

## Chapter 1 Structure of the Economy

### Key Points

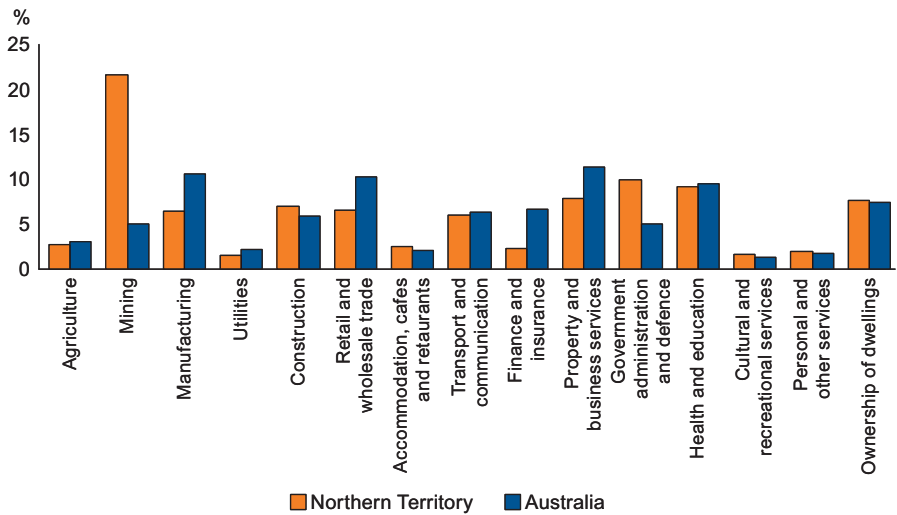
- » The Northern Territory economy is markedly different to other Australian jurisdictions. It has an abundance of natural resources, a large public sector and a significant defence presence.
- » The Territory economy is highly influenced by global economic conditions due to its relatively small size 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.

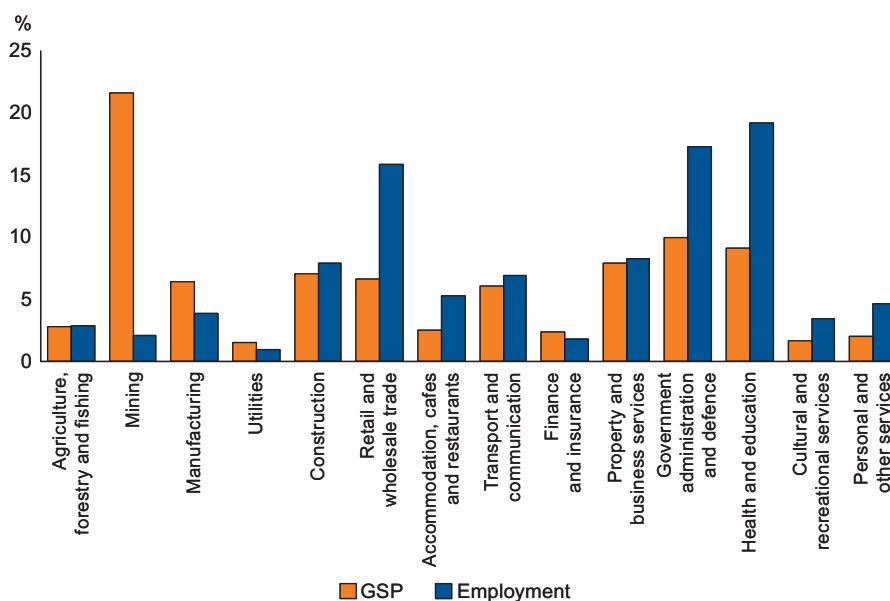
Table 1.1: Industry Proportions of GSP and GDP, 2005-06

	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).

