

# BUDGET 2016-17

## Northern Territory Economy Overview





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The Economy Overview is a summarised assessment of the Northern Territory economy, including a brief description of recent activity and outlook across a number of key economic indicators including: economic growth, the structure of the economy, the external economic environment, population, labour market, prices and wages, and the residential property market. There is also some discussion on performance and outlook for key industries. A more detailed document, Northern Territory Economy can be accessed on [www.budget.nt.gov.au](http://www.budget.nt.gov.au)

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# Structure of the Economy

Table 1: Territory Key Economic Indicators (%)

|                                   | 2014-15 | 2015-16e | 2016-17f | 2017-18f | 2018-19f | 2019-20f |
|-----------------------------------|---------|----------|----------|----------|----------|----------|
| Gross state product <sup>1</sup>  | 10.5    | 2.1      | 1.5      | 5.0      | 4.1      | 3.8      |
| State final demand <sup>1</sup>   | 8.3     | - 5.4    | - 2.3    | - 1.8    | 3.9      | 3.7      |
| Population <sup>2</sup>           | 0.1     | 0.6      | 1.0      | 1.0      | 1.3      | 1.5      |
| Employment <sup>3</sup>           | - 0.6   | 1.5      | 0.3      | 0.7      | 0.7      | 0.8      |
| Unemployment rate <sup>4</sup>    | 4.2     | 4.6      | 4.4      | 4.4      | 4.7      | 4.7      |
| Consumer price index <sup>3</sup> | 1.4     | - 0.3    | 0.7      | 1.6      | 2.1      | 2.6      |
| Wage price index <sup>3</sup>     | 2.6     | 2.2      | 1.9      | 2.3      | 2.5      | 2.7      |

e: estimate; f: forecast

1 Year ended June, year-on-year percentage change, inflation adjusted.

2 As at December, annual percentage change.

3 Year ended June, year-on-year percentage change.

4 Year average.

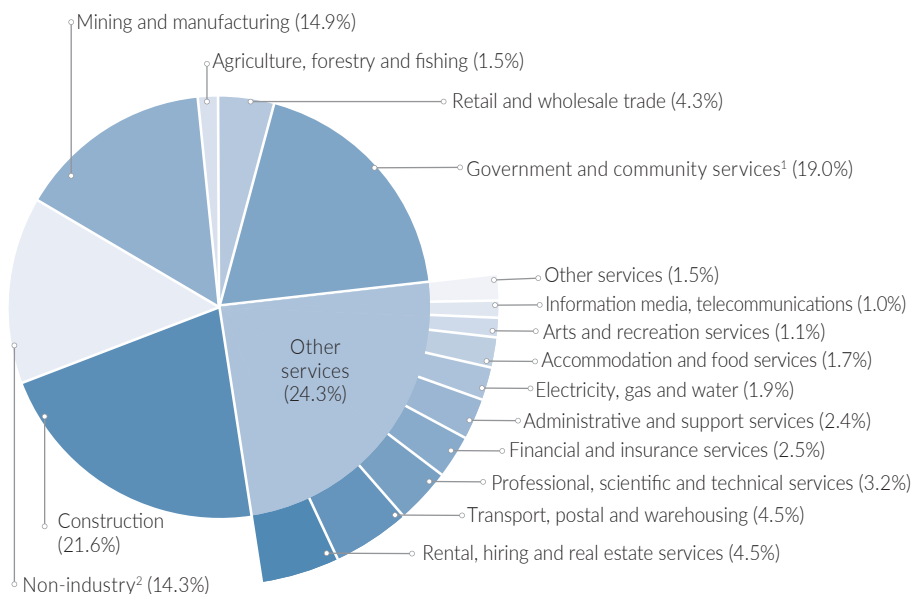
Source: Department of Treasury and Finance, ABS

The structure of the Northern Territory economy is markedly different to the national economy, reflecting the Territory's abundant natural resources, large public sector and defence presence, and a small open economy that is significantly influenced by major projects (Chart 1).

The Territory economy has grown considerably over the past decade, from a value of \$15 billion in 2004-05 to over \$22 billion in 2014-15, while the population has increased by an additional 40 000 people to just under 245 000. The Territory's labour force has also expanded over this period, increasing by around 35 000 to nearly 140 000.

There has been a rapid expansion of the role that investment plays in driving the Territory's economy, with investment contributing 48 per cent of state final demand in 2014-15, compared to less than 30 per cent five years ago.

Chart 1: Contributions to GSP, 2014-15



GSP: gross state product

1 Government and community services includes public administration and safety; education and training; and health care and social assistance industries.

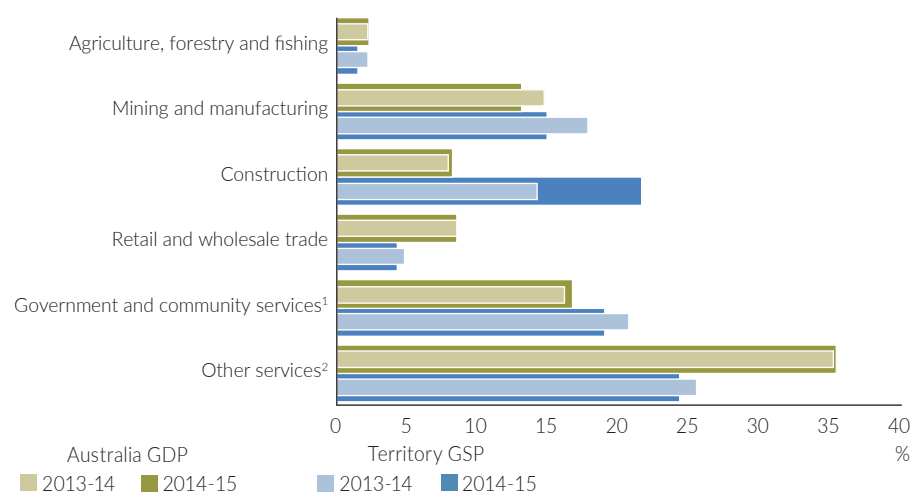
2 Non-industry components of GSP include ownership of dwellings, taxes less subsidies and statistical discrepancy.

Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

In recent years, largely due to the effect of major infrastructure projects and mine expansions, construction has overtaken mining as the largest single industry in the Territory. Construction, mining and manufacturing, and government and community services, combine to account for about half of the Territory's gross state product (GSP), compared to about a third of national gross domestic product (GDP) (Chart 2).

Government and community services, construction, and retail and wholesale trade were the Territory's largest employing industries in 2014-15.

Chart 2: Key Industry Proportion of GSP and GDP



GSP: gross state product; GDP: gross domestic product

1 Government and community services includes public administration and safety; education and training; and health care and social assistance industries.

2 Other services includes electricity, gas and water; accommodation and food services; transport, postal and warehousing; information, media and telecommunications; financial and insurance; rental, hiring and real estate; professional, scientific and technical; administrative and support; arts and recreation; and other services.

Source: ABS, *Australian National Accounts: State Accounts, Cat. No. 5220.0*

From 2016-17, the Territory economy faces a range of challenges following a sustained period of record growth across most key industries. As the impact of large resource-based projects move beyond their peak, GSP, business investment, employment and population are expected to moderate in the short term, from historical highs.

Despite these challenges, the Territory is well positioned to take advantage of a number of opportunities that are likely to re-shape the structure of the Territory economy throughout the forecast period and into the next decade. The Territory's position as a gateway to Asia, a key defence hub, world renowned tourist attractions and a rich diversity of mineral, gas, petroleum and agricultural resources all provide the strategic opportunities required to underpin future growth. These strategic advantages also provide opportunities for growth in service industries such as health, education and research.

# Economic Growth

## Recent Results

Territory economic growth increased by 10.5 per cent in 2014-15, four times the national growth rate.

