

Chapter 1 Overview

Key Points

- Growth in the Northern Territory economy is underpinned by the extraction of minerals and energy resources (e.g. bauxite, manganese, zinc, crude oil and natural gas), the manufacture of alumina and liquefied natural gas (LNG), and provision of retail, tourism and government services.
- The Territory economy contributes an estimated 1.3 per cent to Australia's gross domestic product, greater than its per capita share.
- The relatively small size of the economy and the importance of export-oriented goods and services, such as minerals and energy resources, and tourism services, make the Territory economy susceptible to changes in global economic conditions.
- In the medium term, improved transport and port infrastructure, global demand for the Territory's natural resources, public sector investment and a continuing record Territory Government infrastructure program will contribute to mining and economic activity that will support business investment, consumption and exports.
- In the short term, the Commonwealth Economic Security Strategy and Nation Building and Jobs Plan will contribute to increased levels of economic activity that will support public sector investment and consumption in the Territory.
- Large resource projects such as the Inpex development would have a significant positive effect on the Northern Territory's future growth.
- Government administration and defence are the largest employers in the Territory, comprising about 25 per cent of total employment. This proportion will reduce with population growth and increased private sector investment and consumption as the economy grows.

Northern Territory Economy

The Northern Territory economy contributed an average of about 1.3 per cent of Australia's gross domestic product (GDP) each year in the five years to 2007-08.

About 40 per cent of the Territory's gross state product (GSP) comes from the export of goods and services, compared to about 21 per cent for Australia. 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.

In particular, the Territory economy has experienced significant growth since 2000-01 with average annual GSP growth of 3.6 per cent over this period. Significant private sector investment in the mining and energy industry sector has been the primary contributor. However, public sector investment has also increased since 2000-01, with investment in transport infrastructure (particularly the \$1.3 billion Tarcoola to Darwin railway), the East Arm Port, the Darwin Waterfront and expanded provision of government services and associated infrastructure.

The Economy in 2008-09

State Final Demand

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

Business investment is estimated to increase 17.2 per cent in 2008-09, primarily due to spending on mining-related engineering construction activity, and work on high-rise residential buildings in the Darwin central business district.

Total private investment was bolstered in 2008-09 by spending on projects that started prior to the downturn in the world economy from 2007-08, and confidence that future mining and energy-related major projects will support employment and economic growth in the Territory. In particular, private sector investment (expenditure on engineering construction and machinery and equipment) increased with the expansion of mining and processing projects, and the development of petroleum and natural gas resources.

Private consumption expenditure increased by an estimated 2.2 per cent in 2008-09, although this is lower than the average annual increase of about 5.1 per cent in the five years to 2008-09. Private consumption in the Territory has been supported by low unemployment relative to elsewhere in Australia, high population growth, and consumer confidence.

Public sector consumption expenditure increased by an estimated 2.9 per cent in 2008-09, with this attributed to increased demand for government services, a substantial increase in spending on infrastructure and services associated with the Commonwealth's Northern Territory Emergency Response, the Territory Government's Closing the Gap strategy and the Darwin Waterfront development.

Gross State Product

Territory GSP increased by an estimated 4.1 per cent in 2008-09, compared to a 3.9 per cent increase in 2007-08. This is lower than the 4.7 per cent average annual GSP growth in the five years to 2007-08.

GSP growth in 2008-09 was supported by an estimated \$2 billion trade surplus, which is attributed to higher volumes of mineral and LNG exports, and higher commodity prices. Exports increased in 2008-09 by an estimated 9.5 per cent in real terms, with increased production of alumina, iron ore and LNG.

External Economic Environment

During 2008-09, most developed economies and most of Australia's major trading partners are in, or close to, recession. In Australia, this has contributed to a decline in private consumption and business investment, rising unemployment and slower growth in wages.

The downturn in the world economy has reduced demand for the Territory's key exports, such as minerals, energy resources and tourism services, and contributed to a slowdown in business investment and private consumption. However, total exports have been sustained by long-term contracts for the supply of the Territory's key commodities, notably to Japan and China.

Investment and consumption decisions made prior to the downturn provided the Territory economy with sufficient momentum to maintain a high rate of economic growth for 2008-09, despite the deteriorating world economic

situation and falling global demand for the Territory's key exports in the second half of 2008-09.

Territory Government initiatives and spending are supporting the Territory economy, through the Buildstart scheme for residential housing and an increased capital works program.

