Chapter 5 Prices and Wages

Key Points

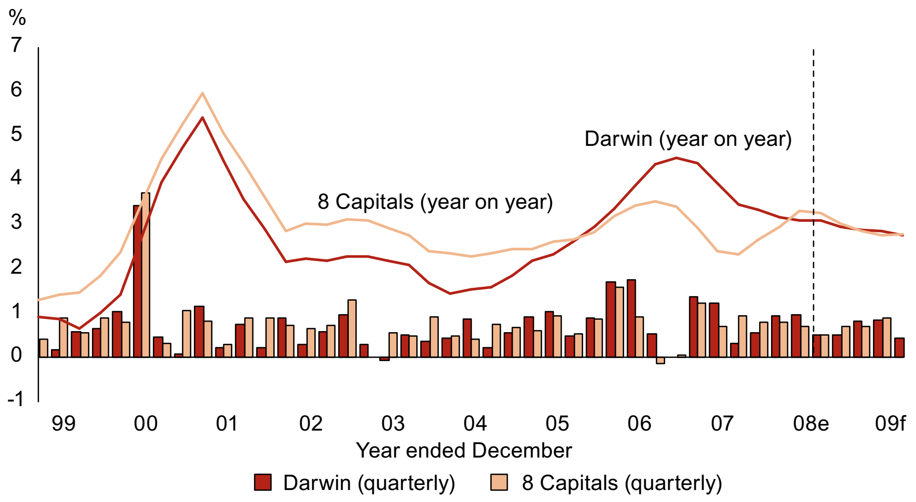
- Darwin's CPI increased 2.9 per cent in annual terms in 2007, and 3.4 per cent in year-on-year terms.
- Strong wages growth over the two years to 2007, in the Territory and nationally, reflects a tight labour market with skilled labour shortages especially in construction, mining and health.
- In 2007, the WPI increased by 3.9 per cent compared to 4.2 per cent nationally.
- Ongoing shortages of skilled labour are expected to flow through to growth in the Territory's WPI in 2008-09.
- Growth in Territory Government wages is expected to be consistent with wages policy balancing the need to attract and retain staff within budget constraints.
- Some inflationary pressures are expected in the Territory in 2008, largely reflecting continued growth in rents, fuel costs and food prices.
- Six interest rate rises in the 18 months to March 2008 increased the Australian cash rate to 7.25 per cent, the highest rate since 1994, with possible further rises in 2008.

Prices and wages determine purchasing power. Any increase in prices relative to wages may affect purchasing power and influence the standard of living. The Consumer Price Index (CPI) is one indicator by which the standard of living can be assessed.

Consumer Price Index

In annual terms, Darwin's CPI increased by 2.9 per cent in 2007 compared to a 3.0 per cent increase nationally. In more stable year-on-year terms, the Darwin CPI increased by 3.4 per cent in 2007, down from 4.4 per cent in 2006. Higher fuel, housing and rent prices over 2007 were the primary drivers of inflation. Darwin, Perth and Brisbane have consistently reported amongst the highest annual inflation rates of the capital cities over the past three years. This reflects the stronger economic and population growth rates in the Territory, Western Australia and Queensland 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 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
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
2007	157.1	160.1	2.9	3.0	3.4	2.3
2008e	161.8	164.6	3.0	2.8	3.1	3.3
2009f	166.0	169.5	2.6	2.9	2.8	2.8
Compound Annual Growth %						
1997 to 2007	2.7	2.9				
2002 to 2007	2.9	2.8				

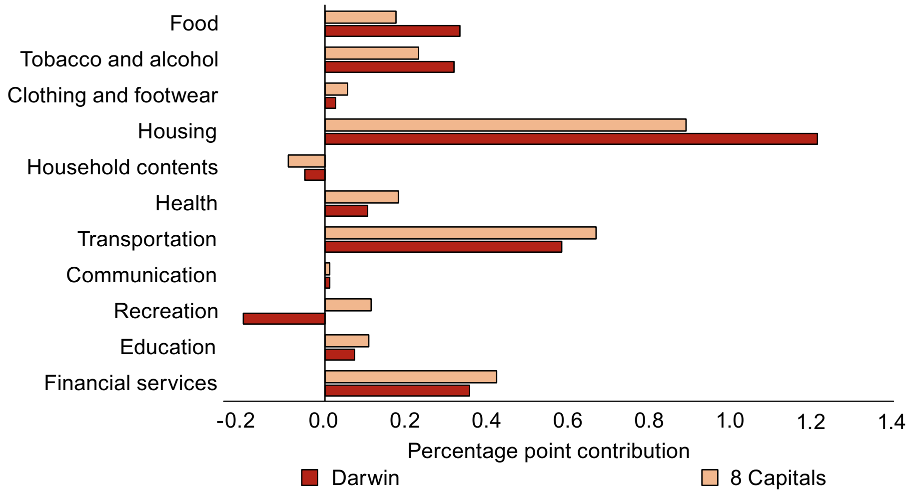
Source: Northern Territory Treasury, ABS Cat. No. 6401.0

