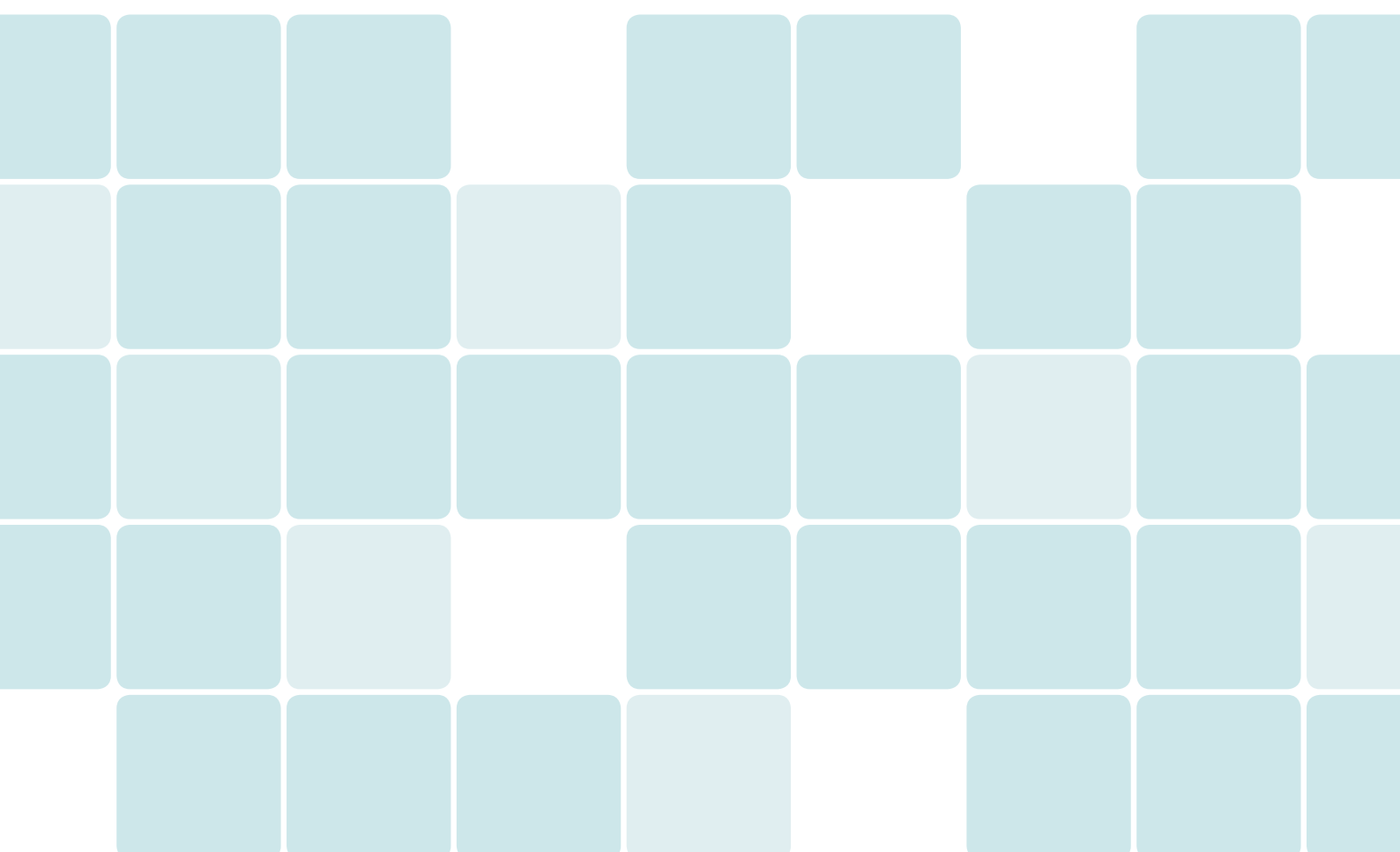


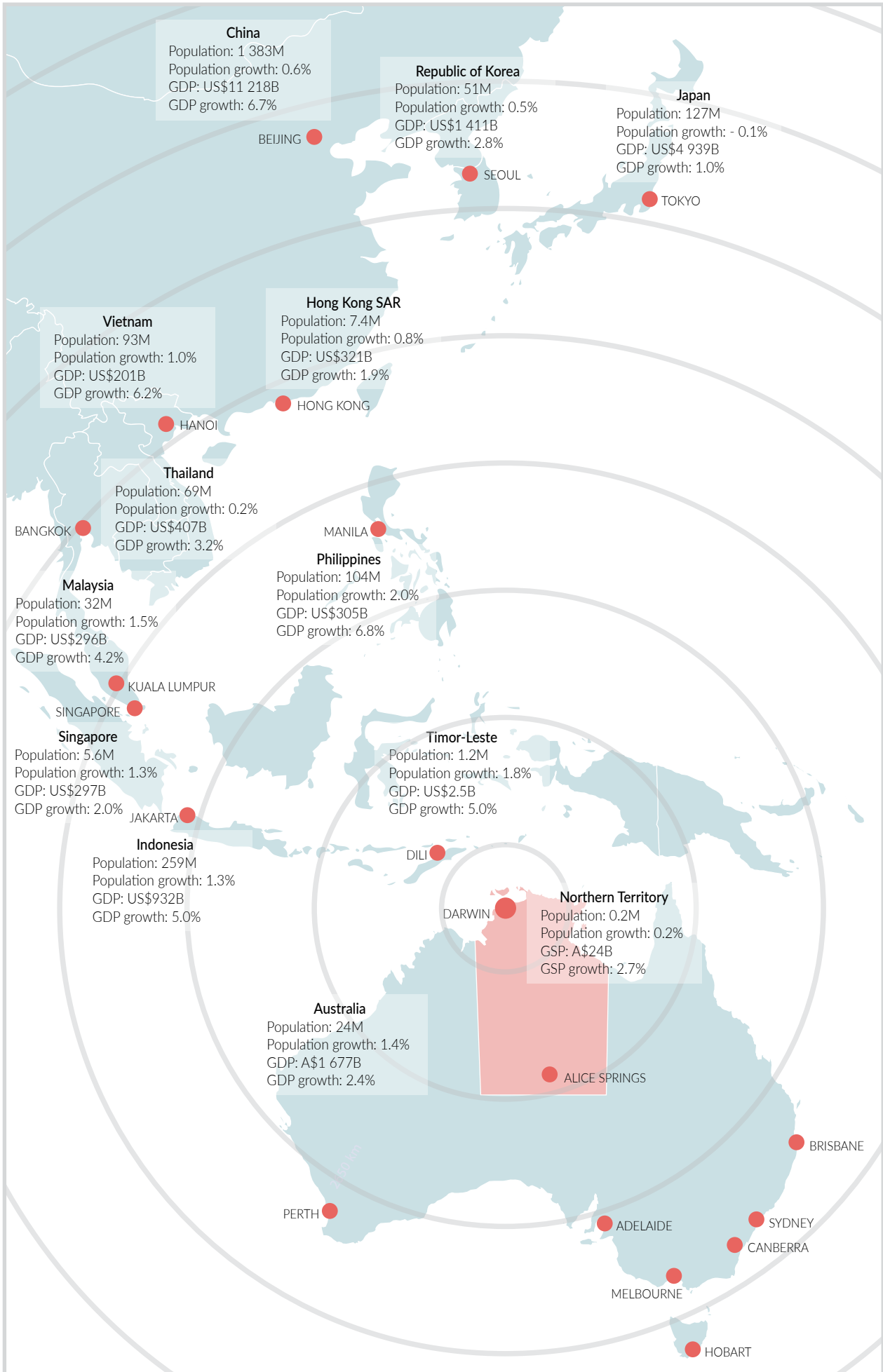


NORTHERN TERRITORY

BUDGET 2017-18



Northern Territory Economy Overview



Northern Territory Economy Overview

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

Contents

Northern Territory Economy Overview	3
Territory Economy Key Indicators	4
Structure of the Economy	4
Economic Growth	6
External Economic Environment	8
Population	10
Labour Market	12
Prices and Wages	14
Residential Property Market	16
Industry Analysis	18
Mining and Manufacturing	18
Construction	19
Agriculture, Forestry and Fishing	20
Tourism	21
Defence	22
Retail and Wholesale Trade	23
Government and Community Services	24
Service Industries	24

The map left is produced from various sources. Department of Treasury and Finance cannot guarantee the accuracy, currency, or completeness of the information. To be used as a guide only.