Commonwealth fiscal policy embodied in the Economic Security Strategy, and the Nation Building and Jobs Plan is also supporting increased public and private consumption and investment.

Population The Territory population will increase by an estimated 1.8 per cent in 2009, down from a 2.0 per cent increase in 2008. This is above the estimated national growth rate of 1.5 per cent in 2008. As well as a high rate of natural increase, high population growth is attributed to positive interstate migration since 2006-07 as people were attracted to the Territory by plentiful employment opportunities.

While still remaining strong, population growth in 2009 is expected to slow, mainly as a result of moderating activity in the residential and engineering-related construction sectors.

Prices Darwin's Consumer Price Index (CPI) increased by an estimated 2.6 per cent in 2009, less than the 4.0 per cent increase in 2008.

At the start of 2008, inflation was outside the Reserve Bank of Australia (RBA) target range of 2 to 3 per cent as high demand for goods and services and capacity constraints pushed up prices. However, inflation began falling in the December quarter 2008 due to the downturn in the world economy.

Wages The Territory Wage Price Index (WPI) is expected to increase by an estimated 3.8 per cent in 2009. In 2008, private sector wages increased by 4.9 per cent, and public sector wages increased by 3.4 per cent.

Wages growth in 2008 in the private sector is attributed to high demand for labour in the mining, construction and retail sectors. In the public sector, wages growth is attributed to the signing of a number of enterprise bargaining agreements in 2008, where maintenance of wage parity for essential employees was the predominant influence on salary increases.

Employment Employment growth in the Territory is expected to increase 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 2.0 per cent.

The average unemployment rate in 2008-09 was estimated to be 3.9 per cent, down from 4.4 per cent in 2007-08 and lower than the long-term average unemployment rate of 5.0 per cent.

Although employment growth is slowing, the Sensis Business Index, the ANZ job advertisements series and the Department of Education, Employment and Workplace Relations (DEEWR) skilled vacancy survey indicate that attracting and retaining skilled staff remains difficult for Territory businesses. However, the downturn in the Australian economy from the end of 2008 has reduced the demand for labour, particularly in the mining and retail sectors, potentially giving incentive to workers to relocate to the Territory.

The estimated average participation rate in the Territory in 2008-09 is expected to remain high at about 73 per cent.

Outlook for 2009-10

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 reduce demand for the Territory's exports, particularly those mineral and energy resources used in producing other consumer goods. The outlook for the Territory in 2009 is based on approved known projects. The Inpex development has not been included in these forecasts. If the project proceeds it will have a significant positive effect on the Northern Territory economy.

State Final Demand

In 2009-10, Territory SFD is forecast to decrease by 5 per cent, with a 36 per cent increase in public sector investment not able to offset a 35 per cent forecast decline in business investment. Public sector investment is forecast to increase from about 15 per cent to about 27 per cent of total investment.

The downturn in the Australian economy, and difficulties obtaining credit, are expected to reduce private sector investment in commercial and retail building and high-rise unit complexes around central Darwin. However, public sector investment on schools, housing, roads and utilities infrastructure will increase substantially in 2009-10.

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 affects on employment and consumption of recession in the world 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.

Gross State Product

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

Critically, business investment in the mining and energy sector during 2009-10 is likely to decline from levels experienced in recent years, with planned expansions and new developments scaled back or postponed due to low commodity prices and credit restrictions.

Population

The Territory's population is forecast to increase by 1½ per cent during 2010. Although a high rate of natural increase is expected, the rate of population increase is likely to return to longer run averages in the absence of new employment-creating major projects.

Prices

Consumer Price Index growth 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 housing costs in the Territory. Increases to the cost of utilities during 2009-10 are not expected to put undue upward pressure on inflation.

Wages

The rate of wages growth in the Territory is expected to decline in 2009-10 as increased unemployment levels dampen the ability of employees to negotiate wage increases above inflation. In particular, the shedding of large numbers

of employees in the mining sector in Western Australia and Queensland will increase the number of available workers and is expected to limit potential for significant private sector wages growth.

Employment

Resident employment growth of 1½ per cent is forecast for 2009-10, slowing along with economic growth. 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 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.

Structure of the Economy

The main goods and services produced by the Territory economy include extraction of minerals (e.g. bauxite, manganese, zinc and iron ore) and petroleum products, manufacturing of alumina and liquefied natural gas (LNG), and provision of retail, tourism and government services (e.g. administration, health, education and defence).

