NORTHERN TERRITORY GOVERNMENT

NORTHERN TERRITORY ECONOMY

BUDGET 2015-16

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BUDGET 2015-16

NORTHERN TERRITORY ECONOMY


Beijing
6000 km
Seoul
5550 km
Tokyo
5450 km
Taipei
4300 km
Hong
Kong
4250 km
Hanoi
4650 km
Bangkok
4450 km
Manila
3200 km
Brunei
2700 km
Kuala Lumpur
3650 km
Singapore
3350 km
Jakarta
2700 km
Dili
700 km
Darwin
1800 km
Port
Moresby
1500 km
Alice Springs
2850 km
Brisbane
3150 km
Sydney
3150 km
Canberra
2600 km
Adelaide
3150 km
3750 km
Melbourne
Hobart
2650 km
Perth

Contents

Overview

Key Points

- The Northern Territory economy is dominated by the construction; government and community services; and mining industries. These industries account for about half of the Territory's total economic output. In terms of employment, the key industries in the Territory are government and community services; construction; and retail and wholesale trade.
- Territory economic growth strengthened from 4.3 per cent in 2012-13 to 6.5 per cent in 2013-14. This was the highest rate of growth among jurisdictions and above the Australian economic growth rate of 2.5 per cent.
- The outlook is for the Territory economy to continue to grow at a robust pace over the medium term. From 2015-16 the Territory economy is expected to commence a period of transition from investment-led growth, to growth underpinned by production and exports.
- Labour market conditions are expected to soften over the medium term, as the Ichthys liquefied natural gas (LNG) project moves towards the less labour-intensive production and export phase.
- The growth in the Darwin consumer price index (CPI) moderated from 3.9 per cent in 2013 to 2.9 per cent in 2014. The decline over the year was largely due to lower increases in housing costs, in particular utilities, rents and house purchase prices.

Table i: Economic Growth (%)

	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
Gross state product[1]	6.5	4.5	4.5	4.5	3.0	3.0
State final demand[1]	4.5	5.8	- 3.7	- 15.6	- 2.2	1.4
Population[2]	1.9	0.9	1.8	1.0	1.0	1.0
Employment[3]	4.6	1.5	1.5	0.7	0.7	2.0
Unemployment rate[4]	4.4	4.2	4.5	4.7	4.7	4.7
Consumer price index[5]	3.9	2.9	2.5	2.3	2.5	2.5
Wage price index[5]	2.9	2.8	2.7	2.5	2.5	2.5

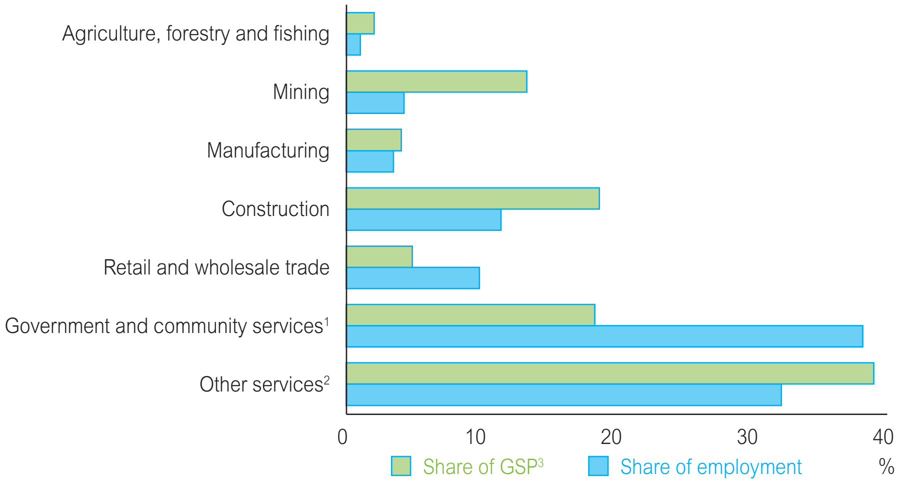
e: estimate; f: forecast
1 Year ended June, year-on-year percentage change, inflation adjusted.
2 As at December, annual percentage change.
3 Year-on-year percentage change.
4 Year average.
5 As at December, year-on-year percentage change.
Source: Department of Treasury and Finance; ABS

Structure of the Economy

The structure of the Territory economy is influenced by the Territory's distinctive demographic and geographic characteristics and the abundance of natural resources. Relative to other jurisdictions, the Territory economy is at an earlier stage of development, with less depth and diversity among industries. As a result, the industry mix in the Territory is markedly different from other jurisdictions.

The Territory economy is dominated by the construction; government and community services; and mining industries (Chart i). These industries account for about half of the Territory's total economic output. Similarly, the key employment industries in the Territory are government and community services; construction; and retail and wholesale trade. Although the mining industry is a key contributor to Territory gross state product (GSP), its contribution to total employment is substantially less due to the capital-intensive nature of the industry.

Chart i: Share of Total Territory GSP and Employment by Industry, 2013-14



GSP: gross state product
1 Government and community services comprises public administration and safety; education and training; and health care and social assistance industries.
2 Includes ownership of dwellings, taxes less subsidies on products, and statistical discrepancy.
3 Inflation adjusted.
Source: ABS, *Australian National Accounts: State accounts*, Cat. No. 5220.0

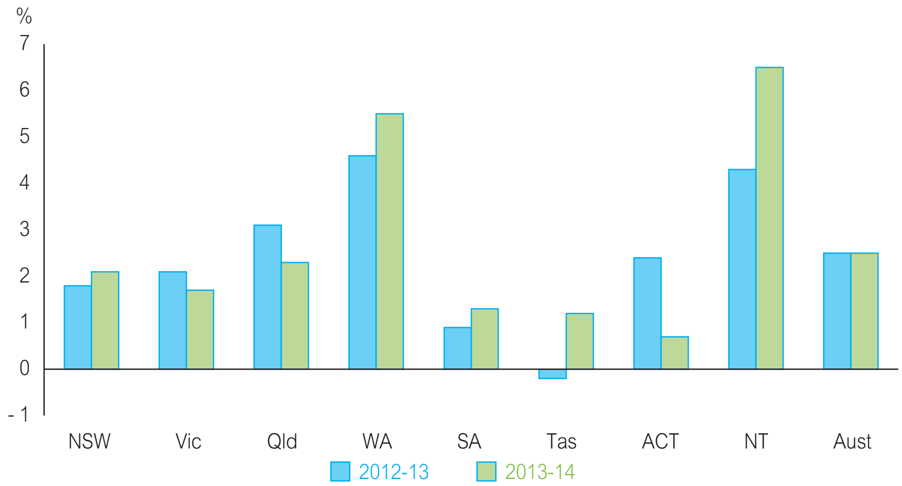
A notable difference between the Territory and Australian economies is the balance between consumption and investment. Since 2003-04, investment in the Territory has grown by an average of 10.2 per cent, which is higher than the annual average rate of growth for consumption of 3.6 per cent. As a result, investment's share of the Territory's final demand has risen from 30.6 per cent in 2003-04 to 44.9 per cent in 2013-14. In comparison, at the national level investment accounts for less than a third of domestic final demand.

International exports are a key component of the Territory's economic output, accounting for nearly one third of the Territory's GSP in 2013-14. This was the second highest proportion of all jurisdictions, behind Western Australia (50.9 per cent) and above the national average of 19.6 per cent.

Economic Growth

Territory economic growth strengthened from 4.3 per cent in 2012-13 to 6.5 per cent in 2013-14. This was the highest rate of growth among jurisdictions, which ranged from 0.7 per cent in the Australian Capital Territory to 5.5 per cent in Western Australia (Chart ii). The Australian economy grew by 2.5 per cent in 2013-14.

Chart ii: Change in GSP and GDP[1]



GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

The key driver of growth in the Territory was an increase in private investment, which rose by 8.0 per cent to $11.8 billion in 2013-14. Territory household consumption also grew by 3.4 per cent to $9.5 billion, supported by an increase in net expenditure interstate as well as higher levels of spending on health and rent and other dwelling services.

The outlook is for the Territory economy to continue to grow at a robust pace over the medium term. The economy is forecast to grow by 4.5 per cent in 2014-15, reflecting the expected peak of construction activity related to the Ichthys LNG project.

From 2015-16 the Territory economy is expected to commence a period of transition as investments in resource projects pass their peak and moves to the production and export phase. The forecast decline is expected to be offset by a decline in imports and an increase in public investment. The Government is investing strongly in economic, community and social infrastructure from 2015-16, with a focus on transport, including a record roads program in 2015-16, as well as education and health. Territory Government investment is expected to be a key driver of economic activity in 2015-16, which will assist in offsetting the expected decline in business investment. Furthermore, the Government's land release program and changes to the First Home Owner Grant, announced in the 2014-15 Budget, which target the grant toward the purchase or construction of new homes, is expected to support dwelling investment in the Territory. In the outer years, the investment in the Ichthys LNG project will translate into a substantial increase in exports from 2016-17, which will underpin economic growth.

State final demand (SFD) grew strongly in recent years driven by prepayments for pre-assembled modules and equipment required for the Ichthys LNG project, which were built in overseas locations. These payments were made in advance of delivery to the Territory and therefore do not correlate with the physical work done in the Territory. SFD has overstated the level of economic activity in the Territory in the years when the prepayments were made and will understate the level of onshore activity in the years when the pre-assembled modules are installed. The difference in timing contributes to the forecast contraction in SFD, further enhanced by the decline in business investment, albeit from record levels. In contrast, GSP recognises the work done at the time when the modules are installed and the exports related to the Ichthys LNG project. As such, Territory GSP forecasts show a steady path of growth over the medium term.

External Environment

The performance of the Territory's economy is reliant on overseas trade and investment, and, as a result, it can be vulnerable to fluctuations in exchange rates, key commodity prices and financial conditions. National economic conditions are also important to the Territory, affecting population migration, interstate trade and tourism.

The Australian economy is currently in a major transition phase. Economic growth in recent years was underpinned by record levels of investment in resources projects. As mining investment passes its peak, the economy is moving towards broader-based drivers of activity. The recovery in the non-mining sector, however, is slower than anticipated. Australia's labour market conditions remain soft, reflected by subdued employment growth and a rising unemployment rate. Growth in the Australian economy is expected to remain below trend levels in the short term, before rising to its trend rate of about 3 per cent by 2016.

The global economy's importance to the Territory is reflected through overseas investment, international tourism and trade activity. The International Monetary Fund (IMF) expects global economic growth to trend upwards to 3.5 per cent in 2015 and 3.7 per cent in 2016, with a key contributor of growth in the short to medium term being improvement in conditions in the United States (US) economy.

Economic growth in Japan is expected to remain weak over the medium term. Even though Japan is the Territory's largest export destination, accounting for almost half of total exports, this is unlikely to have a significant impact as exports to Japan largely comprise LNG, which is traded under long-term contracts.

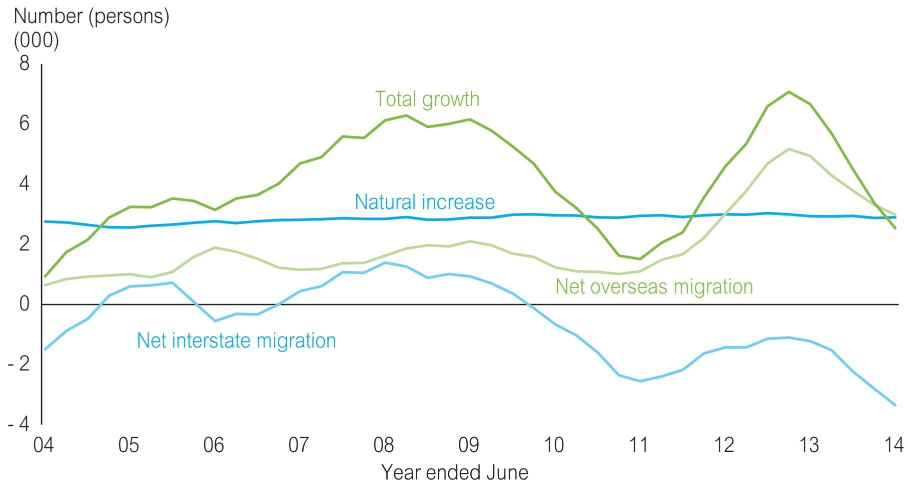
Economic growth in China is expected to moderate, but remain at a relatively high level compared with global growth. As China's demand slows, this may result in further downward pressure on commodity prices, possibly offset by depreciation in the Australian dollar as the US economy strengthens. The positive outlook for the US economy has implications for global growth through increased demand for exports from Europe and Asia. Indirectly, this may benefit the Territory through increased demand for its commodities from those countries. More directly, the US is a key source of international visitors for the Territory.

The free trade agreements with Korea and Japan came into force in December 2014 and January 2015, respectively, while China's free trade agreement is expected to be signed before the end of 2015. These are expected to have positive effects for industries such as agriculture and processed foods, resources, manufacturing and services, potentially benefiting Territory businesses in these sectors.

Population

The Territory's population grew by 1.0 per cent in 2013-14. Natural increase made a steady contribution to growth in 2013-14, supplemented by continued strong net overseas migration (Chart iii). These gains were partially offset by large outflows through net interstate migration.

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



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

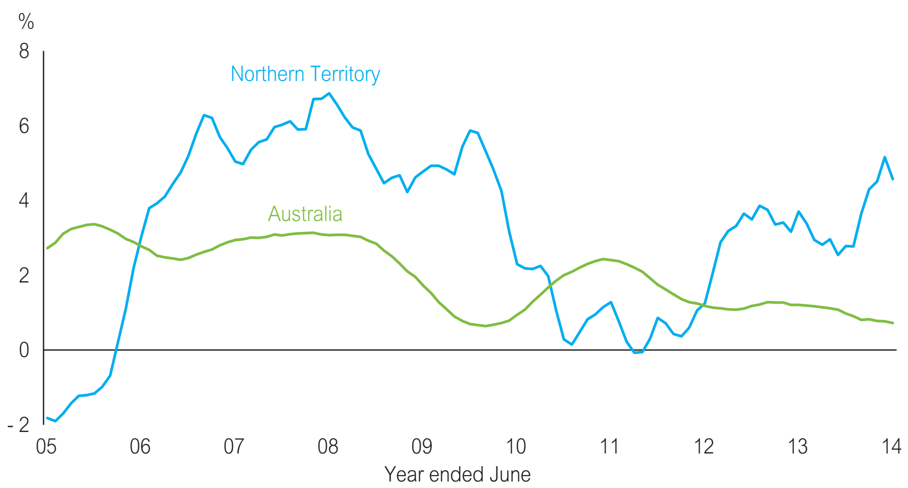
Recent increased outflows from net interstate migration reflect differing patterns in the underlying flows. Outward migration increased, including among older age groups, which is consistent with movement of the Territory's baby boomer population into retirement age and a tendency for people to leave the Territory upon retirement. Furthermore, inflows of interstate migrants are at historically low levels, which may reflect changing work practices (increased fly-in fly-out workers) and the complexity associated with measuring interstate migration.

Population growth is expected to remain subdued in 2014 before strengthening in 2015 as the population effects from the curtailment of operations at the Gove alumina refinery pass and the workforce requirements for the construction phase of the Ichthys LNG project peak. From 2016, population growth is forecast to moderate to 1.0 per cent, with labour market conditions softening as the Ichthys LNG project transitions into the less labour-intensive production phase with the bulk of the project's construction workforce and their dependants leaving the Territory.

Labour Market

Resident employment growth in the Territory strengthened from 3.7 per cent in 2012-13 to 4.6 per cent in 2013-14. The Territory recorded the highest year-on-year employment growth of all jurisdictions in 2013-14, and well above national growth of 0.7 per cent (Chart iv).

Chart iv: Year-on-Year Employment Change



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

Labour market conditions are expected to soften in 2014-15. This follows the higher than anticipated growth in employment in 2013-14 due to the earlier and larger than anticipated increase in the Ichthys LNG project workforce. Territory resident employment is expected to grow by 1.5 per cent in 2014-15.

From 2015-16 labour market conditions in the Territory are expected to remain soft, reflecting the transition of the Ichthys LNG project from the construction phase to the less labour-intensive production phase and the forecast decline in dwelling construction activity, albeit from a high base. This is expected to lead to subdued employment growth and a rise in the unemployment rate in the Territory. Despite the rise, the unemployment rate in the Territory is expected to remain one of the lowest among jurisdictions. From 2018-19 labour market conditions in the Territory are forecast to return to long-term trend levels.

Prices and Wages

The Darwin CPI increased by 2.9 per cent in 2014, a significant decline from 3.9 per cent in the previous year.

The largest contributor to the growth in the Darwin CPI over the past two years was an increase in the cost of housing. However, growth has slowed substantially over the past year due to lower increases in rents and house purchase prices. The cooling property market in Darwin coincided with increased dwelling supply following the completion of multi-unit developments and the effect of the Territory Government's land release strategy. Other key contributors to Darwin CPI growth in 2014 were higher costs of alcohol and tobacco, recreation and culture, and food.

The outlook is for growth in the Darwin CPI to moderate from 2015. This reflects the forecast lower population and employment growth as construction activity related to the Ichthys LNG project winds down. This is expected to lead to lower growth in demand for goods and services and consequently lower growth in prices. The forecast moderation in the Darwin CPI also reflects the expected increase in the supply of new dwelling stock and proposed land releases in Greater Darwin, which should reduce upward pressure on property prices and rents.

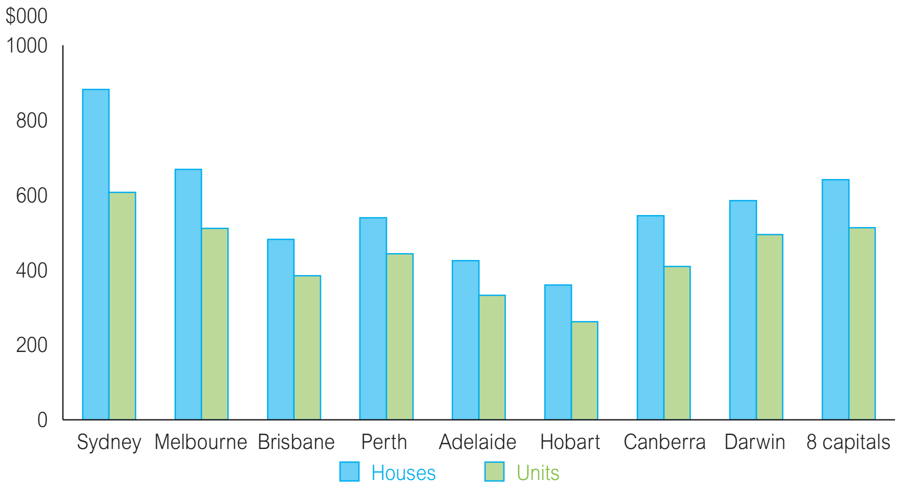
In 2014 the Territory wage price index (WPI) increased by 2.8 per cent compared with 2.6 per cent nationally. WPI growth in the Territory in 2014 was well below the 10-year average increase of 3.7 per cent. Growth in the Territory's WPI is expected to moderate to 2.7 per cent in 2015 before stabilising at 2.5 per cent from 2016, reflecting the forecast slowdown in employment growth.

Territory Residential Property Market

Housing costs are a major expenditure item for Territory households. In 2012 and 2013 rents and purchase prices rose substantially, placing considerable additional pressure on household budgets. More recently, the Territory property market has been reshaped by major changes in supply. Dwelling supply has increased markedly with over 2000 new dwellings coming online over the past year driven by the completion of multi-unit developments and the Territory Government's land release program. The increase in supply is beginning to alleviate the housing cost pressures experienced in recent years.

In the December quarter 2014 the Darwin median house price was $585 000 and $495 000 for a unit. Darwin recorded the third highest median house price of all capital cities, below Sydney ($882 000) and Melbourne ($669 000), and the third highest median unit price also behind Sydney ($607 100) and Melbourne ($511 500) (Chart v).

Chart v: Median House and Unit Prices, December Quarter 2014



Source: Real Estate Institute of Australia and the Bendigo Bank

Dwelling rental prices in Darwin are typically among the highest in the nation, reflecting the transitory nature of the population. In the December quarter 2014, Darwin had the highest median house rent ($640 per week) and the second highest median unit rent ($466 per week) of all capital cities.

Median dwelling prices in the Territory's major centres in the December quarter 2014 were $459 500 for a house and $372 000 for a unit in Alice Springs, $380 000 for a house in Katherine and $291 250 for a house in Tennant Creek. Over the same period, median weekly dwelling rental prices in the Territory's major centres were $520 for a house and $400 for a unit in Alice Springs and $500 for a house and $275 for a unit in Katherine.

Over the past year there has been a significant increase in the number of new dwelling stock in the Territory. In 2013-14 the number of residential dwelling completions increased by 51.0 per cent to 2146, the highest annual figure since 1999. This has contributed to the rise in the vacancy rate for all rented dwellings in Darwin to 5.4 per cent in the December quarter 2014, compared with 3.5 per cent in the same period last year. Darwin recorded the highest vacancy rate of all capital cities, which ranged from 1.7 per cent in Sydney to 4.2 per cent in Perth.

The supply pipeline of new residential dwellings in the Territory remains strong. As at June 2014 there were 2142 residential dwellings under construction, nearly double the 10-year average (1240). Similarly, building approvals in the Territory are currently at elevated levels with nearly 2000 residential building approvals in 2013-14 compared with the 10-year average of about 1600. The healthy pipeline of dwelling construction activity is consistent with plans for the commencement of construction of a number of multi-unit developments, as well as the Government's schedule of land release and subdivisions over the medium term.

Key Industry Analysis

Construction is the Territory's single largest industry, accounting for 18.6 per cent of GSP and 11.5 per cent of employment. Construction activity in the Territory has surged in recent years underpinned by major projects, particularly in the resources sector. Growth has also been supported by historically elevated levels of non-residential and residential construction activity.

Construction activity in the Territory is expected to strengthen further over the short term following the arrival of the first wave of prefabricated modules for the Ichthys LNG project. In the medium term construction activity is expected to decline as the investment phase of the Ichthys LNG project passes its peak. There are a number of major projects in the pipeline that if they proceed will support construction activity in the Territory over the medium term. These include the Ord Stage 3 project, Seafarms' Project Sea Dragon, the Marine Industry Park and Arafura Resources' rare earth mine in Central Australia. Only projects with a final investment decision have been considered in the business investment forecasts. Residential construction activity is expected to remain above historical trend levels in the medium term, supported by planned construction of multi-unit developments and the Government's land release program.

Mining is the second largest industry in the Territory, accounting for 13.3 per cent of GSP. In 2013-14 the mining industry grew by 11.4 per cent, above the 10-year average of 4.8 per cent per annum, as a result of investment in resource projects in the Territory in recent years. The mining industry accounted for 4.3 per cent of the Territory's resident workforce in 2013-14.

The outlook for the mining industry is positive with a number of resource developments planned in the medium term. In addition, the Government has commenced a process to facilitate the development of a gas pipeline, known as the North East Gas Interconnector, to connect the Territory with the east coast gas pipeline network.

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 industries in the economy, including retail and wholesale trade, manufacturing and transport. In 2013-14 the agriculture, forestry and fishing industry accounted for 2.1 per cent of the Territory's GSP and 1.1 per cent of the Territory's resident workforce.

The agriculture, forestry and fishing industry's share of Territory GSP is expected to continue declining moderately over the budget and forward estimates period, as growth is outpaced by other industries of the Territory economy. Nevertheless, there are positive signs. In 2013-14 there were about 506 000 head of cattle exported from the Territory, including about 303 000 live cattle exported to overseas destinations, the highest level on record. The live cattle industry is expected to continue to perform strongly in the medium term, driven by increased demand from Indonesia and Vietnam as well as the emergence of Thailand as a live cattle export destination.

The outlook for the Territory's forestry sector is positive with the first consignment of timber plantations from the Tiwi Islands expected in mid-2015. In addition, the Territory Government, Tiwi Land Council, Tiwi Resources Pty Ltd and the Tiwi Aboriginal Land Trust signed an agreement allowing up to 10 000 hectares of land to be leased for pastoral or agricultural purposes.

Fisheries production in the Territory may also increase over the forward estimates, driven by growth in aquaculture production. Seafarms has announced its intention to investigate undertaking a $1.45 billion prawn aquaculture project in Northern Australia to develop a 10 000 hectare prawn farm near the Territory-Western Australia border.

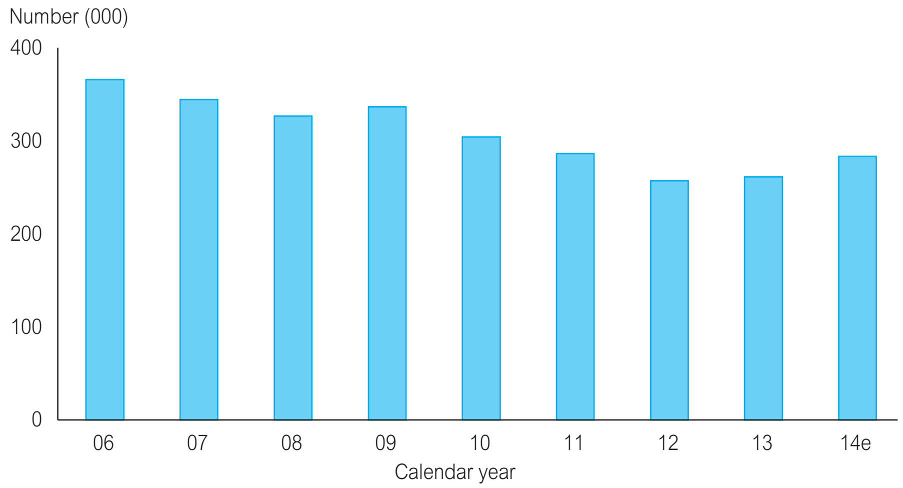
Tourism is an important economic driver for the Territory and is a significant industry in regional areas. Tourism has strong links to other sectors in the economy including accommodation and food services, retail trade, culture and recreation, and transport. In 2013-14 the tourism industry in the Territory contributed 4.0 per cent to GSP and 5.7 per cent to total employment.

The number of international visitors to the Territory rebounded in 2014 following a prolonged period of decline. In 2014, it is estimated that the number of international visitors increased by 8.5 per cent to 283 000 persons, driven by a higher number of holiday visitors (Chart vi). Overnight domestic visitor numbers to the Territory also experienced strong growth over the past year, increasing by 20 per cent to 1.1 million visitors in 2014.

The recent recovery in domestic and international visitation numbers to the Territory is expected to continue over the long term, reflecting forecast improvement in economic conditions in the Territory's key tourist source markets and downward movements in the exchange rate.

Developments in tourism infrastructure, including the Darwin International Airport terminal expansion project, are expected to enhance visitor experiences and support growth in the tourism industry. Recent increases in domestic and international airline capacity to and from the Territory further support a positive outlook.

Chart vi: Annual Number of International Visitors to the Territory



e: estimate
Source: Department of Treasury and Finance; Tourism Research Australia, *International Visitors in Australia*

The 2015-16 Budget affirms the Government's commitment to grow the Territory tourism industry through marketing activities to promote the Territory as a leisure tourism destination. Funding has also been allocated to support new tourism products and infrastructure development across the Territory, including improving amenity of parks, upgrading key tourism roads and constructing new arts and cultural facilities.

The defence industry makes a substantial contribution to the Territory economy through the creation of direct and indirect employment, and generating demand for local goods and services. In addition, the defence industry stimulates the economy through major Australian Defence Force (ADF) operations and exercises that are held in the region and infrastructure projects that typically engage local businesses.

In 2013-14 there were 6123 defence force personnel based in the Territory. In current terms, defence contributed 6.9 per cent or $1.5 billion to the Territory's GSP. The Territory's share of total defence spending (5.1 per cent in 2013-14) is significantly higher than the Territory's share of the national population (1.0 per cent).

Defence is expected to continue to make a substantial and stable contribution to the Territory economy. Current and proposed infrastructure projects aimed at upgrading existing defence facilities combined with plans to increase the number of Defence Housing Australia-managed dwellings for defence personnel reaffirms the long-term importance of the Territory as a strategic defence location. The Marine Industry Park is also expected to provide a growing maritime maintenance capability and enhance the ADF's ability to operate in Australia's northern waters.

In 2013-14 the retail and wholesale trade industry contributed $1.0 billion to the Territory economy or 4.9 per cent of GSP. Retail activity in the Territory improved in 2013-14, following a prolonged period of weak growth in the aftermath of the global financial crisis. Despite the improvement, the outlook is for retail and wholesale conditions to remain subdued in the short to medium term. Growth is expected to be constrained by a softening outlook for population and employment growth in the Territory. Over the longer term, construction of new retail precincts in the Greater Darwin region is expected to support the development of the industry.

Chapter 1

Structure of the Economy

Key Points

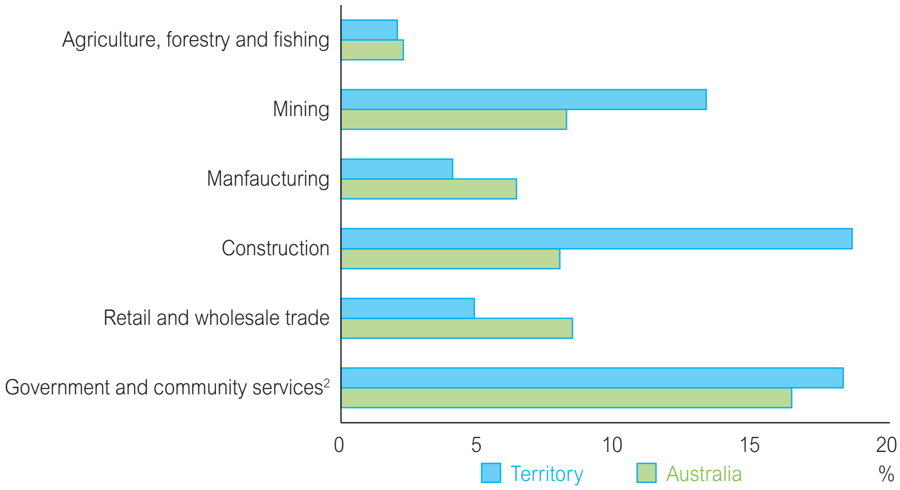
- The structure of the Northern Territory economy is markedly different to the economies of other jurisdictions, reflecting the Territory's demographic and geographic characteristics, the abundance of natural resources and an economy that is significantly influenced by major projects.
- A feature of the Territory economy is the dominance of the construction, mining, and government and community services industries. These industries account for about half of the Territory's gross state product (GSP), compared with about one third of Australia's gross domestic product (GDP).
- The key employment industries in the Territory are government and community services, construction, and retail and wholesale trade.
- The balance between consumption and investment in the Territory has shifted over the past decade. Investment's share of Territory final demand has grown from about 30 per cent in 2003-04 to about 45 per cent in 2013-14, underpinned by activity related to major projects.
- The Territory economy is heavily influenced by international trade. International exports contributed about 30 per cent of the Territory's GSP, compared with about 20 per cent nationally.

Industry Structure and Employment

The structure of the Territory economy is closely linked to its population and geographic characteristics, and its abundance of natural resources onshore and in adjacent waters. In addition, the Territory has a small and less developed economy that is heavily influenced by trade and major projects.

A key feature of the Territory economy is the dominance of the construction, mining, and government and community services industries. Combined, these industries account for about half of the Territory's total economic output, compared with about one third nationally (Chart 1.1). Other notable differences between the Territory and Australian economies include the larger contribution to the national economy from manufacturing, business services, and retail and wholesale trade.

Chart 1.1: Key Industry Proportion of GSP and GDP, 2013-14[1]



GSP: gross state product; GDP: gross domestic product

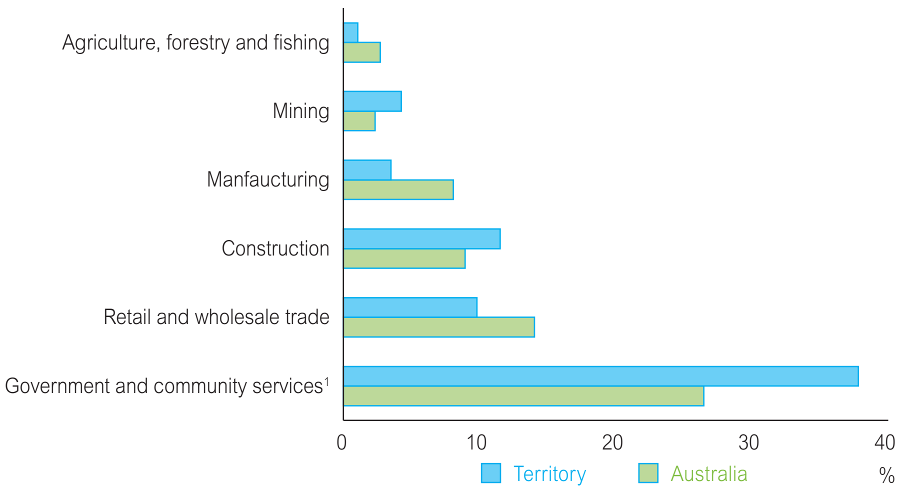
1 Inflation adjusted.

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

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

Construction is the single largest industry in the Territory, accounting for 18.6 per cent of GSP, compared with 8.0 per cent of the Australian GDP. Since 2010-11 construction activity picked up sharply mainly due to engineering work related to major resource projects, including the Ichthys liquefied natural gas (LNG) project, expansions at Territory mines and the development of the Montara and nearby oilfields. Construction is also a key employer in the Territory, accounting for 11.5 per cent of the total resident workforce (Chart 1.2).

Chart 1.2: Share of Total Employment by Key Industries, 2013-14



1 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

In 2013-14 the mining industry accounted for 13.3 per cent of the Territory's GSP. This was the second highest proportion of all jurisdictions, behind Western Australia (28.9 per cent) and above the national average of 8.2 per cent. The significance of mining to the Territory economy reflects the abundance of natural resources onshore in the Territory and offshore in the Timor Sea, including natural gas, petroleum, uranium, zinc/lead and manganese. While mining is a large contributor to GSP, the industry's share of total employment in the Territory is lower (4.3 per cent in 2013-14) due to the capital-intensive nature of the industry.

The government and community services industry, which includes public administration and safety, education and training, and health care and social assistance, is an important contributor to the economy and employment in the Territory. In 2013-14 the industry accounted for 18.3 per cent of GSP and 37.8 per cent of total employment. While the industry predominantly comprises the Territory, Commonwealth and local public sectors (including defence activity), it also consists of output from private providers of education, health, aged care and community services. The importance of the government and community services industry reflects the relatively high costs of delivering services to a small and highly dispersed population over a remote land mass with a relatively high Indigenous population.

The manufacturing industry in the Territory is narrowly based and dominated by the production of LNG. The manufacturing industry's share of Territory GSP has risen since 2006-07 following the commencement of LNG production at the Darwin LNG plant. Despite the increase, manufacturing's contribution to the Territory's GSP in 2013-14 (4.1 per cent) remains below the national average (6.4 per cent). Similarly, in 2013-14 manufacturing employed 3.5 per cent of the Territory's total resident workforce, compared with 8.1 per cent nationally.

The agriculture, forestry and fishing industry makes a relatively small contribution to the Territory's GSP, however it is a vital industry in terms of generating economic activity and employment in regional areas. The industry's share of GSP has declined slightly over the past decade from 2.5 per cent in 2003-04 to 2.1 per cent in 2013-14 as growth in the industry was outpaced by growth for all industries in the Territory over the period.

The other services industry comprises accommodation and food services; transport, postal and warehousing; information and media telecommunications; financial insurance services; rental, hiring and real estate services; professional, scientific and technical services; administrative and support services; electricity, gas, water and waste services; and arts and recreation services. Although disparate, these industries have been grouped because individually they make a relatively small contribution to the Territory economy. In 2013-14 the other services industry accounted for 25.1 per cent of the Territory's output and 32.0 per cent of total employment.

