



NORTHERN TERRITORY

2008-09 Budget



Northern Territory Economy
Overview

Northern Territory Economy Overview

This overview is a summarised assessment of the Territory economy, including a brief description of recent performance and growth prospects, employment, population, trade, and Australian and international conditions. There is also some discussion on the performance and outlook for the major Territory industries. The Economy Overview is summarised from the more detailed document, Northern Territory Economy. (For more information, visit www.budget.nt.gov.au)

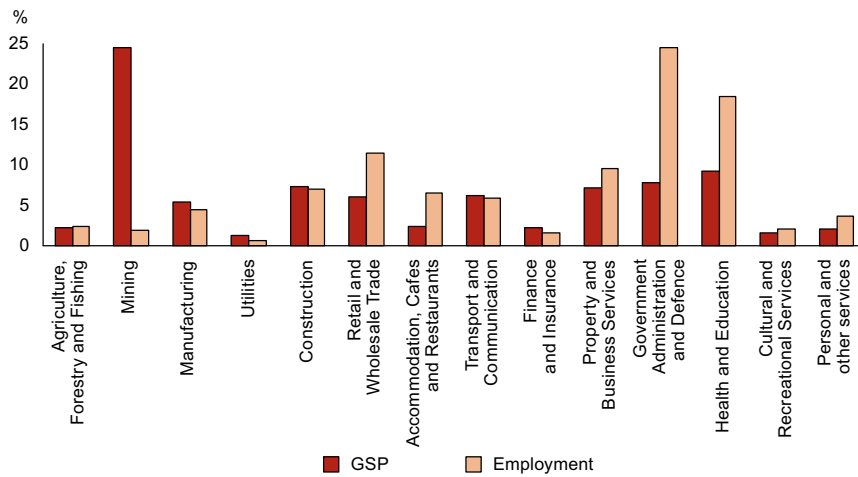
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Structure of the Economy

- The Northern Territory economy is markedly different from other Australian jurisdictions. It has an abundance of natural resources, a large public sector and a significant defence presence.
- The Territory economy is highly influenced by global economic conditions due to its relatively small size and commodity-focused base.
- The importance of mining and mining-related production will grow as production reaches full capacity following the completion of major infrastructure projects.
- The manufacturing base has significantly increased with the Alcan G3 refinery expansion, completed in 2007.
- A relatively large mining and energy industry means that the Territory economy is capable of high growth as resources are developed.
- The government administration and defence industry is the largest employer in the Territory, comprising of 24.5 per cent of total Territory employment.

Territory Employment and GSP Proportions, 2006-07



Source: ABS Cat. No. 5220.0, Census 2006

Economic Growth

- Economic growth in the Northern Territory tends to be volatile from year to year. The small size of the economy means large, typically resource-based projects can have a substantial impact on investment and income streams.
- During the three years to 2006-07, Territory gross state product (GSP) grew by an average annual rate of 5.5 per cent. Growth was driven by strong consumption and a substantial increase in investment associated with major resource projects, followed by solid growth in exports and the commencement of liquefied natural gas (LNG) production.
- Economic growth is estimated to ease to 2.8 per cent in 2007-08, as business investment declines in line with the completion of the Alcan expansion, and scheduled maintenance at Wickham Point, temporary closure of the Corallina oil field and the permanent closure of the Elang Kakatua oil field contribute to a moderate decrease in exports. These are offset by very strong consumption expenditure, particularly among Territory households.
- Economic growth is forecast to strengthen to 6.6 per cent in 2008-09, driven by a substantial recovery in export volumes and supported by consumption expenditure.
- Resident employment is estimated to increase by 4.8 per cent in 2007-08, in line with strong population growth.
- The Darwin Consumer Price Index (CPI) is estimated to moderate in 2008 primarily reflecting lower growth in housing prices. This moderation will continue into 2009 as crude oil prices track lower.

Summary of Territory Economic Indicators

	2003-04	2004-05	2005-06	2006-07	2007-08e	2008-09f
	%	%	%	%	%	%
Real GSP	2.0	5.5	5.5	5.6	2.8	6.6
Resident Employment	-2.9	-1.3	3.0	5.3	4.8	2.5
Population ¹	0.7	1.6	2.3	2.0	2.2	1.9
Darwin CPI ²	2.1	1.6	2.6	4.4	3.4 ³	3.1