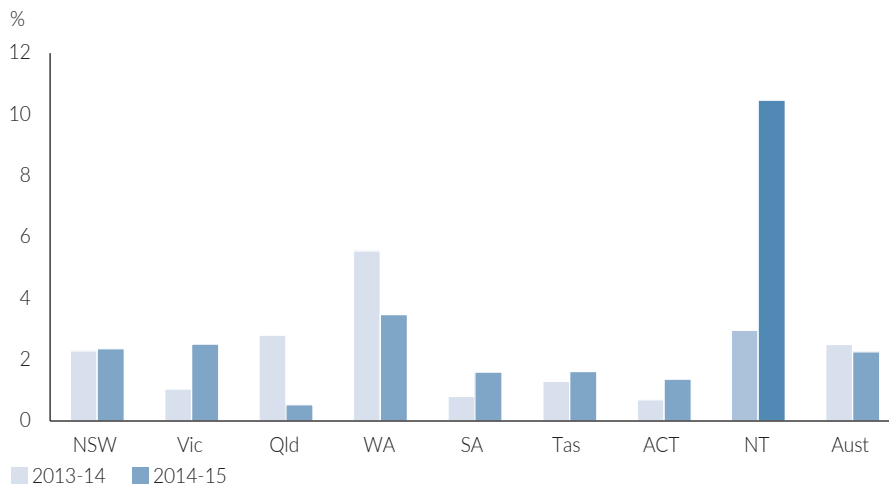
## Outlook

Economic growth is expected to moderate over the short term as private investment retracts from historical highs, before accelerating as exports from the Ichthys liquefied natural gas plant commence in 2017-18.

## Recent Activity

The Territory economy expanded by 10.5 per cent in 2014-15, the highest growth rate since 1998-99. This was also the highest rate of growth among all jurisdictions and was more than four times the national growth rate of 2.3 per cent (Chart 3).

Chart 3: Change in GSP and GDP<sup>1</sup>



GSP: gross state product; GDP: gross domestic product

<sup>1</sup> Inflation adjusted.

Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Business investment continued to be the major driver of economic growth for the Territory in 2014-15, increasing by 18.7 per cent, the fourth consecutive year of strong growth. Business investment is expected to return to more sustainable levels over the medium term.

Net exports detracted from growth in 2014-15, largely due to goods imports increasing by over 50 per cent, reflecting the import of pre-assembled modules for the Ichthys liquefied natural gas (LNG) project. Following the closure of a number of iron ore mines in the Territory, a decline in exports also detracted from net exports in 2014-15.

Growth in household consumption continued to slow in 2014-15, increasing by 1.6 per cent, compared to 2.0 per cent in the previous year. The moderation in household consumption was broadly in line with low population growth and a subdued labour market in 2014-15.

## Outlook

Table 2: Economic Growth (%)

|                                  | 2014-15 | 2015-16e | 2016-17f | 2017-18f | 2018-19f | 2019-20f |
|----------------------------------|---------|----------|----------|----------|----------|----------|
| Gross state product <sup>1</sup> | 10.5    | 2.1      | 1.5      | 5.0      | 4.1      | 3.8      |
| State final demand <sup>1</sup>  | 8.3     | - 5.4    | - 2.3    | - 1.8    | 3.9      | 3.7      |

e: estimate; f: forecast

<sup>1</sup> Inflation adjusted.

Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Following the record rate of growth of 10.5 per cent experienced in 2014-15, economic growth in the Territory is expected to slow to 2.1 per cent in 2015-16 as the economy commences a period of transition from investment-led activity to growth driven by production and exports (Table 2). This estimate reflects a marked decline in private investment compared to the record levels reached the previous year, which will be partly offset by strengthening public consumption as well as an improvement in the Territory's net trade balance.

Recent data from the Australian Bureau of Statistics (ABS) suggests the levels of private investment have reached a turning point and, as a result, the value of private investment is expected to decline from 2015-16.

The Territory Government's \$1.7 billion infrastructure spend in 2016-17 is expected to sustain strong growth in public investment. However, the increase in public investment is not likely to offset the decline in private investment.

Following subdued growth in 2014-15, growth in household consumption is expected to continue to moderate in 2015-16. The moderation is expected to result from subdued population growth over the year and a slowing housing market reducing demand for consumer goods. However, this may be partly offset by an improvement in the Territory's labour market over 2015-16, which may help to lift consumer confidence.

Growth in public consumption, which is strongly influenced by public sector staffing levels and wages, is expected to begin to return to long-term trend levels from 2015-16, as national government consumption returns to growth following a period of decline.

In 2016-17, imports into the Territory are expected to continue to contract as construction of the Ichthys LNG project nears completion. A lower Australian dollar may also keep imports subdued, as higher prices for imported consumer goods detracts from online spending.

Exports from the Ichthys LNG project are expected to commence from 2017-18. This will provide a substantial boost to Territory exports and is expected to be a key driver of economic growth in that year and continue to support Territory net exports into the future.

# External Economic Environment

## Recent Results

Net exports in the Territory have moderated, with exports slowing and imports increasing significantly.

## Outlook

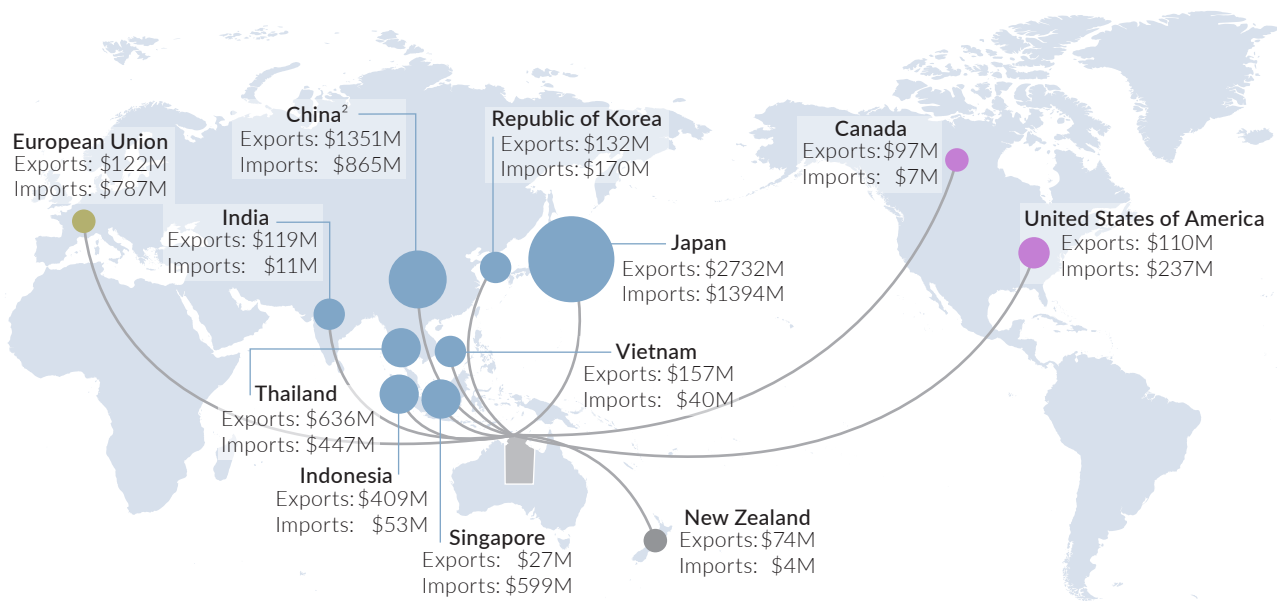
Net exports are expected to remain at subdued levels in 2015-16 and 2016-17, followed by improvements in outer years.

The economic performance of the Territory economy is significantly influenced by external factors including international trade and investment, movements in exchanges rates, global commodity prices and economic conditions in other states and territories.

## Territory International Trade

In 2014-15, the Territory's net international trade balance decreased to \$1.2 billion, down from \$3.4 billion in 2013-14 in inflation adjusted terms. This was driven by a decline in exports, largely as a result of decreases in world commodity prices for mining-related products, as well as an increase in imports mainly related to construction of the Ichthys LNG project. The value of goods-trade between the Territory and its major trading partners are illustrated in Map 1, with key trade items including LNG, live animals, petroleum, structural steel and travel services.

