

## Chapter 6 Prices and Wages

### Key Points

- Year on year, Darwin's Consumer Price Index increased by 4.0 per cent in 2008. Growth in the first half of the year was offset by falls in inflationary pressure during the December 2008 quarter.
- Strong wages growth over the two years to 2008, in the Territory and nationally, reflects a tight labour market with skilled labour shortages especially in the property and business services, mining and construction sectors.
- In 2008, the Wage Price Index increased by 4.3 per cent in the Territory compared to 4.2 per cent nationally.
- Higher unemployment levels may result in a moderation of the Wage Price Index in 2009 and 2010.
- Inflationary pressures are expected to ease in the Territory in 2009 and 2010, with CPI growth forecast to moderate to 2.6 per cent (year on year) in 2009 and 2½ per cent in 2010.

### Background

Prices and wages determine purchasing power. Any increase in prices relative to wages may affect purchasing power and influence the standard of living.

Changes to prices and wages are measured by the Australian Bureau of Statistics (ABS) using the Consumer Price Index (CPI), as a measure of inflation, and also using the Wage Price Index (WPI). While CPI is measured for each of the eight capital cities, WPI is recorded nationally and for each state and territory. The CPI is measured by the ABS on a basket of goods and is designed to cover many aspects of the cost of living. The CPI basket is made up of 11 categories ranging from food to financial and insurance services.

On average, prices in the Territory are generally higher than other capital cities. This is primarily due to the small market size and geographical isolation. Historically, Darwin's CPI growth has tracked lower than the average of the eight capital cities. However, since 2006, growth in the Darwin CPI has generally tracked higher than the average of the state capitals. This is mainly due to price increases in the Darwin housing market, which has lagged behind the rest of Australia.

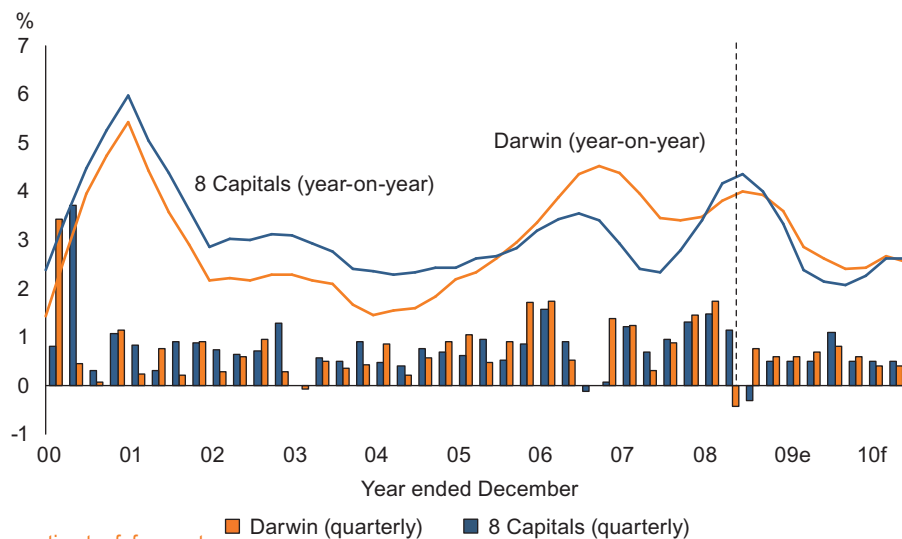
### Consumer Price Index

Inflation in 2008 was categorised in two parts. In the early part of 2008, inflation moved well above the Reserve Bank of Australia's (RBA) target range of 2 to 3 per cent, resulting in a number of interest rate increases by the RBA. Darwin's inflation rate for the year was ultimately 4.0 per cent (Chart 6.1).

Then, during the December quarter 2008, Darwin's annual CPI fell by 0.4 per cent, the largest quarterly decrease since the March quarter 1999. At the national level for the same period, CPI fell by 0.3 per cent, the largest quarterly decrease in the CPI since the September quarter 1997.

Underlying the change in CPI was the fall in crude oil prices in the second half of 2008.

Chart 6.1: Consumer Price Index



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

Table 6.1: Consumer Price Index, Darwin and 8 Capitals (annual, year-on-year percentage change)

As at December Quarter	Consumer Price Index		Annual % Change		Year-on-year % Change	
	Darwin	8 Capitals	Darwin	8 Capitals	Darwin	8 Capitals
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
2008	162.9	166.0	3.7	3.7	4.0	4.4
Compound Annual Average Growth %						
5 Years	3.3	3.1				
10 Years	2.9	3.1				

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

### Components of Price Inflation

For 2008, the housing category was the largest contributor to Darwin’s annual CPI growth, contributing 1.6 percentage points (43 per cent). Rents and house purchase prices accounted for 81 per cent of the housing category (see Chapter 9: Residential Property Markets).

