 5220.0

Transport

Transport-related activity accounted for about \$415 million or 3.4 per cent of Territory GSP in 2005-06 and accounts for about 5.0 per cent of total Territory employment.

Rail During 2005-06, the total freight transported by rail was 663 000 tonnes, an increase of 18 per cent from 2004-05. The capability of rail to carry large volumes of mineral ore over long distances continues to be evident in the Territory. More than 500 000 tonnes of manganese ore was hauled from the Bootu Creek mine (near Tennant Creek) to Darwin between May 2006 and May 2007 as the first year of a five year contract in which up to 650 000 tonnes will be transported annually. From mid-2007, about 1.5 million tonnes of iron ore will be hauled annually to Darwin for export to China from the Frances Creek mine (near Pine Creek), which has reported total resources in excess of 9 million tonnes. Assessment of the carriage of gold-bearing ore from mining operations in the Adelaide River region to the Union Reef gold processing plant near Pine Creek continues. Overall rail capacity was increased in early 2006, with the introduction of wagons capable of carrying road fuel tankers, and again in July 2006 with the acquisition of low-deck wagons on which containers can be double stacked. Increased utilisation of rail by the Australian Defence Force (ADF) began in early 2007. The operator, FreightLink, expects total tonnage for 2006-07 to be nearly double that of the previous year. In early 2008, the ADF expects to have rolling stock available to carry heavy equipment, including Abrams tanks, to and from Darwin.

Currently, rail freight is dominated by domestic product, although import and export volumes are growing steadily. A Darwin-Melbourne (via Adelaide) freight service introduced in 2005 to streamline movement of freight between the two cities continues to contribute to the dominance of the central corridor in freight movements into and out of the Territory. In linking southern markets with the international market, the railway has the capacity to move large quantities of bulk commodities between Darwin and Adelaide in less time than by sea.

In 2006, the Ghan passenger train service consisted of a twice weekly return trip from Adelaide to Darwin, with scheduled stops of several hours duration at Alice Springs and Katherine. About 63 000 passengers were carried. In 2005, the operator, Great Southern Railway, offered an additional weekly service between Adelaide and Alice Springs during May, June and July. During that year, 74 000 passengers were carried.

Sea The Darwin Port Corporation is the body responsible for the Territory's most diverse port operation, the Port of Darwin, with facilities to handle freight for domestic and international markets, cruise ships, and to serve as a hub for offshore oil exploration supply and the railway. A major private operator within Darwin harbour is ConocoPhillips, which has liquefied natural gas (LNG) processing and ship-loading facilities at Wickham Point through which about 3 million tonnes of LNG have been shipped annually to Japan since early 2006. In other areas of the Territory, a number of private ports service coastal mining communities directly for supplies and mineral exports, including Bing Bong near Borroloola (Xstrata's McArthur River Mine), Alyangula on Groote Eylandt (Groote Eylandt Mining Company), and Nhulunbuy in East Arnhem Land (Alcan Gove mine and alumina refinery).

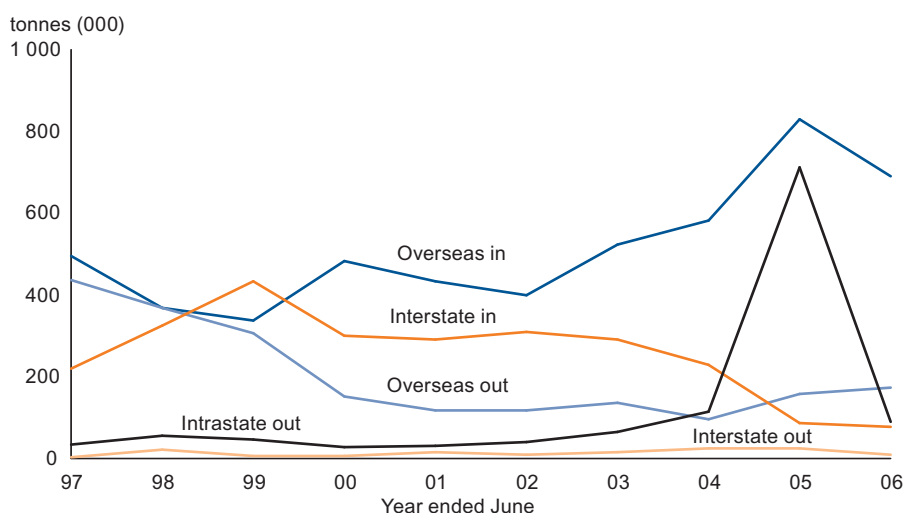
In 2005-06, total cargo tonnage through the Port of Darwin returned to 2002-03 and 2003-04 levels with a decrease of 43 per cent to 1.08 million tonnes. In 2004-05, the total cargo tonnage was substantially higher at 1.9 million tonnes. This was largely due to the shipment of about 600 000 tonnes of armour rock shipped from Darwin

for the construction of the Bayu-Undan sub-sea gas pipeline. The 2 per cent decline in the total number of vessels calling at Darwin Port Corporation facilities during 2005-06 comprised a 9 per cent decrease in the number of non-trading vessels, offsetting the 24 per cent increase in the number of trading vessels.

The total tonnage of cargo imported through the Port of Darwin during 2005-06 (over 800 000 tonnes) was almost three times the total tonnage exported (Chart 15.1). Over the same period, overseas imports accounted for 86 per cent of total imports, of which 74 per cent were petroleum products. Other significant imports included cement clinker and metal products. Overseas exports accounted for 63 per cent of total exports, of which 35 per cent comprised livestock and 40 per cent manganese ore. Livestock accounted for 37 per cent of the total tonnage exported.

In 2006, cruise ship visits increased by 33 per cent to a total of 44 visits, but passenger numbers decreased by 5 per cent to about 10 500 passengers. Tourism NT expects the number of cruise ship visits to increase to 46 in 2007. Construction of a new cruise ship terminal adjacent to Fort Hill Wharf is planned for 2007.

Chart 15.1: Trade Through Port of Darwin



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

Source: Department of Planning and Infrastructure, Darwin Port Corporation 2005-06 Annual Report

For the past few years, regular international shipping services to and from Darwin have been provided by Swire Shipping (fortnightly Singapore-Dili-Darwin service), Hai Win Shipping (monthly Shanghai-Darwin service) and Perkins Shipping (fortnightly Singapore-Dili-Darwin service).

The current capacity and frequency of shipping services to and from Darwin to maximise the railway's potential is due to increase, with national freight forwarder Northline and international forwarder Mitra Intertrans Forwarding forming an alliance in late 2006.

This alliance will provide customers with an integrated transport service between Australia and Indonesia, through the Port of Darwin, to reduce shipping lead time between Indonesia and Sydney or Melbourne.

In addition to its capacity to handle 250 000 standard containers (TEU) per year, facilities at the East Arm port include a bulk liquids terminal, intermodal freight-handling facilities, and pipelines and equipment for oil transfer. Completion of the bulk material handling facility, travelling gantry shiploader and supporting infrastructure is expected during 2007.