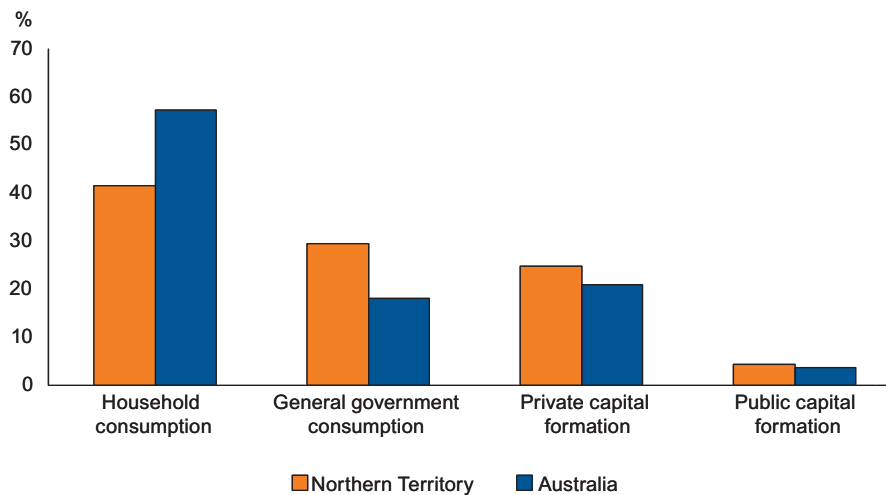
### Consumption

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)

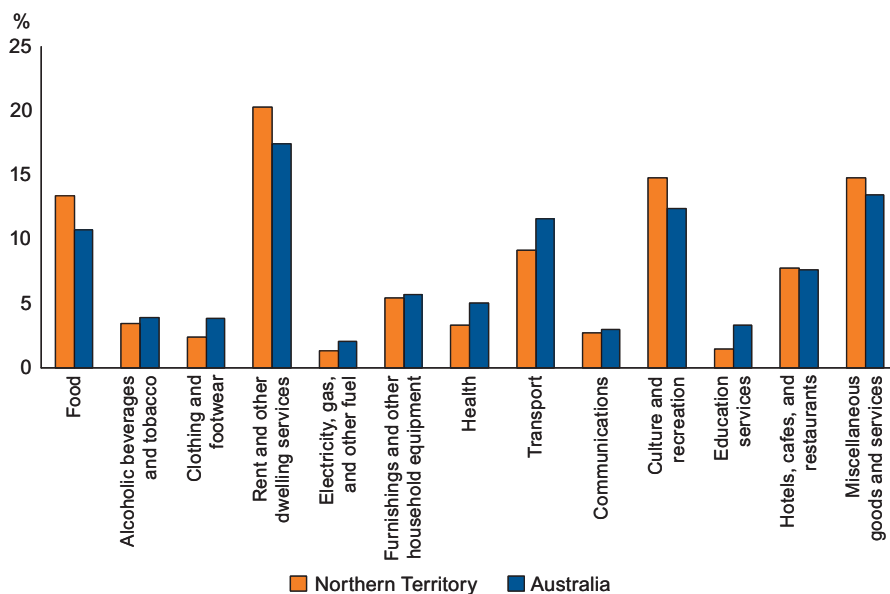


Source: ABS Cat. No. 5220.0

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

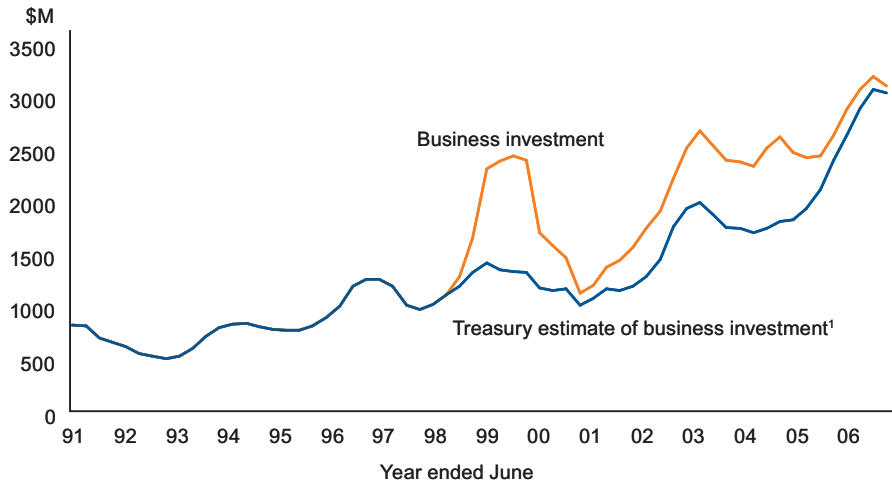
Lower proportional expenditure on clothing is presumably due to climate, while lower transport expenditure may reflect shorter commuting distances for urban-dwelling Territorians. Lower expenditure on electricity, gas and other fuels reflects subsidies provided by the Northern Territory Government and 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