NORTHERN TERRITORY

BUDGET 2021-22

NORTHERN TERRITORY ECONOMY

Contents

Overview

The 2021-22 Northern Territory Economy publication summarises the outlook for the Territory economy across a range of key economic indicators, with headline forecasts detailed in Table i. Further commentary on current and historical macroeconomic conditions can be accessed at the Territory Economy website at nteconomy.nt.gov.au.

Table i: Key economic indicator forecasts (%)

	2019-20a	2020-21e	2021-22f	2022-23f	2023-24f	2024-25f
Gross state product[1]	5.3	4.7	2.3	3.1	- 0.3	2.3
State final demand[1]	- 4.7	4.2	4.3	3.9	2.7	- 3.1
Population[2]	0.0	0.3	0.5	0.8	0.9	1.0
Employment[1]	- 0.6	- 0.6	1.8	1.7	1.1	0.7
Unemployment rate[3]	5.6	5.6	5.4	5.1	4.9	4.8
Consumer price index[1]	0.2	0.7	1.8	1.4	1.8	2.2
Wage price index[1]	2.3	1.7	1.7	1.4	1.3	1.4

a: actual; e: estimate; f: forecast
1 Year-on-year percentage change.
2 June quarter compared with June quarter the previous year.
3 Year average.
Source: Department of Treasury and Finance; ABS

COVID-19

The COVID-19 pandemic continues to overshadow the global economy, with both the health crisis and the subsequent economic crisis having varying degrees of impact across the world's nations. The pace and strength of economic recovery will be influenced by: the success of any government-imposed measures to slow transmission of the virus; and the vaccination rollout, the majority of which is expected to be completed in Australia by early 2022, which is a key element of economic conditions returning to normal.

Significant fiscal stimulus through the Commonwealth's JobKeeper and JobSeeker payments and business assistance initiatives implemented by the Territory Government supported activity in the final quarter of 2019-20, but the very high degree of uncertainty regarding the health and economic impacts of COVID-19 severely impacted consumer confidence and business sentiment, and spending and investment decisions.

As COVID-19 cases began to escalate in March 2020, all Australian states and territories implemented various restrictions and safety measures. The Territory was one of the first jurisdictions to announce strict travel restrictions, contributing to the low number of cases locally and an absence of community transmission to date.

The Territory's economic recovery in 2020-21 is faster than previously anticipated, driven largely by a strong rebound in household consumption. With the exception of trading restrictions and physical distancing in the early months of the pandemic, Territory businesses largely continued to operate as normal. However, the tourism sector remains severely impacted by a lack of international visitation. While the Australian border could be open by early 2022, a recovery in international tourism will still be contingent on reciprocated border access and consumer confidence from a successful vaccine rollout, both here and abroad.

In November 2020, the Territory Economic Reconstruction Commission (TERC) completed its final report, outlining recommendations to provide a roadmap to accelerate the economic rebound post-COVID-19. In response, the Territory Government approved 22 plans to implement the recommendations and established two key roles in April 2021, the Major Projects Commissioner and Investment Commissioner, to strengthen and lead government's strategy for increasing private investment.

Past economic trends

Over the past 20 years the Territory economy has expanded from a succession of major projects, with the most recent being the globally significant Ichthys liquefied natural gas (LNG) project, which generated significant construction activity and direct local employment. Major projects also generate investment in the broader economy through industries in the investment supply chain and population growth that creates demand for housing and supports industries relying on household spending.

Production from the Ichthys LNG plant was the major factor in the value of exports increasing by more than 85% between 2017 and 2020. This provided a major boost to economic output while, during the same period, the onshore domestic economy adjusted following completion of construction for the project in 2018, and the subsequent loss of jobs and population. The economy was showing early signs of recovery when COVID-19 hit in early 2020.

The Territory's gross state product (GSP) increased by 5.3% in 2019-20, as exports grew by more than 30% in the year, while in the domestic economy state final demand (SFD) fell by 4.7% and private sector investment decreased as the economy adjusted to longer term levels of investment post-Ichthys. Consumption weakened for the second consecutive year, notably household consumption, which was impacted by declining employment and stagnant population growth.

The onset of COVID-19 in March 2020 contributed to weaker activity in the June quarter. This saw a further negative pressure on the domestic economy as it impacted confidence through the uncertainty of trading restrictions and international and interstate border closures, as well as employment.

Economic outlook

There was a significant turnaround in the domestic economy in 2020-21, reflecting the Territory's successful health response to COVID-19 that resulted in minimal trading restrictions. The economy was also boosted by the substantial Territory and Commonwealth government assistance measures and low interest rates. Government stimulus included: initiatives to support household balance sheets such as JobKeeper and JobSeeker; to encourage business investment through the instant asset write-off rules and accelerated depreciation deductions; to stimulate and support the building industry through the Home Improvement Scheme, BuildBonus and HomeBuilder; and to encourage consumer spending through tourism vouchers, and myDarwin and other schemes. These initiatives, combined with the significant improvement in business confidence and investment, are major factors contributing to growth in 2020-21.

GSP is estimated to increase by 4.7% in 2020-21, and SFD by 4.2%, and economic growth is forecast to average 2.4% per annum in the five years to 2024-25. This compares with average growth of 1.9% in the five years to 2019-20. The recovery is expected to be broad based across consumption and investment, and the private and public sectors.

There was a noticeable shift in business confidence in 2020. Across the Territory, a net balance of 67% of businesses were confident at the end of 2020, compared with 33% in the March quarter 2020. The economic impacts of COVID-19 have however varied across regions and industries, with businesses in Central Australia more worried than those in other parts of the Territory, and tourism and hospitality businesses more negatively affected, due to the lack of international tourists.

Territory economic reconstruction is now part of all Territory Government agencies' strategic plans, and actions to date include regulatory and administrative reforms to improve processes, the review of regulatory requirements and funding to support mineral exploration.

Private sector investment in 2020-21 is estimated to increase by 9.6% (the first increase in three years), household consumption is estimated to increase by 4.2% (the first increase in two years) and housing investment is estimated to increase by 17.6% (the first increase in six years).

Economic growth in 2021-22 and 2022-23 is forecast to moderate after two years of strong growth and, as government stimulus measures are removed, will be driven by stronger private and public sector investment which, over the two years, increases by 17.9% and 9.8% per annum on average, respectively. Projects include onshore and offshore works for the Barossa Project and Darwin LNG plant, the new Charles Darwin University (CDU) campus in the Darwin central business district (CBD), the ship lift and marine industry project, defence-related works, works at Kakadu and Jabiru, and significant investments in transport infrastructure. Consumption growth is positive, but will moderate even as there is a return to solid employment growth and a recovery in population growth.

GSP is forecast to fall by 0.3% in 2023-24 due to the Darwin LNG plant temporarily ceasing production as gas from the Bayu-Undan field is depleted. This has a significant impact on exports, which are expected to fall by 6.7%, and there is an estimated 18-month gap before gas from the Barossa Project is brought on line in early 2025. However, private investment and consumption remain strong in 2023-24, and the forecast for growth in SFD is 2.7%.

Financial year 2024-25 is somewhat similar to 2019-20, where weaker private investment following the completion of Barossa and Darwin LNG-related works results in SFD contracting, while strong exports growth leads to economic output increasing by 2.3%.

There are several large scale resource and technology projects proposed that are not included in the forecasts and, if they proceed during the outlook period, will contribute to stronger growth.

Risks to the outlook

Uncertainty regarding COVID-19-related impacts on household and business behaviours, and subsequent government policy interventions pose greater than normal risks to the forecasts. This is reflected in significant revisions to some economic forecasts reported in the 2020-21 Budget (released in November 2020), as new data has been released that assists to inform the pace and shape of the recovery in the domestic economy, and in international markets that impact the Territory.

Key forecasting challenges include the need to consider the:

- impacts of government stimulus measures on short and medium-term household spending, business investment and employment, especially as individual stimulus measures come to an end
- extent of any 'pull forward' in activity associated with government stimulus
- implementation of vaccination programs in Australia and overseas and, in Australia, the subsequent impacts on reducing hotspot declarations (that impose sudden and short-term impacts on movement), as well as consumer and business sentiment regarding travel and investment
- changes in COVID-19 cases in key international markets
- timing of opening Australia's border to international travellers and immigrants, and any conditions that inhibit movement.

Developing forecasts in this environment requires considerable judgement and a greater than usual number of assumptions, and there is higher than usual risk regarding the reliability of the forecasts.

Key assumptions underpinning the forecasts are: the majority of Australia's vaccination rollout is completed by early 2022; the virus remains contained in the Territory; Australia's national borders open in early 2022 with a very gradual increase in international visitation; and any localised outbreaks in Australia are contained quickly.

Chapter 1
Structure of the economy

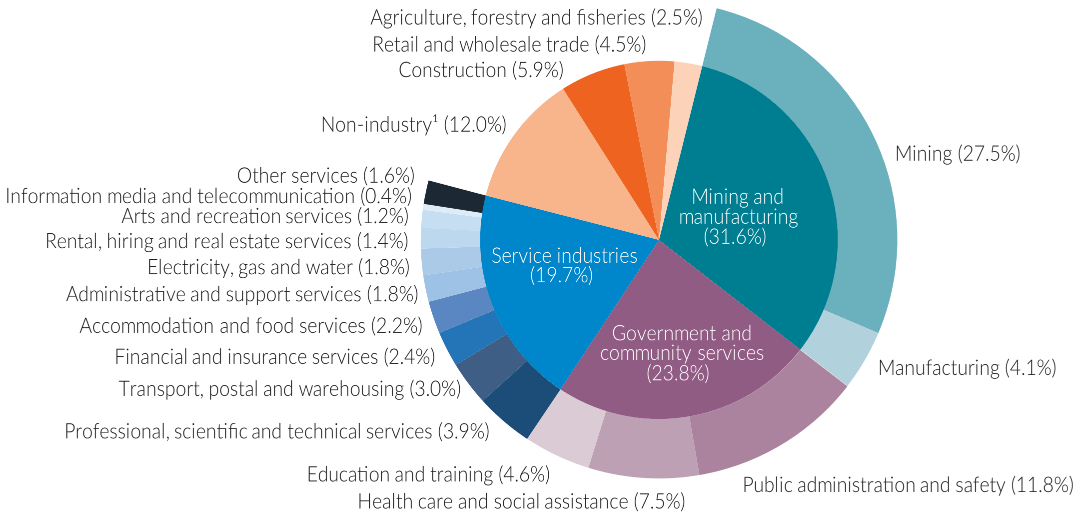
Structure

The structure of the Territory's small open economy reflects its wealth of natural resources, strategic defence capabilities, tourism attractions and relatively large government and community services sector.

In 2019-20, the Territory's GSP was $26.2 billion, a 5.3% increase from 2018-19 and the strongest growth of the states and territories. In the past decade, the Territory economy has increased by 28.5% from $20.4 billion in 2009-10. Over the same period, the Territory's population increased by around 16,400 (or 7.1%) to 246,000 people, while employment increased by about 12,300 (or 10.3%) to about 132,000 people.

Mining and manufacturing, government and community services, construction and tourism are the Territory's most significant sectors, accounting for almost two-thirds of economic activity in 2019-20 (Chart 1.1). Tourism represented around 3.3% of economic output in 2019-20, down from 4.2% in 2018-19, but is not reported as an industry due to the nature of its output (Box 1.1). The share of industry contributions can be volatile in the short term, while changes in the underlying structure of the economy tend to occur over long periods, reflecting comparative economic advantages.

Chart 1.1: Contributions to gross state product, 2019-20



1 Non-industry components of GSP are ownership of dwellings, taxes less subsidies and statistical discrepancy.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Box 1.1: The tourism sector

Measurement of tourism's contribution to economic activity is different to standard industries, such as manufacturing or transport, because the contribution is defined by the nature of the consumer (demand side), not the process by which the goods and services are produced (supply side). Tourism activity and expenditure is defined by the status of the customer as a visitor rather than as a resident.

Tourism is a component of many industries, as domestic, interstate and international tourists create demand in a range of industries including accommodation, cafés, restaurants and food outlets, cultural and recreational services, retail trade and transport.

Standard Australian Bureau of Statistics (ABS) measures of production are not available for tourism, but the ABS creates a satellite account each year to estimate tourism's aggregate contribution to economic activity from across all industries.

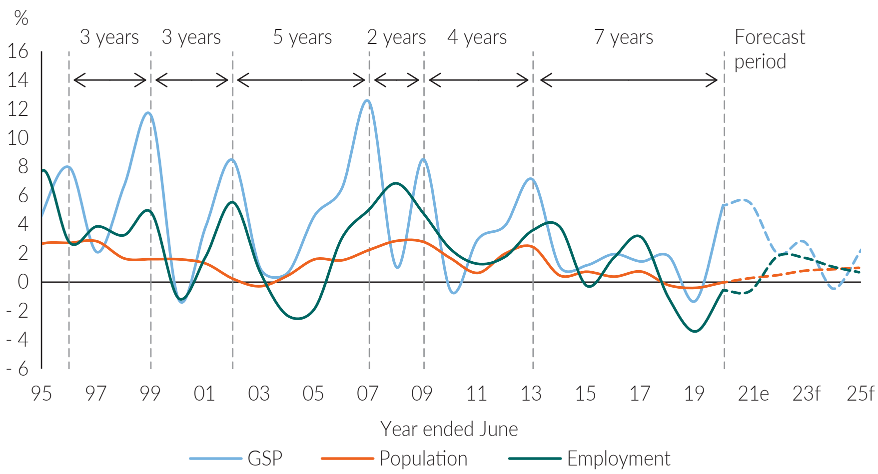
Industries and employment

Economies are subject to cycles between strengthening and contracting growth rates. The frequency, magnitude and duration of cycles are influenced by the underlying structure of the economy and the exposure of key industries to external factors that influence demand, prices and exchange rates. The characteristics of the Territory economy result in economic cycles being more pronounced compared with other jurisdictions and Australia.

Over the past 25 years, the Territory has experienced economic cycles that averaged four years, with a range from two to seven years. These cycles have been driven by major projects, where domestic conditions are impacted by resource exploration, construction and production cycles. Employment and population growth broadly follow GSP growth, although not to the same magnitude given the capital-intensive nature of investments in the Territory and higher productivity per worker that results (Chart 1.2).

Between major private investment projects, economic conditions and growth are influenced by more fundamental factors, such as population growth; business sentiment; household consumption and confidence; public sector expenditure; and small to medium-scale private investment that relies on domestic demand or niche interstate and international trade opportunities.

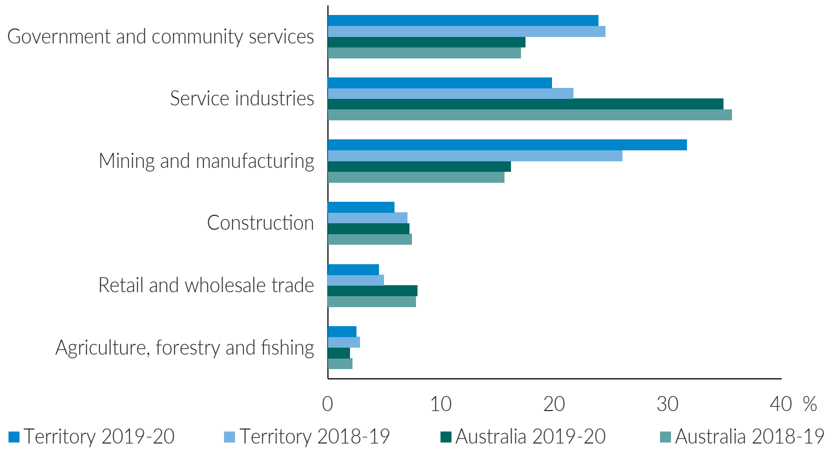
Chart 1.2: Economic cycles in the Territory



e: estimate; f: forecast; GSP: gross state product
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6202.0, *Australian Demographic Statistics*, Cat. No. 3101.0; Department of Treasury and Finance

Compared with the national contribution to gross domestic product (GDP), government and community services, mining and manufacturing industries contribute a greater share to the Territory economy. By comparison, the service industries are dominant nationally (Chart 1.3).

Chart 1.3: Key industry proportion of gross state product and gross domestic product



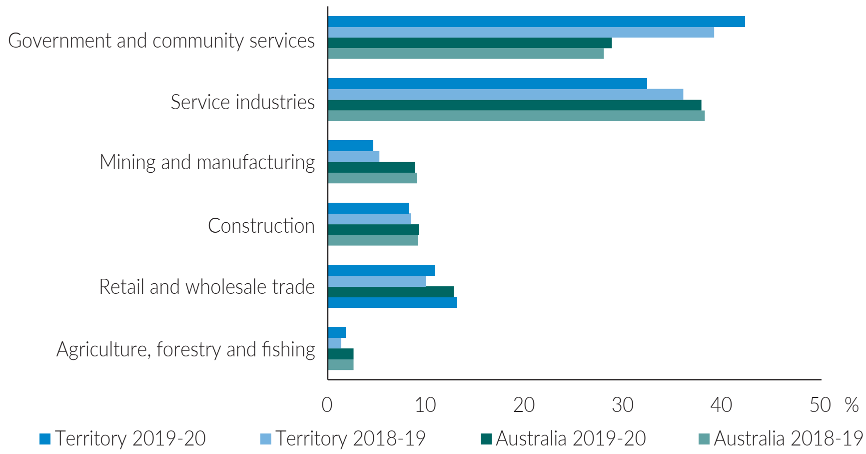
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Government and community services

The government and community services sector accounted for 23.8% of the Territory's GSP in 2019-20, compared with 17.4% nationally. This sector includes public administration and safety; health care and social assistance; and education and training. Public administration and safety account for just under half of the sector's contribution. Nationally, health care and social assistance is the largest contributor. Population is a key driver of growth in the sector as it affects demand for police, education, health and other community services.

The sector accounted for 42.3% of Territory employment in 2019-20 (Chart 1.4) compared with 28.8% nationally. It is the largest employer in the Territory and the second largest employer nationally. The higher proportion of employment in the Territory reflects a number of factors including scale issues in the delivery of services to relatively small, diverse pockets of population dispersed over a large area with relatively high demand and need for community services.

Chart 1.4: Share of employment by key industries



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

Service industries

The service industries sector comprises smaller industries, with each accounting for between 0.4% to 3.9% of GSP in 2019-20. The industries in this sector are professional, scientific and technical services; transport, postal and warehousing; financial and insurance services; accommodation and food services; administrative and support services; electricity, gas, water and waste services; rental, hiring and real estate services; arts and recreation services; information and media telecommunications; and other services.

The service industries accounted for 19.7% of the Territory's output and 32.3% of employment in 2019-20. Nationally, the sector represents the largest share of GDP (34.8%) and is the largest employer (37.8%).

In the Territory, financial and insurance services, and electricity, gas, water and waste services were the only industries in the sector to report growth in 2019-20, at 1% and 0.9%, respectively. Tourism-related industries, such as accommodation, food and transport services, are operating below long-run trends as international travel was suspended and interstate borders were closed for parts of 2019-20. Given the diverse nature of industries in this category, the outlook is mixed for the service industries. Tourism-related industries will continue to be impacted significantly in the short term, while over the medium term, professional and technical services will be supported by exploration and project development activity associated with onshore gas.

