

# Chapter 1 Structure of the Economy

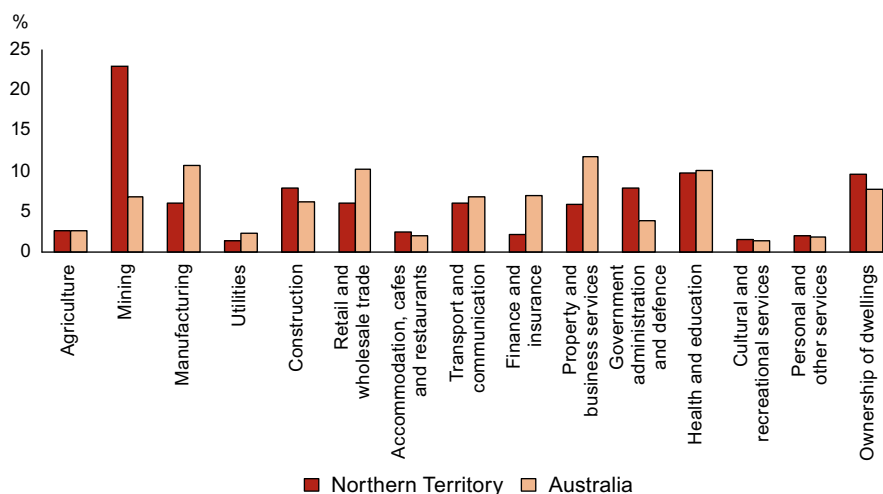
## Key Points

- » 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 significantly increased with the Alcan G3 refinery expansion, completed in 2007.
- » A relatively large mineral and energy industry means that the Territory economy is capable of high growth as resources are developed.

Territory gross state product (GSP), at about \$13.4 billion, accounts for about 1.3 per cent of national gross domestic product (GDP). Key activities in the Territory economy include mining, defence, alumina production, liquefied natural gas (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 industry 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 refinery expansion increases alumina production levels from 1.7 million tonnes per annum in 2006-07 to 3.5 million tonnes by 2008-09. International exports of goods and services from the Territory are an important source of demand, averaging around 40 per cent of Territory GSP for most of the past decade compared to 21 per cent nationally.

Chart 1.1: Industry Proportion of GSP and GDP, 2002-03 to 2006-07 (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 24.5 per cent of GSP in 2006-07, more than three times the national figure of 7.0 per cent (Table 1.1). The Territory's figure is significantly influenced by activity associated with a few major resource projects, namely the Laminaria-Corallina oilfield 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 relatively 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 the mining boom fuels construction. In the Territory in 2006-07, engineering construction comprised 69 per cent of total construction, while residential building comprised 17 per cent and non-residential comprised 14 per cent.

The contribution of the manufacturing industry is significantly lower in the Territory than in most other jurisdictions, but has increased as production from the completed Wickham Point LNG plant reached full capacity in 2006-07 and the completed Alcan G3 expansion increases alumina production. Production of both LNG and alumina is attributed to the manufacturing industry.

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 65 per cent. However, in employment terms, the Territory has a high proportion of people employed in the service industries, representing 91 per cent of employment compared to 85 per cent nationally. Part of the percentage increase in service industry employment is attributable to the decrease in the number of workers in capital intensive industries, such as mining and communication. This would have the effect of increasing labour-intensive industries' percentage share of total employment, which predominantly consist of service-related industries.