Expenditure Patterns

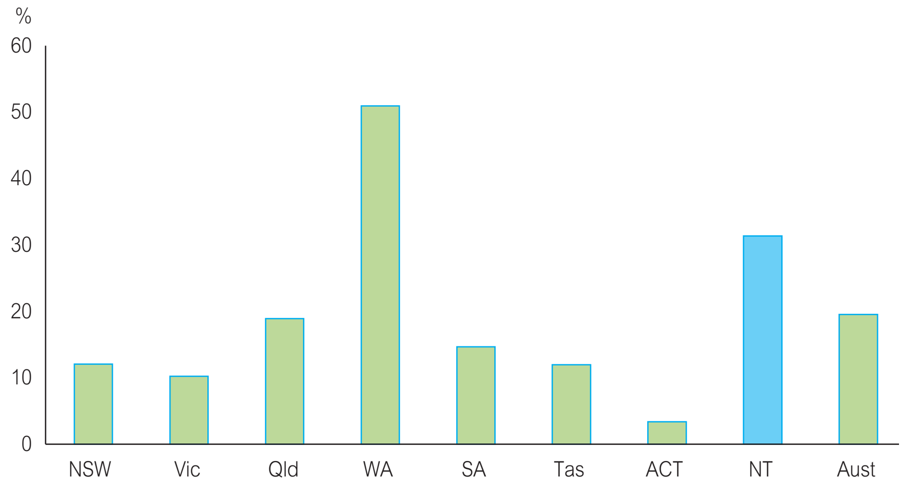
The balance between consumption and investment in the Territory has shifted over the past decade following high levels of activity associated with major projects, particularly in the resources sector. Since 2003-04 investment in the Territory has grown by an average of 10.2 per cent per annum, which is higher than the annual average rate of growth for consumption of 3.6 per cent. As a result, investment's share of the Territory's final demand has risen from 30.6 per cent in 2003-04 to 44.9 per cent in 2013-14. Nationally, investment accounts for less than a third of domestic final demand in 2013-14.

The rise in private investment has resulted in the public sector share of Territory final demand declining over the past decade. In 2013-14 public sector expenditure accounted for 26.4 per cent of Territory final demand, compared with 35.3 per cent in 2003-04. Nationally public sector expenditure accounted for 22.5 per cent of domestic final demand in 2013-14, with the contribution remaining relatively stable over the past decade.

Export Propensity

International exports of goods and services accounted for nearly one third of the Territory's GSP in 2013-14. This was the second highest proportion of all jurisdictions, behind Western Australia (50.9 per cent) and above the national average of 19.6 per cent (Chart 1.3).

Chart 1.3: Goods and Services Exports Share of GSP and GDP, 2013-14



GSP: gross state product; GDP: gross domestic product
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

The importance of international exports to the Territory's economy means it is exposed to conditions in world markets. In particular, as Territory exports predominantly consist of mineral and energy commodities, the value of exports is influenced by commodity price fluctuations and movements in the exchange rate.

Developing the North

Developing the North is an initiative aimed at achieving long-term sustainable growth in Northern Australia through collaboration between the Commonwealth, Queensland, Western Australia and Territory governments. The initiative recognises the importance of Northern Australia to the future growth of the national economy and highlights the competitive advantages of the region including agriculture, tourism, mining and energy as well as its strategic location to Asian economies.

The Territory Government has identified a number of key areas that will assist in accelerating growth in Northern Australia. These include:

- investment in critical economic and social infrastructure to integrate supply chains across northern Australia. Key infrastructure works include roads, rail, ports, essential services, telecommunications and the gas pipeline to connect northern and eastern gas markets;
- improving human capital to address labour shortage. In particular, improving social and economic circumstances in remote and Indigenous communities in the Territory through investment in services to support job creation;
- developing the Territory's natural resources through investigation and research into the Territory's soil, vegetation, water, marine resources and the Territory's land tenure arrangements; and
- providing a framework to encourage private investment in the Territory. This includes removing regulatory barriers and implementing reforms to improve business certainty and create opportunity for increased private investment.

Economic Development Strategy

In October 2014 the Territory Government released its draft Northern Territory Economic Development Strategy (EDS). EDS provides a roadmap for the continued expansion of the Territory economy through collaboration with industry, investors, the community and regional partners. It highlights the Territory's proximity to Asia and the opportunity for increased trade and investment in the Territory.

EDS is aimed at creating an economic environment that encourages investment and promotes employment and population growth in the Territory. To facilitate these objectives, the EDS identifies six economic enablers:

- improving land and water access and development process;
- developing key infrastructure;
- ensuring affordable energy for the domestic market;
- stimulating human capital growth;
- encouraging private investment; and
- providing a supportive government.

Intertwined with the economic enablers are seven priority industries, whereby the Territory has natural advantages. These industries are resources; minerals; tourism; agribusiness; international education and training; defence; and supply and service.

Chapter 2
Economic Growth

Key Points

- Northern Territory economic growth strengthened from 4.3 per cent in 2012-13 to 6.5 per cent in 2013-14, the highest rate of growth among jurisdictions and more than double the growth in the national economy.
- A key driver of economic growth in 2013-14 was business investment, primarily related to the Ichthys liquefied natural gas (LNG) project. The project will continue to have a strong influence on economic activity in the Territory over the budget and forward estimates period. Other important drivers of growth in 2013-14 were increased levels of dwelling investment and household consumption.
- The key industries that contributed to the Territory's economic growth in 2013-14 are those linked to major resource projects, namely the construction and mining industries.
- Territory economic growth is forecast to moderate to 4.5 per cent in 2014-15, but remain above historical trend levels. Growth is expected to be underpinned by business investment, reflecting peak construction activity related to the Ichthys LNG project, partly offset by a decrease in net exports.
- From 2015-16 the Territory economy is expected to commence a period of transition from investment-led activity to growth driven by production and exports.

Table 2.1: Economic Growth (%)

	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2017-18f
Gross state product	6.5	4.5	4.5	4.5	3.0	3.0
State final demand	4.5	5.8	- 3.7	- 15.6	- 2.2	1.4

e: estimate; f: forecast
1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Background

Territory economic growth is measured by gross state product (GSP), which is the market value of all final goods and services produced within a state/territory economy. At the national level, gross domestic product (GDP) is the measure of economic growth. While there are three approaches to measuring GSP and GDP (expenditure, income and production), the expenditure approach is used in this chapter. Further, all figures and analyses are in inflation-adjusted terms unless stated otherwise.

The measured components of the expenditure approach to GSP are consumption (household and public); investment (private and public); and net exports. In addition to the measured components, a balancing item adjustment is also made for interstate trade, changes in inventories and to account for other items such as progress payments for machinery and components required for Territory projects that are constructed overseas. The balancing item also includes feedstock gas imports from the Joint Petroleum Development Area (JDPA) from December 2013. The balancing item is a significant component of the Territory's GSP and can be highly volatile.

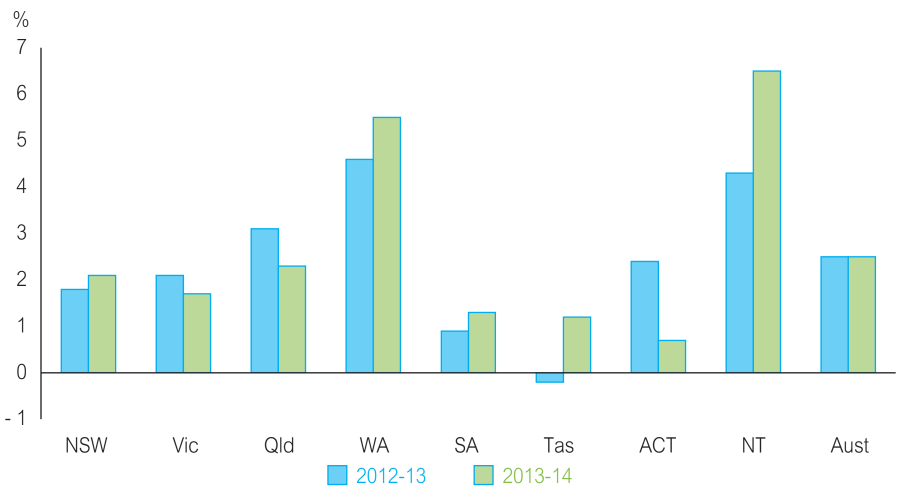
GSP is published on an annual basis. In the interim, the Australian Bureau of Statistics (ABS) publishes quarterly estimates of state final demand (SFD). SFD is a partial measure of economic activity as it measures consumption and investment, but excludes international trade. In addition, unlike GSP, SFD does not make adjustments for interstate trade, changes in inventories or any balance of payment adjustments such as progress payments for machinery and equipment constructed outside the Territory.

SFD grew strongly in recent years partly driven by prepayments for pre-assembled modules and equipment required for the Ichthys LNG project, which were built in overseas locations. These payments were made in advance of delivery to the Territory, creating reporting complexities. The prepayments were recorded in SFD at the time the payment was made, which did not correlate with the physical work done in the Territory. As a result, SFD has overstated the level of economic activity in the Territory in the years when the prepayments were made and will understate the level of onshore activity in the years when the pre-assembled modules are installed. The difference in timing will contribute to the forecast contraction in SFD, further enhanced by the decline in business investment, albeit from record levels. In contrast, GSP recognises the work done at the time when the modules are installed and the exports related to the Ichthys LNG project. As such, Territory GSP forecasts show a steady path of growth over the budget and forward estimates period.

Economic Growth

Territory economic growth strengthened from 4.3 per cent in 2012-13 to 6.5 per cent in 2013-14. This was the highest rate of growth among jurisdictions, which ranged from 0.7 per cent in the Australian Capital Territory to 5.5 per cent in Western Australia (Chart 2.1). Australian GDP grew by 2.5 per cent in 2013-14.

Chart 2.1: Change in GSP and GDP[1]



GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

The key driver of growth in the Territory was an increase in private investment, which rose by 8.0 per cent to $11.8 billion in 2013-14 (Table 2.2). This mainly comprised a 6.0 per cent increase in business investment (to $10.6 billion) and a 34.9 per cent rise in dwelling investment (to $959 million). Territory household consumption grew by 3.4 per cent to $9.5 billion, supported by an increase in net expenditure interstate as well as higher spending on health and rent and other dwelling services. Although net exports made a substantial contribution to Territory GSP growth in 2013-14, this was largely due to the ABS decision to confidentialise imports from the JDPA from December 2013 and report these imports in the balancing item.

Table 2.2: Components of Territory GSP[1]

				Contribution to GSP Growth	
	2011-12	2012-13	2013-14	2012-13	2013-14
	$M	$M	$M	ppt	ppt
Household consumption	8 709	9 144	9 457	2.3	1.6
Private investment	6 602	10 946	11 825	22.8	4.4
Public final demand	8 207	7 595	7 650	- 3.2	0.3
Net exports[2]	682	929	2 717	1.3	9.0
Balancing item[3]	- 5 107	- 8 701	- 10 443	- 18.8	- 8.7
GSP	**19 086**	**19 913**	**21 205**	**4.3**	**6.5**

GSP: gross state product; ppt: percentage point
1 Inflation adjusted.
2 Caution should be exercised in interpreting the reported change in net exports due to the ABS decision to confidentialise imports from the JDPA for commercial reasons from December 2013.
3 Balancing item comprises interstate trade, change in inventories, balance of payment adjustments, statistical discrepancy and imports from the JDPA from December 2013.
Source: ABS, *Australian National Accounts: State Accounts,* Cat. No. 5220.0

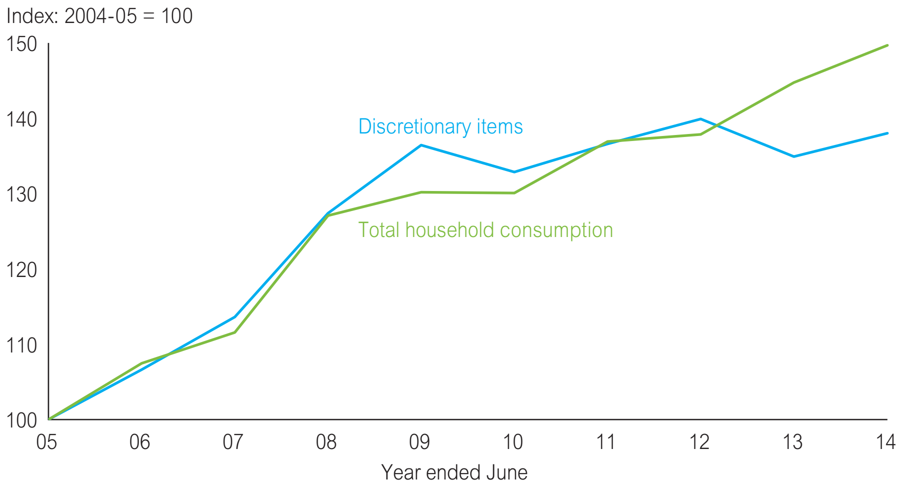
The contribution to growth across Territory industries in 2013-14 was uneven. The industries that contributed most to economic growth were those linked to major resource projects, namely construction (up 9.5 per cent), mining (up 11.4 per cent), and professional, scientific and technical services (up 18.4 per cent). In contrast, there was a decline in the contribution from the accommodation and food services (down 3.6 per cent) and education and training (down 1.5 per cent) industries.

Household Consumption

Territory household consumption growth softened from 5.0 per cent in 2012-13 to 3.4 per cent in 2013-14. For the second consecutive year growth was underpinned by net interstate expenditure, as well as increased spending on health and rent and other dwelling services. Despite moderating, household consumption growth in the Territory remains above the national average, which strengthened to 2.2 per cent in 2013-14.

All components of Territory household consumption grew in 2013-14, with the exception of transport. Annual growth was, however, below historical trend levels across the majority of components. Subdued growth in household consumption has reflected cautious consumer behaviour in the form of higher levels of household savings and lower spending, particularly on discretionary items (Chart 2.2). At present, low interest rates combined with strong economic activity and moderating price growth in the Territory is starting to have a positive impact on underlying household consumption. Spending on discretionary items such as furnishings and household equipment, recreation and culture, and hotels, cafés and restaurants recovered in 2013-14, after a decline the previous year.

Chart 2.2: Relative Change in Total Territory Household Consumption[1]



1 Discretionary items comprise furnishings and household equipment; recreation and culture; and hotels, cafés and restaurants.

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

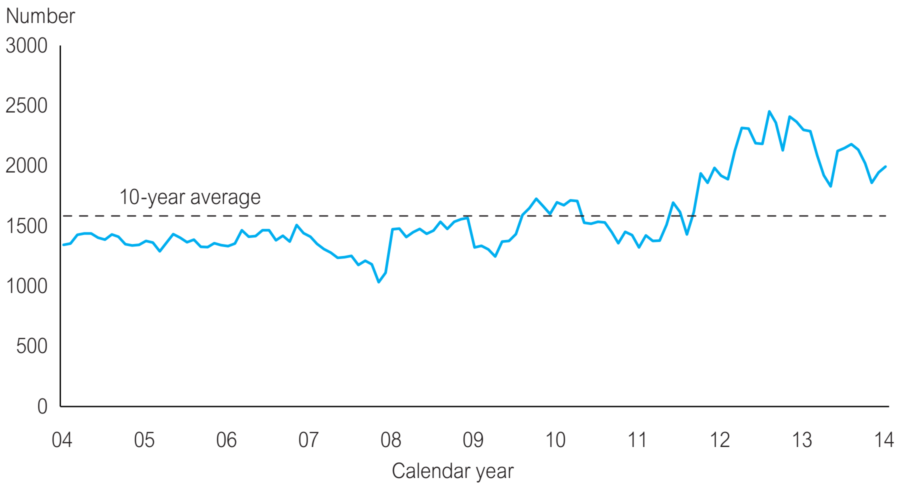
The outlook for household consumption growth is subdued over the medium term, consistent with forecasts of moderating growth in population and employment over the budget and forward estimates period. In addition, restraint in wages growth is likely to limit the pace of growth in disposable income and therefore consumption. Territory household consumption is expected to grow by 2.0 per cent in 2014-15 and by 3.1 per cent in 2015-16. Household consumption growth is forecast to remain below the 10-year average growth rate of 4.3 per cent over the medium term.

Dwelling Investment

After declining by 25.4 per cent in 2012-13, dwelling investment rebounded strongly in 2013-14, growing by 39.4 per cent. This was driven by record levels of private residential construction activity associated with multi-unit developments in Greater Darwin and a boost in private residential housing construction, supported by the Territory Government's land release program.

Dwelling investment in the Territory is expected to remain at historically elevated levels in the short to medium term. Recent trends suggest a healthy pipeline of residential dwelling construction activity with residential building approvals in 2014 well above the 10-year average (Chart 2.3). In addition, the total number of housing finance commitments (excluding refinancing) in 2014 was at the highest level in over four years.

Chart 2.3: Number of Residential Building Approvals in the Territory (moving annual total)



Source: ABS, *Building Approvals*, Cat. No. 8731.0

Dwelling investment is also expected to be supported by changes to the First Home Owners Grant (FHOG) announced in the 2014-15 Budget. Commencing 1 January 2015, the FHOG is no longer available for the purchase of established homes. Targeting of the grant to the purchase or construction of a new home is expected to provide incentives for first home buyers to build new homes, which will support the construction industry and private dwelling investment.

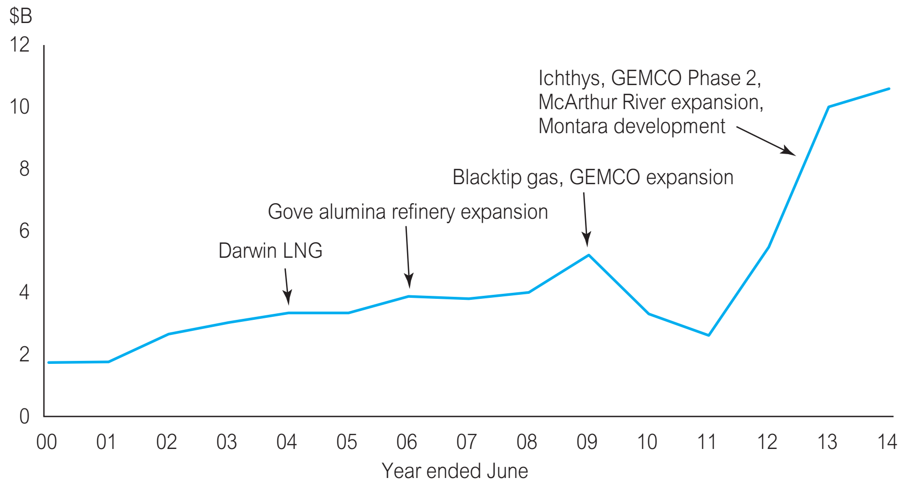
Housing demand in the Territory is expected to soften over the medium term in line with the forecast easing in population growth, partly offset by low interest rates. This is expected to result in dwelling investment returning to long-term trend levels over the medium term.

Business Investment

Growth in business investment has underpinned the Territory economy's strong performance in recent years. Business investment in the Territory was $10.6 billion in 2013-14, more than double the 10-year average of $5.2 billion.

Recent business investment in the Territory has been concentrated in the resource sector in response to strong global demand for the Territory's export commodities. The most significant of these projects is the $34 billion Ichthys LNG project, which has an estimated onshore capital expenditure of more than $13 billion. Other recent major resource projects in the Territory include expansions at the Groote Eylandt Mining Company manganese processing plant and McArthur River zinc/lead mine; and the development of Montara and nearby oilfields (Chart 2.4).

Chart 2.4: Territory Business Investment[1]



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

In the short term, business investment will continue to be buoyed by the Ichthys LNG project. Construction activity related to the Ichthys LNG project is expected to peak in 2014-15, reflecting the expected arrival of large prefabricated modules from overseas ports. Recent data shows that business investment in the Territory strengthened in the first half of 2014-15.

Further investment in the resources sector over the budget and forward estimates period is likely to be constrained by lower commodity prices. However, relatively low interest rates and depreciation in the exchange rate, combined with the freeing up of labour and capital capacity as the national economy transitions away from resource-led investment, should enhance non-mining investment.

In the medium term, the staged completion of the construction phase of the Ichthys LNG project and transition to production is forecast to result in a moderate fall in business investment in 2015-16, before a sharp decline in 2016-17. Business investment is then forecast to return to a more sustainable long-term rate of growth from 2017-18 onward. The extent of the decline in business investment will depend on the timing of potential future projects. These include:

- the Arafura Resources' Nolans project;
- the TNG Mount Peake project;
- Tellus' Chandler salt mine; and
- Seafarms' aquaculture project.

These projects will potentially support the construction industry at a time when activity is expected to decline as the Ichthys LNG project winds down.

Public Final Demand

Public final demand includes public consumption and investment at all levels of government, including defence. Public final demand grew by 0.7 per cent in 2013-14 comprising a 3.3 per cent increase in public consumption and a 11.4 per cent decline in public investment.

Public investment is expected to increase over the short term, driven by an increase in Territory Government infrastructure spending. The Government is investing strongly in economic, community and social infrastructure from 2015-16, with a focus on transport, including a record roads program in 2015-16, as well as education and health infrastructure. Government investment is expected to be a key driver of economic activity in the short to medium term. The additional investment will assist in offsetting the expected decline in private investment as the construction phase of the Ichthys LNG project winds down.

The 2015-16 Budget achieves the Territory Government's strategy of eliminating the fiscal deficit by 2017-18 and returning debt to sustainable levels. Fiscal consolidation within Government, combined with a continued Commonwealth strategy of expenditure constraint, means public consumption as a share of GSP is expected to decline over the budget and forward estimates period.

Net Exports

The Territory's net exports have risen substantially over the past two years from $682 million in 2011-12 to $2.7 billion in 2013-14, driven by a $947 million increase in goods exports and a $1.0 billion decline in goods imports. The decline in Territory goods imports should be interpreted with caution due to the ABS decision to confidentialise imports from the JDPA from December 2013, which explains much of the decline (see Chapter 3: External Environment).

Investment in the resources sector has underpinned growth in Territory's goods exports over the past two years. In particular, expansionary works at Territory mine sites combined with the commencement of production at Montara and nearby oilfields has contributed to the substantial rise in Territory goods exports over this period. In addition, the volume of international live cattle exports improved in 2013-14 following increased demand from Indonesia and Vietnam. The growth in goods exports was partly offset by a decrease in alumina exports following the curtailment of operations at the Gove alumina refinery.

In 2014-15 the value of the Territory's net exports is expected to contract following the arrival of machinery and equipment imports related to the Ichthys LNG project. Furthermore, Territory goods exports are expected to be negatively impacted by the recent closure of some Territory mines and declining levels of stockpiled uranium at the Ranger mine. This is expected to be partly offset by the commencement of woodchip exports from the Tiwi Islands, with the first shipment due by mid-2015, and exports of processed meat from the Australian Agricultural Company beef processing facility at Livingstone.

Territory net exports are forecast to strengthen in the medium term, coinciding with the transition of the Ichthys LNG project from the investment to the production phase. As a result, Territory net exports are expected to grow substantially over the four years to 2018-19 and emerge as the primary driver of Territory economic growth over the forecast period.

Outlook

The Territory economy is expected to grow by 4.5 per cent in 2014-15. This is below the strong growth rate of 6.5 per cent in the previous year but remains above historical trend levels. Business investment is expected to remain the key driver of economic growth, largely reflecting peak construction activity related to the Ichthys LNG project. This is expected to be offset by increased levels of imports due to the arrival of machinery and equipment related to the Ichthys LNG project.

From 2015-16 the Territory economy is expected to commence a period of transition as resource-led investment declines and the economy moves to the production and export phase. A decline in business investment is forecast in 2015-16. This is expected to be more than offset by an increase in public investment, reflecting Government infrastructure spending, and a decrease in imports. As a result, Territory GSP is forecast to grow by 4.5 per cent in 2015-16.

From 2016-17 business investment is forecast to decline sharply as the construction phase of the Ichthys LNG project ends and the project transitions to the production and export phase. This is expected to lead to a substantial rise in Territory exports from 2016-17, which is expected to underpin economic growth in the outer years. Even though business investment is forecast to decline, there is a healthy pipeline of projects in the resource, agriculture and defence sectors.

Household consumption is forecast to remain subdued and dwelling investment is expected to decline, albeit from historically high levels, over the medium term. An upside is that relatively low interest rates may encourage higher levels of business and consumer spending, which would provide a boost to Territory economic growth.

Table 2.3: Economic Growth (%)

	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
GSP	6.5	4.5	4.5	4.5	3.0	3.0

e: estimate; f: forecast; GSP: gross state product
1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Table 2.4: Components of Territory GSP

	Value ($M)[1,2]									
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
Total consumption	14 265	15 043	15 135	15 412	15 931	16 251	16 662	16 997	17 503	17 931
Household consumption	8 217	8 652	8 709	9 144	9 457	9 648	9 945	10 143	10 526	10 925
Public consumption	6 040	6 382	6 418	6 268	6 474	6 603	6 717	6 854	6 977	7 006
Total investment	6 056	5 799	8 393	12 274	13 001	14 360	12 828	7 902	6 836	6 746
Private investment	4 458	4 009	6 602	10 946	11 825	12 910	11 088	6 276	5 565	5 560
Dwelling investment	877	1 201	922	688	959	887	754	716	741	767
Ownership transfer costs	271	197	219	265	276	290	298	301	304	308
Business investment	3 309	2 619	5 471	9 994	10 590	11 733	10 036	5 259	4 519	4 486
Public investment	1 604	1 801	1 789	1 327	1 176	1 449	1 739	1 626	1 270	1 186
State final demand	20 283	20 792	23 511	27 685	28 933	30 611	29 490	24 899	24 339	24 677
Net exports	1 560	893	682	929	2 717	876	1 602	5 612	7 913	8 315
Total exports	6 173	5 998	5 625	6 594	6 647	6 181	6 465	8 778	11 207	11 742
Total imports	4 613	5 105	4 943	5 665	3 930	5 305	4 863	3 166	3 293	3 427
Balancing item[3]	- 3 867	- 3 369	- 5 107	- 8 701	- 10 443	- 9 321	- 7 923	- 6 299	- 7 307	- 7 307
Gross state product	**17 977**	**18 316**	**19 086**	**19 913**	**21 205**	**22 165**	**23 169**	**24 212**	**24 946**	**25 685**

	Year-on-Year Change (%)									
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
Total consumption	4.1	5.5	0.6	1.8	3.4	2.0	2.5	2.0	3.0	2.4
Household consumption	- 0.1	5.3	0.7	5.0	3.4	2.0	3.1	2.0	3.8	3.8
Public consumption	10.5	5.7	0.6	- 2.3	3.3	2.0	1.7	2.0	1.8	0.4
Total investment	- 15.9	- 4.2	44.7	46.2	5.9	10.5	- 10.7	- 38.4	- 13.5	- 1.3
Private investment	- 28.6	- 10.1	64.7	65.8	8.0	9.2	- 14.1	- 43.4	- 11.3	- 0.1
Dwelling investment	32.7	36.9	- 23.2	- 25.4	39.4	- 7.5	- 15.0	- 5.0	3.5	3.5
Ownership transfer costs	- 3.9	- 27.3	11.2	21.0	4.2	5.0	3.0	1.0	1.0	1.0
Business investment	- 36.5	- 20.9	108.9	82.7	6.0	10.8	- 14.5	- 47.6	- 14.1	- 0.7
Public investment	66.2	12.3	- 0.7	- 25.8	- 11.4	23.3	20.0	- 6.5	- 21.9	- 6.7
State final demand	- 3.1	2.5	13.1	17.8	4.5	5.8	- 3.7	- 15.6	- 2.2	1.4
Net exports	- 394.9	- 42.8	- 23.6	36.2	192.5	- 67.8	83.0	250.3	41.0	5.1
Total exports	14.0	- 2.8	- 6.2	17.2	0.8	- 7.0	4.6	35.8	27.7	4.8
Total imports	- 22.4	10.7	- 3.2	14.6	- 30.6	35.0	- 8.3	- 34.9	4.0	4.1
Balancing item[3]	47.8	- 12.9	51.6	70.4	20.0	- 10.7	- 15.0	- 20.5	16.0	0.0
Gross state product	**1.1**	**1.9**	**4.2**	**4.3**	**6.5**	**4.5**	**4.5**	**4.5**	**3.0**	**3.0**

	Percentage Point Contribution to Year-on-Year GSP Change (ppt)									
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
Total consumption	3.2	4.3	0.5	1.5	2.6	1.5	1.9	1.4	2.1	1.7
Household consumption	- 0.1	2.4	0.3	2.3	1.6	0.9	1.3	0.9	1.6	1.6
Public consumption	3.2	1.9	0.2	- 0.8	1.0	0.6	0.5	0.6	0.5	0.1
Total investment	- 6.5	- 1.4	14.2	20.3	3.7	6.4	- 6.9	- 21.3	- 4.4	- 0.4
Private investment	- 10.0	- 2.5	14.2	22.8	4.4	5.1	- 8.2	- 20.8	- 2.9	0.0
Dwelling investment	1.2	1.8	- 1.5	- 1.2	1.4	- 0.3	- 0.6	- 0.2	0.1	0.1
Ownership transfer costs	- 0.1	- 0.4	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Business investment	- 10.7	- 3.8	15.6	23.7	3.0	5.4	- 7.7	- 20.6	- 3.1	- 0.1
Public investment	3.6	1.1	- 0.1	- 2.4	- 0.8	1.3	1.3	- 0.5	- 1.5	- 0.3
State final demand	- 3.7	2.8	14.8	21.9	6.3	7.9	- 5.1	- 19.8	- 2.3	1.4
Net exports	11.7	- 3.7	- 1.2	1.3	9.0	- 8.7	3.3	17.3	9.5	1.6
Total exports	4.3	- 1.0	- 2.0	5.1	0.3	- 2.2	1.3	10.0	10.0	2.1
Total imports	7.5	- 2.7	0.9	- 3.8	8.7	- 6.5	2.0	7.3	- 0.5	- 0.5
Balancing item[3]	- 7.0	2.8	- 9.5	- 18.8	- 8.7	5.3	6.3	7.0	- 4.2	0.0
Gross state product	**1.1**	**1.9**	**4.2**	**4.3**	**6.5**	**4.5**	**4.5**	**4.5**	**3.0**	**3.0**

e: estimate; f: forecast
1 Inflation adjusted.
2 Components may not add to totals, as chain volume measures are not additive.
3 Balancing item includes statistical discrepancy.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Chapter 3

External Economic Environment

Key Points

- The importance of the mining, energy and tourism sectors means that resource-related investment, commodity prices and exchange rate movements can have a significant effect on the Northern Territory's economy.
- The national economy is also important, influencing interstate trade, domestic tourism and the availability of workers to meet the Territory's labour force needs.
- In 2013-14 the Territory's reported international trade surplus increased to $3.4 billion, up from $1.0 billion in 2012-13, however the change largely reflects suppression of feedstock gas import data by the Australian Bureau of Statistics (ABS).
- Recent declines in the exchange rate and oil prices have positive implications for the Territory's economy, but the falling price of iron ore has contributed to the curtailment of activity in that sector.
- Risks to a largely positive global outlook include instability of the Euro area and moderating growth in the Chinese economy.
- Domestically, the recovery in non-mining investment has been slower than anticipated. Recent reductions in official interest rates are expected to support growth in consumption and dwelling investment.

Background

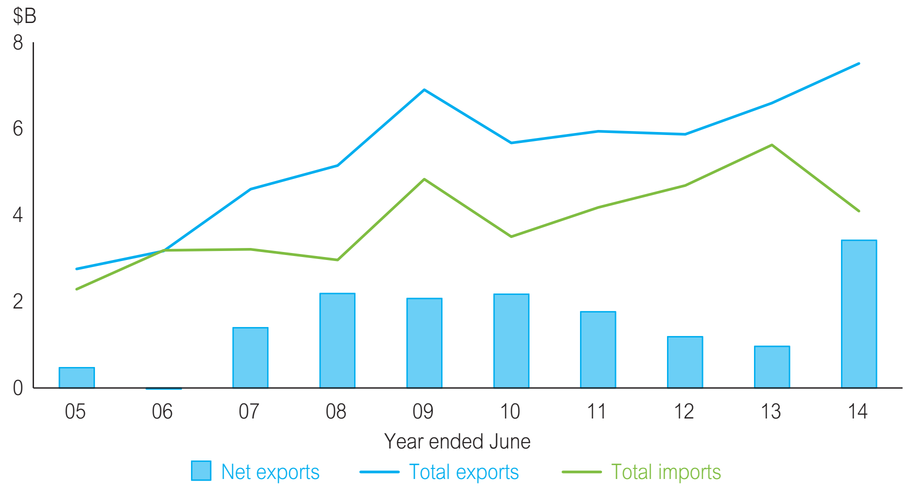
The Territory has a relatively small and open economy, which is highly dependent on overseas trade and investment. As a result, its economy can be influenced by external factors such as fluctuation in exchange rates, key commodity prices and financial conditions. In addition, the Territory is geographically unique in terms of connectivity to South East Asia, with Darwin located close to key Asian cities including Jakarta, Singapore and Hong Kong. The national economy is important as the Territory benefits from domestic tourism as well as the supply of interstate workers to meet its growing demand for labour.

This chapter describes the Territory's international trade, highlighting its major trading partners and export products. It also outlines economic conditions at a national and global level and the implications that these may have for the Territory.

Territory International Trade

Historically, the Territory's net trade balance has been in surplus, primarily due to the export of energy and mineral products (Chart 3.1). In 2013-14 the Territory's reported international trade surplus widened to $3.4 billion, up from $1.0 billion in 2012-13. This was driven by a substantial decrease in reported imports (down by $1.5 billion to $4.1 billion) and an increase in exports (up by $918 million to $7.5 billion).

Chart 3.1: Territory International Trade Balance, 2004-05 to 2013-14[1]



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

The change in the international trade surplus needs to be interpreted with caution, however, with the ABS suppressing the value of Territory feedstock gas imports from the Joint Petroleum Development Area (JPDA) for reasons of commercial confidentiality, effective from December 2013. Consequently, reported Territory imports were substantially reduced in the second half of 2013-14. The full effect of the suppression will be evident in 2014-15. Had the ABS suppressed the value of Territory feedstock gas imports prior to 2013-14, the Territory's trade surplus would have historically been much wider and there would have been less change in the surplus between 2012-13 and 2013-14 (an estimated increase of about $1.2 billion largely driven by an increase in exports).

The largest components of the Territory's international trade balance are goods exports and goods imports. Service exports and service imports account for a small proportion of the Territory's international trade and primarily consist of travel, transport and government services.

Goods Exports

In 2013-14 Territory total goods exports grew by 14.2 per cent to $6.8 billion. The main goods exports were petroleum and gas, crude materials (mainly mineral ores), and food and live animals (largely live cattle). The value of Territory goods exports has grown over the past decade, particularly as a result of increased exports of petroleum and gas products including liquefied natural gas (LNG) and increased demand for live cattle.

In terms of total goods exported, the Territory was ranked third lowest among jurisdictions in Australia in 2013-14, accounting for 2.5 per cent of national exports (Table 3.1). However if the Territory's relatively small population is taken into consideration, it ranks second highest with goods exported amounting to $27 762 per capita, a value more than twice the size of the national average ($11 658 per capita).

Table 3.1: Total Goods Exports by Jurisdiction in 2013-14[1]

	Value Per Capita	Total Australian Exports	
	$	$M	%
New South Wales	4 868	36 599	13.4
Victoria	4 102	23 964	8.8
Queensland	9 489	44 813	16.4
Western Australia	50 683	130 426	47.6
South Australia	7 329	12 354	4.5
Tasmania	5 348	2 753	1.0
Australian Capital Territory	3	1	0.0
Northern Territory	27 762	6 804	2.5
Australia	11 658	273 861	100.0

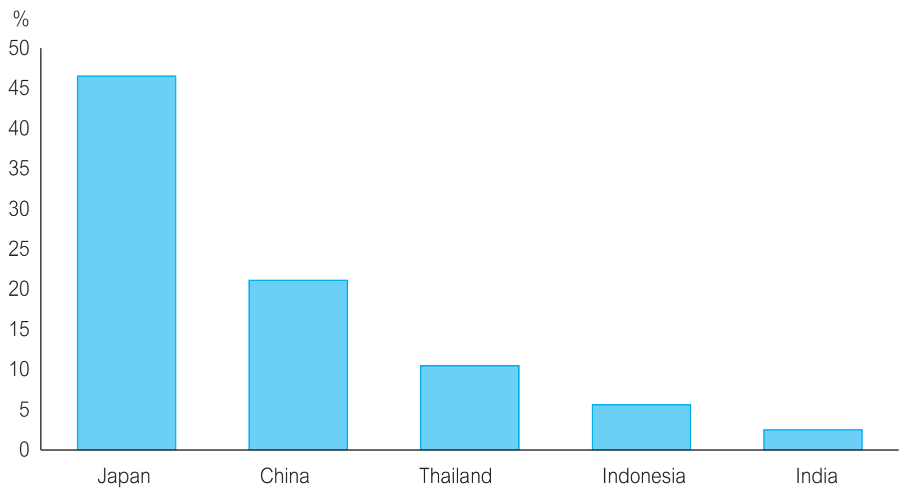
1 Current prices.
Source: Department of Treasury and Finance; ABS, *International Trade in Goods and Services*, Cat. No. 5368.0

The destinations for Territory exports reflect the nature of its key products, minerals and LNG, with demand for these products led by the Chinese and Japanese markets. The Territory's major export destinations beyond Japan and China have shifted as demand increases from emerging markets.