Mining and manufacturing

The significance of the mining and manufacturing sector to the Territory's economy reflects the abundance of natural resources, including natural gas, manganese, lead-zinc, gold and bauxite. In 2019-20, the mining and manufacturing sector accounted for 31.6% of Territory GSP, up from 26% in 2018-19 and above the national rate of 16.1%. Growth in the sector is largely driven by international demand for resources and commodity prices.

Increased output in recent years reflects the transition of the Ichthys LNG plant from construction to full production in 2019-20. Going forward, output from the Ichthys LNG plant is expected to be stable, with output from the Darwin LNG plant expected to temporarily cease in 2023-24 as it transitions from its current source of gas (Bayu-Undan) to a new source (Barossa), with no production expected until the first half of 2025.

Mining and manufacturing account for 4.6% of the Territory's residential employment, compared with 8.8% nationally. This is largely due to the more labour-intensive manufacturing industry representing a larger proportion of the sector's workforce at the national level, as well as interstate fly-in fly-out (FIFO) workers not being included in the Territory's labour force figures.

The TERC Final Report includes recommendations to capitalise on the Territory's competitive advantages to attract more private investment, with the mining and manufacturing sector identified as a key driver of economic growth in the medium term.

Table 2.2 identifies a range of planned and prospective projects, many of which are in the mining and manufacturing sector. Projects that proceed in the forecast period will have a significant positive impact on output from the sector.

Construction

Demand in the construction sector is driven by private and public investment, and its contribution to Territory GSP and employment has returned to long-term levels since the end of construction for the Ichthys LNG project in 2018. Construction accounted for 5.9% of the Territory's GSP in 2019-20, down from 12.8% in 2017-18. Similarly, the construction sector employed 8.2% of the Territory workforce in 2019-20, down from 10.6% in 2017-18. Nationally, construction accounted for 7.2% of GDP and 9.2% of the workforce in 2019-20.

Modest growth is anticipated over 2021-22, with a number of large public sector projects commencing or underway.

Retail and wholesale trade

The retail and wholesale trade sector represented 4.5% of Territory GSP in 2019-20, compared with 7.9% nationally. The sector is the third largest employer in the Territory accounting for 10.8% of the workforce in 2019-20, compared with 12.7% nationally.

The sector will be supported by business and consumer confidence, which has been recovering since the second half of 2020, with population growth over the medium term expected to increase demand for retail activity and, more broadly, household consumption.

Agriculture, forestry and fishing

The agriculture, forestry and fishing sector accounted for 2.5% of the Territory's GSP in 2019-20, compared with 1.9% nationally. The sector's contribution to GSP has been declining in recent years, reflecting a number of seasonal factors and biosecurity setbacks. Despite its relatively small contribution to GSP, the industry is vital in generating economic activity and employment in regional areas, accounting for 1.8% of the Territory's workforce in 2019-20, compared with 2.6% nationally.

Chapter 2

Economic growth

Outlook

Private investment is recovering, as business confidence and sentiment improves, along with employment and population growth.

The economy is forecast to grow by 4.7% in 2020-21, and to average 2.4% per annum in the five years to 2024-25.

Recent activity

The Territory economy grew by 5.3% in 2019-20, with LNG exports the major contributor to growth, while state final demand (a measure of local economic activity) declined by 4.7%.

GSP is a measure of the value-adding activity that occurs in the economy through the application of capital assets and labour inputs. GSP forecasts in this chapter use the expenditure method, which assesses changes to household and public consumption, private and public investment, international trade and a balancing item. The balancing item measures interstate trade and changes in inventories, and includes confidentialised data such as the value of feedstock gas imports. Public investment and consumption data reported in this chapter is not directly comparable to expenditure reported in the budget papers due to differences in statistical and accounting treatments. Caution should be used when comparing data in this publication to previous publications as historical data is always revised by the ABS. Some of these revisions can be significant.

SFD measures the value of spending in the local economy by households, government and businesses on goods and services and capital investment, and does not include the value of international exports, net interstate trade or changes in inventories. GSP is a measure of local value-adding, while SFD is a measure of demand and does not take into account where goods were made. For example, the full cost of the purchase of an imported car would be included in SFD, but only value-added activities undertaken in the Territory related to the transport and sale of the car would be included in GSP.

The Territory recorded a 5.3% increase in GSP to $26.2 billion in 2019-20. The growth was attributable to increased LNG exports, while the domestic economy was weak, with SFD down 4.7%. GSP and SFD in the June quarter 2020 were affected by COVID-19, though consumption impacts were not as significant compared with other jurisdictions because the Territory's effective health response meant only limited trading restrictions were imposed. The decrease in SFD was largely due to private investment compared with the past decade.

Outlook

Table 2.1: Territory economic growth forecasts (%)

	2019-20a	2020-21e	2021-22f	2022-23f	2023-24f	2024-25f
Gross state product	5.3	4.7	2.3	3.1	- 0.3	2.3
State final demand	- 4.7	4.2	4.3	3.9	2.7	- 3.1

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

Gross state product

The GSP outlook in the forecast period is heavily influenced by the Barossa Project and investment at the Darwin LNG plant, with increases in private investment and a gap in LNG production from 2023-24 as the plant transitions to a new gas source and undertakes new capital investment (Box 2.1). The capacity of businesses to absorb labour costs following the end of the Commonwealth's JobKeeper and JobSeeker schemes in the June quarter 2021 will also be a key factor influencing economic activity. This will impact consumer sentiment and consumption, which have been assisted by these payments and early access to superannuation. This has contributed to strong household spending in the second half of 2020. The outlook is for the economy to return to more normal investment patterns, with public investment supporting activity in the short term (Chart 2.1) and several major private sector resource and technology projects on the horizon. The forecasts do not include projects yet to reach final investment decision.

In 2020-21, GSP is forecast to increase by 4.7% as household consumption improves, coupled with strong dwelling investment. Net exports make a significant contribution to growth, through a significant reduction in imports. The decrease in imports in 2020-21 is due to one-off factors. The Territory is a net importer of overseas travel (that is, Territorians typically spend more overseas each year than international visitors spend in the Territory) and border closures have resulted in a significant decline in this spending. This fall has been coupled with a decrease in fuel imports, with fewer interstate drive market tourists and air travel, and there has also been a significant decrease in the value of off-road transport equipment being imported.

The Territory Government's Jobs First Plan and the Commonwealth's JobMaker hiring credit may incentivise businesses to hire additional employees who were previously on JobSeeker or other unemployment benefits. Combined, the programs will provide employers with $200 per week for each additional employee aged 16 years or over for up to 12 months from the date the new position is created. The Jobs First Plan also invests in local businesses to reduce the cost of doing business and improve the resilience of supply chains.

Monthly labour force statistics for the Territory are volatile and report the Territory unemployment rate has fallen from 7.5% in July 2020 to 5.6% in March 2021. The current situation is that some industries, notably tourism and agriculture, are experiencing labour shortages that will affect output. The Territory Government is working with industry and providing funding through the $2 million Critical Worker Support Package to attract hospitality and tourism workers to the Territory, and the $0.75 million recruitment campaign and business support package to find 200 melon pickers for the upcoming season.

Business confidence has improved significantly from a net balance of 28% of businesses being confident about their prospects in the June quarter 2020 to a net balance of 67% in the December quarter 2020. Businesses taking up the instant asset tax write-off has been considerably stronger than expected, and this has contributed to a 59% increase in private new capital expenditure in machinery and equipment in the December quarter 2020. This strong growth reflects the twin effects of businesses delaying investment while demand was weak in the period following construction of the Ichthys LNG plant and the current positive outlook of businesses. Tourism-related businesses are less confident than those in other industries but will have some support from the Commonwealth's $1.2 billion Tourism Aviation Network Support program and the expanded and extended Commonwealth small and medium-sized enterprises (SMEs) Recovery Loan Scheme.

Box 2.1 Barossa Project

The Barossa Project to supply gas to the Darwin LNG plant received final investment decision in March 2021. The US$3.6 billion project also kick-starts an additional US$0.6 billion investment for the Darwin LNG plant's life extension and pipeline tie-in projects, which will extend the plant's life for about 20 years. Work is expected to commence in the second half of 2021, with LNG production targeted for the first half of 2025.

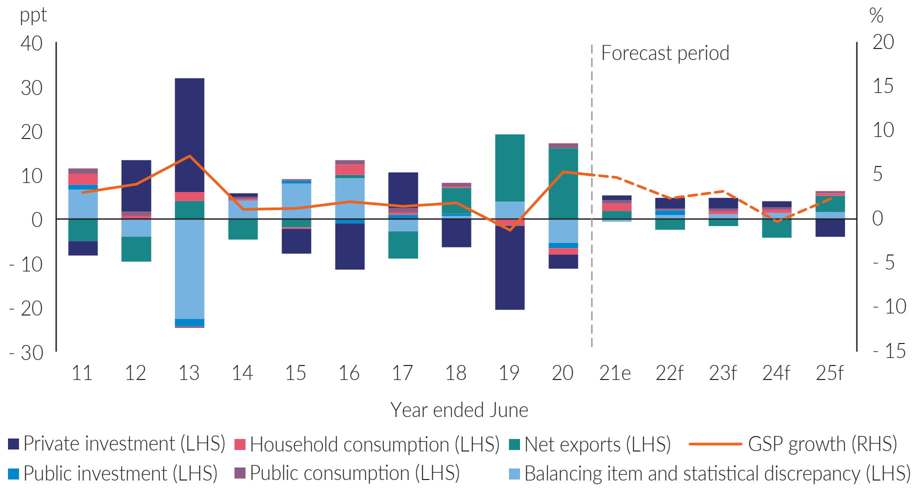
Local content and employment for the Darwin LNG plant upgrade will be significantly greater than for the offshore component of the project, and recommencing of LNG production in 2024-25 will provide a significant and ongoing boost to exports. The vast majority of works to deliver the offshore component of the project is expected to be sourced from overseas, with the floating production, storage and offloading vessel (one of the largest capital expenditure components of the project) to be built in South Korea and Singapore before being towed and permanently located at the Barossa field. It is expected the Darwin LNG plant will cease production in mid-2023 as the gas feedstock from the Bayu-Undan field is depleted.

Temporary loan repayment deferrals granted to provide relief to borrowers impacted by COVID-19 have also been steadily declining. Housing loan deferrals as a share of housing loans in the Territory fell from 9% in August 2020 to 1% in January 2021, and SME loan deferrals as a share of SME loans have fallen from 15% to 1% over the same period. This suggests conditions are improving for both households and businesses.

The rollout of COVID-19 vaccination programs in Australia and around the world will support economic recovery through increased confidence to consume and invest as activity returns to normal, and as international travel resumes. Increased confidence to travel will have inflow and outflow impacts but the net positive impact is likely to be greater in the Territory than other jurisdictions due to the Territory's small population.

Public investment will be a significant contributor to economic activity in the next three years, underpinned by projects currently underway or due to commence. Business investment is expected to make a small contribution to GSP growth in 2020-21 (after detracting from growth during the previous three years) as government incentives bring forward investment decisions. Potential projects include a number of opportunities that will boost growth in local construction, supply, and service and resource businesses (see Table 2.2 for a non-exhaustive list of some of these major projects).

Chart 2.1: Contributions to Territory gross state product growth



e: estimate; f: forecast; GSP: gross state product; LHS: left-hand side; ppt: percentage point; RHS: right-hand side
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Economic activity in the outlook period will benefit from improving domestic conditions and population growth, which will support increased demand for goods and services.

The forecast for GSP to decline in 2023-24 (Table 2.1 and Chart 2.1) reflects declining exports from the Darwin LNG plant due to the depletion of gas reserves from the Bayu-Undan gas field. Production is expected to resume in the first half of 2025.

Box 2.2: Potential for stronger economic growth

The projections made in the economic outlook are conservative and do not factor in potential or planned projects yet to reach final investment decision. There are many projects on the Territory's horizon that could proceed in the forecast period (Table 2.2) but are not currently reflected in the outlook.

It is likely some of these projects will reach final investment decision, contributing to stronger economic growth than is reported in Table 2.1. The periodic updates to the economic outlook will reflect any further investment decisions that are made on planned and potential projects.

Table 2.2: Major projects

Committed projects	Planned/proposed projects
• Barossa Project • Darwin ship lift and marine industry project • Darwin City Deal, including the CDU CBD campus • Jabiru and Kakadu future developments • Northern Territory Airports expansion projects • Alice Springs CBD revitalisation plan • Remote housing investment package • Jindalee Operational Radar Network upgrades • RAAF Base Tindal redevelopment • RAAF Base Tindal airfield works • Larrakeyah Barracks and HMAS Coonawarra upgrades • Defence training field upgrades • Humpty Doo Barramundi expansion • Terabit Territory • John Stokes redevelopment • Palmerston regional fire, rescue and emergency services complex • Katherine Logistics and Agribusiness Hub • Darwin and Alice Springs youth justice centres • Road infrastructure • Barkly Regional Deal • Mandorah marine facility • Northcrest housing development • Hudson Creek and Batchelor power projects	• Condensate processing facility • Project Sea Dragon • Nolans rare earths project • Mount Peake project and metals processing facility • Ammaroo phosphate project • Chandler salt mine • Molyhil tungsten mine • Jervois base metal project • Rover Gold Project • Finniss lithium project • Mount Todd gold mine • Petrel gas project • Australian-ASEAN Power Link • Mount Isa to Tennant Creek railway • HyperOne • National Aboriginal Art Gallery • National Indigenous Cultural Centre • US defence projects • Alice Springs Hospital accommodation
Estimated $11.1 billion	Estimated $36.2 billion

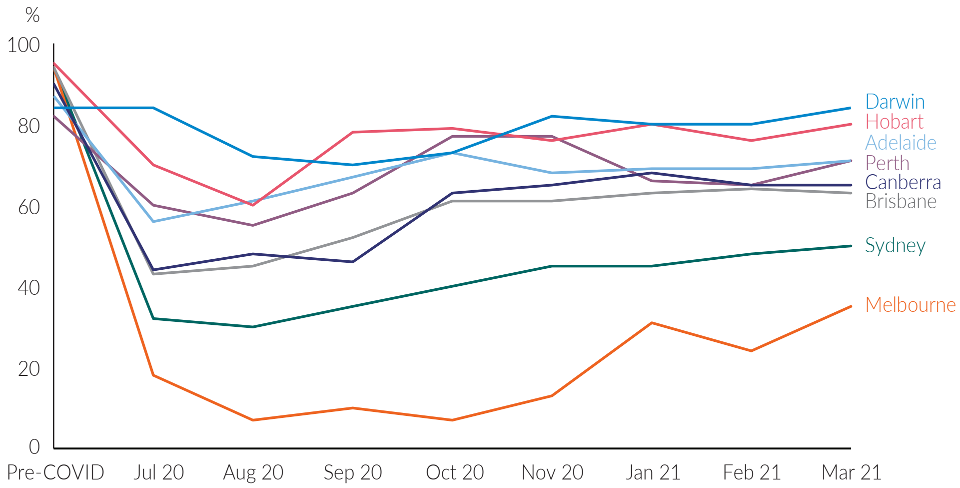
HMAS: Her Majesty's Australian Ship; RAAF: Royal Australian Air Force; US: United States (of America)

COVID-19

COVID-19 has caused significant disruption to economic activity in the Territory, with tourism industries that rely on interstate and international visitors being the most affected. Physical distancing rules had an immediate impact on the domestic economy as retail and hospitality activities essentially ceased for a short period. Weekly payroll data reported that between mid-March and mid-April 2020 the number of jobs in the arts and tourism-related industries decreased by around 30% at the peak of physical distancing restrictions in the Territory (noting mid-March is already a low point in the seasonal cycle for these industries).

Physical distancing remains in place, but the Territory's successful health response, and early and sustained easing of restrictions, supported by the absence of community transmission, has meant Territorians quickly returned to normal consumption patterns to support economic activity. This is evidenced by CBD office occupancy rates as at March 2021, where Darwin has returned to pre-COVID-19 levels, the best outcome of all the capital cities (Chart 2.2). Household consumption fell by 6% in the June quarter 2020 before increasing by 7.5% in the September quarter 2020 and a further 5.1% in the December quarter 2020, and is near pre-COVID-19 levels for the year.

Chart 2.2: CBD office occupancy

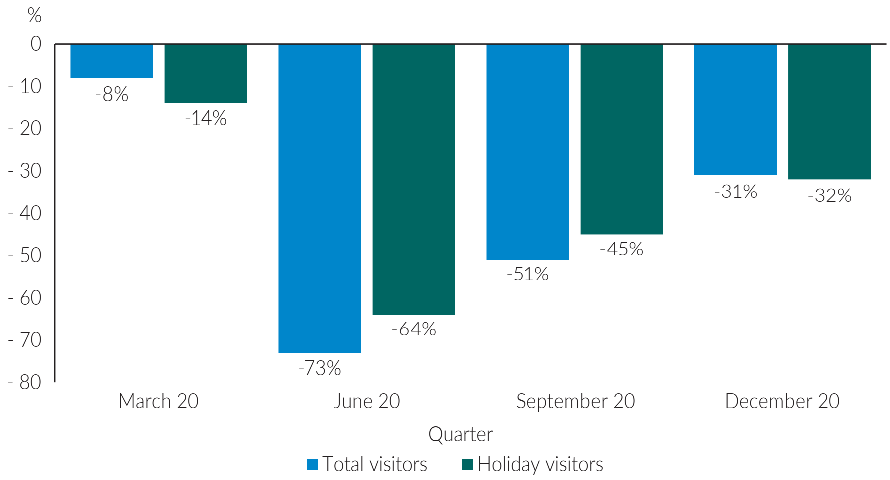


Source: Property Council of Australia Office Occupancy Survey

The effect of interstate and international border closures has been significant and sustained for industries that rely on inbound visitation for customers or the supply of labour, notably tourism-related industries and those relying on 'foot traffic'. These impacts were exacerbated by interstate border closures during the Territory's peak tourism season (Chart 2.3).

Quarantine free travel between Australia and New Zealand commenced on 18 April 2021 and may provide some inbound tourist activity to the Territory. The Commonwealth is also in discussions with other nations in the region to create similar arrangements, including Singapore. The rollout rate and effectiveness of COVID-19 vaccination programs across the world will determine how fast international borders open and the appetite for international travel, with Australia's borders estimated to reopen in early 2022. It is expected supply-side factors will respond rapidly to changes in demand.

Chart 2.3: Annual change in domestic overnight trips

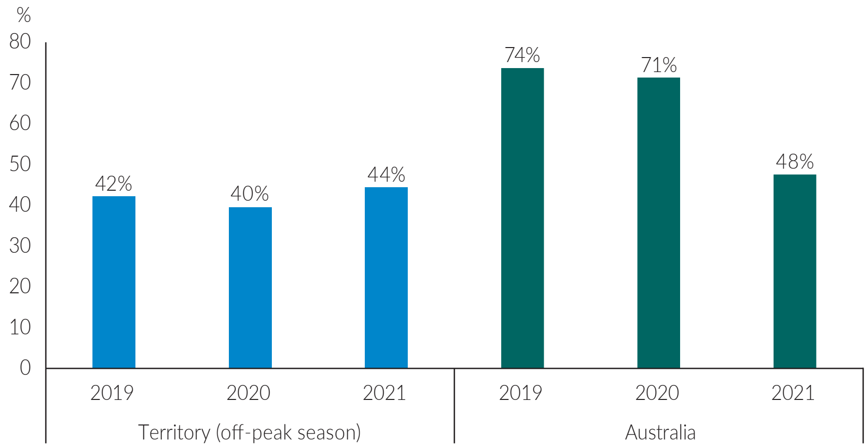


Source: Department of Treasury and Finance; Tourism Research Australia

With an estimated 1.1 million interstate visitors to the Territory in 2019, spending an estimated $1.6 billion, this segment of the visitor market is the most significant for the Territory. The majority of visitation is during the peak season from April to September, and Victoria and New South Wales typically account for around 50% of interstate visitors. Border restrictions through 2020 significantly reduced visitor flows, with severe impacts on tourism activity. The Territory tourism voucher initiative supported tourism-related activity through 2020-21, and the Commonwealth's $1.2 billion Tourism Aviation Network Support program will boost demand to tourism regions heavily impacted by COVID-19, including the Territory, in 2021.