Table 1.1: Industry Proportions of GSP and GDP, 2006-07

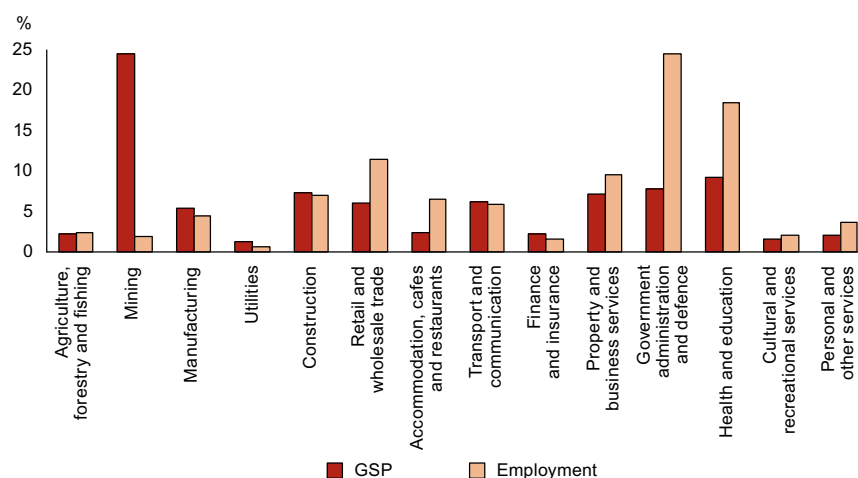
	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
Agriculture, forestry and fishing	1.3	2.3	2.8	3.4	2.1	5.4	2.2	0.1	2.1
Mining	2.3	2.0	7.9	3.9	28.6	2.7	24.5	0.0	7.0
Manufacturing	10.0	12.5	9.3	13.2	7.3	13.8	5.4	1.6	10.2
Electricity, gas and water	1.9	2.4	1.9	2.8	2.4	4.6	1.2	2.2	2.2
Construction	6.2	6.1	8.5	6.2	7.3	5.3	7.3	7.0	6.7
Wholesale trade	4.9	5.5	4.6	4.0	3.5	3.5	2.0	1.8	4.6
Retail trade	5.5	5.5	7.0	5.9	4.7	6.7	4.1	4.5	5.7
Accommodation, cafes and restaurants	2.3	1.6	2.7	2.2	1.2	2.4	2.5	1.9	2.1
Transport and storage	4.2	4.5	5.6	4.3	5.1	4.8	4.1	1.9	4.6
Communication services	2.6	3.2	2.3	2.3	1.9	2.2	2.0	2.4	2.5
Finance and insurance	10.2	8.0	5.2	6.2	3.5	5.7	2.2	3.4	7.3
Property and business services	14.3	13.1	9.3	9.4	9.1	5.8	7.2	12.5	11.8
Government administration and defence	3.7	2.6	4.3	3.5	2.4	5.6	7.8	28.7	4.0
Education	4.1	4.6	4.3	4.8	2.8	5.1	4.0	5.3	4.2
Health and community services	5.7	6.0	5.7	7.2	4.7	8.6	5.3	5.6	5.8
Cultural and recreational services	1.6	1.6	1.2	1.5	1.0	1.6	1.5	2.7	1.5
Personal and other services	1.8	1.7	2.1	2.2	1.6	2.2	2.1	2.6	1.8
Ownership of dwellings	8.7	7.7	7.9	8.3	5.7	6.9	9.5	8.3	7.8
Taxes less subsidies	8.8	9.2	7.5	8.9	5.2	7.2	5.1	7.5	8.1
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

## Employment by Industry

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 government administration and defence industry is the largest employer in the Territory, comprising 24.5 per cent of total Territory employment, followed by the health and education industry at 18.4 per cent. The retail and wholesale trade industry is also a relatively large employer in the Territory.

Chart 1.2: Territory Employment and GSP Proportions, 2006-07



Source: ABS Cat. No. 5220.0, Census 2006

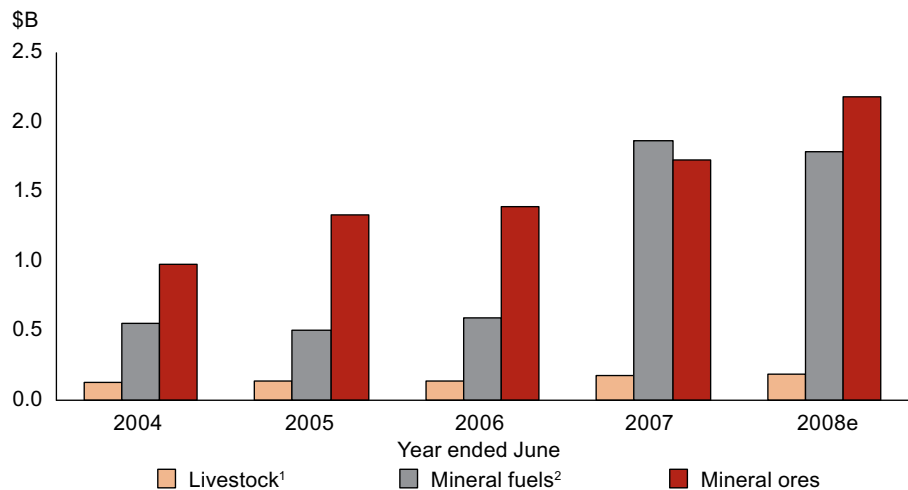
Since the 1996 Census, the number of people employed in both the mining and communication industries, as reported in the 2006 Census, has fallen more than 40 per cent. These decreases may be attributed to the changing technologies in the industries, whereby these industries have become more capital intensive. The