GDP: gross domestic product; SAR: special administrative region; GSP: gross state product

Territory Economy Key Indicators

Table 1: Territory Key Economic Indicators (%)

	2015-16a	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Gross state product ¹	2.7	1.0	1.0	5.1	2.0	2.1
State final demand ¹	- 12.5	0.2	- 2.8	- 5.0	0.1	1.5
Population ²	0.5	0.3	- 0.3	0.3	0.8	1.2
Employment ³	1.4	2.9	0.5	0.6	0.8	1.2
Unemployment rate ⁴	4.2	3.6	4.0	4.2	4.3	4.3
Consumer price index ³	0.1	0.1	0.4	1.3	1.9	2.4
Wage price index ³	2.2	2.1	1.9	2.0	2.3	2.6

a: actual; 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.

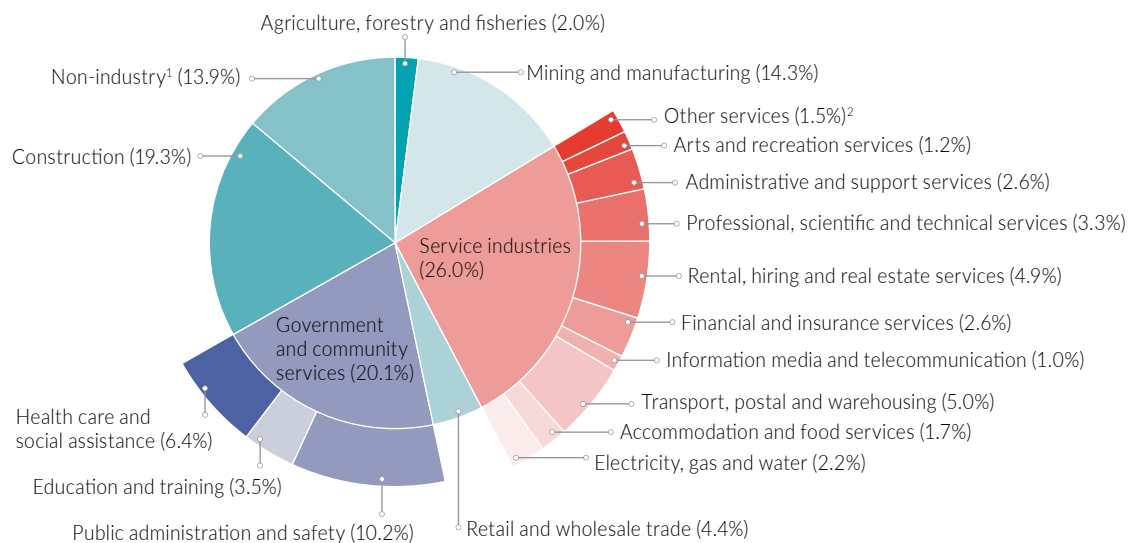
Source: Department of Treasury and Finance, ABS

Structure of the Economy

The structure of the Northern Territory economy is markedly different to the national economy. The Territory is a relatively small open economy that is significantly influenced by major projects, with abundant natural resources, a large public sector and defence presence. The Territory economy is also influenced by economic performance in its major trading partners including China, Japan, Indonesia and Thailand. Commodity prices and exchange rates also have significant impacts on the Territory's major industries of mining, agriculture and tourism.

The Territory economy has grown considerably over the past decade. Total gross state product (GSP) has grown from \$16.9 billion in 2006-07 to \$23.6 billion in 2015-16, with population increasing during this period by approximately 31 000 people to over 245 000. The economy is more diverse, with a greater spread of employment and output across both goods and service industries (Chart 1).

Chart 1: Contributions to GSP, 2015-16



GSP: gross state product

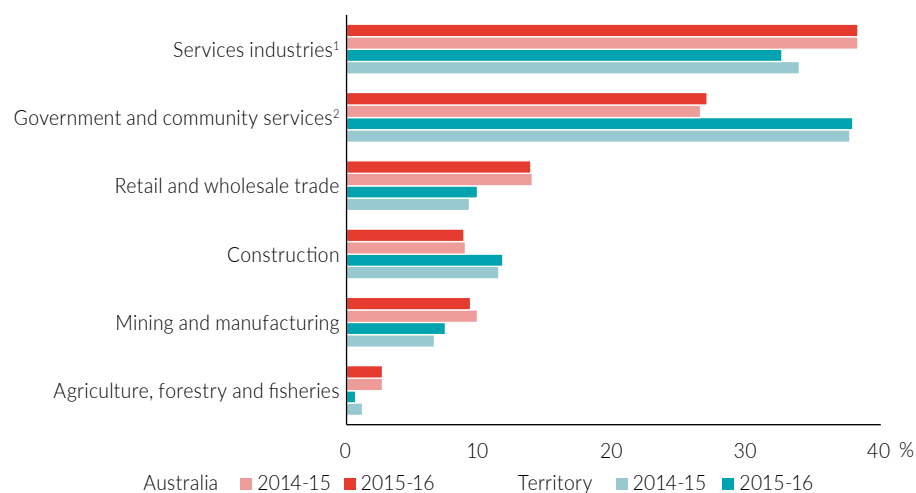
¹ Non-industry components of GSP include ownership of dwellings, taxes less subsidies and statistical discrepancy.

² Other services components of GSP include personal services and general repair and maintenance activities, however excludes units engaged in providing buildings or dwelling repair and maintenance services.

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

Employment in the Territory economy is markedly different compared to the national economy, with the government and community services industries the largest employer, with the construction industry also employing more Territorians than the national average (Chart 2).

Chart 2: Share of Total Employment by Key Industries



1 Service industries 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.

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

Source: ABS, *Labour Force, Australia*, Cat. No. 6291.0.55.003

From 2017-18, the Territory economy is forecast to continue to face the challenging conditions being experienced in 2016-17, following a sustained period of record growth across many key industries as a result of the significant construction and investment associated with the Ichthys liquefied natural gas (LNG) project and other resources projects. As the impact of large resource-based projects move beyond peak growth, GSP, business investment, construction activity, dwelling supply and demand, employment and population are all expected to remain subdued when compared to historical highs.

The outlook for the structure of the Territory economy in 2017-18 will be heavily influenced by the transition of the Ichthys LNG project to the production and export phase. This will shift the emphasis from construction as the main contributor to GSP to mining and manufacturing, however its contribution to total employment will be substantially less, mainly due to the smaller workforce requirements of the operational phase. As a result of increased LNG production, Territory net exports are expected to grow substantially over 2018-19 and emerge as the primary driver of Territory economic growth over the forecast period, supporting international trade into the future.

Despite the current and forecast challenges, the Territory is well positioned to take advantage of a number of opportunities 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, home to world renowned tourist attractions and with a rich diversity of mineral, gas, petroleum and agricultural resources, all provide the strategic opportunities required to support a sustainable economy.

The Territory Government's Economic Development Framework provides a plan that is focused on unlocking economic opportunities for all Territorians, with policies that support growth and investment strategies to build a strong economy for the future. There are also a number of defence projects along with private sector projects in the pipeline, including agriculture and resource opportunities subject to final investment approvals. If realised, these projects have the potential to provide significant upside to the Territory's economic forecasts.

Economic Growth

Recent Results

Economic growth in the Territory strengthened to 2.7 per cent in 2015-16, driven by strong consumption and an improvement in net exports. State final demand recorded a 12.5 per cent decline in 2015-16, driven by large decreases in private investment.

Outlook

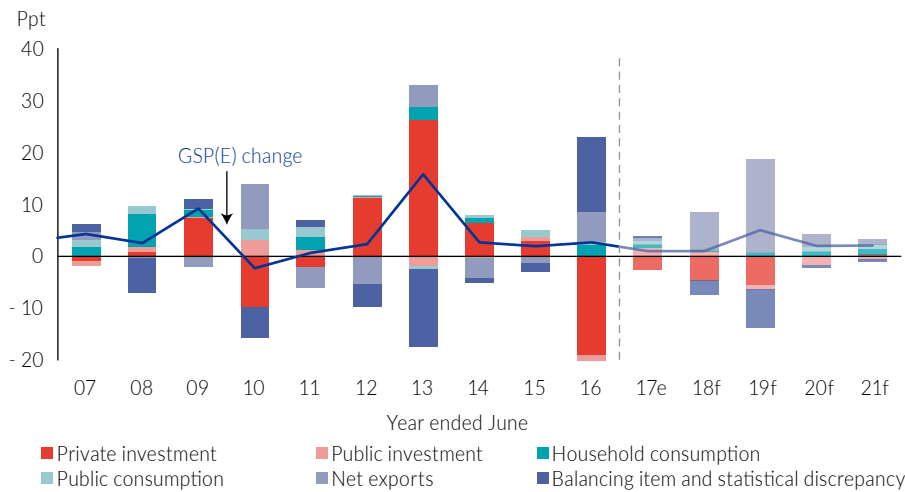
The Territory's economic growth rate is expected to average 2.2 per cent over the next five years, with liquefied natural gas exports being the main driver of growth, more than making up for moderate consumption growth and a return to long-term trend levels of private investment.