In 2014 Japan accounted for nearly half (46.5 per cent) of the Territory's exports (mainly LNG) while China accounted for a further 21.1 per cent of exports (Chart 3.2). Thailand entered as the Territory's third largest export destination due to a substantial increase in demand for petroleum products from the Territory's Montara oil field, which began production in June 2013.

While Korea was ranked fifth in 2013, it moved out of the Territory's top five goods export destinations in 2014. This was mainly as a result of increased exports to Thailand with Korea's demand for minerals remaining relatively unchanged.

Chart 3.2: Top Five Territory Goods Exports Destinations in 2014[1]



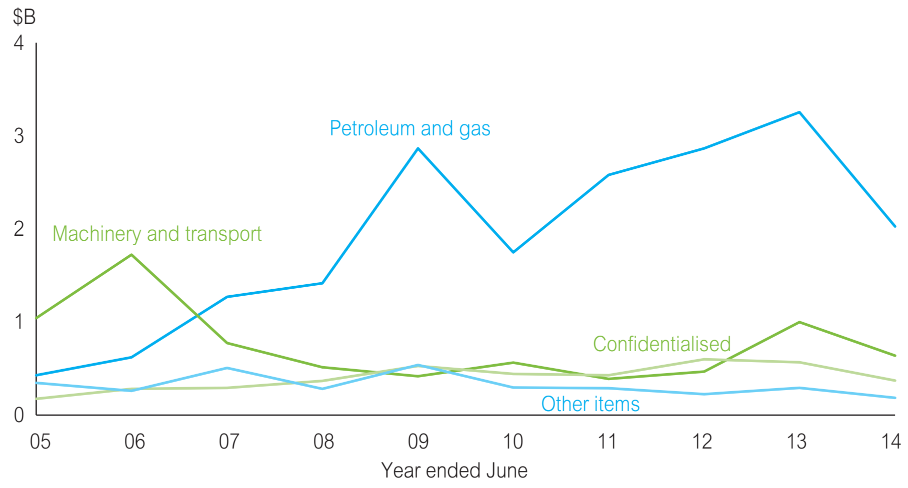
1 Current prices.
Source: Department of Treasury and Finance; ABS, *International Trade in Goods and Services*, Cat. No. 5368.0

Goods Imports

In 2013-14 Territory goods imports decreased by 31.7 per cent to $3.5 billion. As noted previously, this decrease can be largely attributed to the suppression of the value of Territory feedstock gas imports from the JPDA. Territory imports of machinery and transport also declined by 36.1 per cent to $638 million in 2013-14 (Chart 3.3). This can be attributed to a decline in demand from projects such as the development of the Montara oil field and maintenance at the Darwin LNG plant. However machinery and transport imports are still above historical levels, largely driven by the Ichthys project.

There was also a decline in confidentialised goods imports in 2013-14 of 34.9 per cent to $370 million, but the nature of these goods makes it difficult to determine the driver of change. The ABS classifies goods trade data (both exports and imports) as confidentialised where a firm's privacy may be risked by publishing trade statistics for a good or service that could unfairly identify a sole operator in a way that does not occur when there are multiple producers. Although this issue arises with the importation of feedstock gas imports, these have not been included in the confidentialised goods category. Instead, feedstock gas imports will be accounted for through the balancing item of the Territory's gross state product.

Chart 3.3: Territory International Goods Imports, 2004-05 to 2013-14[1]

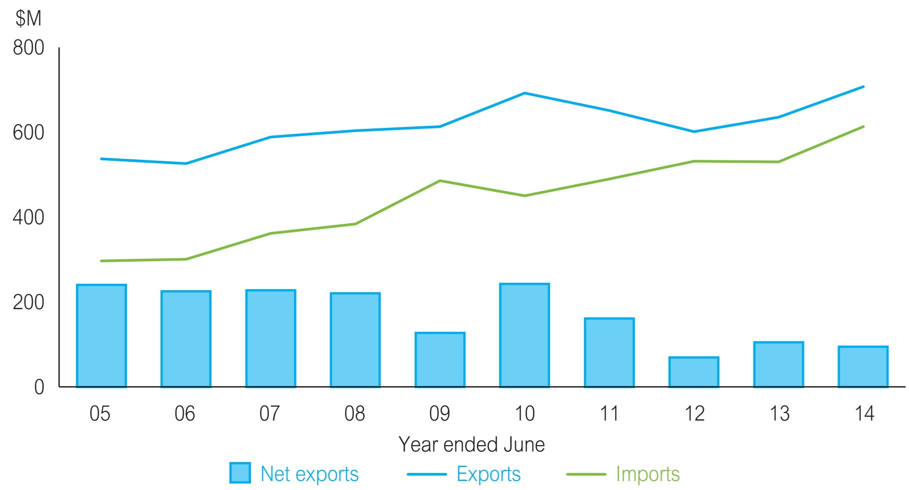


1 Current prices.
Source: Department of Treasury and Finance; ABS, *International Trade in Goods and Services*, Cat. No. 5368.0

Service Exports and Imports

In 2013-14 the net trade balance for services decreased to $94 million, down from $105 million in 2012-13. This was driven by a 16.0 per cent increase in service imports to $613 million, partly offset by an 11.3 per cent increase in service exports to $707 million (Chart 3.4).

Chart 3.4: Territory International Services Exports and Imports, 2004-05 to 2013-14[1]



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

International service exports represent income received by local businesses from overseas travellers, foreign businesses and foreign government personnel (mostly defence), for services provided including meals, accommodation, entertainment and tourism activities.

The majority of Territory service exports are 'travel services' (68.2 per cent) followed by 'government services' (16.7 per cent). The largest proportion of 'travel services' exports were for personal travel reasons other than education. This accounted for 68.7 per cent of all travel service exports in the Territory and covered spending by visitors to the Territory primarily for recreation and culture purposes including holidays and visiting friends and family. International visitation to the Territory should benefit from the weakening Australian dollar, enhancing the Territory's ability to compete for international visitors.

International service imports represent payments made from local businesses or individuals, for foreign-owned services such as international travel and shipping of goods. Service imports in the Territory are primarily driven by demand for overseas travel by Territorians (51.1 per cent) and transportation services (43.9 per cent). This includes shipment and freight services provided by foreign operators and passenger fares, (including agency fees and commissions for air transport).

Over the past decade, Territory services imports and exports have been trending upwards, although imports have risen more rapidly. In the period 2004-05 to 2013-14, Territory service imports were primarily driven by demand for overseas travel by Territorians, which more than doubled to $313 million, and a substantial increase (88.1 per cent) in transportation services to $269 million. The key driver of Territory service exports over the same period was a 34.3 per cent increase in travel services to $482 million.

National Economy

The national economy is important to the Territory, influencing interstate trade, domestic tourism and the availability of workers to meet the Territory's labour force needs. Territory interstate trade has grown over the past 10 years, however the Territory imports more goods and services than it exports, which leads to a negative net interstate trade balance. Domestic tourism is also important for the Territory's economy with positive national economic conditions generally encouraging more interstate visitors to holiday in the Territory.

Australia's economy grew by 2.5 per cent in 2013-14, which was in line with International Monetary Fund (IMF) expectations and above expectations for growth in advanced economies as a whole. Australia's economic growth was primarily driven by increases in private investment and consumer spending, while dwelling investment remained strong due to low interest rates and rising house prices.

Among jurisdictions, Western Australia has been a key contributor to national growth. In 2013-14, Western Australia's economy grew by 5.5 per cent, slightly above its 10-year average of 4.9 per cent. A key driver of growth over recent years has been mining-related construction, but as the mining industry transitions from the construction to production phase, business investment in Western Australia is expected to moderate, a trend that may be further enhanced by falling iron ore prices.

Similarly, Queensland is facing a decline in mining-related construction spending. In 2013-14, its economy grew by 2.3 per cent compared with a 10-year average of 3.6 per cent. A fall in the price of coking coal has resulted in coal mine closures and the implementation of increased cost-cutting measures by producers.

As the national economy begins shifting away from resource-led investment, New South Wales may play a greater role in driving national growth. In 2013-14, New South Wales experienced economic growth of 2.1 per cent, 0.3 percentage points higher than 2012-13 and slightly above its 10-year average of 2.0 per cent. A primary factor of this growth was the strength of the state's housing sector, with new dwelling commencements more than 30 per cent above the decade average.

Victoria's economic growth in 2013-14 was below its 10-year average (1.7 per cent compared with 2.4 per cent) however in the first half of 2014-15 it experienced high levels of job creation and an increase in participation. While this may signal an improvement in business sentiment, unemployment remains at elevated levels of around 6.5 per cent, suggesting that spare capacity still exists in the Victorian labour market.

South Australia, Tasmania and the Australian Capital Territory (ACT) experienced growth of around 1.0 per cent in 2013-14, which was slightly below their decade averages. The difference between current and long-term growth rates was greatest in the ACT, with growth of 0.7 per cent in 2013-14 compared with a 10-year average annual growth rate of 2.7 per cent, likely due to the effect of spending reductions by the Commonwealth.

The transition within the mining sector in Western Australia and Queensland may be favourable for the Territory with these states being key source markets for working-age migrants. Spare capacity in the national labour market should reduce wage pressures for Territory businesses. While the relatively subdued economic performance of other states may be less positive for the Territory's tourism industry, other factors such as exchange rate movements may offset this by encouraging Australians to holiday locally rather than overseas.

The Reserve Bank of Australia (RBA) announced a drop in interest rates to 2.25 per cent in early February, the lowest rate since the RBA gained independence in the 1990s. The decision reflects concern that growth in domestic demand remains weak with recovery in non-mining investment slower than anticipated. Through the action of dropping interest rates, the RBA aims to support demand by encouraging business and consumer spending. Within the Territory, lower interest rates may underpin household consumption and boost dwelling investment.

Global Economy

Global economic growth is important to the Territory with development of its economy dependent on international investment and growth in tourism and trade. Estimates and forecasts of international growth in this chapter are drawn from the IMF World Economic Outlook publications and are on a calendar-year basis, in line with that data.

The IMF expects the global economy to have experienced growth of 3.3 per cent in 2014, similar to 2013 and slightly below earlier forecasts.

Growth in the United States (US) economy has been stronger than expected in 2014, and with it, there has been a recovery of the US dollar. Being the world's largest economy, this has positive implications for global growth, most significantly through increasing exports from Europe and Asia. Indirectly this may benefit Australia through increased demand for its commodities from those countries. More directly, a strong US economy may benefit the Australian tourism industry as the US is a key source of international visitors.

Since the early 1990s, Japan has experienced low levels of economic growth. In an attempt to increase annual gross domestic product (GDP) growth, the Japanese government recently approved a short-term stimulus package designed to increase government consumption and public works investment. The recent drop in oil prices and signs of a slowing global economy may complicate Japan's economic growth strategy by potentially undermining consumer spending, corporate profits and exports.

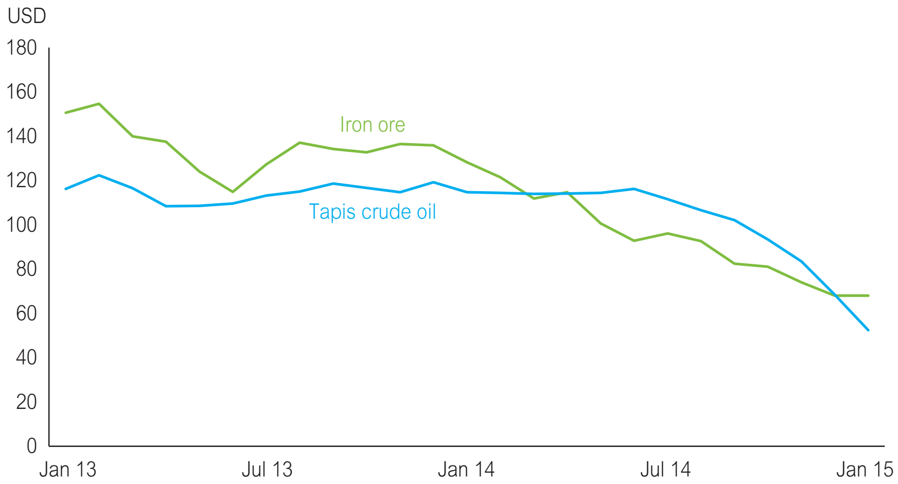
The Euro area continues to display slow economic growth following the global financial crisis. The European Central Bank's (ECB) announcement in January 2015 of an expanded asset purchasing program aims to combat slow growth. The ECB expects the program will further alleviate monetary and financial conditions, making access to finance cheaper for firms and households and subsequently encouraging local investment and consumption. The ECB's measures should be positive for the Territory with the Euro area an important trading partner for both Australia and China. European countries such as Germany and France are also key sources for international visitors to the Territory.

China has historically experienced high levels of annual economic growth. Over the 10 years to 2011, China's average annual growth rate was over 10 per cent, however in recent years, annual growth has moderated to around 7.5 per cent. The reduction in growth is consistent with the Chinese Government's objectives to move the economy to more sustainable levels. As the world's second largest economy this policy has significant implications for global growth, and for Australia it has resulted in lower prices for key commodities.

Most notable among these is the steady deterioration in the average price of iron ore (Chart 3.5), reflecting both a decline in demand and an increase in supply. The price of iron ore averaged around US$127 per dry metric tonne unit (dmtu) in 2012-13, but by the second half of 2013-14 it began a downward trajectory and in January 2015 the monthly average spot price for iron ore was US$68 per dmtu, its lowest level in over five years. This has likely been a factor in the cessation of iron ore production in the Territory (refer to Chapter 7: Industry Analysis, Mining).

In 2014 there was also a steep decline in oil prices with the average monthly price of Tapis crude oil dropping by over 50 per cent since the beginning of July 2014. The decline in oil prices has led to reduced petrol prices for Territory consumers and, if sustained, may have further reaching implications including a reduction in transportation costs and the price of oil-based items such as plastics.

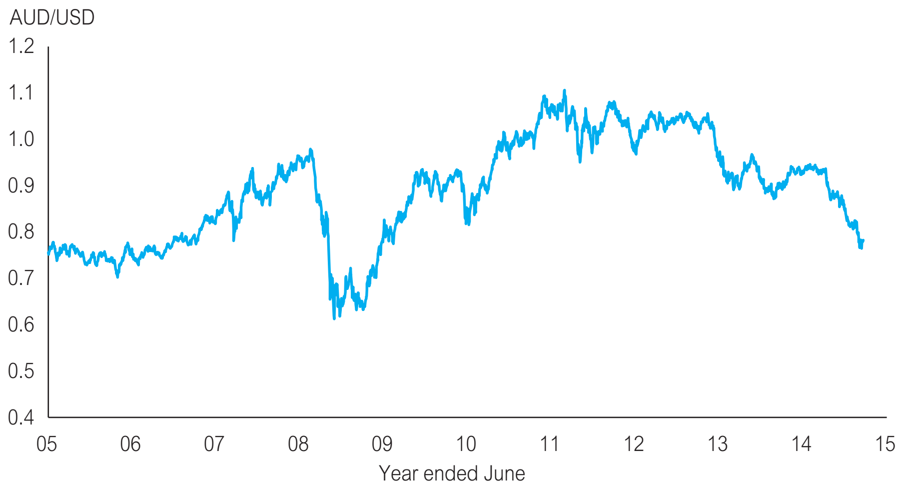
Chart 3.5: Monthly Average Price of Iron Ore Per Tonne and Tapis Crude Oil Per Barrel, 1 January 2013 to 31 January 2015[1]



1 Current prices.
Source: Commonwealth Bank of Australia, World Bank Commodity Price Data

Weakening commodity prices have also influenced the Australian and US dollar exchange rate (Chart 3.6). Between November 2010 and May 2013, the Australian and US dollar exchange rate was largely above $1.00. After a decline in the middle of 2013, the exchange rate remained around $0.90 until September 2014. Since that time there has been a marked downturn in the exchange rate, returning to levels similar to those of a decade ago. The lower exchange rate should benefit the Territory making local goods and services exports cheaper and more competitive in overseas markets.

Chart 3.6: Exchange Rate of the Australian and US dollar



Source: Reserve Bank of Australia

A further longer term benefit for Territory businesses may be recent free trade agreements with China, Japan and Korea. The agreements with Korea and Japan came into force in December 2014 and January 2015, respectively, while China's free trade agreement is expected to be signed before the end of 2015. Trade agreements provide the opportunity for exporters to benefit from reduced barriers to entry, such as tariff cuts, allowing them to enhance their competitive positioning in these markets.

The economic outlook for the Territory's key trading partners will influence the Territory's international trade performance. The following discussion outlines expected growth and other economic factors in the Territory's top five export destinations and other significant markets.

Japan

Japan is the Territory's largest goods export destination. Although economic growth in Japan is expected to remain weak over coming years, the Territory's export trade is unlikely to be significantly influenced as the Territory's LNG exports are sold on long-term contracts.

More generally, the introduction of the Japan Australia Economic Agreement is expected to have positive effects for industries such as agriculture and processed foods, resources, manufacturing and services, potentially benefiting Territory businesses in these sectors. In October 2014, Darwin hosted the annual joint business conference between Japan and Australia. The conference is considered an important forum to promote increased bilateral trade and close economic liaison between the two countries. The conference also provided an opportunity to showcase the investment opportunities in major Territory trade industries including resources, agribusiness and services projects.

China

Moderating economic growth in China poses a risk to the Territory's export trade, particularly in relation to demand for minerals. There is, however, evidence for increased opportunities in other sectors. Australian exports of services to China grew by an average annual rate of 8.9 per cent between 2010 and 2014, with the majority of these service exports being education-related travel services.

Thailand

Thailand became the Territory's third largest export destination in 2014 with goods exports increasing from $134 million in 2013 to $715 million in 2014. Although Thailand is forecast to experience an average economic growth of 4.4 per cent during the period 2015 to 2018, growth in exports will be largely tied to the level of petroleum exports from the Montara oil field. As an import destination, Thailand is likely to become more prominent in the near term with imports expected to increase following the arrival of pre-assembled modules and equipment required for the Ichthys LNG project, which are currently being built in Thailand.

Indonesia

Indonesia was the Territory's fourth largest export destination in 2014 and the largest destination for live cattle, which reached record levels in 2014. Permits for the first quarter of 2015 (100 000) were down on each of the four quarters for 2014 and updated projections from Meat and Livestock Australia released in January 2015 show a significant contraction in the market is expected. This may be due in part to Indonesia's new Government showing increased price sensitivity including comments from their Director General of Trade on Indonesia's reference price system established in 2013. The system sets beef import levels according to domestic prices for beef. It has been suggested that it is not succeeding in decreasing local prices and consequently needs reviewing.

India

The proportion of goods exported to India has grown from 0.6 per cent in 2004 to 2.5 per cent in 2014, predominantly comprising mineral ores. The increase in goods exports to India coincided with substantial economic growth in the country over the same period. Although persistently high inflation remains a key concern for India, the IMF predicts economic growth to average 6.5 per cent per annum during the period 2015 to 2018. Given this forecast, prospects of long-term growth in Territory exports to India appear positive.

Other Markets

Vietnam is emerging as a key destination for live cattle. Historically Vietnam accounted for a very small proportion of the Territory's international exports, however since late 2012 it has grown in prominence, with the value of exports increasing from $35 million in 2013 to $98 million in 2014, coinciding with the commencement of regular live cattle exports in October 2012. Vietnam is now the Territory's second largest live cattle export market after Indonesia and important as an alternative destination should there be a reduction in demand from Indonesia.

In 2014 Territory exports to Singapore increased markedly, reaching $112 million, up from $35 million in 2013. This reflects a large increase in petroleum exports. Another key movement was a reduction in exports to the US, down from $161 million in 2013 to $89 million in 2014. This was driven by a significant decrease in uranium exports, which has been the Territory's key export commodity to the US.

Outlook

The IMF expects global growth to strengthen slightly from 3.3 per cent in 2014 to 3.5 per cent in 2015 and 3.7 per cent in 2016. Of particular significance to this forecast is the state of the US economy, which is expected to strengthen in 2015.

Table 3.2 shows the IMF growth forecast for the Territory's major export destinations and the US (as the world's largest economy). Overall, the economic performance of the Territory's current major export destinations is expected to remain favourable. The exception is China, but despite its moderating growth, it will continue to have one of the strongest rates of growth, which when combined with the size of the economy, has significant implications for global trade.

Table 3.2: GDP Growth for the Territory's Current Major Goods Exports Destinations (%)

Real GDP Growth	2012	2013	2014	2015e	2016f	2017f	2018f
Japan	1.4	1.6	0.1	0.6	0.8	0.9	0.9
China	7.7	7.8	7.4	6.8	6.3	6.6	6.4
Thailand	6.5	2.9	1.0[1]	4.6	4.4	4.3	4.3
Indonesia	6.3	5.8	5.2[1]	5.5	5.8	6.0	6.0
India	4.7	5.0	5.8	6.3	6.5	6.6	6.7
United States	2.3	2.2	2.4	3.6	3.3	3.0	2.7
Australia	3.6	2.3	2.8[1]	2.9	3.0	3.0	3.0
Global	3.4	3.3	3.3[1]	3.5	3.7	3.8	3.7

GDP: gross domestic product; e: estimate; f: forecast
1 Estimate.
Source: International Monetary Fund

There are downside risks in the global economy that have the potential to influence these forecasts. If the Eurozone continues to exhibit weak economic activity, this could constrain global demand with implications for Australian commodities. Doubts remain regarding Greece's ongoing debt support and reform program, which has the potential to cause financial market volatility and destabilise the region.

The IMF estimates economic growth in Australia to remain relatively stable at around 3.0 per cent per annum over the period 2015 to 2018. This will likely be driven by continued growth in private investment and consumer spending. The IMF expects Australia's unemployment rate to gradually decline in the medium term as spare capacity in the labour market is absorbed.

The quarterly ABS survey of new capital expenditure aims to measure actual and expected new capital expenditure by private businesses. The February 2015 release of the survey suggests there will be further decline in manufacturing and utilities investment across Australia. This is expected to continue over the next few years, particularly given the weakening of commodity prices. Partially offsetting the decline in the mining sector, however, are predicted increases in the rental, hiring and real estate, construction and retail trade industries. Private investment in these areas will become increasingly important if Commonwealth, state and territory governments continue to constrain fiscal expenditure. Should business investment and public sector expenditure remain subdued, it is likely to constrain employment growth and prolong cautious consumer behaviour.

The value of the Territory's goods exports in the first half of 2014-15 was similar to the previous year and this is expected to continue during the remainder of the year. Over the budget and forward estimates period, goods exports are expected to grow substantially, coinciding with an expected increase in LNG exports once production commences at the Ichthys plant.

The RBA considers the Australian dollar to be still trading above its fundamental value, given current commodity prices and the terms of trade. These factors and a strengthening US economy may further weaken the Australian and US dollar exchange rate, benefitting the Territory's tourism, mining and agricultural industries.

Chapter 4

Population

Key Points

- Migration, both interstate and overseas, is a key influence on population growth and thus, economic growth in the Northern Territory.
- Net migration flows (overseas and interstate) are currently high, reflecting inflows of people drawn by work opportunities associated with the Ichthys liquefied natural gas (LNG) project and other economic activity, and population outflows interstate.
- The Territory's estimated resident population grew by 1.0 per cent (in annual terms) to 245 079, as at 30 June 2014.
- Population growth attributable to natural increase (births minus deaths) and net overseas migration was partially offset by population losses from net interstate migration.
- In 2014 the Department of Treasury and Finance estimates annual population growth in the Territory to moderate to 0.9 per cent, down from 1.9 per cent in 2013.
- In 2015 annual population growth is forecast to strengthen with migration boosted by workforce requirements for the Ichthys LNG project and associated economic activity, before moderating in 2016 as the workforce requirement for the construction phase of the Ichthys LNG project passes its peak.
- A key risk to the population forecasts is the extent to which workers employed on the Ichthys LNG project and other projects reside in the Territory and are counted as Territory residents by the Australian Bureau of Statistics (ABS).

Table 4.1: Population Growth (%)

Calendar Year	2013	2014e	2015f	2016f	2017f	2018f
Northern Territory	1.9	0.9	1.8	1.0	1.0	1.0

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

Background

The Territory accounts for around 1 per cent of the total Australian population. About two thirds of the population reside in the Territory's five major urban areas, Alice Springs, Darwin, Katherine, Nhulunbuy and Tennant Creek, while the remainder are dispersed over a geographic area 1.3 million square kilometres in size.

Of the Territory's population, nearly one third are Indigenous people, many of whom live in some of the most remote areas of the Territory. The Territory also has a relatively young population with half aged less than 32 years. There is a bias towards males, with 112 males for every 100 females. This is partly due to the prevalence of male-dominated industries such as mining, construction and defence.

A further characteristic of the Territory's population is its mobility, with high levels of interstate migration among the non-Indigenous population and substantial movement within the Territory among the Indigenous population. Overseas migration to the Territory has grown over time and in recent years its contribution to growth has exceeded that from natural increase.

Population growth in the Territory tends to be more volatile than in the Australian population, reflecting variations in net interstate migration (NIM) and net overseas migration (NOM). Key influences on migration are employment opportunities, both within and external to the Territory, and seasonal movements of people.

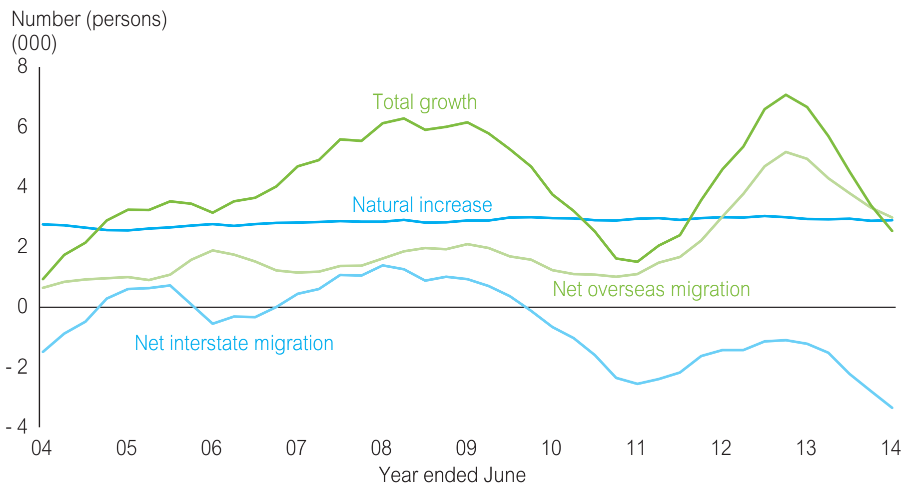
Population Growth

Estimated resident population (ERP) is the official ABS measure of population and represents the population that resides in a defined locality for more than six months of the year. As at 30 June 2014, the Territory's ERP was 245 079 people, a 1.0 per cent increase from 30 June 2013. Annual growth in the Territory was below national growth over the same period (1.6 per cent).

Three components determine the extent of population growth in the Territory, natural increase (births minus deaths), NIM (population change through the movement of people to and from other states) and NOM (population change through the movement of people from and to overseas). Chart 4.1 shows the contribution of each component and the combined effect (total growth) for the Territory over the 10-year period from June 2004 to June 2014.

Natural increase is a stable contributor to annual population growth in the Territory. Until 2011-12, natural increase was also the major driver of growth, but since that time, NOM has made an equivalent or greater contribution to growth. In 2013-14 NOM added 2983 people to the Territory population while natural increase contributed 2899 people. These gains were partly offset by NIM with a net loss of 3344 people to other jurisdictions.

Chart 4.1: Components of Population Growth (moving annual total)



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

Natural Increase

The difference between the number of births and deaths, termed natural increase, is an important component of population change because it shows, in the absence of any migration, whether a population will grow or decline. Over the past five years, natural increase has, on average, contributed 1.3 percentage points to annual population growth.

Births

In 2013-14 there were 4047 births recorded in the Territory, a 0.9 per cent increase on the previous year (4012 births) and above the five-year annual average of 0.7 per cent.

The Territory is characterised by high fertility rates. Fertility is measured by the total fertility rate (TFR), which represents the average number of children that would be born to a woman if she experienced the current age-specific fertility rates through her reproductive life (ages 15 to 49).

In each of the past five years, the Territory has recorded a TFR of about 2.1 compared with about 1.9 nationally. In 2013-14 the Territory had the highest TFR (2.1) among jurisdictions followed by Tasmania (2.0) and Queensland (1.9). Key reasons for the Territory's high TFR are the relatively high proportion of non-Indigenous women of child-bearing age, greater fertility among Indigenous women and the relative size of this population in the Territory compared with the rest of Australia.

Deaths

Since 2009-10 the annual number of deaths in the Territory has trended upwards. This is consistent with patterns nationally as the population ages. In 2013-14 there were 1148 deaths registered in the Territory, a 7.3 per cent increase on the previous year (1070 deaths) and well above the five-year annual average of 2.5 per cent.

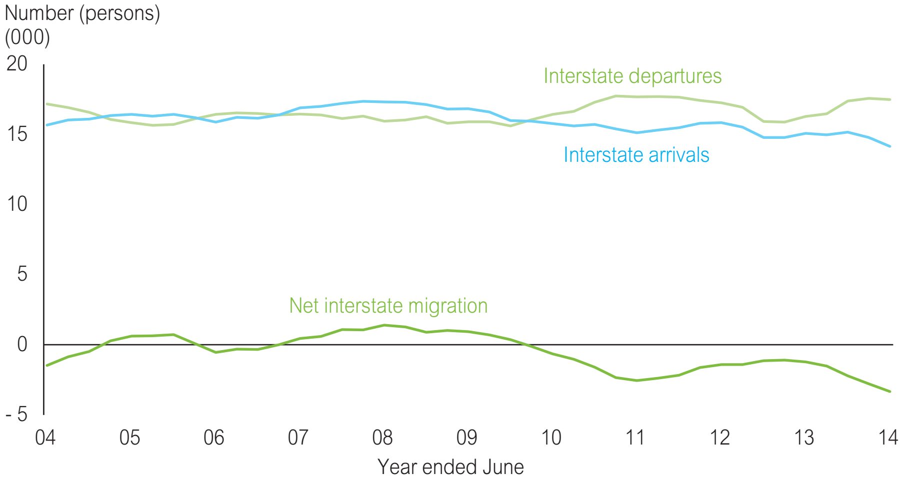
Age-standardised death rates enable the comparison of death rates between jurisdictions after accounting for the different age profiles of each state and territory. In 2013-14 the age standardised death rate (deaths per 1000 persons) in the Territory was 8.3, well above the next jurisdiction, Tasmania at 6.5 and the national rate of 5.3 deaths per 1000 persons. The Territory's higher age standardised death rate can be attributed to the influence of the Indigenous population, which has a lower life expectancy, and the size of this population in the Territory relative to other jurisdictions.

Interstate Migration

Historically NIM in the Territory has more often detracted from growth than contributed to growth. In 2013-14 there was a net loss of 3344 people from the Territory to other jurisdictions.

NIM disguises the highly transient nature of the Territory's population and the large flows of people that move to and from the Territory each year. The underlying number of inward and outward migrants, typically average about 16 000 people per annum (Chart 4.2). These movements are concentrated within the non-Indigenous population with the Indigenous population also being mobile, but their movement is generally within the Territory.

Chart 4.2: Interstate Migration Flows (moving annual total)



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

In 2013-14, 17 487 people departed the Territory for interstate locations, higher than the 10-year average of 16 574. This differs from previous periods of strong economic growth when interstate departures were typically below average and lower than the number of interstate arrivals.

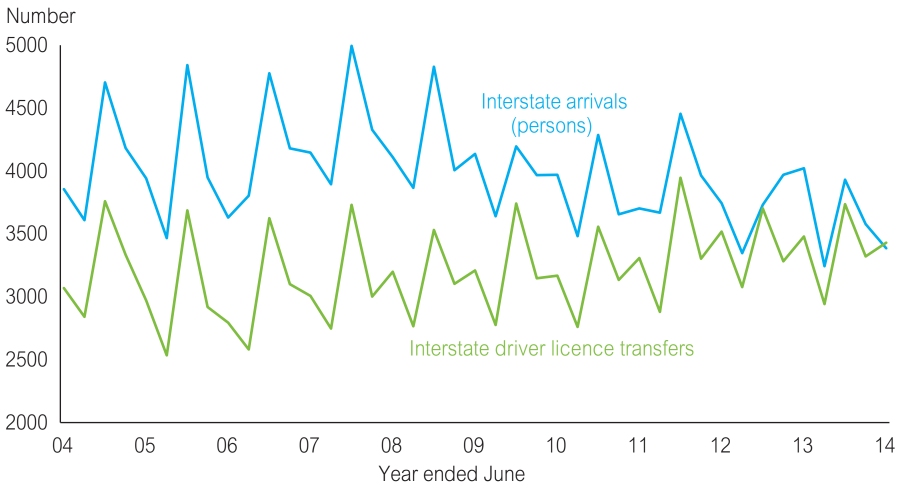
One characteristic of recent departures has been an increase in the proportion of people aged 50 years and over. In 2013-14, 15.1 per cent of people departing the Territory were aged 50 years and over compared to a long-term average of 12.2 per cent. This has largely coincided with a decrease in the proportion of people aged under 20 years. Among the non-Indigenous population, there is a tendency to leave the Territory upon retirement so the increasing proportion of older people leaving the Territory may reflect the movement of a large baby boomer population into retirement age, perhaps enhanced by people taking advantage of the strong property market to bring forward their departure. Analysis of property sales indicates that over the past four years, there has been a substantial increase in the proportion of transfers of houses where the property had been held by the vendor for five or more years. Presumably, older people would be disproportionately represented among these vendors.

As the number of interstate departures from the Territory has increased, the number of interstate arrivals has fallen. In 2013-14, 14 143 people relocated to the Territory, well below the 10-year average of 15 937. Key source states for arrivals were Queensland (29.8 per cent), New South Wales (20.0 per cent) and Victoria (19.0 per cent).

The decline in interstate arrivals may in part reflect changes in work practices. Fly-in fly-out (FIFO) workers who work within the Territory, but their usual residence is outside the Territory, are not included in NIM. The increasing popularity of FIFO as a style of employment may mean that there is an increasing number of people who spend a substantial amount of time in the Territory but are not classified as usual residents.

Furthermore, interstate migration estimates are based on Medicare change of address data. If people relocate to the Territory, but do not change their Medicare address, ABS estimates may understate the level of interstate arrivals. Chart 4.3 compares interstate driver licence transfers (lagged by three months) with ABS estimates of the number of interstate arrivals. The pattern of licence transfers mirrors that of interstate arrivals (as determined by the ABS), but is typically much lower than the number of arrivals. Since 2012, however, the gap has narrowed and in the June quarter 2014, the lagged number of licence transfers slightly exceeded the number of interstate arrivals.

Chart 4.3: Number of Interstate Arrivals and Interstate Driver Licence Transfers



Note: Interstate driver licence transfers lagged by three months.
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

The increase in licence transfers may, in part, reflect changes in the age composition of new arrivals with the proportion of people aged 20 years and older (potential drivers) increasing from 75.1 per cent in 2009-10 to 78.4 per cent in 2013-14, and increased compliance in transferring interstate licences to Territory licences. These are, however, unlikely to fully explain the sustained narrowing in the gap between the two data series. Instead, it is likely that the upward trend in interstate licence transfers is due to more people relocating to the Territory from interstate.