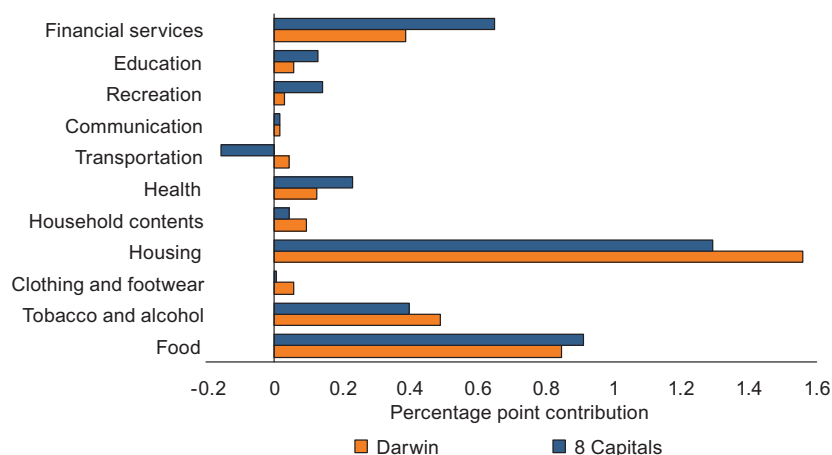
Increased food prices were the second largest contributor to Darwin’s annual inflation rate, contributing 0.85 percentage points. This was mainly due to the increased cost of meals out, takeaway foods, meats and seafood.

Alcohol and tobacco was the third largest contributor to annual inflation in Darwin, contributing 0.49 percentage points. This was mainly due to the increases in the excise tax charged by the Commonwealth on pre-mixed alcoholic beverages (alcopops).

Transport decreased by 1.03 percentage points in the December quarter 2008 from 1.07 to 0.04 percentage points, with fuel decreasing by 0.91 percentage points. This was responsible for a large part of the reduced growth of Darwin’s CPI in 2008.

The main differences between the Territory's annual inflation rate and the national rate were in the areas of housing (0.3 percentage points higher), and financial services (0.3 percentage points lower). This was due to falling house prices nationally and a greater decrease in the Territory's finance and insurance costs.

Chart 6.2: Annual Percentage Point Contribution to Change in CPI, 2008



Source: ABS Cat. No. 6401.0

## Monetary Policy

### Reserve Bank of Australia (RBA)

One of the functions of the RBA is to contain national inflation levels within a target band of 2 to 3 per cent. The RBA seeks to achieve this through incremental changes to the cash rate. A strong increase in national CPI in 2007 and 2008 resulted in the RBA increasing the official cash rate to 7.25 per cent in March 2008, in an attempt to slow demand and contain inflationary pressure.

Since the September quarter 2008, the RBA has shifted its stance, reducing interest rates by 4.25 percentage points to bring the official cash rate down to 3 per cent, the lowest level since 1960.

The RBA has indicated that it is unlikely to lower the official cash rate much below current levels, with only scope for modest adjustments. However, should growth slow substantially, it would not be unreasonable to expect further reductions in interest rates, particularly if inflationary pressures continue to ease.

Other central banks around the world have taken similar measures by cutting interest rates substantially to make borrowing cheaper and stimulate investment. The cash rate in the United States and Japan is currently sitting just above zero per cent. The effectiveness of the interest rate cuts is still uncertain, due to the reluctance of banks to lend money to the private sector.

## Wages

Since 2003, the resources boom and favourable economic conditions have led to above average wage growth in a number of sectors in the resource rich jurisdictions like the Northern Territory, Queensland and Western Australia. A combination of strong economic activity, combined with tight labour market conditions and ongoing skilled labour shortages, flowed through to sharp wages growth in 2008. However, as the economy slows and unemployment increases, particularly as construction and mining projects stall, it is expected that wages growth will moderate.

In the Territory, on average, wages are typically higher than wages at the national level. This is a result of a small population base and workforce pool, which means the Territory has to compete with other jurisdictions for skilled labour, particularly Queensland and Western Australia. A lack of skilled workers in the Territory means higher wages are paid to attract workers. Remoteness, low levels of unemployment and high participation rates of the non-Indigenous labour force also mean that employees have significant wage bargaining power and demand higher wages to compensate for the higher costs of living.