The tourism voucher scheme has supported accommodation businesses in the Territory since July 2020, with average occupancy rates for the January and February period in 2021 returning to pre-COVID-19 levels (noting this is during the off-peak tourism season). In comparison, average occupancy rates in Australia for the corresponding period are down significantly (Chart 2.4). The extension of the tourism voucher scheme along with the availability of more affordable air travel from the Tourism Aviation Network Support program should continue to support Territory tourism businesses and occupancy rates in 2021.

Chart 2.4: Average accomodation occupancy rates for January and February in the Territory and Australia



Source: Smith Travel Research

An immediate issue for the tourism industry is access to skilled labour in preparing for increased activity, with the closure of the Australian border affecting access to skilled workers from overseas. This is also an issue for seasonal industries, such as agriculture, that historically rely on backpackers and other international visitors for labour. International border entry exemptions supported agricultural output in 2020 and the Territory and Commonwealth governments continue to work together to meet short-term labour force demand.

Opportunities

Major projects

The delivery of new major projects will be key to achieving economic output of $40 billion by 2030. The Territory Government is committed to supporting economic activity and attracting private investment to broaden the economy and develop local industry capacity. There are a number of major projects identified that have the potential to sustain growth over the medium and long term (Map 2.1 and Table 2.2). As these projects are subject to regulatory approval processes or final investment decisions, their economic contributions are not included in the forecasts. Projects that commence over the forward estimates will have a positive impact on the economic outlook.

In April 2021, the Territory Government created the Territory Investment Commissioner and Major Projects Commissioner roles to assist and fast track major private investment projects. The Territory Investment Commissioner will oversee a new $5 million fund to partner with industry to find new investment opportunities in target sectors such as advanced manufacturing, renewable energy and digital industries. The Major Projects Commissioner will be the point of coordination for major projects, making it easier to progress through the necessary processes, and will be able to recommend legislative changes where necessary to make it easier to deliver projects.

Resources

The Territory has significant reserves of gas, manganese, gold, uranium, phosphate, base metals, vanadium and rare earths, and large areas of land yet to be fully explored. The Territory Government has increased its annual funding to Resourcing the Territory from $6.5 million to $9.5 million from July 2022 for mineral exploration. There are many resource projects at various stages of development (Table 2.2) that have combined estimated capital expenditure of more than $6 billion.

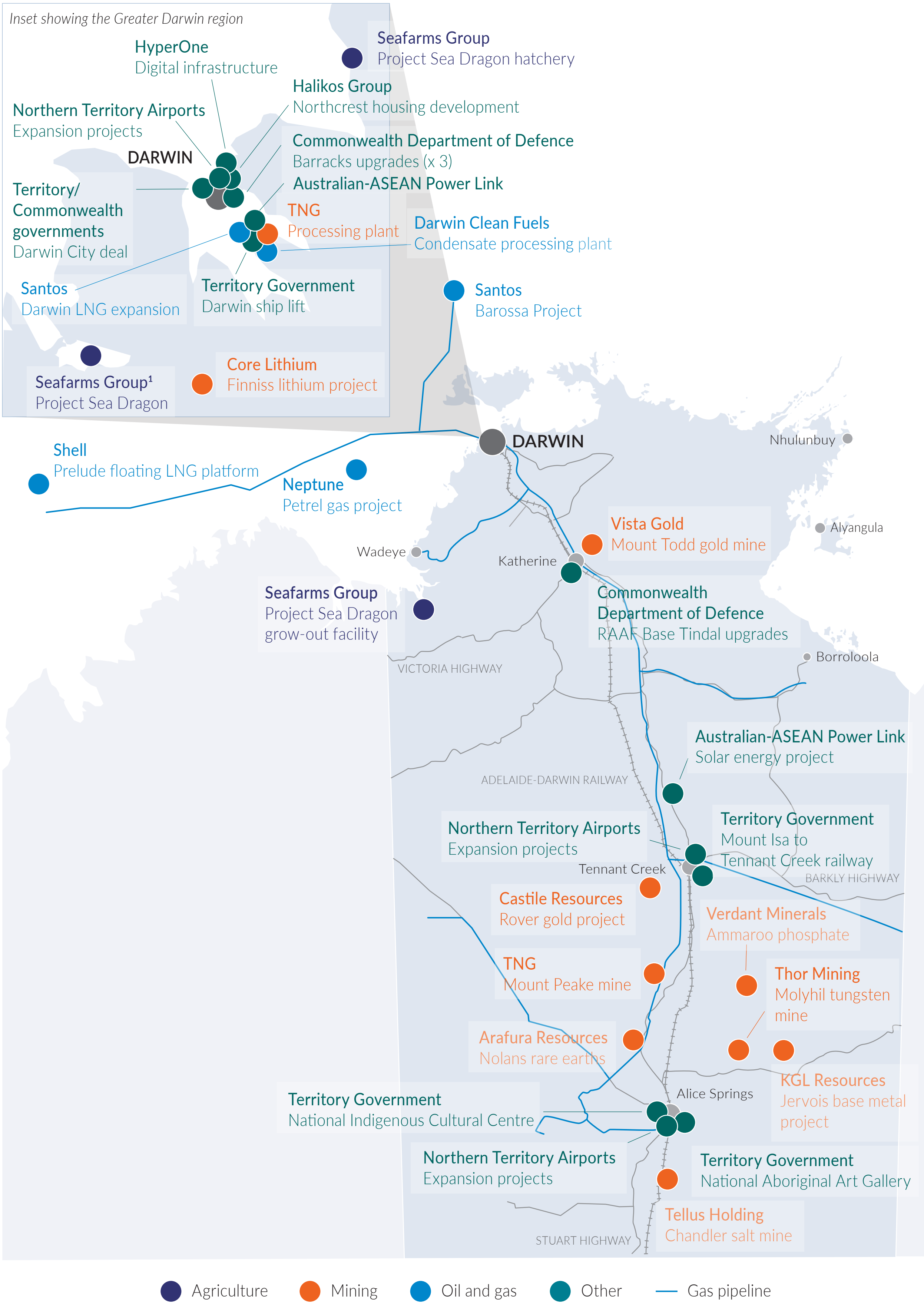
The Territory has a prospective shale gas resource of over 257,000 petajoules. The Territory Government is implementing all 135 recommendations of the Scientific Inquiry into Hydraulic Fracturing in the Northern Territory Final Report and significant investment continues towards commercialising gas reserves. This is being supported by Commonwealth initiatives and investment such as the $224 million Beetaloo Basin Plan, with $50 million allocated to support exploration and $174 million for road upgrades.

The Territory's gas resources are sufficient to contribute to Australia's energy security and sustain local value-adding projects. The Northern Territory Gas Strategy aims to establish Darwin as a world class production, manufacturing and services hub.

Significant investment opportunities exist in the Territory for methane and ethane-based products, energy-intensive industries, condensate refining and fuel storage. Land has been identified for gas-based industry development near existing LNG facilities at the Middle Arm Industrial Precinct. Expanding the supply and domestic use of gas has the potential to reduce emissions. The Territory also has the potential to develop a carbon capture storage industry to support global efforts to reduce emissions and could benefit from the Commonwealth's $263.7 million commitment to develop carbon capture, utilisation and storage projects and hubs across Australia.

High prices also supported the recommencement of iron ore production and exports in 2020-21.

Map 2.1: Planned and proposed projects in the Territory



1 Core breeding centre and brood stock maturation centre.

Defence

Defence-related activity and investment is a consistent contributor to economic activity in the Territory. Local industry participation in major defence projects has increased in recent years and is now at over 80%, supporting local businesses and employment. The 2020 Defence Strategic Update and the 2020 Force Structure Plan reinforce the significance of the Territory to national security, with over $8 billion to be invested in the Territory over the next decade. Major projects over the budget forward estimates include $1.1 billion for works at RAAF Base Tindal and $221 million for new facilities to support the Arafura class offshore patrol vessels, the $472 million Larrakeyah barracks and HMAS Coonawarra upgrades, and $711 million to upgrade and expand training areas and ranges.

The Commonwealth and US governments supported continuation of the annual US Force Posture Initiatives marine rotation in 2020, and developed protocols to mitigate the risk of COVID-19 transmission. These protocols are in place for the 2021 rotation.

Infrastructure plan

Government investment in economic and enabling infrastructure is critical to facilitating growth, creating jobs, and developing skills and expertise in the local workforce. The Territory's 10-year Infrastructure Plan sets the long-term infrastructure agenda and provides guidance and confidence for businesses and individuals to invest, establish new industries and develop skills to support the economy. Infrastructure Australia, the peak advisory body to the federal government, has updated its priority list to include new projects to support development of the Beetaloo Basin and Middle Arm Precinct, and for large scale solar generation and remote Territory community power generation. In order to align the Territory's infrastructure needs with future industry and population growth, the Territory Government is establishing the Territory's first strategic infrastructure body to work closely with Infrastructure Australia.

Northern Australia Infrastructure Facility

The $5 billion Northern Australia Infrastructure Facility (NAIF) is a lending facility established by the Commonwealth to provide loans for infrastructure projects in northern Australia. NAIF has provided $700 million for several projects in the Territory, including the CDU CBD campus project, Darwin ship lift and marine industry project, Northern Territory Airports expansion, Voyages Indigenous Tourism Pty Ltd, Humpty Doo Barramundi farm expansion, the Hudson Creek power station and Batchelor solar farm. NAIF also provided further funding for stage 2 of the Humpty Doo Barramundi expansion in October 2020. These projects have a combined capital expenditure of $1.1 billion.

NAIF has been extended until 2026, and its eligibility criteria and processes have been amended to be more aligned with its policy objectives and reduce administrative burden. Key changes give NAIF the option to lend directly to project proponents and enable NAIF to establish on-lending partnerships to make it easier for project proponents to access development capital. NAIF established a Darwin office in late 2020, and this local presence will be critical to understanding local issues and developing partnerships that can support economic development in the Territory.

Digital infrastructure

The Territory Government is working to position the Territory to become northern Australia's most advanced digital economy and Australia's digital gateway to Asia and beyond. Improving the Territory's digital connectivity, with contemporary high speed, low latency links to Asia and the rest of Australia is critical to achieving this.

The Territory Government is partnering with Vocus to deliver Terabit Territory – a highly secure, high speed terabit network, with connections to Adelaide and Queensland. Terabit Territory is on track to be completed in late 2021, with a number of other digital infrastructure projects proposed in the next few years, including:

- Vocus' Jakarta–Singapore link, establishing a direct, subsea fibre-optic link from Darwin to Singapore
- Project Echo, a trans-Pacific subsea cable connecting Singapore to the US with a planned branch to Darwin
- HyperOne, a $1.5 billion project to deliver Australia's first hyper-scale national fibre network
- Project Koete, a subsea fibre-optic cable from Perth to Darwin and into South-East Asia
- Industry 4.0 Defence and Security Testlab – to improve the Territory's competitiveness and allow SMEs, students and workforce to embrace Industry 4.0 technologies and engage in workforce transformation.

Enhanced digital connectivity will help establish the Territory as a major data centre hub. In 2020, the Territory Government released an Expression of Interest for a commercial data centre in Darwin. The successful proponent is expected to be announced in mid-2021.

Renewable energy

The Territory is well placed to develop sustainable renewable energy, and Sun Cable proposes to build the Australian-ASEAN Power Link, one of the world's largest solar farms and battery facilities, to deliver energy to the Territory and Singapore. Sun Cable has signed a project development agreement with the Territory Government to provide a roadmap to finalise land tenure and commercial arrangements. The project has the potential to deliver 800 megawatts (MW) of electricity into the Darwin-Katherine system.

A number of smaller projects are underway or proposed, though these mainly cater to local markets as the Territory progresses towards its objective to produce 50% renewable energy for electricity supply by 2030. The Territory has also committed $2 million to secure land and develop an open and contestable framework to facilitate private sector investment for the stable supply of renewable energy to 72 remote communities.

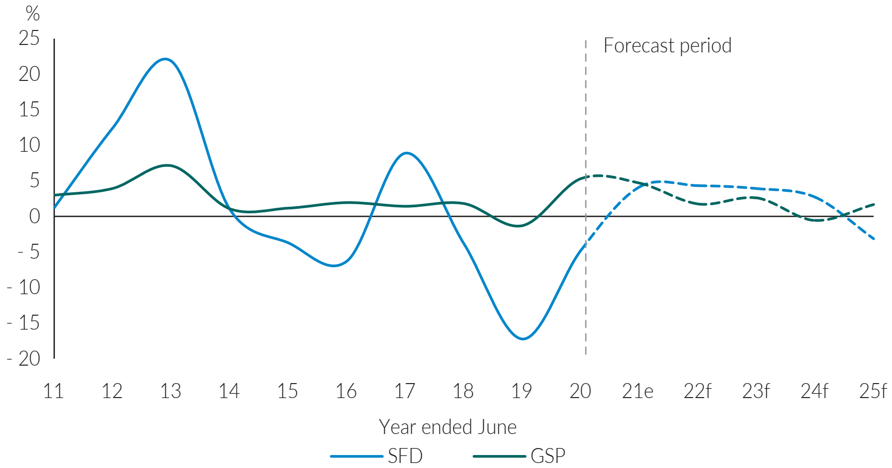
The Territory Government is progressing electricity market reforms to support the Territory's renewable energy target by facilitating new market participants and the adoption of emerging technologies, while maintaining secure, stable and least-cost electricity for consumers and taxpayers. The Territory could also benefit from the Commonwealth's recently announced $275.5 million commitment to accelerate the development of hydrogen hubs in regional Australia, allowing for more projects like the off-grid renewable hydrogen project trial scheduled for Tennant Creek in 2021.

State final demand

SFD is estimated to increase by 4.2% in 2020-21, with household consumption the major contributor to growth, followed by private investment. In 2021-22 and 2022-23, SFD growth is expected to be supported by private investment associated with the Barossa Project.

SFD was showing early signs of recovery prior to COVID-19 (Chart 2.5) but declined by 4.7% to $23.5 billion in 2019-20, as restrictions in the last four months of the year impacted household consumption, which decreased by 6% in the June quarter and by 3.3% in 2019-20. Private investment declined by 19.9%, as the Ichthys LNG project was completed and COVID-19-related uncertainty weighed on business investment.

Chart 2.5: Changes to Territory gross state product and state final demand



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

Private investment

Private investment is estimated to increase by 9.6% in 2020-21 (Chart 2.6). Business confidence improved strongly in late 2020, and it appears businesses that had been reluctant to invest are now taking advantage of temporary instant asset write-off rules and accelerated depreciation deductions, with investment in new equipment, plant and machinery increasing by 59.4% in the December quarter 2020.

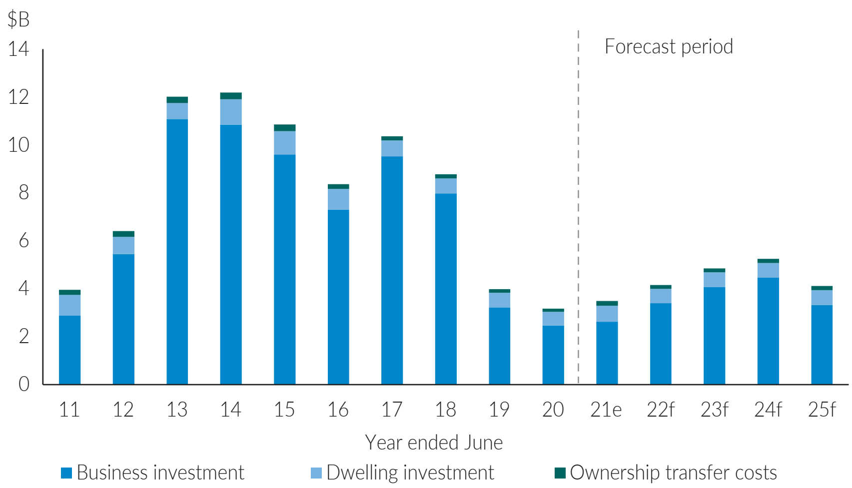
Business confidence has also been supported by significant Territory Government assistance measures including the Business Hardship Package, Home Improvement Scheme, Small Business Survival Fund and Immediate Work grants. These packages provided immediate stimulus to the economy, with the direct impacts limited to 2020-21.

The Territory Government's Local Jobs Fund is also supporting investment in economic transformation projects to grow local businesses, and increase exports interstate and internationally. Projects supported to date include the Alice Springs Asia Pacific aircraft storage and maintenance facility, commercialisation of 3D metal printing, wearable personal safety monitoring devices and food production, processing and distribution feasibility studies, and the Terabit Territory project to upgrade the fibre-optic cable network.

Dwelling investment in 2020-21 is being supported by government programs including the Territory's Home Improvement Scheme and BuildBonus grant, and the Commonwealth's HomeBuilder grant, with the outlook forecasting that population growth, low interest rates and government incentives will support new construction.

Over the medium term, private investment will be influenced by the Barossa Project, global demand for Territory resources, the Territory's cost competitiveness in producing resources and the risk appetite of investors. Medium to longer-term investment opportunities will also be influenced by the amount of resource exploration activity. Exploration is critical for project development and, despite the deferral of activity as a result of COVID-19, it is anticipated exploration activity will return to normal levels in 2021, notably for gas exploration in the Beetaloo region but also elsewhere. NAIF and the Local Jobs Fund will continue to be important facilitators of private investment.

Chart 2.6: Territory private investment



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

Public investment

Public investment is forecast to average $1.6 billion per annum over 2020-21 to 2024-25 and will provide significant support to the Territory economy and jobs (Chart 2.7).

Public investment is forecast to increase by 2.5% in 2020-21. In 2019-20, public investment decreased by 18.2% to $1.4 billion, with declines across all levels of government in the June quarter 2020 as work was delayed due to COVID-19 restrictions.

Major government-funded projects underway and scheduled include:

- continuation of the $1.1 billion remote housing investment package, with a further $550 million co-contribution from the Commonwealth Government
- $400 million Darwin ship lift and marine industry project
- Darwin city deal
- Alice Springs CBD revitalisation
- $64 million Darwin youth justice centre
- $50 million Mandorah marine facility.

When completed, the Darwin ship lift will be the largest in northern Australia, and the centrepiece in developing a marine maintenance and servicing industry with capacity to service Australian Defence and Border Force vessels, as well as commercial and private vessels, including from the oil, gas and marine industries. Construction of the ship lift is anticipated to take two years, with the facility to be operating in 2024.