Map 1: Territory's Major Goods Trading Partners 2014-15<sup>1</sup>



1 Current prices.

2 Excluding special administrative regions (Hong Kong and Macau) and Taiwan.

Source: Department of Treasury and Finance; ABS, *International Trade in Goods and Services*, Cat. No. 5368.0

Over the forecast period, growth in the Territory's international trade balance is expected to remain at subdued levels in 2015-16 and 2016-17, then improve in the outer years as exports from the Ichthys LNG project commence. Further, the Territory is strategically placed to benefit from strongly growing Asian economies, with Darwin located close to key Asian trading partners.



## Global Economy

Global economic activity in 2015-16 appears to be driven by three key influences, which are expected to continue into the forward years. These are a gradual slowdown and rebalancing of economic activity in China; steady growth in the United States (US), resulting in an appreciation of the US dollar; and a broad-based decline in global commodity prices.

Global economic conditions have largely affected the Territory's mining industry, with a number of mines closing in 2014-15 due to low mineral commodity prices. However, the depreciation in the Australian dollar exchange rate has likely been a driver of increased international visitors to the Territory in recent years.

The International Monetary Fund (IMF) forecasts global growth of 3.2 per cent in 2016 and improving in the medium term, driven by emerging markets and developing economies (Table 3). The IMF's forecasts for the Territory's major trading partners appears positive, averaging 4.3 per cent annually, with the Territory strategically placed to benefit from strong growth in Asian economies.

Table 3: GDP Growth for the Territory's Current Major Trade Destinations, Australia and World Regions (%)

| GDP Growth <sup>1</sup>                   | 2015             | 2016e | 2017f | 2018f | 2019f | 2020f |
|-------------------------------------------|------------------|-------|-------|-------|-------|-------|
| Japan                                     | 0.5              | 0.5   | -0.1  | 0.4   | 0.7   | 0.7   |
| China                                     | 6.9              | 6.5   | 6.2   | 6.0   | 6.0   | 6.0   |
| Thailand                                  | 2.8 <sup>2</sup> | 3.0   | 3.2   | 3.1   | 3.1   | 3.1   |
| Indonesia                                 | 4.8 <sup>2</sup> | 4.9   | 5.3   | 5.5   | 5.8   | 6.0   |
| Vietnam                                   | 6.7 <sup>2</sup> | 6.3   | 6.2   | 6.2   | 6.2   | 6.2   |
| Singapore                                 | 2.0 <sup>2</sup> | 1.8   | 2.2   | 2.5   | 2.7   | 2.8   |
| India                                     | 7.3              | 7.5   | 7.5   | 7.6   | 7.7   | 7.7   |
| Australia                                 | 2.5              | 2.5   | 3.0   | 3.0   | 2.9   | 2.8   |
| Emerging markets and developing economies | 4.0              | 4.1   | 4.6   | 4.8   | 5.0   | 5.1   |
| Advanced economies                        | 1.9              | 1.9   | 2.0   | 2.0   | 1.9   | 1.8   |
| Global                                    | 3.1 <sup>2</sup> | 3.2   | 3.5   | 3.6   | 3.8   | 3.8   |

GDP: gross domestic product; e: estimate; f: forecast

1 Inflation adjusted.

2 Estimate.

Source: International Monetary Fund

## National Economy

The Australian economy is transitioning away from mining-led growth. This is reflected in changes to GSP growth across jurisdictions over the past two years, with growth moderating in mining-based states and growth strengthening in the southern and eastern states.

The 2016-17 Commonwealth Budget forecasts economic growth in Australia to be 2.5 per cent in 2015-16 and 2016-17, increasing to around 3.0 per cent in 2017-18. This will likely be driven by investment from non-resource sectors and domestic demand, as well as supported by low interest rates following the Reserve Bank of Australia (RBA) decreasing the cash rate to a record low in May 2016. Performance of the national economy influences interstate trade, domestic tourism and employment.

# Population

## Recent Results

Population growth has been subdued due to record net interstate migration outflows and net overseas migration declining after record highs in recent years.

## Outlook

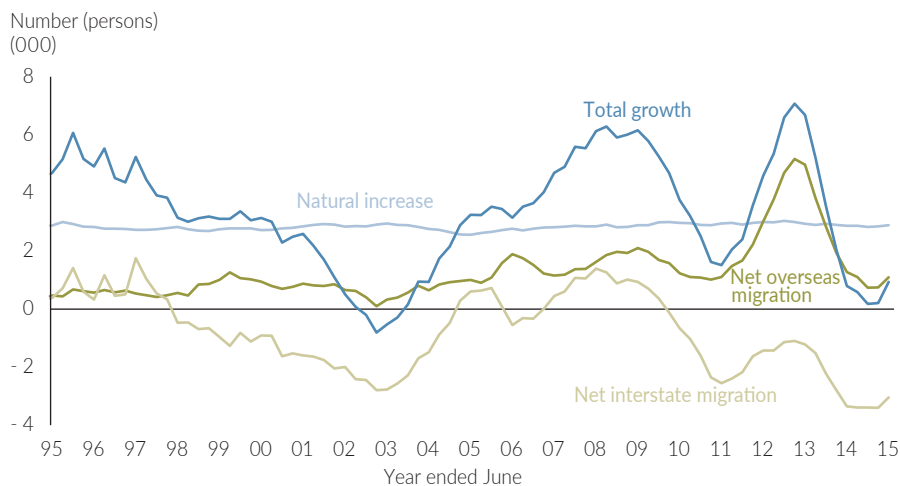
Population growth is anticipated to remain steady in the short term before improving to long-term average levels.

The Territory's population, representing about 1 per cent of the total Australian population, resides in the third largest Australian jurisdiction by geographical area. The population is relatively young, with a median age of 32.2 years, in comparison with 37.4 years for Australia. The Territory's gender balance is skewed, with 112 males for every 100 females, compared to 99 males for every 100 females nationally. Indigenous people comprise about a third of the Territory's total population, 79.7 per cent of whom live in remote and very remote areas. Population change within the Territory is characterised by volatility, mainly driven by movement of the non-Indigenous population to and from the Territory, largely in response to employment opportunities within and outside the Territory.

## Population Growth

The Territory's estimated resident population (ERP) grew by 0.4 per cent to 244 307 in the year to 30 June 2015. Population growth attributable to natural increase (births minus deaths) and net overseas migration (NOM) was partially offset by population loss from net interstate migration (NIM) (Chart 4). Natural increase is a relatively stable contributor to overall population growth, accounting for just under 3000 persons per annum on average.

Chart 4: Components of Population Growth (moving annual total)



Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

NOM has been a positive contributor to population growth in the Territory over the past 20 years and in 2014-15 added 1093 people to the Territory's population, returning close to average levels (20-year average of 1329) from the high of 4966 in 2012-13. NIM in the Territory is highly volatile and it typically detracts from population growth. In 2014-15 there was a net loss of 3038 people from the Territory to other jurisdictions, slightly fewer than 2013-14 (3344 people) when NIM outflows were at their highest level in 20 years and a significantly greater loss than the 20-year NIM average annual loss of 875 people. The net loss of interstate migrants in 2014-15 can be largely attributed to a decline in the number of interstate arrivals. In 2014-15 the number of interstate arrivals was 14 041, well below the 20-year annual average of 16 037 interstate arrivals.

## Regional Population

Table 4 shows the ERP (at 30 June 2015), population share and the annual and five-year growth rates (2010 to 2015) for the regions and major towns of the Territory. Greater Darwin recorded the highest annual population growth (1.9 per cent) of all Territory regions between June 2014 and June 2015, followed by the Barkly region (1.4 per cent). Population in the East Arnhem and Alice Springs regions declined in 2014-15 (-11.4 per cent and -0.6 per cent, respectively). The decline in East Arnhem was due to a reduction in the population of Nhulunbuy (-46.4 per cent), which continued from 2013-14, as a result of the closure of the Gove alumina refinery.

