

## Chapter 7 The Territory Economy

The Northern Territory economy has achieved average annual growth of 3.6 per cent since 2000-01. This is the third highest growth rate of the jurisdictions, and higher than the national average annual growth. Economic activity is dominated by the extraction of minerals and energy, manufacturing of alumina and liquefied natural gas (LNG), retail, tourism and government services.

The Territory has experienced a high rate of economic growth since 2000-01, primarily due to significant private sector investment in the mining and energy sector, and associated residential and non-residential construction. However, public sector investment has also increased, with investment in non-residential transport infrastructure construction (particularly the \$1.3 billion Tarcoola to Darwin railway project) and expanded provision of government services.

Together with the relatively small size of the economy, the significance of exports causes quite volatile changes in investment, production and consumption levels, as these are susceptible to economic conditions in the key export markets in Asia, and the world generally.

This chapter outlines the economic growth for the Territory for 2008-09 and outlook for 2009-10. A more detailed analysis of the Territory economy is included in the *2009-10 Northern Territory Economy Budget-related paper*.

### The Economy in 2008-09

In 2008-09, state final demand (SFD), a key measure of household, business and public sector spending in the Territory, increased by an estimated 5.6 per cent, primarily due to a 14 per cent increase in private investment, but also due to a 8.4 per cent increase in public investment.

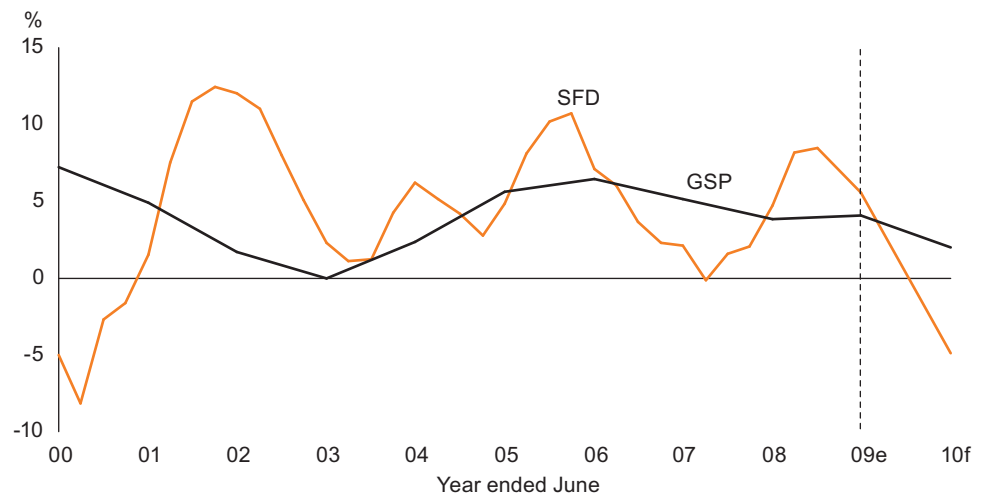
Private investment was bolstered in 2008-09 by spending on mining-related machinery and equipment and engineering construction, and work on high rise residential buildings in the Darwin central business district. Key private sector projects under way in 2008-09 include the conversion of McArthur River Mine from underground to open cut mining, the expansion of alumina processing capacity by Rio Tinto Alcan at Gove, and the construction of Evolution on Gardiner and Mantra Pandanus in Darwin.

Public investment in 2008-09 is supported by increased spending by the Territory Government through the Closing the Gap strategy and capital works program, including the construction of public housing, the upgrade of Tiger Brennan Drive, and upgrade and augmentation of the Territory's electricity, water and sewerage networks.

Private consumption expenditure increased by an estimated 2.2 per cent in 2008-09. Despite the deteriorating Australian and world economy in 2008, private sector consumption is supported by low interest rates, higher household incomes and confidence about the prospects for the Territory economy. Public sector consumption expenditure is estimated to increase by 2.9 per cent in 2008-09, due to growing demand for government services.