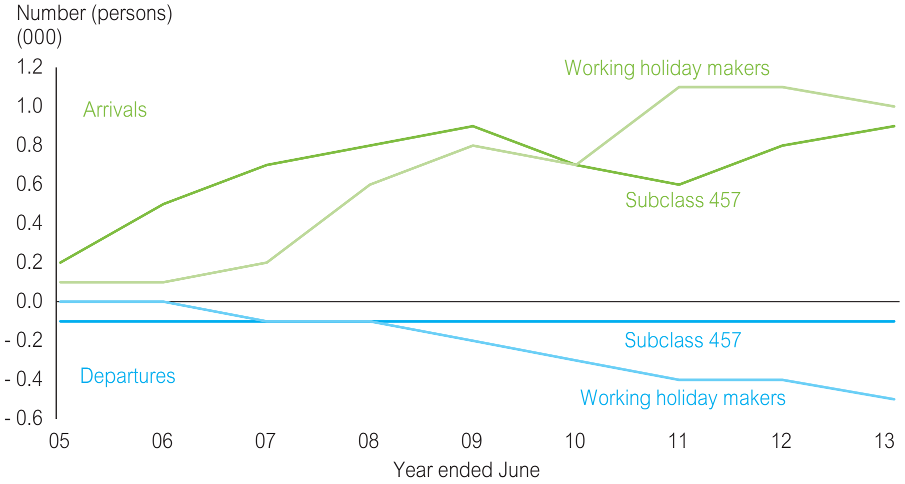
Unlike a driver licence, there is no penalty for not updating Medicare address details. Moreover, unless people use a Medicare reimbursable service, for example, a consultation with a general practitioner, or prescriptions subsidised through the Pharmaceutical Benefits Scheme, they may not be prompted to update their Medicare address. People may also choose not to change their details if their current address is temporary or they do not expect to remain in the Territory in the long term. Although the ABS makes some allowance for these issues in its calculation of interstate migration, the adjustments may not be sufficient in current conditions where local economic activity and population movements are being influenced by the Ichthys LNG project, the largest resource project in the Territory's history. Any under (or over) estimation of the Territory's population that occurs due to issues in the measurement of migration will go undetected until the next Census.

Overseas Migration

In contrast to NIM, international migrants are providing a substantial boost to the Territory's population. In 2013-14 there were 7598 overseas arrivals to the Territory and 4615 overseas departures, contributing a net gain of 2983 people to the Territory's population. Although this is lower than in 2012-13 when NOM peaked at 4938 people, it remains at a historically high level due to strong inward migration.

A key driver of NOM in the Territory is temporary visa holders, which includes international students, working holiday makers, visitors and subclass 457 visa workers. Temporary visa holders in the Territory comprise about three quarters of NOM with working holiday makers and people arriving on subclass 457 visas comprising the majority of temporary visa holders. In recent years, NOM has been boosted by increased numbers of people arriving on working holiday makers and subclass 457 visas (Chart 4.4). These groups are drawn to the Territory by strong employment opportunities including areas of speciality or labour shortage where employers are unable to fill positions with local or interstate workers.

Chart 4.4: Number of Arrivals and Departures, Working Holiday and Subclass 457 Visa Holders



Source: Department of Immigration and Border Protection, *Regional Net Overseas Migration, 2004-05 to 2017-18*

The Territory's proportion of national NOM has increased from 0.6 per cent in 2004-05 to 1.4 per cent in 2013-14. Current high levels of NOM will in part reflect specialist labour requirements for the Ichthys LNG project. Accordingly, NOM is likely to moderate in the longer term with Department of Immigration and Border Protection forecasting that the Territory will receive about 1.0 per cent of national NOM over coming years.

It should be noted that NOM data for 2013-14 is preliminary. NOM is based on international travellers' duration of stay in or out of Australia over the 16 months following their arrival or departure. If the duration of stay is 12 months or more (the 12 months do not have to be continuous), the person is included in the measurement of NOM. The ABS models preliminary NOM using migration adjustments based on final NOM one year earlier, applied to travellers based on their characteristics (category of travel, age, citizenship and place of residence). These estimates are updated once information on people's actual duration of stay is available. Accordingly, in each publication of Australian Demographic Statistics, the ABS finalises the NOM estimates for the period five quarters previously (for example, the June quarter 2014 publication provided final NOM estimates for the March quarter 2013).

In 2011-12 and 2012-13, there were substantial upward revisions between preliminary and final NOM in the Territory (1885 and 483 persons, respectively). It may also occur in 2013-14, in which case there may be some upward revision of the annual growth rate.

Indigenous Population

At 30 June 2011 there were 68 850 Indigenous people living in the Territory, which represents 29.8 per cent of the Territory's population and 10.3 per cent of the national Indigenous population.

The ABS currently estimates the Indigenous population every five years following a census and revises previous years' estimates of the population based on this new information. Accordingly, estimates of the Territory's Indigenous population have now been revised for the period 1996 to 2011. The revisions increased prior estimates of the Indigenous population in the Territory and other jurisdictions.

Between 2006 and 2011, the Territory's Indigenous population grew by 5.0 per cent, the lowest rate of growth among jurisdictions and below national growth of 11.4 per cent (Table 4.2). Key contributors to the higher rate of growth in other jurisdictions were people newly identifying as Indigenous and Indigenous births enhanced by mixed partnering (a person who identifies as Indigenous is partnered with a person identifying as non-Indigenous), which tends to be more prevalent in non-remote areas.

Although there was a slight decline in the Indigenous proportion of the Territory's population between 2006 and 2011 (from 31.4 to 29.8 per cent), the Territory still remains well above other jurisdictions in terms of population share. Tasmania is next highest with Indigenous people comprising 4.7 per cent of its population.

Table 4.2: Indigenous Shares of Total State/Territory Population and Total Indigenous Population (%)

	Growth	Indigenous Proportion of State/Territory Population		Proportion of Total Indigenous Population	
	2006-11	June 2006	June 2011	June 2006	June 2011
New South Wales	10.6	2.8	2.9	31.4	31.1
Victoria	16.3	0.8	0.9	6.8	7.1
Queensland	13.6	4.1	4.2	27.7	28.2
Western Australia	10.1	3.9	3.8	13.3	13.2
South Australia	12.8	2.1	2.3	5.5	5.6
Tasmania	11.6	4.4	4.7	3.6	3.6
Australian Capital Territory	21.4	1.5	1.7	0.8	0.9
Northern Territory	5.0	31.4	29.8	10.9	10.3
Australia	11.4	2.9	3.0	100.0	100.0

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

Regional Population

Between June 2013 and June 2014, the Greater Darwin region population grew by 2.2 per cent, over double the annual growth rate for the remainder of the Territory (1.0 per cent). This was slightly lower than the five-year trend of 2.3 per cent.

Within the Greater Darwin region, growth in 2013-14 was greatest in Palmerston (5.2 per cent) reflecting the new housing developments in Johnston, Zuccoli and Durack Heights. Similarly, within Darwin, Lyons in the northern suburbs and Darwin City recorded strong growth (14.9 and 4.5 per cent, respectively), reflecting the construction of new housing and apartments in those areas. The population of Litchfield grew by 2.7 per cent in 2013-14 with Virginia (11.1 per cent) and Humpty Doo (1.6 per cent) the fastest growing suburbs.

Outside Greater Darwin, the Katherine region recorded the strongest growth with a 0.6 per cent increase in population in 2013-14. The population in the East Arnhem and Alice Springs regions, declined in 2013-14 (-3.6 per cent and -0.1 per cent, respectively). The decline in East Arnhem was largely due to a reduction in the population of Nhulunbuy (-12.7 per cent), reflecting early population impacts from the curtailment of operations at the Gove alumina refinery. This is expected to cause a substantial decline in the population of the town through to 2015.

Table 4.3 shows the ERP (at 30 June 2014), population share and the annual and five-year growth rates (2009 to 2014) for the regions and major towns of the Territory.

Table 4.3: Regional Population and Major Townships Estimated Resident Population (ERP)

	ERP[1]	Proportion of Total Population	Annual Population Change[2]	5-Year Average Annual Population Change[3]
	Number	%	%	%
Region[4]				
Alice Springs	41 711	17.0	- 0.1	0.4
Barkly	6 795	2.8	0.3	0.9
Daly-Tiwi-West Arnhem	18 927	7.7	0.0	1.9
East Arnhem	15 914	6.5	- 3.6	0.1
Greater Darwin	140 386	57.3	2.2	2.3
Katherine	21 346	8.7	0.6	1.1
Major Townships				
Alice Springs[5]	26 108	10.7	- 0.1	0.5
Darwin[6]	118 700	48.4	2.1	2.2
Katherine	11 187	4.6	0.9	1.4
Nhulunbuy	3 906	1.6	- 12.7	- 3.5
Tennant Creek	3 634	1.5	- 0.4	0.6

1 ERP at 30 June 2014.
2 Annual change in ERP between 30 June 2013 and 30 June 2014.
3 Average annual change in ERP between 30 June 2009 and 30 June 2014.
4 ABS Statistical Area 3 (SA3) and SA4 (Greater Darwin).
5 Comprising SA2s of Charles, East Side, Flynn, Larapinta and Mount Johns.
6 Comprising SA3s of Darwin City, Darwin Suburbs and Palmerston.
Source: ABS, *Regional Population Growth*, Australia, Cat. No. 3218.0

Outlook

Forecasts of annual population growth are as at 31 December in each year of the budget and forward estimates period, enabling assessment of expected growth at the midpoint of each financial year.

In 2013 annual population growth in the Territory was 1.9 per cent (Table 4.4). Recent data indicates population growth in 2014 has moderated and annual growth by the end of 2014 is expected to be 0.9 per cent. This reflects general migration from the Territory including population outflows related to the curtailment of operations at the Gove alumina refinery, offsetting inflows associated with the workforce requirements of the Ichthys LNG project and other economic activity.

Population growth is forecast to strengthen again in 2015 as the workforce requirements for the construction phase of the Ichthys LNG project peak. Growth is forecast to moderate from 2016 onward as the Ichthys LNG project moves into the production phase and growth returns to levels more akin to natural increase.

Table 4.4: Population Growth, Forecasts (%)

	2013	2014e	2015f	2016f	2017f	2018f
Northern Territory	1.9	0.9	1.8	1.0	1.0	1.0

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

The Ichthys LNG project is expected to be the major determinant of variations to population growth during 2015 and 2016 with the demand for labour during the construction phase expected to peak from mid 2015 through to mid 2016. The demand for labour will then decline as the project transitions to the operations phase in 2016. The forecast of population growth over this period accounts for direct labour requirements associated with the Ichthys LNG project as well as indirect impacts including employment opportunities in other sectors due to increased economic activity and the contribution of employees' dependants to population growth.

Comparison to Previous Forecasts

The estimate of annual population growth for 2014 has been revised downward from the 2014-15 Budget (from 1.6 to 0.9 per cent) due to greater than anticipated NIM outflows. The estimate for 2015 has also been revised down from 2.6 per cent in the 2014-15 Budget to 1.8 per cent with some of the population impact from the Ichthys LNG project occurring earlier than anticipated, as evidenced by growth of 2.8 per cent in 2012.

The forecast of population growth of 1.0 per cent in 2016 and outer years remains unchanged.

Risks to the Forecasts

Changes in population growth in the Territory are driven primarily by migration among the non-Indigenous population. Accordingly, the greatest risk to the forecasts will be higher or lower levels of net overseas and interstate migration than implied by the assumptions underpinning the forecasts. The level of overseas migration can also be influenced by changes in national immigration policy.

Migration estimates are dependent on the quality of the underlying measures of movement. The unprecedented nature and extent of demand for labour associated with major projects may mean movements are not fully captured or captured in a timely manner by the current systems. This could lead to substantial differences between the true and measured population with measured population estimates potentially understating true population growth.

Substantial differences in the peak construction workforce for the Ichthys LNG project and the duration of this phase could also impact the forecasts. Furthermore, should the actual composition of the workforce, primarily the proportion of migrants who would become residents and are counted in the population and FIFO workers (not counted in the Territory's population), differ from that anticipated, it will affect the accuracy of the forecasts.

Finally, the forecasts take into account known future projects. Potential projects not yet taken into account provide a potential upside risk to the forecasts.

Appendix: Population Projections

The population forecasts for the 2014-15 Budget are intended to provide a short-term estimate of population growth, including the expected impact of major construction and resource projects and known changes in government policy.

The Territory Government also publishes population projections to provide insights into the future growth of populations and as a tool for long-term planning and resource allocation. The projections are produced using a projections model (NTPOP) developed by the Territory Government in partnership with Charles Darwin University. The model uses historical patterns in the components of population change (natural increase, overseas and interstate migration) to formulate estimates that illustrate what the Territory population would look like if those trends were to persist into the future.

The projections are updated regularly as new ABS data becomes available. The most recent update (the 2014 Release) is based on final ABS ERPs and other data derived from the 2011 Census of Population and Housing. The 2014 Release provides annual projections of the Territory's Indigenous and non-Indigenous population over the 30-year period from 2011 to 2041. Population projections at a broad regional level are also provided on a five-yearly basis covering the period 2011 to 2026.

The projections and further information on the projections model are available at: http://www.treasury.nt.gov.au/Economy/populationprojections/Pages/default.aspx

Chapter 5

Labour Market

Key Points

- Labour market conditions in the Northern Territory strengthened in 2013-14. Employment in the Territory increased by 4.6 per cent to an annual average of 133 000, while the unemployment rate declined to an annual average of 4.4 per cent in 2013-14.
- Following the strong growth in 2013-14, employment growth is expected to slow to 1.5 per cent in 2014-15 and 2015-16 and moderate further to 0.7 per cent in 2016-17 and 2017-18, reflecting the forecast slowdown in engineering and dwelling construction activity.
- In line with the moderating employment growth, the Territory's unemployment rate is forecast to trend up from 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.

Table 5.1: Territory Labour Market Forecasts (%)

	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
Employment[1]	4.6	1.5	1.5	0.7	0.7	2.0
Unemployment rate[2]	4.4	4.2	4.5	4.7	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

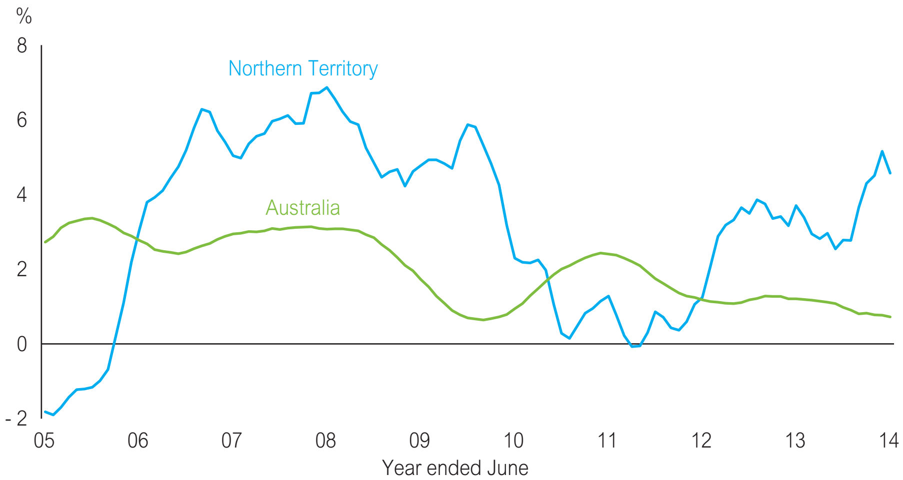
Employment

Resident employment growth in the Territory strengthened from 3.7 per cent in 2012-13 to 4.6 per cent in 2013-14. During the year, there were on average about 133 000 residents employed in the Territory, which represents about 1.2 per cent of total employment nationally.

The Territory recorded the highest year-on-year employment growth of all jurisdictions in 2013-14. In other states the change in employment ranged from a decline of 1.2 per cent in South Australia to an increase of 1.4 per cent in Queensland. Nationally employment grew by 0.7 per cent in 2013-14 (Chart 5.1).

The strong employment conditions in the Territory in 2013-14 were supported by a ramping up of the Ichthys LNG project workforce as it nears peak employment and increased dwelling construction activity. Employment growth in the traditionally male-dominated industries in 2013-14 was evidenced by the increase in male employment (5.9 per cent) outpacing the growth in female employment (2.9 per cent).

Chart 5.1: Year-on-Year Change in Employment



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

The role that major resource projects play in the Territory's labour market is also reflected in the variable growth rates in employment by industry, which has resulted in the contribution of some industries to total employment to increase, while others have declined. The strongest performing industries in terms of contribution to total employment over the past decade were construction, up from 7.9 per cent of Territory employment in 2003-04 to 11.5 per cent in 2013-14, and mining, up from 2.0 per cent to 4.3 per cent. In contrast, the contribution of the retail and wholesale trade industry to total employment has declined from 12.2 per cent in 2003-04 to 9.8 per cent in 2013-14. Similarly, the agriculture, forestry and fishing industry share of employment fell from 2.3 per cent in 2003-04 to 1.1 per cent in 2013-14 (Table 5.2).

Table 5.2: Industry Contributions to Territory Employment (%)

	2013-14	10-Year Average
Agriculture, forestry and fishing	1.1	2.6
Mining	4.3	3.1
Manufacturing	3.5	3.3
Construction	11.5	9.3
Retail and wholesale trade	9.8	11.8
Government and community services	37.8	35.5
Other services	32.0	34.3

Source: ABS, *Labour Force, Australia, Detailed*, Cat. No. 6291.0

The Territory consistently has the highest labour force participation rate of any jurisdiction in Australia, as well as one of the lowest unemployment rates. As such, it has little capacity to provide extra workers from within the local labour market as a major project commences. Consequently the use of fly-in fly-out (FIFO) workers and/or a reliance on migrants from interstate and overseas is critical to meeting the labour force demand for these projects.

Labour Force Survey

Labour market statistics are primarily based on data collected and reported by the Australian Bureau of Statistics (ABS) from its monthly labour force survey of households. In the Territory approximately 1 in 52 households are surveyed each month by the ABS. The households in the labour force survey are chosen to reflect the Territory's demographics and include a significant number of households in remote Indigenous communities.

Due to the small number of Territory households surveyed each month the ABS labour market estimates are subject to a relatively high standard of errors. As a result of this, changes to the data do not always accurately reflect real changes occurring in the total population.

The scope of the survey is the labour market activity of the usually resident civilian population of Australia aged 15 years and over. The survey measures workers on the basis of which jurisdiction is considered to be a person's usual address. As such, the number or change in employment in the Territory as reported in the ABS Labour Force Survey may not reflect actual outcomes.

The ABS Labour Force Survey is only a measure of civilian employment and therefore excludes permanent defence force personnel. However defence is an important contributor to overall employment in the Territory. The Australian Defence Force reported that there were 4927 permanent defence force members in the Territory as at June 2014, a slight decline compared to the previous year.

The treatment of FIFO and overseas workers by the ABS in the Labour Force Survey may also lead to an understatement of the number of jobs in the Territory. ABS reports on the employment of Australian workers in the jurisdiction where they usually reside rather than the place they are usually employed. Consequently FIFO workers in the Territory will be recorded in the survey by their residential state. Similarly permanent or temporary overseas workers will be classified as employed in the Territory if they consider themselves to be resident in the Territory. Permanent and temporary international migration is a vital means of meeting skilled labour demands in the Territory. In 2013-14 there were 1031 temporary work visas (up 12.9 per cent from the previous year) and 851 permanent skilled work visas (up 1.4 per cent) granted for the Territory (Table 5.3). The most common occupations for the skilled visa schemes were professionals, technicians and trade workers consistent with major project activity in the Territory.

Table 5.3: Number of Skilled Work Visas Granted for the Territory by Type and Occupation

	Temporary		Permanent	
	2012-13	2013-14	2012-13	2013-14
Managers	143	145	78	98
Professionals	341	311	365	413
Technicians and trades workers	377	505	307	228
Other[1]	52	70	89	106
Total	913	1 031	839	845

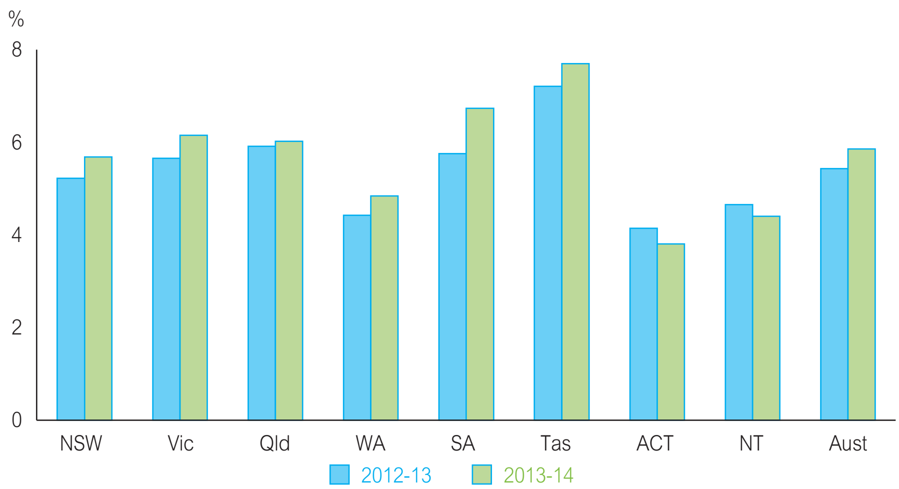
1 Other includes community and personal service workers; clerical and administrative workers; sales workers; machinery operators and drivers; labourers; and other workers.

Source: Department of Immigration and Border Protection

Unemployment

In 2013-14 the Territory's average annual unemployment rate reversed the rise that occurred in 2012-13 and returned to about the 10-year historical trend level of 4.4 per cent. This was largely due to a fall in the participation rate in the Territory, which led to the total size of the labour force growing at a slower rate than employment. The Territory recorded the second lowest annual average unemployment rate of all jurisdictions in 2013-14, above the Australian Capital Territory (ACT) (3.8 per cent). The Territory and the ACT were the only jurisdictions to record a decline in the average unemployment rate over the year (Chart 5.2). Nationally, the average annual unemployment rate was 5.9 per cent in 2013-14, an increase of 0.4 percentage points from the previous year and above the 10-year historical average of 5.1 per cent.

Chart 5.2: Average Annual Unemployment Rate, by Jurisdiction



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

According to estimates from the Commonwealth Department of Employment, the unemployment rate fell across all Territory regions in 2013-14. The unemployment rate in Greater Darwin remains the lowest of all Territory regions at 3.0 per cent in 2013-14 (Table 5.4). While the unemployment rate in Alice Springs and Katherine is higher than Greater Darwin, the Alice Springs unemployment rate is lower than the national rate and in Katherine it is marginally higher (Table 5.4). The Barkly region recorded the highest employment rate in the Territory of 9.7 per cent in 2013-14.

Table 5.4: Unemployment Rate by Territory Regions (%)

	2013[1]	2014[1]
Greater Darwin	3.1	3.0
Alice Springs region	5.4	4.9
Katherine region	6.4	6.1
Barkly region	10.0	9.7
East Arnhem region	7.9	7.4
Daly-Tiwi-West Arnhem region	10.0	9.2

1 As at 30 June.
Source: Commonwealth Department of Employment

Participation Rate

The labour force participation rate measures the proportion of the civilian population aged 15 years and over that is either employed or actively looking for work.

The Territory's average annual participation rate has been trending up over the past decade. In 2013-14 the Territory's participation rate averaged 75.3 per cent, the highest level on record, and compares with 64.7 per cent nationally. The Territory consistently has the highest participation rate of all jurisdictions. This reflects the comparatively young age profile and the transient nature of the Territory's workforce.

The Territory's participation rate is expected to remain at elevated levels over the next two years in line with labour market conditions. The forecast moderation in employment growth in the outer years is expected to result in the participation rate returning to long-term trend levels.

Outlook

Employment growth in the first half of 2014-15 slowed following strong outcomes in 2013-14. The moderating growth was partly due to the earlier and larger than anticipated increase in the Ichthys LNG project workforce in the Territory in the previous year. Employment in the Territory is estimated to increase by 1.5 per cent in 2014-15, while the average unemployment rate is expected to be 4.2 per cent.

From 2015-16 labour market conditions in the Territory are expected to soften reflecting the transition of the Ichthys LNG project from the construction phase to the less labour-intensive production phase and the forecast decline in dwelling construction activity, albeit from a high base. This is expected to lead to softer employment growth and a rise in the unemployment rate in the Territory (Table 5.5). Employment growth in the Territory is forecast to be below historical trend levels over the medium term. The full impact of the Ichthys LNG project transition on employment and the unemployment rate is softened by the expected outward movement of FIFO workers that are not included in the Territory's labour force data. From 2018-19, employment growth is forecast to begin to return to long-term average levels.

Table 5.5: Territory Labour Market Forecasts (%)

	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
Employment[1]	4.6	1.5	1.5	0.7	0.7	2.0
Unemployment rate[2]	4.4	4.2	4.5	4.7	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

Chapter 6

Prices and Wages

Key Points

- Growth in the Darwin consumer price index (CPI) moderated from 3.9 per cent in 2013 to 2.9 per cent in 2014, primarily due to slower growth in housing and transport costs.
- Growth in Darwin CPI is forecast to moderate to 2.5 per cent in 2015 and 2.3 per cent in 2016 before increasing to 2.5 per cent from 2017.
- Wages growth in the Territory was steady at 2.8 per cent in 2014 with similar levels of growth in both private and public sector wages.
- Territory wages growth is expected to moderate to 2.7 per cent in 2015 then to 2.5 per cent from 2016, reflecting labour market softening in the private sector and continued constraint in public sector expenditure.

Table 6.1: Growth in the Darwin Consumer Price Index and Territory Wage Price Index (%)

	2014	2015e	2016f	2017f	2018f
Consumer price index	2.9	2.5	2.3	2.5	2.5
Wage price index	2.8	2.7	2.5	2.5	2.5

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

Background

Inflation is a key economic indicator that measures the change in the general level of consumer prices over a given period of time. Any increase in inflation relative to growth in wages affects households' purchasing power and may influence the standard of living.

In Australia, the Australian Bureau of Statistics (ABS) measures inflation in the economy through changes in CPI. CPI measures the price of a representative basket of goods and services in each Australian capital city. This basket includes the following 11 groups: food and non-alcoholic beverages; alcohol and tobacco; clothing and footwear; housing; household contents and services; health; transportation; communication; recreation and culture; education; and financial and insurance services.

Each group in CPI is given a weighting depending on its relative importance to household expenditure. To determine the index, the price change in each group is combined according to its weighting. Housing, which comprises rent, house purchase, utilities and other housing costs, has the largest weighting in the index and accounts for about a quarter of the Darwin CPI basket. The food and non-alcoholic beverages category is second largest, accounting for a further 15 per cent. Recreation and culture, and transport are the next largest categories, each accounting for about 12 per cent of the Darwin CPI basket.

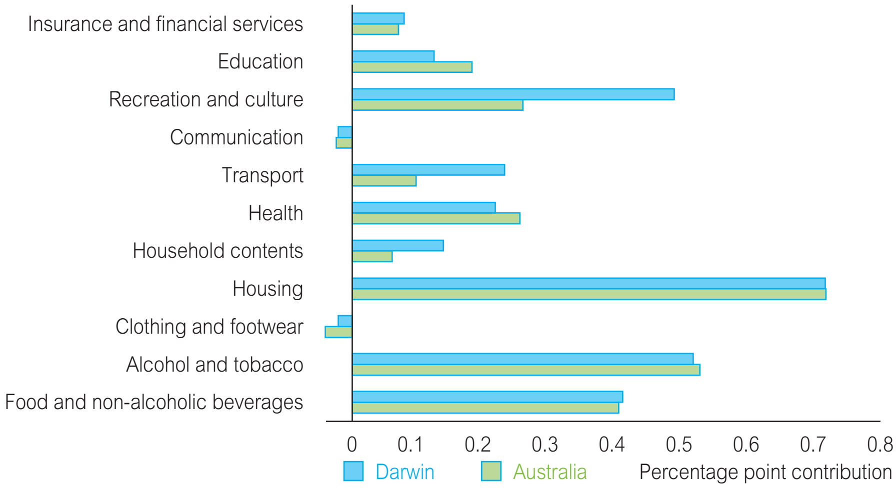
Consumer Price Index

The year-on-year percentage change in Darwin CPI, which compares the past four quarters' CPI to the previous four quarters' CPI, is preferred as a relatively stable measure of inflation and is used throughout this chapter.

Darwin CPI increased by 2.9 per cent in 2014, a substantial decline from 3.9 per cent the previous year. The moderation in growth primarily reflected lower increases in housing and transport costs.

The housing category was the primary driver of growth in Darwin CPI in 2014 (Chart 6.1), however the contribution to growth has declined substantially over the past year. In 2014 the housing category contributed 0.72 percentage points to Darwin CPI growth, down from 1.92 percentage points in 2013. Other key contributors to growth were higher costs of alcohol and tobacco, recreation and culture as well as food.

Chart 6.1: Year-on-Year Percentage Point Contribution to Change in CPI, 2014



Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0

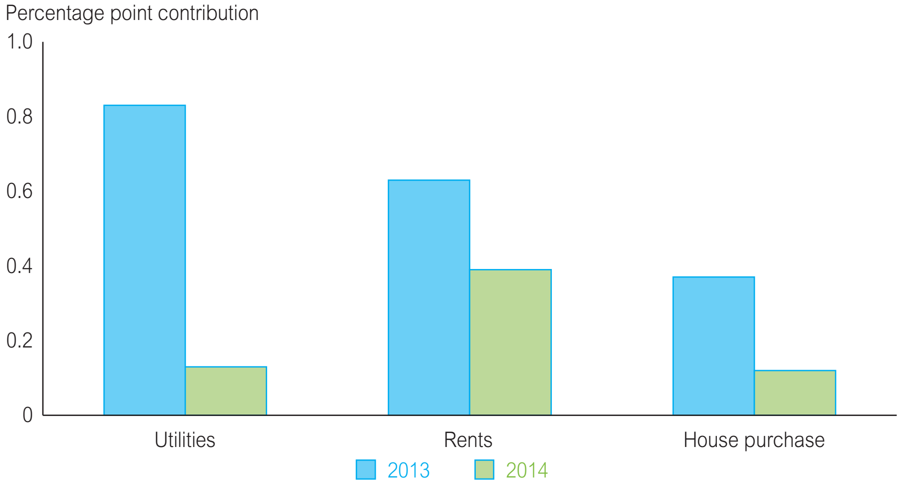
Housing

In 2014 growth in the housing category of Darwin CPI more than halved, decreasing from 7.3 per cent in 2013 to 2.6 per cent. This reflected lower growth in the cost of utilities, rents and house purchases. Housing contributed 0.72 percentage points to total growth in 2014.

In 2014 the utilities category of the Darwin CPI increased by 2.9 per cent, down from 24.0 per cent in 2013 (Chart 6.2). The moderation in utilities costs was a result of lower increases in the tariffs for electricity, water and sewerage. This reflected the Territory Government's policy to stagger price increases over three years with the majority introduced in 2013. The removal of the carbon tax in July 2014 also contributed to the moderation in growth of utilities costs.

Growth in the rents category of the Darwin CPI moderated from 7.6 per cent in 2013 to 4.3 per cent in 2014. Similarly, growth in house purchase prices slowed from 3.4 per cent in 2013 to 1.1 per cent in 2014. This was much lower than the 3.4 per cent growth in house purchase prices recorded in the eight capital cities' CPI. A more detailed analysis of house purchase prices and rents is provided in Chapter 7: Residential Property Market.

Chart 6.2: Housing Category Year-on-Year Percentage Point Contribution to Change in the Darwin CPI, 2014



Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0

Transport

Growth in the transport category of the Darwin CPI moderated from 4.1 per cent in 2013 to 1.8 per cent in 2014. This category contributed 0.23 percentage points to total growth, reflecting a moderation in growth of motor vehicle service costs, maintenance fees and automotive fuel prices.

A key influence on the moderation in automotive fuel costs was a substantial decline in global oil prices since mid-2014. Nonetheless Territory fuel prices remain among the highest in Australia. Appendix 1 provides a more detailed discussion of the Territory fuel market including recent price movements, comparisons with national prices, drivers of cost and recent initiatives aimed at ensuring Territorians pay a fair price for fuel.

Alcohol and Tobacco

In 2014 the alcohol and tobacco category of the Darwin CPI increased by 5.8 per cent and accounted for 0.52 percentage points of total growth. This was largely driven by an increase of 14.6 per cent in tobacco prices, following rises in the Commonwealth excise duty. Alcohol prices in the Territory increased by 1.5 per cent in 2014, driven by higher prices of spirits (up 3.2 per cent), wine (up 2.1 per cent) and beer (up 0.6 per cent).

Recreation and Culture

The recreation and culture category increased by 4.2 per cent and contributed 0.49 percentage points to the increase in the Darwin CPI in 2014. This was largely due to an increase in the cost of airfares for Darwin residents travelling interstate and higher accommodation costs for Darwin residents travelling within the Territory and interstate.

Food

Food and non-alcoholic beverages is the second largest item in the Darwin CPI basket (after housing), but only made the fourth largest contribution to growth in 2014. This category increased by 2.9 per cent and added 0.41 percentage points to growth. Key influences on growth in this category were a 6.6 per cent increase in fruit and vegetable prices and a 3.0 per cent increase in the cost of meals out and takeaway foods.

Health

In 2014 the health category increased by 5.1 per cent in the Darwin CPI and contributed 0.22 percentage points to growth. This reflected increases in medical and hospital services, likely due to rising private health fund premiums and flow-on effects from indexation of the Private Health Insurance Rebate, which took effect 1 April 2014.

Furnishings, Household Equipment and Services

The furnishings, household equipment and services category of the Darwin CPI increased by 1.6 per cent and contributed 0.14 percentage points to growth. This was largely driven by a 9.4 per cent increase in childcare costs in 2014, which alone contributed 0.09 percentage points to growth.

Outlook for CPI

The outlook is for growth in Darwin CPI to moderate to 2.5 per cent in 2015 and to 2.3 per cent in 2016 (Table 6.2). The expected moderation in Darwin CPI growth reflects the forecast of lower population and employment growth as construction activity related to the Ichthys LNG project winds down and the project transitions to the less labour-intensive production phase. This is expected to lead to lower growth in demand for goods and services and consequently lower growth in prices. In addition, an expected increase in the supply of new dwelling stock and proposed land releases in Greater Darwin should reduce demand pressure on property prices and rents. Over the medium term, the Darwin CPI is forecast to increase by 2.5 per cent per annum from 2017.

Table 6.2: Growth in the Consumer Price Index (%)

	2014	2015e	2016f	2017f	2018f
Darwin	2.9	2.5	2.3	2.5	2.5

e: estimate; f: forecast
Source: Department of Treasury and Finance; ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0

Wage Price Index

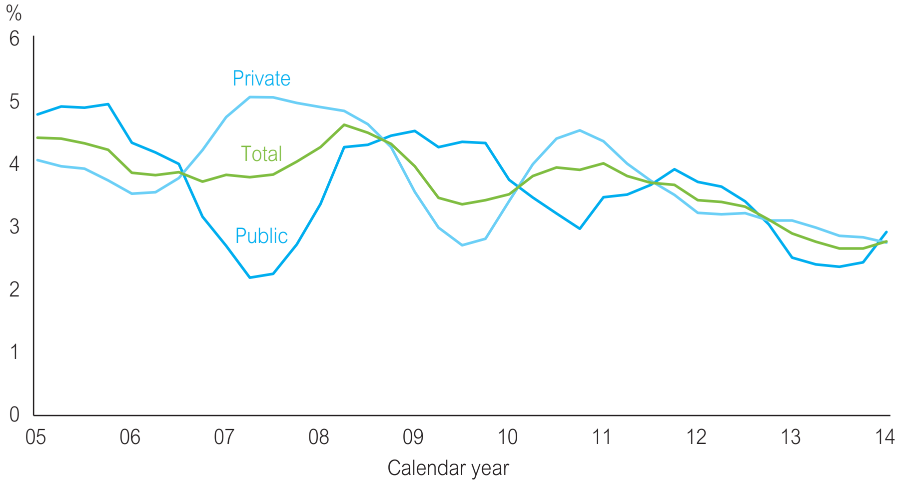
The ABS wage price index (WPI) measures the influence of market factors on the price employers pay for a standard unit of labour. To establish a standard unit of labour for the index, ABS holds the quantity and quality of labour services constant by excluding changes in the composition of the labour force, hours worked and changes in characteristics of employees (such as performance).