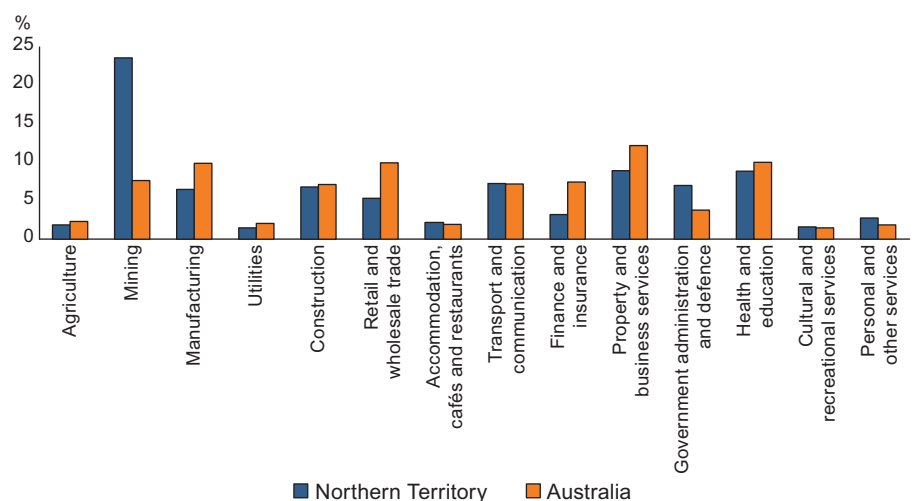
Key factors influencing the development and growth of the Territory economy include:

- a small population (about 1 per cent of Australia’s population), with a significant proportion living in remote areas;
- abundant mineral and energy resources, although these are often located in remote areas and difficult to exploit; and
- the significant distances from the main population centres of Australia, and distances between the main population centres in the Territory.

Comparison

The Territory economy has a different structure and characteristics to other jurisdictions and Australia. Based on a five-year average, mining and the provision of government services contribute proportionally more to Territory GSP than to Australia’s GDP. Conversely, manufacturing, retail and wholesale trade and finance and insurance contribute less to Territory GSP than to Australia’s GDP (Chart 1.1).

Chart 1.1: Industry Proportion of GSP and GDP from 2003-04 to 2007-08 (five-year average)



Source: ABS Cat. No. 5220.0

More detail on the contribution of each industry to GSP for each jurisdiction is provided in the Appendix (Table A1.1).

Mining and Energy

Mining and energy production contributed about 23.6 per cent of Territory GSP in 2007-08, compared to 7.6 per cent contribution to Australia's GDP. Western Australia is the only jurisdiction with an economy more reliant on mining and energy production.

Large mining and energy projects contribute most of the value of production in the Territory, including Rio Tinto Alcan at Gove (bauxite and alumina), GEMCO on Groote Eylandt (manganese), The Granites gold mine in the Tanami Desert, the McArthur River Mine near Borroloola (lead and zinc), Laminaria-Corallina in the Timor Sea (crude oil) and Bayu-Undan in the Timor Sea (condensate and natural gas).

The value of mining and energy production in the Territory accounted for about 4.2 per cent of the industry's contribution to Australian GDP, the fifth highest of the states.

Although the most valuable Territory industry, mining and energy is relatively capital intensive, according to Australian Bureau of Statistics (ABS) data, accounting for about 3 per cent of total employment in 2007-08.

Government Services

Spending by the Territory and Commonwealth governments, and by the Australian Defence Force (ADF) in 2007-08 on wages, goods, services and infrastructure was \$4.1 billion, or about 26 per cent of Territory SFD. Nationally, public sector spending accounts for 19.8 per cent of total spending.

The public sector is the largest employer in the Territory, with about 25 per cent of the workforce employed on a full-time or part-time basis by the Commonwealth, Territory or local governments in 2007-08. Nationally, about 16.3 per cent of the workforce is employed in the public sector.

The high level of public sector employment in the Territory is attributed to a large ADF presence, and the scale-related aspects of providing government services to a small population.

Manufacturing

The manufacturing industry accounted for 6.5 per cent of Territory GSP in 2007-08, compared to 9.8 per cent of Australia's GDP.

Manufacturing in the Territory is dominated by the processing of minerals and energy products. Most of the value of manufacturing in the Territory is attributed to the processing of bauxite to alumina by Rio Tinto Alcan, and of natural gas to LNG by ConocoPhillips.