Road The Territory is served by three national highways which provide links to Queensland (Barkly Highway), South Australia (Stuart Highway) and Western Australia (Victoria Highway). The national highway network is the backbone of the road network system across the Territory and provides the only sealed road link between the Territory and the rest of Australia.

The Territory road network consists of more than 36 000 kilometres of road. About 22 000 kilometres are managed by the Territory Government including 12 per cent classified as national highways, 19 per cent as arterial roads and 69 per cent as secondary or local roads. The remaining approximately 14 000 kilometres of roads primarily for distributing traffic within local areas, are administrated by local governments.

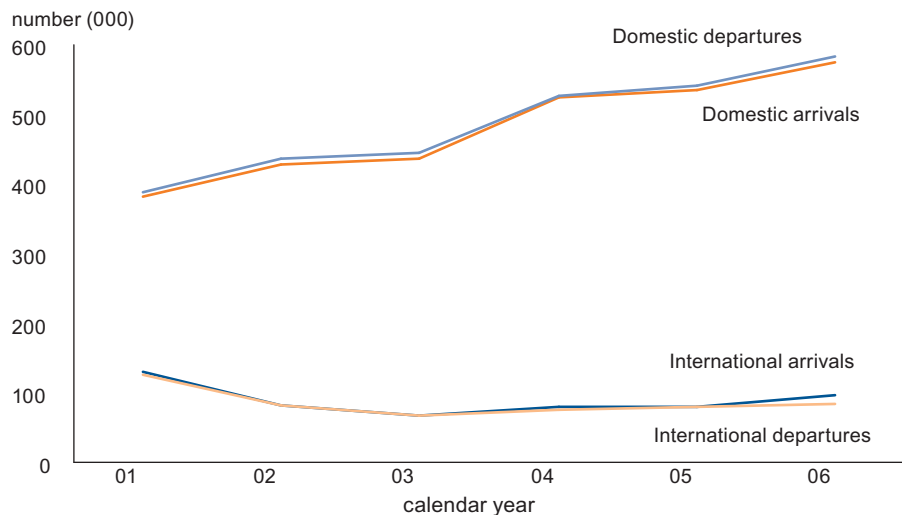
All three levels of government are responsible for developing and maintaining the road networks in the Northern Territory. AusLink is the Australian Government funding program designed to allocate funding to the land transport network. In 2006-07, AusLink expenditure on roads in the Territory is estimated at \$33 million. Along with maintenance and widening activities, this includes major works to overcome flooding problems on the Victoria and Stuart highways, including bridge works. Upgrading of 'blackspots' locations on roads servicing the pastoral, tourism and mining industries and improving access for remote communities is also being conducted.

In 2006-07, Northern Territory Government expenditure on roads will be approximately \$60 million. Improvement of roads, such as the continuation of sealing the Red Centre Way (including the Mereenie loop) and Litchfield loop roads, remains a priority.

Air Urban centres in the Territory with air transport facilities for regular public passenger and freight movement include Darwin (international airport), Alice Springs, Tennant Creek, Gove (owned and maintained by Alcan) and Groote Eylandt (owned and maintained by GEMCO). The Yulara tourist resort near Uluru is serviced by Connellan Airport. During 2005-06, the combined number of aircraft movements at Darwin, Alice Springs and Tennant Creek airports totalled 96 500, an increase of 4 per cent from 2004-05. Darwin accounted for 74 per cent of the 2005-06 total.

Historically, similar numbers of international passengers have entered and exited Australia through Darwin. In 2006, the number of international arrivals was slightly higher than international departures, perhaps due in part to the availability of lower fares from Singapore making travel to Darwin more attractive for budget travellers coming through Asia (Chart 15.2). In 2006, excluding transit passengers, about 670 000 passengers arrived in and about 668 000 departed from Darwin. The proportion of international passengers in both groups was 14 per cent and 13 per cent respectively. The total number of international arrivals in 2006 increased by 19 per cent to 95 900, and the total number of domestic arrivals increased by 7 per cent to 583 800 over the same period.

Chart 15.2: Airline Passenger Numbers, Darwin



Source: Darwin Airport

International Operators

In 2007, seven airlines operated regular international services to and from Darwin:

- Qantas (Denpasar and Mumbai);
- Garuda (Denpasar);
- Tiger Airways (Singapore);
- Royal Brunei (Brunei);
- Qantas - Jetstar (Singapore);
- Merpati Nusantara (Kupang);
- Air North (Dili); and

In 2006, Qantas provided 36 per cent of total international capacity into Darwin, followed by Tiger Airways.

Occasional charter service flights also bring tourists directly from Japan to Alice Springs to visit Uluru, including six new flights carrying up to 268 passengers per flight from August 2006.

Interstate Operators

In 2007, five airlines operated regular interstate services to and from Darwin:

- Qantas (which accounted for 80 per cent of total interstate capacity);
- Jetstar;
- Virgin Blue;
- Skywest; and
- Airnorth.

Intrastate Operators

Four airlines operate regular services within the Territory:

- Qantas (Darwin, Nhulunbuy, Alice Springs and Yulara);
- Airnorth (Darwin, Gove, Groote Eylandt and Maningrida);
- Tiwi Travel (Darwin, Melville Island and Bathurst Island); and
- Vincent Air (Darwin and Groote Eylandt).

Air freight to remote communities is also important for the delivery of perishables, household items and mail. Several firms also provide air charter services in the Territory.

Communications

The communications industry accounted for about \$241 million or 2 per cent of Territory GSP in 2005-06 and accounts for about 1 per cent of total Territory employment.

Technological developments have reduced the isolation faced by many Territorians, particularly those living in remote localities. Increased access to information technology infrastructure has enabled the delivery of a wider range of mainstream services to remote areas and innovations in service delivery. Despite significant investment and ongoing improvement, the gap between the Territory and other jurisdictions in access and capability to deliver information and communication technology (ICT) based services remains large, particularly in remote areas.

Remote Access

Remote areas in the Territory have benefited from increased access to telecommunications services, however the low volume of network traffic and lack of competition means that unit costs for electronic services remain high.

In 2005, the Australian Government announced the Connect Australia program, a \$1.1 billion package aimed at improving remote and regional telecommunications within Australia. The four components of the program were focused on the delivery of equitable broadband services, rolling out broadband networks to carry applications aimed at improving delivery of health, education and other essential services, extending terrestrial mobile phone coverage, and delivery of vital communication services to remote Indigenous communities. The Territory Government continues to liaise with the Australian Government to ensure the specific needs of the Territory are addressed. Particular developments that address these needs are broadband and mobile access in remote areas and a second fibre-optic cable from Adelaide to Darwin to improve wholesale telecommunications competition. In 2007, the scale and scope of the broadband delivery component of Connect Australia was extended when the Australian Government announced the Australian Broadband Guarantee. This program aims to ensure all Australians are able to access broadband services regardless of where they live. Benefits to the large proportion of the Territory population living in remote areas will emerge over the coming years.