Table 4: Regional Population and Major Townships Estimated Resident Population

|                            | ERP <sup>1</sup> | Proportion of Total Population | Annual Population Change <sup>2</sup> | 5-Year Average Annual Population Change <sup>3</sup> |
|----------------------------|------------------|--------------------------------|---------------------------------------|------------------------------------------------------|
|                            | Number           | %                              | %                                     | %                                                    |
| <b>Region<sup>4</sup></b>  |                  |                                |                                       |                                                      |
| Greater Darwin             | 142 258          | 58.2                           | 1.9                                   | 2.2                                                  |
| Alice Springs              | 40 951           | 16.8                           | - 0.6                                 | - 0.1                                                |
| Katherine                  | 21 341           | 8.7                            | 0.7                                   | 0.9                                                  |
| Daly-Tiwi-West Arnhem      | 18 923           | 7.7                            | 0.7                                   | 1.3                                                  |
| East Arnhem                | 13 982           | 5.7                            | - 11.4                                | - 2.6                                                |
| Barkly                     | 6 852            | 2.8                            | 1.4                                   | 0.9                                                  |
| <b>Total</b>               | <b>244 307</b>   |                                | <b>0.4</b>                            | <b>1.2</b>                                           |
| <b>Major Townships</b>     |                  |                                |                                       |                                                      |
| Darwin <sup>5</sup>        | 118 989          | 48.7                           | 1.2                                   | 1.9                                                  |
| Alice Springs <sup>6</sup> | 25 432           | 10.4                           | - 1.2                                 | - 0.3                                                |
| Katherine                  | 11 147           | 4.6                            | 0.6                                   | 1.1                                                  |
| Tennant Creek              | 3 636            | 1.5                            | 1.0                                   | 0.6                                                  |
| Nhulunbuy                  | 2 074            | 0.8                            | - 46.4                                | - 12.8                                               |

1 ERP at 30 June 2015.

2 Annual change in ERP between 30 June 2014 and 30 June 2015.

3 Average annual change in ERP between 30 June 2010 and 30 June 2015.

4 ABS Statistical Area 3 (SA3) and SA4 (Greater Darwin).

5 Comprising SA3s of Darwin City, Darwin Suburbs and Palmerston.

6 Comprising SA2s of Charles, East Side, Flynn, Larapinta and Mount Johns.

Source: ABS, *Regional Population Growth, Australia*, Cat. No. 3218.0

## Outlook

Table 5: Population Growth, Forecasts (%)

| Calendar Year     | 2014 | 2015e | 2016f | 2017f | 2018f | 2019f |
|-------------------|------|-------|-------|-------|-------|-------|
| Population growth | 0.1  | 0.6   | 1.0   | 1.0   | 1.3   | 1.5   |

e: estimate; f: forecast

Source: Department of Treasury and Finance; ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

Population growth is expected to have strengthened from 0.1 per cent in 2014 to 0.6 per cent in 2015 as the workforce requirements for the construction phase of the Ichthys LNG project drew people to the Territory (Table 5). Population growth is forecast to remain below the historical average over 2016 and 2017 at 1.0 per cent, before transitioning to 1.5 per cent around 2019, just below the long-term average.

# Labour Market

## Recent Results

The Territory’s labour market has been subdued due to an easing in the mining and construction sector.

## Outlook

In the short term the labour market is anticipated to improve, but will be affected in the medium term by the completion of major projects.

The Territory consistently records low unemployment and high labour force participation compared to other jurisdictions in Australia. These features mean the Territory is reliant on interstate and overseas workers to meet growth in the demand for labour associated with major projects and other economic activity. However, the number of fly-in fly-out (FIFO) workers who reside in other jurisdictions is not captured in the ABS’ labour force survey and therefore the statistics do not fully reflect the number of people working in the Territory.

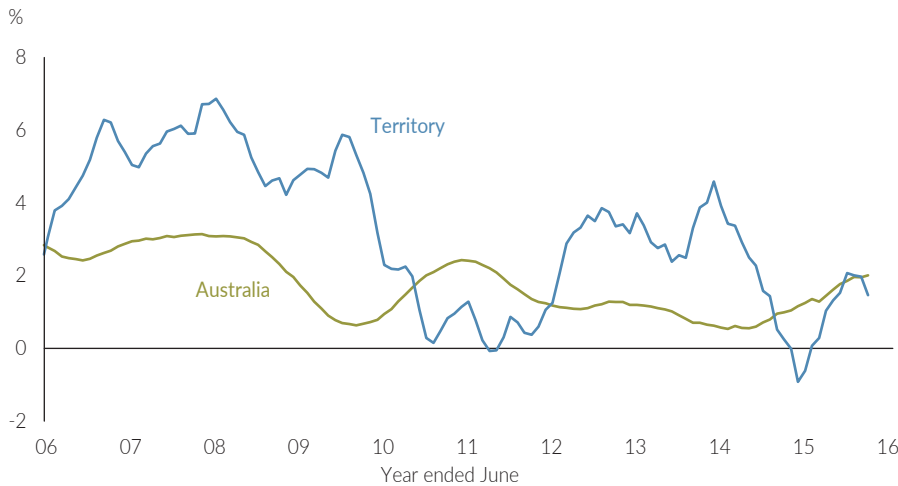
The Territory’s labour market is heavily influenced by major projects, which reflects in volatile employment growth rates when reported at the industry level.

## Employment

Employment in the Territory moderated in 2014-15, with employment levels decreasing by 0.6 per cent to an annual average of 131 350 (Chart 5).

The decrease in employment is likely due to a reduction in mining activity and a moderation in residential building. This followed strong growth in 2013-14, which saw employment grow by 3.9 per cent likely due to the large labour demand associated with the Ichthys LNG project.

Chart 5: Year-on-Year Change in Employment



Source: ABS, *Labour Force, Australia*, Cat. No. 6202.0

The construction industry’s contribution to Territory employment has been strong in recent years with the high level of residential construction and construction associated with the Ichthys LNG project. Construction contributed 11.4 per cent to Territory employment in 2014-15, compared to 10 years ago when the construction industry contributed 9.5 per cent to Territory employment.

## Unemployment

In 2014-15, the Territory's average annual unemployment rate decreased by 0.2 percentage points to 4.2 per cent, recording the lowest annual average unemployment rate of all jurisdictions. The decline in the unemployment rate coupled with the decline in employment suggests that interstate departures have contributed to the decline in the unemployment rate, with workers moving interstate due to the closure of the alumina refinery in Gove along with the scaling back or closure of other mining operations. This is reflected by a 1 percentage point fall in the Territory's average participation rate to 74.2 per cent.

According to the Commonwealth Department of Employment, the annual average unemployment rate fell across all Territory regions in 2015, with the exception of Greater Darwin. Despite the increase, the unemployment rate in Greater Darwin remains the lowest of all Territory regions at 3.3 per cent in 2015. In other regions the annual average unemployment rate in 2015 was 4.0 per cent in Alice Springs, 5.7 per cent in the Katherine region and 8.9 per cent in the Barkly region.

The annual average unemployment rate for the Territory in the year to March 2016 was 4.4 per cent and is trending upwards towards the estimated annual average unemployment rate of 4.6 per cent for 2015-16.

## Outlook

Table 6: Territory Labour Market Forecasts (%)

|                                | 2014-15 | 2015-16e | 2016-17f | 2017-18f | 2018-19f | 2019-20f |
|--------------------------------|---------|----------|----------|----------|----------|----------|
| Employment <sup>1</sup>        | - 0.6   | 1.5      | 0.3      | 0.7      | 0.7      | 0.8      |
| Unemployment rate <sup>2</sup> | 4.2     | 4.6      | 4.4      | 4.4      | 4.7      | 4.7      |

e: estimate; f: forecast

1 Year-on-year change in resident civilian employment.

2 Annual average.

Source: Department of Treasury and Finance; ABS, *Labour Force, Australia*, Cat. No. 6202.0

Employment growth in the Territory is forecast to be 1.5 per cent in 2015-16, slightly below the long-term average but recovering from a decrease in 2014-15 (Table 6). The Ichthys LNG project has been a strong driver of employment in the Territory in recent years and as such, fluctuations in the workforce of the project will strongly influence employment forecasts over the next few years.

