

Chapter 7 The Territory Economy

The Northern Territory economy reports amongst the highest economic growth rates of the Australian jurisdictions over the past three years. Economic activity in the Territory continues to be dominated by mineral and energy production, construction activity, tourism and the public sector.

The small size of the Territory economy means that large, typically resource-based, projects can have a substantial impact on investment and production, 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.

This chapter outlines the economic growth outlook for the Territory for 2007-08 and 2008-09. A more detailed analysis of the Territory economy is included in the 2008-09 *Northern Territory Economy* Budget-related paper.

The Economy in 2007-08

In 2007-08, Territory state final demand (SFD) is estimated to increase by 2.1 per cent, driven by very strong levels of total consumption expenditure which more than offset the significant decline in total investment expenditure associated with the completion of the Wickham Point liquefied natural gas (LNG) plant and Alcan alumina refinery mega projects.

Household consumption expenditure is estimated to grow by 6.4 per cent in 2007-08, supported by strong employment and population growth and high levels of consumer confidence.

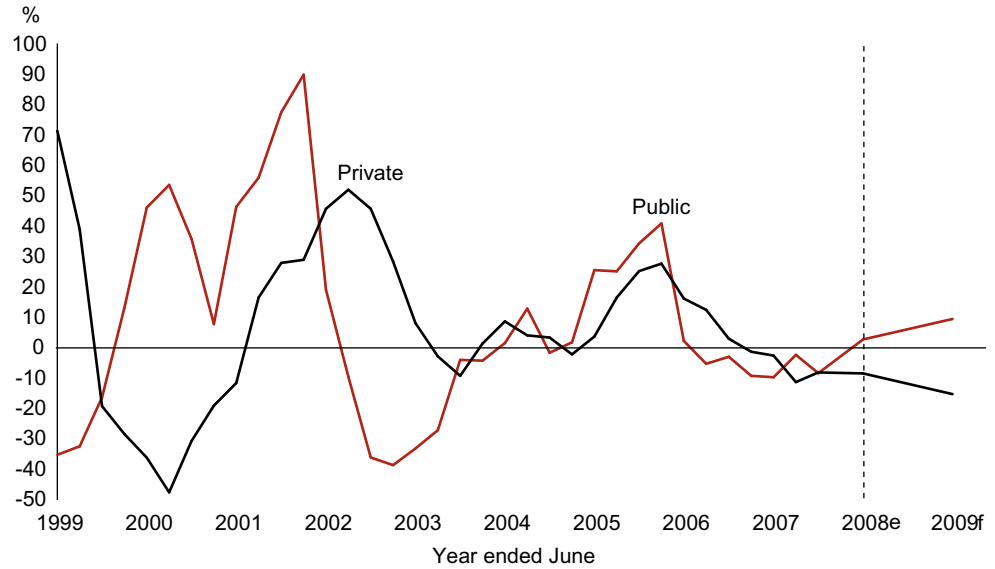
Business investment is estimated to decline by 9.2 per cent in 2007-08, reflecting significant declines in engineering construction activity associated with major projects and despite increased machinery and equipment investment by several key mining operations.

In addition, the level of dwellings investment is estimated to decline by 3.3 per cent in 2007-08, as housing affordability and interest rates dampen activity.

The level of public consumption expenditure reflects the significance of spending on both Closing the Gap and the Northern Territory Emergency Response in 2007-08. Public investment in 2007-08 is being supported by upgrades to the road network, including commencement of stage 1 of the Tiger Brennan Drive extension, and the ongoing delivery of the Middle Years schooling program, as well as continued development of the Desert Knowledge Precinct in Alice Springs.

Chart 7.1 shows the relative growth rates of private and public investment in the Territory. Both exhibit substantial volatility, with private investment in particular impacted by major resource projects. The most recent cycle of private investment peaked in early 2006, and has been declining since, reflecting the completion of both the Wickham Point LNG plant, and the Alcan refinery expansion. The estimated and forecast growth in public investment reflects defence expenditure and initiatives for Closing the Gap and the Emergency Response, as well as the Government's capital works program including expenditure on roads, schools and other social infrastructure.