Recent Activity

The Territory recorded economic growth of 2.7 per cent to \$23.6 billion in 2015-16, reflecting an improvement from 2.0 per cent growth in 2014-15 and in-line with the national economic growth rate of 2.8 per cent. The Territory recorded the fourth highest growth rate of the jurisdictions.

Over the past 10 years economic growth in the Territory has been largely driven by a succession of major projects, which had a significant impact on levels of investment in the Territory (Chart 3), particularly the Ichthys LNG project.

Chart 3: Contribution to Territory Economic Growth¹



GSP(E): expenditure measure of gross state product; ppt: percentage point; e: estimate; f: forecast

¹ Inflation adjusted.

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

Public investment decreased by 16.4 per cent in 2015-16 to \$1.3 billion. The major driver of the decline was lower general government investment by state, local and Commonwealth governments by 25.2 per cent to \$966 million.

Total household consumption in the Territory increased by 5.2 per cent to \$10.5 billion in 2015-16, which was the highest growth recorded since 2010-11 and well above the 10-year average growth rate of 3.8 per cent.

Growth in public consumption expenditure (including wages, salaries and operational expenditure on service delivery) moderated to 2.0 per cent to \$7.2 billion in 2015-16, compared to growth of 3.8 per cent in 2014-15. Growth in 2015-16 was largely driven by a 3.0 per cent increase in Commonwealth consumption to \$3.0 billion, as well as an increase in state and local consumption of 1.4 per cent to \$4.2 billion.

Net exports of goods and services in the Territory increased by 50.6 per cent, to a trade surplus of \$3.9 billion, compared to a surplus of \$2.6 billion in the previous year. The trade balance consisted of goods and services exports of \$7.2 billion and goods and services imports of \$3.3 billion. Goods make up the majority of both imports and exports in the Territory, with services only accounting for about 9.7 per cent of exports and 18.3 per cent of imports.

Outlook

Table 2: Economic Growth (%)¹

	2015-16a	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Gross state product	2.7	1.0	1.0	5.1	2.0	2.1
State final demand	- 12.5	0.2	- 2.8	- 5.0	0.1	1.5

a: actual; e: estimate; f: forecast

¹ Inflation adjusted.

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

The Territory's economic growth over the forecast period will reflect a transition from growth led by record levels of private investment, towards export-driven growth. This transition will be largely dominated by activity related to the US\$34 billion Ichthys LNG project. As construction of the Ichthys LNG project nears completion and the project commences production in 2017-18, Territory economic activity is expected to moderate.

Territory GSP is expected to grow at 1.0 per cent in 2016-17 and 2017-18, largely reflecting an increase in public investment and household consumption throughout the year and partly offset by anticipated declines in private investment, which is expected to return to long-term trend levels. Despite the relatively low growth forecasts for GSP in 2017-18, the size of the economy will be over 40 per cent larger than 10 years ago.

Economic growth in the outer years is expected to be driven by a significant increase in exports, as well as a moderate increase in consumption. GSP is expected to increase by 5.1 per cent in 2018-19, driven by net exports reflecting a full year of exports from the Ichthys LNG project. In 2019-20 and 2020-21 growth is forecast to be 2.0 per cent and 2.1 per cent, respectively. This is generally in line with forecasts for the Territory's population and employment growth in the outer years, which underpin growth in household consumption, as well as more stable export growth.

Private investment is expected to contract further in the medium term, down 13.1 per cent in 2017-18 and 18.2 per cent in 2018-19, largely associated with the completion of construction of the Ichthys LNG project. However this will be partially softened by the \$800 million Northern Gas Pipeline project and dwelling investment growth of 2.0 per cent per annum over the same period. In the outer years, private investment in the Territory is expected to return to long-term trend levels of around \$6.0 billion per annum.

Public investment is expected to play an important role in supporting economic activity over the forecast period and providing a significant contribution to economic growth, particularly in 2016-17 and 2017-18, including the Territory Government's \$1.75 billion infrastructure investment program in 2017-18. The Territory Government's investment and the Commonwealth's large-scale defence projects are expected to be key drivers of public investment over the forecast period.

Household consumption is expected to provide support for the Territory economy across the estimates period, although initially moderating to 0.7 per cent in 2017-18, before increasing to 2.5 per cent by 2020-21. Growth in public consumption is expected to moderate over the forecast period from growth of 2.2 per cent in 2016-17 to a low of 0.4 per cent in 2018-19, before increasing in the outer years to 2.7 per cent in 2019-20 and 2020-21.

External Economic Environment

Recent Results

In 2015-16 the Territory's net exports increased to \$3.9 billion primarily driven by a 36.4 per cent fall in total imports, which was partly offset by a 7.2 per cent decline in total exports.

Outlook

Net exports are expected to be subdued in 2016-17, before significantly increasing in outer year's, primarily driven by exports from the production phase of the Ichthys liquefied natural gas project.

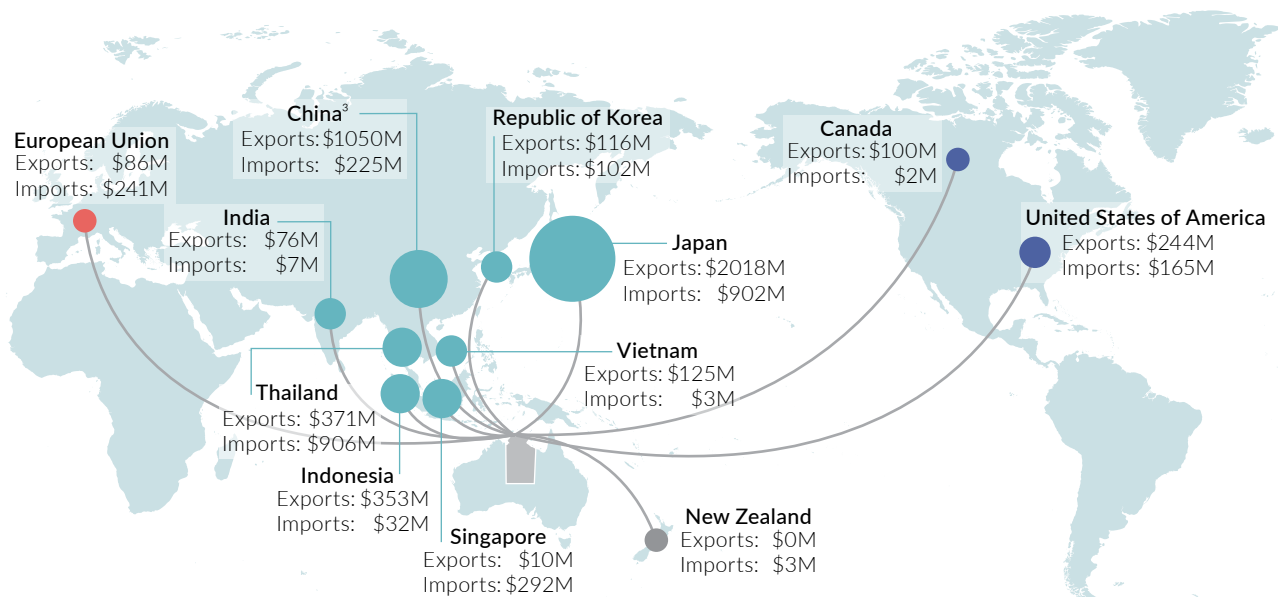
National and interstate economic activity influences the Territory's economy through changes to population, interstate trade, tourism and the availability of workers to meet the Territory's labour requirements. Additionally, monetary policy set by the Reserve Bank of Australia (RBA) influences household consumption, business confidence and investment in the Territory.

Territory International Trade

In 2015-16, the Territory's net international trade balance increased to \$3.9 billion, up from \$2.6 billion in 2014-15. This was driven by a 36.4 per cent decline in total imports, partly offset by a 7.2 per cent decline in total exports. The major components of exports included live animal exports (9.5 per cent), metalliferous ores and metal scraps (14.1 per cent), and confidential items (68.6 per cent).

The majority of the Territory's goods imported in 2015-16 came from Asia. The large decline in goods imports was primarily attributed to a peak in the arrival of a number of prefabricated modules and construction equipment for the Ichthys LNG project in 2014-15, as part of the construction phase of the project.

Map 1: Territory's Major Goods Trading Partners, 2015-16¹



1 Current prices.

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

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

In the forward years, net exports are forecast to increase sharply as LNG, liquid petroleum gas (LPG) and condensate products from the Ichthys LNG project are exported to Japan, Taiwan and other global destinations while imports are forecast to remain subdued, in line with long-term trends.