e: estimate; f: forecast

¹ As at December, annual percentage change

² As at December, year on year percentage change

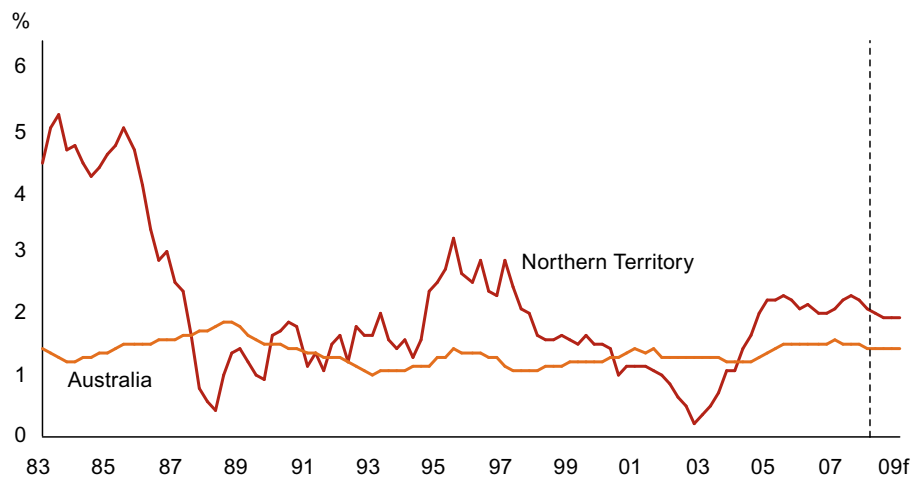
³ Actual Darwin CPI 2007

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

Population

- The Northern Territory is generally sparsely settled, with more than half the population in the Greater Darwin area.
- The population has a young age distribution relative to other jurisdictions; nevertheless the proportion of older people in the Territory's population is projected to rise rapidly in the next decade.
- A far higher proportion of the Territory's population is Indigenous (32 per cent) compared with other jurisdictions.
- Natural increase (births minus deaths) is by far the largest component of Territory population growth and its contribution to growth is about double that experienced in other jurisdictions.
- Net interstate migration is the most variable component of population growth and historically takes the form of an annual net population loss. Recent net migration has been positive, although quarterly patterns fluctuate considerably, making the future hard to predict.
- The Territory has enjoyed population growth of 2 per cent for the past three financial years and continues to have the third highest population growth rate after Western Australia and Queensland.
- Population growth of 2.2 per cent is forecast for the year to December 2007, moderating to 1.9 per cent for the year to December 2008.
- Accurate population estimates are of critical importance to the Territory as the Commonwealth uses them in the calculations to apportion goods and services tax (GST) revenue, a substantial proportion of total Territory revenue.

Annual Population Growth



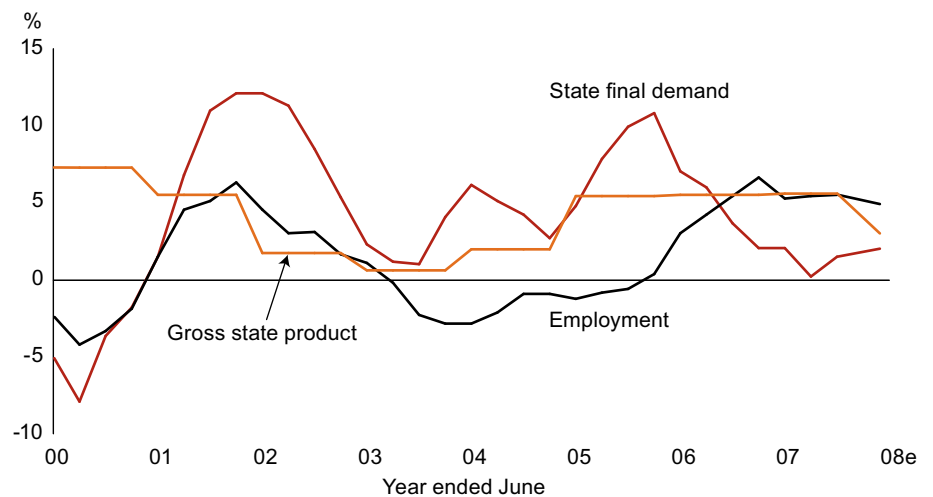
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Source: Northern Territory Treasury, ABS Cat. No. 3101.0

Labour Market

- The Northern Territory labour market continues to remain strong in 2007-08 as buoyant onshore economic conditions prevail.
- Labour market statistics and related indicators point to solid employment growth and a shortage of skilled labour in 2007-08.
- Following an increase of 5.3 per cent in 2006-07, as reported by the Australian Bureau of Statistics (ABS), resident employment is estimated to increase by 4.8 per cent in 2007-08.
- Resident employment growth of 2.5 per cent is forecast for 2008-09, in line with a general easing of growth in state final demand in the Territory.
- ABS-reported employment data does not include defence personnel or fly-in fly-out (FIFO) workers and as such it should be considered only generally indicative of the actual level of employment in the Territory. Even more importantly, ABS employment data for the Territory is subject to very high levels of volatility due to small sample sizes and large relative standard errors for the Territory, and must be interpreted and considered in conjunction with a range of other economic indicators.