In 2008, the Territory's Wage Price Index (WPI) increased 4.3 per cent, higher than the 3.9 per cent reported in 2007. This is indicative of tight labour market conditions and skilled labour shortages in the first half of 2008. Nationally, WPI increased by 4.2 per cent in 2008, marginally higher than the 4.1 per cent growth recorded in 2007 (Table 6.2).

Table 6.2: Wage Price Index  
(year-on-year to December,  
percentage change)

	2003	2004	2005	2006	2007	2008
	%	%	%	%	%	%
Northern Territory						
Public	3.7	3.3	4.8	4.4	2.7	3.4
Private	2.6	3.4	4.1	3.5	4.8	4.9
Total	3.1	3.3	4.5	3.9	3.9	4.3
Australia						
Public	4.4	4.1	4.6	4.3	4.2	3.9
Private	3.3	3.4	3.9	3.9	4.1	4.2
Total	3.6	3.6	4.1	4.0	4.1	4.2

Source: ABS Cat. No. 6345.0

In the Territory, wages growth was most notable in the private sector, with growth in the WPI increasing by 4.9 per cent in 2008, 0.1 percentage points higher than 2007. This reflected the high demand for labour in the mining, construction and retail sectors.

Growth in the Territory's public sector WPI increased by 3.4 per cent in 2008, higher than the 2.7 per cent wages growth in 2007. The increase in public sector wages was primarily due to the signing of a number of enterprise bargaining agreements (EBAs) in 2008, where maintenance of wage parity for essential employees was the predominant influence on salary increases.

The Northern Territory Public Sector (NTPS) entered into an EBA in February 2008, which provides the majority of Territory public service employees with an 11 per cent pay increase, delivered over three years. The Northern Territory Police also negotiated an agreement, effective from 13 August 2008, to deliver a 12 per cent pay rise over the following three years. In December 2008, the Northern Territory branch of the Australian Teachers Union settled an agreement which will provide a 13 per cent pay rise over three years, backdated to February 2008. These EBAs will maintain wages growth in the Territory's public sector at current levels over the next few years.

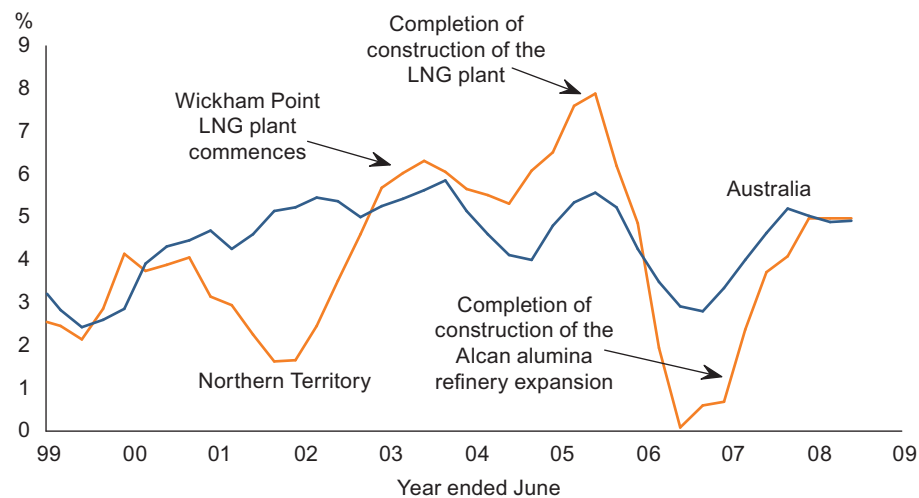
Treasury estimates that the Territory's WPI will moderate to 3.8 per cent in 2009 and then ease further to 3½ per cent in 2010 and 2011, before increasing to 4 per cent in 2012. Much of the forecast easing in wages growth is attributable to a slowdown in the private sector, with wages growth falling to 4.3 per cent in 2009 and 3½ per cent in 2010 before picking up again in 2012, increasing by 4 per cent. Public sector wages growth is expected to remain at current levels, growing by 3.6 per cent in 2009, before moderating slightly to 3 per cent in 2010 and 2012.

### Average Weekly Full-Time Adult Total Earnings

In the November quarter 2008, Average Weekly Earnings (AWE) in the Territory increased 5.0 per cent to \$1163.30, marginally higher than a 4.9 per cent national increase (\$1216.80) (Chart 6.3). It should be noted that 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 and changes to the survey sample.