Components

The largest contributing factor to Darwin's annual consumer inflation rate in 2007 was rising housing costs. The Australian Bureau of Statistics (ABS) House Price Index reported established house price growth of 13 per cent in Darwin in 2007. House purchases, repairs and maintenance, rent, utilities and property rates and charges contributed 1.3 percentage points to the 2.9 per cent annual inflation rate. Around 50 per cent of this increase was attributable to the house purchase category, reflecting the robust increase in Darwin median house prices through the year. Around 33 per cent was attributable to rising rents, fuelled by strong population growth and low residential vacancy rates. Increased prices for the transportation category of the CPI were the second largest component of the annual Darwin inflation rate, contributing 0.62 percentage points. This reflects the increased prices for crude oil and automotive fuels. The financial and insurance services category was the third largest contributor to annual inflation in Darwin, contributing 0.38 percentage points. Increased interest rates accounted for the majority of the upward movement in this category.

Recreation made a small negative contribution to CPI growth in the Territory in 2007, subtracting 0.22 percentage points. This decrease was due mainly to lower prices for holiday travel and accommodation bookings in the Territory.

Chart 5.2: Annual Percentage Point Contribution to Change in Darwin and National CPI, 2007



Source: ABS Cat. No. 6401.0

CPI 2008 and 2009

Darwin's annual CPI growth is expected to increase by 3.0 per cent in 2008 compared with 2.9 per cent in 2007. In more stable year-on-year terms, CPI growth in the Territory is forecast to moderate to 3.1 per cent in 2008 and to further moderate to 2.8 per cent in 2009. Higher prices for crude oil are expected to continue in 2008 due to international demand, flowing through to higher petrol and food prices with increased transportation costs. Although contributing to CPI growth, these components are expected to be offset by more substantial decreases in the housing market. In addition, the strong value of the Australian dollar will continue to exert downward pressure on the prices of imported goods and import competing goods.

House purchases, which contributed the highest percentage to the inflation rate in 2006 and 2007, are expected to moderate in 2008, with affordability restricting many people from entering the housing market. Interest rate rises by the Reserve Bank of Australia (RBA) and major banks are set to impact on household budgets, reducing the amount of money available for discretionary expenditure. The impact of contractionary monetary policy will be felt in both 2008 and 2009, dampening consumer demand and price pressures.

Underlying Inflation and Interest Rates

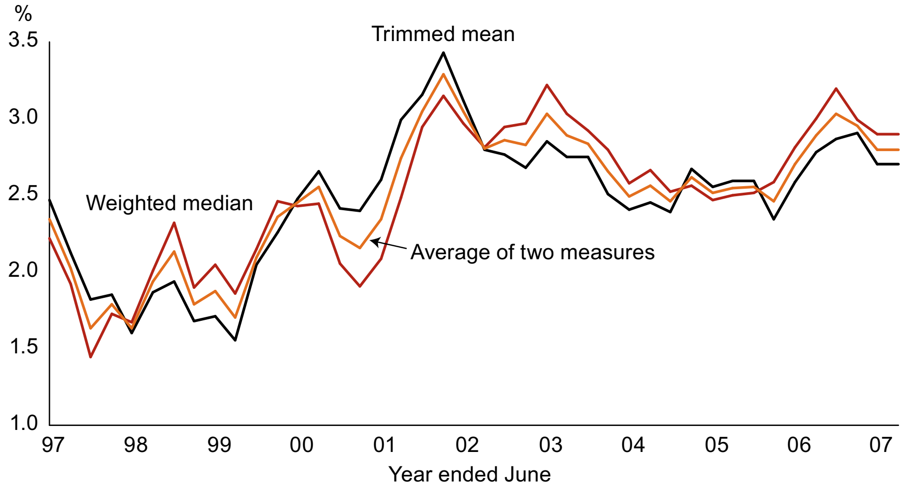
Despite two interest rate increases in 2007 (0.25 percentage points in both August and November 2007), Australian household confidence levels remained buoyant. This was reflected in retail sales data in the Territory and nationally, suggesting households quickly adjusted spending patterns to accommodate the interest rate rises. 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 and Commonwealth tax cuts in the middle of 2007 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 RBA has two preferred measures, the trimmed mean and weighted median. The trimmed mean measure ranks all the price changes in the CPI from the largest rise to the largest fall, then trims off the upper and lower 15 per cent, leaving only the middle