Territory Economic and Employment Growth (year-on-year)



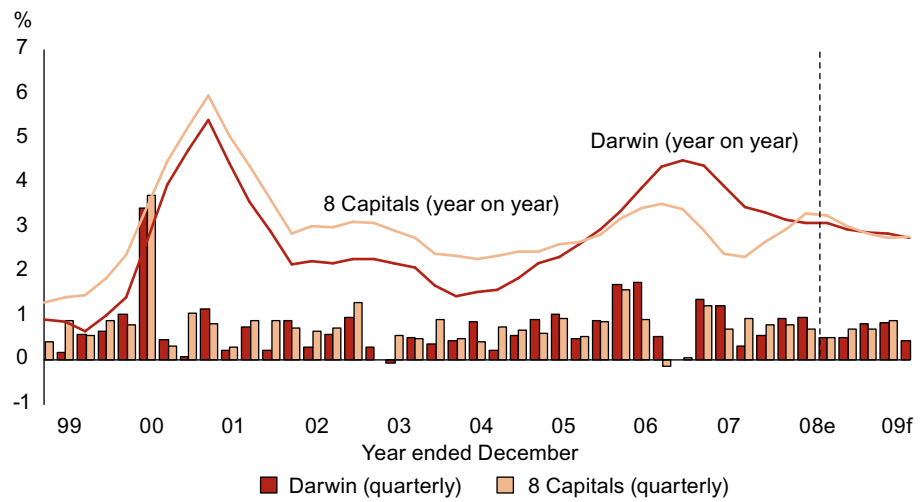
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Source: Northern Territory Treasury, ABS Cat. Nos 5206.0, 6202.0

Prices and Wages

- Darwin's CPI increased 2.9 per cent in annual terms in 2007, and 3.4 per cent in year-on-year terms.
- Strong wages growth, in the Territory and nationally, over the two years to 2007, reflects a tight labour market with skilled labour shortages, especially in construction, mining and health.
- Some inflationary pressures are expected in the Territory in 2008, largely reflecting continued growth in rents, fuel costs and food prices.
- Six interest rate rises in the 18 months to March 2008 increased the Australian cash rate to 7.25 per cent, the highest rate since 1994. With the possibility of further rises in 2008, Territory house purchases are expected to moderate. The Reserve Bank of Australia's contractionary monetary policy is also expected to dampen consumer demand.

Consumer Price Index



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

Wage Price Index
 (year-on-year to December 2007,
 percentage change)

	2002 %	2003 %	2004 %	2005 %	2006 %	2007 %
Northern Territory						
Public	3.2	3.7	3.3	4.8	4.4	2.7
Private	3.1	2.6	3.4	4.1	3.5	4.8
Total	3.1	3.1	3.3	4.5	3.9	3.9
Australia						
Public	3.3	4.4	4.1	4.6	4.3	4.2
Private	3.3	3.3	3.4	3.9	3.9	4.1
Total	3.2	3.6	3.6	4.1	4.0	4.1

Source: ABS Cat. No. 6345.0

External Economic Environment

- The significance of the mining and tourism industries makes the Territory economy particularly reliant on exports and susceptible to developments in the global economy.
- Global economic conditions are expected to be less stable and less predictable in 2008.
- The outlook for the Australian economy remains favourable, primarily reflecting strong Chinese demand for commodities.
- The outlook for Australian growth is amongst the highest for developed nations.
- Risks to the generally positive outlook include the possibility of a greater than expected slowdown in the United States economy.

Gross Domestic Product
(annual percentage change)

	2005	2006	2007	2008e	2009f
North East Asia					
China	10.2	11.1	11.4	10.2	9.6
Korea	4.0	5.0	4.9	4.9	5.1
Japan	1.9	2.4	2.0	1.3	1.8
Taiwan	4.0	4.9	5.7	4.3	4.6
Hong Kong	7.3	6.8	6.3	4.8	5.1
South East Asia					
Philippines	4.9	5.4	6.3	5.8	5.8
Indonesia	5.6	5.2	6.3	6.2	6.0
Malaysia	5.2	5.9	6.3	5.6	5.8
Thailand	4.5	5.1	4.8	4.6	4.9
Singapore	6.4	7.9	7.7	5.2	5.9
North America					
United States	3.2	2.9	2.2	1.4	2.3
Canada	2.9	2.8	2.7	1.5	2.3
Eurozone	1.5	2.9	2.6	1.5	1.8
Russia	5.5	6.5	7.0	6.8	6.3
India	8.4	8.4	7.8	8.1	8.4
Australia	2.8	2.8	3.9	3.3	3.2
New Zealand	2.1	1.7	3.1	2.0	2.5