number of people employed in government administration and defence and the education industry has increased significantly since the 1996 Census, at 35 per cent and 20 per cent respectively. The increase in government administration and defence employment may be the result of the relocation of significant numbers of defence personnel to the Territory in the mid to late 1990s, and the increased provision of services by the government industry.

### Export Propensity

In 2006-07, international trade exports of goods and services accounted for 35 per cent of Territory GSP, an increase on the previous two years and higher than the national figure of 20 per cent, mainly due to LNG production at Wickham Point and alumina production from the Alcan G3 refinery expansion. Over the past five years, the composition of Territory exports has changed, with mineral fuel and ore exports increasing substantially, while exports of livestock have remained relatively stable (Chart 1.3). LNG exports have contributed significantly to the increase in mineral fuel exports, accounting for about 65 per cent of the total over the past year, while a number of mining projects have contributed to the increased mineral ore exports, namely the completed Alcan G3 expansion boosting alumina exports.

Chart 1.3: Composition of Territory Merchandise Exports



e: estimate  
 1 Predominantly live cattle exports  
 2 Predominantly LNG exports  
 Source: ABS Cat. No. 5368.0

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 the Territory's state final demand (SFD).

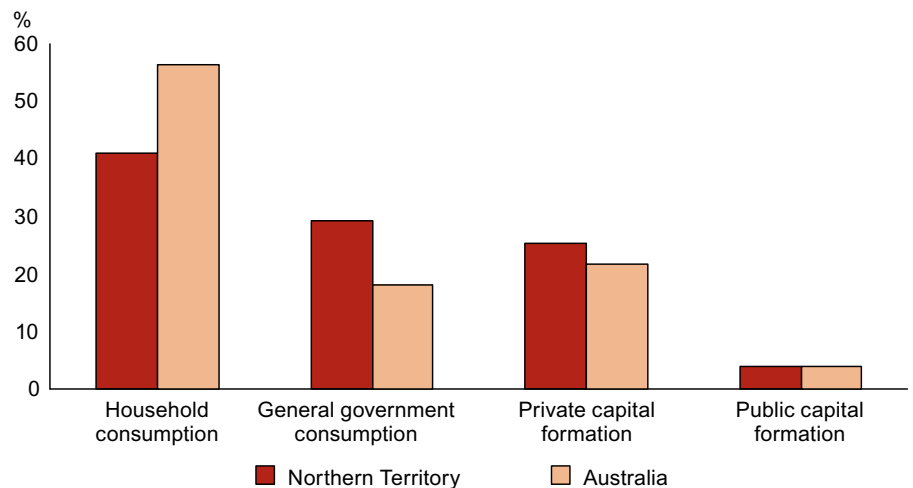
## Consumption

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 1.4). This reflects the relatively large presence of government administration and defence in the Territory compared to other jurisdictions.

## Capital Formation

Private capital formation in the Territory accounted for 25.4 per cent of final demand, a marginally higher share compared to the national figure of 21.8 per cent. This reflects the work on major projects over the five years to 2006-07 in the Territory, contributing a large proportion to Territory SFD. However, the contribution of private capital formation in the Territory may decline in coming years with the completion of the LNG plant at Wickham Point and the Alcan G3 refinery expansion at Gove. Public capital formation is similar in the Territory and nationally.