70 per cent of price changes. The weighted median measure ranks all price changes, then takes as the inflation rate the price increase of the median or 50th percentile.

In annual terms, the trimmed mean and weighted median (the RBA does not specify a preference for either method as the benchmark for underlying inflation) increased strongly to around 3.0 per cent by the first quarter of 2007, and was a significant factor behind the decision to raise interest rates by a total of 0.5 percentage points over the year. Growth in both CPI measures remained high in the December quarter 2007, prompting the RBA to increase the cash rate 0.25 percentage points in February 2008 and a further 0.25 percentage points in March 2008. This primarily reflects tight labour markets and ongoing skilled labour shortages across Australia. Constraints on growth are not likely to moderate significantly over 2008 and may flow through to increased inflationary pressure on wages nationally. This has the potential to see growth in underlying inflation above 3 per cent, placing pressure on the RBA to further increase rates in the second half of 2008.

Chart 5.3: RBA, Underlying Measures of Inflation (annual 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 2007. This update suggests that the gap between Darwin and Perth has narrowed to 0.5 per cent, and that Darwin's cost of living is around 1.5 per cent lower than Sydney's. Prices growth in Sydney and Perth relative to Darwin is higher for all categories of the CPI except for housing, clothing and footwear, tobacco and alcohol.

Fuel Prices

Crude Oil

Crude oil prices rose steadily in 2007 from $US59 a barrel in January 2007 to a record high of around US$96 a barrel in December 2007 (as measured by the Tapis benchmark). Over 2007, the main drivers of the increases in oil prices have been strong global economic growth, particularly in China, moderate supply growth by non-Organisation of the Petroleum Exporting Countries (OPEC), tightness in global refining inventories and worldwide refining bottlenecks. In addition, ongoing geopolitical tensions in the Middle East have put pressure on crude oil supplies in recent months. The strong value of the Australian dollar against the US dollar has mitigated some of the effects of rising oil prices.

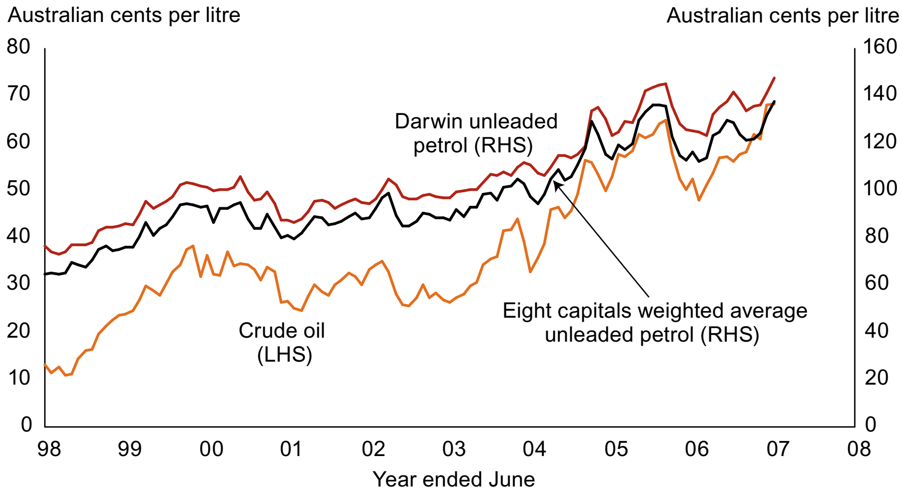
The outlook for 2008 is for crude oil to continue trading at high price levels. In March 2008, the price of New York crude struck a new record high of $US110 a barrel. Another major factor supporting high prices was the dispute between oil-rich Venezuela and US energy giant ExxonMobil, the world's biggest oil company. ExxonMobil has taken court orders in New York, London and the Netherlands, freezing $US12 billion worth of assets in those jurisdictions from Venezuela's state-owned oil producer PDVSA.