In 2014 the Territory WPI increased by 2.8 per cent compared to 2.6 per cent nationally. WPI growth in the Territory was at a historically low level in 2014 (Chart 6.3) and well below the 10-year average increase of 3.7 per cent.

In the private sector in the Territory growth in WPI moderated to 2.8 per cent in 2014, continuing a downward trend since 2011. Subdued growth in the private sector partly reflects ongoing weakness in labour-intensive industries in the Territory such as retail and tourism. A softening in the labour market conditions in other jurisdictions may have also eased wages pressure in the Territory, which is reliant on interstate workers to meet growth in the demand for labour.

Territory public sector wages grew by 2.9 per cent in 2014, up from 2.5 per cent in 2013. Public sector wages have been relatively subdued in recent years, reflecting fiscal consolidation across all tiers of government.

Chart 6.3: Year-on-Year Percentage Change in the Territory's Wage Price Index



Source: ABS, *Wage Price Index, Australia*, Cat. No. 6345.0

Outlook for Wage Price Index

Growth in the Territory's WPI is expected to moderate to 2.7 per cent in 2015, reflecting spare capacity in the national labour market as a result of subdued activity in the Australian economy. The outlook in the medium term is for the Territory's WPI growth to moderate to 2.5 per cent from 2016 (Table 6.3). This primarily reflects a reduction in the demand for labour as the construction phase of the Ichthys LNG project winds down. Growth in the public sector WPI is anticipated to remain subdued, reflecting continued constraints on government expenditure.

Table 6.3: Growth in the Wage Price Index (%)

	2014	2015e	2016f	2017f	2018f
Northern Territory	2.8	2.7	2.5	2.5	2.5

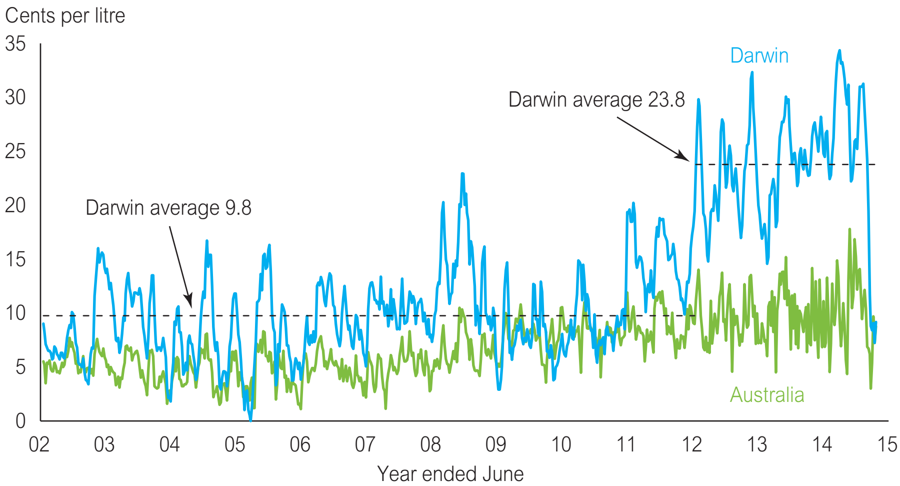
e: estimate; f: forecast
Source: Department of Treasury and Finance; ABS, *Wage Price Index, Australia*, Cat. No. 6345.0

Appendix: The Territory Fuel Market

Fuel prices in Darwin are typically higher than in other capital cities and outside Darwin, prices in the Territory's regional centres tend to be higher again. While it is recognised that certain factors may contribute to higher fuel prices in the Territory (such as sales volumes, transport costs, lower income from other sources and a lack of active competition), in recent years the gap in prices between Darwin and the rest of Australia has widened.

Prior to 2012, the differential between fuel prices in Darwin and the national average fluctuated at around 10 cents per litre. However, in the past three years, the gap widened to around 20 cents per litre and persisted at this level without a clear cost driver to justify the greater price. A similar increase occurred in retail margins (the difference between the retail price and the terminal gate price) although the gap was even wider (around 24 cents per litre, Chart A6.1).

Chart A6.1: Average Unleaded Petrol Retail Margin

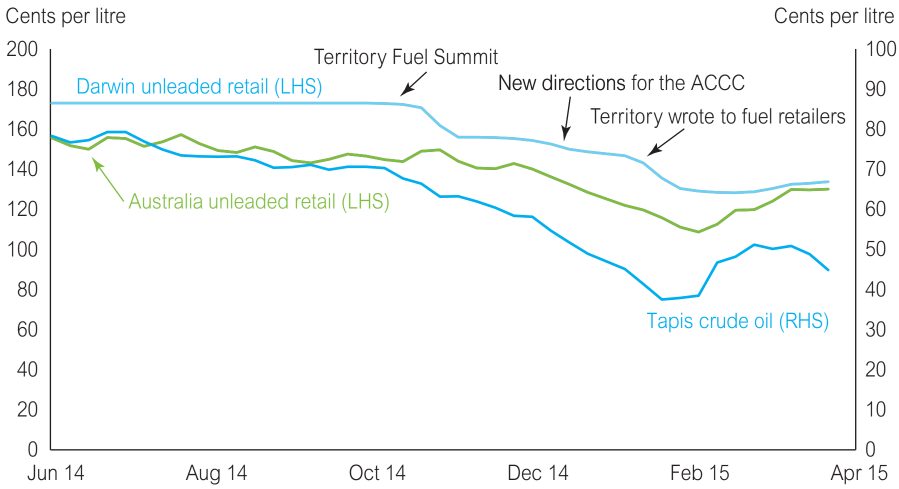


Source: Australian Institute of Petroleum

The Territory Government has initiated several measures intended to encourage fuel retailers to be more transparent with their pricing structure and ensure Territorians are paying a fair price for their fuel. These include convening a fuel summit in October 2014, introducing the Fuel Price Disclosure Bill, and the proposed 'Truck Central' fuel station and associated transport industry service development in Berrimah.

Since the fuel summit in October 2014 there was a marked decrease in fuel prices in the Territory, however this largely followed declines in global oil prices (further information on trends in oil prices can be found in Chapter 3: External Economic Environment). Despite the decline, the price differential between Darwin and the Australian average was maintained until March 2015 when it narrowed to under 10 cents per litre (Chart A6.2).

Chart A6.2: Unleaded Retail Petrol and Crude Oil Prices



Sources: Australian Institute of Petroleum, Commonwealth Bank of Australia, Reserve Bank of Australia

The Australian Competition and Consumer Commission (ACCC) has national responsibility for the oversight and monitoring of fuel prices. On 17 December 2014, the Commonwealth Minister for Competition Policy and Consumer Affairs announced new powers for the ACCC to monitor and analyse fuel markets more often and in an in-depth way. As part of its new powers, the ACCC will replace its annual monitoring reports with quarterly reports that examine fuel price movements in all capital cities and about 180 regional locations. The first quarterly report was released in February 2015. The ACCC will also conduct an in-depth analysis of three regional markets, with these studies intended to determine why prices are higher in certain locations and identify and explain each component of prices paid at the bowser. On 10 March 2015 Darwin was announced as the first regional location to be studied with a report expected to be released in the second half of 2015.

Chapter 7

Residential Property Market

Key Points

- Residential property markets in the Northern Territory generally softened in 2014 reflecting increased dwelling supply. This has contributed to bridging the gap between housing demand and supply and placing downward pressure on growth in house purchase prices and rents.
- In the December quarter 2014 the median house price was $585 000 in Darwin, $459 500 in Alice Springs, $380 000 in Katherine and $291 250 in Tennant Creek. The median weekly asking rent for a three-bedroom house was $640 in Darwin, $520 in Alice Springs and $500 in Katherine.
- In the December quarter 2014 the median unit price was $494 950 in Darwin and $372 000 in Alice Springs. The median weekly rent for a two-bedroom unit was $466 in Darwin and $400 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 2014.
- In the December quarter 2014 the proportion of income required to meet home loan repayments in the Territory was 28.1 per cent. This was the fourth highest of all jurisdictions, which ranged from 20.4 per cent in the Australian Capital Territory (ACT) to 36.2 per cent in New South Wales (NSW), and below the national average of 31.5 per cent.
- The proportion of income to meet rent repayments was 33.4 per cent in the Territory in the December quarter 2014. This was the highest proportion of all jurisdictions, which ranged from 17.1 per cent in the ACT to 28.2 per cent in NSW.
- Residential dwelling completions increased by 51.0 per cent to 2146 in 2013-14, the highest annual figure since 1999. Growth was driven by a 149.1 per cent increase in other residential dwellings (to 1293 units).
- The vacancy rate for all rented dwellings in Darwin was 5.4 per cent in the December quarter 2014, an increase of 1.9 percentage points from the same time last year. Darwin recorded the highest vacancy rate of all capital cities, which ranged from 1.7 per cent in Sydney to 4.2 per cent in Perth.
- The supply of new dwellings in the Territory is expected to remain strong over the medium term, supported by plans for new multi-unit developments as well as scheduled land releases in the Territory's major centres.

Background

Housing costs are a major expenditure item for Territory households. In 2012 and 2013 rents and purchase prices rose substantially, placing considerable additional pressure on household budgets. More recently, the Territory property market has been reshaped by major changes in supply. Dwelling supply has increased markedly with over 2000 new dwellings coming online over the past year, which has bridged the gap between housing demand and supply. The increase in supply is beginning to alleviate the housing cost pressures experienced in recent years.

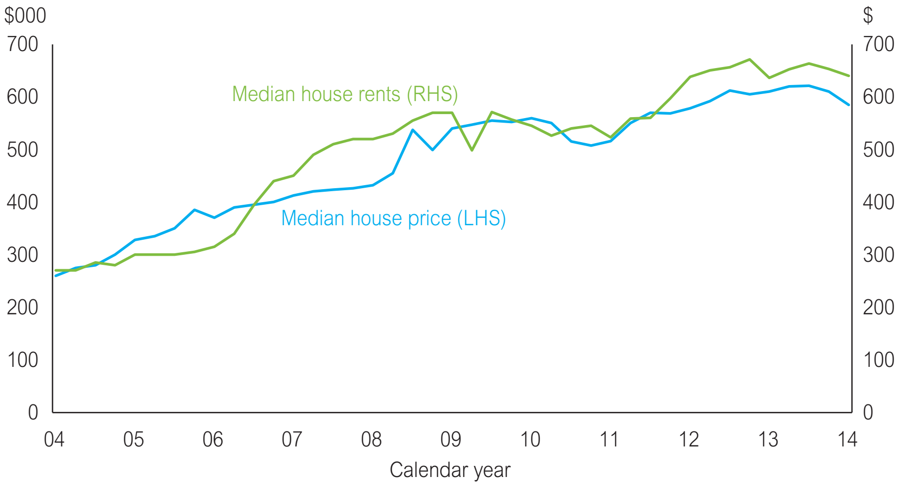
The purpose of this chapter is to profile the current Territory property market and set this within the context of historical trends. Comparisons are provided with other capital cities and trends in other major regional centres in the Territory are also examined. The chapter uses median prices and rents as reported by the Real Estate Institute of the Northern Territory (REINT) and the Real Estate Institute of Australia (REIA). Unless stated otherwise, the reference period for the median property prices is the December quarter of the year stated.

The chapter also discusses affordability based on average incomes, home loans and rentals. Due to data limitations, affordability among different socio-economic populations is not examined and strategies such as share houses and temporary residential options, which can be used to reduce housing costs, are not included in the analyses in this chapter.

Greater Darwin

Darwin housing market conditions have been soft over the past eighteen months following strong growth in 2012 and the first half of 2013. The median house price in Darwin declined in the second half of 2014 from a peak of $620 795 in the June quarter 2014 to $585 000 in the December quarter 2014 (Chart 7.1). This is the lowest median price recorded in two years. Median weekly asking rents for a house in Darwin followed a similar trend. Median house rents grew moderately in the first half of 2014 to $663 in the June quarter 2014, before declining to $640 in the December quarter 2014.

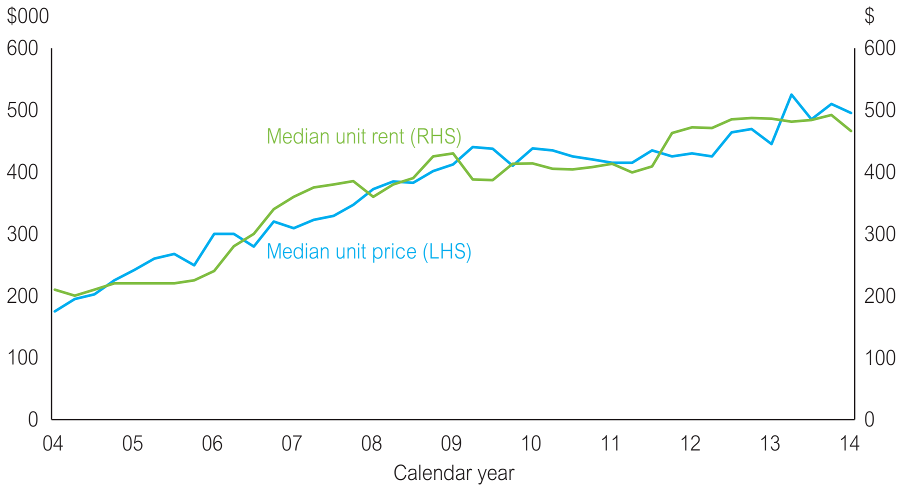
Chart 7.1: Greater Darwin Median House Prices and Rents



Source: REINT

Darwin unit prices grew strongly in 2014, increasing by 11.2 per cent to $494 950 (Chart 7.2). This was primarily driven by higher prices for units in inner Darwin, coinciding with the completion of multi-storey unit developments in the Darwin central business district. In contrast, median weekly unit rent in Darwin declined from $486 in 2013 to $466 in 2014 following increased unit supply. The decline in the median rent reflects the greater mix in the quality of units available for rent. Further, rents respond in a more timely manner to changes in demand than prices that are only revealed when dwellings are sold.

Chart 7.2: Greater Darwin Median Unit Prices and Rents



Source: REINT

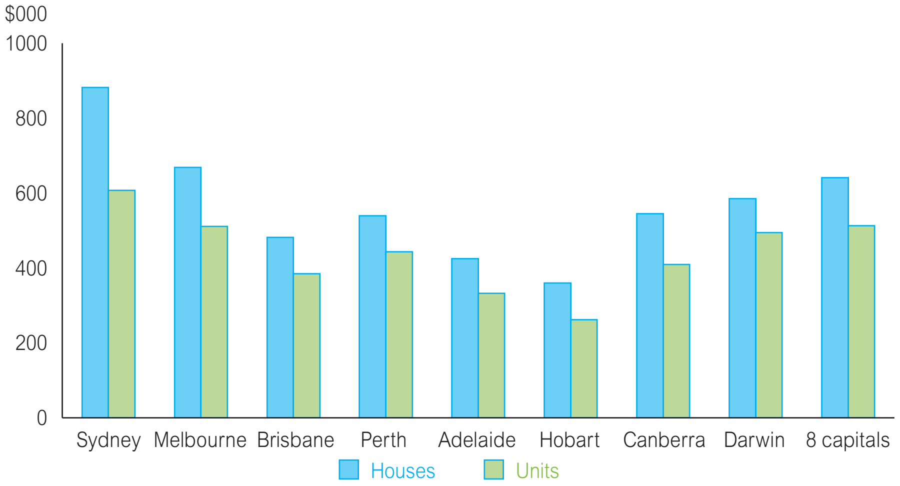
The number of dwelling sales in Darwin grew substantially over the past year. Throughout 2014, there were 3110 properties sold in Darwin, an increase of 435 or 16.3 per cent from the annual total recorded in 2013 (2675 sales). This was predominantly driven by increased unit sales, which accounted for over 90 per cent of total growth.

Capital City Comparisons

Over the past decade Darwin recorded the highest average annual growth rate in property prices of all capital cities. The strongest growth in Darwin property prices occurred between 2006 and 2009. Following that period, growth in median property prices was more muted, with the exception of 2012-13 when prices were boosted by a combination of strong demand and substantial sales of new housing stock, particularly units.

In 2014 Darwin had the third highest median house price of the capital cities at $585 000, below Sydney ($882 000) and Melbourne ($669 000) (Chart 7.3). The eight capital city average median house price was $641 500 in 2014. The median Darwin unit price in 2014 ($495 000) was the third highest of all capital cities, below Sydney ($607 100) and Melbourne ($511 500), and compares with the capital city average of $512 600. This is in contrast with circumstances a decade ago when median house and unit prices in Darwin were among the lowest in Australia.

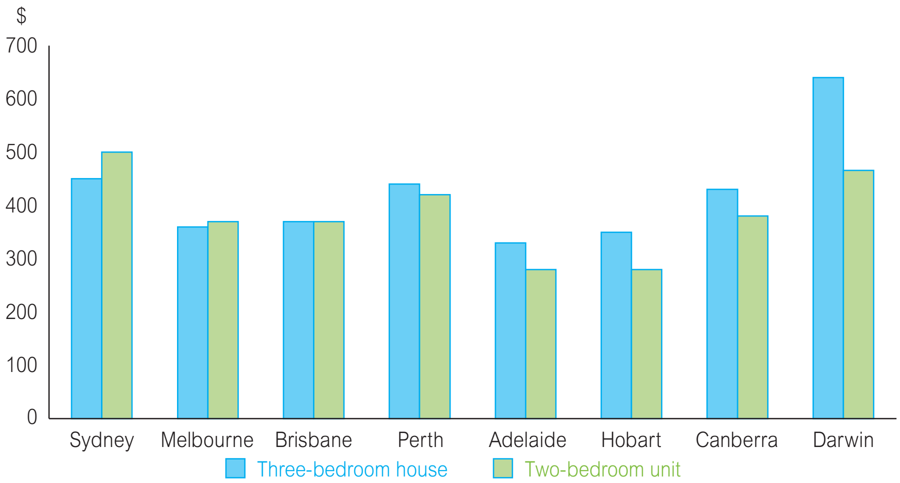
Chart 7.3: Median House and Unit Prices, December Quarter 2014



Source: REIA and the Bendigo Bank

Dwelling rental prices in Darwin are typically among the highest in the nation, reflecting the transitory nature of the population. In 2014 Darwin had the highest median house rent ($640 per week) and the second highest median unit rent ($466 per week) of all capital cities (Chart 7.4). The median weekly asking rent for a house in other capital cities ranged from $330 in Adelaide to $450 in Sydney, while units ranged from $280 in Adelaide and Hobart to $500 in Sydney.

Chart 7.4: Median House and Unit Rents, December Quarter 2014



Source: REIA and the Bendigo Bank

Alice Springs

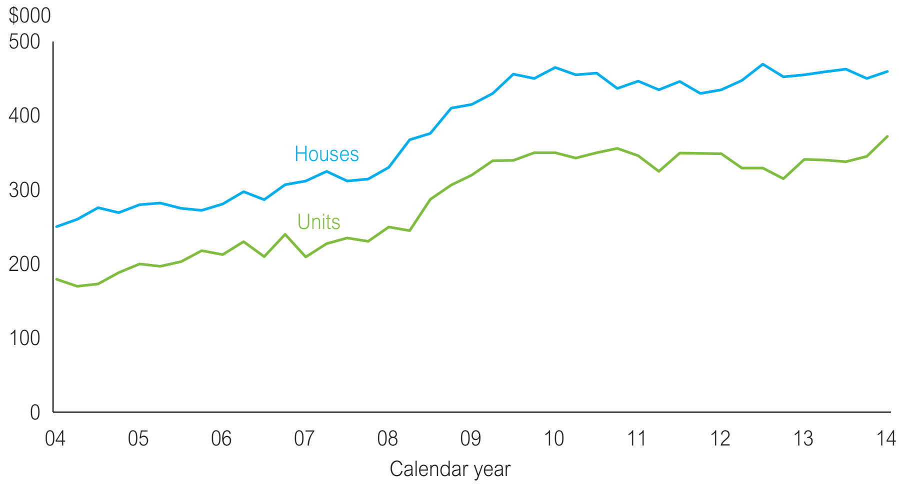
The Alice Springs property market experienced strong growth over the period 2007 to 2011, coinciding with the Commonwealth's Northern Territory Emergency Response. Since 2011, the property market has been subdued.

In 2014 in Alice Springs the median:

- house price was $459 500, an increase of 1.0 per cent from the previous year;
- weekly asking rent for a house was $520, down 0.8 per cent from 2013; and
- weekly asking rent for a unit was $400, an increase of 1.0 per cent from 2013.

The median unit price in Alice Springs was $372 000 in the December quarter 2014. This represents a 9.1 per cent increase from the same period last year. While the median unit price in Alice Springs grew strongly in the December quarter 2014, this followed a prolonged period of subdued conditions, similar to those experienced in the other sectors of the property market (Chart 7.5).

Chart 7.5: Alice Springs Median House and Unit Prices



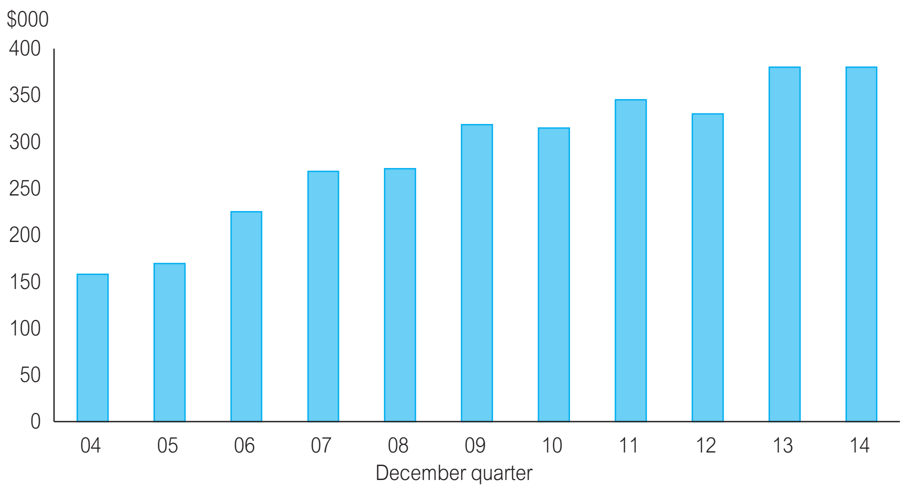
Source: REINT

Katherine

There were mixed results in the Katherine property market in 2014. However median prices and rents in Katherine tend to be highly volatile due to the small number of properties on the market for sale or rent.

Since 2007 strong growth in median house prices in Katherine in one year was followed by a moderate growth or a decline in price in the subsequent year (Chart 7.6). This trend continued in 2014. After growing by 15.2 per cent in 2013, median house prices in Katherine were unchanged at $380 000 in 2014. In contrast to prices, the median weekly asking rent for houses in Katherine rose by 11.1 per cent from $450 in 2013 to $500 in 2014.

Chart 7.6: Katherine Median House Prices



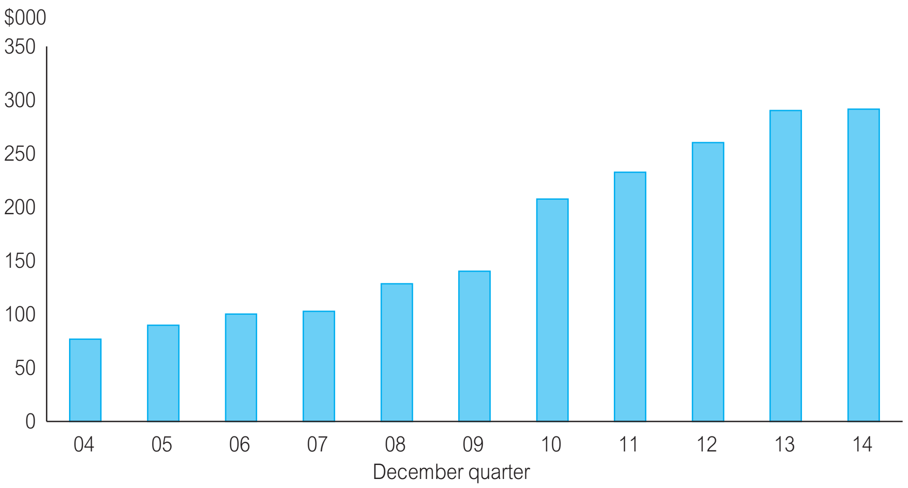
Source: REINT

Tennant Creek

Over the past decade Tennant Creek has recorded the highest growth in median house prices across the Territory's major centres. Since 2004 the median house price in Tennant Creek has increased by an average of 14.3 per cent per annum. This compares with Katherine, which experienced the second highest increase of 9.2 per cent per annum over the same period.

Following a sustained period of strong growth, median house prices in Tennant Creek stabilised over 2014. In 2014 the Tennant Creek median house price was $291 250, a 0.4 per cent increase from the previous year (Chart 7.7).

Chart 7.7: Tennant Creek Median House Prices



Source: REINT

Affordability

The following analysis on home loan and rental affordability is based on data produced by REIA and the Adelaide Bank.

In the December quarter 2014 the proportion of income required to meet home loan repayments in the Territory was 28.1 per cent. While this is an increase from the same time last year (27.1 per cent) it is in line with the 10-year average. The Territory recorded the fourth highest proportion of income to meet home loan repayments of all jurisdictions, which ranged from 20.4 per cent in the ACT to 36.2 per cent in NSW (Chart 7.8). Nationally 31.5 per cent of income is required to meet home loan repayments.

Chart 7.8: Proportion of Household Income to Meet Home Loan and Rent Repayments, December Quarter 2014

Source: REIA and the Adelaide Bank

In the Territory 33.4 per cent of median weekly income was required to meet median rent in the December quarter 2014. This was the highest proportion of all jurisdictions, which ranged from 17.1 per cent in the ACT to 28.2 per cent in NSW (Chart 7.8). Although the Territory is the least affordable jurisdiction in which to rent a property, the proportion of income to meet rent repayments has declined from the record high of 38.3 per cent recorded during 2009.

Dwelling Supply

Accessibility and affordability of residential property in the Territory is highly dependent on supply side responses that boost the stock of housing. Over the past year there has been a significant increase in the number of new dwelling stock in the Territory.

In 2013-14 the number of residential dwelling completions increased by 51.0 per cent (or 725) to 2146, the highest annual figure since 1999. Growth in dwelling completions was driven by a 149.1 per cent increase in other residential dwellings (to 1293 units), reflecting completions of unit developments primarily in and around Darwin CBD. This was partly offset by a 10.4 per cent decline in new house completions from 877 in 2012-13 to 786 in 2013-14. Despite the number of new house completions falling in 2013-14, it remains well above the 10-year average (723 houses).

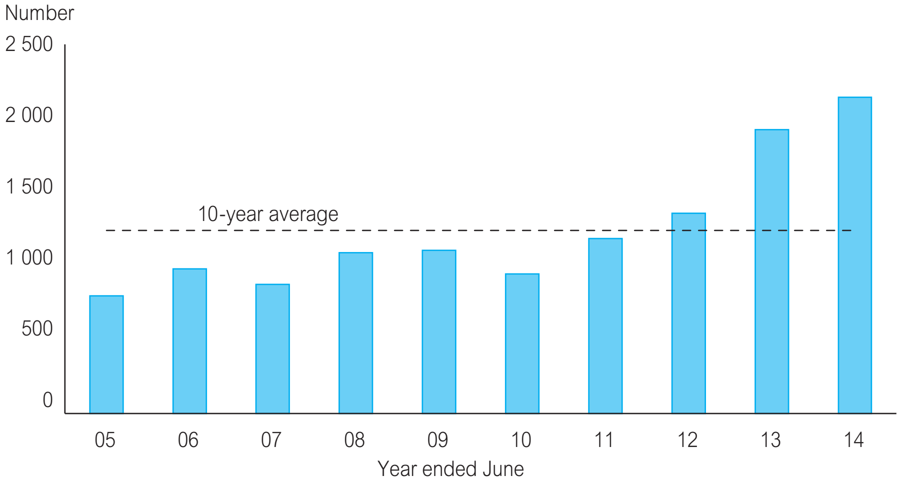
The recent above-average levels of new dwelling completions has contributed to the rise in the vacancy rate in Darwin. In the December quarter 2014 the vacancy rate for all rented dwellings in Darwin was 5.4 per cent, up 1.9 percentage points from the same time last year. Darwin recorded the highest vacancy rate of all capital cities, which ranged from 1.7 per cent in Sydney to 4.2 per cent in Perth (Chart 7.9).

Chart 7.9: Vacancy Rates for All Rented Dwellings

Source: REIA and the Bendigo Bank

In addition to the high number of residential dwelling completions in the Territory in 2013-14, the supply pipeline for new dwellings remains strong. As at June 2014, there were 2142 residential dwellings under construction, nearly double the 10-year average (1240 dwellings) (Chart 7.10).

Chart 7.10: Number of Residential Dwellings Under Construction in the Territory



Source: ABS, *Building Activity, Australia*, Cat. No. 8752.0

The supply pipeline of new residential dwellings in the Territory remains strong. In addition to the 2142 residential dwellings under construction, there were nearly 2000 residential building approvals in the Territory in 2014, which is above the 10-year average of about 1600.

The healthy pipeline of dwelling construction activity is consistent with plans for the commencement of construction of a number of multi-unit developments in Greater Darwin over the medium term. In addition there are a number of land releases and subdivisions scheduled over the medium term, including Durack, Muirhead, Johnston Stage 2 and Zuccoli stages 1 and 2. In the Territory's regional centres, residential lots are scheduled to be released over the next two years in Alice Springs, Katherine and Tennant Creek.

Chapter 8

Industry Analysis

Key Points

- The Territory has a sizable mining industry reflecting the abundance of natural resources, a substantial construction industry reflecting the importance of major projects and a large public sector including a significant defence presence.
- The tourism, and agriculture, forestry and fishing industries are important in regional areas driving economic activity and employment opportunities.
- Of industries in the Territory, construction, mining, and government and community services generate the greatest economic output. Together these industries accounted for 50.2 per cent of Territory gross state product (GSP) in 2013-14.
- The largest employment industries in the Territory are government and community services, construction, and retail and wholesale trade. Together these industries employed 59.2 per cent of the Territory's resident workforce in 2013-14.

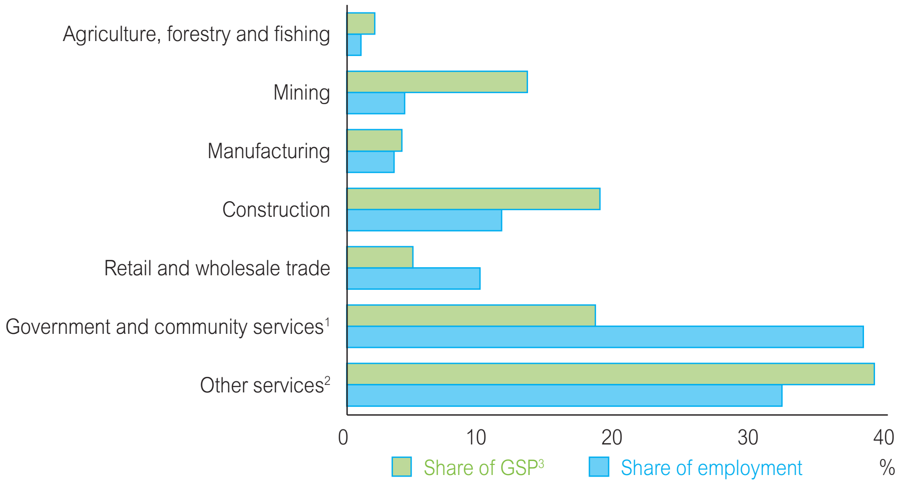
Background

The Territory economy is also relatively less developed with less depth and diversity among industries than other jurisdictions.

The Territory economy is dominated by the construction, government and community services, and mining industries. These industries account for about half of the Territory's total economic output. Nationally these industries only account for about a third of national economic output.

The key employment industries in the Territory are government and community services (37.8 per cent), construction (11.5 per cent), and retail and wholesale trade (9.8 per cent). Combined these industries account for 40.1 per cent of total GSP and 59.2 per cent of total Territory employment (Chart 8.1).

Chart 8.1: Share of Total Territory GSP and Employment by Industry, 2013-14



GSP: gross state product
1 Government and community services comprises public administration and safety; education and training; and health care and social assistance industries.
2 Includes ownership of dwellings; taxes less subsidies on products; and statistical discrepancy.
3 Inflation adjusted.
Source: ABS, *Australian National Accounts: State accounts*, Cat. No. 5220.0; *Labour Force, Australia*, Cat. No. 6192.0

For the purpose of analysing the Territory's industry structure, this chapter combines the Australian Bureau of Statistics (ABS) industries of public administration and safety, health care and social assistance, and education and training into a single industry – government and community services. This recognises that these services are largely provided by the public sector.

The other services industry comprises accommodation and food services; transport, postal and warehousing; information and media telecommunications; financial insurance services; rental, hiring and real estate services; professional, scientific and technical services; administrative and support services; electricity, gas, water and waste services; and arts and recreation services. Although disparate, these industries have been grouped because individually they make a relatively small contribution to the Territory economy.

Tourism and defence are not separate industries for the purpose of reporting by the ABS in national accounts. Rather the contributions made by these sectors are captured in other industries. Tourism and defence are, however, discussed individually in this chapter due to their relative importance in the Territory.

The following sections of this chapter analyse the contribution to the economy from each of the Territory's key industries, in terms of each industry's share of GSP and total resident employment. Key developments and the outlook for growth for each industry are also described.

Mining

Table 8.1: Mining Industry Contribution to GSP, GDP and Employment

	Territory	Australia
Contribution to GSP/GDP ($M)[1]	2 821	128 138
Share of GSP/GDP (%)		
2013-14	13.3	8.2
10-year average	13.0	7.0
Share of total civilian resident employment (%)		
2013-14	4.3	2.3
10-year average	3.1	1.7

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts,* Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

Mining is a key contributor to the Territory economy through trade, investment and employment. In 2013-14 mining was the second largest industry in the Territory, behind construction, accounting for 13.3 per cent of GSP. However, the importance of mining extends further, with a significant proportion of construction activity related to investment in major resource projects.

The dominance of mining in the Territory is reflected in its above average share of GSP. Western Australia is the only jurisdiction where mining contributes a higher share of GSP (28.9 per cent). In comparison, in Queensland, a state with large resources, mining's share of GSP (9.3 per cent) is marginally higher than the national average (8.2 per cent of gross domestic product (GDP)).

The value of mining in the Territory grew by 11.4 per cent in 2013-14, above the 10-year average of 4.8 per cent. The strong growth reflects recent major investments in resource projects, which has led to increased output at existing Territory mines as well as the commencement of production at the Montara oilfield.

The mining industry's share of total employment is less than its share of GSP. This reflects the capital-intensive nature of the industry. In 2013-14 the mining industry directly accounted for 4.3 per cent of total resident employment in the Territory, compared with 2.3 per cent nationally. However this figure is likely to underestimate the total number of jobs in mining in the Territory as it excludes fly-in fly-out (FIFO) workers who are residents in other states. The mining industry also indirectly contributes to employment in a number of other industries including construction, professional, scientific and technical services, and transportation.

Mineral Production

Mineral production in the Territory is dominated by manganese, gold and zinc/lead concentrate. The Territory also has deposits of bauxite, iron ore, mineral sands and rare earths. In 2013-14 mineral production in the Territory was valued at $2.7 billion, a 30.2 per cent increase from the previous year (Table 8.2). Growth was driven by increased production for most minerals, with the largest increases, in absolute terms, recorded for manganese, gold, iron ore and bauxite.

The majority of minerals produced in the Territory are exported overseas. China is the largest export market, accounting for about three-quarters of Territory mineral exports. Other key export markets include Korea, Japan and India. Together, these four countries accounted for over 97 per cent of Territory mineral exports in 2013-14.