Global Economy

The International Monetary Fund (IMF) forecasts global growth to increase to 3.5 per cent in 2017, from 3.1 per cent in 2016. Output is expected to be driven by strengthening emerging and developing economies (such as India and Indonesia) with a growth rate of 4.5 per cent in 2017. Advanced economies (such as the US, Japan and the United Kingdom) are expected to grow at 2.0 per cent in 2017, this is supported by stronger US and United Kingdom growth and cyclical recovery in Europe following the 2011-12 financial crisis.

IMF forecasts for emerging markets and developing economies are the main driver behind global growth reflecting improvements in a number of commodity exporters and stronger growth in India. Partly offsetting growth in emerging and developing economies, is a slow down of the Chinese economy to more sustainable growth patterns, albeit still around 6.0 per cent.

For the remainder of the outlook period global growth is expected to average 3.6 per cent in the five years from 2017 and be largely driven by emerging markets and developing economies, partly offset by moderating growth in advanced economies.

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

	2016a	2017e	2018f	2019f	2020f	2021f
Japan	1.0	1.2	0.6	0.8	0.2	0.7
China	6.7	6.6	6.2	6.0	5.9	5.8
Thailand	3.2	3.0	3.3	3.2	3.1	3.0
Indonesia	5.0	5.1	5.3	5.4	5.5	5.5
Singapore	2.0	2.2	2.6	2.6	2.6	2.6
India	6.8	7.2	7.7	7.8	7.9	8.1
Australia	2.5	3.1	3.0	2.9	2.8	2.8
Emerging markets and developed economies	4.1	4.5	4.8	4.9	4.9	5.0
Advanced economies	1.7	2.0	2.0	1.9	1.7	1.7
Global	3.1	3.5	3.6	3.7	3.7	3.7

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

Source: International Monetary Fund

National Economy

The Australian economy grew by 2.8 per cent to \$1.7 trillion in 2015-16. Growth was largely driven by an increase in household and government consumption. This reflects a transition in the Australian economy away from mining to other sectors. The 2016-17 Commonwealth Mid-Year Economic and Fiscal Outlook forecasts national economic growth in Australia to be 2.0 per cent in 2016-17 and an average of 2.9 per cent over the next three financial years. Economic growth will largely be supported by domestic demand as the transition from a resource-intensive economy takes place, as well as a weaker Australian dollar, benefiting goods and service exports.

The RBA has kept the official cash rate at 1.5 per cent since August 2016, which is the lowest level in the last two decades. Current monetary policy is supported by low levels of inflation and the transitioning nature of the Australian economy after the mining boom. The Territory economy should benefit from relatively low interest rates due to the impact on business confidence, consumption and investment decisions.

Population

Recent Results

Population growth remains significantly below historical trends, with negative net migration close to record levels.

Outlook

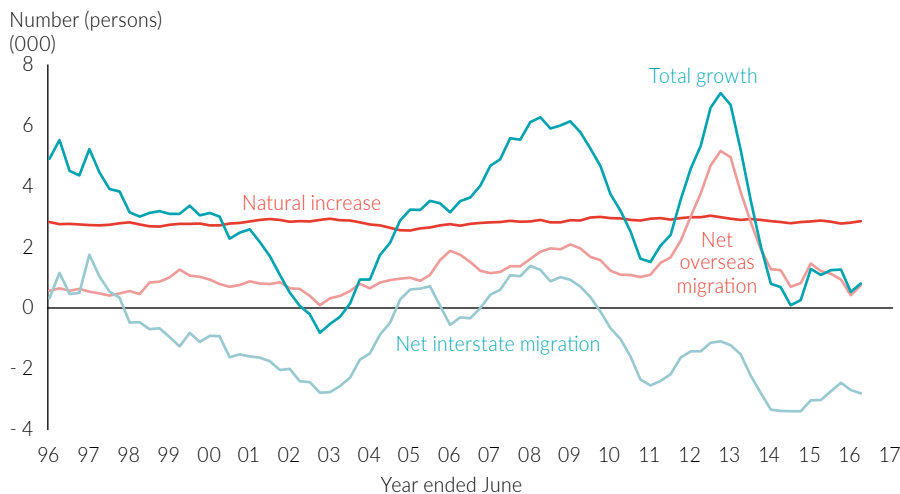
Population is expected to decline in 2017 before gradually recovering towards the long-term average.

The Territory's population, comprises 1 per cent of the total Australian population and is spread over the third largest Australian jurisdiction by geographical area. About one third of the Territory's population are Aboriginal people, 79.7 per cent of whom live in remote and very remote areas. The Territory has a younger age profile than Australia as a whole with a median age of 32.5 years, in comparison with 37.4 years for Australia and a skewed gender profile, with 112 males for every 100 females.

Population Growth

The Territory's estimated resident population (ERP) was 245 191 people as at 30 June 2016, a 0.2 per cent increase from 30 June 2015. Annual growth in the Territory was well below national growth over the same period (1.4 per cent) and below the Territory's 20-year average of 1.4 per cent.

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



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

Natural increase is a stable contributor to annual population growth in the Territory and has been the major driver of growth over the past 20 years. In 2015-16, natural increase added 2810 people to the Territory population, in line with the 20-year average of 2834 people. Net overseas migration added 420 people, down from the high of 4966 in 2012-13 and less than a third of the 20-year average of 1340 people. Net interstate migration, the most volatile of the three components, detracted from population growth with a loss of 2696 people to other jurisdictions in 2015-16, a significantly greater annual loss than the 20-year average loss of 1027 people (Chart 4).

Regional Population

Over half (58.6 per cent) of the Territory's population resides in Greater Darwin and the remainder is dispersed over remote and very remote areas. In 2015-16 population grew in the Greater Darwin and Barkly regions, but declined in the Alice Springs, Katherine, Daly-Tiwi-West Arnhem and East Arnhem regions. The regional pattern was reflected in the major townships within the regions

in 2015-16, with annual population growth in Darwin and Tennant Creek and population decline in Alice Springs, Katherine and Nhulunbuy.

Table 4 shows the ERP (at 30 June 2016), population share, and the annual and five-year growth rates (2011 to 2016) for the regions and major towns of the Territory.

Table 4: Territory Regional and Major Townships ERP

	ERP ¹	Proportion of Total Population	Annual Population Change ²	5-Year Average Annual Population Change ³
	Number	%	%	%
Region⁴				
Greater Darwin	143 629	58.6	0.8	2.2
Alice Springs	40 715	16.6	- 0.7	- 0.1
Katherine	21 158	8.6	- 1.0	0.7
Daly-Tiwi-West Arnhem	18 892	7.7	- 0.3	0.9
East Arnhem	13 935	5.7	- 0.5	- 2.7
Barkly	6 862	2.8	0.1	0.9
Total	245 191		0.2	1.2
Major Townships				
Darwin ⁵	120 106	49.0	0.8	1.9
Alice Springs ⁶	25 426	10.4	- 0.2	- 0.4
Katherine	11 057	4.5	- 1.0	1.0
Tennant Creek	3 662	1.5	0.5	0.8
Nhulunbuy	2 057	0.8	- 1.0	- 12.3

1 Estimated resident population at 30 June 2016.

2 Annual change in ERP between 30 June 2015 and 30 June 2016.

3 Average annual change in ERP between 30 June 2011 and 30 June 2016.

4 ABS statistical area 3 (SA3) or statistical area 4 (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: Territory Population Forecasts (%)

Calendar Year	2015a	2016e	2017f	2018f	2019f	2020f
Population growth	0.5	0.3	- 0.3	0.3	0.8	1.2

a: actual; e: estimate; f: forecast

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

Population growth over 2016 is expected to remain subdued, continuing the trend from 2015 and weakening to 0.3 per cent as a consequence of historically high levels of migration outflows as the economy adjusts to a general slowdown in the mining and construction sectors.

Population is expected to decline in 2017, with a forecast change of -0.3 per cent, as a significant proportion of resident construction workers are expected to depart the Territory with the Ichthys LNG project transitioning from the construction to operational phase during the year. These departures are expected to continue into 2018, albeit to a lesser extent, resulting in a small recovery in annual population growth to 0.3 per cent. Population growth is then forecast to steadily increase to 1.2 per cent in 2020.

Labour Market

Recent Results

The Northern Territory's employment growth in 2015-16 was slightly below the five-year average. However, unemployment remained relatively low, with the participation rate reaching record high levels. The year to March 2017 employment growth is 2.5 per cent.