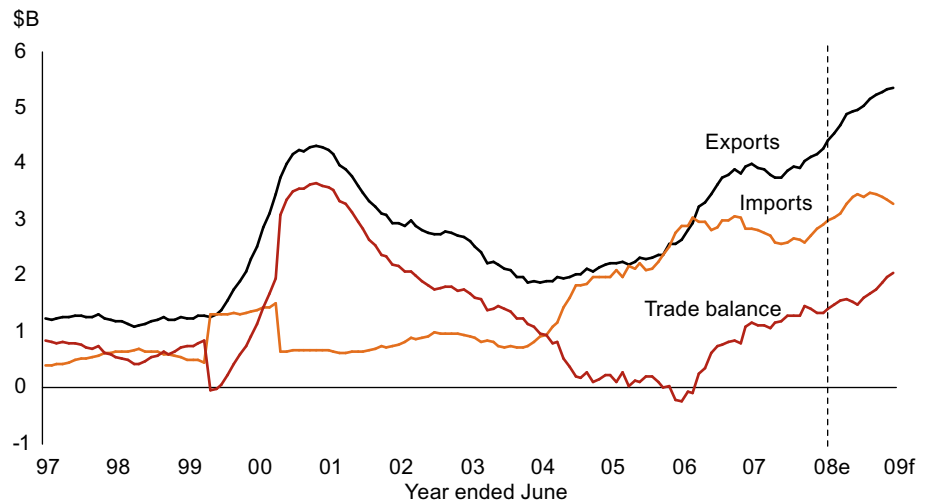
e: estimate; f: forecast

Source: Consensus Economics Consensus Forecasts March 2008 (India: financial year reported) (Russia, Philippines: International Monetary Fund)

International Trade

- In 2007-08, the Territory’s international trade surplus (that is, exports of goods and services less imports of goods and services) increased to an estimated \$1.7 billion, up from the \$1.5 billion surplus in 2006-07.
- Mineral ores, mineral fuels and cattle dominate international exports in the Territory. In 2007-08, the value of merchandise exports increased by 6 per cent to an estimated \$4.3 billion, largely due to increased global commodity demand and prices.
- The major Territory imports are refined fuels, and machinery and equipment (mostly industrial equipment for mining and construction activities). In 2007-08, imports increased by an estimated 2 per cent to \$2.9 billion, and are forecast to grow a further 13 per cent to \$3.3 billion in 2008-09. The increase in 2007-08 is primarily due to rising prices of imported mineral fuels and gas feedstock for the LNG plant at Wickham Point. Partly offsetting the increase in the value of mineral fuels imports is weakened demand for machinery and transport equipment imports (particularly for major oil and gas projects), and a reduction in national aircraft imports via Darwin.
- The value of mineral fuel imports is forecast to increase by about 26 per cent in 2008-09, due to continued importation of feedstock gas for the Wickham Point LNG plant and higher fuel prices.
- Strong growth in merchandise exports is forecast for 2008-09, supported by a third full year of LNG production, manganese from the Bootu Creek mine and the GEMCO mine, and alumina from Alcan’s Gove refinery.
- Territory service exports are forecast to increase by 1 per cent in 2007-08 and a further 1 per cent in 2008-09, driven by greater demand for travel services. Territory service imports are forecast to increase 5 per cent in 2007-08 and a further 5 per cent in 2008-09, due to higher demand for transportation services and travel services.

Territory International Merchandise Trade (moving annual total)

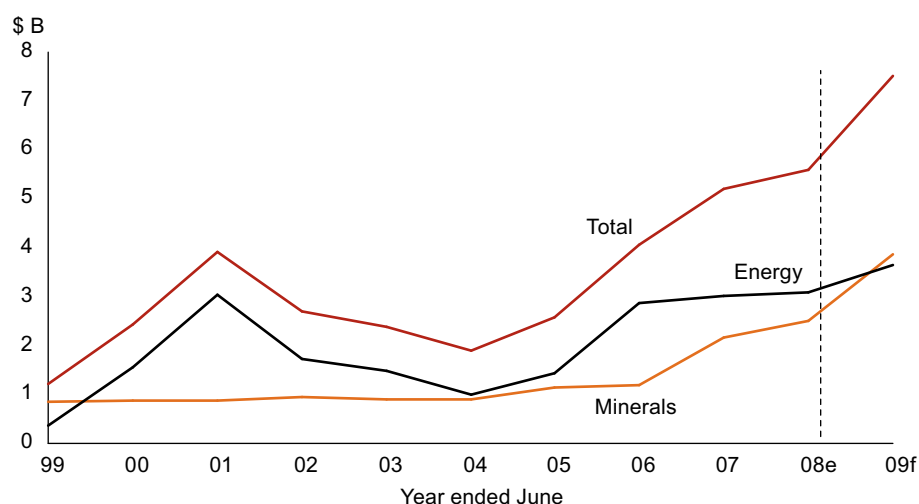


e: estimate; f: forecast
 Source: Northern Territory Treasury, ABS Cat. No. 5368.0 and unpublished ABS data

Mining and Energy

- In terms of output, mining is the largest industry in the Territory, accounting for 26 per cent of GSP in 2006-07, compared to 7 per cent nationally.
- Mining output is volatile as production is dominated by a small number of large projects. Global supply and demand conditions and the impact of exchange rate movements on competitiveness are key factors affecting production levels and price.
- The value of Territory mining output has grown substantially in recent years, driven by increased gas and condensate production from the Bayu-Undan field, as well as increases in mineral commodities such as manganese and lead-zinc.
- Further increases are expected in the next few years, driven by increased production and strong growth in prices of several key commodities.
- Mineral and energy production is estimated to increase by 7.7 per cent to \$5.6 billion in 2007-08. Substantially higher growth of 34.8 per cent is forecast in 2008-09, due mainly to an 84 per cent increase in the value of manganese production as well as considerable gains in offshore gas and liquid production.
- In the medium term, high levels of exploration expenditure are expected to continue, supported by ongoing strong commodity prices and Territory Government initiatives.