The Territory has 46 locations with access to terrestrial mobile telephony, of which 42 are located in remote communities. Mobile phones are the product of choice for telephony in remote Indigenous communities. Along with voice communication, the technology offers an alternative to traditional computer-based internet services for government and the private sector to deliver services. In 2006, Telstra launched the NextG mobile network which makes broadband mobile connectivity available to 49 Territory locations, 41 of them in remote areas.

Northern Territory Government

Telstra was contracted as the Territory Government telecommunications service provider for five years from June 2005. Under that contract, bandwidth has increased, resulting in improved response times for services such as data transfer, intranet and internet services. The increased bandwidth will allow a digital data telephone service to be rolled out during 2007-08 to replace ageing PABX systems, and video-conferencing facilities are also being established in some agencies. During 2006, in Darwin, a new 150-staff national call centre began operations and an existing 100-staff call centre was expanded as part of an estimated \$65 million worth of industry and community development initiatives included in the contract. Further, Telstra's National Indigenous Directorate, which coordinates the delivery of telecommunications services to remote Indigenous communities nationally, was opened in Darwin in August 2005. The Government's Local Area Network (LAN) was

also moved from the current service provider to Telstra in 2006, which is expected to deliver a cost saving to Government of about \$4 million over four years.

Two significant Department of Employment, Education and Training (DEET) programs continue to provide improved ICT service delivery access and use in schools:

- Learning and Technology in Schools (LATIS) delivers high volume bandwidth ICT services to 155 Territory schools, 54 of these via satellite; and
- Interactive Distance Learning (IDL), which has replaced the two-way radio from the School of the Air, is using satellite technology to deliver interactive specialist tuition to 200 remote homesteads, schools and training centres in the Territory. The technology is now used for secondary school tuition, but in the future may be applied to training needs, including vocational education and training.

Both programs will progressively move to terrestrial services, where appropriate, under the Telstra contract.

Television Darwin is served by the ABC, SBS, Channel Nine and Southern Cross Television (SCTV – formerly Channel 7) networks. Additionally, iTV64 broadcasts tourist-oriented information in Darwin via the free-to-air and pay television networks. Other major centres receive a combination of Imparja, SCTV, Central Queensland Satellite Television (Channel 10), the ABC and SBS. Austar pay television is available via direct cable in Darwin and via satellite in Alice Springs and other parts of the Territory.

Standard definition digital free to air television broadcasts are available in Darwin, Batchelor, Katherine and Alice Springs. SBS and ABC television transmit high definition digital broadcasts as well as standard definition channels, namely ABC National, ABC2 and the SBS service of news services from around the world. In April 2006, ACMA (the Australian Communications and Media Authority) announced that a third commercial television network licence would be issued for Darwin. A joint venture company comprising Southern Cross Broadcasting (7) and Channel Nine Darwin were the successful bidders. The new digital only channel will begin broadcasting by 31 December 2007.

Radio Darwin, Alice Springs and other urban centres in the Territory are serviced by a number of radio stations, including the ABC, commercial and community-based stations. Operations such as the Top End Aboriginal Bush Broadcasting Association (TEABBA) and the Central Australian Aboriginal Media Association (CAAMA) link more than 30 Indigenous community radio stations using broadcasting equipment provided by the Australian Government under the Remote Indigenous Broadcasting Services (RIBS) program, formerly known as the Broadcasting in Remote Aboriginal Communities Scheme (BRACS). The Australian Government policy framework for transition to digital radio was announced in September 2005, although no firm date has been set for transition in the Territory.

Outlook

Transport Activities related to all modes of the transport industry in the Territory show no sign of slowing. The operator of the railway is expecting to transport almost twice the amount of freight this year than last year. Much of that increase will be bulk minerals exported to Asia through improved handling facilities at the Port of Darwin. Increasing numbers of visits by passenger cruise ships and plans by Tiger Airways and Qantas to increase their passenger capacity into and out of the Territory are reflections of business optimism for potential growth in tourism in the Territory. In February 2007,

Tiger Airways announced plans to commence a domestic service from late 2007, initially operating five A320 planes with plans to grow to 30 planes over time. In March, Tiger Airways Australia was incorporated in the Northern Territory. While headquarters for Tiger Airways Australia, operational bases and routes are yet to be decided, Darwin is expected to feature as it provides the most viable airport to link Tiger's domestic services to Singapore and beyond, via the existing four times per week Darwin-Singapore service. Continued improvement such as flood mitigation will provide positive benefits to businesses and tourists reliant on the Territory's large network of roads.

Communications

Activities by Government aimed at improving access to information and communication technology to the large percentage of Territorians living in remote areas will remain a priority into the future.

Chapter 16 Rural Industries and Fisheries

Key Points

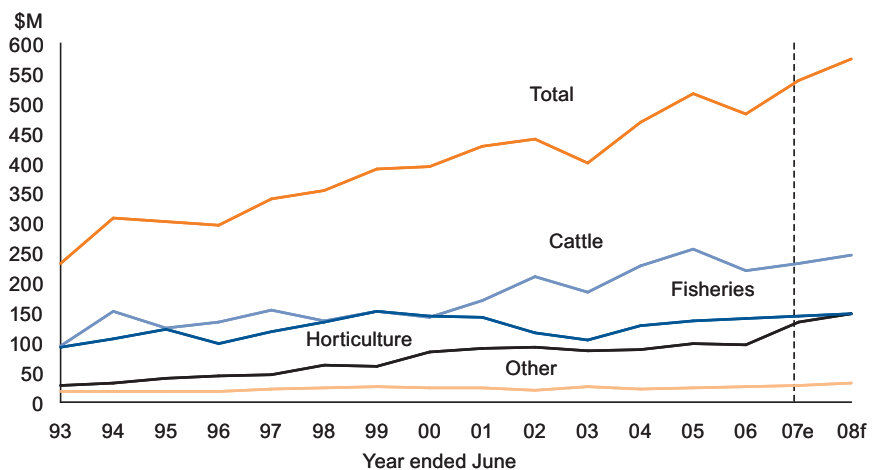
- » Rural industries and fisheries accounted for 2.3 per cent of Territory gross state product (GSP) in 2005-06 and 3.1 per cent of resident employment.
- » The Territory enjoys certain comparative advantages due to its capacity to supply markets with a range of early season and out of season produce, and benefits because of its 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 lower than broader economic growth over the past 10 years.
- » The value of rural industries and fisheries production is estimated to be \$539 million in 2006-07, an increase of 12 per cent from 2005-06.
- » The value of production is forecast to increase by 6.5 per cent to \$574 million in 2007-08.