The legal battle relates to ExxonMobil's bid to secure compensation after Venezuela's government nationalised key oilfields in the Orinoco basin, including two ExxonMobil operations. World oil traders also hold concerns over possible further unrest in Nigeria, Africa's biggest crude oil producer.

Retail Fuel Prices

Retail fuel prices in Darwin and regional centres across the Territory are consistently higher than in locations elsewhere in Australia and are a direct consequence of the small size and 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.

Chart 5.4: Unleaded Retail Petrol and Crude Oil Prices



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

In 2007, average unleaded petrol prices increased significantly across the Territory, reaching record highs in December 2007 (Table 5.2). This was consistent with the movement in prices observed nationally, which rose steadily through the year as the price of crude oil increased.

The Australian Automobile Association (AAA) reports that in 2007, within the Territory, Tennant Creek consistently had the highest fuel prices of the regional centres, reflecting its distance from refineries and low volume turnover (the AAA does not report data for Nhulunbuy). Katherine had the lowest automotive fuel prices in the Territory, reflecting the highly competitive nature of retail outlets in the town.

Table 5.2: Unleaded Retail Petrol and Crude Oil Prices

Retail petrol price (cpl)	December 06	December 07	Annual % Change
Darwin	125.0	147.4	17.9
Alice Springs	125.7	152.5	21.3
Katherine	125.2	142.5	13.8
Tennant Creek	129.7	157.9	21.7
8 Capitals weighted average	116.5	137.6	18.1
Tapis Crude price (US$ per barrel)	65.5	96.0	46.6
Tapis Crude price (A$ per barrel)	83.3	108.5	30.3

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, although it does indirectly receive a proportion of the goods and services tax (GST) revenue levied on fuel sales by the Commonwealth. Following the introduction of the GST in 2000, the Commonwealth introduced the Fuel Sales Grant Scheme (FSGS) rebate to compensate motorists for the impact of the GST on regional fuel prices. The FSGS rebate was replaced by a Fuel Tax Credits System in July 2006, which was designed to lower compliance costs and simplify the fuel taxation system. In addition to the Fuel Tax Credit System, the Territory Government continues to provide a retail fuel rebate to Territory motorists of 1.1 cents per litre.

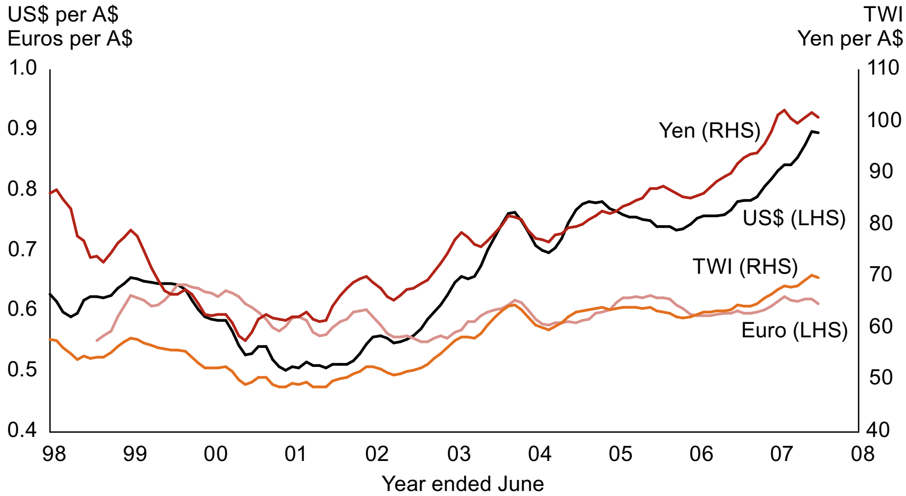
Exchange Rates

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 5.8 per cent in 2007. 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 increasing divergence of Australian and US interest rates over the second half of 2007 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.

Should US economic growth continue to soften in 2008, the outlook for the Australian dollar is to further appreciate against the US dollar.

Chart 5.5: Exchange Rates (3 month moving average)



TWI: trade weighted index
Source: Reserve Bank of Australia

Grocery Prices

Since 2000, Northern Territory Treasury has conducted regular surveys of grocery prices in most major Territory centres, plus Cairns and Mount Isa for comparative purposes. The latest Grocery Price Survey was conducted in December 2007 (Table 5.3).