Chart 7.1: Private and Public Investment (year on year percentage change)

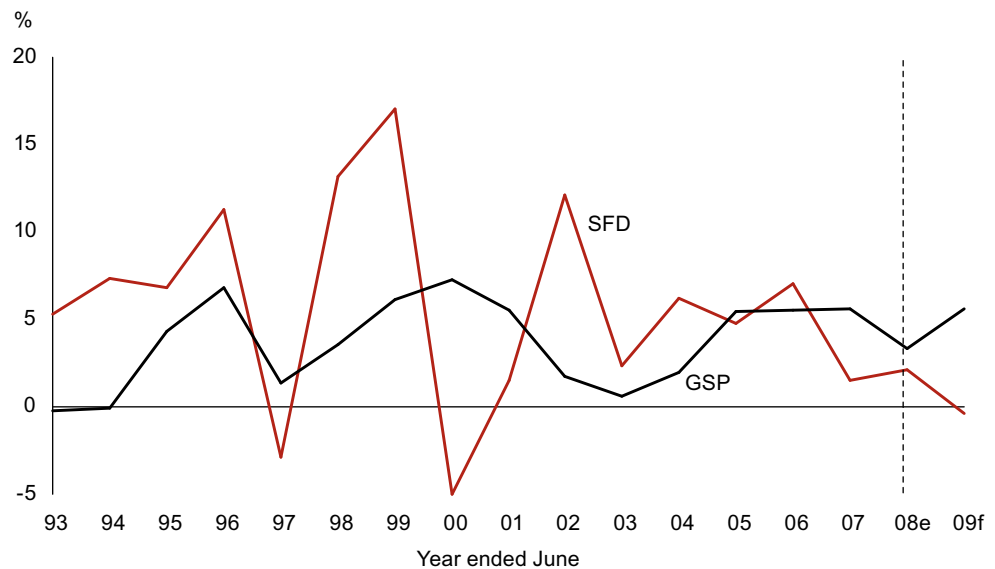


e: estimate; f: forecast
 Source: ABS Cat. No. 5206.0; Northern Territory Treasury

Gross State Product

Following an increase of 5.6 per cent in 2006-07, Territory gross state product (GSP) is estimated to increase by 2.8 per cent in 2007-08 (see Chart 7.2). The more modest growth rate compared to 2006-07 is due to lower net exports and lower investment associated with the completion of mega projects. The negative contribution of net exports to growth in 2007-08 reflects the impact of scheduled maintenance shut-downs at the Wickham Point LNG plant and associated gas fields, as well as the temporary closure of the Corallina oilfield and the permanent closure of the Elang Kakatua oilfield. In addition, total private investment expenditure is estimated to decline by 8.5 per cent in 2007-08, reflecting the completion of major works on the Alcan refinery expansion, and despite increases in machinery and equipment expenditure by many mine operators.

Chart 7.2: Territory SFD and GSP (real, year on year change)

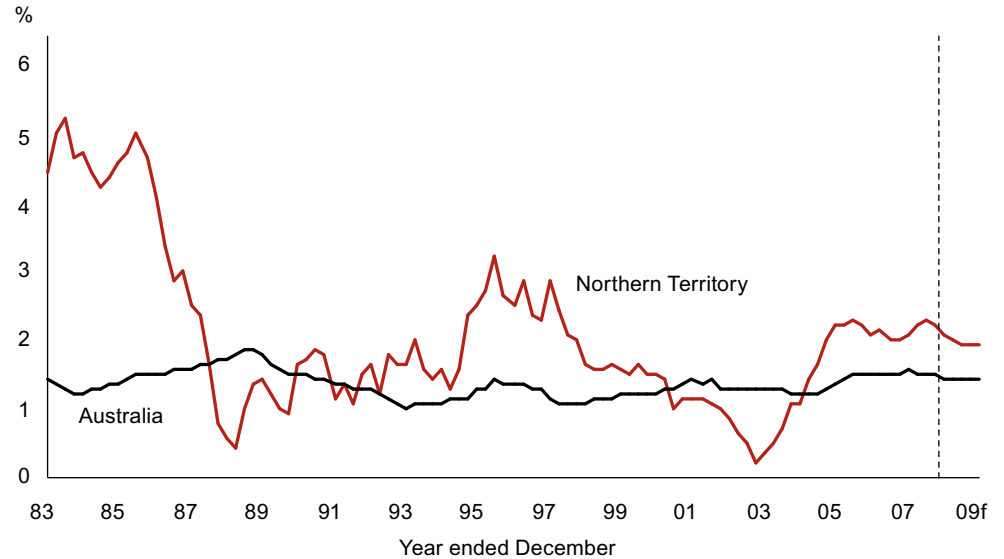


e: estimate; f: forecast
 Source: ABS Cat. No. 5206.0, 5220.0; Northern Territory Treasury