Rural industries in the Territory comprise cattle and other livestock (including buffalo, crocodiles, poultry, pigs and camels), horticulture (fruit, vegetables, nursery and cut flowers) and mixed farming (field crops, hay and seeds, and forestry). The fisheries industry comprises the harvest of wild catch and aquaculture.

Rural industries and fisheries accounted for 2.3 per cent of Territory gross state product (GSP) in 2005-06 and 3.1 per cent of resident employment.

Rural industries and fisheries are vital in regional and remote areas, providing direct employment for about 3100 people and representing an important source of economic development. These industries also account for a significant share of Territory export revenue, with the total value measured at \$136 million for 2005-06, or 5.1 per cent of total exports.

Chart 16.1: Rural Industries and Fisheries Value of Production (nominal dollars)



e: estimate; f: forecast

Note: Horticulture data is only available for calendar years

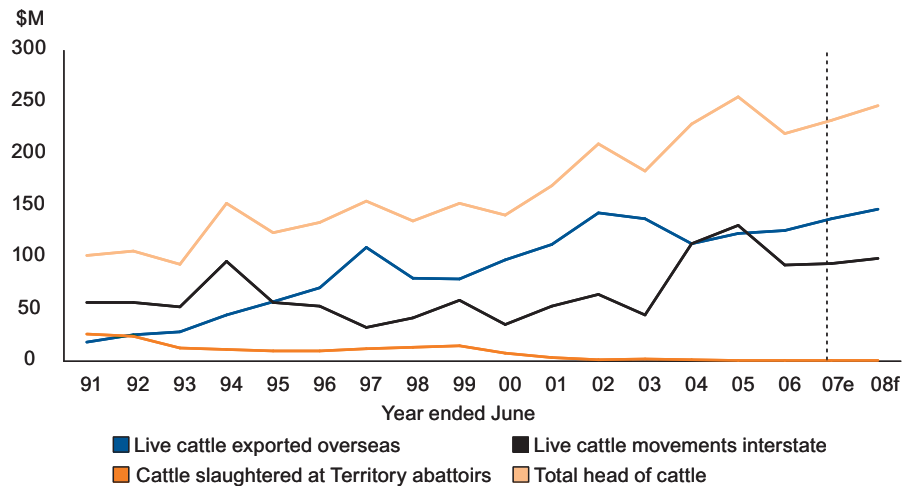
Source: Department of Business, Economic and Regional Development

Cattle

The cattle industry is the mainstay of the Territory's pastoral industry which is a major contributor to incomes in rural areas and provides considerable flow-on benefits to other industries, particularly transport and retail trade.

The value of Northern Territory cattle production for 2006-07 is estimated at \$232 million, up 5.6 per cent from 2005-06. In 2006-07, cattle production is estimated at around 43 per cent of the total value of rural industries and fisheries production.

Chart 16.2: Total Northern Territory Cattle Movements



e: estimate; f: forecast

Source: Department of Business, Economic and Regional Development

In 2005-06, the most recent year for disaggregated data, it is estimated that 441 485 cattle were turned off Territory pastoral properties, a decrease in the year of 94 331 cattle, or 17.6 per cent. This fall represents a decrease of \$36 million to \$220 million in 2005-06.

The market for cattle in the Northern Territory is highly influenced by economic conditions in interstate and international markets. Of Territory cattle turned off in 2005-06, 53 per cent were exported overseas, 47 per cent were destined for interstate markets and less than 1 per cent were slaughtered at Territory abattoirs. A large decline (31 per cent) in interstate cattle movements, and a marginal fall in live cattle exports, led to the fall in total cattle movements in 2005-06.

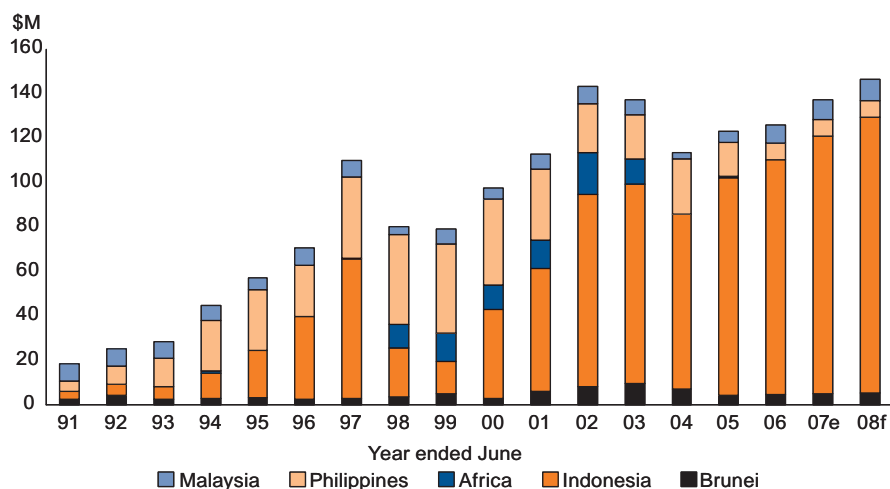
The majority of cattle destined for interstate markets are feeder cattle for further growing before slaughter and sale in the domestic and international markets. The fall in interstate cattle movements in 2005-06 largely reflects the effects of the drought, leading to lower interstate demand for feeder cattle. The large decrease in interstate cattle movements also led to overseas exports overtaking interstate destinations as the dominant destination for Territory cattle (Chart 16.2).

Of the cattle sent interstate from the Territory in 2005-06, Queensland was the main destination, comprising 73 per cent of the total interstate movement. South Australia took about 15 per cent and 12 per cent went to other jurisdictions. In 2005-06, the value of interstate trade for Territory cattle was \$93 million.

Historically, about two-thirds of beef produced in Australia is exported, mainly to the United States (US) and Japan. In 2005-06, Australian beef exports benefited from the absence of US beef from North Asian markets, due to continued bans associated with the discovery of bovine spongiform encephalopathy (BSE) in the US in 2003. The ban lifted beef and cattle prices, and boosted demand for Australian beef in Japan, Korea and Taiwan. Territory cattle represented about 42 per cent of total Australian

live cattle exports to all markets in 2005-06, up marginally on a revised 2004-05 figure. A total of 232 258 head of Territory cattle were exported to South East Asia in 2005-06, a 1.4 per cent decrease over 2004-05. The high value of the Australian dollar, higher Australian cattle prices, and strong competition from lower priced meat in South East Asian markets from South America and other Australian exporters, were the major factors inhibiting expansion in the Territory's live cattle export market. In 2005-06, total Territory live cattle exports were valued at \$126 million, up \$3 million from 2004-05.