Outlook

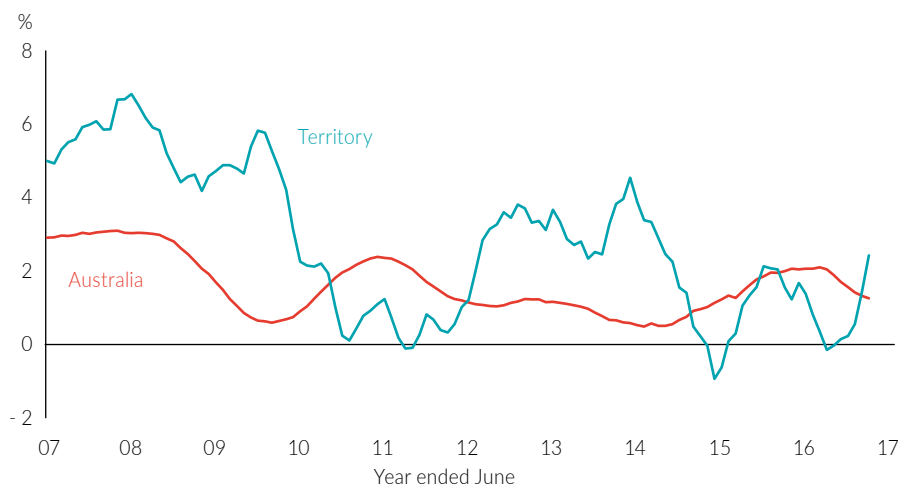
Labour market growth is anticipated to remain below the long-term average following completion of major projects, along with slower population growth. There is some upside to employment growth in the medium term, driven by smaller scale construction projects.

The Territory has consistently recorded low unemployment and high labour force participation rates 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 whose primary residence is in other jurisdictions are not captured in the Australian Bureau of Statistics (ABS) labour force survey and therefore the statistics do not fully reflect the number of people working in the Territory.

Employment

Resident employment in the Territory strengthened from a 0.6 per cent decline in 2014-15 to an increase of 1.4 per cent in 2015-16. The Territory's year-on-year employment growth was driven by a 3.7 per cent increase in part-time employment and a 0.9 per cent increase in full-time employment (Chart 5). The Ichthys LNG project has been a strong driver of employment in the Territory in recent years and as such, fluctuations in its workforce will have a strong influence on employment forecasts over the short term.

Chart 5: Year-on-Year Change in Employment



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

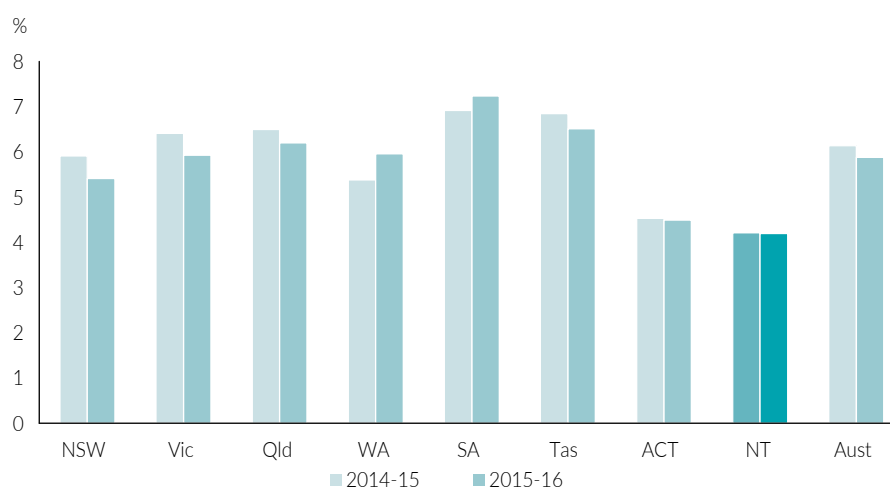
Unemployment

In 2015-16, the Territory's average annual unemployment rate remained unchanged at 4.2 per cent. The Territory recorded the lowest annual average unemployment rate of all jurisdictions in 2015-16. Nationally, the average annual unemployment rate was 5.9 per cent in 2015-16, a decrease of 0.3 percentage points from the previous year and above the 10-year historical average of 5.3 per cent.

According to estimates from the Commonwealth Department of Employment, the unemployment rate fell across all Territory regions in 2016, with the exception of Greater Darwin. Despite the increase, the unemployment rate in Greater Darwin remains the lowest of all Territory regions at 3.6 per cent in 2016. The Barkly region recorded the greatest improvement in the unemployment rate, decreasing by 1.3 percentage points to 7.4 per cent in 2016 and is below its five-year average unemployment rate. The Daly-Tiwi-West Arnhem region recorded the highest unemployment rate at 7.7 per cent in the same period.

The annual average unemployment rate for the Territory in the year to March 2017 was 3.6 per cent and is estimated to remain at 3.6 per cent for 2016-17.

Chart 6: Average Annual Unemployment Rate, by Jurisdiction



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

Outlook

Table 6: Territory Labour Market Forecasts (%)

	2015-16a	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Employment ¹	1.4	2.9	0.5	0.6	0.8	1.2
Unemployment rate ²	4.2	3.6	4.0	4.2	4.3	4.3

a: actual; 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 estimated to be 2.9 per cent in 2016-17, slightly below 10-year average growth of 3.0 per cent. Employment growth is forecast to be 0.5 per cent in 2017-18 as the Ichthys LNG project completes construction during this period. It is the largest project in the Territory's history and the employment loss caused by its transition to the operational and export phase will be a one-off impact on the level of employment. From 2018-19 onwards, employment is forecast to increase due to the expected commencement of several major projects in the Territory. The unemployment rate is estimated at 3.6 per cent in 2016-17, with the Territory economy at close to full employment, before increasing and stabilising at 4.3 per cent in 2019-20, which is slightly above the 10-year average of 4.0 per cent. The Territory is still expected to have one of the lowest unemployment rates of all jurisdictions in the medium term.

Prices and Wages

Recent Results

Growth in the Darwin consumer price index is at its lowest level since 1998, mainly driven by lower costs associated with housing rents, fuel, new vehicle costs and domestic holiday travel.

Territory wages growth is at record low levels, reflecting moderate increases in both the private and public wage price index.

Outlook

The outlook for growth in the Darwin consumer price index remains flat for 2016-17 and trending below the long-term average over the forecast period, albeit on an upward trend over the outer years.

Growth in the Territory's wage price index is expected to remain positive, but subdued in the medium term, increasing in the outer years, consistent with national trends.

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. The ABS publishes the wage price index (WPI) as a measure of the price that employers pay for a standard unit of labour.

Consumer Price Index

There was a marginal 0.1 per cent increase in the Darwin CPI in 2015-16, continuing the substantial decline in CPI from recent years and a lower rate than the eight capital cities CPI movement of 1.4 per cent.

The moderation in prices growth primarily reflects declines in the costs of transport (fuel prices and motor vehicle prices), recreation and culture costs, and food and non-alcoholic beverages, respectively declining 3.1 per cent, 1.4 per cent and 0.2 per cent in 2015-16. The continuing impact of low population growth and expanded housing supply through new land releases and medium and high-density housing developments have led to significant reductions in housing cost pressures.

Alcohol and tobacco (mainly tobacco excise) along with health and education costs represented the largest increases in costs over 2015-16, with respective increases of 5.7 per cent, 4.3 per cent and 4.0 per cent. In the year to December 2016, the Darwin CPI declined 0.2 per cent. This reflects continued moderation of costs across many components of the CPI basket.

Wages

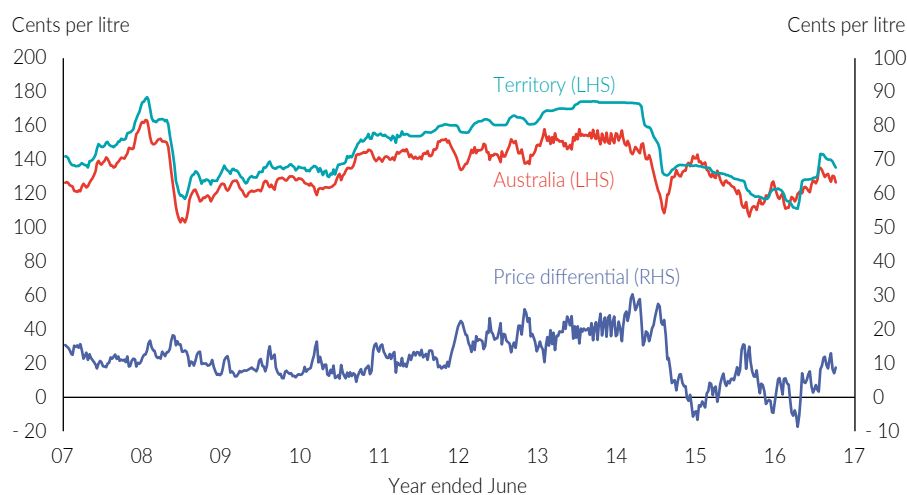
In 2015-16, the Territory's WPI recorded an increase of 2.2 per cent compared to 2.1 per cent nationally. WPI growth in the Territory continued a moderating path, reaching historically low levels in 2015-16, and remaining below the 10-year average increase of 3.4 per cent. This largely reflects declining private sector wage growth and is consistent with increased capacity of the Territory labour market.