The construction phase of the Ichthys LNG project is expected to see employment continue to increase in the short term with this effect already showing in stronger year-to-date employment growth figures in 2015-16. Employment growth for 2016-17 is anticipated to be more modest, driven by smaller scale construction and strengthening growth in consumption as the Ichthys LNG project moves into the operational phase in 2017-18.

The Territory's unemployment rate is forecast to increase in 2015-16 and return to historical trend levels in the medium term. Despite the forecast increase, the Territory's unemployment rate is expected to remain one of the lowest of all jurisdictions.

## Prices and Wages

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### Recent Results

Growth in the Territory's consumer price index is at its lowest level since 1998, mainly driven by lower costs associated with reductions in housing rents, fuel, power prices and domestic holiday travel.

Moderation in Territory wages growth reflects moderate increases in both the private and public wage price index.

### Outlook

The outlook for growth in the Darwin consumer price index remains below the average of the eight capitals in the short term, but trending upwards over the outer years.

Growth in the Territory's wage price index is expected to remain subdued in the medium term, increasing in the outer years.

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Inflation measures the change in the general level of consumer prices over a given period of time. The consumer price index (CPI) provides a basic measure of inflation through the changes in prices of a representative basket of goods and services, as measured by the ABS.

## Consumer Price Index

The Darwin CPI increased by a modest 1.4 per cent in 2014-15, a substantial decline from 3.7 per cent growth in the previous year, primarily due to declines in the costs of transport (predominantly fuel and motor vehicles). The Darwin CPI also observed low growth in both recreation and culture, and household contents and services categories. Alcohol and tobacco (mainly due to tobacco excise) along with health and education represented the largest percentage increases in costs over 2014-15, however, this represented only a 0.82 percentage point contribution to the Darwin CPI.

In the year to March 2016, the annual Darwin CPI declined 0.3 per cent, this reflects continued moderation of costs across many components of the CPI basket, including electricity prices, housing and transport, and compares with growth of 1.3 per cent for the eight capital cities' CPI over the same period.

## Wages

In 2014-15, the Territory's wage price index (WPI) recorded an increase of 2.6 per cent compared to 2.4 per cent nationally. WPI growth in the Territory reached historically low levels in 2014-15, well below the 10-year average increase of 3.6 per cent, mostly reflecting a decline in the private sector, consistent with softening demand for labour.

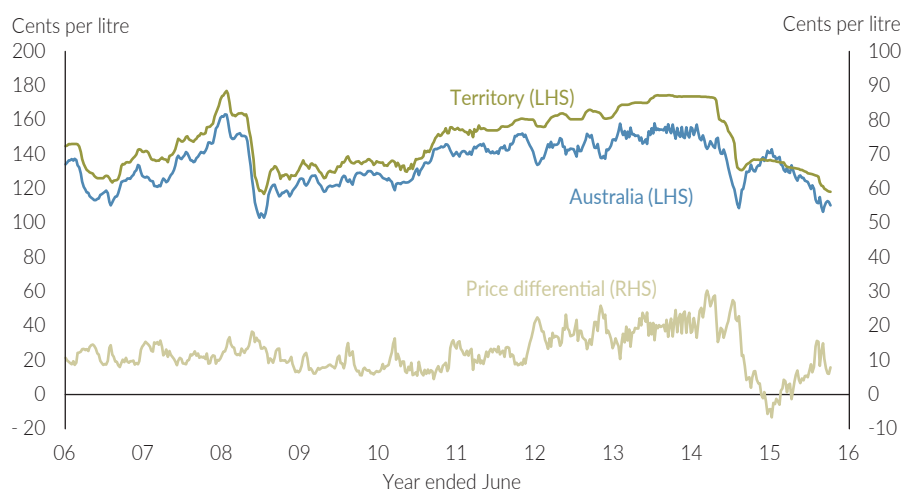
## Territory Fuel Market

Retail fuel prices in the Territory tend to be higher compared to the rest of Australia due to relatively lower sales volumes per retail outlet, transport costs associated with distributing fuel across long distances in the Territory and lack of retail competition in regional areas.

Territory retail fuel prices are also influenced by world oil prices, which are expected to increase modestly over the medium term, driven by steady demand for oil, particularly in developing countries, largely keeping pace with supply.

Throughout 2014-15, the Territory fuel market experienced declines in fuel prices, with the weekly average retail price of unleaded petrol (ULP) and diesel fuel declining 37.0 cpl and 35.6 cents per litre (cpl) through the year, respectively. This trend has continued into 2015-16, with retail prices in the Territory at the lowest levels over the past 10 years (Chart 6). The decline coincided with a number of Territory Government fuel initiatives and release of the Australian Competition and Consumer Commission's Report on the Darwin Petrol Market as well as declines in global crude oil prices.

Chart 6: Average Weekly Unleaded Petrol Retail Price



LHS: left-hand side; RHS: right-hand side  
Source: Australian Institute of Petroleum

## Outlook

Table 7: Growth in the Darwin Consumer Price Index and Territory Wage Price Index (%)

|                      | 2014-15 | 2015-16e | 2016-17f | 2017-18f | 2018-19f | 2019-20f |
|----------------------|---------|----------|----------|----------|----------|----------|
| Consumer price index | 1.4     | -0.3     | 0.7      | 1.6      | 2.1      | 2.6      |
| Wage price index     | 2.6     | 2.2      | 1.9      | 2.3      | 2.5      | 2.7      |

e: estimate; f: forecast

Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0, *Wage Price Index, Australia*, Cat. No. 6345.0; Department of Treasury and Finance

The 2015-16 Darwin CPI is estimated to decline by 0.3 per cent as a result of continued moderation of many components of the CPI basket (Table 7). The Darwin CPI is forecast to increase by a modest 0.7 per cent in 2016-17. The projected increase through the outer years to 2.6 per cent remains below the historical trend. The forecast of the Darwin CPI over the outlook period reflects the impact of moderate population and employment growth, along with lower input and labour costs, and the continuing effect of lower fuel prices and housing conditions, particularly lower rents.

Wage growth as measured by the WPI is expected to moderate to 2.2 per cent in 2015-16, and remain subdued over the medium term, following the forecast slowdown in employment growth and the moderation in CPI.

# Territory Residential Property Market

## Recent Results

Housing market conditions have continued to moderate in 2015 and into 2016, reflecting increased dwelling supply and reduced population growth.

## Outlook

The Territory property market is likely to remain subdued in the medium term due to increased dwelling supply.

Residential property is a key investment consideration for Territorians, including building of homes, new land development and buying or renting a dwelling. Expenditure on housing costs is also a significant proportion of household spending in the Territory.

## Recent Activity

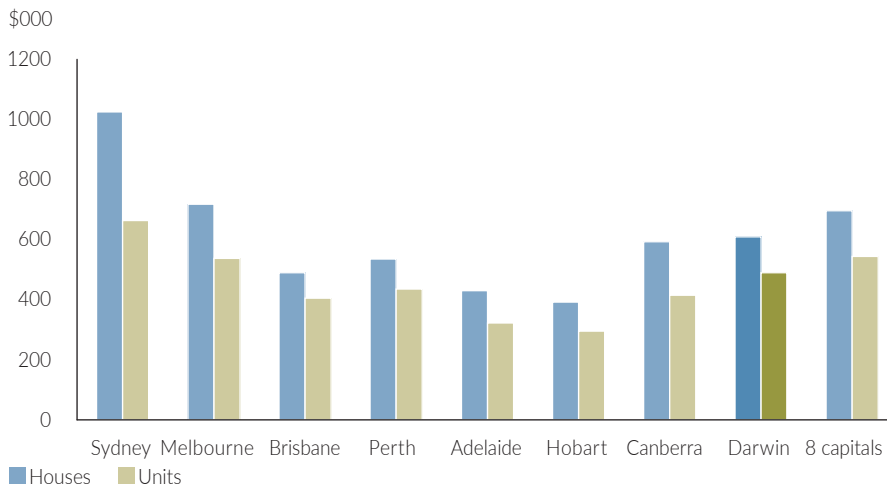
The residential property market in the Territory has continued to soften in 2015 primarily reflecting increased dwelling supply. This has resulted in a narrowing between housing demand and supply in the property market and has placed downward pressure on growth in property prices and rents.