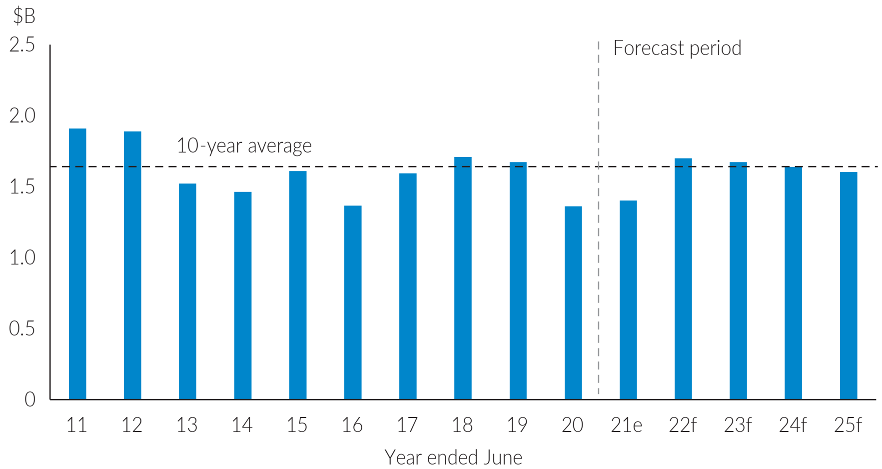
The Territory and Commonwealth governments are progressing City Deals for Darwin and Alice Springs, and the Barkly Regional Deal. The construction for the new CDU CBD campus commenced in October 2020 and the campus is expected to be operational in 2024. The Territory Government has also committed $135.5 million for the Jabiru Masterplan and the Commonwealth is contributing up to $276 million to upgrade Kakadu National Park.

In its 2020-21 Budget, the Commonwealth committed $190 million for priority road projects in the Territory, including $120 million for the Carpentaria Highway upgrade, $47 million for National Network highway upgrades and $23 million for the Stuart Highway upgrade at Coolalinga. This is in addition to funding for road upgrades for Adelaide River to Wadeye, Alice Springs to Halls Creek, Central Arnhem Road, Outback Way, Kakadu and Beetaloo roads, and $40 million for priority regional and urban infrastructure as part of its COVID-19 response, including $27 million for targeted safety works.

Committed defence projects include upgrades at HMAS Coonawarra, Robertson and Larrakeyah barracks, and training areas. Both RAAF Base Darwin and Tindal have significant works including extending runways, new fuel storage facilities and air traffic control upgrades. The Commonwealth has also brought forward around $190 million of investment in approved infrastructure projects in the Territory.

Other public sector projects include the National Indigenous Cultural Centre and National Aboriginal Art Gallery, and the Katherine Logistics and Agribusiness Hub. The Territory is also well positioned to benefit from the Commonwealth's $53 million package to develop a competitive domestic gas market and the $1.5 billion Modern Manufacturing Strategy. The Territory has sufficient gas reserves to meet domestic demand and export-focused manufacturing opportunities.

Chart 2.7: Public investment in the Territory



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

Household consumption

Household consumption is estimated to increase by 4.2% in 2020-21 and average 1.4% per annum in the four years to 2024-25, reflecting modest economic, employment and population growth.

Household consumption was assisted in the second half of 2020 by the absence of travel restrictions and government stimulus, such as JobKeeper and JobSeeker, early access to superannuation (estimated at $500 million in the Territory), and limited ability to travel for leisure or business. These factors are temporary and going forward, growth is expected to return to being driven by employment, population and wages.

While the number of people on welfare in the Territory in January 2021 fell to around the same levels as April 2020, the ending of JobSeeker payments on 31 March 2021 is expected to have an impact on household consumption. The cessation of JobKeeper payments on 28 March 2021 is also expected to have an impact on employment. However, data suggests the Territory economy has been the least reliant on JobKeeper of the jurisdictions with only 2.7% of those employed receiving JobKeeper in February 2021, compared with 7.4% nationally.

The number of workers on JobKeeper in its first phase (March to September 2020) fell by 69% in the transition to the first quarter of the extension phase (October to December 2020), the second largest fall of the jurisdictions, and a sign the economy is recovering. The Territory Government's Jobs First Plan and the Commonwealth's JobMaker hiring credit are aimed at incentivising businesses to hire additional employees aged 16 years or over, which can support employment and consumption. From 2021-22, household consumption is supported by an improving employment outlook.

COVID-19 had a significant impact on Territory household consumption patterns in 2019-20, though to a lesser extent than other jurisdictions, reflecting the Territory's early easing of physical distancing and other restrictions, support packages and a relatively large proportion of Territorians applying for early release of superannuation. Household confidence was impacted by employment uncertainty, with consumption declining by 6% in the June quarter 2020, compared with 12.3% nationally. The national savings ratio increased to 22% (the highest saving ratio on record) in the June quarter, before falling to 12% in the December quarter 2020.

Public consumption

Public consumption is estimated to increase by 2.3% in 2020-21, following growth of 3.7% in 2019-20 as health and defence-related spending increased in response to COVID-19.

Beyond 2020-21, public consumption is expected to provide a modest contribution in each of the outlook years, with growth constrained by the Territory Government's commitment to fiscal repair.

Net exports

After averaging $4.9 billion per annum over the past decade, net exports are expected to average $10.6 billion per annum over the forecast period (Chart 2.8).

Net exports are forecast to increase by 3.8% in 2020-21, with a 23.3% fall in imports. Closed international borders are impacting tourism and defence-related service exports and imports.

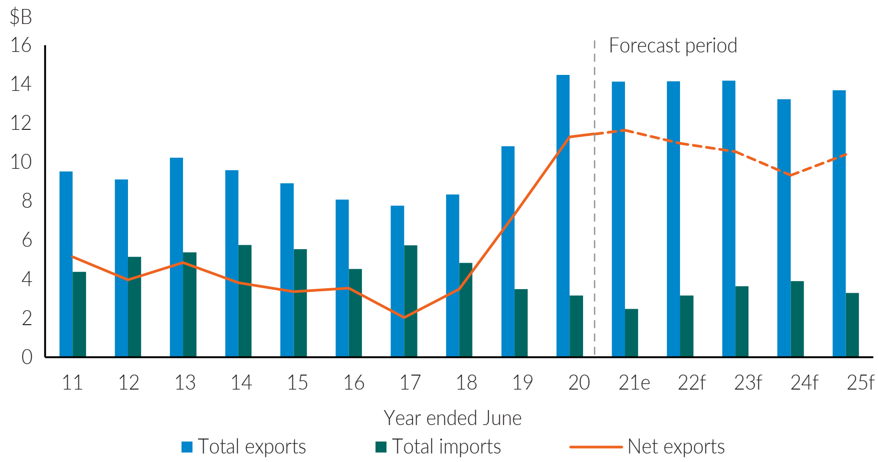
Net exports increased by 54.3% in 2019-20 as the Ichthys LNG plant reached steady-state production. The forecast period has exports falling by 6.7% in 2023-24 as Bayu-Undan gas feedstock for the Darwin LNG plant is depleted, impacting LNG production. It is expected there will be a break in LNG production given the time needed to develop the Barossa gas field. The plant will need to be shut for a period for maintenance and works to receive the gas. Production is expected to re-commence in the first half of 2025.

Service exports have been severely impacted by COVID-19, which will continue until international borders reopen. This is unlikely to be until early 2022, and will be highly dependent on decision-making by individual governments to allow entry. There is currently a travel bubble between Australia and New Zealand.

The recovery in international tourism is expected to be gradual and will depend on rebuilding global aviation networks. There is a risk airlines will shift from a focus on volume to profit. Combined with the loss of several international low-cost carriers, this may result in a reduced supply of discount long-haul tickets, impacting visitation to long-haul destinations such as Australia. The opening of borders will support service exports but will also increase service imports as Australians and Territorians are able to travel again. The transition to being confident to travel internationally will likely take some time, though open borders will mean Australians have the option to holiday overseas or in Australia.

Arrangements to allow international students to arrive in Darwin are in place for 2021, and international student numbers in the Territory actually increased in 2020 as international students based interstate relocated to escape perceived health risks. It is unclear whether this increase will be short term in nature.

Chart 2.8: Territory net exports



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

Table 2.3: Components of Territory gross state product (expenditure)[1, 2]

	Value ($M)[1]									
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21e[3]	2021-22f	2022-23f	2023-24f	2024-25f
Total consumption	18 772	19 136	19 396	19 042	18 948	19 601	19 696	20 043	20 406	20 715
Household consumption	11 011	11 112	11 179	10 855	10 462	10 942	10 975	11 183	11 408	11 563
Public consumption	7 750	8 019	8 215	8 186	8 486	8 659	8 721	8 860	8 998	9 152
Total investment	9 739	11 937	10 470	5 647	4 534	4 891	5 859	6 521	6 883	5 715
Private investment	8 369	10 337	8 759	3 973	3 172	3 489	4 158	4 848	5 244	4 111
Dwelling investment	873	663	626	603	565	666	605	610	618	625
Ownership transfer costs	194	177	168	144	145	208	166	169	168	167
Business Investment	7 295	9 520	7 980	3 226	2 462	2 615	3 387	4 069	4 458	3 319
Public investment	1 366	1 595	1 709	1 673	1 363	1 403	1 701	1 673	1 639	1 604
State final demand	28 476	31 012	29 825	24 688	23 482	24 492	25 555	26 564	27 290	26 430
Net exports	3 542	2 035	3 504	7 325	11 301	11 644	10 972	10 536	9 329	10 394
Total exports	8 078	7 774	8 351	10 821	14 476	14 125	14 141	14 185	13 229	13 690
Total imports	4 536	5 739	4 847	3 496	3 175	2 481	3 169	3 649	3 900	3 296
Balancing item[2]	- 7 671	- 8 348	- 8 182	- 7 183	- 8 531	- 8 705	- 8 455	- 8 153	- 7 762	- 7 310
Gross state product	**24 346**	**24 698**	**25 149**	**24 830**	**26 153**	**27 432**	**28 072**	**28 947**	**28 857**	**29 514**
	Year-on-year change (%)[1]									
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21e[3]	2021-22f	2022-23f	2023-24f	2024-25f
Total consumption	4.5	1.9	1.4	- 1.8	- 0.5	3.4	0.5	1.8	1.8	1.5
Household consumption	5.2	0.9	0.6	- 2.9	- 3.6	4.2	0.3	1.9	2.0	1.4
Public consumption	3.4	3.5	2.4	- 0.4	3.7	2.3	0.7	1.6	1.6	1.7
Total investment	- 22.0	22.6	- 12.3	- 46.1	- 19.7	7.4	19.8	11.3	5.6	- 17.0
Private investment	- 23.1	23.5	- 15.3	- 54.6	- 19.9	9.6	19.2	16.6	8.2	- 21.6
Dwelling investment	- 11.0	- 24.1	- 5.6	- 3.7	- 6.1	17.6	- 9.1	0.8	1.4	1.1
Ownership transfer costs	- 30.7	-8.8	- 5.1	- 14.3	1.4	43.7	- 20.3	1.9	- 1.0	- 0.5
Business Investment	- 24.0	30.5	- 16.2	- 59.6	- 23.4	5.8	29.5	20.1	9.6	- 25.6
Public investment	- 15.2	16.8	7.1	- 2.1	- 18.2	2.5	21.2	- 1.7	- 2.0	- 2.1
State final demand	- 6.3	8.9	- 3.8	- 17.2	- 4.7	4.2	4.3	3.9	2.7	- 3.1
Net exports	5.0	- 42.5	72.2	109.0	54.3	3.8	- 5.8	- 4.0	- 11.5	11.4
Total exports	- 9.4	- 3.8	7.4	29.6	33.8	- 2.2	0.1	0.3	- 6.7	3.5
Total imports	- 18.2	26.5	- 15.5	- 27.9	- 9.2	- 23.3	27.8	15.1	6.9	- 15.5
Balancing item[2]	- 22.4	8.8	- 2.0	- 12.2	18.8	2.0	- 2.9	- 3.6	- 4.8	- 5.8
Gross state product	**2.0**	**1.4**	**1.8**	**- 1.3**	**5.3**	**4.7**	**2.3**	**3.1**	**- 0.3**	**2.3**
	Percentage point contribution to year-on-year GSP change[1]									
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21e[3]	2021-22f	2022-23f	2023-24f	2024-25f
Total consumption	3.4	1.5	1.1	- 1.4	- 0.3	2.4	0.3	1.2	1.3	1.1
Household consumption	2.3	0.4	0.3	- 1.3	- 1.4	1.7	0.1	0.7	0.8	0.5
Public consumption	1.1	1.1	0.8	- 0.1	1.1	0.7	0.2	0.5	0.5	0.5
Total investment	- 11.5	9.0	- 5.9	- 19.2	- 4.4	1.3	3.5	2.4	1.3	- 4.0
Private investment	- 10.5	8.1	- 6.4	- 19.0	- 3.2	1.2	2.4	2.5	1.4	- 3.9
Dwelling investment	- 0.5	- 0.9	- 0.1	- 0.1	- 0.1	0.4	- 0.2	0.0	0.0	0.0
Ownership transfer costs	- 0.4	- 0.1	0.0	- 0.1	0.0	0.2	- 0.2	0.0	0.0	0.0
Business Investment	- 9.7	9.1	- 6.2	- 18.9	- 3.0	0.5	2.8	2.4	1.3	- 3.9
Public investment	- 1.0	0.9	0.5	- 0.1	- 1.2	0.1	1.1	- 0.1	- 0.1	- 0.1
State final demand	- 8.0	10.4	- 4.8	- 20.4	- 4.7	3.7	3.9	3.6	2.5	- 3.0
Net exports	0.7	- 6.2	5.9	15.2	16.0	1.6	- 2.5	- 1.6	- 4.2	3.7
Total exports	- 3.5	- 1.2	2.3	9.8	14.7	- 1.2	0.1	0.2	- 3.3	1.6
Total imports	4.2	- 4.9	3.6	5.4	1.3	2.9	- 2.5	- 1.7	- 0.9	2.1
Balancing item[2]	9.3	- 2.8	0.7	4.0	- 5.4	- 0.7	0.9	1.1	1.4	1.6
Gross state product	**2.0**	**1.4**	**1.8**	**- 1.3**	**5.3**	**4.7**	**2.3**	**3.1**	**- 0.3**	**2.3**

e: estimate; f: forecast

1 Inflation adjusted, components may not add to totals due to rounding and ABS chain volume estimation.

2 Balancing item includes statistical discrepancy.

3 Historical data is sourced from ABS Cat. No. 5220, released in November each year. Components of SFD are reported and revised quarterly but not updated here to ensure all components of historical GSP compute.

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

Chapter 3

External economic environment and trade

Outlook

Net exports are expected to increase in 2020-21, with imports expected to decline and exports expected to fall marginally due to weaker energy exports.

Recent activity

In 2019-20, the Territory's net exports increased by 54.3% to $11.3 billion, reflecting a 33.8% increase in exports and a 9.2% decrease in imports.

The Territory consistently maintains a trade surplus due to the significant export-oriented resources sector and its small domestic economy that, in the absence of major projects, has limited demand for goods and services sourced directly from international markets. The Territory's main export markets are the major Asian economies of Japan, China, Taiwan, Republic of Korea and Indonesia.

In 2020, the Territory's main goods exports were petroleum-based products (LNG, liquefied petroleum gas and condensate) and metalliferous ores, while main goods imports included refined fuels, and machinery and equipment. The Territory's main services exports relate to tourism and defence.

The Territory's international trade balance is affected by global economic conditions, exchange rates and trade policies in major destination markets. Map 3.1 shows the Territory's trade activity with major trading partners in the calendar year 2020.

Outlook

International trade

There are significant revisions to international goods trade data for the Territory for 2019-20, reflecting historical data being revised to reflect annual chain volume measure updates. This results in ABS-reported exports for 2019-20 increasing from $11.6 billion (reported at the time of the 2020-21 Budget) to $14.5 billion currently, and imports rising from $2.6 billion to $3.2 billion. Net exports have subsequently been revised from $9 billion reported in the 2020-21 Budget to $11.3 billion currently.

The Territory's international goods trade surplus was $11.3 billion (chain volume measure) in 2019-20 and is expected to increase to $11.6 billion in 2020-21. Goods exports are expected to fall marginally and the improved trade balance is driven by weaker machinery, transport and telecommunications imports. The value of exports is expected to plateau at around 2019-20 levels before falling in 2023-24 due to reduced production from the Darwin LNG plant as its current gas feed stocks are depleted and it transitions to a new source. Production is targeted for the first half of 2025. Imports are expected to increase over the outlook period as investment in the economy accelerates. Over the forecast period, the trade surplus is expected to average $10.6 billion per annum, more than double the 10-year average of $4.9 billion.

Table 3.1: Territory trade ($M, chain volume measure)

	2018-19a	2019-20a	2020-21e	2021-22f	2022-23f	2023-24f	2024-25f
Total exports	10 821	14 476	14 125	14 141	14 185	13 229	13 690
Total imports	3 496	3 175	2 481	3 169	3 649	3 900	3 296
Net exports	7 325	11 301	11 644	10 972	10 536	9 329	10 394

a: actual; e: estimate; f: forecast
Source: ABS, *Australian National State Accounts*, Cat. No. 5220.0, *Balance of Payments and International Investment Position, Australia*, Cat. No. 5302.0; Department of Treasury and Finance

Commodity prices

Manganese, gold, bauxite, zinc and LNG are major commodities produced in the Territory. Manganese is a key component in steel and is used in the production of lithium-ion batteries. Globally, the short-term demand for steel and batteries was affected by COVID-19, with rapid and significant changes in demand and prices as the economic conditions evolved and policy responses were announced. In aggregate, manganese prices fell in 2020. Demand for steel is recovering, and manganese prices are expected to stabilise in 2021 before modest growth in 2022.

Economic uncertainty in the wake of COVID-19 and the growing number of new cases contributed to gold reaching record prices in August 2020, before declining as the economic impact was less severe than expected. Given gold's appeal as a safe-haven asset, the rollout of a number of vaccines and economic recovery globally are expected to put downward pressure on prices as investors move to growth-oriented assets.

Bauxite is a major input to the production of aluminium. Global consumption of alumina and aluminium is predicted to increase in 2021, with prices expected to increase as demand outpaces production. Another beneficiary from increased infrastructure spending is zinc, which is used in galvanising metals, with prices expected to increase in 2021.

LNG is currently the Territory's largest export commodity. After falling to record low levels in mid-2020, prices have increased in 2021. As several countries transition from coal, global demand for LNG is expected to increase through 2021 and 2022. China is expected to increase imports by an average of 9.7% in 2021 and 2022 and overtake Japan as the largest importer of LNG in 2022. Strengthening demand is expected to put upward pressure on prices into 2022.

Global economic outlook

Despite significant fiscal and monetary stimulus in 2020, health risks, border and trading restrictions, and investment uncertainty affected economic growth, trade, employment and sentiment. This is reflected in most major economies contracting, with the exception of China. Growth is expected to return in 2021 and into 2022 as economic activity increases with the rollout of vaccines, supported by financial and fiscal stimulus from central banks and governments. Many trade-oriented economies were heavily impacted by suspended international travel and disruptions to global supply chains caused by COVID-19. Global trade contracted by 8.5% in 2020, with the International Monetary Fund (IMF) forecasting trade growth of 8.4% in 2021.

Following growth of 2.8% in 2019, the global economy declined by 3.3% in 2020 and the IMF expects a strong recovery in 2021, with growth forecast at 6% (Table 3.2).