Chart 16.3: Northern Territory Live Cattle Exports by Country of Destination



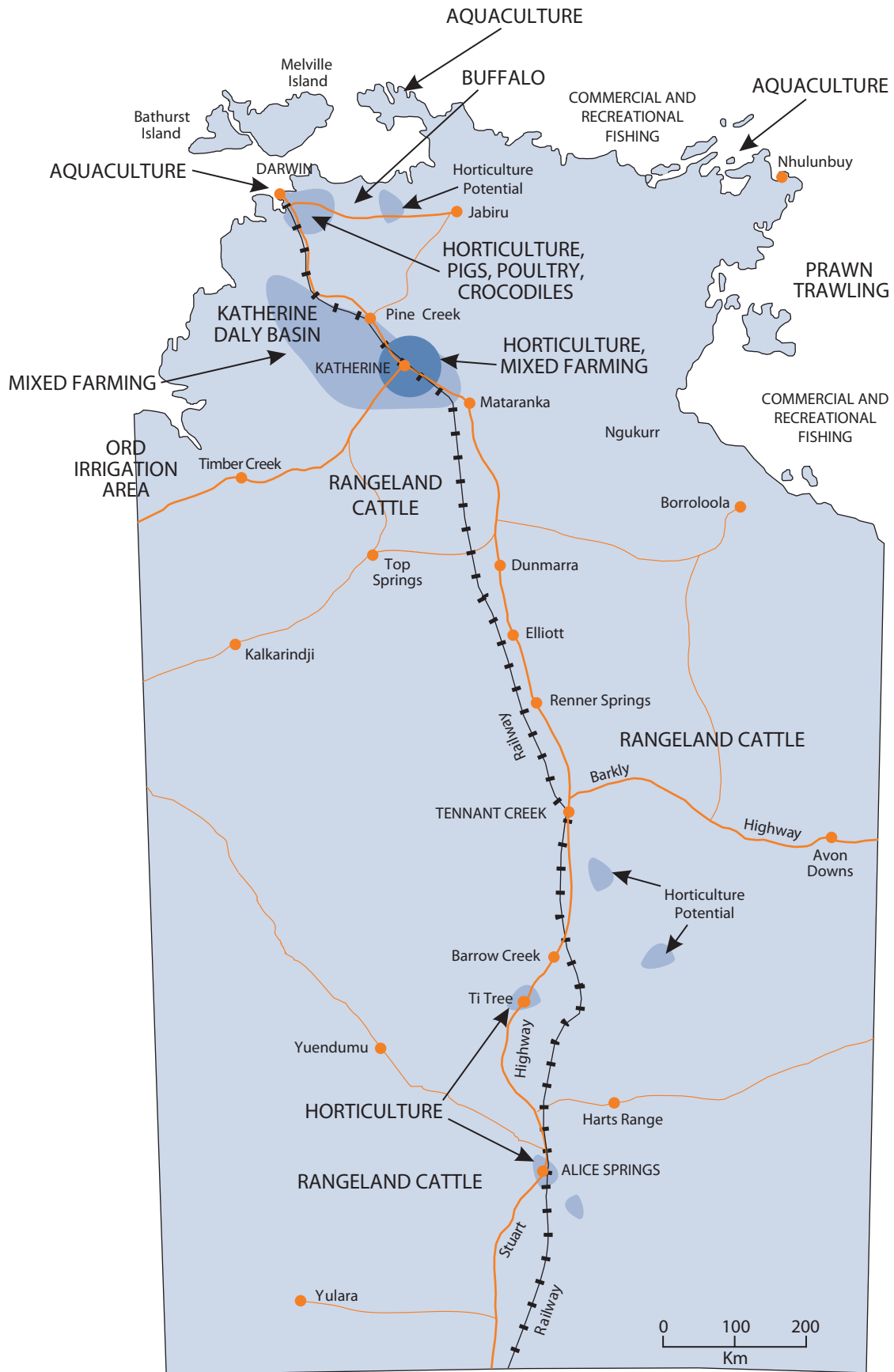
e: estimate; f: forecast

Source: Department of Business, Economic and Regional Development

Indonesia was the largest market for Territory live cattle exports, taking about 84 per cent of total live cattle exports. Exports to Indonesia increased by 6.0 per cent to 195 224 head in 2005-06, while the value of exports increased by 7.5 per cent to almost \$104 million. The Philippines imported 13 622 head of Territory cattle in 2005-06, a decrease of 53 per cent compared to 2004-05, and about 40 000 head lower than 2003-04. The decline reflects continued economic and political problems, the relatively low value of the Philippine peso and competition from cheap South American beef and Indian buffalo meat.

The financial performance of beef producers in the Territory fell in 2005-06, largely due to a fall in interstate cattle movements, while farm cash costs continued to increase as a result of beef cattle purchases to supplement herd rebuilding through natural increase. The Australian Bureau of Agriculture and Resource Economics (ABARE) estimates that the average farm cash incomes of Territory specialist beef cattle producers in 2005-06 fell by 57 per cent, as dry conditions continued to affect herd productivity and increased outlays on animal feed. However, there were considerable variations in farm financial performance between the pastoral regions and between large and small cattle enterprises.

Northern Territory Rural Industries and Fisheries



Cattle Outlook

The cattle outlook for the Territory is very much dependent on the economic conditions facing interstate and international markets. A recovery of herd numbers, which commenced in late 2006-07, is expected to continue in 2007-08, rebuilding low numbers after slaughtering due to the drought conditions in much of 2005-06. This decrease in production, and subsequent price increase, is forecast to lead to a 3 per cent decrease in domestic beef consumption. Australian beef exports are also forecast to fall by 3 per cent in 2007-08, however price rises will more than offset reduced production and result in an increase in the value of exports by 7 per cent.

In 2007-08, interstate cattle movements are expected to fall slightly, although increasing over the period to 2010-11. The interstate movement of Territory cattle generally reflects demand for meat both domestically and in Australia's beef export markets, in particular, Japan, the US and South Korea.

Territory live cattle exports to South East Asia are expected to increase slightly but will depend critically on exchange rate movements and price competition from cheaper substitutes (beef and buffalo meat) from the Asian subcontinent and locally supplied meats such as pork and chicken.