Territory GSP (SFD plus imports and exports) increased by an estimated 4.1 per cent in 2008-09, compared to a 3.9 per cent increase in 2007-08. An estimated \$2 billion trade surplus is attributed to higher volumes of mineral and LNG exports, and higher commodity prices.

Chart 7.1: Territory State Final Demand and Gross State Product (real year-on-year percentage change)



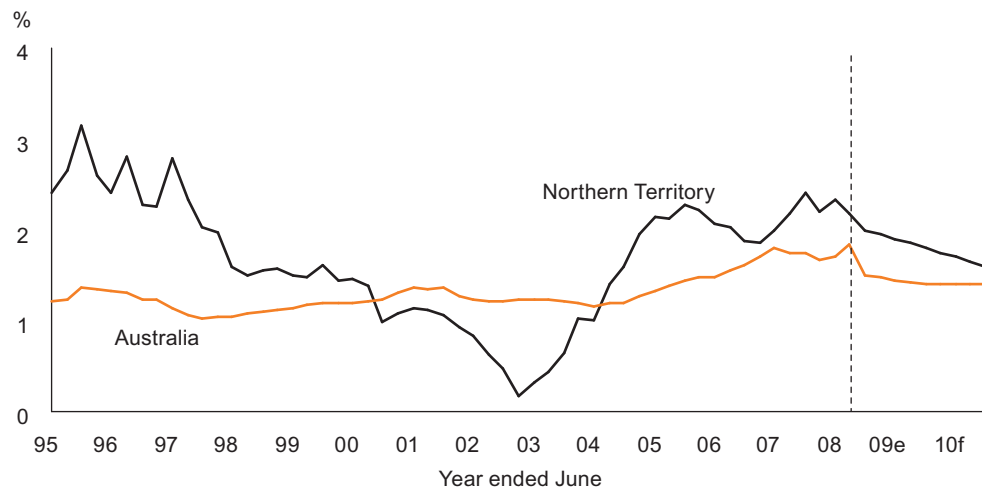
e: estimate; f: forecast  
 Source: Northern Territory Treasury, ABS Cat. Nos 5206.0, 5220.0

### Population

The Territory population will increase by an estimated 1.8 per cent in 2009, down from a 2 per cent increase in 2008. Slower population growth is attributed to declining employment opportunities in the retail and construction industries.

However, population growth in the Territory remains above the national growth rate of 1.5 per cent in 2008. As well as a high rate of natural increase, the high population growth is attributed to positive interstate migration in 2006-07 and in 2007-08 as people were attracted to the Territory by plentiful employment opportunities.

Chart 7.2: Annual Population Growth



e: estimate f: forecast  
 Source: Northern Territory Treasury, ABS Cat. No. 3101.0

### Employment

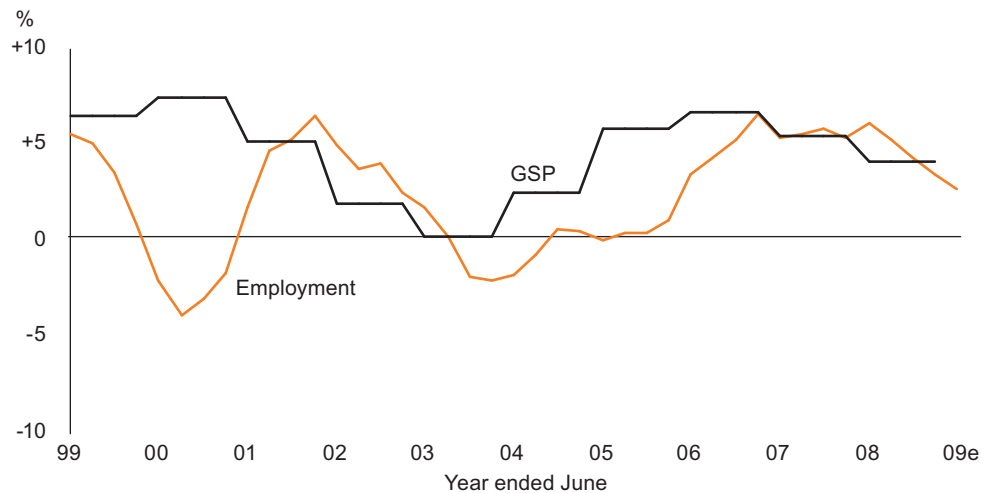
Employment growth in the Territory increased by an estimated 2.5 per cent in 2008-09, down from 5.9 per cent in 2007-08, but above the long-term average growth rate of 2 per cent.