Advanced economies contracted by 4.7% in 2020, with growth of 5.1% expected in 2021 as vaccination programs are implemented, health and economic risks abate, and the US and Japan implement further stimulus packages worth US$1.9 trillion and US$708 billion, respectively.

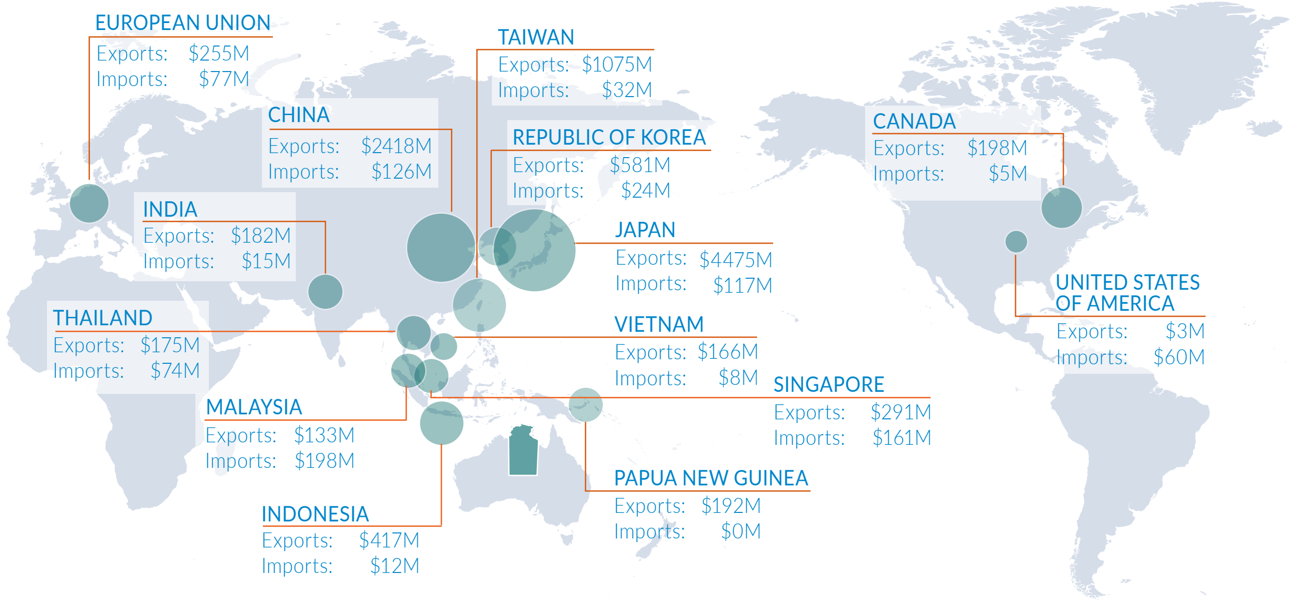
Emerging and developing economies contracted by 2.2% in 2020, lower when compared with advanced economies due to growth in China. Strong rebounds in China and India are expected to heavily contribute to 6.7% growth in 2021 for emerging and developing countries. Other countries in this category are largely tourism or resource dependent and will benefit from any resumption of international travel as vaccination programs are rolled out and commodity prices rebound, notably for energy resources, as the global economy recovers.

Table 3.2: Economic growth outlook[1]

	2019a	2020a	2021e	2022f	2023f	2024f	2025f
Australia	1.9	- 2.4	4.5	2.8	2.3	2.3	2.4
Canada	1.9	- 5.4	5.0	4.7	2.2	1.4	1.4
China	5.8	2.3	8.4	5.6	5.4	5.3	5.1
India[2]	4.0	- 8.0	12.5	6.9	6.8	6.7	6.6
Indonesia	5.0	- 2.1	4.3	5.8	5.7	5.4	5.2
Japan	0.3	- 4.8	3.3	2.5	1.1	0.7	0.6
Malaysia	4.3	- 5.6	6.5	6.0	5.7	5.3	5.0
Papua New Guinea	5.9	- 3.9	3.5	4.2	2.5	2.6	2.8
Republic of Korea	2.0	- 1.0	3.6	2.8	2.6	2.4	2.3
Singapore	1.3	- 5.4	5.2	3.2	2.7	2.6	2.5
Taiwan	3.0	3.1	4.7	3.0	2.5	2.3	2.0
Thailand	2.3	- 6.1	2.6	5.6	3.8	3.5	3.6
United States of America	2.2	- 3.5	6.4	3.5	1.4	1.5	1.6
Vietnam	7.0	2.9	6.5	7.2	6.9	6.8	6.6
European Union	1.7	- 6.1	4.4	3.9	2.3	1.9	1.6
Advanced economies	1.6	- 4.7	5.1	3.6	1.8	1.6	1.5
Emerging market and developing economies	3.6	- 2.2	6.7	5.0	4.7	4.6	4.5
World	**2.8**	**- 3.3**	**6.0**	**4.4**	**3.5**	**3.4**	**3.3**

a: actual; e: estimate; f: forecast
1 IMF World Economic Outlook Update, April 2021.
2 Fiscal year used.
Source: IMF

Map 3.1: Territory's major goods trading partners, 2020[1]



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

Japan

Japan is the Territory's largest export market, making up 41.7% of goods exported in 2020, largely LNG. Japan has tackled several waves of COVID-19 with relative success, containing the largest outbreak at the start of 2021. Japan's economy started to recover in the second half of 2020 driven by significant monetary and fiscal stimulus, with demand for exports and consumer confidence increasing in early 2021. The delayed 2020 Tokyo Olympics are scheduled to proceed in July and August 2021 with strong support from the Japanese government and International Olympic Committee, although without international spectators and a reduced economic boost expected for post-Olympic events. Japan's economy contracted by 4.8% in 2020, with growth of 3.3% expected in 2021.

China

China is the Territory's second largest export market, accounting for 22.5% of goods exported in 2020, largely natural resources such as LNG and mined commodities including manganese. China's strong recovery from COVID-19 makes it the only major economy expected to record economic growth in 2020. As monetary stimulus slowed in 2020, fiscal policy has continued to support the economy into 2021. Increased domestic infrastructure investment has been a major contributor to growth. China's economic output increased by 2.3% in 2020, with 8.4% growth expected in 2021.

Taiwan

Taiwan accounted for 10% of the Territory's goods exported in 2020, mainly LNG. Taiwan has emerged as one of the Territory's major trading partners in the past three years as it transitions from nuclear and coal to gas-based energy, and its demand for energy has increased with the repatriation of manufacturing activity from China. After growth of 3.1% in 2020, the IMF expects growth of 4.7% in 2021.

Republic of Korea

The Republic of Korea has been a long-term trading partner of the Territory and accounted for 5.4% of goods exports in 2020. The Republic of Korea managed to contain a third wave of COVID-19 in early 2021, having largely contained the virus in 2020. Economic activity has been supported by significant fiscal stimulus and the 'New Deal' policy, which aims to increase investment and job creation in climate change and digital technologies. Economic output declined by 1% in 2020, with 3.6% growth expected in 2021.

Indonesia

Indonesia is the Territory's primary export market for live cattle and accounted for 3.9% of the Territory's goods exported in 2020. The number of live cattle exported from the Territory to Indonesia increased by 11% in 2020, despite the Indonesian economy contracting by 2.1%. Economic growth is forecast at 4.3% in 2021, but competition from India and Brazil is expected to impact Indonesian demand for Territory live cattle from 2021.

Malaysia

Malaysia is the Territory's largest import nation, accounting for 20.1% of imports in 2020, largely refined petroleum products. Malaysia is expected to be one of the most impacted nations in South-East Asia by COVID-19, given its dependence on tourism and oil refining. After successfully containing the virus for most of 2020, in early 2021 Malaysia implemented lockdowns to control the spread of COVID-19. Malaysia's economy contracted by 5.6% in 2020, with growth of 6.5% expected in 2021.

Singapore

Singapore accounted for 16.3% of Territory imports in 2020, largely refined petroleum products. In January 2021 the Territory Government signed an agreement with Sun Cable to advance development of the Australia-ASEAN Power Link, which will be capable of supplying up to 20% of Singapore's energy needs from a solar farm in the Territory. Singapore is another South-East Asian nation heavily affected by COVID-19 due to its large financial and oil refining sectors. Singapore's output contracted by 5.4% in 2020, with the IMF expecting growth of 5.2% in 2021.

Trade agreements

Free trade agreements (FTAs) reduce or eliminate barriers to trade and investment, and facilitate stronger trade and commercial ties between signatory nations with the aim to support economic growth. In November 2020, Australia signed the Regional Comprehensive Economic Partnership, the largest free trade agreement ever, covering almost a third of the global population and economic output. The agreement was signed by a number of the Territory's key trading partners, such as China, Japan and Korea, and aims to reduce tariffs and implement shared rules for commerce, labour and intellectual property. The Commonwealth is also currently negotiating FTAs with the European Union, Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), India and the United Kingdom. Existing FTAs between Australia and Japan, China, Singapore, Republic of Korea, Indonesia, Thailand, Malaysia and Hong Kong support existing trade with Territory-based businesses, and provide a framework to further expand trade opportunities.

National economy

Following weakening growth since mid-2018 and two consecutive periods of contraction, the Australian economy entered into a recession for the first time in 29 years in the June quarter 2020, and GDP decreased by 0.2% in 2019-20. The economy rebounded in the second half of 2020 as trading and domestic travel restrictions eased, with GDP increasing by 3.4% and 3.1% in the September and December quarters, respectively. Overall GDP decreased by 2.4% in 2020. Australia's economic output is expected to return to pre-COVID levels by mid-2021, with the Reserve Bank of Australia (RBA) expecting growth to stagnate in 2020-21 and return in 2021-22 at 4%.

Significant fiscal stimulus supported the economy through 2020 and contributed to an earlier than expected start to the recovery, as restrictions were eased and consumer confidence, business sentiment and investment improved. At 6.6%, the unemployment rate moving into 2021 was better than expected and reflected the success of the health response to the pandemic, supported by major fiscal initiatives such as the JobKeeper and HomeBuilder schemes, which ended in late March 2021. The RBA expects the unemployment rate to be around 6% and 5.5% at the end of 2021 and 2022, respectively. In March 2021 the national unemployment rate was 5.6%.

The suspension of international travel has severely affected tourism and net overseas migration, key drivers of economic activity and growth in Australia. Despite strong demand for most commodities, an extended period of weak services exports means total exports are not expected to return to pre-pandemic levels until the end of 2022. Coal and other exports to China are expected to be affected in 2021 as Australia-China trade tensions persist, with several formal and informal trade barriers in place, and Australia referring China to the World Trade Organisation.

Exchange rates

Movements in the Australian dollar are influenced by domestic and international interest rates, and international demand for commodities that impact demand for Australian dollars. Fluctuations in exchange rates can affect industries reliant on international markets such as mining and tourism. Australia is a medium-sized open economy with a strong export focus. The onset of COVID-19 in March 2020 and its expected impact on trade contributed to the Australian dollar falling to lows last seen in 2002. The Australian dollar has since recovered strongly, largely due to the increased demand for commodities (particularly iron ore) as internationally governments look to stimulate growth with fiscal policy. National Australia Bank forecasts the Australian dollar to appreciate against most major currencies through 2021.

Interest rates

The RBA reduced the cash rate to a record low of 0.1% in November 2020, after reducing it to 0.25% in March 2020. The RBA has stated that supporting jobs and the economic recovery from COVID-19 is its priority, and it will not move the cash rate until inflation is within its target range of 2% to 3%, which it does not expect until 2024. The national and Territory economies will benefit from the low cash rate supporting household confidence, as well as business sentiment and investment.

The RBA implemented quantitative easing for the first time in March 2020, targeting a yield of 0.25% on three-year Australian government bonds by purchasing bonds on the secondary market. This was adjusted in November 2020, reducing the target yield to 0.1%.

Chapter 4

Population

Outlook

The Territory's population is expected to increase from 2020-21 as economic activity strengthens, supporting jobs growth and reducing net interstate outflows. It is expected to be several years before net interstate migration flows return to 'normal' following COVID-19. The outlook for net overseas migration will be influenced by Commonwealth settings.

Recent activity

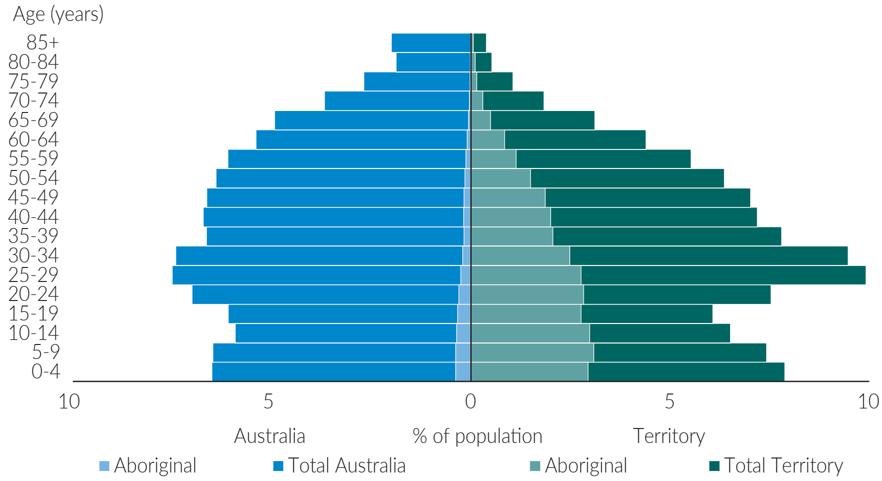
The Territory's population was static in 2019-20 as growth from natural increase and overseas migration offset net interstate migration outflows. Net interstate migration improved markedly in 2019-20, and was boosted by COVID-19 affecting moving intentions.

With the exception of foreign military, consular or diplomatic residents, the Territory's population includes all people who usually live in the Territory regardless of nationality, citizenship or visa status. Population data provides an overall picture of social trends and societal wellbeing, as well as its characteristics such as age, gender and migration patterns. Understanding the population level and its characteristics is critical for effective service delivery and infrastructure planning, and these are key factors determining the distribution of GST revenue and some tied Commonwealth funding.

In the September quarter 2020, the Territory's population of 246,500 persons accounted for about 1% of Australia's population. The majority (around 60%) of the Territory's population resides in the greater Darwin area, with the remainder dispersed over remote and very remote areas. At 30 June 2016 (ABS 2016 Census), the Aboriginal population was estimated at 74,546, which represents about 30% of the Territory's population, with around 80% residing in remote and very remote areas.

The Territory's population is characterised by its young age profile, with a median age of 33.6 years compared with 37.8 years nationally. This reflects a large number of persons aged 25 to 34 years in the Territory, as well as the Territory's large Aboriginal population which, based on ABS 2016 Census, had a median age of 26 years compared with 34.9 years for the non-Aboriginal population (Chart 4.1).

Chart 4.1: Population age profile – Australia and the Territory by Aboriginal status, as at June 2016



Source: ABS 2016 Census

A further characteristic of the Territory's population is that males outnumber females 105.4 to 100, compared with 98.3 to 100 nationally. This is partly due to the prevalence of male-dominated industries such as mining, construction and defence, as well as the workforce demands of major projects.

Population growth in the Territory is significantly more volatile than growth in the Australian population. Over the long term, the Territory's population growth has been predominantly driven by natural increase and net overseas migration. Fluctuations in the Territory's annual population growth rate are largely due to variations in interstate migration, which typically fluctuates with employment opportunities.

Outlook

Table 4.1: Territory population forecasts (%)

Financial year	2019-20a	2020-21e	2021-22f	2022-23f	2023-24f	2024-25f
Annual change	0.0	0.3	0.5	0.8	0.9	1.0
Calendar year	2019a	2020e	2021f	2022f	2023f	2024f
Annual change	- 0.2	0.5	0.4	0.6	0.8	0.9

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

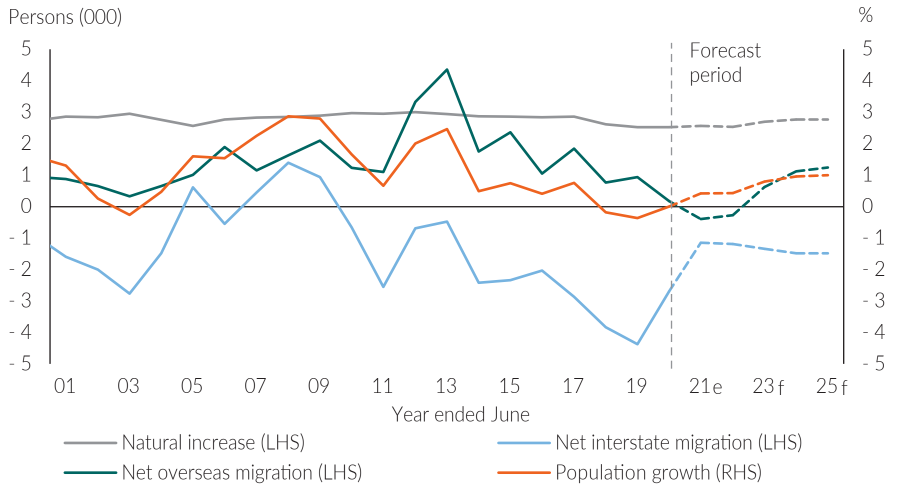
Growth in the Territory's population over the five years to 2024-25 is estimated to be around 8,900 people, increasing on average by 0.7% per annum (Chart 4.2).

Population growth is estimated to increase by 0.3% in 2020-21. COVID-19 has significantly constrained the willingness of people to move interstate, especially people from those jurisdictions that have had an effective health response to the virus and minimal or no community transmission. As net interstate migration (NIM) has been the major detractor from population growth for the Territory in recent years, the reduction in interstate migration outflow has been a significant contributor to the improvement in population growth, and has more than compensated for the reduction in overseas migration that has resulted from Australia closing its national border.

In 2020-21 and beyond, modest population growth is expected as economic growth underpins employment opportunities. In the short term, this is likely to be supported by major public sector infrastructure investments such as the Darwin ship lift, major defence projects, and the Darwin CDU CBD campus as part of the City Deals project.

From 2020-21, the outlook for overseas migration is highly uncertain and dependent on international borders reopening as well as any nation-specific restrictions. The forecast assumes Australia's borders will reopen from early 2022 following national and international COVID-19 vaccine rollouts, with a gradual resumption of overseas migration and travel. Interstate migration flows are expected to gradually return to long-term trends as border restrictions ease following the vaccine rollout. Nevertheless, interstate migration remains difficult to quantify, with key risks to forecasts including the pandemic, interstate border arrangements and employment opportunities in the Territory and interstate.

Chart 4.2: Population growth[1]



e: estimate; f: forecast; LHS: left-hand side; RHS: right-hand side

1 Moving annual total.

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

Recent activity

Traditionally, population movements into and out of the Territory are heavily influenced by economic and labour market conditions relative to elsewhere in Australia and around the world. In the two years to the December quarter 2019, the Territory reported declining population as the economy normalised following construction of the Ichthys LNG project.