Despite weakened economic conditions in the latter part of 2008, wages have continued to show strong growth. This is most likely the result of continued momentum from tight labour markets and strong economic growth in recent years. As wages are often fixed, due to signed workplace agreements and contracts, it may take some time before wages growth slows. However, as businesses reduce their demand for labour and the labour supply constraints in the mining and construction industries ease, wages growth will moderate.

Chart 6.3: Average Weekly Adult Full-Time Total Earnings (year-on-year percentage change)



Source: ABS Cat. No. 6302.0

### Regional Wage and Salary Statistics

In 2008, the ABS published Territory regional wage and salary earner statistics for 2004-05, which is the latest data currently available.

Impacts of the mining industry on incomes in the Territory are clear in regional areas, particularly Groote Eylandt (GEMCO manganese mining operations), Nhulunbuy (Alcan bauxite and alumina operations) and Jabiru (Energy Resources Australia uranium mining operations) reporting the highest average annum wage and salary incomes (Table 6.3). The next two locations reporting higher incomes were The Gardens and Fannie Bay in Darwin.

Table 6.3: Wage and Salary Earners, 2004-05 (Aged 15 and Over, by Statistical Subdivision)

Statistical Subdivision	Number	Average Income	Median Income
		\$	\$ <sup>1</sup>
Darwin City	33 735	46 009	41 622
Palmerston-East Arm	11 548	43 908	42 148
Litchfield Shire	7 233	44 732	41 236
Finniss	506	38 262	35 336
Bathurst-Melville	290	33 032	28 340
Alligator	1 474	43 276	38 312
Jabiru (T) <sup>2</sup>	490	50 915	46 297
Daly	462	33 644	28 932
East Arnhem	3 426	51 164	45 081
Groote Eylandt <sup>2</sup>	338	61 486	53 552
Nhulunbuy <sup>2</sup>	1 230	52 690	48 336
Lower Top End NT	4 579	41 019	38 821
Barkly	1 337	38 811	36 060
Central NT	13 705	40 430	36 912
Unknown NT	227	37 516	35 553

<sup>1</sup> Median not calculated for areas with fewer than 100 wage and salary earners

<sup>2</sup> Statistical Local Area

Source: ABS Cat. No.5673.0; Australian Taxation Office Individual Income Tax Return Data

The regional wage and salary statistics are derived from the Australian Taxation Office's Individual Income Tax Return Database. The data set includes persons aged 15 years and over who have submitted an individual income tax return and whose wage and salary income was the main source of income for the financial year.

The ABS use geographic concordances to distribute postcode data to statistical subdivisions. The concordances are based on estimated resident population for each particular year. It should be noted that some official postcodes do not correspond to the residential area, while concorded data may not truly reflect the distribution of the population, therefore data should be viewed with caution.

ABS data sets reporting on wages generally focus on the employment status of a person at a particular point in time, or surveying businesses about employee numbers and payroll. Therefore, this data set is not comparable with other ABS measures of wages such as Average Weekly Earnings or the Wage Price Index.

## Cost of Living

The average cost of living in the Territory is generally higher than in other jurisdictions, with higher prices for fuel, housing and groceries. This is a direct consequence of the small size and remoteness of the Territory market, resulting in less competition and higher transport costs in supplying the Territory with goods and services (see Chapter 15: Transport and Communication Infrastructure).

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 2008. This update suggests that the gap between Darwin and Perth has narrowed to 1.0 per cent, and that Darwin's cost of living is around 0.6 per cent lower than Sydney. This is a result of slower growth in Darwin's CPI since 1995, compared with both Sydney and Perth. Prices growth in Sydney and Perth relative to Darwin is higher for all categories of the CPI except for transportation, health and personal care and recreation and education.

The Territory Government will contribute \$131 million in 2009-10 to subsidise the cost to households across the Territory of electricity, water and sewerage services. Housing affordability measures are also being implemented (see Chapter 9: Residential Property Markets).

## Housing Prices

In the past five years, Darwin house prices as reported by the Real Estate Institute of the Northern Territory (REINT) have grown 88 per cent compared with 12 per cent nationally, while unit prices in Darwin have grown 133 per cent compared with 17 per cent nationally. The regional centres of Katherine (85 per cent), Tennant Creek (74 per cent) and Alice Springs (47 per cent) have also experienced strong house price growth.