Average unemployment in 2008-09 is an estimated 3.7 per cent, down from 4.4 per cent in 2007-08, but lower than the long-term average unemployment rate of 5 per cent.

The retail trade and mining sectors are expected to see the biggest fall in employment growth due to declining household consumption and world demand for commodities. However, demand for new housing and public sector construction projects should support employment levels.

Employment is an important driver of economic growth in the Territory. The correlation between GSP and employment can be seen in Chart 7.3 however employment growth is observed as a lagging indicator.

Chart 7.3: Territory GSP and Employment Growth (year-on-year, real)



e: estimate

Source: Northern Territory Treasury, ABS Cat. Nos 5206.0, 6202.0

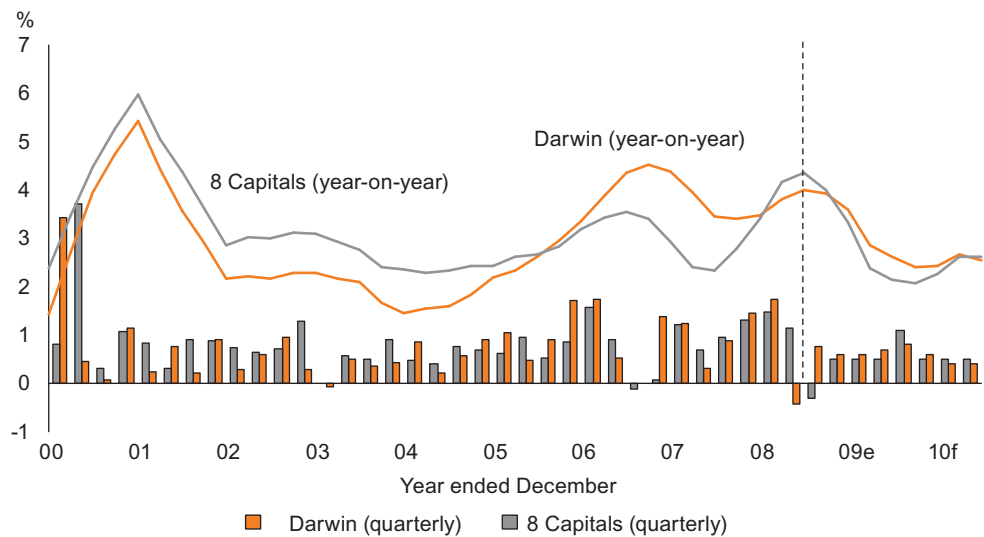
## Prices

As measured by the consumer price index (CPI) for Darwin, average prices in the Territory are estimated to increase by 2.6 per cent in 2009. This is less than the 4.0 per cent increase in prices in 2008, and within the Reserve Bank of Australia target range of 2 to 3 per cent.

Although the rate of price inflation in the Territory has on average been less than the national rate, the small market size and remoteness of the Territory means generally higher average prices than other capital cities.

Since 2006, Territory inflation has generally tracked higher than the national rate. This is mainly due to Darwin housing prices and rents increasing at a faster rate than nationally. Housing contributed about 43 per cent to the increase in Darwin's CPI in 2008. On the other hand, falling crude oil and transport fuel prices reduced the rate of inflation in 2008.