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. Recently Territory fuel prices have tracked relatively competitively with national prices as global oil prices continued to be influenced by excess capacity in global oil production.

The monthly price for unleaded petrol (ULP) in March 2017 in the Territory averaged 137.9 cents per litre (cpl), which is the highest monthly average since January 2015. The differential between average prices of ULP in the Territory and nationally has risen through the year to 9.3 cpl in March 2017, however this remains below long-term trend. The retail price for diesel in the Territory has also increased to an average of 131.6 cpl in March 2017, the highest monthly average retail price since January 2016. The average price differential between the Territory and national average has also lowered to an average of 1.8 cpl in March 2017.

Chart 7: Average Monthly ULP Retail Price



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

The Territory Government is undertaking initiatives to improve the transparency and availability of fuel price information through the introduction of the first Territory-wide real-time mandatory fuel price reporting scheme, MyFuel NT. The scheme will empower Territory motorists to easily compare fuel prices and shop around for the lowest local fuel price via an online web portal, as well as making fuel price data freely available to third parties. MyFuel NT is expected to be fully operational in late 2017.

Outlook

Table 7: Forecasts of the Darwin CPI and Territory WPI (%)

	2015-16a	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Consumer price index	0.1	0.1	0.4	1.3	1.9	2.4
Wage price index	2.2	2.1	1.9	2.0	2.3	2.6

CPI: consumer price index; WPI: wage price index; a: actual; 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 Darwin CPI is forecast to remain near flat in 2016-17 at 0.1 per cent with modest growth over the forecast period of 0.4 per cent in 2017-18 and trending upwards to 2.4 per cent through the outer years as a number of categories are forecast to return to moderate levels of price growth, but nevertheless remaining below the historical trend. This growth in the outer years is forecast to be mainly driven by growth in transport prices (due to oil prices), alcohol and tobacco prices (mainly tobacco excise) and the housing category beginning to contribute to growth.

Wage growth is expected to continue to moderate in 2016-17 to 2.1 per cent, reflecting spare capacity in the national labour market and subdued inflation expectations. The Territory WPI is forecast to remain subdued over the medium term, primarily driven by soft labour market conditions in the private sector and tightening wages policies across all levels of government.

Residential Property Market

Recent Results

Housing market conditions have continued to soften due to lower demand for housing.

Outlook

Weak leading residential indicators suggest a further moderation in the residential property market in the medium term, following slowing economic activity and subdued population growth.

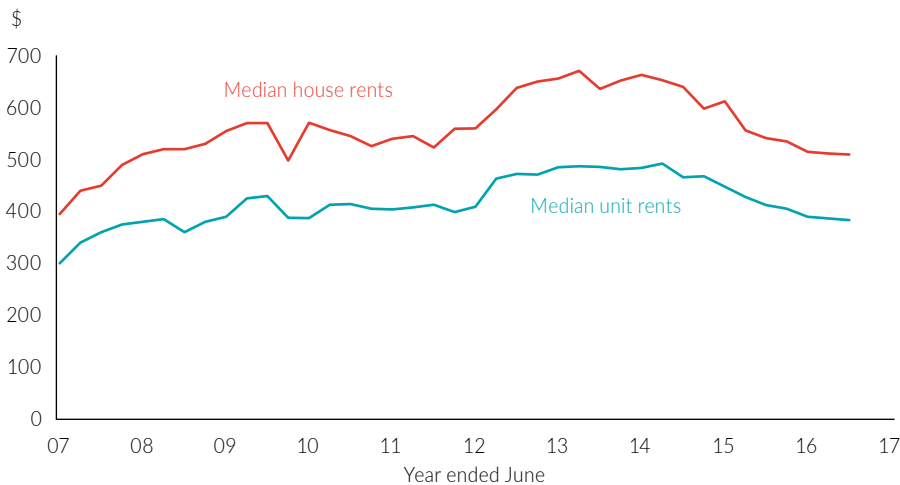
The residential property market encompasses building of homes, buying or renting a dwelling, and new land development. Housing costs are a significant proportion of household expenditure and investment in the Territory, with 21.6 per cent of household income devoted to meeting average mortgage repayments and 24.5 per cent used to meet median rents in the December quarter 2016.

Recent Activity

In annual terms the median house price in Greater Darwin decreased by 15.2 per cent. The annual decline was driven by decreases in median house prices across all areas. Greater Darwin median unit prices increased by 4.3 per cent in the December quarter 2016, but declined by 2.0 per cent in annual terms.

Median weekly asking rents for a house in Darwin followed a similar trend to median house prices, falling by 5.9 per cent in annual terms to \$510 per week in the December quarter 2016. Greater Darwin median asking rents for units decreased by 7.0 per cent in annual terms to \$383 per week. Median unit rents are currently at their lowest level since March 2009 (Chart 8).

Chart 8: Greater Darwin Median House and Unit Rents

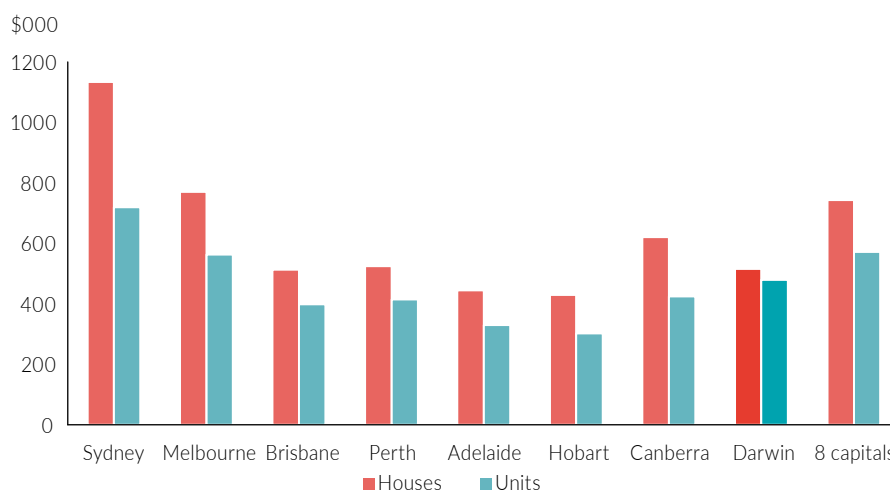


Source: Real Estate Institute of the Northern Territory

In the December quarter 2016, Darwin had the fifth highest median house price of the capital cities at \$516 300, below Sydney (\$1 134 100), Melbourne (\$770 000), Canberra (\$621 000) and Perth (\$525 000) (Chart 9). The median house price declined in Darwin and Perth, although increased across all other capital cities compared to the same time in the previous year. The eight capital city weighted average median house price was \$743 500 in December 2016, an increase of 4.2 per cent in year-on-year terms (Chart 9).

The Darwin median unit price was \$480 000 in December 2016, ranking third highest of all capital cities, which ranged from \$302 000 in Hobart to \$719 700 in Sydney. The median unit price also declined in Darwin and Perth, although increased across all other capital cities compared to the same time in the previous year. The eight capital city weighted average median unit price increased by 4.1 per cent to \$572 300 in 2016 (Chart 9).

Chart 9: Median House and Unit Prices, December Quarter 2016



Source: Real Estate Institute of Australia

In Alice Springs the median house price increased by 12.2 per cent to \$475 000 in the December quarter 2016 and was 1.6 per cent higher than the same time the previous year. In Alice Springs the median unit price increased by 20.9 per cent in the quarter, but decreased by 5.5 per cent in annual terms to \$315 000.

The weekly median asking rent for a house in Alice Springs was \$490 in the December quarter 2016, up 2.1 per cent in the quarter and 21.0 per cent compared to the same time in 2015. The weekly asking rent for a unit in Alice Springs in the quarter was flat at \$360 but declined by 2.7 per cent when compared to the same time in 2015.

