

# Overview

The small size of the Northern 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.

## 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 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. 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 the ongoing delivery of the Middle year's schooling program as well as continued development of the Desert Knowledge Precinct in Alice Springs.

**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. The more modest growth rate compared to 2006-07 is due to lower net exports and lower investment. The negative contribution of net exports to growth in 2007-08 reflects the impact of scheduled maintenance shut-downs at the Wickham Point liquefied natural gas (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 G3 expansion, and despite increases in machinery and equipment expenditure by many mine operators.

**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. 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 suburbs of Lyons and Muirhead are well under way. Construction of the Blacktip gas project will provide good employment opportunities during 2008-09.

**Labour Force** The Territory labour market continued 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 skilled vacancy survey, point to strong employment growth and a shortage of skilled labour.

**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 both 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 such that the Darwin inflation rate is estimated to moderate.

**Wages** Solid wages growth in 2007, both in the Territory and nationally, reflects tight labour market conditions and skilled labour shortages prevalent 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 mainly 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 Wickham Point and the Corallina oilfield, as well as significantly higher oil production from the Puffin field. In addition, with the completion of the conversion to open cut operations at McArthur River, the production of lead-zinc will increase significantly, as will the output of alumina from Alcan, and iron ore from the Frances Creek mine.

**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 are 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 to longer run averages due to the completion of some major employment generating projects.

**Employment** 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, remaining within 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, house price growth moderating 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 strengthening of the United States (US) 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 flow through to stronger public sector wages growth. In addition ongoing skilled labour shortages and a tight labour market are expected to flow through to growth in the Territory's WPI averaging around 4.0 per cent over the year.

#### Summary of Territory Economic Indicators

	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 <sup>1</sup>	0.7	1.6	2.3	2.0	2.2	1.9
Darwin CPI <sup>2</sup>	2.1	1.6	2.6	4.4	3.4 <sup>3</sup>	3.1

e: estimate; f: forecast

<sup>1</sup> As at December, annual percentage change

<sup>2</sup> As at December, year on year percentage change

<sup>3</sup> Actual Darwin CPI 2007

## Future Potential

The economic base of the Territory is expected to expand significantly over the next decade.

- There is potential for construction of Train Two of the Wickham Point LNG plant to begin construction in the next one to two years with exports around four years later.
- Following ratification of the International Unitisation Agreement and the Certain Maritime Arrangements in the Timor Sea Treaty in January 2007, Woodside announced that it would proceed to explore development options for the Greater Sunrise liquids and gas field in the Timor Sea. Greater Sunrise has an estimated 6 trillion cubic feet of natural gas.
- An area at Middle Arm 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.
- 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. The development will entail the mooring of a floating, production storage and offloading vessel at the field and the construction of a number of wells and interconnecting pipelines. Condensate and LPG will be extracted with natural gas re-injected into the well. A final investment decision is expected in 2008, with the potential for first liquids production from 2010.
- 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 in the process of assessing the feasibility of developing the Nolans rare earths-phosphate-uranium deposit located approximately 135 kilometres north of Alice Springs. If the study proves to be successful and government approval is forthcoming, the company is proposing to freight the ore to Darwin by train where it will be processed at a \$300 million plant.
- 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.
- Production of oil from the Montara project, from the Montara, Skua, Swift/Swallow oil fields in the Timor Sea, is due in 2009.
- Construction will continue at the Darwin Waterfront, with the addition of residential apartments, retail outlets and a hotel.
- Over the next four years the Australian and Territory Government 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 Australian Government and \$100 million by the Territory Government.
- The construction of a \$33 million backpacker resort in Alice Springs commencing in 2008-09.