Table 8.2: Value of Mineral Commodities Sold in the Territory ($M)

	2012-13	2013-14
Manganese	1 034.1	1 214.1
Gold/gold dore	376.4	652.1
Zinc/lead concentrate	388.2	339.5
Iron ore	128.3	219.0
Bauxite	51.4	125.6
Other[1]	88.8	142.0
Total	2 067.2	2 692.2

1 Other comprises crushed rock, gravel, limestone, mineral specimen, quicklime, sand, soil and vermiculite.
Source: Department of Mines and Energy annual reports

Manganese

Manganese is produced on Groote Eylandt, at the Groote Eylandt Mining Company (GEMCO) mine and at the Bootu Creek mine, which is located about 100 kilometres north of Tennant Creek. Manganese is the largest component of mineral production in the Territory. In 2013-14 manganese production was valued at $1.2 billion, equating to 45 per cent of the Territory's total mineral production.

Over the past decade the value of manganese production has increased six-fold from $200 million in 2003-04 to $1.2 billion in 2013-14. The increase reflects higher prices and demand for manganese, which coincided with global demand for steel, largely driven by strong economic activity in countries such as China and India. More recently the volume of manganese produced in the Territory has grown following the completion of expansion works at the GEMCO mine as well as increased productivity at the Bootu Creek mine.

Gold/Gold Dore

Gold mining in the Territory is concentrated around Pine Creek and in the Tanami region. Most gold is produced in the form of gold dore, which provides a combination of both gold and silver.

The value of gold/gold dore production in the Territory increased over the past year from $376 million in 2012-13 to $652 million in 2013-14. Growth was driven by an increase in volume of gold dore production from the Cosmo Deeps and Union Reefs mines near Pine Creek.

Zinc/Lead Concentrate

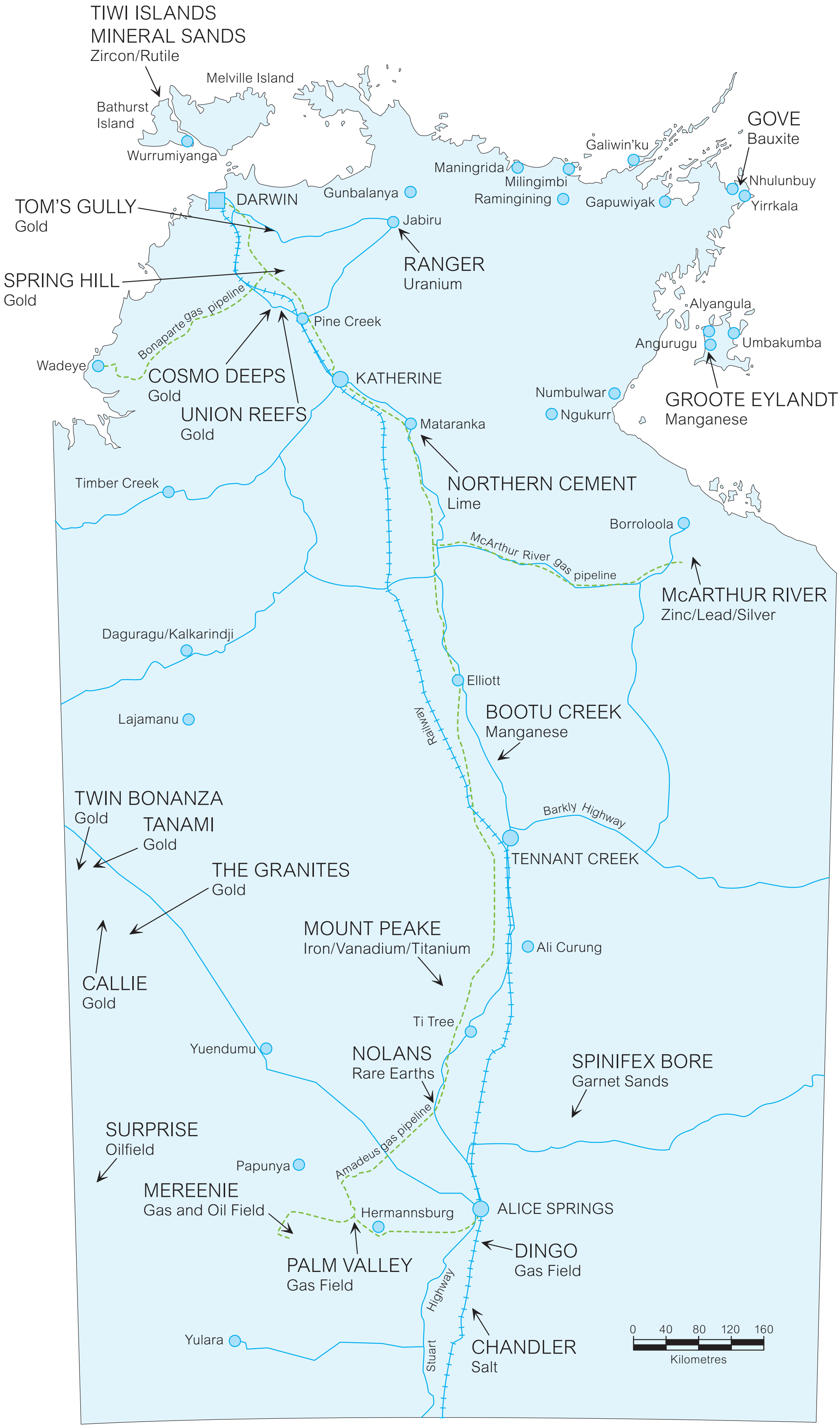
The McArthur River Mine, located 65 kilometres southwest of Borroloola, is the Territory's only operating zinc/lead mine. The value of zinc/lead production declined by 12.5 per cent over the past year from $388 million in 2012-13 to $340 million in 2013-14. The decrease in production of zinc/lead concentrate in 2013-14 was due to the continuation of the Phase 3 development projects at the McArthur River mine, which constrained output at the mine. Completion of the expansionary works at the McArthur River mine should result in increased output over the coming years.

Bauxite

Bauxite is mined at the Gove peninsula in the Territory and is exported to Asian markets predominantly for use in the production of aluminium.

The value of bauxite production in the Territory has increased from $51.4 million in 2012-13 to $125.6 million in 2013-14. The increase was primarily due to the curtailment of operations at the Gove alumina refinery, which resulted in bauxite, previously used in the manufacture of alumina, being exported in its raw form to overseas markets. In addition, the annual growth in bauxite production in the Territory was due to the increased price of the commodity.

Map 1: Current and Pending Mineral and Onshore Energy Operations



Iron Ore

Small scale iron ore mines have been operating in the Territory in recent years around Pine Creek and in the Roper region.

The value of iron ore production in the Territory increased from $128.3 million in 2012-13 to $219.0 million in 2013-14, reflecting higher levels of production at the Frances Creek mine and commencement of operations at the Western Desert Resources mine. Despite the growth in iron ore production, the substantial decline in iron ore prices over the past year has led to the curtailment of all iron ore operations in the Territory. While there are some stockpiles of iron ore awaiting to be exported, there is no new production planned in the near future.

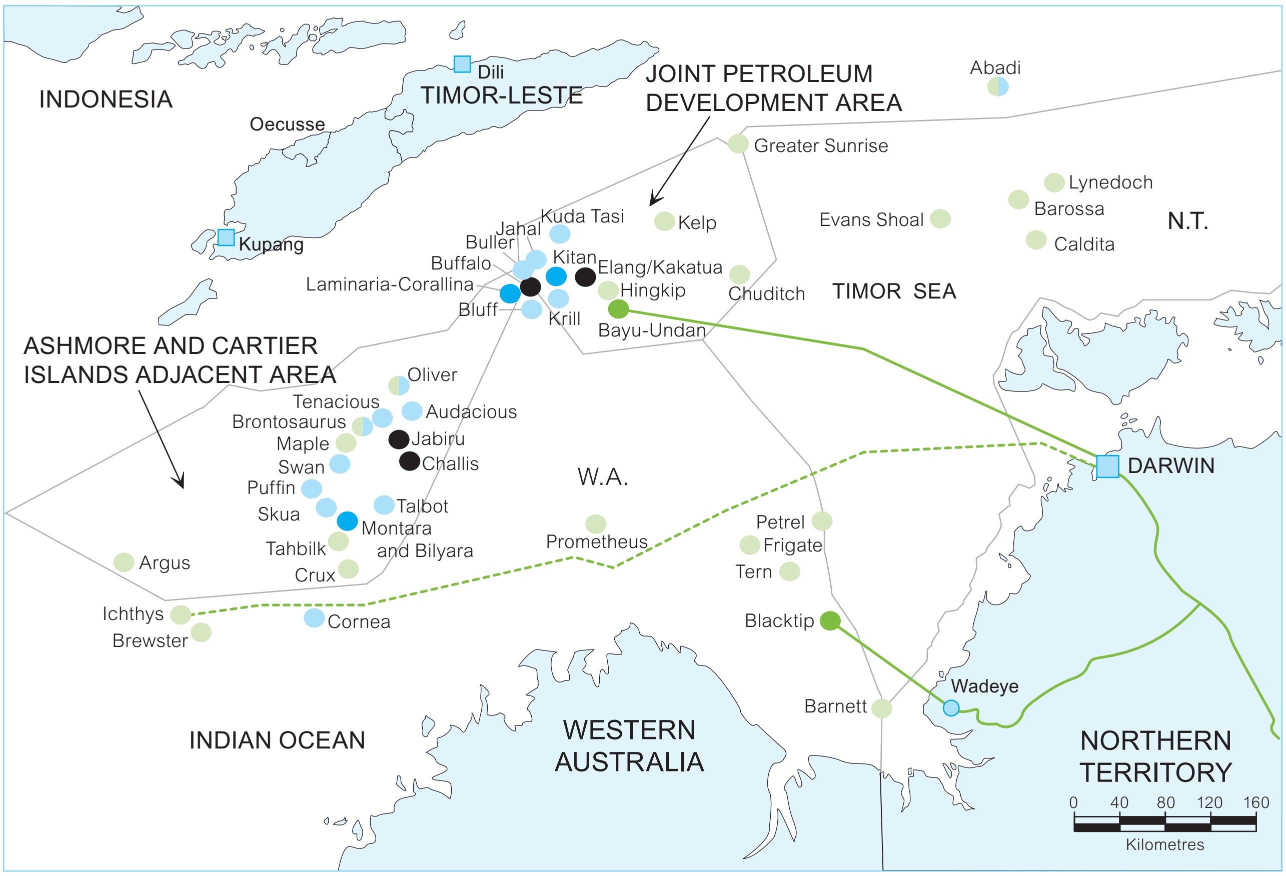
Energy Production

Energy resources in the Territory comprise natural gas, liquefied petroleum gas (LPG), condensate, oil and uranium. Onshore energy production in the Territory is concentrated in Central Australia, while offshore production is located in the Joint Petroleum Development Area (JPDA) and the nearby Montara oilfield.

The JPDA is located between Timor-Leste and Australia, about 500 kilometres north of Darwin. As the JPDA is shared between the two countries, the ABS treats it as a separate economic area. Any economic activity that occurs in the JPDA is divided equally between Australia and Timor-Leste, with the Australian proportion allocated to the Territory. This means that 50 per cent of the gas piped to Darwin is treated as an international import to the Territory.

Estimates relating to total energy production in the Territory are not available following a decision by the ABS to confidentialise data relating to the JPDA.

Map 2: Timor Sea Oil and Gas



LEGEND

- Producing oilfield
- Producing gas field
- Discovered undeveloped oilfield
- Discovered undeveloped gas field
- Ceased production oilfield
- Gas pipeline
- Pipeline under construction

Gas and Liquids

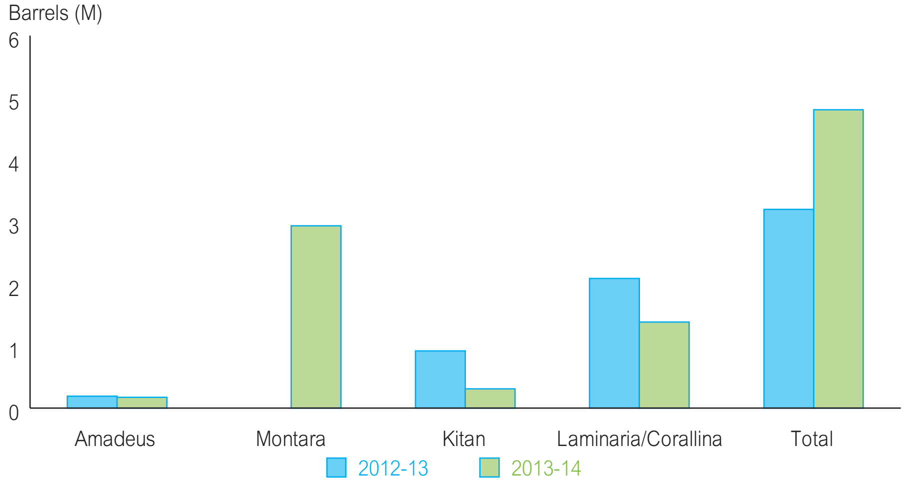
Over the past decade, gas and liquids has emerged as the leading natural resource produced in the Territory. The majority of gas and liquids produced in the Territory is sourced from the Bayu-Undan gas field in the JPDA.

The volume of condensate and LPG produced at the Bayu-Undan gas field decreased by about one third from 2.8 million barrels in 2012-13 to 1.9 million barrels in 2013-14 following the scheduled maintenance shutdown of the Darwin LNG plant.

Oil

According to estimates by the Australian Petroleum Production and Exploration Association, there were 4.8 million barrels of oil produced in the Territory in 2013-14, an increase of 50.4 per cent from the previous year (Chart 8.2). Growth was primarily supported by the commencement of production at Montara and nearby oilfields. This was partly offset by decline in production from the Kitan and Laminaria/Corallina oilfields in the JPDA. Oil production in the Territory is expected to grow in 2014-15, reflecting a full year of production from the Surprise field in Central Australia.

Chart 8.2: Production from Key Territory Oilfields



Source: Australian Petroleum Production and Exploration Association

Uranium

Uranium production in the Territory is located at the Ranger uranium mine, located within the boundaries of the Kakadu National Park.

Open-cut mining at Ranger ceased in late 2012 due to the depletion of resources available for the open-cut process. Despite the cessation, the value of uranium oxide production in the Territory rose by 1.2 per cent to $389 million in 2013-14 due to the processing of stockpiled ore. Energy Resources Australia is progressing the Ranger 3 Deeps project, which aims to extend the life of the Ranger uranium mine through underground mining.

Outlook

Mineral production in the Territory is expected to increase in the medium term. In mid-2014 Glencore completed commissioning of a second processing plant at McArthur River mine. This is expected to result in more than doubling the current production levels of zinc/lead concentrate at the mine site. Production of gold and gold dore is also expected to increase from 2014-15 as production commences at the new Twin Bonanza gold mine in Central Australia. The recent completion of a plant upgrade at the GEMCO mine on Groote Eylandt is expected to result in further increases in manganese production in the short to medium term.

Production of uranium oxide is expected to slow in 2014-15 as output utilises existing stockpiles of uranium ore. The outlook for uranium production will depend on the timing the Ranger 3 Deeps project.

Oil and gas production is expected to continue to rise in the short to medium term following the commencement of production at the Surprise and Dingo fields in Cental Australia. However the value of production will be highly dependent on world gas prices, which declined in the first half of 2014-15 due to increased production in the United States (US) and by traditional oil-producing nations such as Saudi Arabia.

In October 2014 the Territory Government commenced a process to facilitate the development of a gas pipeline, known as the North East Gas Interconnector, to connect the Territory with the east coast gas pipeline network. The pipeline has been granted Major Project Status and two broad routes are being considered, between Tennant Creek in the Territory and Mt Isa in western Queensland; and between Alice Springs in the Territory and Moomba in South Australia.

The competitive bid process is intended to identify the pipeline route and proponent to build, own and operate the pipeline. It is currently expected that the process will conclude in September 2015, with a successful proponent being announced shortly thereafter.

In February 2015, the Territory Government announced that INPEX was given approval to pursue a permit for onshore oil and gas exploration on 4000 square kilometres of land in the Daly Waters area, located about 500 kilometres south of Darwin. This the first onshore petroleum exploration acreage release in the Territory that is designed to stimulate active exploration of granted land across the Territory.

In addition to current mining production, there are a number of proposed developments expected in the near future, including:

- Australian Abrasive Mineral's garnet sands operation at Spinifex Bore, near Alice Springs, due to commence operation in mid-2015;
- TNG Limited's new iron, vanadium and titanium mine at Mt Peake, near Alice Springs, due to commence in late 2015 or 2016;
- MZI Resources are proposing a new zircon and rutile mineral sands operation on Bathurst Island in 2017; and
- Arafura Resources are proposing a new rare earths mine at Nolans, near Alice Springs, with construction to commence possibly in 2015.

Construction

Table 8.3: Construction Industry Contribution to GSP, GDP and Employment

	Territory	Australia
Contribution to GSP/GDP ($M)[1]	3 948	124 409
Share of GSP/GDP (%)		
2013-14	18.6	8.0
10-year average	17.9	7.4
Share of total civilian resident employment (%)		
2013-14	11.5	8.9
10-year average	9.3	8.9

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

Construction is the Territory's single largest industry and has a major role in determining economic growth. In 2013-14 construction contributed $3.9 billion to the Territory's GSP, the highest level on record. This equates to 18.6 per cent of the Territory's GSP and 3.2 per cent of the total value of construction in Australia.

In addition to its contribution to GSP, the construction industry is one of the largest employers in the Territory accounting for over one tenth of the total resident workforce. Consistent with the level of construction activity that has occurred in the Territory over the past decade, growth in employment in construction has outpaced total employment growth. As a result the construction industry's share of total employment in the Territory has increased over the past decade from 7.9 per cent in 2003-04 to 11.5 per cent in 2013-14.

Construction activity in the Territory has surged in recent years underpinned by major projects, particularly in the resources sector. While the growth was largely driven by engineering construction activity, the values of non-residential and residential construction are also at historically elevated levels.

The following analysis on the components of construction activity is based on ABS data on construction work done. The value of construction work done is greater than the industry's contribution to GSP because it includes the value of inputs. In contrast, the cost of goods and services used in the process of production are deducted from the industry contribution to GSP.

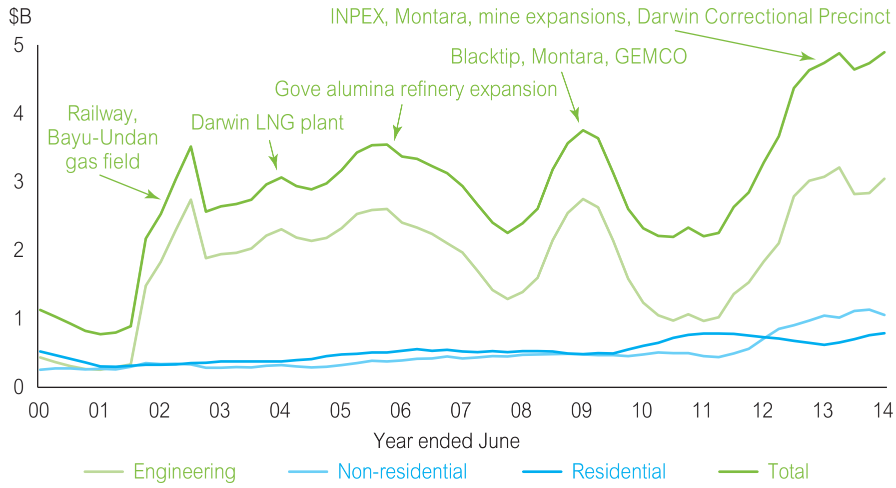
Engineering Construction

Engineering construction includes mining, oil and gas, and other heavy industry developments, as well as infrastructure including roads, railways and bridges. Engineering is the largest component of construction work done in the Territory, accounting for nearly two thirds of the total value, although this figure can be highly volatile depending on the number and size of major projects in the Territory.

In 2013-14 the value of engineering construction work done in the Territory was steady at $3.0 billion compared with the previous year. However it is well above the 10-year average of $2.1 billion primarily reflecting construction work done in relation to resource projects, the largest being the Ichthys LNG project (Chart 8.3).

The Ichthys LNG project is a $34 billion development that will result in gas and some condensate being piped from the Ichthys basin, off the Western Australian coastline, to Darwin, where it will be processed into LNG before being exported to Japan. The Territory component of the capital expenditure is estimated at $13 billion. The Ichthys LNG project is over halfway through the construction phase. Works undertaken to date include groundworks at Bladin Point, where the LNG will be manufactured; dredging of Darwin Harbour; and construction of a jetty installation to unload equipment at the onshore facility. In addition works to lay the pipeline have commenced. The Ichthys LNG project is expected to form the largest proportion of the Territory's engineering activity through to 2015-16 with work to include construction of the LNG plant and associated onshore facilities.

Chart 8.3: Territory Construction Work Done (moving annual total)



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

Other projects that contributed to engineering construction in the Territory in 2013-14 include the Phase 3 expansion at McArthur River zinc/lead mine; expansion works at Cosmo Deeps gold mine in Pine Creek; construction of the Twin Bonanza gold mine in the Tanami region; and the joint venture exploration project between Santos and Central Petroleum in the Amadeus Basin.

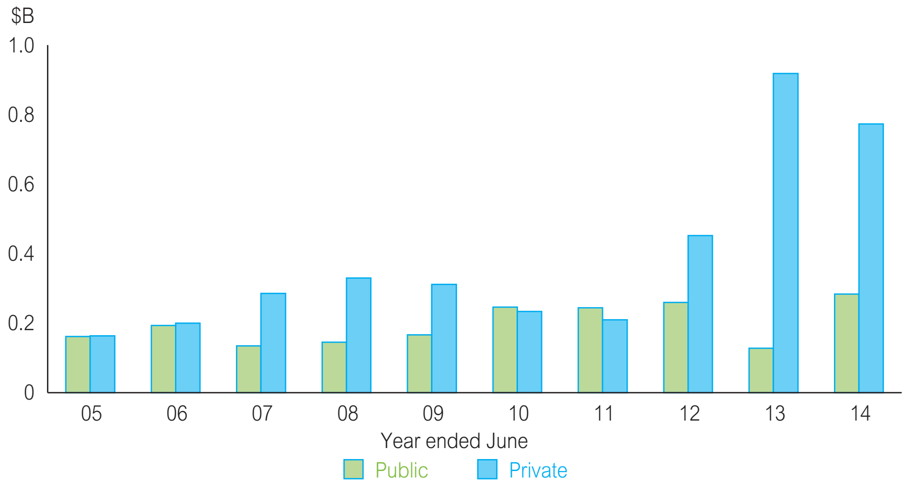
Non-Residential Construction

Non-residential building includes hotels and other non-residential accommodation facilities, shopping centres, factories, offices, warehouses, schools, medical centres, correctional facilities and other similar buildings. In 2013-14 the value of non-residential construction increased by 1.1 per cent to $1.1 billion, a record level in financial-year terms.

The private sector is the largest component of non-residential construction activity in the Territory, accounting for nearly three quarters of the total. In 2013-14 private non-residential construction work done decreased by 15.8 per cent. Despite the annual decline, the value of private sector non-residential construction in 2013-14 was nearly double the 10-year average level (Chart 8.4).

The major contributors to private sector non-residential construction work done in the Territory in 2013-14 were the Darwin Correctional Precinct (which is a public private partnership arrangement and classified by the ABS as private sector construction) and the Ichthys workers' accommodation village. Other projects include the Australian Agricultural Company Limited (AACo) abattoir at Livingstone; development of the Darwin Corporate Park; the Charles Darwin Centre office building in the Smith Street Mall; and the expansion of the Darwin International Airport.

Chart 8.4: Total Territory Non-Residential Building, by Sector



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

The public sector was the driver of total growth in non-residential construction work done in the Territory in 2013-14, despite accounting for a quarter of the total non-residential building. The value of non-residential construction in the public sector more than doubled in 2013-14, to $284 million. This offset the decline in the private sector. Growth was primarily supported by defence-related construction activity, namely the Robertson Barracks Defence Logistics Transformation Program and the Single Leap Environment and Accommodation Precinct program. Other major public non-residential construction activity in 2013-14 included the Marine Supply Base; construction of child and family centres in a number of remote communities; and works at the Middle Arm Industrial Precinct.

Residential Construction

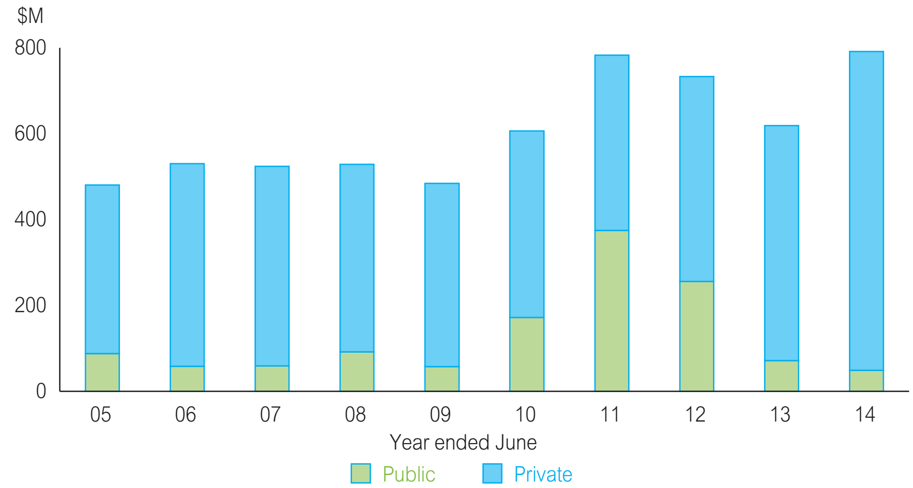
In 2013-14 the value of residential construction increased by 28.0 per cent to $791 million, following a decline of 15.6 per cent in the previous year (Chart 8.5).

In recent years the composition of residential construction in the Territory has changed. In 2010-11 the public sector accounted for nearly half of total residential construction work done in the Territory, coinciding with peak construction activity related to the Strategic Indigenous Housing and Infrastructure Program (SIHIP). Since 2010-11 the public sector share of residential construction has declined to 6.1 per cent in 2013-14, slightly below historical trend levels and reflecting the easing of activity related to SIHIP.

In contrast private sector residential construction activity in the Territory has grown substantially over the past four years. Strong demand for dwellings combined with the Territory Government's land release strategy in the Territory's major urban centres has underpinned the record levels of private residential construction activity. Private residential construction in the Territory has increased by over 80 per cent from $408 million in 2010-11 to $743 million in 2013-14, the highest level on record.

Historically houses have been the largest component of residential construction activity in the Territory. However over the past year there has been a shift towards a greater level of activity in construction of other residential building, which primarily encompasses units and townhouses. The value of other residential building construction in the Territory increased by 75.0 per cent to $431 million in 2013-14, driven by a number of large multi-unit developments in and around the Darwin CBD and in Palmerston. In contrast, the value of new house construction decreased by 1.9 per cent to $289 million in 2013-14.

Chart 8.5: Territory Residential Building (moving annual total)



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

Outlook

Construction activity in the Territory is expected to strengthen further over the short term. Data on construction work done for the first half of 2014-15 showed a spike in activity. This reflects the arrival of the first wave of prefabricated modules for the Ichthys LNG project. Over the next year, more than 200 modules for the Ichthys LNG project are expected to arrive in the Territory.

In the medium term, construction activity is expected to decline as the Ichthys LNG project winds down. Despite the decline, construction activity is expected to remain above the levels recorded prior to the Ichthys LNG project. There are a number of major projects in the pipeline that, if realised, would support future construction activity in the Territory in the medium to long term. These include the North East Gas Interconnector, which is a gas pipeline linking the Territory to the eastern seaboard; the Ord Stage 3 project; Seafarm's Project Sea Dragon near the Western Australian border; and the Marine Industry Park.

The forecast decline in private construction activity is expected to be partly offset by a significant boost in public investment from 2015-16 as a result of the Government's infrastructure program. The 2015-16 Budget has a focus on transport infrastructure projects and includes the Government's Building the Territory program, with more than $200 million of funding allocated to flood immunity and social, regional economic development and tourism infrastructure.

Residential construction activity is expected to remain at above historical trend levels in the medium term with a healthy pipeline of proposed residential unit construction. Housing construction will be supported by continued land release in the Greater Darwin suburbs of Muirhead, Durack and Zuccoli, as well as the Alice Springs suburb of Kilgariff. In the long term, land releases are proposed at Berrimah Farm and Holtze. The Territory Government's Real Housing for Growth Plan is also expected to contribute to residential construction activity. The program aims to increase housing supply in the Territory, with a target of 2000 new homes to be constructed across the Territory by 2016-17. The initiative aims to increase affordable rental and home ownership options for low to middle income families across the Territory.

Non-residential construction is likely to moderate over the coming years, albeit from record levels. In the medium to long term, non-residential construction activity in the Territory will be supported by construction of the Palmerston Regional Hospital and the Palmerston Gateway shopping centre, and through infrastructure spending by the Australian Defence Force (ADF) to upgrade facilities at Robertson Barracks and the Royal Australian Air Force (RAAF) Base Tindal.

Agriculture, Forestry and Fishing

Table 8.4: Agriculture, Forestry and Fishing Industry Share of GSP, GDP and Employment

	Territory	Australia
Contribution to GSP/GDP ($M)[1]	436	35 606
Share of GSP/GDP (%)		
2013-14	2.1	2.3
10-year average	2.5	2.3
Share of total civilian resident employment (%)		
2013-14	1.1	2.7
10-year average	2.6	3.2

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

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 industries of the economy, including retail and wholesale trade, manufacturing and transport.

In 2013-14 the agriculture, forestry and fishing industry accounted for 2.1 per cent of the Territory's GSP. The industry's contribution to the Territory's economy can, however, vary significantly from year to year owing to changes in production from other industries as well as seasonal conditions and changes in global and domestic demand for Territory commodities.

ABS estimates that there were about 850 agriculture, forestry and fishing businesses actively operating in the Territory at June 2013. The majority of these businesses (about 70 per cent) were sole traders/owner operators. Employment figures for the agriculture, forestry and fishing industry in the Territory as reported by ABS can be highly volatile due to the small sample size of the labour force survey. ABS reports that the agriculture, forestry and fishing industry accounted for 1.1 per cent of total employment in the Territory in 2013-14.

The following analysis provides more detail on each of the industries within the agriculture, forestry and fishing industry. The analysis is based on estimates from a survey undertaken by the Northern Territory Department of Primary Industry and Fisheries (DPIF). Caution is needed when interpreting annual changes in the value of production for commodities reported in this chapter due to changes in the scope and coverage of producers in the survey, changes in the level of detail on commodities reported by producers, large percentage changes from a small base and one-off weather events occurring in the Territory and in adjoining states.

Agriculture

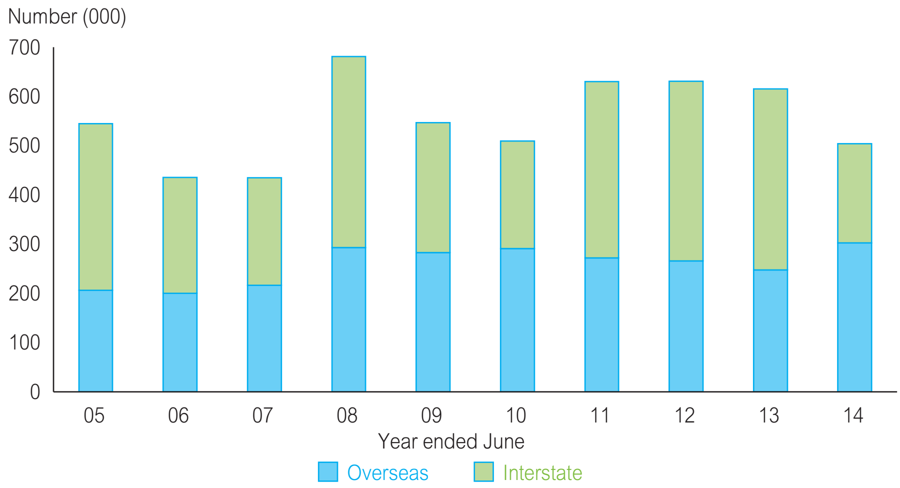
Live Cattle

The cattle industry is important to the Territory economy with the industry generating expenditure on cattle transport, stock feed, wages, port charges and demand for services such as quarantine inspection and veterinary requirements. In turn, this provides significant employment opportunities, particularly in regional parts of the Territory, and substantial export income, which supports regional economic growth.

Map 3: Northern Territory Agriculture, Forestry and Fishing

The live cattle industry in the Territory comprises live cattle exported internationally and interstate. In 2013-14 there were 302 768 live cattle exported to overseas markets and 203 042 live cattle exported interstate (Chart 8.6). While export demand was strong in 2013-14, this was offset by a historically low number of interstate cattle movements, and total numbers were down relative to 2012-13. It should be noted that the international live cattle trade figures do not include live Territory cattle that are exported through ports outside the Territory.

Chart 8.6: Annual Number of Live Territory Cattle Movements



Source: Department of Primary Industry and Fisheries

Overseas Live Cattle Exports

The Territory exports live cattle to a number of overseas countries, most of which are in Asia. Indonesia is the Territory's largest overseas destination and accounted for 80 per cent (241 939 head) of total live Territory cattle exports in 2013-14 (Table 8.5). Other overseas export destinations for live Territory cattle included Vietnam, which accounted for 11 per cent (32 465 head) and Malaysia, which accounted for 5 per cent (15 107 head).

Following a decline in 2012-13, the Territory's overseas live cattle exports recovered in 2013-14 to reach a record level of 302 768 head of cattle. This represents a 22.4 per cent increase from 2012-13. Growth in overseas exports in 2013-14 was primarily driven by increases in live cattle exports to Indonesia (up 48 553 head) as well as increases in exports to Vietnam (up 16 638 head) and Malaysia (up 5459 head). This was partly offset by a decline in exports to the Philippines (down 15 076 head).

Table 8.5: Annual Number of Live Territory Cattle Overseas Exports, by Destination

	Indonesia	Malaysia	Vietnam	Philippines	Other[1]	Total
2004-05	173 230	4 483		17 553	11 160	206 426
2005-06	170 309	10 702		11 622	7 195	199 828
2006-07	193 982	12 156		5 728	4 691	216 557
2007-08	264 526	9 592		13 941	5 141	293 200
2008-09	267 224	1 721		11 574	2 504	283 023
2009-10	276 447	2 610		9 353	2 638	291 048
2010-11	251 328	6 800		10 147	3 616	271 891
2011-12	221 284	9 724	945	23 885	10 282	266 120
2012-13	193 386	9 648	15 827	24 296	4 242	247 399
2013-14	241 939	15 107	32 465	9 220	4 037	302 768

1 Other comprises Brunei, Egypt and East Timor.
Source: Department of Primary Industry and Fisheries

The growth in live cattle exports to Indonesia was driven by an increase in import permits released by Indonesia following introduction of its new price-based system. Under the new system, when prices are above a specified level, the Indonesian Government increases imports until retail prices soften. In 2013-14 the number of permits was increased in order to keep Indonesian beef prices stable. Drought conditions in Queensland and increased volumes to emerging markets such as Vietnam and Thailand may lead to supply challenges.

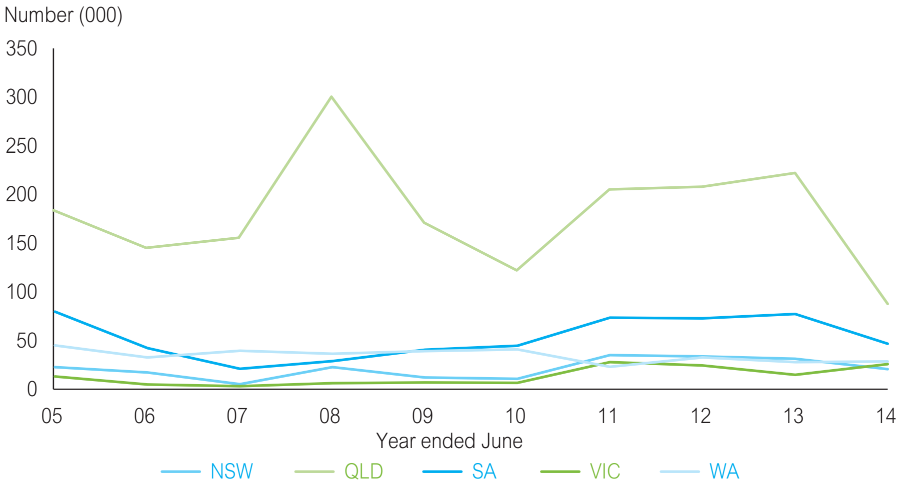
Vietnam was the Territory's second largest live cattle export destination in 2013-14. This followed a doubling in the number of live exports from 15 827 head in 2012-13 to 32 465 head in 2013-14. Further export growth to Vietnam is expected in future years as many new importers in Vietnam establish themselves in the market.