Outlook

The Territory housing market is likely to remain subdued in the medium term due to growth in supply catching up to demand, in addition to slowing in overall economic activity following the end of the resource investment boom. Growth in housing supply over the medium term is likely to continue in various segments of the property market in the Territory, however at a more modest pace than in recent years. The outlook for the Territory's residential property market continues to be supported by low interest rate settings, however the Australian Prudential Regulation Authority's continued efforts to slow investor lending may contribute to lower housing commitments by investors across the Territory.

Continued land releases will offer support to Territorians to establish new dwellings and may contribute to more affordable property prices. Land development projects are expected to return to normal levels over the medium-term, following above-average trends in recent years.

Industry Analysis

Mining and Manufacturing

Recent Results

The mining and manufacturing industry recorded growth of 0.8 per cent in 2015-16, following two years of decline. This was driven by a slight recovery in the mining sector, partly offset by further moderation in manufacturing.

Outlook

The mining and manufacturing industry is expected to grow slightly on current levels in the short term, before increasing rapidly in the outer years, largely driven by petroleum production (mainly LNG). Other mining production, including rare earths and gold, are also expected to contribute to growth in the outer years.

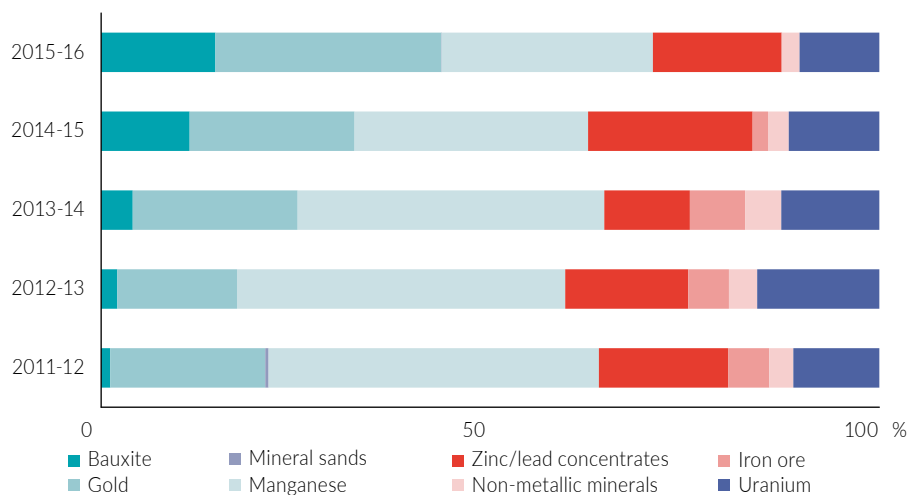
The mining and manufacturing industries contribute to the Territory economy through international trade, business investment and employment. Mining and manufacturing industries also have significant impacts on the Territory's construction industry as a number of projects require significant levels of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

Of the two industries, mining is the key contributor to the Territory economy and comprised 11.2 per cent of the Territory's economy in 2015-16, whereas the manufacturing industry in the Territory is smaller and less diverse in comparison to the national industry, contributing 3.1 per cent to Territory GSP. Mining and manufacturing industries employed an average of 9800 persons in 2015-16. This made up 7.4 per cent of the Territory's total resident employment.

From 2017-18, growth in the Territory's mineral production is expected to strengthen, as new mine operations and expansions come on line. Gold is expected to drive the increase, following the completion of expansion works at Newmont's Tanami gold mine operations in mid-2017. Manganese will also contribute significantly if the Bootu Creek mine reopens. Growth will also be supported by the ramping up of production at the Harts Range garnet sands mine. Current levels of production value for bauxite, zinc and lead are expected to continue over the forecast period.

LNG, LPG and condensate production is expected to increase from 2017-18 onwards, driven by the Ichthys LNG project as it commences the operational phase of the project in 2017-18. It is expected that the Territory will experience the full effect of this production in 2018-19.

Chart 10: Composition of the Territory's Mineral Production¹



¹ Proportion of value of commodities sold in current prices.
 Source: Department of Treasury and Finance; Department of Primary Industry and Resources

Construction

Recent Results

The construction industry recorded its fourth consecutive year of growth in 2015-16, however growth slowed to 0.8 per cent, in line with recent construction activity data releases.

Outlook

The construction industry is expected to undergo a significant adjustment over the coming years, which will reflect a transition from record levels of construction dominated by the Ichthys LNG project, to construction of smaller-scale major projects with expected levels of activity close to the Territory's long-term average.

The Territory's construction industry increased by 0.8 per cent in 2015-16 to \$4.2 billion, contributing 0.15 percentage points to the total 2.7 per cent increase in GSP. However growth in the construction industry has moderated following rapid expansion over the past five years, which was driven by major projects, largely the Ichthys LNG project, public sector projects, mineral and petroleum resource project expansions and record levels of residential construction. The construction industry remained the Territory's largest industry, accounting for 19.3 per cent of total GSP in 2015-16, reflecting an increase from 18.0 per cent in 2014-15.

In 2015-16, there were an estimated 15 540 Territorians employed in the construction industry, representing an increase of 3.5 per cent compared to the previous year. The construction industry accounted for 11.7 per cent of the total resident workforce in the year, making it the second largest employing industry in the Territory, behind public administration and safety.

The Territory's construction industry is expected to experience a significant adjustment over the coming years, following four years of record levels of construction activity, largely driven by work related to the Ichthys LNG project. Over 2016-17 and 2017-18, the project will transition from construction to the operation and export phase, which will dictate the headline construction figures for the Territory over these years, given the relative size of the project. The construction industry is expected to return to long-term trend levels in the outer years, which will comprise of a number of smaller-scale projects, as well as low levels of new house and unit construction compared to previous years.

Despite the declines, major contributors to the Territory's construction industry over the forecast period will be the \$800 million Northern Gas Pipeline, which is expected to be constructed in 2017-18 and 2018-19, as well as the Territory Government's \$1.75 billion infrastructure spend in 2017-18 and its 10-year Infrastructure Plan providing support to the construction industry over the long term.

There are also a range of potential projects in the pipeline that, if realised, would help to support the construction industry over the forward years. This includes projects included in the Defence White Paper 2016, such as the \$550 million redevelopment works at Larrakeyah Barracks and HMAS Coonawarra. Further potential private sector resource-based projects include the Nolans rare earths project, the \$850 million vanadium and titanium mine at Mount Peake, the \$750 million Ammaroo Phosphate Project and the \$190 million Jervois copper-silver-gold project. Additionally, there are a number of major projects in planning such as the Project Sea Dragon prawn farm.

Agriculture, Forestry and Fishing

Recent Results

Some sectors of the agricultural industry have shown signs of growth despite live cattle exports from the Territory being lower than recent years, partly driven by the relatively high price of Australian beef.

Outlook

The Territory's agricultural industry is expected to grow in the medium term, driven by the continued recovery in some sectors of the industry, particularly horticulture.

The agriculture, forestry and fishing industry contributes to employment and economic activity in the Territory's regional and remote areas. The industry also has important linkages with other sectors of the economy, including retail and wholesale trade, manufacturing and transport.

In 2015-16, the agriculture, forestry and fishing industry accounted for 2.0 per cent of the Territory's GSP. The industry's output can, however, vary significantly from year to year due to changes in production from other industries as well as seasonal conditions and changes in global and domestic demand for Territory commodities. In 2015-16, the agriculture, forestry and fishing industry accounted for 0.7 per cent of total employment in the Territory, which was a decrease of 0.5 percentage points compared to 2014-15.

The value of agricultural production is expected to grow over the medium term, supported by demand from Asia and the growing Australian population. Agribusiness is also a major focus of the Territory Government's Economic Development Framework, which is expected to further encourage growth of the industry. The agriculture, forestry and fishing industry's share of Territory GSP is expected to increase over the forward estimates as the industry recovers from a decrease in horticultural production caused by the outbreak of diseases over recent years.

The Territory's live cattle industry is expected to moderate in the near term as demand from traditional Asian markets continues to decline, partly driven by the high prices of Australian beef relative to other markets. However the long-term cattle industry prospects remain positive. In 2016-17, it is estimated the crocodile industry will produce total revenue of about \$24.6 million before increasing to approximately \$31.0 million in 2017-18.

Fruit exports are likely to benefit in the long term from phased-in tariff reductions under the China, Japan and Korea free trade agreements, while Territory agriculture is likely to benefit significantly in the long term from the finalisation of the free trade agreement between Australia and Indonesia.

Following outbreaks of banana freckle disease and cucumber green mottle mosaic virus affecting banana and melon production over 2015 and 2016, the Territory's horticulture production is expected to recover to near long-term levels. The value of mango production remains strong, driven by demand from major Australian capital cities and development of new export markets in the United States.