Other Livestock Industries

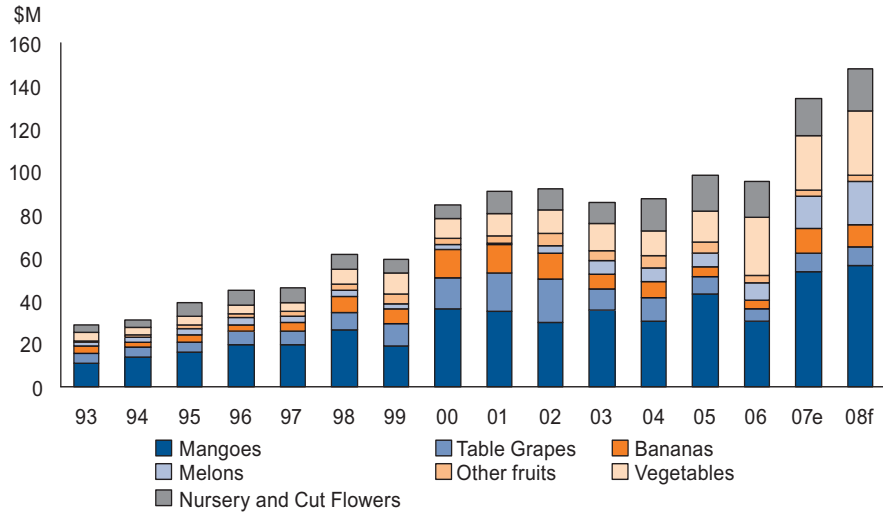
In 2006-07, the production value of other livestock industries in the Territory is estimated to be \$11 million, a marginal increase from 2005-06, contributing 2 per cent to the total value of Territory rural industries and fisheries. Other livestock industries supply eggs, poultry, pork and buffalo to local markets. Buffaloes, horses, camels, deer, pigs and goats are also exported live overseas, while horses, camels and crocodiles are exported live interstate. Crocodile skins and flesh are produced for local and export markets. Other livestock production is expected to increase slightly in 2007-08 and over the medium term.

Horticulture

The Territory horticulture industry includes fruit, vegetables, nursery products and cut flowers. Horticultural statistics are collected on a calendar year basis, corresponding to the harvesting season.

In 2006, the Territory horticulture industry is estimated to contribute 25 per cent to the total value of Territory rural industries and fisheries production. The value of horticultural production for 2006 is estimated to be around \$134 million, an increase of 40.2 per cent from 2005. The main reason for the increase is a large rise in mango production due to the biennial production cycle of mango trees, and substantial growth in the value of banana and melon production as shown in Chart 16.4.

Chart 16.4: Value of Northern Territory Horticultural Production



e: estimate; f: forecast

Source: Department of Business, Economic and Regional Development

The majority of Northern Territory horticultural production is destined for interstate markets. The main fruits produced in the Territory include mangoes, table grapes, bananas and rockmelons. In 2006, the value of fruit production is expected to rise by 74 per cent to \$53 million due largely to increased mango production.

The production of table grapes has been declining in recent years, primarily as a result of a high incidence of nematode infestation which depressed yields. The value of table grapes in 2006 is \$9 million, up from \$6 million in 2005. Established grape growers are implementing a five year vine replacement program, with stock tolerant of nematode infestation.

In 2006, although banana production is at a similar level to 2005, prices rose markedly following the almost complete destruction of Queensland banana plantations by Cyclone Larry in March 2006. The value of banana production is expected to have increased to \$11 million in the Territory. Despite the increase in the value of production in 2006 the banana industry faces substantial problems due to Panama disease, which has caused the closure of a number of plantations.

Production of rockmelons and other melons in the Territory has risen in recent years, with large areas planted in the Darwin and Katherine regions, including production from a number of traditionally mixed cropping farms. The Territory has the advantage of supplying off-season melons to southern states during the winter months. Territory melons have been successfully exported to Singapore, Malaysia and Hong Kong in the past and, if production continues to increase, they will probably again be exported to overseas markets.

Melon production in 2006 is similar to that in 2005. However, rockmelon prices have increased and the value of production is \$15 million, a 74 per cent increase from 2005.

The production of exotic fruits such as rambutan, jackfruit, dragon fruit, guavas, carambolas, Fiji apples/hog plums and star apples appears to remain steady in 2006 and prices, and therefore production values, remained largely unchanged. Territory vegetable production in 2006 is little changed from 2005. Prices of most vegetables have also remained largely unchanged so that the total value of vegetable production remained steady.

Horticultural Outlook

In the short term, the outlook for Territory horticultural production is expected to improve, driven mainly by an increase in mango production. In the longer term, favourable climatic conditions, a relatively disease-free status, improved product quality, expanded marketing efforts and the relatively unrestricted access to domestic and international markets will underpin future industry growth. At the same time, it is anticipated that economic conditions will result in the smaller horticultural producers exiting from the industry as it becomes dominated by fewer, but larger, producers.

As the large number of juvenile trees mature in coming years, further increases in the supply of mangoes are expected, ensuring that they remain the major horticultural output in the Territory for the foreseeable future. However, as mango production increases, a number of issues which are already emerging will intensify. These include labour supply, price pressure, the need to develop new markets as well as logistics/supply chain issues and quality assurance and control factors. The freight train service to the Territory is expected to continue to ease transport bottlenecks, especially for Katherine producers, where large volumes of mangoes have been transported by rail.

Until bananas resistant to Panama disease become commercially available, further industry development will be constrained. In the meantime, some banana growers are diversifying into other crops, such as rockmelons or watermelons, as a temporary measure. By mid 2007 prices had already returned to their already long-term average levels and are expected to remain stable as production levels in the Queensland banana industry continue to recover and bananas are imported into the Territory market from the Philippines.

Commercial growers of the newer exotic fruits, especially dragon fruit, are expected to experience growth in the short term, mainly as a result of overproduction in the Territory and Queensland.

The nursery and cut flower sectors also have good prospects for expansion, especially in the Top End, where climatic conditions provide distinct production advantages for a wide range of tropical varieties. In addition to current heliconia and orchid production for southern markets, continuing research and development of additional nursery varieties should result in production levels increasing.

Mixed Farming

Mixed farming includes hay and pasture seed production, cereal crops such as sorghum and maize, other crops such as peanuts, sesame and soybeans, and farm forestry. The value of field crop production in 2006-07 is estimated at \$18 million, an increase of 18 per cent from 2005-06. Field crop production is dominated by hay and fodder grown in the Katherine, Douglas/Daly and Darwin areas for the live cattle export industry.

With ongoing technological advancement in biodiesel technologies, and the success of corn, soy, and sugar cane crops used in the US and Brazil in the production of ethanol, there is growing interest in producing a soy crop in the Territory for biodiesel manufacture.

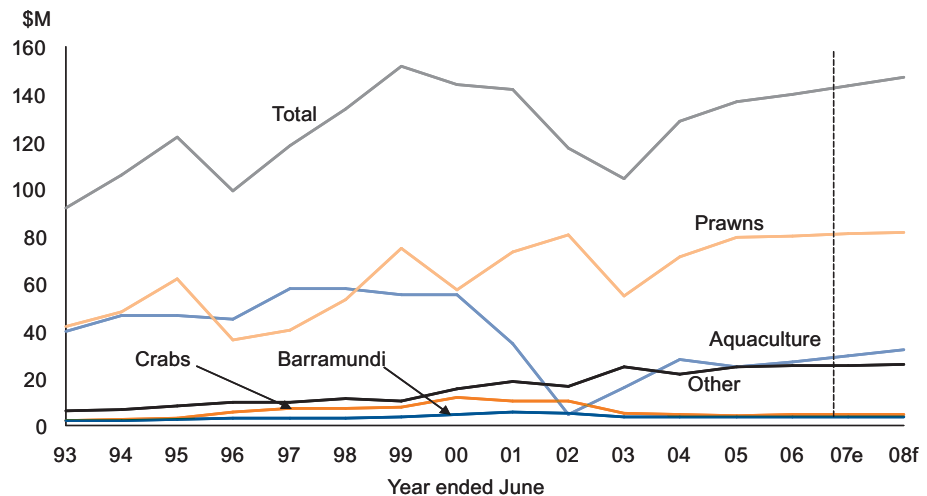
Due to confidentiality issues, farm forestry price data is not available for 2006-07, and 2005-06 estimates have been used. In 2006-07, the value of farm forestry is expected to remain steady.