Data on the number of overseas live cattle exports in the first half of 2014-15 is about 22 000 higher than over the same period in 2013-14. This reflects increased demand in new markets such as Vietnam as well as sustained demand from Indonesia.

Interstate Live Cattle

In 2013-14 the number of live Territory cattle sent interstate decreased by 45 per cent to 203 042, with drought conditions influencing demand in the interstate market. The bulk of Territory cattle exported interstate went to Queensland, which accounted for 43.3 per cent (87 820 head). South Australia was the second largest interstate export destination, with a share of 22.3 per cent (45 363 head). The remaining live Territory cattle were sent to Western Australia (13.2 per cent), Victoria (11.8 per cent) and New South Wales (9.4 per cent) (Chart 8.7).

Chart 8.7: Annual Number of Live Territory Cattle Interstate Exports, by Destination



Source: Department of Primary Industry and Fisheries

Other Livestock

The commencement of production at AACo's new Livingstone abattoir near Darwin is expected to support further growth in the Territory's livestock industry. The abattoir, which has the capacity to process up to 1000 head of cattle a day, commenced livestock processing in October 2014. A number of shipments of beef have already been made with products sent to Hong Kong and the US. The company expects to start processing 500 head of cattle by the end of March 2015. AACo intends to export the products to markets in the US and Asia.

Other livestock production in the Territory is dominated by crocodile production, which accounts for about 90 per cent of total other livestock production. Territory crocodiles are highly valued for their skins, which are used in the production of high-end market fashion accessories such as handbags, belts and shoes. The remaining share of other livestock production is taken up by buffalo, goats, camels and donkeys.

Live buffalo exports are a growing export from the Territory. Buffalo exports from the port of Darwin increased from about 800 in 2012-13 to about 2400 in 2013-14, with the majority expected to be from the Territory. Regular buffalo exports to Vietnam commenced in early 2014 following the establishment of a health protocol by the Territory and Vietnamese governments. This follows a lull in the buffalo market when many producers opted to develop Exporter Supply Chain Assurance System (ESCAS) measure for cattle production rather than buffalo stock.

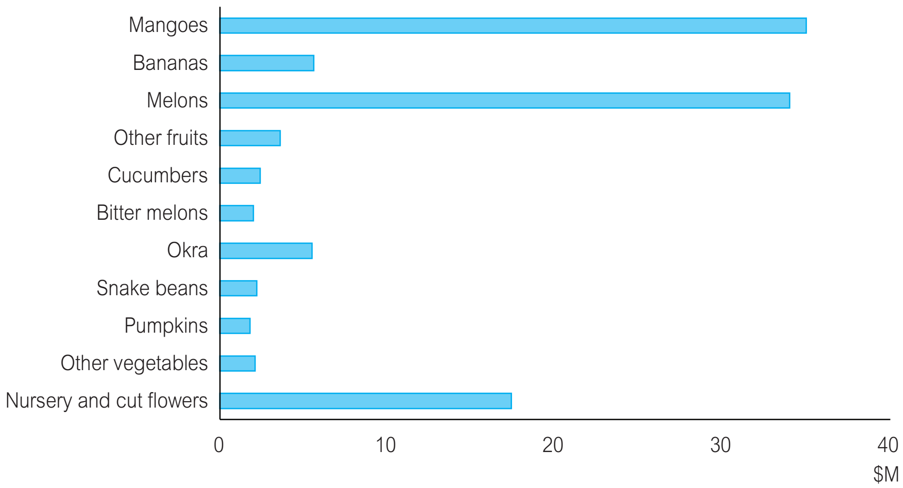
ESCAS requires live animal exporters to provide evidence to Commonwealth authorities that the importer in overseas markets meets international standards on animal welfare and there is complete control and traceability of the animal through the supply chain. ESCAS discouraged buffalo exports due to the high cost of implementing the system and the difficulties associated with stunning the animals prior to slaughter.

Horticulture

The horticulture industry comprises fruit, vegetables, nursery products, turf and cut flowers. The ABS estimates that there were about 300 horticultural businesses actively operating in the Territory at June 2013.

The value of horticulture production in the Territory was estimated at $115 million in 2013-14. This amount comprised $80 million for fruit production, $16.1 million for vegetable production, and $17.4 million for nursery and cut flowers production (Chart 8.8). The main fruits produced in the Territory are mangoes, melons and bananas. The main types of vegetables produced in the Territory are okra, bitter melons, snake beans, pumpkins and cucumbers.

Chart 8.8: Horticulture Value of Production, by Individual Commodity, 2013-14e[1]



e: estimate
1 Current prices.
Source: Department of Primary Industry and Fisheries

In 2013-14 the value of production in the Territory is estimated to have declined by 47 per cent, driven by significant decreases across fruits and vegetable productions in the Territory. The decline in the production of fruits in the Territory was primarily due to a 49.5 per cent reduction of mangoes and a 46.6 per cent reduction of melons from the previous year. In addition, the value of vegetable production in the Territory is estimated to have declined by about 73 per cent to an estimated $16.1 million in 2013-14. This was primarily driven by significant reductions in the value of production across the main vegetables including okra, snake beans and bitter melons. This reduction reflected unfavourable growing conditions as a result of a warmer dry season and a poor wet season.

The discovery of cucumber green mottle mosaic virus (CGMMV) near Katherine in late 2014 is anticipated to reduce the Territory's melon and pumpkin production over the next few years. This is the first known occurrence of CGMMV in Australia. The disease, which can cause rotting and discolouration of the internal fruit, infects watermelons, cucumbers, melons, zucchinis, pumpkins, squash, bitter gourds and bottle gourds. DPIF declared quarantine areas around the Territory, with growers in quarantined areas banned from growing plants that could harbour the disease for at least two years. One of the Territory's largest melon producers has already temporarily moved its operations to Kununurra in Western Australia as a result of the disease. On 26 March 2015, the Territory Government announced that eradication of the disease in the Territory was no longer feasible. As such, a management plan is being developed.

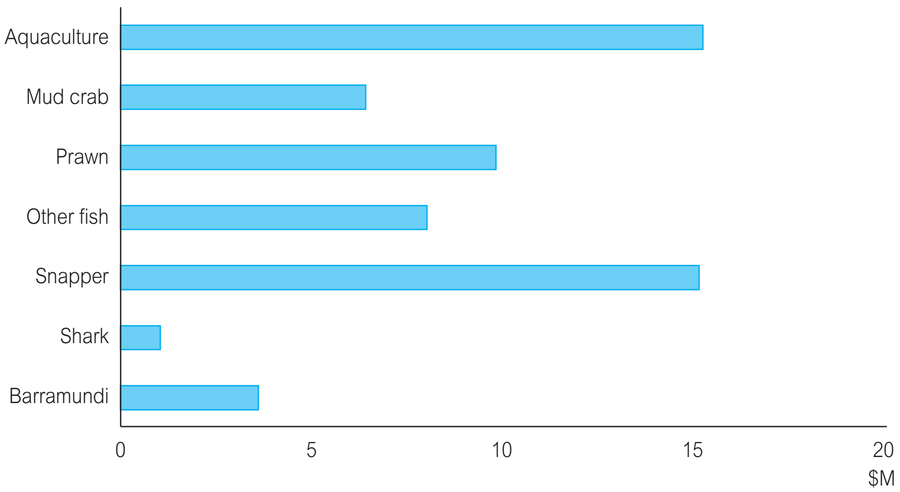
The production of bananas in the Territory is also expected to decrease over the medium term due to the emergence of a new strain of the banana freckle disease discovered at Howard Springs in July 2013. The disease renders the fruit unsuitable for sale and can only be controlled through the destruction of banana plants. Eradication zones have been established around Darwin, Tiwi Islands and Ramingining and include the Territory's largest banana farm. DPIF estimates that the four-year eradication program will cost about $26 million. A banana plant-free period, including a full wet season, is required, following the removal of banana plants.

Fisheries

Crustacean production in the Territory is dominated by prawns and mud crabs. Fish production largely comprises snapper, barramundi and shark. Aquaculture in the Territory is largely related to pearls and barramundi, with a small contribution from aquarium fish and spirulina production (used as a human diet supplement and a feed supplement in the aquaculture, aquarium and poultry industries).

The value of total fisheries production in the Territory was estimated at $61 million in 2013-14. Of the total fisheries production in the Territory, fish accounted for about 47.2 per cent, aquaculture about 25.1 per cent, and crustaceans about 27.7 per cent (Chart 8.9).

Chart 8.9: Fisheries Production in the Territory, 2013-14e[1]



e: estimate
1 Current prices.
Source: Department of Primary Industry and Fisheries

In the 10 years to 2013-14, the value of fisheries production in the Territory has been trending downwards. The decline has been largely driven by a reduction in the production of prawns, mud crabs and pearls. This has been partly offset by growth in local fish production over the same period. Continued growth in local fish production is expected to support a modest increase in fisheries production in the Territory in 2014-15.

Forestry

Forestry is a developing industry in the Territory with about 30 000 hectares of acacia on Tiwi Islands and about 12 000 hectares of African mahogany in the Daly region of the Territory.

In 2012 the Tropical Forestry Services (TFS) acquired four properties in the Territory in the Katherine and Douglas Daly regions to grow Indian Sandalwood and other plantations. In January 2015, TFS secured a $40 million contract with a US investor to extend its plantation development in the Douglas Daly Region. TFS currently has 3000 hectares of sandalwood planted in the Territory and will increase this by a further 399 hectares. The production of sandalwood is a long-term venture, with trees taking about 15 years before they are ready for harvest.

In February 2014 the Tiwi Plantation Corporation and Japanese company, Mitsui and Co, signed a memorandum of understanding to develop markets for the sale of acacia woodchips from Melville Island. The memorandum of understanding was for an initial five-year period and will result in Tiwi woodchips exported to Japan, China and India each year. Harvesting of woodchips is expected to commence in mid-2015.

Outlook

In value terms, the agriculture, forestry and fishing industry is expected to grow, supported by an increase in cattle exports. This is anticipated to be partly offset by a decline in horticulture production following the impact of both the banana freckle disease and CGMMV. The industry's share of Territory GSP is expected to continue declining moderately over the budget and forward estimates period, as growth in this industry is outpaced by growth in other industries in the Territory economy.

The outlook for Territory's live cattle industry is positive subject to continue demand from Indonesia and Vietnam. In addition, the emergence of Thailand as a further market will provide for more growth in the industry. After the Australian and Thailand governments reached an agreement on health protocols in December 2014, the first shipment of live cattle to Thailand occurred in March 2015. Key risks to the outlook are changes in Indonesian Government policies and the ability of cattle producers to meet demand.

The outlook for other livestock is also positive, reflecting increased investment in crocodile-rearing infrastructure following the expansion of the Darwin Crocodile Farm. The expansion is expected to double the Territory's crocodile industry. In addition, higher demand for buffalo exports by emerging markets such as Vietnam is anticipated to support growth in other livestock production.

The outlook for the Territory's forestry industry is positive with harvest of timber plantations at Tiwi Islands expected to commence in mid-2015. At full production, around 3000 hectares of timber are expected to be harvested each year, creating around 100 local employment opportunities. Local employment in the Douglas Daly region is also likely to benefit from expansion in sandalwood production following new US investment.

Fisheries production in the Territory may also increase over the forward estimates, driven by growth in aquaculture production. Seafarms, formally known as Western Australian

Resources Limited, is considering undertaking a $1.45 billion prawn aquaculture project in Northern Australia. The company plans to develop a 10 000 hectare prawn farm, capable of producing over 100 000 tonnes of black tiger prawns each year, at the Legune Cattle Station on the Northern Territory and Western Australia border. The proposal, known as Project Sea Dragon, if it proceeds will include spawning facilities at Exmouth, a hatchery in Darwin, feed milling and supporting infrastructure in Kununurra and export facilities in Wyndham.

Horticulture production is anticipated to experience some decline in the near term following the impact of the banana freckle disease eradication and CGMMV management programs. In the longer term, the Ord Development Project has the potential to increase the area of land under irrigation in the Territory and boost horticultural production. There are 15 000 hectares on the Territory side of the Ord with the potential for development. The Ord Development Project was awarded major project status in November 2012. A cross-border legislation and operations study has been completed and a final review of the study is being undertaken to examine the recommendations. Land tenure issues are also being explored.

The signing of an agreement between the Territory Government, the Tiwi Land Council, Tiwi Resources Pty Ltd and the Tiwi Aboriginal Land Trust allowing for up to 10 000 hectares of land to be leased for pastoral, agricultural or aquaculture purposes, could also lead to increased agricultural production on the Tiwi Islands. The agreement provides long-term certainty to investors and banks to encourage development of investment projects.

Tourism

Table 8.6: Tourism Industry Share of GSP, GDP and Employment

	Territory	Australia
Contribution to GSP/GDP ($M)	878	43 444
Share of GSP/GDP (%)		
2013-14	4.0	2.7
8-year average[1]	5.3	2.8
Share of total civilian resident employment (%)		
2013-14	5.7	4.7
8-year average[1]	7.4	4.7

1 Data is only available from 2006-07.
Source: TRA, State Tourism Satellite Accounts

Concept and Measurement

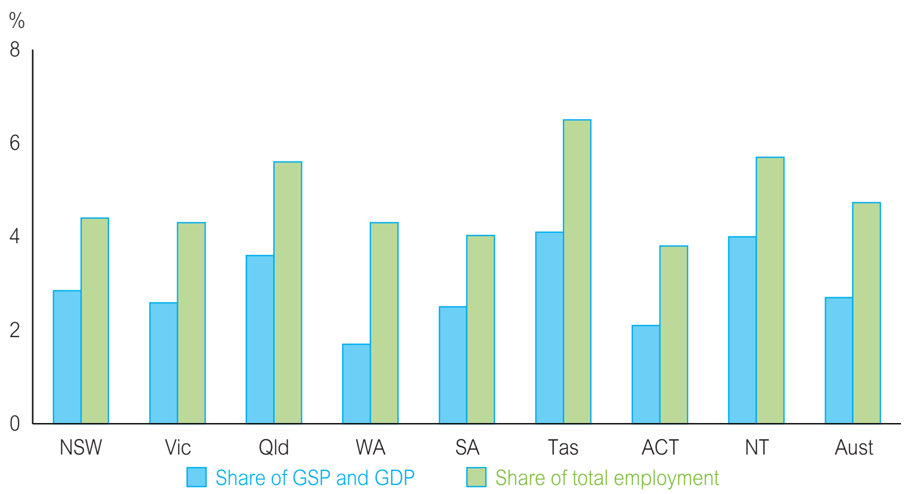
Tourism differs from other industries as it is defined by the nature of the consumer rather than the process of producing goods and services. Accordingly, standard ABS measures of production in the national accounts are not available for tourism. Rather, tourism's contribution to the Territory economy is captured in a range of industries.

Output and Employment

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

In 2013-14 the tourism industry in the Territory contributed 4.0 per cent ($878 million) to GSP and 5.7 per cent (about 8000 persons) to total employment (Chart 8.10). The level of direct employment in tourism in the Territory is about 40 per cent higher than the mining industry. Tourism employment is spread across the Territory economy, covering all regions and a range of industries. The largest share of direct tourism employment in the Territory is in cafés, restaurants and takeaway food services; retail trade; accommodation and food services; and transport (Chart 8.10).

Chart 8.10: Average Contribution by Tourism Industry to GSP, GDP and Employment, 2013-14

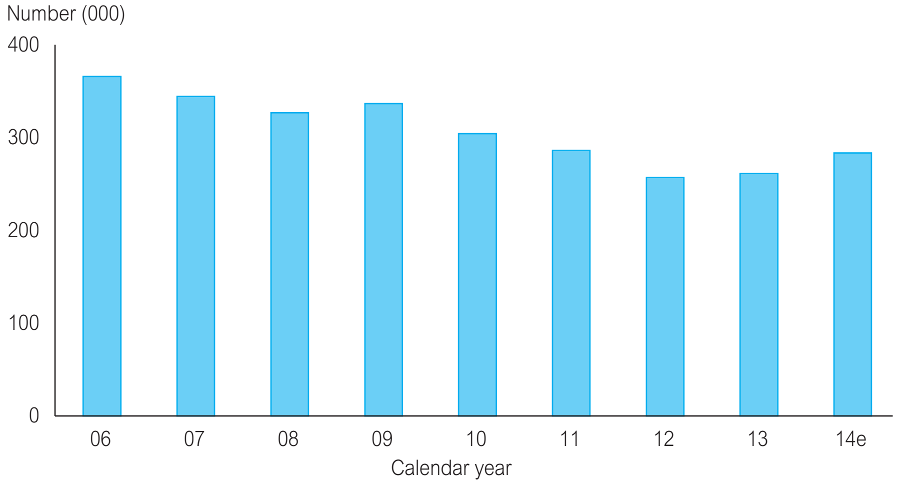


GSP: gross state product; GDP: gross domestic product
Source: TRA, *State Tourism Satellite Accounts 2013-14*

International Visitors

The number of international visitors to the Territory rebounded in 2014 following a prolonged period of decline. In 2014 the Department of Treasury and Finance estimates that the number of international visitors to the Territory increased by 8.5 per cent to 283 000 persons. Growth was estimated to have been primarily driven by holiday visitors (up by 5.7 per cent) who make up 83.6 per cent of international visitors to the Territory. Despite the improvement, the number of international visitors to the Territory was expected to have remained below the peak during 2006 (366 000 persons) (Chart 8.11).

Chart 8.11: Annual Number of International Visitors to the Territory

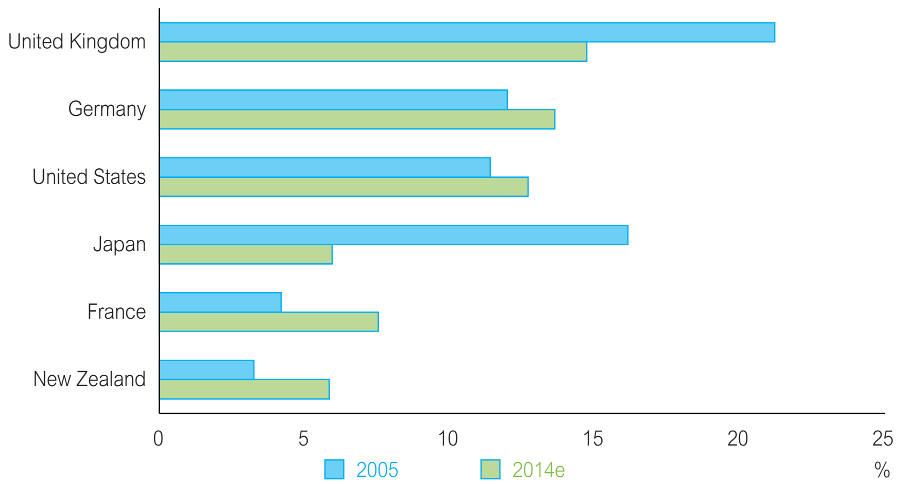


e: estimate
Source: Department of Treasury and Finance; TRA, *International Visitors in Australia*

The improvement in the number of international visitors to the Territory was underpinned by growth from traditional source markets, in particular Germany, the United Kingdom and New Zealand. The Territory also experienced growth in visitors from South East Asia and Europe.

In contrast, the Territory's tourism industry continues to be affected by the relatively weak economic conditions in Japan, a key source market for the Territory. In-line with trends experienced across Australia, the number of visitors from Japan was expected to have declined by 20 per cent to 17 000 persons in 2014. This takes the cumulative decrease to nearly 40 000 persons or 70 per cent since the peak of 56 000 persons in 2005. Over this period, Japan has been overtaken by Germany, the US and France to become the Territory's fifth largest source market (Chart 8.12).

Chart 8.12: Proportion of International Visitors to the Territory, by Key Source Markets



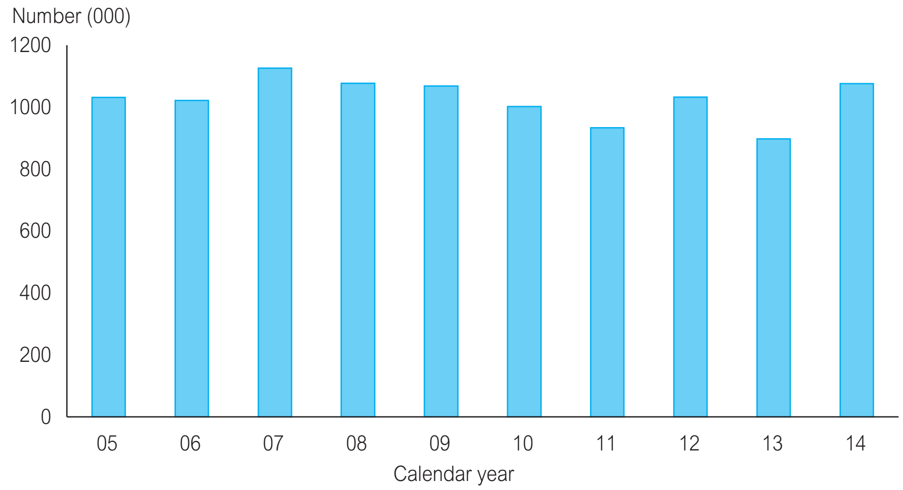
e: estimate
Source: Department of Treasury and Finance; TRA, *International Visitors in Australia*

Central Australia consistently records a higher number of international visitors than the Top End, however this gap has been closing over the past decade. The decline in international visitors to the Territory over the past decade has had a larger impact on Central Australia due to that region's reliance on the Japanese market. The number of international visitors to Central Australia was expected to have fallen by about one-third from 279 000 persons in 2005 to an estimated 187 000 persons in 2014. In comparison, visitor numbers to the Top End was estimated to have fallen by less than 5 per cent over the past decade to 143 000 persons in 2014.

Domestic Visitors

In 2014, 1.1 million interstate and intrastate overnight visitors travelled to and within the Territory. This was the equal second highest annual total of domestic visitors in the Territory over the past decade (Chart 8.13). Domestic overnight visitors to the Territory increased by 20 per cent in 2014 compared with 7.4 per cent nationally.

Chart 8.13: Number of Overnight Domestic Trips in the Territory



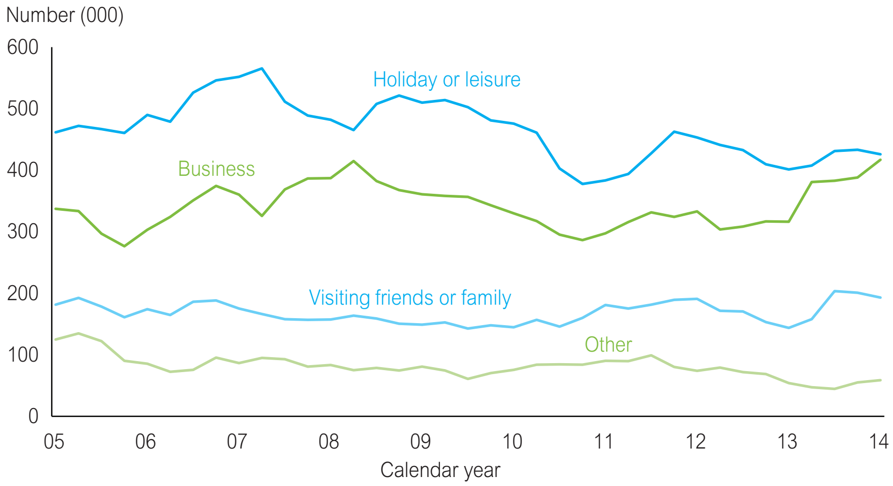
Source: TRA, *National Visitor Survey*

The growth in overnight visitors in the Territory in 2014 was driven by increases in travel for all main purpose types.

Domestic visitors for business increased by 32.0 per cent to 417 000 in 2014. This was well above the 10-year average of 344 000. A key factor in the relatively high number of business travellers in the Territory is likely to be increased business traffic associated with resource and other major projects in the Territory.

Visitors who travel in the Territory for a holiday increased by 6.2 per cent to 426 000 persons in 2014 (Chart 8.14). Despite this positive trend, the number of holiday visitors was below the 10-year average of 464 000 visitors. The number of people visiting friends and family in the Territory rose by 34.5 per cent to 193 000 visitors in 2014, which is above the 10-year average of 170 000 visitors.

Chart 8.14: Number of Overnight Domestic Trips in the Territory by Purpose



Source: TRA, *National Visitor Survey*

Tourism Infrastructure

The Territory's tourism industry relies heavily on aviation due to large distances between major tourist attractions within the Territory and the remoteness of Darwin and Alice Springs from major metropolitan areas in other jurisdictions. As such, changes to flight routes and frequencies to, from and within the Territory can have a substantial impact on the industry.

Domestic airline capacity in the Territory has improved over the year. Jetstar commenced flights between Melbourne and Uluru, operating four return flights per week since June 2014. At the same time, Jetstar also increased its existing Sydney to Uluru route to a daily service, offering just below 4000 seats a week. Air North increased seating capacity from Darwin to Townsville, operating five flights a week since June 2014. Tiger Air introduced daily flights between Darwin and Brisbane starting April 2014, but in July 2014, it terminated its Alice Springs to Sydney and Alice Springs to Melbourne services.

Virgin Australia commenced a direct service between Darwin and Alice Springs from March 2015, flying three times per week, and offering additional seating capacity of 176 seats per flight. The introduction of the new direct link between Darwin and Alice Springs coincides with the opening of Virgin Australia's domestic lounges in Darwin International Airport and Alice Springs Airport. The airline has also commenced services between Adelaide and Alice Springs, enabling local residents to connect more seamlessly into other domestic and international networks.

The Darwin Terminal Expansion Project upgrades to retail outlets has complemented the main building works completed last year. Airport facilities have benefited from the expansion of domestic and international terminals that provided additional departure gate lounge areas and security screening zones, new office and retail areas, and improved baggage systems. The development has enhanced passenger processing, comfort and retail choices.

International cruise ships continue to be a key market segment. However in 2014 the number of cruise ship visits declined by 15 per cent, while the number of cruise ship visitors decreased by 22 per cent to 35 100 visitors. Within Territory waters, the freight company Sea Swift began offering a cargo ship experience from Darwin to Nhulunbuy since December 2014 to boost tourism and economic activity in the East Arnhem region.

The availability and quality of accommodation can influence the number of international and domestic visitors to the Territory. The ABS reports on short-term commercial accommodation for hotels, motels, guest houses and service apartments with 15 or more rooms. In 2013-14 the

ABS estimated that the average occupancy rate for tourist accommodation in the Territory was about 63 per cent. Rates differ across the Territory, with occupancy higher in major centres than regional areas. Darwin recorded the highest average occupancy rate at about 76 per cent for the year, although average daily occupancy can reach near 100 per cent at certain times of the year.

Occupancy pressures in the Darwin market are exacerbated by companies block booking accommodation, particularly serviced apartments, to house FIFO employees or other workers undertaking specific but short-term project work (for example, scheduled maintenance and repair work at the Darwin LNG plant). These pressures tend to be highest over the dry season when peak business utilisation and tourism requirements coincide, a situation that may be further enhanced as the workforce requirements for the Ichthys LNG project peak over the coming year. Business demand reduces the availability of rooms and/or increases room rates for the tourism market. While there has been an increase in rooms as new commercial accommodation complexes have come online, seasonal pressures may continue with the Darwin market used to meet workforce accommodation requirements of future major projects.

Tourism NT reports on the Territory's hotel development pipeline. In order to maintain occupancy levels at sustainable levels and accommodate the additional demand generated as the visitor economy expands to the target of $2.2 billion by 2020, Tourism NT has estimated 9260 short-term accommodation rooms will need to be available, with the majority of these rooms required in Darwin.

In 2013-14 there were 7335 short-term commercial accommodation rooms available in the Territory. An additional 478 hotel rooms are expected to come online in Darwin and Palmerston by 2014-15 and a further 395 rooms in 2015-16. Development approvals have been provided for a further 565 rooms, with a remaining 487 rooms to be secured by 2020 (Table 8.7). Broadening the range of accommodation properties available in the Territory, both in terms of hotel operator and star rating is as important as increasing total room supply.

Table 8.7: Short-Term Accommodation Projects in the Territory (in progress or proposed)[1]

Project	Anticipated Completion	Additional Rooms
Argus Apartments	Late 2015	101
Top End Hotel redevelopment	2016	133
Tarakan Court	Early 2016	161
Total in progress		**395**
Asti Motel expansion	Proposed	36
Best Western Airport Gateway Hotel Darwin expansion	Proposed	34
Doubletree by Hilton Hotel Darwin expansion	Proposed	100
Frontier Hotel expansion	Proposed	60
85 Mitchell Street (old Hog's Breath site)	Proposed	200
3 Daly Street	Proposed	135
Total proposed		**565**

1 As at 30 January 2015.
Source: Tourism NT

Outlook

The recent recovery in domestic and international visitation numbers to the Territory is expected to continue over the long term, reflecting forecast improvement in economic conditions in the Territory's key tourist source markets and downward movements in the exchange rate.

Table 8.8 compares the average annual economic growth rate observed for the Territory's traditional tourist markets between 2008 and 2013 to the International Monetary Fund (IMF) forecasts for economic growth for these countries over the forward estimates period. For all countries, except China, the IMF forecasts the average annual rate of growth in the economy over the forward estimates to be significantly higher than the actual outcome over the last six years.

Table 8.8: Economic Growth Forecasts of the Territory's Major International Tourist Source Markets (%)

	Proportion of Total International Visitors to the Territory 2014[1]	Actual Economic Growth 2008 to 2013[2]	Forecast Economic Growth 2014 to 2018[2]
United Kingdom	14.7	- 0.2	2.5
Germany	13.6	0.7	1.5
United States	12.7	0.9	3.0
France	7.5	0.3	1.3
Japan	6.0	0.1	0.7
New Zealand	5.9	1.2	2.8
Italy	4.3	- 1.5	0.6
China	1.6	9.0	6.7

1 As at September 2014.
2 Calendar year, average annual growth.
Source: Department of Treasury and Finance; IMF; TRA, *International Visitors in Australia*

Developments in tourism infrastructure, including the Darwin International Airport terminal expansion project, are expected to enhance visitor experiences and support growth in the tourism industry. Recent increases in domestic and international airline capacity to and from the Territory further support a positive outlook. Both domestic and international visitation should benefit from the weakening Australian dollar, encouraging Australians to travel locally and enhancing Australia's ability to compete for international visitors.

The Government is committed to growing the Territory tourism industry. The 2015-16 Budget provides funding for ongoing marketing activities to promote the Territory as a leisure tourism destination, with a focus the Chinese market. Funding has also been provided for new tourism products and infrastructure development, including improving amenity of parks, upgrading key tourism roads and constructing new arts and cultural facilities.

In February 2015 Tourism NT released a draft Cruise Sector Activation Plan 2015-2020 for consultation. The plan aims to encourage port visits and home-base operations for cruise ships, ensure Darwin Port and other facilities are prepared and capable of meeting the needs of cruise ship traffic in the region; and develop excursions and general activities to enhance the experience of passengers and crew. Darwin is well positioned as Australia's northern gateway port and is expected to welcome strong numbers of stop-over passengers in 2015 and outer years. Cruise ships, despite a brief stay, represent an important revenue source for many Darwin businesses and as most ships arrive during the wet season, they provide a stimulus for businesses outside the traditional tourist season.

Defence

Table 8.9: Defence Sector Contribution to GSP and GDP

	Territory	Australia
Contribution to GSP/GDP ($M)[1]	1 501	29 499
Share of GSP/GDP (%)		
2013-14	6.9	1.9
10-year average	8.2	2.0

GSP: gross state product; GDP: gross domestic product
1 Current prices.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; ABS unpublished data

Background

The defence industry makes a substantial contribution to the Territory economy through the creation of direct and indirect employment and generating demand for local goods and services. In addition the defence industry stimulates the economy through major Defence operations and exercises that are held in the region and infrastructure projects that typically engage local businesses.

Defence is not classified as a separate industry for the purpose of ABS reporting in national accounts. Rather, defence expenditure is reported against a number of industries, but is predominantly included in the public administration and safety industry.

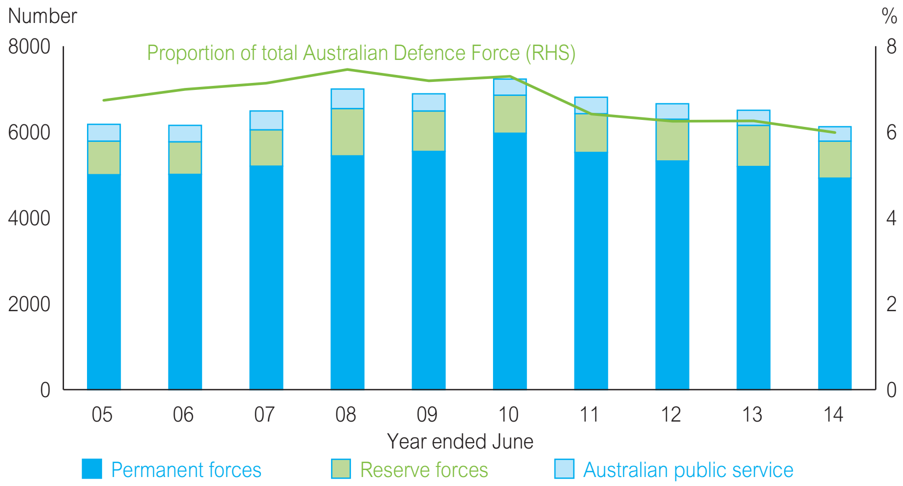
Defence Force Personnel

The Territory is home to nearly one tenth of Australia's permanent defence force and about 3 per cent of the total reserve and civilian defence personnel.

In 2013-14 there were 6123 defence force personnel based in the Territory. The majority of the personnel (80.5 per cent or 4927 people) were permanent members, of which two thirds were in the army, one fifth was in the air force and the remainder were in the navy. Defence's contribution to the Territory's population is significantly larger with the inclusion of spouses and dependent children of defence force personnel.

The number of defence force personnel located in the Territory decreased by 6.0 per cent in 2013-14. This was the fourth consecutive year of decline since a peak of 7234 people in 2009-10 (Chart 8.15). The decline in earlier years was primarily driven by the relocation of personnel from the 7th Battalion Royal Australian Regiment and associated support elements to South Australia. Implementation of the army's restructure to create three manoeuvre brigades under Plan Beersheba has seen the rebalancing of some capability between the brigades, which has also been a contributor to the reduction of personnel numbers.

Chart 8.15: Defence Force Personnel in the Territory



Source: Department of Defence annual reports

Joint Australia-United States Force Posture Initiative

The Joint Australia-United States Force Posture Initiative reaffirms the importance of the Territory as a strategic location for regional security. The initiative is designed to improve the interoperability between Australian and US defence forces and provide enhanced training opportunities for defence personnel. The initiative also provides opportunities for Australia, US and regional partners to work together on common contingencies such as disaster relief in the region.

Under the initiative, US Marines are being deployed in the Territory for around six months at a time to conduct joint military exercises and training with ADF. The number of US Marines deployed in the Territory has grown from 250 in 2012 to 1150 in 2014. This figure is expected to continue to rise in the coming years to about 2500 US Marines.