Value of Mineral and Energy
Production and Processing
(nominal dollars)



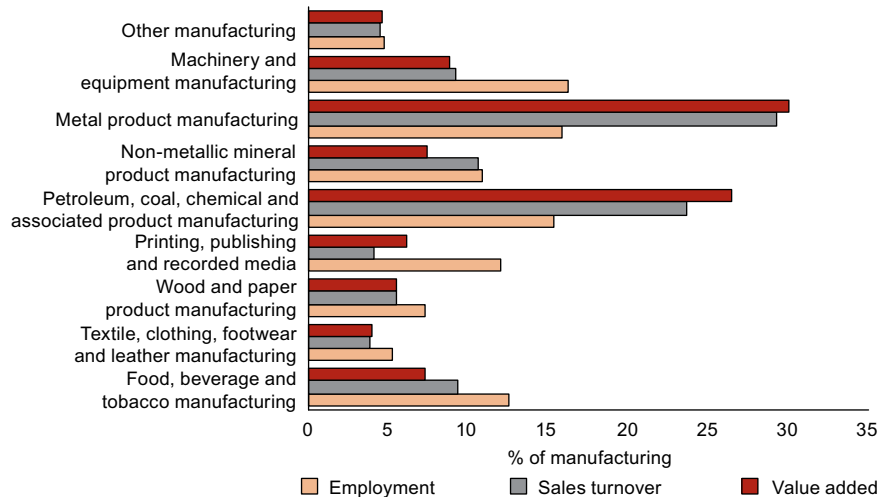
e: estimate; f: forecast

Source: Northern Territory Treasury; Department of Business, Economic and Regional Development; Department of Primary Industry, Fisheries and Mines

Manufacturing

- The manufacturing industry in the Territory is small in comparison to other states and is dominated by a small number of large companies.
- In 2006-07, manufacturing activity accounted for 5.4 per cent of GSP (\$719 million).
- Manufacturing production will continue to grow in 2007-08 with alumina and LNG production dominating Territory manufacturing.
- In the short to medium term, growth prospects include the helium plant at Wickham Point, metals processing from the Browns Oxide mine at Batchelor and possible increased LNG production from the Sunrise gas field in the Timor Sea.
- In the long term, prospects include Timor Sea energy production and a possible two-train, 8 million tonne per annum LNG development bringing gas onshore to Darwin from the Ichthys gas field in Western Australia.
- In 2006-07, manufacturing in the Territory accounted for about 3.5 per cent of employment and employed around 4600 people.

Territory Manufacturing Sector
Selected Indicators, 2005-06

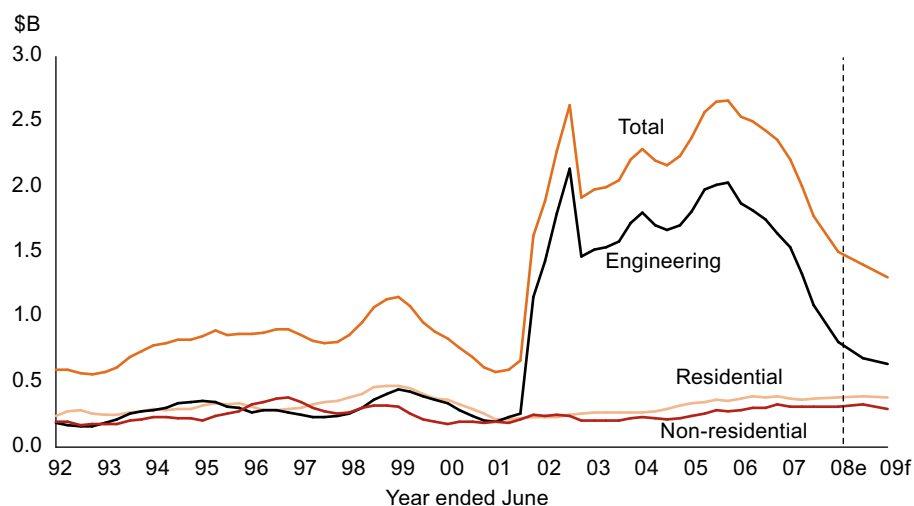


Source: Northern Territory Treasury, ABS Cat. No. 8221.0

Construction

- The construction industry accounted for about 8.3 per cent of GSP on average over the five years to 2006-07, and employed about 7.9 per cent of the workforce.
- Projects such as the Alcan G3 refinery expansion at Gove have a huge impact on the value of construction work done in the Territory. The value of such projects are significant both on a Territory and a national scale and can lead to substantial volatility in the value of construction work done.
- In 2006-07, total construction activity decreased by 12.6 per cent to \$2.2 billion, supported by major resource-based engineering projects such as the Alcan refinery expansion.
- Declining construction growth in 2007-08 comes as investment for the Alcan expansion, the main driver of engineering work done, is completed.
- Northern Territory construction activity will continue to contract in 2008-09. Nevertheless, construction activity will remain at levels above the historical average, supported by new mining and engineering projects in the private sector and increased investment by the Territory Government in infrastructure, housing and utilities.