Chart 7.4: Consumer Price Index



e: estimate; f: forecast  
 Source: Northern Territory Treasury, ABS Cat. No. 6401.0

### Wages

The Territory Wage Price Index (WPI) is estimated to increase by 3.8 per cent in 2009, compared to 4.3 per cent in 2008. Private sector wages are estimated to increase by 4.3 per cent, while public sector wages are estimated to increase by 3.6 per cent.

The Territory has experienced relatively high private sector wages growth in recent years, primarily due to a shortage of skilled labour in the construction, mining and health industries. However, a slower rate of wages growth is expected in 2009 as rising unemployment limits the ability of employees to negotiate above inflation wage increases.

### Outlook for 2009-10 and Beyond

The International Monetary Fund and other reputable commentators expect that the downturn in the world economy during 2008-09 will continue to reduce consumption, production and investment into 2009-10. This will put downward pressure on demand for the Territory's exports, particularly those mineral and energy resources used in producing other consumer goods.

The Territory's GSP is forecast to increase by 2 per cent in 2009-10, with the downturn in the world economy reducing demand and the value of the Territory's mineral and energy exports, and reducing visitor numbers.

In 2009-10, Territory SFD is forecast to decrease by 5 per cent. The main reason is a forecast 35 per cent decline in business investment from \$3.7 billion to \$2.4 billion. The anticipated record level of public investment (27 per cent of total investment) is not able to offset the decline in private investment. Public sector investment is forecast to increase by 36 per cent from \$820 million to \$1.16 billion. Public investment between 2000-01 and 2007-08, averaged about 16 per cent of annual total investment.

Nevertheless, Territory GSP is anticipated to increase in 2008-09 and 2009-10 despite the onset of recession in Australia and the Territory's major trading partners. This is due to momentum from:

- investments in expanded mineral and energy production (e.g. increased production of iron ore by Territory Resources) and manufacturing (e.g. expansion of alumina processing capacity by Rio Tinto Alcan, and increased production of manganese by Groote Eylandt Mining Company);
- private consumption and investment levels being supported by the confidence of Territory businesses and households about employment and economic growth prospects in the Territory (March quarter 2009 Sensis data reports a net 49 per cent of Territory consumers are confident about their financial prospects for the year ahead compared to a net balance of 21 per cent nationally); and
- public consumption and investment levels being supported by Territory, Commonwealth and local government spending, including through the Commonwealth's Nation Building and Jobs Plan, the joint Commonwealth and Territory governments' Strategic Indigenous Housing Infrastructure Program (SIHIP) and the Territory Government's capital works program.

Private consumption is forecast to increase by 2 per cent in 2009-10, while public sector consumption is forecast to increase by 3 per cent. The momentum established in the boom times and continued population growth are expected to mitigate the adverse effects on employment and consumption of recession in the Australian economy in the short term.

In the medium term, the rate of economic growth in the Territory will depend on the length of time Australia's major trading partners remain in recession and the rate of growth in global demand for mineral and energy resources.

The Territory's trade surplus is forecast to increase by 5½ per cent to \$2.1 billion in 2009-10. A decline in investment in the minerals and energy industry is expected to reduce demand for imported machinery and equipment, while exports of minerals and energy remain steady (a proportion are generally sold under long-term contracts, partly offsetting changes in commodity prices and demand).

### Population

The Territory's population is forecast to return to long-term growth of 1.5 per cent by the end of 2010. Slower population growth is attributed to declining employment opportunities in the residential and engineering-related sectors of the construction industry. However, estimated population growth in 2009 of 1.8 per cent is estimated which remains above the estimated national growth rate of 1.5 per cent .

### Employment

The downturn in the world economy is expected to reduce demand for labour in the mining and retail industries, with resident employment forecast to increase by 1.5 per cent in 2009-10. The retail trade and mining sectors are expected to see the biggest fall in employment growth due to declining household consumption, and world demand for commodities. However, demand for new housing and public sector construction projects should support employment levels.