In the March quarter 2016, the median house price was: \$582 500 in Darwin; \$482 500 in Alice Springs; \$380 000 in Katherine; and \$365 000 in Tennant Creek. The median weekly asking rent for a three-bedroom house was: \$535 in Darwin; \$490 in Alice Springs; and \$430 in Katherine.

In the March quarter 2016, the median unit price was \$500 000 in Darwin and \$325 000 in Alice Springs. The median weekly rent for a two-bedroom unit was \$406 in Darwin and \$360 in Alice Springs.

Darwin recorded the third highest median house price and the highest median house rent of all capital cities in the December quarter 2015 (Chart 7). The vacancy rate for all rented dwellings in Darwin was 8.9 per cent in the December quarter 2015, an increase of 3.5 percentage points from the same time last year. Darwin recorded the highest vacancy rate of all capital cities in the December quarter 2015.

Chart 7: Median House and Unit Prices, December Quarter 2015

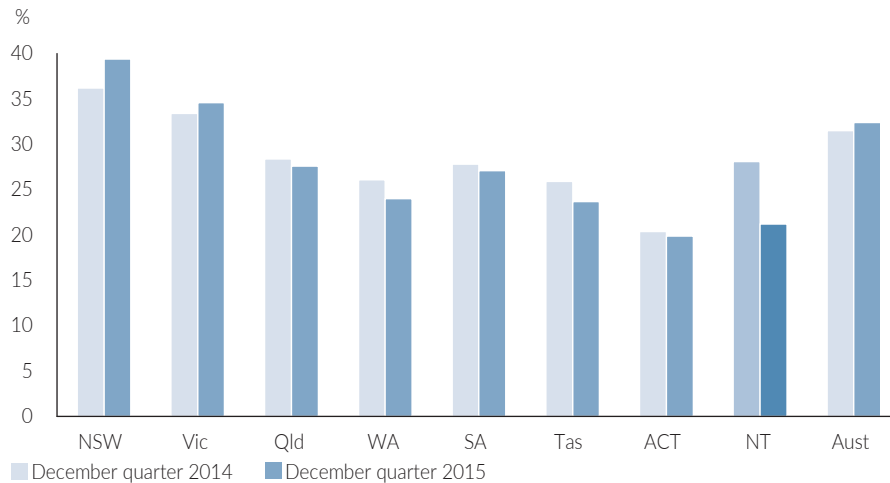


Source: Real Estate Institute of Australia



In the December quarter 2015, the proportion of income required to meet home loan repayments in the Territory fell from 28.1 per cent in the December quarter 2014 to 21.2 per cent in the December quarter 2015, below the national average of 32.4 per cent. The proportion of income to meet rent repayments was 26.8 per cent in the Territory in the December quarter 2015 (Chart 8). This was the second highest proportion of all jurisdictions, below New South Wales (27.9 per cent).

Chart 8: Proportion of Median Household Income to Meet Average Home Loan Repayments, December Quarter 2014 and December Quarter 2015



Source: Real Estate Institute of Australia and the Adelaide Bank

Residential dwelling completions decreased by 30.2 per cent to 1906 in 2015. The decline was driven by a 46.2 per cent decrease in other residential dwellings (to 988 units), following a 167.0 per cent increase in 2014. In 2015, new house completions increased by 2.5 per cent to 891.

## Outlook

The residential property market in the Territory has been performing strongly, well above the long-term trend, but has softened in recent years mainly due to an increase in dwelling supply, which has stimulated increased activity in the residential construction sector. The Territory property market is likely to remain subdued in the medium term due to growth in supply catching up with demand.

New house dwelling supply in the Territory is expected to be steady over the medium term supported by plans for new multi-unit developments as well as scheduled land releases in the Territory's major centres, including the suburbs of Zuccoli, Muirhead, Berrimah Farm, Kilgariff and Katherine East.

The increased supply in dwellings is likely to continue in various sectors of the property market in the Territory over the medium term.

# Industry Analysis

## Mining and Manufacturing

### Recent Results

Contribution to gross state product declined, driven by a number of mine closures due to effects of lower global commodity prices.

### Outlook

Moderate in 2015-16 before increasing in forward years, largely driven by petroleum production (mainly liquefied natural gas).

Mining and manufacturing industries contribute to the Territory economy through international trade, private investment, and employment. Mining and manufacturing industries also have significant impacts on the Territory's construction industry as a number of projects require significant levels of construction activity and investment.

Of the two industries, mining is the larger contributor to the Territory economy and comprises the production of minerals and extraction of petroleum commodities. The manufacturing industry in the Territory is smaller and less diverse in comparison to the national manufacturing industry, with the Territory dominated by mining-related processing.

In 2014-15, the mining and manufacturing industries accounted for 14.9 per cent of the Territory's GSP. The major commodities produced in the Territory include:

- petroleum products (including LNG, natural gas, crude oil, condensate and helium);
- manganese;
- gold;
- zinc/lead concentrate;
- bauxite;
- uranium; and
- other smaller scale non-metallic minerals (including crushed rock, gravel, sand and quicklime).

In terms of employment, the mining and manufacturing industries accounted for 6.6 per cent of the Territory's total resident employment in 2014-15, a smaller proportion compared with 9.8 per cent nationally. However, this figure likely underestimates the total number of jobs in mining in the Territory as it excludes FIFO workers who are residents in other states.

The outlook for mineral production in the Territory is expected to moderate through 2015-16 before trending upwards in the outer years, mainly driven by the completion of expansion works at a number of mine sites and the commencement of new mining projects, including garnet sands, rare earths and salts. The Territory's petroleum production is expected to increase over the medium term, largely driven by increases in onshore gas production from the Dingo gas fields and other fields to take advantage of the Northern Gas Pipeline, and LNG production related to the Ichthys LNG project.

The Territory also produces a wide range of manufactured goods including steel fabrications, wood, paper and food. A number of the Territory's larger scale manufactured goods, such as boxed beef and helium production, are expected to drive growth in the Territory's manufacturing industry over the outer years.

## Construction

### Recent Results

Construction made a substantial contribution to total economic growth in 2014-15. Since then, there have been indications that record growth has peaked.

### Outlook

Construction work done is expected to moderate over the coming years, as work on major projects is completed or nears completion. The industry is expected to remain a key component of the Territory's economy.

The value of the construction industry increased by 61.7 per cent in 2014-15, to \$4.7 billion, contributing 8.7 percentage points to the total 10.5 per cent increase in GSP. As a result of this growth, construction was the largest single industry in the Territory in the year, accounting for 21.6 per cent of total GSP.

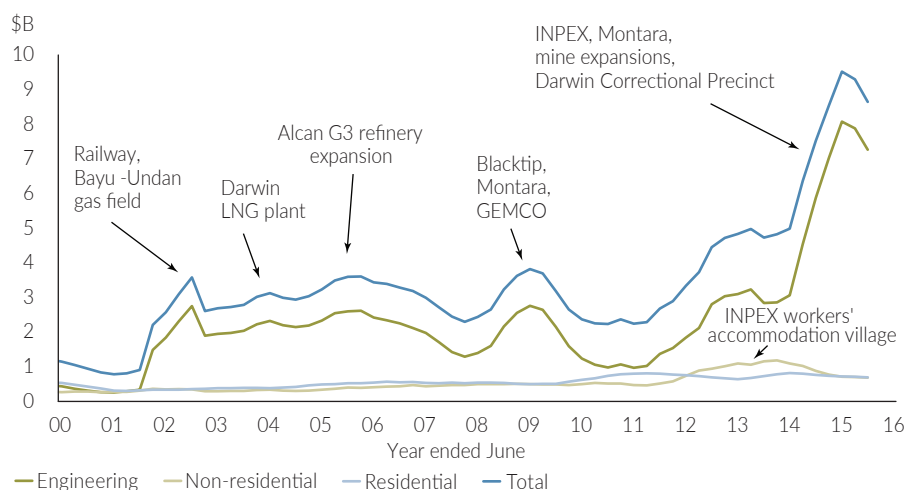
There were around 15 000 Territorians employed in the construction industry in 2014-15. This was 11.4 per cent of the total resident workforce in the year, making it the third largest employing industry in the Territory, and well above the employment levels of a decade ago.