In December 2008, the Real Estate Institute of Australia (REIA) and Deposit Power reported that the Territory has the second highest proportion of median weekly family income paid towards housing rents (28.7 per cent). Nationally, the proportion of median family income paid towards rental payments was lower (25.3 per cent). This is significant given that 48 per cent of households in the Territory rent a dwelling.

The Territory has the lowest home ownership rate in Australia. However, according to REIA-Deposit Power, the Territory is the second most affordable jurisdiction, despite being the only jurisdiction to decline in affordability over the year. Currently, Territorian households spend 24.6 per cent of median weekly family income on loan repayments, compared with 32.4 per cent nationally.

The average loan size in the Territory increased by \$60 367 in 2008 from \$218 705 to \$279 072, compared to the national average loan size of \$267 234. This equates to an average loan repayment of \$483 a week in the Territory, compared to \$462.50 nationally. Using Census 2006 data, it is estimated that 55 per cent of Territory family and lone person households earn \$1400 a week or less. At this income level, households would need to spend 35 per cent or more of household earnings to meet weekly loan repayments.

The REIA-Deposit Power housing affordability indicator is limited to median family income as a proportion of average loan size and does not calculate affordability for lone person households, or incorporate factors, such as type or quality of dwelling. This impacts the overall usefulness of the indicator in measuring housing affordability.

## Grocery Prices

Northern Territory Treasury surveys the cost of a standard basket of groceries twice a year, in 24 stores across the Territory and Queensland, with stores in Cairns and Mt Isa included for comparative purposes.

Table 6.4: Grocery Price Survey

	December 06	December 07	December 08	Annual change 07-08
	\$	\$	\$	\$
Darwin	186.38	175.67	183.26	4.3
Alice Springs	179.67	167.80	179.50	7.0
Katherine	184.80	177.04	183.21	3.5
Yulara	216.06	209.49	223.09	6.5
Nhulunbuy	221.97	215.52	218.94	1.6
Cairns	177.75	169.88	173.78	2.3
Mount Isa	180.94	174.59	176.20	0.9

Source: Northern Territory Treasury

The most recent survey reported an annual increase in grocery prices in 2008, with the smallest annual increase of 1.6 per cent reported for Nhulunbuy and the largest increase of 7.0 per cent reported for Alice Springs (Table 6.4). The increase in grocery prices across all centres largely reflects increases in fruit and vegetables, meat and seafood.

Prices for fruit and vegetables, 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.

Historically, the survey results have shown that the average cost of groceries is higher in the Territory than in far north Queensland, while larger centres are typically less expensive than more remote centres. This reflects higher freight costs, which have been more affected by significantly higher fuel prices than metropolitan centres, as well as the smaller market size and reduced competition in these centres.

It is expected that decreasing prices of rural commodities on the futures market, particularly grains and dairy products, in conjunction with decreased input prices, should result in lower food prices in 2009. Moreover, reduced cost of ingredients, fuel and plastics, should flow through to retail prices as retailers strive to increase sales in a challenging retail environment.

## Fuel Prices

In 2008, average unleaded petrol prices decreased significantly across the Territory, reaching levels not seen since August 2005. This was consistent with the movement in prices observed nationally, which declined rapidly in the latter part the year as the price of crude oil decreased significantly. However, the falling Australian dollar has offset some of the decrease in crude oil prices, which has not flowed through to petrol prices.

Table 6.5: Unleaded Retail Petrol and Crude Oil Prices

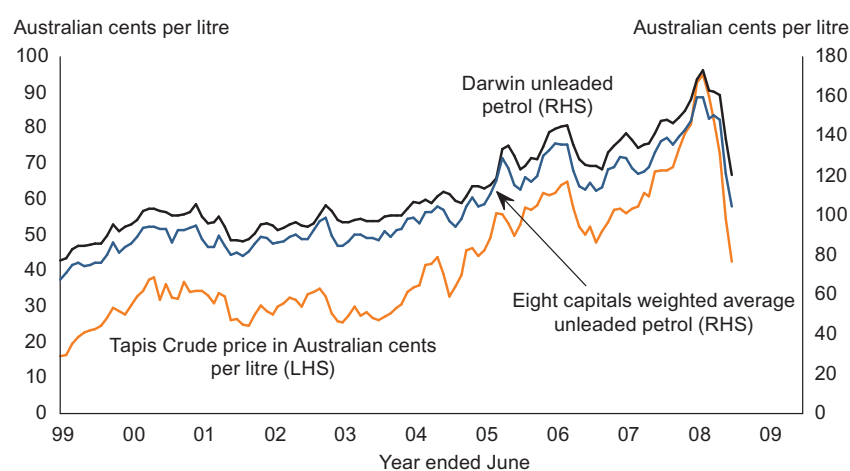
Retail petrol price (cpl)	December 07	December 08	% Change
Darwin	146.6	130.3	-11.1
Alice Springs	156.1	137.0	-12.2
Katherine	140.9	125.0	-11.3
Tennant Creek	157.4	135.6	-13.9
8 Capitals weighted average	135.5	121.0	-10.7
Tapis Crude price in US\$ per barrel	100.1	47.6	-52.5
Tapis Crude price in A\$ per barrel	109.7	73.0	-33.4