Population

Population growth is estimated at 2.2 per cent in 2007, up from the reported growth rate of 2.0 per cent in 2006 (see Chart 7.3). Construction of the Darwin Waterfront is currently providing good employment opportunities and the associated construction of hotels, residential apartments and retail complexes will continue for several years. In addition, the new suburb of Lyons is well under way. Construction of the Blacktip gas project will provide good employment opportunities during 2008-09.

Chart 7.3: Territory and National Population Growth Rates (annual percentage change)



f: forecast

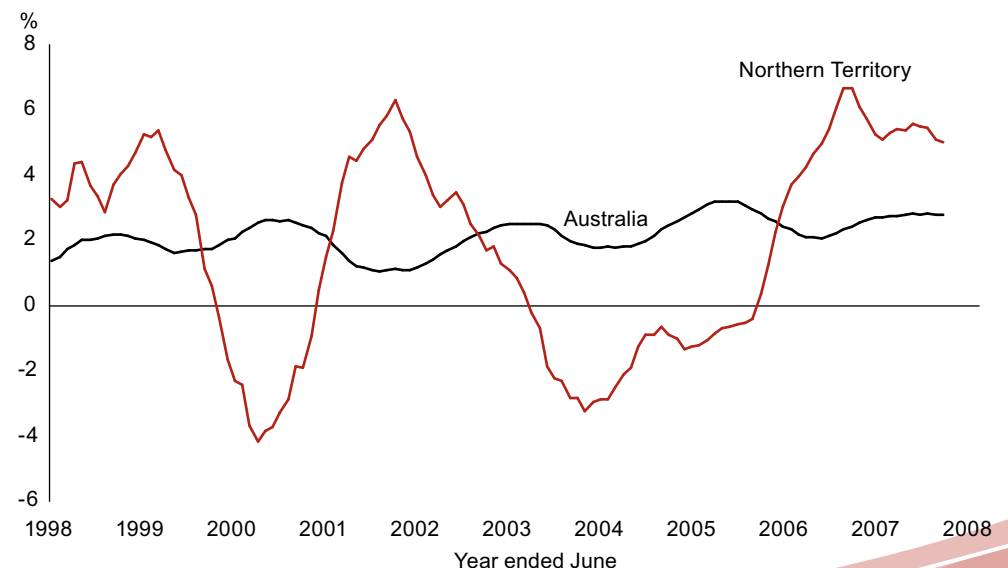
Source: ABS Cat. No. 3101.0; Northern Territory Treasury

Labour Force

The Territory labour market continues its strong performance in 2007-08, with estimated resident employment growth of 4.8 per cent and an estimated average unemployment rate of 4.5 per cent (up from 3.8 per cent in 2006-07) as strong employment conditions prevail, encouraging greater numbers of job seekers into the labour market. Related indicators such as the Sensis Business Index, the ANZ job advertisements series and the Department of Education, Employment and Workplace Relations skilled vacancy survey, point to strong employment growth and a shortage of skilled labour.

Chart 7.4 shows employment growth in the Territory, which can be highly volatile, influenced by both the relatively small sample size on which estimates are based, and the demographic composition of the Territory's population.

Chart 7.4: Employment Growth, Australia versus Northern Territory (year on year percentage change)