Table 5.3: Grocery Price Survey, December 2006 to December 2007

	December 06 $	June 07 $	December 07 $	Annual % change
Darwin	172.68	172.30	175.67	1.7
Alice Springs	166.31	163.83	167.80	0.9
Katherine	171.20	173.98	177.04	3.4
Yulara	204.50	204.03	209.49	2.4
Nhulunbuy	206.48	202.61	215.52	4.4
Cairns	164.05	162.86	169.88	3.6
Mount Isa	166.77	166.66	174.59	4.7

Source: Northern Territory Treasury

Grocery prices in the Territory, as measured by the survey, reported annual price movement in the cost of the basket of groceries in 2007, with the smallest annual increase of 0.9 per cent reported for Alice Springs, and the largest increase of 4.4 per cent reported for Nhulunbuy. The positive annual growth across all centres largely reflected the 18.7 per cent increase in fuel prices observed across the Territory in 2007 and its impact on packaging and freight costs, especially for regional centres.

Prices growth for December 2007 are in line with the general principle that people purchasing an average basket of goods at supermarkets in towns more remote from major supply centres and larger population centres face higher prices than those living closer to major centres. This reflects higher freight costs, which have been affected by significantly higher fuel prices, as well as the smaller market size and reduced competition in these centres.

Prices for fruit and vegetables and meat and seafood, which together typically make up around one-third of the cost of the basket, are highly volatile, reflecting variations in seasonal and other factors affecting supply. As such, variations in prices in these categories can have a substantial impact on the overall cost of the basket in any one survey.

Household Expenditure Survey

Conducted every five years, the ABS Household Expenditure Survey (HES) is a comprehensive survey reporting differences in 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. This will remain a useful source of data until 2010 when the 2008-09 HES is released.

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	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, the 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 reflected 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 were mainly allocated to additional expenditure rather than savings.

Wages

Strong economic activity in the Territory, combined with tight labour market conditions and ongoing skilled labour shortages, flowed through to wages growth in 2007.

Table 5.5: Wage Price Index (year on year to December 2007, percentage change)

	2002 %	2003 %	2004 %	2005 %	2006 %	2007 %
Northern Territory						
Public	3.2	3.7	3.3	4.8	4.4	2.7
Private	3.1	2.6	3.4	4.1	3.5	4.8
Total	3.1	3.1	3.3	4.5	3.9	3.9
Australia						
Public	3.3	4.4	4.1	4.6	4.3	4.2
Private	3.3	3.3	3.4	3.9	3.9	4.1
Total	3.2	3.6	3.6	4.1	4.0	4.1

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) for 2007 was 3.9 per cent, unchanged from 2006.

Wages growth was most notable in the private sector, with growth in the WPI increasing by 4.8 per cent in the year compared to 3.5 per cent in 2006. This may reflect ongoing inflationary pressures on wages in the Territory, especially in the construction and mining industries. There has been increased use of category 457 visa holders 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 Education, Employment and Workplace Relations to fully assess the impact of imported labour on wages growth in the Territory and nationally.

Growth in the Territory's public sector WPI moderated in 2007, increasing 2.7 per cent, compared to 4.4 per cent in 2006. This primarily reflects the timing of enterprise bargaining agreements (EBAs), most notably the Northern Territory Public Sector 2004-2007 Certified Agreement, covering about 9500 Northern Territory public servants, which expired in the September quarter 2007. A number of newly negotiated EBAs, once finalised, will flow through to the Territory's public sector WPI.

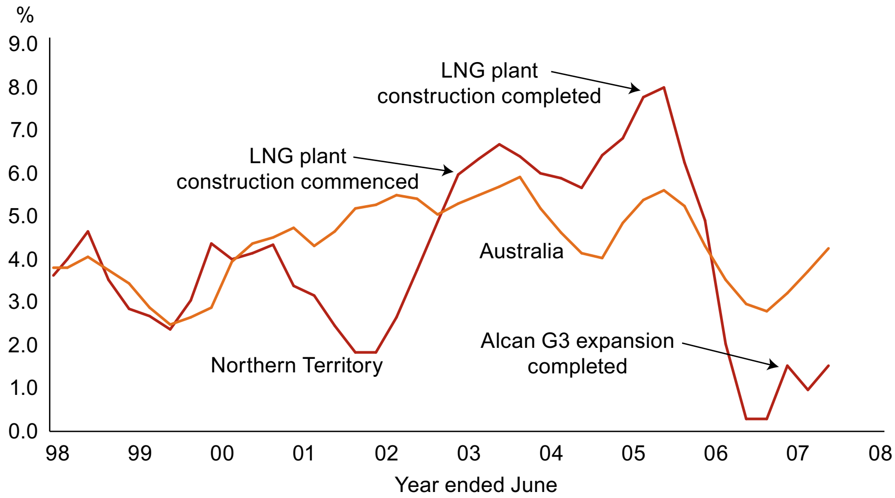
Average Weekly Full-Time Adult Total Earnings

