

# 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<br>% ch | 2003-04<br>% ch | 2004-05<br>% ch | 2005-06<br>% ch | 2006-07 <sup>e</sup><br>% ch | 2007-08 <sup>f</sup><br>% 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 <sup>1</sup> | 0.1             | 0.3             | 1.2             | 2.0             | 1.6                          | 1.4                          |
| Darwin CPI <sup>2</sup> | 2.2             | 2.1             | 1.6             | 2.6             | 4.4                          | 3.0                          |

e: estimate; f: forecast

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

<sup>2</sup> 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.