The Territory's agricultural sector is also taking advantage of expanding and new opportunities, such as TPI Enterprises' planting of 100 hectares of a commercial poppy crop near Katherine, Humpty Doo Barramundi Farm expanding barramundi production to 50 tonnes per week for national and international markets, and the potential Seafarms Project Sea Dragon, a US\$1.45 billion aquaculture project in northern Australia, which if realised will produce 100 000 tonnes of black tiger prawns each year.

Tourism

Recent Results

Growth in the number of international visitors to the Territory has been relatively steady over the year, while the number of domestic visitors continued to grow.

Outlook

The Territory tourism industry is expected to be supported by growth in the holiday market, however domestic visitors are likely to decline as business travel associated with fly-in fly-out workers for major projects decreases over the coming year.

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.

In 2014-15 the tourism industry in the Territory is estimated to have directly contributed 4.2 per cent (or \$976 million) to GSP and 6.4 per cent (about 8500 persons) to total employment. The largest share of direct tourism employment in the Territory is in cafés, restaurants and takeaway food services; retail trade; accommodation; and air, water and other transport.

In 2016, visitors to the Territory contributed an estimated \$2.6 billion of expenditure to the local economy, surpassing the Tourism Vision 2020: Northern Territory's Strategy of Growth target of \$2.2 billion, as a result of the strong growth in domestic overnight visitors to the Territory. The Territory received a total of about 1.8 million domestic and international visitors in 2016, with holiday visitors making up the majority of total visitation (about 840 000 visitors).

In 2015-16, the Territory experienced a peak of 8.5 million domestic visitor nights, which represented the highest number of visitor nights over the decade. Over the next five years, visitor nights in the Territory by domestic travellers are forecast to grow steadily at an average annual rate of 2.9 per cent, sustained by growth in holiday visitors.

In 2016, 1.5 million interstate and intrastate overnight visitors travelled to and within the Territory, representing the strongest result over the decade. Growth in domestic visitation to the Territory was also greater than the national average. Despite anticipated ongoing growth in interstate holiday visitors, overall domestic arrivals are likely to decline as business and employment-related travel associated with major projects decreases over the coming year.

In 2016, the Territory received an estimated 287 000 international visitors. Movement in the number of international visitors to the Territory has been relatively steady over the year, although remained below the peak experienced during 2006 (366 000 persons) and the 10-year average (297 000 persons).

The cruise ship sector injected \$31 million into the Territory economy in 2015-16 and plays an important role in the Territory's tourism industry. Cruise ship visits provide an influx of tourists into the region during the off-peak season, with passengers and crew taking tours, visiting local attractions, shopping at local retail outlets and spending at cafés and restaurants.

Defence

Recent Results

Annual defence expenditure is close to the long-term average, supported by ongoing operations for Australian forces and joint international exercises.

Outlook

A number of major capital projects have commenced with other initiatives in the pipeline, highlighting the ongoing importance of the Territory as a strategic defence location.

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.

A continued defence presence in the Territory was reinforced by the 2016 Defence White Paper, which outlines the Commonwealth's long-term plans for a strengthened capability in northern Australia through increased personnel, investment, training, exercises and joint initiatives with international defence forces. Expenditure in the Territory included in the White Paper is estimated to be valued at about \$8 billion over the next decade and a further \$12.2 billion between 2025-26 and 2035-36.

The two largest defence projects in the Territory in the short term are the \$470 million new air combat capability facilities project at Royal Australian Air Force (RAAF) Base Tindal, near Katherine (commenced in early 2017), and \$550 million redevelopment works at Larrakeyah Barracks and HMAS Coonawarra in Darwin (expected to commence in early 2018).

In 2015-16 there were 5674 defence personnel based in the Territory (including permanent personnel and reservists), of which 3675 were in the army, 1083 in the air force, 649 in the navy and 267 were Department of Defence civilians.

It is estimated that the Territory's total defence population (including personnel and their families) is approximately 12 000 or five per cent of the Territory's population. Further, the number of US Marines arriving in the Territory will continue at around 1250 in 2017, as part of the Joint Australia-US Force Posture Initiative, and increase up to 2500 personal over the coming years.

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

	Total Estimated Expenditure (\$M)	Expected Timeframe
Current		
Delamere Air Weapons Range redevelopment	130	2016 to 2018
National Aircraft Pavement Maintenance Program	50	2016 to 2020
RAAF Base Tindal – new air combat capability facilities project	470	2017 to 2019
Proposed		
RAAF Base Darwin upgrades for Poseidon P8 aircraft	90	2018 to 2021
Larrakeyah Barracks and HMAS Coonawarra redevelopment works	550	2018 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 expenditure has been subdued in recent years. Despite this, the industry's share of employment in the Territory continues to increase.

Outlook

Retail trade activity is expected to be modest in the short and medium term due to moderate wage and consumption growth.

Retail and wholesale trade expenditure in the Territory has grown by an average of 5.1 per cent per annum in the 10 years to 2015-16. In 2015-16 the sector declined by 0.8 per cent after 14 years of consecutive growth. Despite slowing activity, the retail and wholesale trade industry contributed 4.4 per cent to GSP in 2015-16, only slightly below the 10-year average of 4.6 per cent.

The retail and wholesale trade industry is one of the largest employers in the Territory with 9.8 per cent of employed people working in this industry in 2015-16, below the 10-year average of 11.1 per cent. However, the industry's share of employment has increased in recent months and now has a share of employment of 10.5 per cent as of February 2017.

Wholesale trade, as measured as a component of GSP, has grown sporadically over recent years, likely reflecting the influence of major projects in the Territory. Wholesale trade in the Territory continues to contribute a much smaller proportion (37.0 per cent in 2015-16) to the retail and wholesale trade industry than nationally (47.7 per cent). In 2015-16, wholesale trade declined by 1.4 per cent to \$349 million in the Territory following eleven consecutive years of growth.

Chart 11: Retail and Wholesale Trade Share of GSP, GDP and Employment, 2015-16



GSP: gross state product; GDP: gross domestic product

1 Current prices.

2 Annual average.

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

The outlook for retail trade in the Territory is expected to remain subdued over the medium term, with moderate wages growth contributing to conservative consumer spending. Nationally, retail trade is anticipated to be stronger than in the Territory but still performing below long-term trends as online shopping becomes more dominant and maintains price competition.

Government and Community Services

Recent Results

The Government and Community Services industry accounted for 20.1 per cent of gross state product and 37.9 per cent of total resident employment in 2015-16, remaining a significant employer in the Territory.

Outlook

Increased public infrastructure investment, defence spending and the opening of the Palmerston Regional Hospital are expected to benefit the Territory economy over the medium to long term.

The government and community services industry contributed \$4.7 billion to the Territory's GSP in 2015-16, up from \$4.5 billion in 2014-15. The industry's share of GSP in the Territory has slightly increased in recent years and is now at its highest share in over 10 years. It is estimated that 50 410 Territory residents were employed in the government and community services industry in 2015-16, representing 37.9 per cent of total employment in 2015-16, slightly above the 10-year average.

In the short to medium term, government and community services expenditure as a percentage of the Territory's GSP and employment is expected to continue to increase as public investment from the Territory and Commonwealth governments continues in essential service and defence infrastructure, as well as funding increases for schools, police and health services.

Service Industries

Recent Results

Service industries increased by 4.4 per cent in 2015-16, driven by strength in rental, hiring and real estate, transport postal and warehousing, as well as information media and telecommunications.

Outlook

Growth over the coming years is expected to be supported by tourism-related industries. The continued rollout of the National Broadband Network will support information, media and telecommunications industries, partly offset by subdued commodity prices and housing market.

In 2015-16, the total value of service industries increased by 4.4 per cent compared to 2014-15 and constituted 26.0 per cent of the Territory's GSP and 32.6 per cent of the Territory's employment in 2015-16. The service industries category includes a wide variety of industries that, while individually small, combine to contribute a large proportion of the Territory's GSP. The increase in total value was driven by increases in information media and telecommunications, rental, hiring and real estate services, and the transport, postal and warehousing sector. The increase was partly offset by a decline in administrative and support services.

With respect to employment, the service industries reported a 2.7 per cent decline in 2015-16, which was driven by a decrease in information media and telecommunications employment. This was partly offset by an increase in rental, hiring and real estate services and accommodation and food service employment.

The outlook for service industries is mixed, which reflects the wide variety and diverse nature of industries that belong to this category. Accommodation and food services, and arts and recreation are likely to be supported by favourable conditions. The outlook for the information, media and telecommunications industry is expected to be positive due to the continued rollout of NBN, especially in rural areas. Completion of the construction phase of the Ichthys LNG project combined with subdued commodities prices are likely to detract from professional, scientific and technical services, which have historically been linked with mining and exploration activities.