After several years of growth exceeding that reported nationally, growth in average weekly full-time adult total earnings (AWE) moderated significantly in the Territory in 2007, increasing by 1.6 per cent to $1112, below the national level of $1159, and fifth highest of the jurisdictions.

This may reflect in part the completion of the Alcan refinery expansion at Gove. AWE may also have been influenced by the Australian Fair Pay Commission (AFPC) wages setting timetable, where there is a six month delay for employees on minimum awards. This suggests there may be an upward spike in growth in AWE in the first quarter of 2008. There is insufficient data to assess the effect on AWE by the increased use of category 457 visa holders by employers in the Territory and nationally to alleviate skilled labour shortages.

AWE 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 AWE measure of wages is heavily influenced by compositional changes in the survey sample.

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



Source: ABS Cat. No. 6302.0

Regional Wage and Salary Statistics 2004-05

In March 2008, the ABS published Territory regional wage and salary earner statistics for 2004-05. Compiled from the Australian Taxation Office's 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 this data set relates 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 sets reporting on wages that generally focus on the employment status of a person at a particular point in time, or surveying businesses about employee numbers and payroll. Consequently, this data set 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 Earners Aged 15 and Over, 2004-05

Statistical Subdivision Name	Number	Income ($)	Average Income ($)	Median Income[1] ($)
Darwin City	33 735	1 552 099 064	46 009	41 622
Palmerston-East Arm	11 548	507 044 122	43 908	42 148
Litchfield Shire	7 233	323 543 064	44 732	41 236
Finniss	506	19 360 778	38 262	35 336
Bathurst-Melville	290	9 579 364	33 032	28 340
Alligator	1 474	63 789 394	43 276	38 312
Jabiru (T)[2]	490	24 948 168	50 915	46 297
Daly	462	15 543 423	33 644	28 932
East Arnhem	3 426	175 286 893	51 164	45 081
Groote Eylandt[2]	338	20 782 153	61 486	53 552
Nhulunbuy[2]	1 230	64 809 162	52 690	48 336
Lower Top End	4 579	187 826 163	41 019	38 821
Barkly	1 337	51 889 830	38 811	36 060
Central NT	13 705	554 099 519	40 430	36 912
Unknown NT	227	8 516 107	37 516	35 553

1 Median not calculated for areas with fewer than 100 wage and salary earners
2 Statistical Local Area
Source: Australian Taxation Office 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 Groote Eylandt (GEMCO manganese mining operations), Nhulunbuy (Alcan bauxite and alumina operations) and Jabiru (ERA uranium mining operations) reporting the highest average wage and salary incomes at $61 486, $52 690 and $50 915 respectively. The next two locations reporting higher incomes were The Gardens and Fannie Bay in Darwin.

Outlook

The Territory economy has potential to maintain its growth momentum in 2008-09, with continued strong demand for export commodities and buoyant private consumption being the key drivers. However risks for growth include uncertainty in world commodity and financial markets, a continued downturn in the US economy, and higher crude oil and petroleum prices flowing through to higher prices for domestic goods and services, particularly food.

Continued pressure in the rental market, ongoing skilled labour shortages, and higher prices for petrol and food are likely to maintain inflationary pressures in 2008. This poses the possibility of further interest rate rises by the RBA in 2008 and suggests there may be pressure on wages growth in the Territory to compensate for increased cost of living. Despite inflationary forces in 2008, year-on-year growth in the Darwin CPI is forecast to moderate to 3.1 per cent, driven by a decreasing contribution of housing.

Ongoing skilled labour shortages and tightness of the labour market should continue to see wages growth in the private sector above long-term trend levels. Tight Territory Government budgetary conditions are likely to influence EBAs and flow through to wage constraint in the Northern Territory public sector.