About 4600 people were employed in the industry in 2007-08, accounting for 4 per cent of total employment in the Territory.

Retail and Wholesale Trade

Retail and wholesale trade contributed 5.3 per cent of Territory GSP in 2007-08, less than the national average of 6.7 per cent.

The smaller size of the sector is partly due to the Territory's smaller population, but also because many large wholesalers prefer to transport goods to the Territory, meaning sales are recorded outside the Territory.

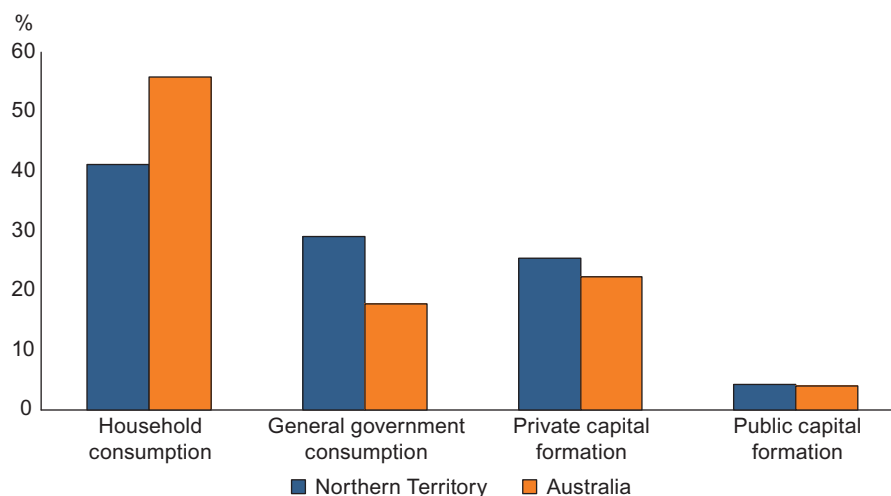
The retail and wholesale trade industry is labour intensive, with 16 800 or 14.7 per cent of those employed in the Territory in November 2008 working

in retail or wholesale trade. About 14 600 of these people were employed in retail.

Consumption and Investment

The Territory has different private and public consumption and investment patterns compared to Australia as a whole (Chart 1.2).

Chart 1.2: Proportion of SFD 2003-04 to 2007-08 (five-year average)



Source: ABS Cat. No. 5220.0

Consumption

Average household consumption in the Territory in the five years to 2007-08 accounted for 41.5 per cent of SFD, lower than the 54.6 per cent contribution of household consumption to Australian domestic final demand (DFD). By contrast, general government consumption in the Territory accounted for 29.2 per cent of SFD, compared to the 17.3 per cent contribution to Australian DFD.

This suggests the relatively large contribution of the public sector to the Territory economy, including the proportionally higher cost of providing government services to a small population and to remote areas. Additionally, lower household consumption can potentially be attributed to lower expenditure by remote or Indigenous households in the Territory.

Capital Formation

Private capital formation (that is, investment in infrastructure) in the Territory in the five years to 2007-08 contributed about 24.5 per cent of SFD, slightly higher than the 23.7 per cent contribution to Australian SFD. Public capital formation in the Territory over this period matches the national situation.

Outlook for 2009-10 and Beyond

The following are some key projects expected to contribute to the Territory economy over the next decade:

- 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.
- Inpex and the joint venture partners 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. An estimated \$12 billion would be spent over four to five years constructing the plant, with up to 2000 workers needed during construction. The joint venture partners are to decide when to start construction at the end of 2009 or early in 2010.

- 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.
- A gold, copper and cobalt processing plant at the Peko tailings mine east of Tennant Creek is to be constructed from 2009-10. However, due to weakening economic conditions, uncertainty surrounds the exact timing for start of processing.
- Some manufacturing of copper occurred at the Browns Oxide mine near Batchelor in late 2008, ceasing 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 proponent provides the prospect that the mine and processing facility will operate again.
- The availability of gas and the possible advent of emissions trading and carbon pricing also mean the Territory has the potential to become the home of energy intensive industry.
- 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 are to spend up to \$672 million by 2012-13 on housing and infrastructure in remote communities through the Strategic Indigenous Housing Infrastructure Program.
- The Commonwealth Nation Building and Jobs Plan will contribute an extra \$350 million to build or upgrade Territory school buildings, public and Defence housing and roads.
- In the Territory's urban centres, forecast population growth will require construction of more housing and associated utilities infrastructure. The Territory Government has commenced planning for the new satellite city of Weddell south of Palmerston, eventually to house up to 40 000 people.
- The Territory Government's Housing the Territory policy, with a 20-year land release program, accelerated release of land and improved planning and approval processes.
- Major residential construction projects understood to be starting in 2009-10 include the construction of housing in remote communities as part of the Territory Government's Closing the Gap policy (about \$31 million), and construction of the Bellamack Seniors Village by the Territory and Commonwealth governments (about \$10 million).