Territory Construction Work Done



e: estimate; f: forecast

Source: ABS Cat. No. 8752.0, Northern Territory Treasury

Residential Property Markets

- Residential property markets in the Territory have performed strongly over the past five years.
- Land sales in the Territory, driven by strong population and economic growth, peaked in 2007 and have been declining since. Nevertheless, a number of new residential subdivisions are planned for release over the next few years that will help to moderate prices growth for land and, in turn, help to alleviate pressures on affordability.
- Prices growth for houses and other dwellings moderated in most major centres in 2007, reflecting the impact that rising interest rates and falling affordability levels have had on demand.
- Home loan affordability in the Territory declined to its lowest level on record in 2007. Nevertheless, the Territory continues to have the second highest level of affordability of the jurisdictions.

Median House Prices

December quarter	Darwin		Palmerston		Katherine		Tennant Creek		Alice Springs	
	Median price \$000	Annual change %	Median price \$000	Annual change %	Median price \$000	Annual change %	Median price \$000	Annual change %	Median price \$000	Annual change %
2002	208.0	9.5	187.0	10.5	144.0	3.8	70.0	-17.6	181.0	5.7
2003	230.0	10.6	202.5	8.3	147.0	2.1	74.0	5.7	225.0	24.3
2004	260.0	13.0	240.0	18.5	158.0	7.5	76.5	3.4	250.5	11.3
2005	328.0	26.2	300.0	25.0	169.7	7.4	89.5	17.0	280.0	11.8
2006	370.0	12.8	342.5	14.2	225.0	32.6	100.0	11.7	281.0	0.4
2007	412.5	11.5	380.0	10.9	268.5	19.3	102.5	2.5	312.0	11.0
Average annual growth rate (%)		14.7		15.2		13.3		7.9		11.5
5-year growth rate (%)		98.3		103.2		86.5		46.4		72.4

Source: Real Estate Institute of the Northern Territory

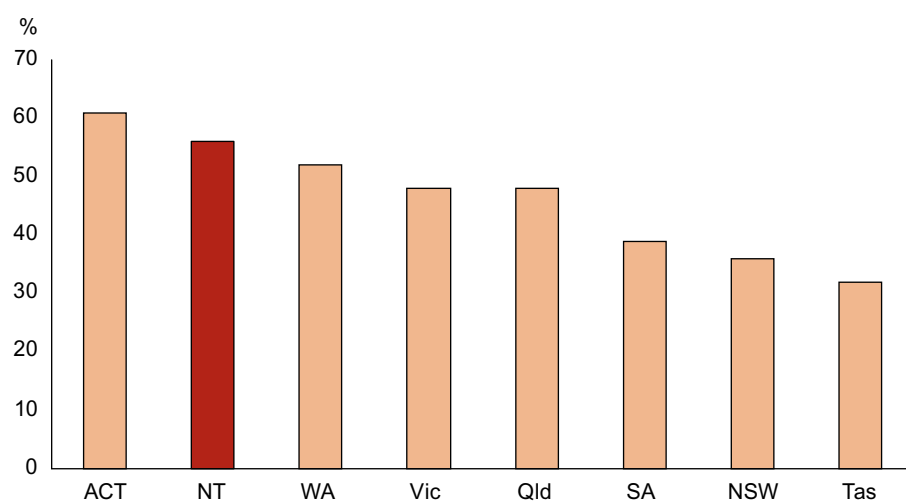
Tourism

- Tourism plays a significant role in the Northern Territory economy, creating demand and generating employment in a range of different industries, including hospitality, retail trade and transport.
- In 2006-07, tourism gross value added, which measures the value of tourism-produced goods and services, was estimated by Northern Territory Treasury to be \$945 million. Tourism accounted for 7.8 per cent of Territory GSP. Tourism consumption was \$2.5 billion in 2006-07, which is 25 per cent of the Territory's total final consumption expenditure.
- Total visitor numbers in the Territory increased by 2.4 per cent in 2006-07. Domestic overnight visitor numbers increased by 8 per cent, largely as a result of increased availability of more affordable flights into the Territory.
- Total visitor expenditure increased by 19.1 per cent in 2006-07 supported by strong growth in total visitor nights, including international, interstate and intra-Territory visitors, which all reported strong growth in 2006-07.
- In 2007-08, a consolidation of tourism activity is expected in the Territory after strong growth in 2006-07. This reflects the availability of more affordable flights into and out of the Territory which may lead to shorter stays for interstate visitors, the largest component of total visitors.