Fishing

The Territory fishing industry comprises commercial, recreational and traditional Indigenous sectors. The commercial sector includes harvesting wild catch fisheries and aquaculture as well as the processing, trade and retailing of seafood. Statistics on the value of some components of past fisheries production have been revised during the past year.

In 2006-07, the value of Territory fisheries production increased by 3 per cent to \$144 million. This represents 27 per cent of the total value of rural industries and fisheries. This is the fourth consecutive year of growth in the value of fisheries in the Territory since the low levels recorded in 2002-03. Historically, the value of production of fisheries in the Territory has fluctuated widely due to climatic and demand conditions (Chart 16.5).

Chart 16.5: Value of Northern Territory Fishing Production



e: estimate; f: forecast

1 Aquaculture is predominantly pearls, but also includes prawn and barramundi aquaculture

2 Other includes species of finfish, crustaceans, molluscs and echinoderms

Source: Department of Business, Economic and Regional Development

Prawn and aquaculture production (primarily pearls and barramundi) are the major components of fishing output. Combined, these two sectors historically account for around three-quarters of the value of Territory fisheries production. A sharp fall in the value of aquaculture production in 2000-01 was associated with a dramatic decline in international pearl prices and major producers delaying harvest. The value of aquaculture production has improved in recent years, although only at half the value of the 1990s.

Effective management of fisheries continues to be an integral component of the Territory's long-term resource strategy. Over the past decade, important changes have occurred in fisheries adjacent to the Territory. The Northern Prawn Fishery has seen the greatest adjustment, with voluntary and compulsory reductions resulting in boat numbers falling from about 350 in the early 1980s to 95 boats in 2004.

Other adjustment measures have included a licence buyback, gear restrictions, seasonal closures, river closure and minimum size limits. The closure of the McArthur River in 2002 and the Adelaide River in 2004 to commercial barramundi fishing were major initiatives, leaving these areas to the recreational sector.

Recreational fishing is one of the most popular leisure activities in the Territory. Latest estimates place spending on recreational fishing in the Territory at almost \$35 million per annum. Recreational fishing is also an important tourism segment, especially in the Top End and around Borroloola, with up to 25 per cent of expenditure attributed to visitors to the Territory.

Fishing Outlook

The March 2007 Federal Court decision in the Blue Mud Bay case has created uncertainty for commercial and recreational fishers in the Northern Territory. Pending an appeal to the High Court, the decision extends traditional Indigenous owners' freehold title to the low-water mark on Aboriginal land, granting the right to exclude people from waters overlying that land. A temporary licensing scheme for recreational and commercial fishers is being established in the interim to maintain the status quo.

Steady growth in the gross value of production is forecast for 2006-07 and 2007-08, driven mainly by growth in the aquaculture sector.

Aquaculture is forecast to expand by 8 per cent in 2007-08 to slightly more than \$30 million. The positive outlook is influenced by a number of potential developments, including a major expansion in the farmed barramundi industry and a large scale trepang hatchery, currently in its pilot phase on Channel Island.

Abbreviations

AAA	Australian Automobile Association
ABARE	Australian Bureau of Agriculture and Resource Economics
ABC	Australian Broadcasting Corporation
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADF	Australian Defence Force
AFPC	Australian Fair Pay Commission
APIN	Army Presence in the North
ASLAV	Australian Light Armoured Vehicle
AVO	Australian Valuation Office
AWA	Australian Workplace Agreement
AWE	average weekly earnings
AWFTE	average weekly full-time total earnings
A\$	Australian dollar
B	billion
BIITE	Batchelor Institute of Indigenous Tertiary Education
BSE	bovine spongiform encephalopathy (mad cow disease)
Cat. No.	catalogue number
CDEP	Community Development Employment Projects
CDU	Charles Darwin University
CPI	Consumer Price Index
cpl	cents per litre
CSC	Computer Sciences Corporation
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DBERD	Department of Business, Economic and Regional Development
DCA	Development Consent Australia
DEET	Department of Employment, Education and Training
DEWR	Department of Employment and Workplace Relations
DHA	Defence Housing Australia
DIMA	Department of Immigration and Multicultural Affairs
DSD	Defence Support Division
e	estimate
EBA	enterprise bargaining agreement
ERP	estimated resident population
EU	European Union
f	forecast
FIFO	fly-in fly-out
FSGS	Fuel Sales Grant Scheme
FTE	full-time equivalent

GDP	gross domestic product
GEMCO	Groote Eylandt Mining Company
GOC	government owned corporation
GPS	Grocery Price Survey
GSP	gross state product
GST	goods and services tax
GVA	gross value added
HCS	Health and Community Services
HES	Household Expenditure Survey
HMAS	Her Majesty's Australian Ship
HQNORCOM	Headquarters Northern Command
ICHO	Indigenous Community Housing Organisation
ICT	information and communications technology
IDL	interactive distance learning
IEDTF	Indigenous Economic Development Task Force
ILUA	Indigenous Land Use Agreement
IMF	International Monetary Fund
ISDN	Integrated Services Digital Network
ISO	International Standards Organisation
IT	information technology
JORN	Jindalee Operational Radar Network
JPDA	Joint Petroleum Development Area
JLUN	Joint Logistics Unit-North
LATIS	Learning and Technology in Schools
LFS	Labour Force Survey
LGANT	Local Government Association of the Northern Territory
LHS	left hand side
LNG	liquefied natural gas
LPI	Labour Price Index
LPG	liquid petroleum gas
M	million
MLA	Meat and Livestock Australia
NCP	National Competition Policy
NORFORCE	North West Mobile Force
NRA	National Reform Agenda
NT	Northern Territory
NTHA	Northern Territory Horticultural Association
NTN	Networking the Nation
NTPS	Northern Territory Public Service
NTTSA	Northern Territory Tourism Satellite Account
OCPE	Office of the Commissioner for Public Employment
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries

PABX	Private Automatic Branch Exchange
PAMs	pre-assembled modules
PES	Post Enumeration Survey
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RBA	Reserve Bank of Australia
REIA	Real Estate Institute of Australia
REINT	Real Estate Institute of the Northern Territory
RHS	right hand side
RSE	relative standard error
SARS	Severe Acute Respiratory Syndrome
SBS	Special Broadcasting Service
SCTV	Southern Cross Television
SE	standard error
SFD	state final demand
SLA	Statistical Local Area
SME	small and medium enterprises
STEP	Structured Training and Employment Projects
STCRC	Sustainable Tourism Cooperative Research Centre
TEU	Twenty-foot Equivalent Unit
TFR	Total Fertility Rate
TGSP	Tourism Gross State Product
TGVA	Tourism Gross Value Added
TIO	Territory Insurance Office
TRA	Tourism Research Australia
TWI	trade-weighted index
UK	United Kingdom
ULCEZ	Untimed Local Calls in Extended Zones
US, USA	United States of America
USD, US\$	United States dollar
USO	universal service obligation
VET	vocational education training
WPI	Wage Price Index
WSE	Wage and Salary Earners

Glossary

Broadband

An 'always on' internet connection with an access speed equal to, or greater than 256 kilobits per second (kbps). Broadband has the capacity to accommodate audio, video and data channels simultaneously.