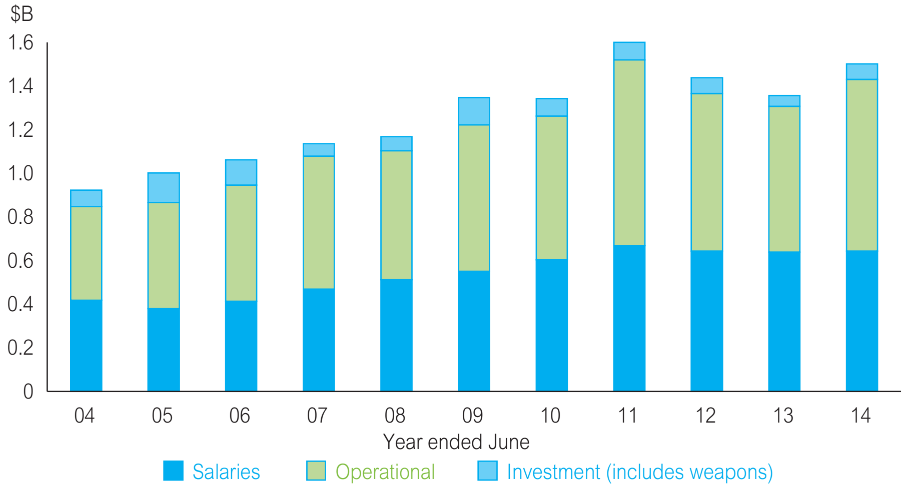
The presence of US Marines in the Territory is likely to contribute to economic activity, primarily through investment in base infrastructure and training facilities to support the deployment. The main industries that are likely to benefit from the deployment are retail, transport, and recreation and cultural services.

Australia and the US also jointly operate the Joint Defence Facility Pine Gap, which was constructed over 45 years ago and is located 30 kilometres from Alice Springs. The facility is a satellite tracking station, which contributes to the national security of both nations.

Defence Expenditure

In current terms, the contribution of defence to the Territory's GSP increased by 10.6 per cent or $144 million to $1.5 billion in 2013-14 (Chart 8.16). The Territory's share of total defence spending (5.1 per cent in 2013-14) is significantly higher than the Territory's share of the national population (1.0 per cent).

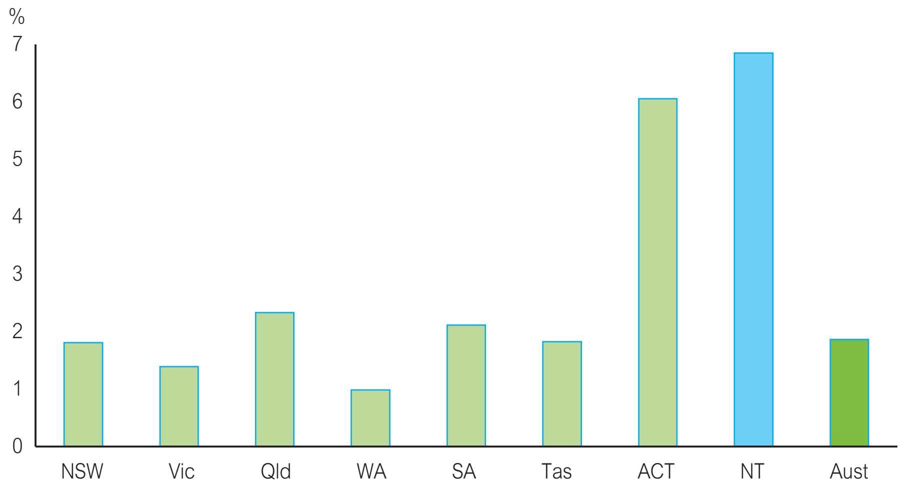
Chart 8.16: Defence Expenditure in the Territory



Source: ABS unpublished

The significant contribution made by defence to the Territory's economy is illustrated by its share of the Territory's economy. In 2013-14, defence spending accounted for 6.9 per cent of the Territory's GSP in current terms. This was the highest proportion among jurisdictions, which ranged between 1.0 per cent in Western Australia to 6.1 per cent in the Australian Capital Territory. Nationally, defence expenditure accounted for 1.9 per cent of Australia's GDP (Chart 8.17).

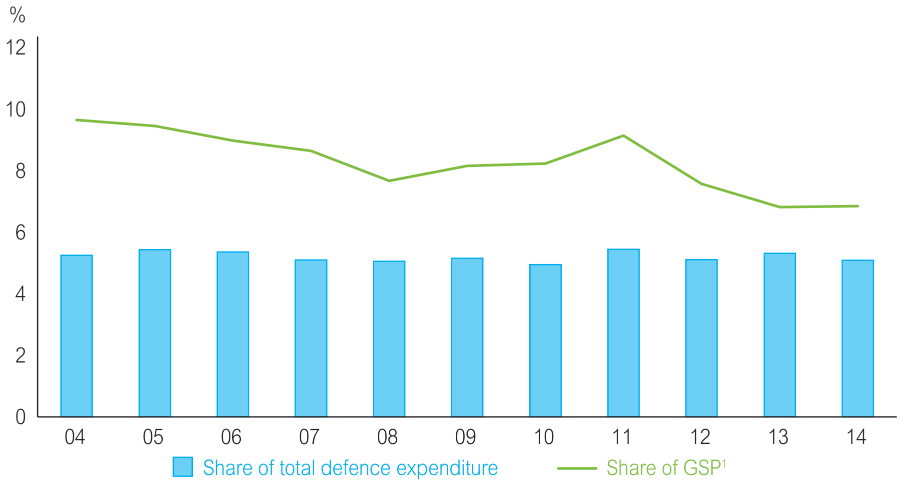
Chart 8.17: Defence Expenditure Share of GSP and GDP, 2013-14[1]



GSP: gross state product; GDP: gross domestic product
1 Current prices.
Source: ABS unpublished data

Chart 8.18 shows that defence expenditure as a share of Territory GSP has fallen over the past decade from 9.6 per cent in 2003-04 to 6.9 per cent in 2013-14. However, defence spending in the Territory as a share of the national total has remained relatively stable over this period, varying between 5.0 per cent and 5.4 per cent.

Chart 8.18: Territory Defence Expenditure



GSP: Gross State Product
1 Current prices.
Source: ABS unpublished data

Defence exercises are regularly staged in the Territory and adjacent waters. These exercises provide a boost to the economy through increased visitor numbers to the Territory, supporting higher levels of spending and business investment, and contributing further to other sectors in the economy such as accommodation and food services, retail trade, culture and recreation, and transport.

The largest exercise that will take place in the Territory in 2015 is Exercise TALISMAN Sabre. The exercise, which will be held between July and August 2015, will involve about 21 000 defence personnel from four different countries, including about 14 000 from offshore. The aim of the exercise is to improve the combat readiness and the interoperability of defence forces, as well as strengthen the ongoing military relationship between the countries involved. Other defence exercises that are scheduled to be conducted in the Territory in 2015 include Exercise ACES NORTH, and Exercise GOLD EAGLE 15-1.

The major operation based in the Territory at present is Operation Resolute, which is a Commonwealth initiative aimed at protection Australia's borders and maritime security interests. It focuses on a range of maritime security threats including people smuggling, illegal fishing and protection of offshore oil and gas installations.

Capital Works

Defence contributes to Territory economic growth through both major and minor capital works projects, which are often technical in nature and support skill development in the construction industry.

Major capital works projects approved to commence in the medium term in the Territory include:

- the RAAF Base Darwin Married Quarters Precinct Housing Redevelopment project. The project aims to provide 80 community-standard dwellings for the use of defence personnel;
- power supply upgrades to Shoal Bay Receiving Station;
- upgrade of RAAF Base Darwin and RAAF Base Tindal to allow the new Joint Strike Fighter and maritime patrol aircraft to operate out of these facilities;
- flood mitigation works on RAAF Base Darwin;
- major aircraft pavement upgrade works at RAAF Base Tindal and RAAF Darwin;

- replacement of existing Australian Defence Air Traffic System at RAAF Base Tindal and RAAF Base Darwin; and
- redevelopment of NORFORCE facilities at Larrakeyah Barracks to improve operational efficiency and occupational health and safety standards.

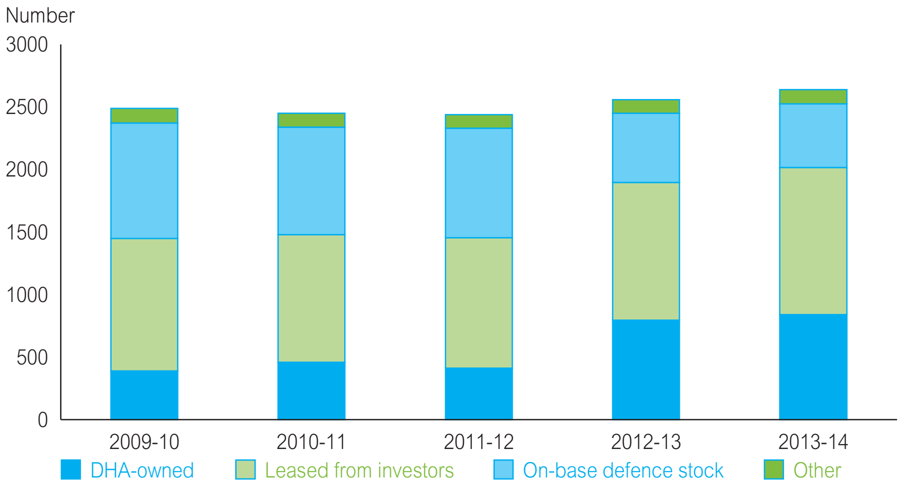
Defence Housing

At 30 June 2014, Defence Housing Authority (DHA) managed 2638 properties in the Territory, accounting for 14.2 per cent of the DHA-managed properties in Australia.

Of the DHA-managed dwellings in the Territory, 2261 were located in Darwin and the remaining 377 were located in Tindal (Katherine). The majority of DHA-managed properties in the Territory were leased from investors (1177 properties), followed by DHA-owned properties (839 properties) and on-base defence stock (507 dwellings).

Over the past two years the number of properties managed by DHA in the Territory has increased by 8.2 per cent from 2438 in 2011-12 to 2638 in 2013-14 (Chart 8.19). Growth over this period was driven by a doubling of DHA-owned properties in Darwin, largely reflecting new residential development in the suburb of Muirhead. This was partly offset by a decrease in on-base defence stock as a result of the removal of dwellings at RAAF Base Darwin.

Chart 8.19: Territory Dwellings Managed by Defence Housing Authority



Source: Defence Housing Authority annual reports

The growth in DHA-managed properties in the Territory is expected to continue in the medium term. DHA, in collaboration with the Territory Government, is involved in residential developments in Greater Darwin's northern suburbs, including the suburbs of Muirhead, Zuccoli and Johnston. This will result in an increase in dwelling supply for defence force personnel as well as to the general public. These projects include:

- the ongoing expansion of the suburb of Muirhead, which upon completion is expected to result in 1100 new dwellings, of which 30 per cent will be allocated to defence members;
- Number 2 Control and Reporting Unit (2CRU), a former radar point station located adjacent to Muirhead, which is planned to yield about 400 residential lots, of which 30 per cent will be for defence members;
- Muirhead North, which is expected to provide 218 lots, of which 66 would be allocated to defence housing; and
- the RAAF Base Darwin Married Quarters Precinct Housing Redevelopment project. The project aims to provide 80 community-standard dwellings for defence personnel members.

In addition to the proposed residential works in Greater Darwin, DHA is continuing to make significant investments in defence dwelling stock in the Katherine region. Over the past two years, DHA has constructed 21 new houses in the Katherine town area and is in the process of refurbishing about 60 existing houses in the township. In addition, DHA is undertaking a project to refurbish about 190 houses on RAAF Base Tindal, of which about two thirds have been completed. There are also plans to construct 50 new houses at RAAF Base Tindal.

Outlook

Defence is expected to continue to make a substantial and stable contribution to the Territory economy.

In the medium term, the largest major defence project is the $470 million upgrade at the RAAF Base Tindal and Darwin. The project is expected to support increased air force activity and accommodate and support the new Joint Strike Fighter. The project is expected to provide a boost to local businesses and create employment opportunities in the region.

There are a number of defence projects that are in the pipeline awaiting Commonwealth approval. The largest projects currently being considered are the base redevelopments at RAAF Darwin, RAAF Tindal, Robertson Barracks, Larrakeyah Barracks and Delamere Air Weapons Range. Other defence works in the planning phase include the East Arm Hardened Barge Ramp project; refurbishments of health facilities at Robertson and Larrakeyah Barracks; facilities to support a number of new defence capability platforms; and facilities to support the US Force Posture Initiative.

The rotational presence of US Marines under the Joint Australia-United States Force Posture Initiative is expected to increase to 2500 in the coming years. In addition, discussions are being held between the Australian and US governments regarding the way forward on enhanced air force cooperation and the potential for additional bilateral naval cooperation, including naval training and exercises in Australia and the region. The Territory is likely to be a key strategic location for the joint Australia-United States Force Posture.

The Territory Government is developing the Marine Industry Park in the East Arm Logistics Precinct with the Park expected to provide a growing maritime maintenance capability and enhance the ADF's ability to operate in Australia's northern waters.

Current and proposed investment in defence infrastructure over the medium and long term, combined with plans to increase the number of DHA-managed dwellings for defence personnel, reaffirms the long-term importance of the Territory as a strategic defence location.

Retail and Wholesale Trade

Table 8.10: Retail and Wholesale Trade Industry Contribution to GSP, GDP and Employment

	Territory	Australia
Contribution to GSP/GDP ($M)[1]	1 032	131 594
Share of GSP/GDP (%)		
2013-14	4.9	8.4
10-year average	4.6	8.6
Share of total civilian resident employment (%)		
2013-14	9.8	14.1
10-year average	11.8	14.8

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

In 2013-14, the retail and wholesale trade industry contributed $1.0 billion to the Territory economy or 4.9 per cent of GSP.

Retail and wholesale trade expenditure in the Territory grew by 4.3 per cent per annum between 2008-09 and 2013-14, above the average annual growth in the Territory economy over the same period. As a result, retail and wholesale trade's share of GSP has marginally increased over this period (up 0.2 percentage points to 4.9 per cent).

Within the larger jurisdictions, the retail and wholesale trade industry share of GSP and employment is broadly consistent (Chart 8.20). 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 industry.

Chart 8.20: Retail and Wholesale Trade Industry Contribution to GSP, GDP and Employment, by Jurisdiction, 2013-14

GSP: gross state product; GDP: gross domestic product
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

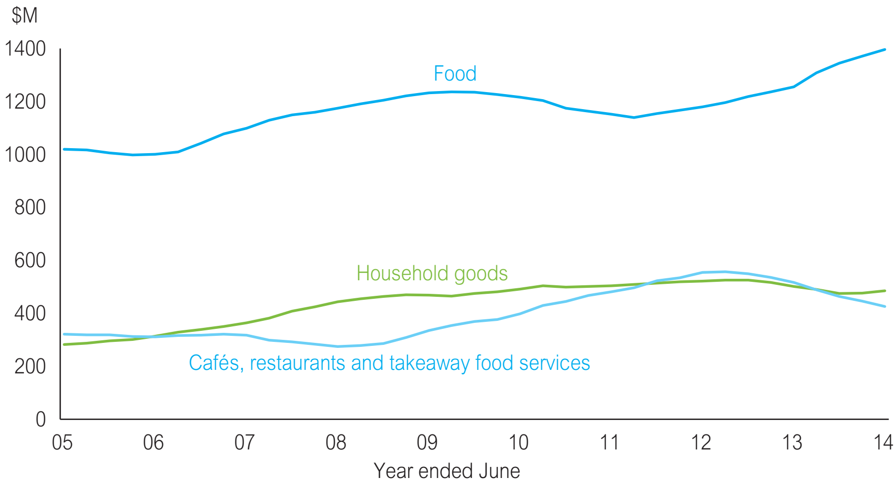
Retail and wholesale trade is one of the largest employment industries in the Territory, however the industry's share of total employment has declined in recent years. The retail and wholesale trade industry's share of total employment has decreased from a peak of 13.3 per cent in 2008-09 to 9.8 per cent in 2013-14. This trend was mirrored at the national level, whereby growth in employment in retail and wholesale trade was outpaced by total employment growth.

Retail Activity (inflation-adjusted)

In real terms, growth in Territory retail trade strengthened from 1.0 per cent in 2012-13 to 3.7 per cent in 2013-14. Despite the improvement, annual growth in retail activity remains below the 10-year historical average (4.3 per cent).

The relatively weak economic conditions in the Territory and Australia reflect the cautious consumer attitudes to spending that have persisted since the global financial crisis (GFC). The cautious sentiment is evidenced by the constrained growth in spending on discretionary items. Chart 8.21 shows that spending on households goods has been flat in real terms since the GFC. While retail expenditure on cafés, restaurants and takeaway grew in the initial period following the GFC, spending in this category has declined over the past two years. In contrast, spending on food, a nondiscretionary item, has grown at above average pace in recent years.

Chart 8.21: Territory Retail Trade Expenditure (moving annual total)[1]



1 Inflation adjusted.
Source: ABS unpublished data

In 2013-14 below average growth in retail spending in the Territory can largely be attributed to the continued decline in expenditure on discretionary items, specifically household goods and cafés, restaurants and takeaway food, which was more than offset by strong growth in food retailing.

Table 8.11 compares the contribution to the change in retail spending in the Territory in 2013-14 and the average annual change over the past decade by sector. Growth in retail trade in the Territory in 2013-14 was largely driven by an 11.3 per cent increase in spending on food retailing, which was well above the decade average growth for the sector of 3.8 per cent per annum. Spending on discretionary items in the Territory declined in real terms in 2013-14. Household goods retailing declined by 3.2 per cent in 2013-14, while cafés, restaurants and takeaway food services expenditure decreased by 17.6 per cent.

Table 8.11: Territory Retail Trade by Sector, 2013-14[1]

	Value	Year-on-Year Change	10-Year Annual Average Growth
	$M	%	%
Food	1 396	11.3	3.9
Household goods	485	- 3.2	6.4
Clothing, footwear and personal accessories	154	1.8	4.0
Cafés, restaurants and takeaway food services	425	- 17.6	3.9
Other retailing[2]	533	15.3	5.2
Total	2 993	3.7	4.3

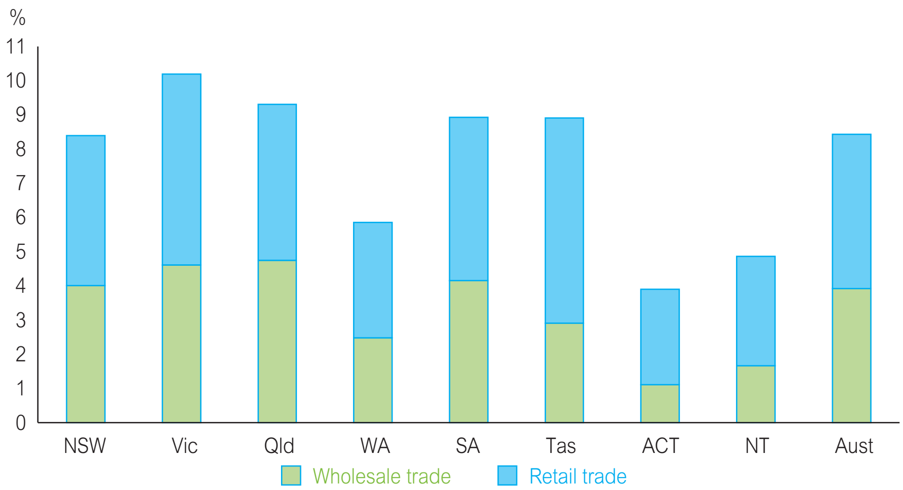
1 Inflation adjusted.
2 Other retailing comprises department stores; newspaper and book retailing; pharmaceutical, cosmetic and toiletry goods retailing; other recreation goods retailing; and other retailing (not elsewhere classified).
Source: ABS unpublished data

Wholesale Trade

Wholesale trade is a much smaller component of Territory GSP than retail trade and contributes less to GSP than in other jurisdictions. Wholesale trade is the sale of new or used goods to businesses and institutional users, but excludes government users. Activity in the Territory's wholesale trade industry is mainly in industrial storage and equipment, transport, and food wholesaling. The ABS does not publish disaggregated data on wholesale trade by jurisdiction.

Unlike retail trade, wholesale trade, as measured as a component of GSP, has grown strongly over recent years, likely reflecting increased business activity in the Territory as a result of major projects. Despite this growth, wholesale trade in the Territory continues to contribute a much smaller proportion (34.3 per cent in 2013-14) to the retail and wholesale trade industry than nationally (46.5 per cent) (Chart 8.22). In 2013-14 growth in wholesale trade in the Territory moderated from 5.9 per cent in 2012-13 to 3.5 per cent. This was the tenth consecutive year of growth in wholesale trade in the Territory but was below the 10-year historical average growth rate of 11.7 per cent. Nationally, the value of wholesale trade declined by 2.2 per cent in 2013-14.

Chart 8.22: Retail and Wholesale Trade as a Proportion of GSP and GDP, 2013-14 (%)[1]



GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Outlook

Retail activity in the Territory improved in 2013-14 following a prolonged period of weak growth in the aftermath of the GFC. Despite the improvement households remain cautious with their spending and continue to take a conservative approach to saving and borrowing. While interest rates are at record low levels, this has yet to flow through to increased consumer spending, particularly on discretionary items.

The outlook for the retail and wholesale industry is expected to remain subdued in the short to medium term. Retail trade growth is expected to be constrained by a softening outlook for population and employment growth in the Territory. Further, wages are expected to grow in line with inflation, which will dampen growth in household consumption particularly on discretionary spending. Growth in wholesale trade is expected to continue to strengthen in the short term, before moderating over the medium to long term, in line with major project activity.

Over the longer term, construction of new retail precincts in the Greater Darwin region is expected to support the development of the industry. A number of retail and wholesale developments are expected to have a positive impact on retail trade in the Territory in the next few years. These developments include:

- Gateway Palmerston;
- Coolalinga Shopping Village;
- Millner Village; and
- the ongoing development of Darwin Business Park.

Manufacturing

Table 8.12: Manufacturing Industry Contribution to GSP, GDP and Employment

	Territory	Australia
Contribution to GSP/GDP ($M)[1]	864	99 700
Share of GSP/GDP (%)		
2013-14	4.1	6.4
10-year average	3.4	7.5
Share of total civilian resident employment (%)		
2013-14	3.5	8.1
10-year average	3.3	9.3

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

The Territory's manufacturing industry is smaller and less diverse than in the rest of Australia and is dominated by mining-related processing. The largest component of manufacturing in the Territory is LNG, which is produced at the Darwin LNG plant using gas sourced from the JPDA, located in the offshore area to the north of Darwin. Other manufacturing activities include helium production, which is a by-product of LNG, and processed beef from the recently opened abattoir at Livingstone, in Darwin's rural area. Smaller scale manufacturing includes the production of products for local consumption, such as steel fabrication, wood, paper and food.

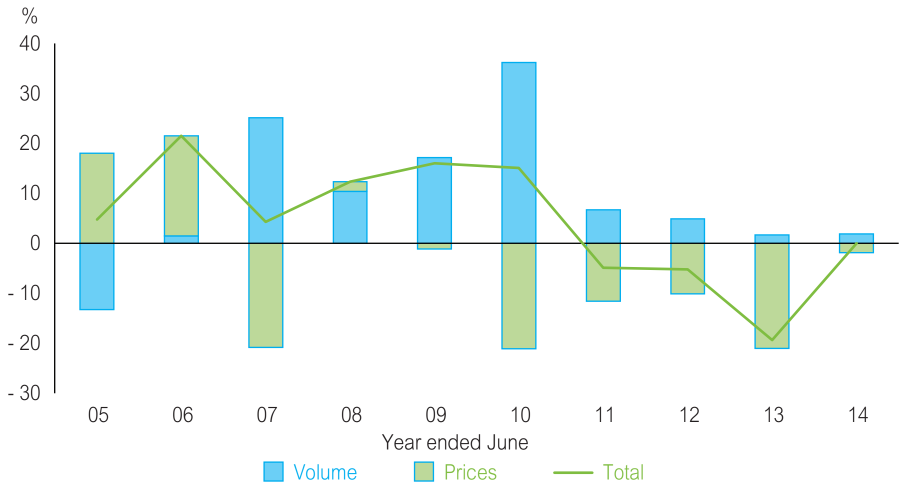
During the past decade, manufacturing in the Territory experienced a period of rapid growth between 2006-07 and 2009-10 as the Darwin LNG plant commenced production and alumina production increased following expansion of the alumina refinery at Gove. After that period, growth in manufacturing slowed. In 2014 Rio Tinto curtailed operations at its Gove alumina refinery, a process completed by May that year. As a result manufacturing of alumina has ceased at Gove. This is expected to lead to a decline in manufacturing volumes in the Territory in 2014-15.

In 2013-14 the value of manufacturing in the Territory increased by 1.9 per cent to $864 million in real terms. This represented 4.1 per cent of the Territory's GSP. In contrast, at a national level, manufacturing contributed 6.4 per cent to GDP in 2013-14, but contracted (by 1.8 per cent) over the year.

The manufacturing industry accounted for 3.5 per cent of total resident employment in the Territory in 2013-14. This was lower than nationally where manufacturing accounted for 8.1 per cent of employment. While the manufacturing industry is generally labour-intensive, this is not the case in the Territory where there is a concentration of manufacturing in more capital-intensive LNG manufacturing.

The volume of manufacturing in the Territory has been growing for much of the past decade. This is in contrast to prices for Territory manufactured goods, which have fallen, particularly between 2009-10 and 2012-13 and to a much smaller extent in 2013-14 (Chart 8.23). As a result, the value of manufacturing in the Territory, in current terms, has trended downwards from a peak of $1.2 billion in 2009-10 to $0.9 billion in 2013-14.

Chart 8.23: Changes in the Value of Territory Manufacturing



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

Outlook

The cessation of alumina manufacturing from the Territory's manufacturing industry in 2013-14 is expected to have a substantial impact on manufacturing volumes in 2014-15. The Darwin LNG plant also underwent a scheduled maintenance shutdown in late 2014, which will lower its output in the 2014-15 year. The commencement of beef processing at the AACo abattoir in Livingstone, which began commercial operation in October 2014, will add to Territory manufacturing during 2014-15 and outer years. AACo has announced plans to process about 500 head of cattle per day by March 2015 and, ultimately, the abattoir has the capacity to process 1000 head of cattle per day.

In 2015-16, the manufacturing industry is likely to experience limited growth, however, beyond this time, there will be substantial growth in the volume and value of manufacturing and the industry's contribution to Territory GSP following completion of the Ichthys LNG plant in 2016-17. The Ichthys LNG plant is expected to employ around 300 people in the operational phase, thus contributing to an increase in the manufacturing industry's share of resident employment.

Government and Community Services

Table 8.13: Government and Community Services Industry Contribution to GSP, GDP and Employment

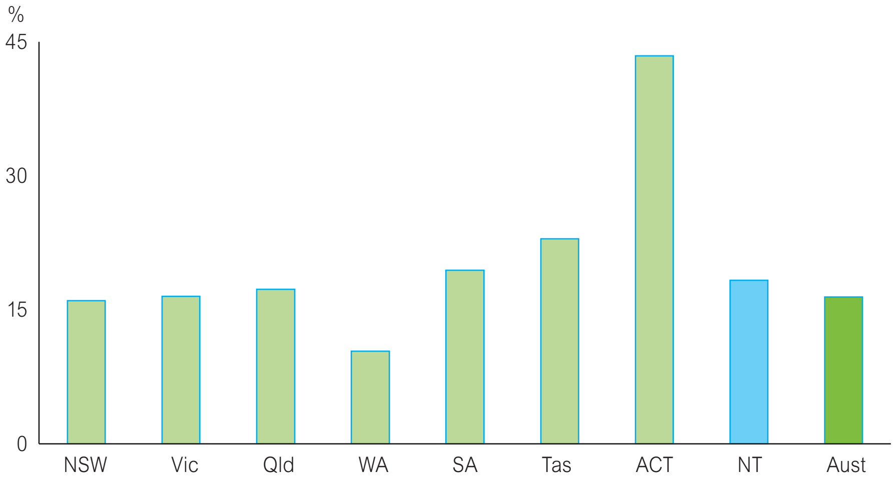
	Territory	Australia
Contribution to GSP/GDP ($M)[1]	3 879	255 971
Share of GSP/GDP (%)		
2013-14	18.3	16.4
10-year average	18.7	16.1
Share of total civilian resident employment (%)		
2013-14	37.8	26.5
10-year average	35.5	24.7

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

The government and community services industry comprises public administration and safety, education and training, and health care and social assistance. The outputs from these industries are predominantly, but not exclusively, supplied and/or funded by the public sector, including Commonwealth, Territory and local governments. Output from private providers of education, health, aged care and other community services is also included in this industry as well as elements of defence spending. Further information on the contribution made by defence to the Territory economy and employment is provided in the Defence section of this chapter.

In 2013-14 the government and community services industry accounted for 18.3 per cent of the Territory's GSP. This was the fourth highest proportion of all jurisdictions behind the ACT (43.4 per cent), Tasmania (23.0 per cent) and South Australia (19.4 per cent) (Chart 8.24).

Chart 8.24: Government and Community Services Industry Share of GSP and GDP, 2013-14[1]



GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

The government and community services industry's share of total employment in the Territory has fallen compared with a decade ago, to 37.8 per cent in 2013-14 (down from 40.9 per cent in 2003-04). In contrast, at the national level, government and community services' share of total employment has trended upwards over the past 10 years.

Outlook

Proposed increase in infrastructure spending in the Territory over the next two years, associated with the northern Australia development and defence-related capital works program, is likely to be offset by weakness in government recurrent spending reflecting the continuing fiscal consolidation across all levels of government. In the short term, government and community services expenditure as a percentage of the Territory's GSP is expected to be relatively stable. Softer growth in the industry is forecast in the outer years, which is likely to result in the industry's share of Territory GSP declining over the medium term.

Other Services

Table 8.14: Other Services Industry Contribution to GSP, GDP and Employment

	Territory	Australia
Contribution to GSP/GDP ($M)[1]	5 327	553 949
Share of GSP/GDP (%)		
2013-14	25.1	35.5
10-year average	26.0	35.8
Share of total civilian resident employment (%)		
2013-14	32.0	37.4
10-year average	34.3	37.4

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

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

The other services industry accounted for 25.1 per cent of the Territory's output, compared with 35.5 per cent nationally. The largest contributors to the other services industry were transport, postal and warehousing; rental, hiring and real estate services; and professional scientific and technical services (Table 8.15).

Table 8.15: Other Services Industry Contribution to GSP, GDP and Employment, by Subcategories, 2013-14 (%)

	Share of GSP/GDP[1]		Share of Employment	
	Territory	Australia	Territory	Australia
Accommodation and food services	1.6	2.3	5.5	6.6
Transport, postal and warehousing	4.9	4.7	4.8	5.1
Information media and telecommunications	1.3	2.8	1.1	1.7
Financial and insurance services	2.6	8.4	1.3	3.6
Rental, hiring and real estate services	4.7	2.7	1.7	1.8
Professional, scientific and technical services	3.7	6.4	4.9	7.9
Administrative and support services	2.4	2.8	3.4	3.4
Electricity, gas, water and waste services	1.6	2.7	1.5	1.3
Arts and recreation services	1.2	0.8	2.7	1.8
Other services	1.2	1.8	5.1	4.2
Total other services industry[2]	**25.1**	**35.5**	**32.0**	**37.4**

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
2 Figures may not add due to rounding.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6192.0

The other services industry accounted for 32.0 per cent of total employment in the Territory and 37.4 per cent nationally. The composition of employment in the other services industry differs between the Territory and Australia. The main differences relate to the larger contribution nationally from the professional and scientific services, financial and insurance services, and accommodation and food services industries.

Outlook

The outlook for the other services industry over the budget and forward estimates period remains positive, with forecasts for continued employment and population growth in the Territory over the short to medium term expected to support demand for a wide range of services.

While population and employment growth is expected to support services industries in general, some industries are likely to benefit more than others. Construction of the Ichthys LNG project, which is forecast to peak in 2014-15, and the associated large number of non-resident workers living in the Territory is expected to underpin strong growth in certain industries including administrative and support services; scientific, professional and technical services; and transport and warehousing.

Abbreviations and Acronyms

2CRU	Number 2 Control and Reporting Unit
AACo	Australian Agriculture Company Ltd
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADF	Australian Defence Force
B	billion
Cat. No.	catalogue number
CBD	central business district
CGMMV	cucumber green mottle mosaic virus
CPI	consumer price index
DHA	Defence Housing Australia
DPIF	Department of Primary Industries and Fisheries
dmtu	dry metric tonne unit
e	estimate
ECB	European Central Bank
EDS	Economic Development Strategy
ERP	estimated resident population
ESCAS	Exporter Supply Chain Assurance System
f	forecast
FHOG	First Home Owner's Grant
FIFO	fly-in fly-out
GDP	gross domestic product
GEMCO	Groote Eylandt Mining Company
GFC	global financial crisis
GSP	gross state product
GST	goods and services tax
IMF	International Monetary Fund
JPDA	Joint Petroleum Development Area
LHS	lefthand side
LNG	liquefied natural gas
LPG	liquefied petroleum gas
M	million
NIM	net interstate migration
NOM	net overseas migration
NSW	New South Wales
NT	Northern Territory
NTPOP	Northern Territory Population Projections Model
ppt	percentage point
Qld	Queensland
RAAF	Royal Australian Air Force
RBA	Reserve Bank of Australia
REIA	Real Estate Institute of Australia
REINT	Real Estate Institute of the Northern Territory
RHS	righthand side
SA	South Australia
SA3	Statistical Area 3
SFD	state final demand
SIHIP	Strategic Indigenous Housing and Infrastructure Program
Tas	Tasmania
TFR	total fertility rate
TFS	Tropical Forestry Services
TIO	Territory Insurance Office
TRA	Tourism Research Australia
US	United States (of America)
Vic	Victoria
WA	Western Australia
WPI	wage price index

Glossary

Consumer Price Index

A general indicator of the prices paid by household consumers for a specific basket of goods and services in one period, relative to the cost of the same basket in a base period.

Current Prices

The value in nominal terms, not adjusted for inflation or changes in the purchasing power of money. This is in contrast to inflation adjusted measures, which factor in changes in prices from year to year.

Employed

Persons 15 years and older who worked for one hour or more in the week as measured by the Labour Force Survey.

Estimated Resident Population

The official Australian Bureau of Statistics population measure that represents the proportion that resides in a defined locality for more than six months of the year and for a period of at least 12 out of 16 consecutive months.

Goods and Services Tax

In July 2000, the Commonwealth introduced a 10 per cent tax on goods and services (GST), replacing the previous wholesale sales tax regime. Some items such as basic food, health, education and exports are GST-free.

Gross Domestic Product

The total value of goods and services produced in Australia over the period for final consumption. Intermediate goods, or those used in the production of other goods, are excluded. Gross domestic product can be calculated by summing total output, total income or total expenditure.

Gross State Product

Similar to gross domestic product, except it measures the total value of goods and services produced in a state or territory. It is the sum of all income, namely, wages, salaries and profits, plus indirect taxes less subsidies. It can also be calculated by measuring expenditure, where it is the sum of state final demand and international and interstate trade, changes in the level of stocks, and a balancing item.

Inflation Adjusted

Inflation-adjusted measures provide estimates of changes in quantities produced or sold by removing the direct changes in the prices of commodities over time.

Labour Force

All persons 15 years and over who are available for work, that is, employed plus unemployed persons actively seeking work. Excludes Australian Defence Force personnel and non-residents.

Moving Annual Total

A method used to smooth data. These smoothing methods iron out the short-term fluctuations in the data by averaging observations collected over a 12-month period.

Participation Rate

The proportion of the population over 15 years of age who are working or looking for work.

Progress Payments

Periodic payments made for the construction of plant, equipment, machinery and modules in locations outside the Territory.

State Final Demand

State final demand is a major component of gross state product and is a measure of the demand for goods and services in an economy. While state final demand includes consumption and investment expenditure, it does not include the contribution of trade or changes in inventories to economic growth and as such is not a comprehensive measure of economic growth.

Unemployed

Persons 15 years and older who were not employed during the week of the labour force survey and were actively looking for work in the last four weeks.

Unemployment Rate

The number of unemployed persons expressed as a percentage of the labour force.

Visitor

Tourism Research Australia defines a visitor as someone who has stayed in a place at least 40 kilometres from their usual place of residence for at least one night, but who is away from home for less than 12 months. An international visitor is defined as an overseas arrival who stayed in Australia for less than 12 months.

Wage Price Index

A measure of the change in the price of wage costs over time, unaffected by the change in the quality or quantity of work performed. It excludes non-wage costs such as superannuation, payroll tax and workers compensation.