According to the ABS' Construction Work Done data series, engineering construction was the largest component of construction work done in the Territory in 2014-15 (Chart 9), accounting for around two thirds of the total value. The value of engineering construction work done in the Territory increased from \$3.1 billion in 2013-14 to \$8.1 billion in 2014-15, the highest annual total ever recorded in the Territory, which is largely dominated by the Ichthys LNG project.

Over the past few years, the Territory construction industry has been dominated by major projects in the resources sector. Work on these projects has either been completed, or is nearing completion. As a result, construction activity in the Territory is likely to slow over the coming years. However, there are a number of non-resource projects currently underway, such as the Palmerston Regional Hospital, expansion works at the Owen Springs power station in Alice Springs, and upgrades to Alice Springs and Royal Darwin hospitals.

Residential construction activity is expected to contract in 2015-16, largely as a result of a decline in the construction of units and townhouses. The decline follows a period of elevated levels of unit construction and is reflective of a return to long-term trend levels. House construction is expected to continue to remain at elevated levels, driven by continued land release.

Chart 9: Territory Construction Work Done (moving annual total)<sup>1</sup>



<sup>1</sup> Inflation adjusted.

Source: ABS, *Construction Work Done*, Cat. No. 8755.0

## Agriculture, Forestry and Fishing

### Recent Results

The Territory's agriculture, forestry and fishing industry is primarily supported by strong growth in live cattle exports to traditional Asian markets.

### Outlook

The value of the agricultural industry is expected to grow over the medium term, supported by an increase in cattle and buffalo exports, strong beef prices, a recovery in horticultural production and a developing forestry sector.

The agriculture, forestry and fishing industry plays a vital role in many of the Territory's regional and remote areas, contributing to employment and economic activity. The industry also has important linkages with other sectors of the economy, including retail and wholesale trade, manufacturing and transport. In 2014-15 the agriculture, forestry and fishing industry accounted for 1.5 per cent of the Territory's GSP and 1.2 per cent of the Territory's resident workforce.

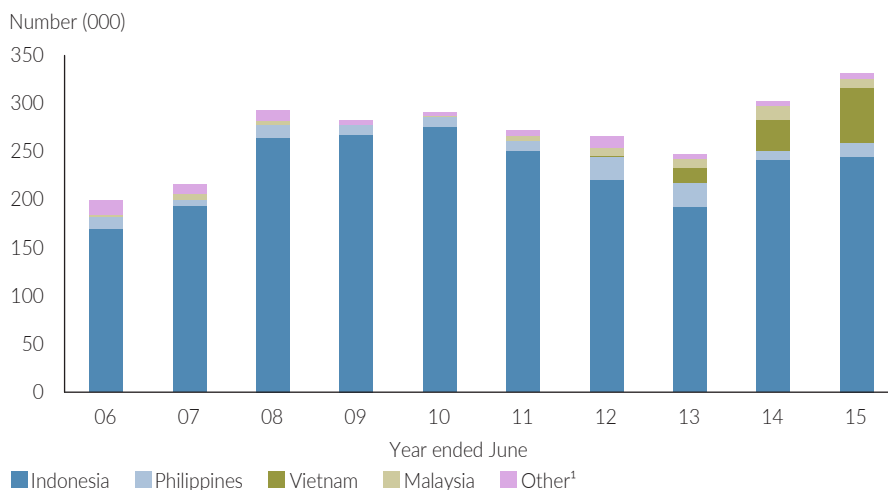
The Territory's international live cattle exports reached a record level of 332 371 head of cattle in 2014-15, representing a 9.8 per cent increase from 2013-14. The live cattle export industry is expected to continue to strengthen in the medium term, driven by increased demand from Indonesia and Vietnam (Chart 10).

Live buffalo are emerging as a strong export from the Territory, with numbers in forward years expected to grow with the rising demand from Vietnam. The crocodile industry makes up the majority of other livestock production in the Territory, producing total revenue of about \$23 million in 2014-15. The Crocodile Farmers Association of the Northern Territory aims to maximise the industry's value over the next five years to about \$50 million per year.

The Territory's horticulture production is anticipated to recover over the forward estimates, following the destructive outbreak of the banana freckle disease and cucumber green mottle mosaic virus in recent times, which reduced production.

The outlook for the Territory's forestry sector is positive following the initial exports of woodchips from the Tiwi Islands to Japan in late 2015 and early 2016. A total of 200 000 tonnes of woodchips is expected to be harvested and exported during 2016, increasing to 300 000 tonnes in future years.

Chart 10: Annual Number of Live Territory Cattle Overseas Exports, by Destination



<sup>1</sup> Other comprises Brunei, Egypt, East Timor and Thailand  
Source: Department of Primary Industry and Fisheries

## Tourism

### Recent Results

International visitor numbers have recovered in recent years following a downturn in 2012, while domestic visitor numbers have reached the highest level in a decade.

### Outlook

The tourism industry is expected to be supported by growth in both domestic and international holiday visitors to the Territory over the medium term.

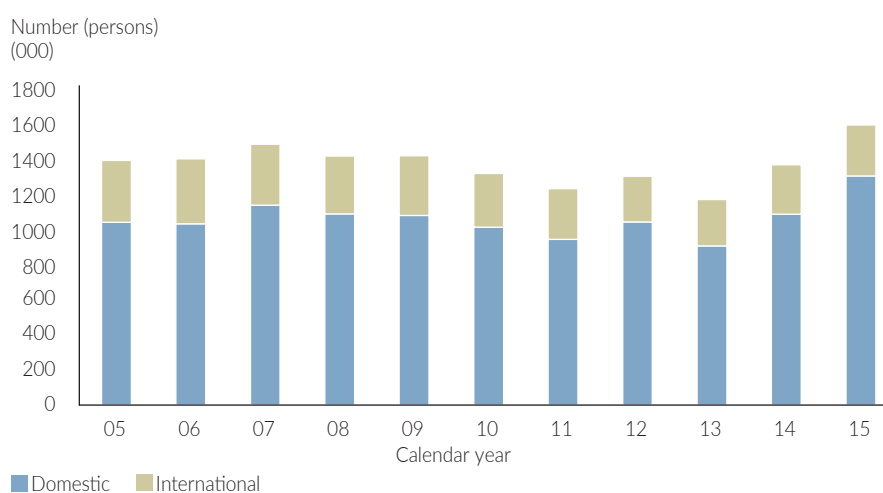
Tourism is an important economic driver for the Territory and a significant industry in regional areas. Tourism has strong links to other sectors in the economy including accommodation and food services, retail trade, recreation and culture, and transport.

Growth in the number of international visitors to the Territory has been subdued in recent years, however in 2015, the number of international visitors increased by 3.1 per cent, representing an estimated 288 000 persons to the Territory. Growth was primarily driven by holiday visitors who comprise the majority of international visitors to the Territory. Overnight domestic visitors to the Territory increased by 20 per cent to 1.3 million visitors in 2015, recording the strongest annual growth of interstate and intrastate overnight visitors over the past decade (Chart 11).

The recent recovery in domestic and international visitation numbers to the Territory is expected to continue over the medium term, reflecting improvement in economic conditions in the Territory's key tourist source markets and the lower Australian dollar.

The Territory Government has a growth target to reach a \$2.2 billion visitor economy by 2020, supported by increased funding for leisure tourism marketing and infrastructure developments to enhance the number of inbound holiday visitors to the Territory. Over the next five years, the number of visitor nights in the Territory by both domestic and international travellers is expected to grow by an annual average of 4.3 per cent. Recent increases in domestic airline capacity to and from the Territory, alongside the expected increase in stopover passengers from cruise ships, further support a positive outlook.