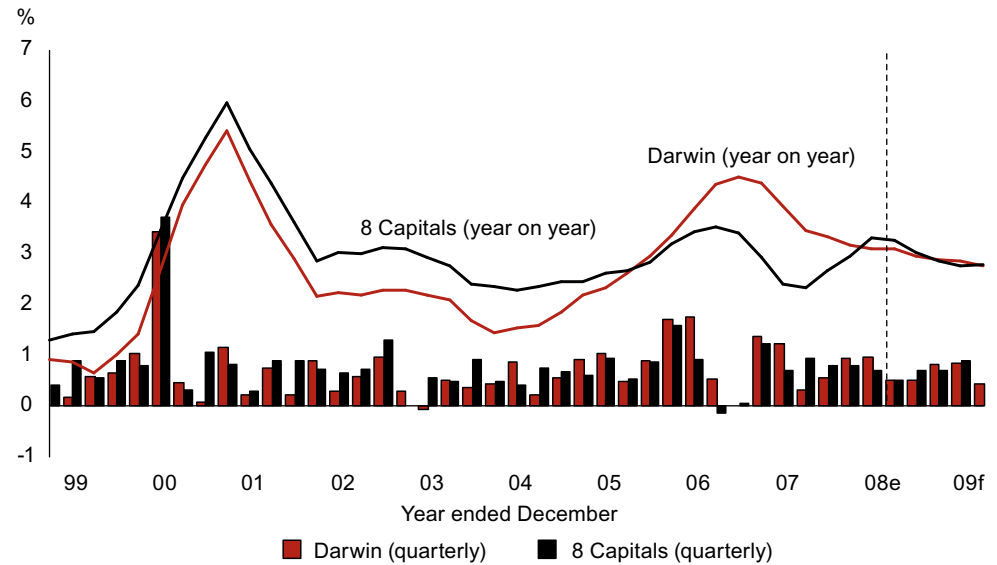
Source: ABS Cat. No. 6202.0

Prices

Darwin's consumer price index (CPI) is estimated to increase by 3.1 per cent in 2008, a moderation from the 3.4 per cent increase reported for 2007. The 2007 result was the highest of the capital cities, and compares with the 2.3 per cent increase recorded nationally. The relatively high Darwin CPI figure for 2007 was driven by the significant increase in Darwin house prices, as well as increases in fuel costs and financial and insurance services (reflecting the impact of higher interest rates and insurance premiums). The expected moderation in Darwin house prices over 2008 will offset some of the expected fuel and freight cost increases, so that the Darwin inflation rate is estimated to moderate.

Chart 7.5 reports the Darwin CPI relative to the eight capital city Australian average. In recent years, the Darwin CPI has tracked above the national inflation rate, mainly reflecting higher housing costs.

Chart 7.5: Darwin versus Australia CPI (year on year percentage change)



e: estimate; f: forecast
 Source: ABS Cat. No. 6401.0

Wages

Solid wages growth in 2007, both in the Territory and nationally, reflects tight labour market conditions and skilled labour shortages throughout the year. In the year to December 2007, the Territory Wage Price Index (WPI) increased by 3.9 per cent, compared to 4.1 per cent nationally. This reflects a consolidation of wages growth in the Territory, with growth in 2007 equal to the reported growth in 2006. Private sector wages in the Territory increased by 4.8 per cent in 2007 compared to 2.7 per cent for the public sector. The lower wages growth reported for the public sector reflects the timing of negotiations for enterprise bargaining agreements across the public sector.

Outlook for 2008-09 and Beyond

Gross State Product

Economic growth is forecast to strengthen to 6.6 per cent in 2008-09, as the contribution from exports increases substantially, with full recovery from the temporary closures of both the Wickham Point LNG plant and the Corallina oilfield, as well as significantly higher oil production from the Puffin field.

Other contributors to the higher level of mineral and energy production in 2008-09 will be significant increases in lead-zinc production with the completion of the conversion to open cut operations at McArthur River, further increases in the production of alumina from Alcan, and iron ore from the Frances Creek mine. The contribution of manganese production is also forecast to increase very substantially in 2008-09, on the back of significant price increases.

Table 7.1 shows growth in key economic indicators reported from 2003-04 through to 2008-09.

Table 7.1: Growth in Key Territory Indicators, 2003-04 to 2008-09

	2003-04	2004-05	2005-06	2006-07	2007-08e	2008-09f
	%	%	%	%	%	%
Real GSP	2.0	5.5	5.5	5.6	2.8	6.6
Resident Employment	- 2.9	- 1.3	3.0	5.3	4.8	2.5
Population ¹	0.7	1.6	2.3	2.0	2.2	1.9
Darwin CPI ²	2.1	1.6	2.6	4.4	3.4 ³	3.1

e: estimate; f: forecast

¹ As at December, annual percentage change

² As at December, year on year percentage change

³ Actual Darwin CPI 2007

State Final Demand

Territory SFD is forecast to decrease by 0.4 per cent in 2008-09, due to the continued significant decline in total investment expenditure as major projects are completed. In addition, growth of both household and public sector consumption expenditure is forecast to moderate in 2008-09. The more modest contribution of total consumption expenditure in 2008-09 is not sufficient to offset the decline in total investment expenditure, resulting in the forecast decrease in SFD.