The average unemployment rate is forecast at 5 per cent for 2009-10. The Territory's long-term average unemployment rate is 5 per cent.

### Prices and Wages

Inflation in the Territory is forecast to be 2½ per cent in 2010, within the RBA target range of 2 to 3 per cent. Decreases in fuel and transport costs should offset the inflationary pressure of continued high housing costs in the Territory.

Increases to the cost of utilities, above inflation, during 2009-10 are not expected to put much upward pressure on inflation. Forecasts do not include the inflationary effects of the national emissions trading scheme scheduled to be introduced from mid 2010.

Territory WPI is forecast to increase by 3.5 per cent in 2010, with a slower rate of wages growth expected as rising unemployment limits the ability of employees to negotiate above-inflation wage increases.

### 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, but will support activity in the construction, manufacturing and transport industries.

- There is potential for construction of additional LNG processing capacity on Darwin Harbour in the medium term, both from expansion of the Wickham Point LNG plant and construction of new facilities.
- Inpex and the joint venture partner are undertaking the front end engineering and design process for a proposed LNG plant able to produce 8 million tonnes a year at Blaydin Point on Darwin Harbour. An estimated \$12 billion would be spent over four to five years constructing the plant, with up to 2000 workers needed during construction. A decision on whether to start construction is expected at the end of 2009, or early in 2010.
- ConocoPhillips and the joint venture partners are examining options for obtaining sufficient gas reserves to expand the Wickham Point LNG plant from the current 3.7 million tonnes a year to around 10 million tonnes a year.
- Following ratification of the International Unitisation Agreement and the Certain Maritime Arrangements in the Timor Sea Treaty in January 2007, there is increased interest in exploring and developing the potential of the Greater Sunrise petroleum liquids and natural gas field in the Timor Sea. Greater Sunrise has an estimated 6 trillion cubic feet of natural gas.
- The availability of gas and the advent of emissions trading and carbon pricing also mean the Territory has the potential to become the home of energy intensive industry, with gas providing a cheaper and cleaner energy source for the manufacture of alumina, magnesium and other ore concentrates, and for the production of electricity used in other manufacturing activities.
- Major mines expected to start or expand production in the medium term include the Arafura Resources Nolan's Bore rare earths mine, 135 km north west of Alice Springs (estimated development cost of \$600 million), and the Minemakers Wonarah phosphate mine, 230 km east of Tennant Creek.
- Processing of copper, cobalt and nickel at the Browns Oxide mine near Batchelor. Some manufacturing occurred at this mine in late 2008, but ceased when the mine owner went into voluntary administration in January 2009. As all the infrastructure remains in place, recovery in commodity prices or a better capitalised operator provides the prospect that the mine and processing facility will operate again.

- 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.
- Construction will continue at the Darwin Waterfront, with the addition of residential apartments, retail outlets and hotels.
- The Commonwealth and Territory governments will spend \$672 million on housing and infrastructure in remote communities through SIHIP.
- In February 2009, the Commonwealth announced the allocation of \$64 million to the Territory over four years for construction of social housing under the Nation Building and Jobs Plan with \$22.7 million allocated in 2009-10.
- Major residential construction projects understood to be starting in 2009-10 include the construction of government employee housing in remote communities by the Department of Local Government and Housing as part of the Territory Government's Closing the Gap strategy (about \$31 million), and construction of the Bellamack Seniors Village by the Territory and Commonwealth governments (\$10 million).
- In the Territory's urban centres, forecast population growth will require construction of more housing, and associated utilities infrastructure. The Territory Government announced that planning had started to build a new satellite city of Weddell south of Palmerston in five years time, involving provision of housing for up to 40 000 people.
- The Power and Water Corporation continues its \$1.4 billion capital investment and maintenance program, with key projects including new electricity generation in Alice Springs and Darwin, provision of essential services to up to 3400 households in new suburbs in Darwin and Palmerston and diverting sewage from the Larrakeyah outfall to the upgraded Ludmilla treatment plant.