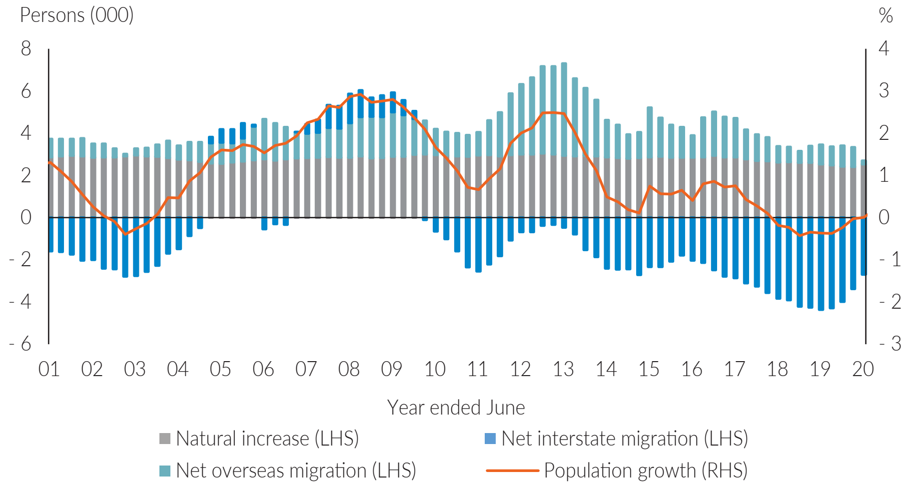
The impact of COVID-19 continues to create uncertainty in usual migration flows. Overseas migration has significantly declined since the closure of Australian international borders in March 2020, with no confirmed timeframe for its reopening.

Interstate migration has fallen following the introduction of interstate border closures and various lockdown and quarantine responses across the jurisdictions. As NIM typically detracts from population growth, lower levels of interstate movement has had a positive effect on population in the Territory.

Components of population growth

Population growth comprises natural increase, NIM and net overseas migration (Chart 4.3). Natural increase is the difference between the number of births and deaths, and represents population change in the absence of migration. NIM is the difference between people arriving in the Territory from the rest of Australia and departing the Territory for the rest of Australia. Net overseas migration represents the difference between people immigrating to the Territory and emigrating from the Territory.

Chart 4.3: Components of Territory population growth[1]



LHS: left-hand side; RHS: right-hand side
1 Moving annual total.
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

Natural increase

Natural increase is positive and relatively stable in the Territory, contributing on average 1.1 percentage points to annual population growth over the past five years to 2019-20, nearly double the national contribution of 0.6 percentage points. The greater contribution of natural increase to the Territory's population reflects a younger age profile and higher fertility (the average number of births per woman) in both the Aboriginal and non-Aboriginal population. However, fertility is declining at a similar rate to the national trend as fewer women are having fewer babies. As a result, the contribution of natural increase to population growth in the Territory is declining over time.

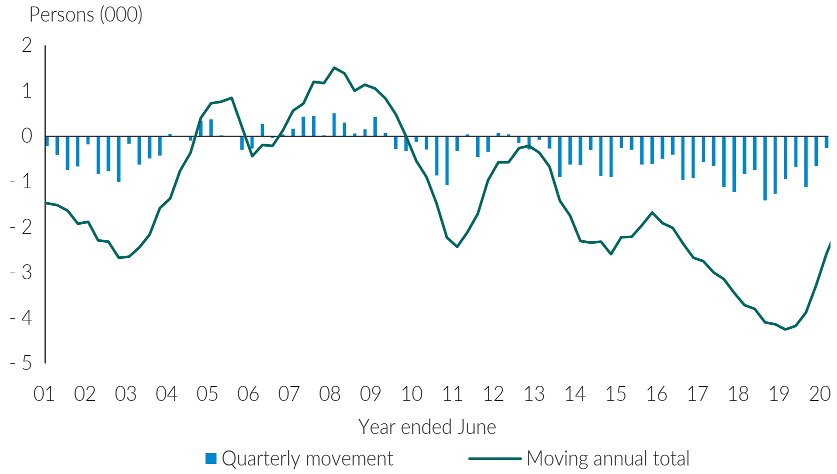
Interstate migration

The Territory's population has greater interstate mobility than any other jurisdiction, with an interstate migration rate of about 12% per annum (29,731 persons), compared with about 2% to 5% across most states in 2019-20. Queensland is the Territory's largest market for both arrivals and departures, accounting for about 30% (8,834 persons) of all movers. In net terms, outflows were recorded against all jurisdictions in 2019-20, with Queensland (1,236), South Australia (526) and Western Australia (396) among the highest detractors from the Territory.

Over the past five years, quarterly NIM ranged from a loss of 1,414 persons in the December quarter 2018 to a loss of 260 persons in the June quarter 2020. On average, NIM has detracted 1.3 percentage points from annual population growth over the five years to June 2020. Recent large outflows reflect the impact of workers and dependants leaving the Territory following completion of construction of the Ichthys LNG project, with improvements to NIM that started in 2019, assisted by COVID-19 in 2020 through reduced outflows (Chart 4.4).

Interstate migration flows are influenced by a range of factors but local economic and labour market conditions are significant, as are lifestyle, housing prices and location of family. Nevertheless, even during periods of strong employment growth NIM outflows can occur due to lagged factors in household decision-making.

Chart 4.4: Net interstate migration



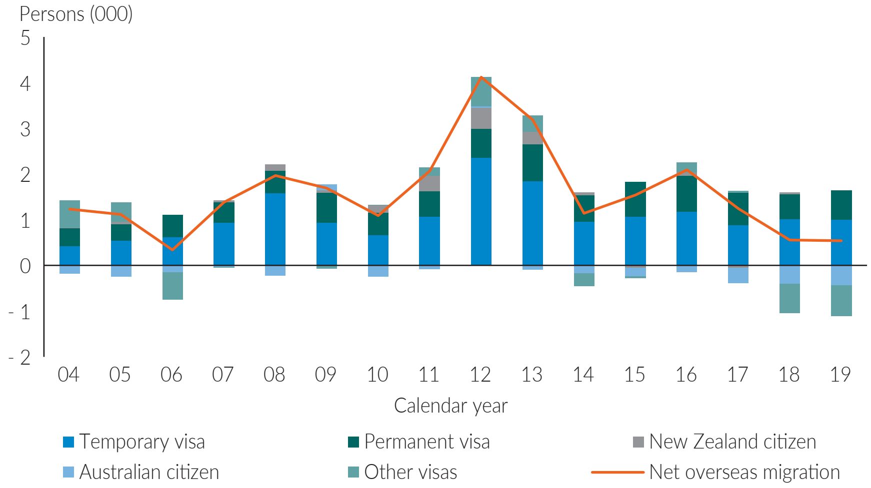
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

Overseas migration

The Commonwealth's permanent and temporary migration programs are fundamental to national population growth. Overseas migration has generally contributed to the Territory's population, although at a lower rate relative to the eastern seaboard states, contributing on average 0.3 percentage points to population growth per annum over the past five years to 2019-20. Permanent and temporary visa migration streams have remained relatively stable over this period, but overseas migration has moderated, falling from a peak of contributing 0.7 percentage points to growth in 2016-17 to 0.1 percentage points in 2019-20. This mainly reflects increased outflows of Australian citizens and 'other' visa holders from the Territory (Chart 4.5).

In 2019, in addition to reducing the permanent migration cap from 190,000 to 160,000, the Commonwealth broadened the definition of regional areas for migration purposes to include major urban cities, reducing the Territory's competitive advantage to attract overseas migrants. This policy change is likely to have a significant negative impact on the Territory, particularly as regional visas now allow overseas migrants and students to live and study in major urban cities outside the Territory. Coupled with COVID-19 and international border restrictions, the contribution of net overseas migration to the Territory's population growth is expected to be constrained over the short to medium term, only returning to long-term averages at the end of the forecast period.

Chart 4.5: Contribution of net overseas migration to estimated resident population by visa category stream



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

Regional growth

Growth patterns across the Territory are broadly differentiated between greater Darwin and the rest of the Territory, with the former generally outperforming the latter. Nonetheless, in 2019-20, greater Darwin's population decreased by 0.1%.

Population growth in the rest of the Territory increased by 0.2%, with all regions reporting growth. Population in Barkly and Daly-Tiwi-West Arnhem was positive following eight and five consecutive years of decline, respectively (Table 4.2). Significant investment is planned for the Barkly region with the Barkly Regional Deal and activity to explore and develop the Beetaloo sub-basin, which if realised is expected to promote economic, employment and population growth in the region.

Table 4.2: Territory estimated resident population by region, 30 June 2020

	Population	Proportion	Annual change	5-year average annual change
	No.	%	%	%
Greater Darwin	147 231	59.8	- 0.1	0.3
Rest of the Territory	98 912	40.2	0.2	- 0.2
Alice Springs	39 391	16.0	0.1	- 0.2
Katherine	20 905	8.5	0.2	0.0
Daly-Tiwi-West Arnhem	17 909	7.3	0.2	- 0.2
East Arnhem	14 565	5.9	0.3	- 0.3
Barkly	6 142	2.5	0.8	- 0.4
Total	**246 143**	**100.0**	**0.0**	**0.1**

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

National Population and Planning Framework

In early 2020, the National Population and Planning Framework was endorsed by the Council of Australian Governments (now National Cabinet) to improve population management in Australia. The framework aims to improve all levels of governments' understanding of populations, population change and its implications, and promote collaboration between governments.

The framework changes the way population planning is treated across governments and underpins the Commonwealth's Population Plan to maintain the liveability of big cities while supporting the growth of smaller cities and regions.

The Commonwealth established the Centre for Population in the Commonwealth Treasury to assist with knowledge building and sharing, government and stakeholder engagement, and research for policy development with respect to infrastructure planning and settlement integration. The centre released its first annual National Population Statement in December 2020.

2021 Census

The ABS is holding Australia's five-year census of population and housing on Tuesday, 10 August 2021.

The census is the principal means to estimate Australia's population and provides the most comprehensive statistical picture of Australian society and the economy. The Territory's unique demography and the limited availability of alternative reliable data means the Territory relies heavily on census data for policy development and service delivery planning.

The census also provides the new base for the ABS to estimate resident population going forward. Estimated resident population is key to the distribution of the GST pool.

Given the importance of the census, the Territory Government has continued its partnership with the ABS to maximise the number of Territorians participating, and deliver an accurate census. The aim is to increase response rates to minimise the risk of undercounting the Territory's population. Census 2016 preliminary counts underestimated the Territory population by over 12,000 persons, representing 5% of the population at the time, compared with an estimated 1% undercount nationally.

Chapter 5

Labour market

Outlook

Employment is expected to decline by 0.6% in 2020-21 despite solid economic conditions and support from JobKeeper. The unemployment rate is expected to be unchanged in 2020-21, before reducing over the forward estimates period. Economic conditions and employment are expected to pick up in 2021-22, supported by public investment.

Recent activity

The Territory's labour market was slowly recovering before the severe impact of COVID-19 contributed to employment declining by 0.6% in 2019-20 and the unemployment rate increasing from 4.5% to 5.6%. National employment increased by 0.5% in 2019-20 and the unemployment rate was 5.6%.

Territory employment is highly cyclical and heavily influenced by investment and construction activity for large, typically resource-based projects such as the Ichthys LNG project. Significant project-related employment growth is usually followed by a period of declining employment as the economy adjusts to the post-project construction environment.

The Territory labour market is characterised by a substantial public sector with government and community services accounting for 42% of employment in 2019-20, and a relatively large defence and FIFO workforce that is not captured in Territory data reported by the ABS. According to the 2016 Census and latest Australian Defence Force data, there were about 8,700 FIFO workers (at June 2016) and 4,400 permanent defence force members (at June 2020) in the Territory, demonstrating the significant under-reporting of on-the-ground employment in the Territory in official statistics.

ABS labour market statistics use data collected in the monthly labour force survey. The survey measures the labour market status of civilians aged 15 years and over who are residents in the Territory, excluding those in the defence force. People are considered employed if they work for one hour or more in a week, and unemployed if they are not working but actively looking for work and are available to start work.

Reported ABS labour force data in the past year was at odds with a range of other indicators of economic activity such as consumption, retail trade, residential building approvals, and residential and non-residential building activity. Latest labour force survey data is reporting year-on-year employment declining by 1.2%, while other indicators are reporting growth ranging from 1.3% to 39%. The new ABS weekly payroll jobs and wages data series, which commenced in March 2020, reports that employment is significantly stronger than the labour force survey suggests. There are data source and methodological differences between the two series (Box 5.1), with the weekly payroll jobs and wages series reporting jobs growth of 3.1% from March 2020 to March 2021 (latest available labour force survey data), while the labour force survey reports a decline of 4.6%. Since then, payroll jobs in the Territory have continued to increase.

Employment growth is also being reflected in skill shortages currently being felt in many industries, notably construction and hospitality. In March 2021, internet job vacancies were up 86% compared with March 2020, further indicating growing demand for labour.

Outlook

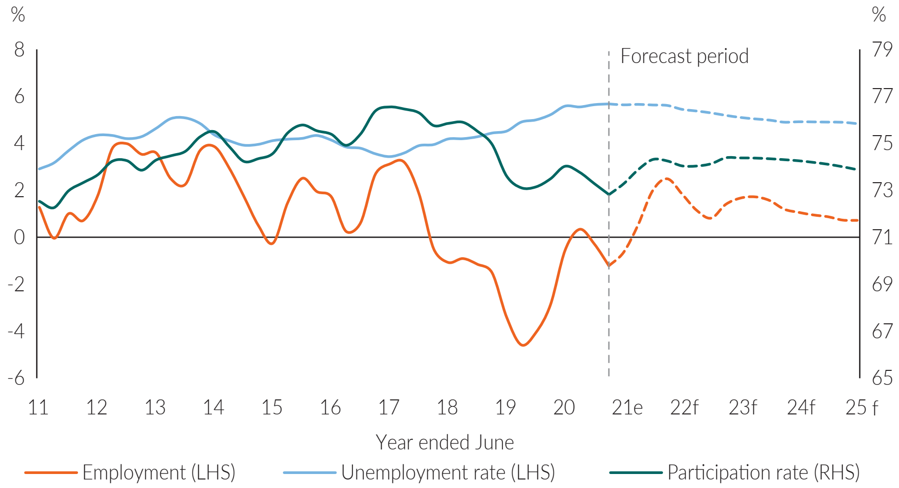
Table 5.1: Territory labour market (%)

	2019-20a	2020-21e	2021-22f	2022-23f	2023-24f	2024-25f
Employment[1]	- 0.6	- 0.6	1.8	1.7	1.1	0.7
Unemployment rate[2]	5.6	5.6	5.4	5.1	4.9	4.8

a: actual; e: estimate; f: forecast
1 Year-on-year change in resident civilian employment.
2 Annual average.
Source: ABS, *Labour Force, Australia*, Cat. No. 6202.0; Department of Treasury and Finance

The Territory's success in managing COVID-19 and avoiding extended periods of trading and movement restrictions has reduced the impact of the pandemic on employment, which is expected to decline by 0.6% in 2020-21, with the unemployment rate estimated to average 5.6% (Table 5.1 and Chart 5.1).

Chart 5.1: Territory labour market conditions



e: estimate; f: forecast; LHS: left-hand side; RHS: right-hand side
Source: ABS, *Labour Force, Australia*, Cat. No. 6202.0; Department of Treasury and Finance

From 2021-22 employment is forecast to recover as the expected lifting of international border restrictions supports the labour-intensive tourism sector, and new investment for major public and private sector projects directly supports employment in construction and associated industries, with strong indirect employment benefits through the economy. The recovery will be assisted as the COVID-19 vaccination program is implemented, which will contribute over time to increased confidence and normalisation of holiday and business travel activities. A return to population growth will also support employment in industries that rely on household consumption.

The rapid improvement in business investment in the second half of 2020 was supported by Territory and Commonwealth government stimulus and policy measures (such as the instant asset write-off scheme), and is expected to have brought forward some investment intentions. There are also several large-scale public and private developments expected to commence in the short term and over the forecast period (see Chapter 2, *Economic growth*). Private investments include the Barossa Project, and public investments include additional road works across the Territory and significant upgrades to defence facilities (see Projects section of this chapter).

Employment growth from these projects is offset by the impact of international travel restrictions, which are expected to constrain employment growth in the short term. Border closures lower demand for tourism-related services and restricts labour supply through reduced access to overseas migrants, who have traditionally been a source of skilled labour, particularly in the agriculture and hospitality industries.

The impact of international labour constraints will be partly alleviated by Northern Territory Government employment initiatives. For example, the Territory Government is working with industry and providing funding through the $2 million Critical Worker Support Package to attract hospitality and tourism workers to the Territory, and the $0.75 million recruitment campaign and business support package to find 200 melon pickers for the upcoming season.

Employment estimates for 2020-21 are influenced by the JobKeeper scheme (Box 5.2) ending on 28 March 2021. Any losses will predominantly be in tourism-related sectors, such as restaurants, accommodation, tour arrangement services and transport, with those businesses more exposed to international tourism to be the most affected, with many Central Australia tourism operators being the most exposed.

Box 5.1: Weekly payroll jobs and wages

Weekly payroll jobs and wages statistics are derived from single touch payroll (STP) data provided to the Australian Taxation Office (ATO) by businesses with STP-enabled payroll or accounting software, and are reported as indexed values with the week ending 14 March 2020 (the date Australia recorded its 100th COVID-19 case) being the reference point. The data is published fortnightly, providing a more contemporary measure of employment than the monthly labour force survey and quarterly industry employment data.

It is important to note there are key differences between the weekly payroll jobs and labour force survey estimates that should be considered when comparing statistics:

	Weekly payroll jobs and wages	Labour force survey statistics
Focus of the statistics	Payroll jobs	People
Types of employment	Payroll jobs for which a payment was reported to the ATO through STP.	All employed people, including employees, owner-managers and contributing family workers.
Whether paid	Only includes payroll jobs for which a payment was reported to the ATO through STP or there is an established payment pattern.	Includes all employed people paid or who had a job but were not paid (for example, on paid leave or temporarily stood down without pay).
Multiple job holding	Each job is counted separately, irrespective of whether it is worked by a multiple job holder.	Around 6% of employed people nationally are multiple job holders.

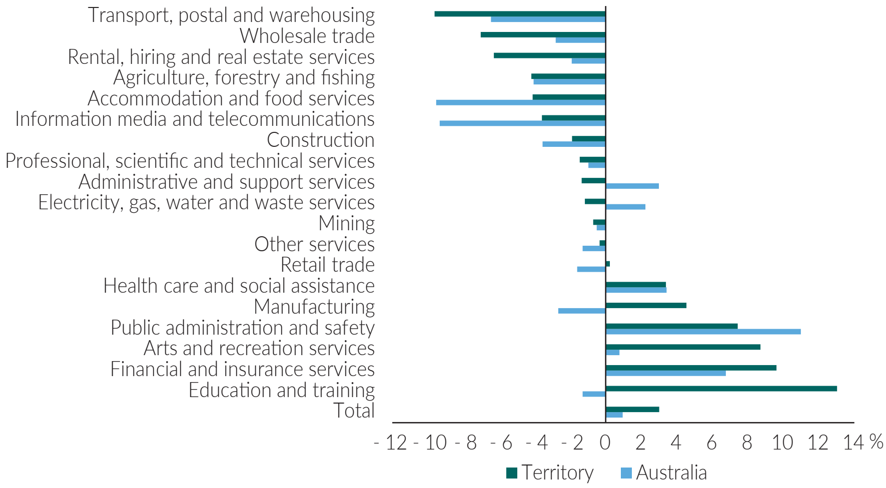
Source: ABS, *Weekly Payroll Jobs and Wages in Australia*, methodology

The estimates provide a historical profile to monitor the impact of COVID-19. Physical distancing restrictions in the Territory peaked in the week ending 18 April 2020, with total payroll jobs falling 7.3%, and ‘accommodation and food services’ and ‘arts and recreation services’ reporting the largest loss of payroll jobs (down by 30.2% and 27%, respectively). Payroll jobs rebounded in both industries in the week ending 18 July 2020 (down 8.5% and 2.3% from 14 March 2020), which coincides with the staged easing of the internal restrictions and peak tourism period. In the week ending 27 March 2021, the Territory had no interstate travel restrictions and reported the second strongest growth in payroll jobs of the jurisdictions for the year (up by 3%, compared with 1% nationally).