Chain Volume Measure

Chain volume measures provide estimates of real change by factoring in changing price relativities from year to year.

Confidence Interval

Confidence intervals represent the likelihood in which a value lies within an identified range of estimates. Confidence intervals are constructed using an estimate and its associated standard error.

Consumer Price Index

A general indicator of the prices paid by household consumers for a specific basket of goods and services in one period relative to the cost of the same basket in a base period.

Current Dollars

A measure that is not adjusted for inflation or changes in the purchasing power of money. Current dollars specify the value at a certain point in time and are not used to compare values over a series of time periods.

Dwelling Unit

A self-contained suite of rooms, including cooking and bathing facilities, intended for long-term residential use.

Employed

Persons 15 years and older who worked for one hour or more in the week that the resident employment survey was conducted.

Final Consumption Expenditure

The value of purchases of goods and services for consumption by households and government. Excludes purchases of fixed assets, intermediate goods or additions to inventories. Intermediate goods are those used as inputs for making other goods.

Goods and Services Tax

From 1 July 2000, the Australian Government introduced a 10 per cent tax on goods and services (GST), replacing the previous wholesale sales tax regime. Some items like basic food, health, education and exports are GST free.

Gross Domestic Product

The total value of goods and services produced in Australia over the period for final consumption. Intermediate goods, or those used in the production of other goods, are excluded. Gross domestic product can be calculated by either summing total output, total income or total expenditure.

Gross Fixed Capital Formation

Additions to the stock of real capital by private and public sectors. Real capital represents assets, except land and natural resources, which are capable of producing income, for example, new and second-hand buildings, plant and equipment, and roads.

Gross State Product

Similar to gross domestic product, except that it measures the total value of goods and services produced in a jurisdiction. It is the sum of all income, namely wages, salaries and profits, plus indirect taxes less subsidies. It can also be calculated by measuring expenditure, where it is the sum of state final demand and international and interstate trade, changes in the level of stocks, and a balancing item.

Gross Value Added

The value of output at current prices less the value of intermediate consumption at purchasers' prices.

International Merchandise Trade

Exports of goods less import of goods. Excludes services in the calculation,

International Trade

Exports of goods and services less imports of goods and services.

Landbridge

Intermodal transport system of shipping international cargo across a continent, typically by train, from one coast to another.

Labour Force

All persons 15 years and over who are available for work, that is, employed plus unemployed persons actively seeking work. Excludes defence force personnel and non-residents.

Miscellaneous Goods and Services

Includes items such as personal care, jewellery, watches and clocks, and health insurance (sourced from ABS internal documents).

Moving Annual Total

A method used to smooth data. These smoothing methods iron out the short-term fluctuations in the data by averaging observations collected over a 12-month period.

Nominal Terms

Where data is not adjusted for inflation or changes in the purchasing power of money.

NORFORCE

The North West Mobile Force surveillance unit that monitors the remote northern borders of Australia.

Original Terms

Data in original terms is basic, raw data as collected in a survey or a census. It is not adjusted for seasonality, or smoothed to remove irregularities to form a trend series.

Participation Rate

The proportion of the population over 15 years of age who are working or looking for work.

Private Business Investment

Private fixed capital formation for non-residential buildings and structures, machinery and equipment, livestock, intangible fixed assets and ownership transfer costs before depreciation.

Relative Standard Error

The relative standard error is the standard error expressed as a proportion of the estimate. This measure provides an immediate indication of the percentage error likely to have occurred due to sampling.

Sample Error

Sample error is the difference between estimate obtained from a particular sample and the value that would be obtained if the whole population was enumerated under the same procedures.

Seasonally Adjusted Terms

The seasonally adjusted series is a time series of estimates with the effects of normal seasonal variation removed, that is, those fluctuations that exhibit a regular pattern at a particular time of year. Seasonally adjusted terms allow the effects of other non-seasonal influences on the series to be more clearly recognised.

Standard Error

The standard error of an estimate is a measure of the variation in the estimate from all possible samples, and therefore is a measure of the precision with which an estimate from a particular sample approximates the average over all possible samples.

State Accounts

An Australian Bureau of Statistics framework and methodology for measuring economic growth (see gross domestic product, gross state product and state final demand).

State Final Demand

Final consumption expenditure plus gross fixed capital formation in each jurisdiction. It represents the total expenditure on consumption and investment in a jurisdiction.

Terms of Trade

The ratio of export prices to import prices. An improvement in the terms of trade occurs when export prices rise relative to import prices. It has a significant influence on the value of a country's currency.

Trade-Weighted Index

Index of weighted average exchange value of one currency against currencies of other countries. Australia's TWI is an indicator of how the Australian dollar is performing compared to its major trading partners. The composition of the index is determined by Australia's two-way trade with its major trading partners, and accounts for at least 90 per cent of aggregate trade.

Trend Terms

The trend series is used to analyse the underlying behaviour of a series over time. Trend terms are derived by smoothing the seasonally adjusted series so as to reduce the impact of any irregular components of that series.

Twenty-foot Equivalent Unit

International Standards Organisation (ISO) unit to measure containerised cargo capacity. The equivalent of a shipping container 6.1 metres (20 feet) long.

Underlying Inflation

A calculated measure that takes the headline inflation rate and excludes certain volatile items or series that are affected by factors other than general economic conditions (eg., fuel prices, or the effect of weather on fruit and vegetable prices). The resulting rate is based on only those items directly related to the economy.

Unemployed

Persons 15 years and older who were not employed during the week of the labour force survey and were actively looking for work in the last four weeks.

Unemployment Rate

The number of unemployed persons expressed as a percentage of the labour force.

Value Added

Value added by businesses during production to the intermediate inputs used by the industry.

Visitor

Tourism Research Australia defines a visitor as someone who has stayed in a place at least 40 kilometres from their usual place of residence for at least one night, but who is away from home for less than 12 months. An international visitor is defined as an overseas arrival who stayed in Australia for less than 12 months.

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