Population

Population growth is forecast to moderate to 1.9 per cent in 2008, with net interstate migration returning towards longer run averages due to the completion of some major employment generating projects.

Labour Force

Resident employment growth of 2.5 per cent is forecast for 2008-09, underpinned by residential construction and work on resource projects and continued migration and tourism growth. The more modest growth rate forecast for 2008-09 is in line with the forecast moderation in SFD growth over the same period.

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.

Prices and Wages

Inflation in the Territory is expected to continue to moderate in 2009, returning to the Reserve Bank of Australia's (RBA) target band of 2 to 3 per cent. Darwin CPI growth of 2.8 per cent is forecast for 2009.

The continued softening of inflationary pressures in 2009 is attributed to higher interest rates dampening house price growth further, and lower crude oil prices relative to 2008. This softening in the Darwin CPI is expected to be partially offset by continued skilled labour shortages and the prevailing tightness of the labour market, as well as the possible depreciation in the Australian dollar (in line with the anticipated strengthening of the United States dollar in 2009) which could lead to inflationary pressure in the economy, particularly in the manufacturing and tourism sectors.

Wages growth in the Territory is expected to strengthen in 2008 as outcomes of the finalised enterprise bargaining agreements lead to stronger public sector wages. In addition, ongoing skilled labour shortages and a tight labour market are expected to lead to growth in the Territory's wage price index (WPI), averaging around 4.0 per cent over the year.

Future Potential

With many projects in the pipeline and in the evaluation phase, the economic base of the Territory is expected to expand significantly over the next decade. Many of these projects are in the mining and energy industry with supporting activity in the construction, manufacturing and transport industries.

There is potential for construction of Train Two of the Wickham Point LNG plant to begin in the next one to two years if development of the Greater Sunrise gas field in the Timor Sea proceeds, with exports around four years later.

In February 2008, the Territory Government signed a project facilitation agreement with Japanese oil and gas company Inpex to evaluate the possibility of constructing an LNG plant at the Middle Arm Peninsula, near Darwin.

Nexus Energy is proposing to undertake a US\$1 billion development at the Crux liquids and gas field located 700 kilometres northwest of Darwin. A final investment decision is expected in 2008, with the potential for first liquids production from 2010.

Production of oil from the Montara project, from the Montara, Skua and Swift/Swallow oilfields in the Timor Sea, is due in 2009.

Compass Resources is currently undertaking a feasibility study of its proposed \$750 million Browns Sulphide project near Batchelor. A number of production scenarios are currently being examined, with the potential for production to commence in 2010 or 2011.

Arafura Resources is currently assessing the feasibility of developing the Nolans rare earths-phosphate-uranium deposit located about 135 kilometres north of Alice Springs with the ore freighted to Darwin by train, where it would be processed at a \$300 million plant.

The Adelaide to Darwin railway will continue to grow in importance as a means of transporting bulk ore to the Port of Darwin for export. Oxiana has announced plans to freight copper-gold concentrate by rail from its Prominent Hill mine in South Australia to the Port of Darwin, commencing in 2008.

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.

In Alice Springs, a \$41.7 million power station (including transmission lines) is expected to commence construction at Brewer Estate by the end of 2008.

Construction continues at the Darwin Waterfront, with the addition of residential apartments, retail outlets and a hotel.

The construction of a \$33 million backpacker resort in Alice Springs will begin in 2008-09.

A new \$50 million shopping centre is being planned for Bakewell, Palmerston. The centre will incorporate a Woolworths supermarket and Big W store, and will be constructed in 2008-09, pending development approval.

Northern Territory Airports is planning to build a \$100 million home and lifestyle centre at the airport's business park in Darwin.

Over the next four years, the Commonwealth and Territory governments have committed to a jointly funded major program for Indigenous housing in Territory communities. The Strategic Indigenous Housing and Infrastructure Program (SIHIP) has an anticipated total value of \$647 million, with \$547 million provided by the Commonwealth and \$100 million by the Territory Government.

Jetstar is examining plans to develop a hub in Darwin, which would require further infrastructure development at Darwin International Airport, and could result in up to 300 ongoing additional jobs.