Northern Territory Treasury forecasts of some key indicators of the direction of the Territory economy from 2007-08 to 2012-13 are provided in Table 1.1.

Table 1.1: Summary of Territory
Economic Indicators

	2007-08	2008-09e	2009-10f	2010-11f	2011-12f	2012-13f
	%	%	%	%	%	%
Gross State Product ¹	3.9	4.1	2	3¼	3¼	3¼
State Final Demand	3.8	5.6	-5	5	5	5
Employment ¹	5.9	2.5	1½	2	2	2
Unemployment	4.4	3.7	5	5	5	5
Population ²	2.4	2.0	1.8e	1½	1½	1½
Consumer Price Index ³	3.4	4.0	2.6e	2½	2½	2½
Wage Price Index ³	3.9	4.3	3.8e	3½	3½	4
Mining and Energy ⁴	24.0	16.9	-7¾			
Retail Trade	8.0	8.4	1	4½	4½	4½
Construction Expenditure	-18.7	27.6	-22	26½	6¾	6¾
Engineering construction	-29.5	31.6	-38	14	14	14
Non-residential construction	12.1	22.0	-27	2¼	2¼	2¼
Residential construction	0.3	11.1	29	1	1	1
Exports	-5.3	9.5	-5			
Imports	-19.2	15.6	-12			
Trade Surplus	22.8	1.4	5½			

e: estimate; f: forecast

1 Year ended June, year-on-year percentage change

2 Year ended December, annual percentage change

3 Year ended December, year-on-year percentage change

4 Nominal terms

Source: Northern Territory Treasury; ABS Cat. Nos 5220.0, 6202.0, 3101.0, 6401.0

Appendix

Table A1.1: Industry Contributions to GSP and GDP, 2007-08

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
	%	%	%	%	%	%	%	%	%
Agriculture, forestry and fishing	1.2	2.7	2.6	5.4	2.4	4.6	1.8	0.1	2.3
Mining	2.8	1.8	9.8	3.2	28.6	2.6	23.6	0.1	7.6
Manufacturing	9.6	12.0	8.8	12.1	8.1	14.1	6.5	1.6	9.8
Electricity, gas and water	1.8	2.4	1.6	2.6	2.0	3.9	1.4	2.2	2.0
Construction	6.9	6.6	8.2	6.3	7.6	5.5	6.8	8.6	7.1
Wholesale trade	4.9	5.7	4.2	3.9	3.3	3.1	1.9	1.4	4.5
Retail trade	5.3	5.3	6.6	5.7	4.3	6.5	3.4	4.1	5.4
Accommodation, cafés and restaurants	2.2	5.3	2.4	2.1	1.1	2.6	2.2	1.7	1.9
Transport and storage	4.5	4.3	6.2	4.6	4.2	5.2	5.1	2.4	4.7
Communication services	2.5	3.1	2.1	2.2	1.8	2.3	2.1	2.1	2.4
Finance and insurance	10.1	8.7	5.0	5.9	3.9	5.8	3.2	3.4	7.4
Property and business services	14.2	13.1	10.3	9.4	10.9	6.1	8.9	12.5	12.2
Government administration and defence	3.4	2.5	4.1	3.4	2.1	5.3	7.0	28.9	3.8
Education	4.1	4.8	3.7	4.6	2.5	5.2	3.5	4.9	4.0
Health and community services	5.9	6.4	5.8	7.4	4.6	8.4	5.4	5.4	6.0
Cultural and recreational services	1.6	1.7	1.2	1.5	1.0	1.5	1.6	2.3	1.5
Personal and other services	1.7	1.8	1.8	2.3	1.6	1.9	2.8	2.4	1.8
Ownership of dwellings	8.6	7.5	7.6	8.5	5.8	7.2	7.5	7.8	7.7
Taxes less subsidies	8.7	8.2	8.2	8.8	4.2	8.1	5.2	8.2	7.7
Total	100	100	100	100	100	100	100	100	100

Source: ABS Cat. No. 5220.0