Source: Australian Automobile Association, Reserve Bank of Australia

Retail fuel prices in Darwin and regional centres across the Territory are consistently higher than in locations elsewhere in Australia because of the small size and remoteness of the market, resulting in higher operational cost structures than other jurisdictions. This in turn limits the ability to achieve economies of scale that can be passed on to consumers in the form of lower prices.

Retail petrol prices do not always respond immediately to falls in the price of crude oil. This is primarily due to the time lag between oil companies purchasing unleaded petrol in Singapore, transporting it to Darwin and then selling it on to retailers. There is currently no evidence to suggest that higher fuel prices in the Territory are due to price collusion or any other anti-competitive behaviour on the part of fuel retailers.

Chart 6.4: Unleaded Retail Petrol and Crude Oil Prices



Source: Australian Automobile Association, Reserve Bank of Australia

Crude oil prices rose steadily in the first half of 2008 from US\$98 a barrel in January 2008 to a record high of around US\$145 a barrel in July 2008 (as measured by the Tapis benchmark). However, since then, oil prices fell dramatically to US\$45 by December 2008. The main drivers of the fall include falling demand linked to consumers responding to record high petrol prices and slowing global economic growth. The recent fall in the Australian dollar against the US dollar has partially offset the fall in crude oil prices.

In the Territory, Tennant Creek had the highest average fuel prices of the regional centres, reported by the Australian Automobile Association, reflecting its distance from refineries and low volume turnover. In 2008, Katherine had the lowest average automotive fuel prices in the Territory, reflecting the more competitive nature of retail outlets in the town.

## Outlook

The Territory economy is expected to slow in 2009 and 2010 as uncertainty in world financial and lower demand in commodity markets affects the Territory's economy.

Treasury estimates that Darwin's CPI will increase by 2.6 per cent in 2009 and moderate to 2½ per cent annual growth for 2010 to 2012. Treasury forecasts incorporate the introduction of utilities tariff increases by the Power and Water Corporation in 2009-10 and 2010-11. However, forecasts do not include the possible implementation of a Carbon Pollution Reduction Scheme (CPRS) scheduled for the end of 2010, due to unconfirmed timing and structure of the scheme. Commonwealth Treasury modelling shows that the implementation of the CPRS would result in a spike in CPI levels.

The main reasons for the forecast of lower growth in the CPI in 2009 and 2010 are lower fuel and transport costs, subdued consumer spending and a significant fall in commodity prices. Offsetting this negative outlook is lower interest rates, lower transport costs, and increased spending by the Commonwealth. Further, the recent depreciation of the Australian dollar should help dampen the impact of global events by making exports more attractive to the Territory's trade partners and insulate companies operating in import competing sectors.

Increased unemployment levels, and reduced consumer confidence are likely to result in precautionary saving in 2009, as consumers tighten their belts in uncertain economic times. Moreover, high inventory levels due to softening retail trade are likely to force retailers to drop their prices, in an attempt to entice customers to spend in tough retail conditions.

In 2009 crude oil is expected to continue trading at current price levels despite speculation of supply cuts from OPEC. Slowing global economic growth should result in reduced demand for energy and crude oil, keeping prices relatively low. Commodity prices are also expected to remain at low levels due to bearish market sentiment and a slowdown in global production.

In the Territory, decreases in transportation costs, commodities, and inputs to production should help alleviate inflationary pressures. However, continued pressure in the rental and housing market, may offset some of this reduction.

Increased unemployment levels and tougher employment conditions is expected to result in slower wages growth. In the Territory, decreased demand in the mining and construction sectors should alleviate skilled labour shortages and ease labour market conditions. Wages growth in the public sector should remain at current levels, due to the signing of a number of EBA agreements in 2008, which will remain in effect until 2011.