Retail and Wholesale Trade

- Retail and wholesale trade accounted for 6.1 per cent of Northern Territory GSP and 14.1 per cent of resident employment in 2006-07.
- In 2007, real retail turnover grew by 7.7 per cent in the Territory, despite the uncertainty surrounding future increases in interest rates and petrol prices.
- Territory real retail turnover is forecast to increase by 6.2 per cent in 2007-08 and 4.2 per cent in 2008-09.
- The March quarter 2008 Sensis Consumer Report found that Territory consumers were the second most confident in the nation, with 56 per cent feeling confident about their financial prospects for the year ahead.

Consumer Sentiment,
March Quarter 2008

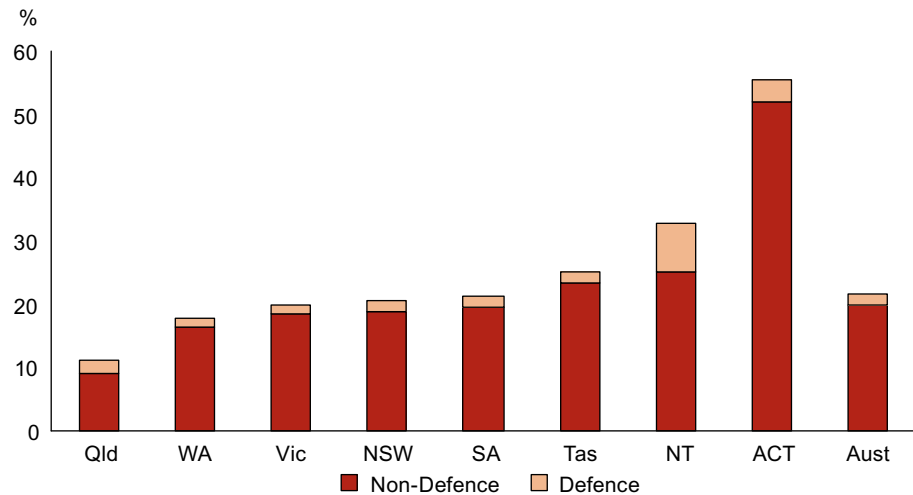


Source: Sensis March 2008 Consumer Report

The Public Sector

- The public sector consists of Commonwealth, Territory and local government activity, including defence. The public sector is a major contributor to the Territory economy, providing a wide range of economic and social services.
- In 2006-07, the non-defence public sector accounted for about 25.1 per cent of SFD, which is higher than most other jurisdictions. Defence contributes a further 7.6 per cent, taking the total to 32.7 per cent.
- The non-defence public sector is the largest employer in the Territory, accounting for about 26 per cent of total employment in 2006-07.

Public Sector Expenditure as a Proportion of SFD, 2006-07

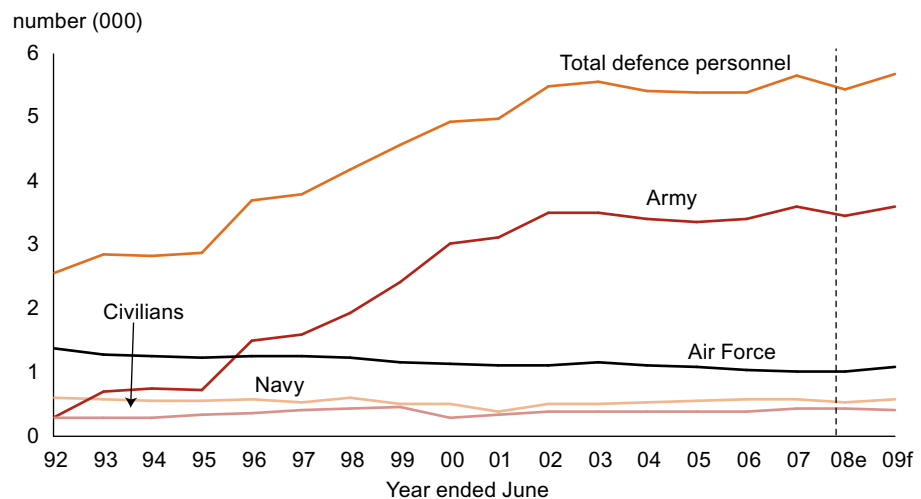


Source: ABS Cat. No. 5206.0

Defence

- The defence presence in the Territory has more than doubled since the early 1990s, with the number of defence personnel and their families increasing from 6223 in June 1992 to an estimated 13 165 in June 2008.
- Of all the Australian permanent defence force personnel, 10 per cent are based in the Territory.
- Recurrent defence expenditure by the Commonwealth in the Territory totalled \$1.08 billion in 2006-07, equivalent to 8.1 per cent of GSP.