Chart 1.4: Proportion of SFD, 2002-03 to 2006-07 (five year average)



Source: ABS Cat. No. 5220.0

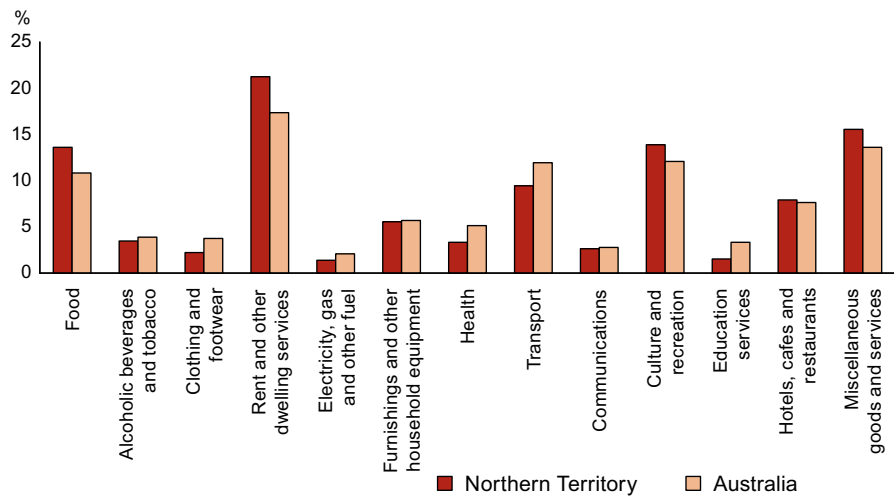
## Household Consumption Patterns

Patterns of household consumption are somewhat different in the Territory compared to nationally (Chart 1.5). 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 2006-07, when the Darwin Consumer Price Index (CPI) reported the highest increases on record for house purchases and the highest increase in rents in 19 years. 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 expenditure, which is a key component of the Territory economy.

Chart 1.5: Household Final Consumption Expenditure, 2006-07



Source: ABS Cat. No. 5220.0

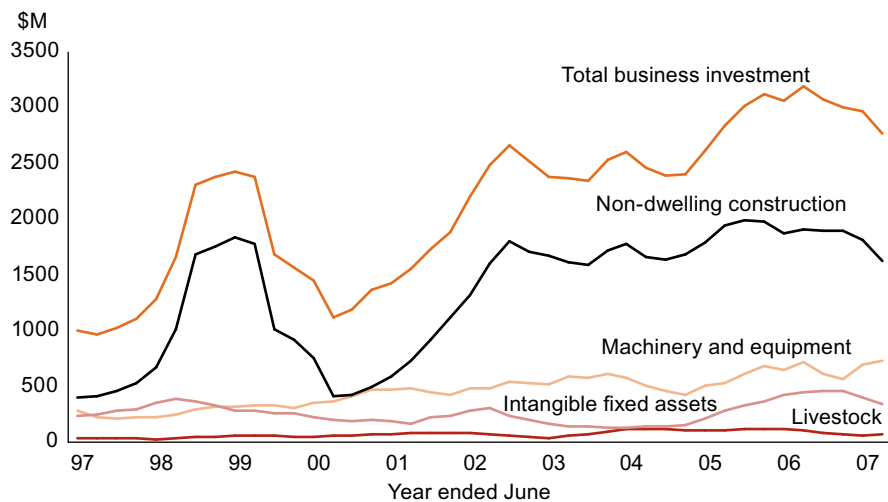
Lower proportional expenditure on clothing is presumably due to the warmer climate in Darwin, while lower transport expenditure may reflect shorter commuting distances for urban-dwelling Territorians. Lower expenditure on electricity, gas and other fuels reflects subsidies provided by the Northern Territory 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 industry business investment in the Territory has increased steadily from 12 per cent of SFD in 1995-96 to 20 per cent in 2006-07. Private investment in the Territory is extremely volatile, as the timing of investment for major resource projects such as the Alcan G3 refinery expansion continued to have an impact on business investment in 2006-07. Non-dwelling construction is the main driver of total business investment in the Territory and is primarily made up of new engineering construction. In 2006-07, the machinery and equipment component of business investment reported strong growth, while all other components reported decreases (Chart 1.6).

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 industry investment in coming years, as will ongoing work on major projects such as the Darwin Waterfront.

Chart 1.6: Business Investment Components, 2006-07



Source: ABS Cat. No. 5206.0