The Commonwealth's $1.2 billion tourism support package will encourage visitation with half-price air tickets available to Darwin, Alice Springs and Uluru starting from 1 April 2021. Industry operators that have been relying on JobKeeper will also be eligible to access the Commonwealth's SME Recovery Loan Scheme. This demand-driven package will support employment but its impact on Territory employment will depend on consumer preferences and the degree of competition between destinations.

Apart from tourism, the outlook for many industries is improving, and ATO data reports that, since 14 March 2020, the Territory has had the second strongest growth in employee jobs as at 27 March 2021 (Box 5.1). More than a third of industries report increased employment since 14 March 2020, including in public sector industries, which have been at the forefront of addressing the health challenge (Chart 5.2). In the short term, an additional 400 workers will be required to meet increased repatriation activity at the Howard Springs quarantine facility, and Census 2021 (to be conducted in August) will provide a short-term boost to employment.

Chart 5.2: Change in weekly payroll jobs from 14 March 2020 to 27 March 2021



Source: ABS, *Weekly Payroll Jobs and Wages in Australia*, Cat. No. 6160.0.55.001

The Commonwealth's $74 billion JobMaker plan includes a hiring credit to employers for up to 12 months to create new employment opportunities for job seekers aged 16 to 35 years, and will support jobs growth. This age group represents around 60% of all unemployed persons in the Territory, consistent with the national level, and the hiring credit is designed to reduce this at-risk cohort becoming long-term unemployed. To complement the scheme, the Territory Government released the Small Business JobMaker Booster under its Jobs First Plan. This extends eligibility for the JobMaker hiring credit to all employers in the Territory with an annual turnover of less than $10 million, irrespective of a new employee's age. Under both schemes, all eligible businesses will receive $200 a week for each new employee. Take-up of the JobMaker hiring credit has been low, which may reflect a better than expected economic recovery.

On 1 December 2020, the TERC Final Report and recommendations were released, identifying priority areas to develop the economy with a goal of creating 35,000 new jobs by 2030. Important industries identified in the report include mining and manufacturing, renewable energy, agribusiness, tourism, defence and maritime, and digital and space industries. To support these priority areas, the Territory Government has advanced 22 implementation plans. The government created positions for a Territory Investment Commissioner and a Major Projects Commissioner to become key links between industry and government. The Territory Investment Commissioner will oversee a new $5 million fund to partner with industry to find new investment opportunities in the Territory in target sectors, and the Major Projects Commissioner will be the point of coordination for major projects, making it easier for projects to progress through the necessary processes.

Box 5.2: JobKeeper payment

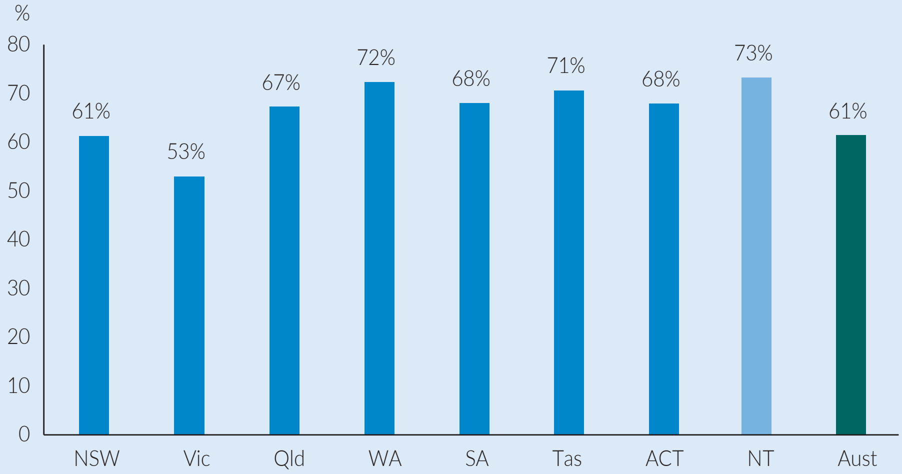
The JobKeeper payment scheme is a wage subsidy for businesses significantly impacted by COVID-19 and is designed to keep workers attached to employers where they would otherwise be unemployed or leave the labour force. The RBA reports the JobKeeper scheme reduced employment losses by more than 700,000 people across the nation in the first half of 2020.

By the end of the original JobKeeper scheme (27 September 2020), up to 30% of Territory businesses had applied for JobKeeper, the lowest proportion of the jurisdictions. Territory businesses accounted for 0.5% of all businesses receiving JobKeeper.

The scheme was extended twice, from 28 September 2020 to 3 January 2021, and 4 January to 28 March 2021, with reduced rates and separate GST turnover tests for each period. The number of eligible businesses on JobKeeper in the original scheme declined by 73% by January 2021, as illustrated in the chart below. This is the largest decline of the jurisdictions, with a more significant drop observed in the number of recipients.

The Territory has been the jurisdiction least reliant on JobKeeper with only 2.7% of employed persons receiving JobKeeper in February 2021, compared with 7.4% nationally.

Proportion of businesses off JobKeeper from the original scheme (March to September 2020) to January 2021



Source: Commonwealth Treasury

By the end of December 2020, the number of Territory JobKeeper recipients was 69% less than the original scheme, and declined a further 38% in January 2021. The Territory's construction sector reported the largest share of workers receiving JobKeeper in January 2021, followed by the tourism and hospitality sector.

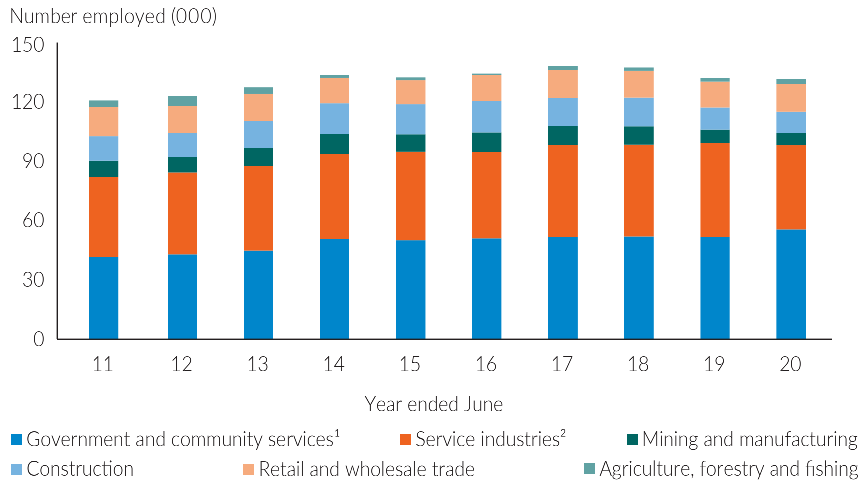
Recent activity

Tourism has been severely affected by COVID-19, and border restrictions were a major factor in the Territory's employment declining by 0.3% in 2020. Over the May quarter 2020, employment in accommodation and food services declined by 3.2%, whereas in a typical year the sector would expect to report 20% growth in the lead up to the Territory's peak tourism period. This is reflected in services sector employment, declining by 10.5% in 2019-20. This sector was the largest detractor from employment in 2019-20 (Chart 5.3).

Historically in the Territory there is a tendency for recently unemployed people who cannot secure new employment to move interstate for employment or to be closer to family and social networks. This propensity reflects the Territory's comparatively young age profile, with this demographic less attached to any one location and more willing to relocate for job or lifestyle reasons.

However, in 2019-20 there was a greater propensity for the recently unemployed to remain in the Territory, resulting in a higher number of unemployed people. In July 2020, the seasonally adjusted unemployment rate reached 7.5%, its highest level since 2004, up from 5.5% in March 2020, with an additional 2,400 people unemployed. Mobility was also constrained by border restrictions, while weak employment opportunities interstate offered little incentive to relocate. The participation rate declined during this period of increasing unemployment, suggesting a number of people previously employed had exited the labour market as alternative employment opportunities were hard to find. The participation rate was historically high through much of the past decade, even during periods of weak economic activity, and the recent weakening of the rate is expected to continue through 2020-21 before strengthening in 2021-22, and stabilising beyond that at around 74%, as labour market and mobility issues normalise. The Territory's participation rate is expected to remain the highest of the states and territories.

Chart 5.3: Territory employment by industry



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

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

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

Projects

Government infrastructure programs are a significant contributor to employment across the Territory's urban, regional and remote areas. Governments will continue to support employment in remote communities to 2026-27 through the Remote Housing Investment Package, and upgrades to priority Territory freight routes as part of its Roads of Strategic Importance initiative. Under the Commonwealth's JobMaker plan, $190 million will be provided from 2020-21 for priority roads in the Territory. Other infrastructure projects include a Darwin youth justice centre and, in Alice Springs, a hospital multistorey carpark and youth detention centre.

The Territory Government's Local Jobs Fund will continue to create opportunities to accelerate investment. The fund supports economic transformation projects to grow local businesses and increase interstate and international exports. Projects supported to date include: the Alice Springs Asia Pacific aircraft storage and maintenance facility, commercialisation of 3D metal printing, wearable personal safety monitoring devices, and food production, processing and distribution feasibility studies in agriculture. Up to $7.9 million is being invested in Terabit Territory, a project with Vocus to upgrade the Territory's fibre-optic cable network.

Implementation of the 10-year Darwin City Deal is well underway, with construction of the new CDU CBD campus commencing in late 2020. The campus will support 730 jobs during construction and is scheduled for completion in 2024. The $200 million Darwin City Deal includes contributions to the Civic and State Square Redevelopment and art gallery.

The $20 million Alice Springs CBD revitalisation plan and 10-year $78 million Barkly Regional Deal will also support regional employment and economic activity outside Darwin.

The Commonwealth's NAIF is supporting local employment through new private sector investment. In 2019-20, NAIF approved $300 million of financing for the Darwin ship lift project (100 jobs during construction) and $152 million towards the CDU CBD campus. NAIF also approved a $37 million loan to Merricks Capital to fund new gas and solar projects and a $24 million loan to Humpty Doo Barramundi for farm expansions, expected to create 162 and 111 construction jobs respectively. More financing is expected for Territory projects following the five-year extension to NAIF until 30 June 2026, in addition to several reforms to the financing process (see Chapter 2, *Economic growth*).

Defence will continue to play a significant role in creating employment, with around $8 billion of infrastructure investment planned over 10 years as outlined in the 2020 Defence Strategic Update. Major defence projects over the outlook period include redevelopment works worth $1.1 billion to 2027 at RAAF Base Tindal. The upgrades to RAAF Base Tindal alone are expected to create more than 300 construction jobs. There are several ongoing defence projects due to be completed in the forecast period, such as $472 million of redevelopment works for Larrakeyah barracks and HMAS Coonawarra, and $711 million to upgrade and expand training areas and ranges.

Many resource projects are at various stages of development. In March 2021, the US$3.6 billion Barossa Project reached a final investment decision and is expected to create 600 jobs during construction to the end of 2024. The Barossa Project also kick-starts an additional US$0.6 billion investment for the Darwin LNG plant's life extension and pipeline tie-in projects, which will extend the plant's life for about 20 years. The Beetaloo region has significant gas reserves that, if proven commercially viable, will require significant private investment to extract and transport to markets. There are also several projects at advanced stages of securing necessary regulatory approvals that may proceed in the short term, subject to final approvals and investment decisions. These projects include Finniss lithium, Nolans rare earths, Jervois base metal and Mount Peake projects.

The Jervois project is anticipated to begin its 18-month construction program in the September quarter 2021, creating more than 650 jobs. Iron ore processing also resumed in late 2020 at Nathan River and Frances Creek mines. Ranger uranium mine closed in January 2021, with rehabilitation works until 2026. Jabiru, the accompanying mining town, is currently transitioning to a major tourism hub, with investment of $135.5 million over two years from the Territory Government and $276 million from the Commonwealth over 10 years.

The Territory Government's commitment to 50% renewable energy by 2030 is supporting investment in a range of renewable projects. Work has commenced on a hybrid diesel-solar power station at Jabiru with completion expected in early 2022. Other renewable developments underway or proposed include solar farms at Batchelor and Manton Dam (each with 12.5 MW capacity), costing $43 million, a second 10 MW solar farm with battery storage in Batchelor, a 3.6 MW solar generation facility at Robertson Barracks and a 10.9 MW facility at RAAF Base Darwin. Rimfire Energy also has a proposal for a 2 MW aggregated solar virtual power plant on the Alice Springs electricity network.

There are several developments in the agriculture, forestry and fishing sector that, if they proceed, will create new employment opportunities. Stage 1 of the US$1.5 billion Project Sea Dragon is continuing to progress, with upgrades to Keep River road completed in November 2020. The Territory Government has also released expressions of interest for three large-scale agricultural land developments, and granted a water extraction licence to Singleton Station to allow for irrigated horticultural development.

Dwelling investment is expected to increase in 2020-21, supported by the Territory Government's Home Improvement Scheme and BuildBonus grant, and the Commonwealth HomeBuilder grant, which have created strong demand for residential property works. Projects under the Home Improvement Scheme were required to be completed before 28 April 2021, while applications closed for the BuildBonus and HomeBuilder grants on 14 April 2021.

Chapter 6

Prices and wages

Outlook

Inflation and wages growth are expected to remain subdued though with a strengthening bias in the short to medium term, as conditions in the domestic economy improve, supported by employment growth and low interest rates.

Recent activity

Growth in the Darwin consumer price index has remained well below the long-term trend, with upwards pressure from alcohol and tobacco being offset by government initiatives in response to COVID-19 and lower rents and fuel prices. Wages growth has been modest, reflecting soft labour market conditions.

Inflation measures the change in the general level of consumer prices over a given period of time. The consumer price index (CPI) measures inflation through changes in the price of a representative basket of goods and services for each Australian capital city. The basket has 11 categories of goods and services, which are weighted to reflect household consumption patterns in each city.

The ABS uses household final consumption expenditure data in each capital city to assist with revising the weightings annually. Housing, food and non-alcoholic beverages, alcohol and tobacco, transport, and furnishings, household equipment and services account for 71.5% of the Darwin 'basket', and 69.3% nationally.

The wage price index (WPI) measures the price employers pay for a standard unit of labour. In a similar manner to CPI, WPI reports price changes in a fixed range of jobs. The ABS measures WPI at the state and territory level (as well as nationally), and for both the public and private sectors.

Consumer price index

Outlook

Darwin's inflation rate is expected to increase to 0.7% in 2020-21 and 1.8% in 2021-22 (Table 6.1 and Chart 6.1). This is higher than the 2020-21 Budget forecast of 0.5% for 2020-21 and 1.1% for 2021-22, and reflects the stronger than expected rebound in consumer spending. Latest data reports household spending in the Territory increased by 5.1% in the December quarter 2020, supported by JobKeeper and JobSeeker payments, early superannuation draw downs and low interest rates. Despite this, in calendar year 2020 prices in Darwin decreased by 0.2%, with increased prices for discretionary alcohol and tobacco items more than offset by falling housing-related costs associated with government incentives to support construction (for example, the Home Improvement Scheme), free child care (for the June quarter 2020) and lower fuel prices. Prices growth will be supported by the removal of these government incentives as economic conditions return to a more normal footing.

Table 6.1: Darwin consumer price index and Territory wage price index[1] (%)

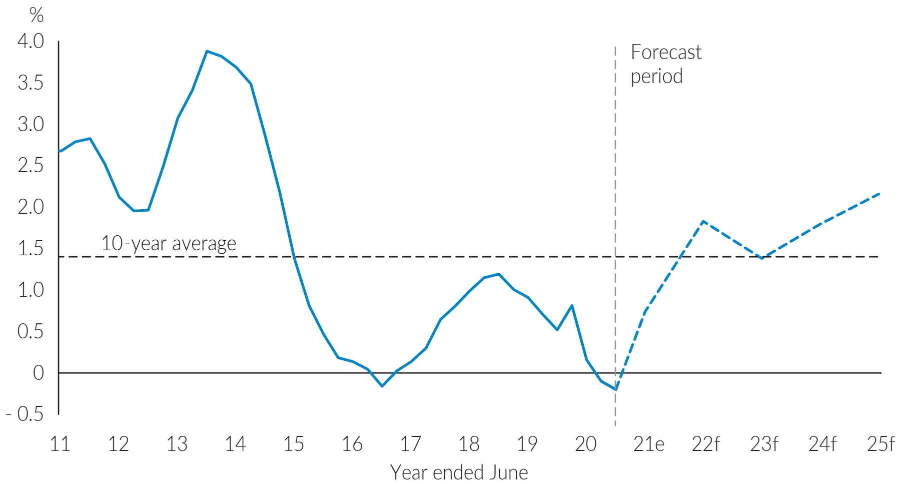
	2019-20a	2020-21e	2021-22f	2022-23f	2023-24f	2024-25f
Consumer price index	0.2	0.7	1.8	1.4	1.8	2.2
Wage price index	2.3	1.7	1.7	1.4	1.3	1.4

a: actual; e: estimate; f: forecast
1 Year-on-year change.
Source: ABS, *Consumer Price Index*, Australia, Cat. No. 6401.0, *Wage Price Index, Australia*, Cat. No. 6345.0; Department of Treasury and Finance

Quarter-to-quarter inflation in 2021 is expected to be variable due to the unwinding of government subsidies. The alcohol and tobacco category is expected to have the biggest impact on inflation over the forecast period, reflecting the biannual indexation of Commonwealth excises. The increase in CPI over the outlook period is tied to the economic recovery more broadly, improved consumer confidence associated with jobs growth and declining unemployment rate.

The recent strong performance of Darwin's property and rental markets will put upward pressure on prices for the housing category in 2021-22, as leases are renewed at higher rents and new dwelling purchase prices reflect demand pressures and low interest rates. Further, prices for maintenance and repair works will return to more normal levels in 2021-22 after the Territory's Government's Home Improvement Scheme provided significant discounts for works through to April 2021.

Chart 6.1: Consumer price index[1]



e: estimate; f: forecast
1 Year-on-year change.
Source: ABS, *Consumer Price Index*, Australia, Cat. No. 6401.0; Department of Treasury and Finance

Recent activity

CPI growth has been subdued over the past five years, averaging a modest 0.5% growth per annum, including record lows of 0.1% per annum in 2015-16 and 2016-17. The national inflation rate has averaged 1.6% per annum over the past five years.

In 2019-20, Darwin's inflation rate was 0.2% with a 2.5% decline in the June quarter, the largest quarterly decline on record. Nationally the inflation rate was 1.3% in 2019-20 and the June quarter decline was 1.9%.

The main detractors from inflation in 2019-20 were housing and transport (mainly fuel), which declined by 3% and 1.6%, respectively. In 2019-20, rental prices and the Territory Government's Home Improvement Scheme contributed to housing-related prices declining. Crude oil prices fell by more than 20% in 2019-20, with a particularly sharp fall in the June quarter as uncertainty regarding the impact of COVID-19 on the global economy combined with travel restrictions reduced short-term demand.