Defence Personnel Stationed in the Northern Territory



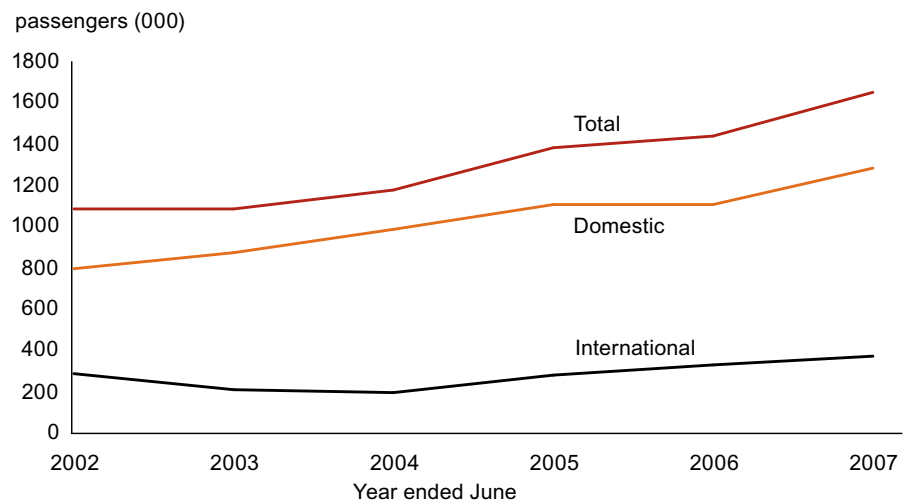
e: estimate; f: forecast

Source: Department of Defence, ABS Cat. No. 3101, unpublished ABS data

Transport and Communication Infrastructure

- With a small, widely dispersed Territory population and a small local market relative to major markets in southern Australia, good transport and communication links are critical to ongoing development in the Territory.
- Rail remains an important transport link providing regular passenger services between Darwin and Adelaide. Volumes of freight continue to grow, with further opportunity for regional development particularly in the movement of bulk mineral ores.
- The Territory's road network continues to be improved with new and upgrade work to infrastructure, bridges and flood mitigation.
- Air transport provides Darwin with links to international, interstate and intrastate destinations for passenger movement and freight transfer.
- Access to information and communications technology for the large percentage of Territorians living in remote areas remains a priority.

Total Airline Passenger Numbers through Darwin International Airport

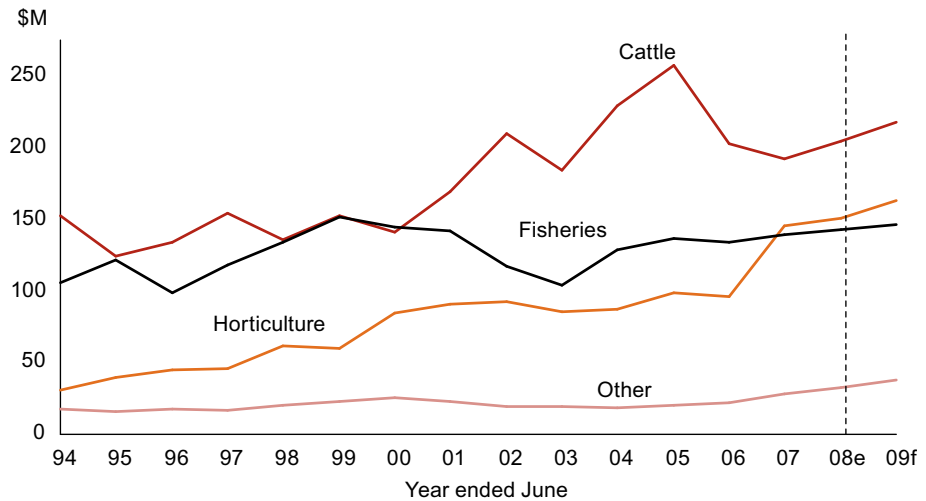


Source: Airport Development Group Annual Report 2006-07

Rural Industries and Fisheries

- Rural industries and fisheries accounted for 2.2 per cent of Territory GSP in 2006-07 and 2.4 per cent of resident employment.
- The value of rural industries and fisheries production is estimated to be \$532 million in 2007-08, an increase of 5 per cent from 2006-07.
- The cattle industry is the largest contributor to rural industries and fisheries in the Territory, comprising about 38 per cent of total estimated production value in 2007-08.
- Other industries include field crops, buffalo, crocodile and other livestock production, excluding cattle, and accounted for 6 per cent of total rural industries production in 2006-07.
- Fisheries production grew 4.2 per cent in 2006-07 to \$139 million. Fisheries include aquaculture and commercial fishing, including the Commonwealth Northern Prawn Fishery.
- Horticulture grew by 52 per cent in 2006-07 to \$145 million and includes mango, melon, vegetable and flower production.
- The value of production is forecast to increase by 6.4 per cent to \$566 million in 2008-09.

Rural Industries and Fisheries,
Value of Production
(nominal dollars)



e: estimate; f: forecast

Source: Department of Business, Economic and Regional Development; Department of Primary Industry, Fisheries and Mines