Chart 11: Annual Number of International and Domestic Visitors to the Territory



Source: Department of Treasury and Finance; Tourism Research Australia, *International Visitor Survey*; Tourism Research Australia, *National Visitor Survey*

## Defence

### Recent Results

Defence expenditure remains above the long-term average, supported by ongoing operations, with the Territory being a strategic defence location.

### Outlook

Improved outlook for defence expenditure in the medium term, with a number of major capital works projects due to commence, combined with new initiatives outlined in the 2016 Defence White Paper.

The Territory is a major strategic location for defence and the industry continues to make a substantial contribution to the Territory economy through direct and indirect employment, and demand for local goods and services. In addition, defence generates economic activity through major operations and exercises held in the Territory, and capital works projects that typically engage local businesses.

There are a number of current and proposed defence infrastructure projects aimed at developing and upgrading defence facilities throughout the Territory, including the New Air Combat Capability Facilities Project at Royal Australia Air Force (RAAF) Base Tindal and redevelopment works as HMAS Coonawarra and Larrakeyah Barracks in Darwin. An ongoing defence presence in the Territory is also reinforced by the 2016 Defence White Paper, which announced a number of significant major infrastructure projects for the Territory to occur in the medium term.

The Territory Government's Defence Strategy also outlines the Government's approach to supporting defence and defence-related economic activities, including the development of Territory Government projects to support defence capability.

In 2014-15 there were 5746 defence force personnel based in the Territory (including permanent personnel and reservists). The number of US Marines arriving in the Territory has grown from 250 in 2012 to 1250 in 2016, as part of the Joint Australia-US Force Posture Initiative.

Defence expenditure in 2014-15 contributed 7.2 per cent to the Territory's GSP or \$1.7 billion, in current terms. Total defence expenditure as a proportion of Australia's GDP is expected to rise over the medium and long term, in line with the significant projects outlined in the 2016 Defence White Paper.

Defence major capital works projects will also continue to make a significant contribution to the Territory economy (Table 8).

Table 8: Defence Major Capital Works Projects in the Territory (in progress or proposed)

| Project                                                     | Total Estimated Expenditure (\$M) | Expected Timeframe |
|-------------------------------------------------------------|-----------------------------------|--------------------|
| Delamere Air Weapons Range redevelopment                    | 134                               | 2016 to 2018       |
| RAAF Base Darwin upgrades for Poseidon P8 aircraft          | 90                                | 2016 to 2019       |
| National Aircraft Pavement Maintenance Program              | 50                                | 2016 to 2020       |
| RAAF Base Tindal – new air combat capability                | 470                               | 2017 to 2022       |
| Larrakeyah Barracks and HMAS Coonawarra redevelopment works | 500                               | 2017 to 2020       |

Source: Department of Defence, Darwin Strategic Support Group, Department of the Chief Minister

## Retail and Wholesale Trade

### Recent Results

Retail and wholesale trade has been subdued in recent years.

### Outlook

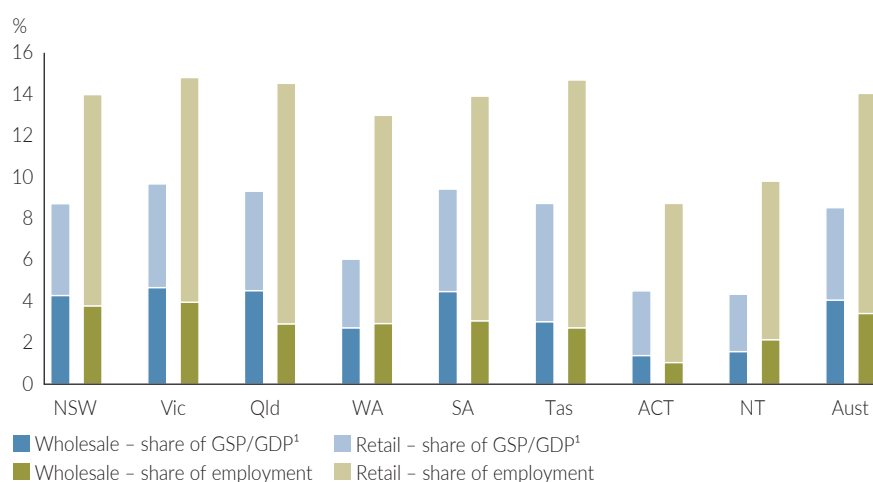
Moderate wage and consumption growth is expected to constrain retail trade activity in the short to medium term.

In 2014-15 the retail and wholesale trade industry contributed \$1 billion to the Territory economy or 4.3 per cent of GSP. Retail and wholesale trade is one of the largest employment industries in the Territory with 9.2 per cent of employed people working in this industry in 2014-15.

Retail and wholesale trade expenditure in the Territory has grown by an average of 7.1 per cent per annum in the 10 years to 2014-15. In the past two years this growth has moderated below the 10-year average, increasing by 2.8 per cent in 2013-14 and 2.2 per cent in 2014-15. Despite the low growth, the retail and wholesale trade industry contributed 4.3 per cent to GSP in 2014-15, only slightly below the 10-year average of 4.8 per cent.

In the Territory, the contribution made by this industry to employment and GSP is smaller than the national average, reflecting the dominance of the mining and construction industries and the relatively small size of the Territory's wholesale trade sector (Chart 12).

Chart 12: Retail and Wholesale Trade Share of GSP, GDP and Employment, 2014-15



<sup>1</sup> Current prices.

Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; *Labour Force, Australia*, Cat. No. 6291.0.55.003

The outlook is for retail and wholesale conditions to remain subdued in the short to medium term. Growth is expected to be constrained by moderate wages growth and a slowing housing market. The construction of new retail developments over the next few years, such as the Gateway Shopping Centre in Palmerston and the Coolalinga Shopping Village along with the expansion at Casuarina Square, may encourage retail spending.

## Government and Community Services

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### Recent Results

The industry accounted for 19.0 per cent of gross state product and 37.7 per cent of total resident employment in 2014-15, remaining a significant employer for the Territory.

### Outlook

Increased public infrastructure investment is expected to benefit the Territory economy over the medium to long term.

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In 2014-15, the government and community services industry accounted for 19.0 per cent of the Territory's GSP and 37.7 per cent of total resident employment. Over the past decade, the industry's share of total employment has been trending below its peak in the early 2000s, primarily reflecting greater growth in other industries, rather than a reduction in total employment in government and community services. The industry remains a significant employer for the Territory.

A series of public infrastructure projects approved in 2015-16 and 2016-17, including the Territory Government's \$1.7 billion infrastructure spend in 2016-17, along with the White Paper on Developing Northern Australia and defence-related spending over the medium to long term, are expected to benefit the Territory economy and drive future growth opportunities across various industries.

## Other Services

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### Recent Results

The other services industry increased by 4.4 per cent in 2014-15, driven by strength in rental, hiring and real estate and accommodation and food services.

### Outlook

Growth over the coming years is expected to be supported by the continued rollout of the National Broadband Network and potential strengthening of the tourism sector.

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The economic contribution of the total other services industry increased by 4.4 per cent in 2014-15, contributing 1.1 percentage points to overall GSP growth in the Territory. Within other services, rental, hiring and real estate was the strongest contributor to growth, increasing by 9.1 per cent, followed by accommodation and food services (up by 7.6 per cent), and administrative and support services (up by 5.8 per cent).

The other services industry accounted for 33.9 per cent of total employment in the Territory compared with 38.3 per cent nationally. Professional, scientific and technical services, followed by accommodation and food services, were the largest contributors to employment in the other services sector in 2014-15.

The continued rollout of the National Broadband Network following the launch of the SkyMesh satellite in late 2015 is likely to help drive growth in the information and telecommunications industry in the near future, while ongoing softness in the Australian dollar may help to support continued growth in tourism-related industries, such as accommodation and food services, and arts and recreation services, in the short to medium term.