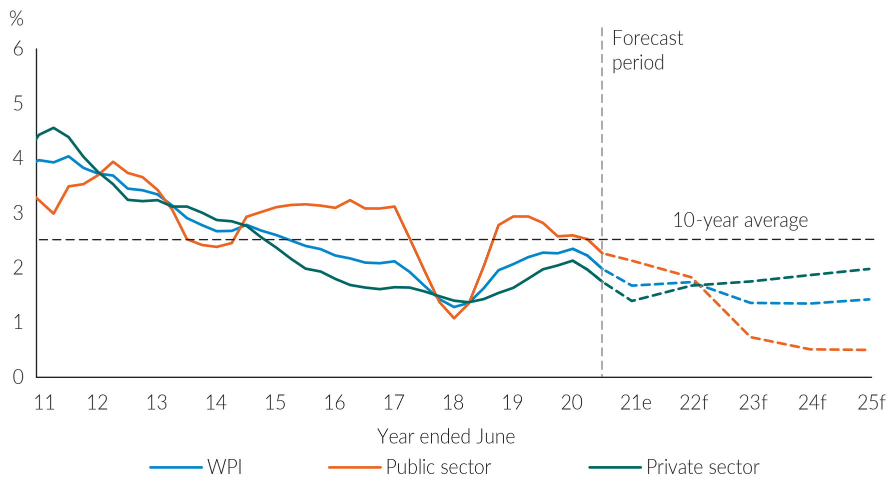
Darwin's inflation rate was also affected by a range of Commonwealth and Territory government policy responses to COVID-19. Prices for alcohol and tobacco increased by 8.4% in 2019-20, and this was the main contributor to CPI growth.

Wage price index

Outlook

Territory wages are expected to grow by 1.7% in 2020-21 (Chart 6.2), reflecting public sector wage growth in line with the final year of the Northern Territory Public Sector 2017–2021 Enterprise Agreement, offset by subdued private sector wage growth.

Chart 6.2: Territory wage price index[1]



e: estimate; f: forecast; WPI: wage price index
1 Year-on-year change.
Source: ABS, *Wage Price Index, Australia*, Cat. No. 6345.0; Department of Treasury and Finance

The outlook for wages growth over the forecast period is modest. Public sector wages will be influenced by new enterprise agreements currently being negotiated, with the Territory Government's new wage policy to apply for four years from 2021-22. Private sector wages growth is expected to gradually increase in line with general economic conditions, and will be supported by limited access to international labour due to border restrictions.

The RBA expects the national WPI to remain below 2% over the next few years, with the rate at which wages grow depending on the level of spare capacity in the labour market and the corresponding bargaining position of workers in wage determinations.

The RBA notes the unusual nature of the COVID-19 downturn means it is difficult to judge the level of spare capacity in the economy and, even though the labour market outlook has improved, labour underutilisation is expected to remain high and could delay an increase in wages growth. The RBA notes the extent of the public and private sector wage freezes at present could result in nominal wage setting and price inflation expectations being set at low levels in the short term.

Recent activity

In 2019-20, WPI increased by 2.3% in the Territory, with public and private sector wages increasing by 2.6% and 2.1%, respectively. This was largely consistent with national WPI growth of 2.1%, with public sector wages growth of 2.3%, and private sector wages growth of 2%.

Latest available data reports that WPI growth in the Territory is moderating, and in the calendar year 2020 growth was 2%, with public and private sector wages increasing by 2.3% and 1.7%, respectively. Over the same period national WPI increased by 1.7%, with public and private sector wages increasing 2% and 1.6%, respectively.

Chapter 7

Residential property market

Outlook

The strengthening in property and rental markets is expected to continue in the short term as COVID-19 influences moving intentions and, in the medium term, the improved economic outlook supports a return to employment and population growth.

Recent activity

Darwin's residential property market strengthened through 2020, supported by government incentives, historically low interest rates and population growth, ending the year with increased sale volumes and median prices, and decreased vacancy rates.

Outlook

After several years of decline, Darwin's residential property market has stabilised and is showing signs of recovery. Annual growth in house and unit prices increased across all Territory regions in the December quarter 2020, and rental markets tightened in 2020, recording increased prices and reduced vacancy rates.

The strengthening of the Territory's property market corresponds with stronger population growth in 2020-21, which has resulted in increased housing demand. Available information suggests the resident population has increased more rapidly than official statistics report. That is, people moved to the Territory and are working 'remotely' to escape COVID-19-related lockdowns in other jurisdictions but not reporting a change of address for population reporting purposes. There were also higher international student numbers in 2020. These factors are affecting rental markets, but also property markets, which are benefiting from improved confidence in the Territory's medium-term economic outlook.

Improved confidence comes after several years of declining population, and the outlook for sustained economic, employment and population growth will support housing demand.

In the medium term, residential property markets will be boosted by the RBA's commitment that interest rates will remain at current historically low levels until inflation picks up, which it expects may take several years.

The phasing out of temporary government support measures for households and rent moratoriums, and reduced international migration will put downward pressure on demand in the short term, both in the Territory and nationally, though this is expected to be more than offset by the stimulus from low interest rates and confidence associated with economic growth.

Recent activity

The economy has turned in the past year, and confidence is contributing to strong growth in building approvals, supported by incentives to encourage new construction such as the Territory's BuildBonus grant introduced in February 2019 and the Commonwealth's HomeBuilder grant introduced in June 2020. Another key factor supporting home ownership and construction is the prospect of low interest rates for several years to come.

The combination of incentives and low interest rates contributed to building approvals across the Territory increasing significantly in the second half of 2020. Compared with the six months to December 2019, the number of residential building approvals in the six months to December 2020 increased by 48% in the Territory (to 361 approvals), with a 56% increase in Greater Darwin (237) and 35% (124) increase across the rest of the Territory.

The average number of monthly BuildBonus grants has more than doubled since July 2020, with numbers particularly strong since November 2020 as owners sought to also secure the HomeBuilder incentive before the scheme was scheduled to end at 31 December 2020. HomeBuilder and BuildBonus were extended to 31 March 2021, with applications closing on 14 April 2021. As at 21 April 2021, there were 180 successful applications for HomeBuilder totalling $4.5 million and 686 for BuildBonus totalling $13.7 million.

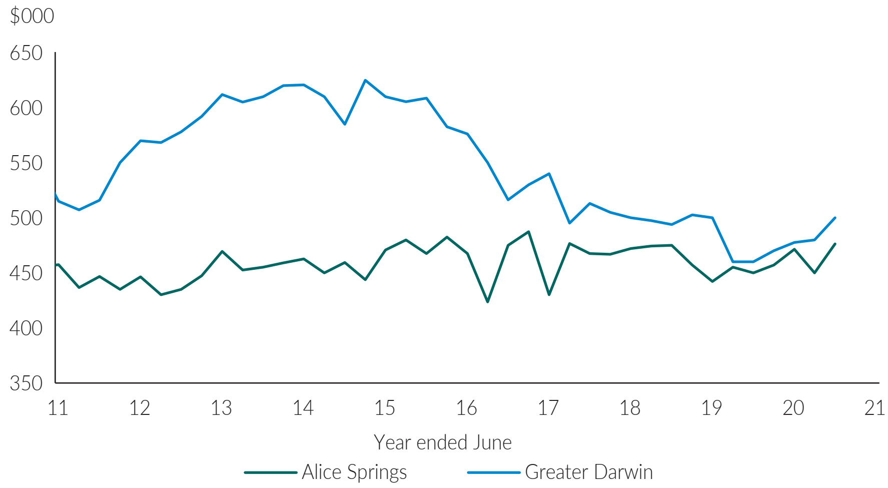
Stronger property and construction markets are being reflected in the number of housing finance commitments which, excluding refinancing, increased by 43% in the six months to December 2020 compared with the same period the previous year. The majority of growth has been with owner-occupiers, with the value of investor commitments falling by 1% in the period.

Greater Darwin

Greater Darwin's property market is showing signs of recovery, with the Real Estate Institute of Northern Territory reporting annual house prices increasing by 8.7% to $500,000 in the December quarter 2020 (Chart 7.1). Darwin house prices peaked in 2015, driven by strong demand related to the need to house the very large construction workforce for the Ichthys LNG project (in addition to the 7,000 person workers camp constructed for the project). There was a strong supply side response to increased demand, with record levels of housing investment during this period. With completion of the project and subsequent weakening in domestic economic conditions, population declined, a significant excess in dwelling stock emerged and prices declined.

The median unit price in Greater Darwin increased 4.9% in annual terms to $320,000 in the December quarter 2020. The increase in property prices appears to be tied to the turnaround in population growth over the course of COVID-19.

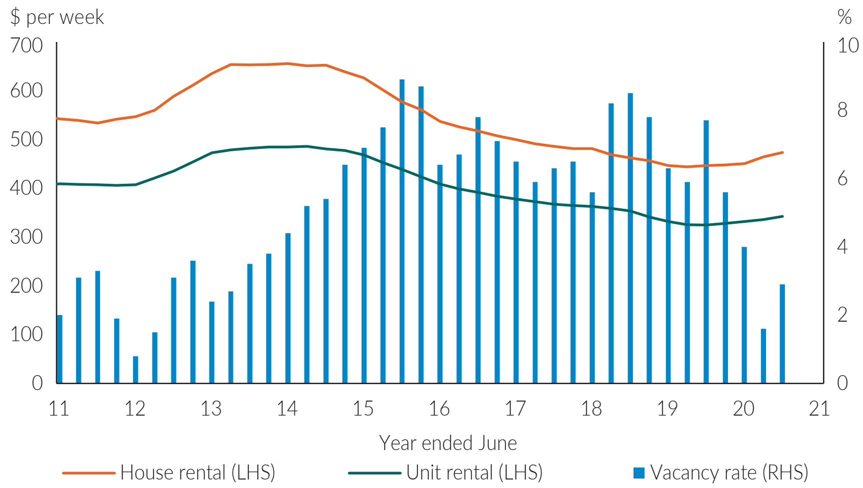
Chart 7.1: Median house prices in Greater Darwin[1] and Alice Springs



1 Greater Darwin includes inner Darwin, Darwin north-east, Darwin north coastal, Darwin north and Palmerston.
Source: Real Estate Institute of Northern Territory

The rental market in Greater Darwin has also strengthened, with average weekly house and unit rents increasing by 7.7% in annual terms to $508 and $364, respectively in the December quarter 2020 (Chart 7.2). Rental prices growth was particularly strong in areas close to Darwin CBD, with house rents increasing 23.6% to $680 per week in Inner Darwin over this period. Darwin's vacancy rate declined by 4.8 percentage points in annual terms to 2.9% in the December quarter 2020 as excess supply was absorbed. Vacancy rates are expected to remain low in the short term.

Chart 7.2: Median rents and vacancy rate in Darwin

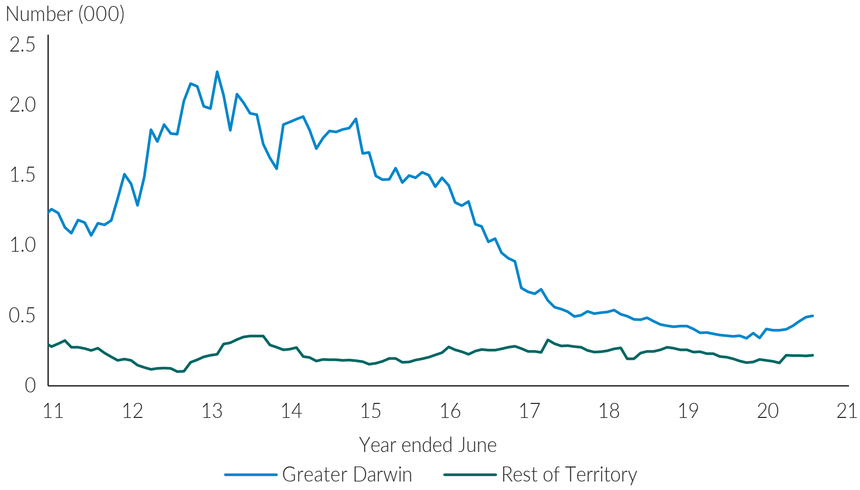


LHS: left-hand side; RHS: right-hand side
Source: Real Estate Institute of Northern Territory

Greater Darwin accounted for a large proportion of the increased dwelling stock in the Territory in 2020, with Lyons and Nightcliff having the majority of approvals in Darwin suburbs. The Greater Darwin region is in the process of rebalancing supply and demand, with approvals for dwelling construction decreasing 75% from 1,660 in 2014-15 to 403 in 2019-20 (Chart 7.3). It appears 2019-20 was the low point in the cycle and building approvals have rebounded strongly since then, increasing by 56% in the six months to December 2020 compared with a 31% decrease in the six months to December 2019.

In 2021, Defence Housing Australia will commence civil works at Lee Point, accommodating 800 new homes which includes detached houses, townhouses and apartments.

Chart 7.3: Residential building approvals in the Territory



1 Greater Darwin includes inner Darwin, Darwin north-east, Darwin north coastal, Darwin north, Palmerston and Litchfield.
Source: ABS, *Building Approvals*, Cat. No. 8731.0

Palmerston

Palmerston's population has increased substantially over recent years supported by the availability of land for development. Palmerston continues to expand and accounts for the majority of new building approvals in the Territory with the ongoing release of house and land packages in a broad range of pricing categories across suburbs such as Zuccoli and Durack.

Annual median house prices increased by 8.1% to $465,000 and unit prices increased by 2.5% to $245,000 in the December quarter 2020. Over the same period, house rents increased by 12.5% to $450 per week and unit rents increased by 0.8% to $323 per week.

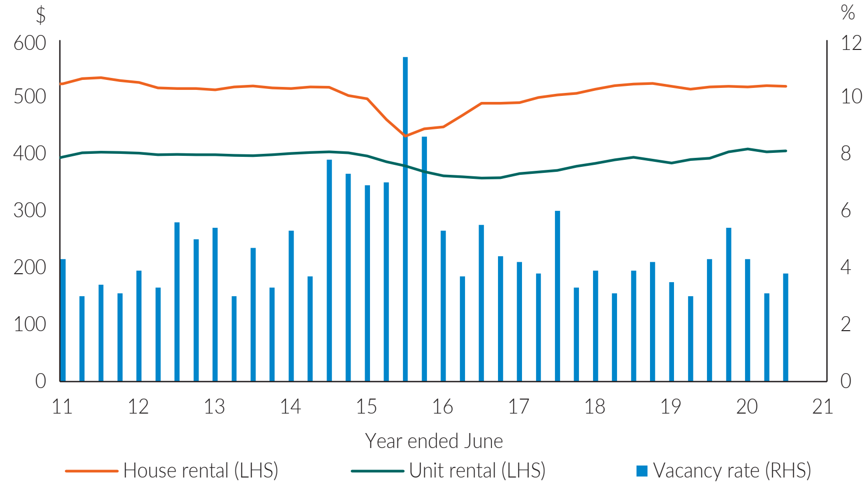
Alice Springs

The median house price in Alice Springs increased by 5.8% in annual terms to the December quarter 2020 to $476,250 (Chart 7.1). Unit prices, which are more volatile than in Darwin and Palmerston due to smaller stock levels and sale volumes, increased by 17.7% to $358,500 over the same period. Sale volumes have also increased for houses and units, with 6% more house sales and 14% more unit sales in 2020.

Rental market outcomes have been mixed, with vacancy rates for houses falling over 2020 and units reporting a small increase. Over the same period, house and unit rents were largely unchanged. In annual terms to the December quarter 2020, house rents decreased by 0.9% to $530 per week and unit rents increased by 1.3% to $405 per week (Chart 7.4).

The Land Development Corporation has commenced stage 2 of its development for housing in Kilgariff, which will support the supply of new dwellings, with expressions of interest opened in April 2021.

Chart 7.4: Median weekly rents and vacancy rates in Alice Springs



LHS: left-hand side; RHS: right-hand side
Source: Real Estate Institute of Northern Territory

Katherine

Caution needs to be used when interpreting regional results as the low number of property sales and rental properties can lead to volatile results. In annual terms, the median house price in Katherine increased by 4.2% to $310,000 in the December quarter 2020. House rents declined in annual terms in the December quarter 2020, falling 2.2%, despite vacancy rates dropping 10.1 percentage points through the year. Unit rents increased 12.1% over the same period.

Katherine's property market will be supported in the medium-term by work related to upgrades at RAAF Base Tindal and a substantial number of residential building approvals in 2020, increasing from 16 dwellings in 2019 to 43 in 2020.

Tennant Creek and elsewhere

Due to lower housing stock and sale volumes, the Tennant Creek property market experiences greater volatility compared with Alice Springs and Katherine. The median house price was $200,000 in the December quarter 2020, a 33.3% increase in annual terms. New land releases, particularly around Peko Road, have helped increase supply.

Building approvals in Tennant Creek increased from 23 in 2018-19 to 36 in 2019-20, the highest number of approvals since 2013-14. This reflects the improved outlook for mining, mineral and gas developments in the region, which is expected to increase demand for dwellings.

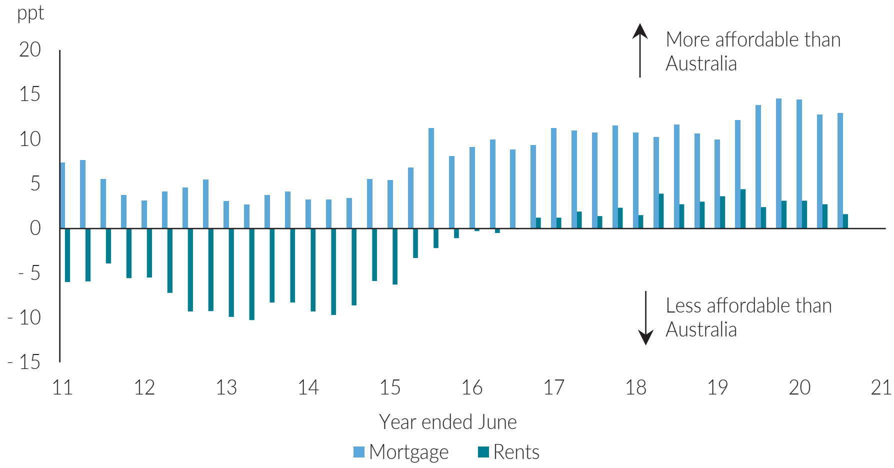
Public housing represents the majority of the housing stock in very remote communities. In recent years, there has been a strong increase in the value of public sector residential construction work done, reflecting ongoing work to improve the quality and quantity of public housing stock in the Territory. Part of this increase reflects the Territory and Commonwealth governments' 10-year $1.1 billion investment to improve housing supply and quality in remote communities.

Affordability

The Territory's property and housing construction markets have continued to see improvements in affordability over the past five years, mainly due to decreases in house prices (leading to lower average home loans) and average rental prices. Recent increases to house and rental prices have resulted in a slight worsening of affordability indicators, although the Territory remains more affordable than the rest of Australia in both monthly loan repayments and rents (Chart 7.5), being ranked first and fourth, respectively, of the jurisdictions in the December quarter 2020.

The Real Estate Institute of Australia reports the proportion of income required to meet loan repayments on a standard three-bedroom house has increased to 21.9% in the Territory, up 0.9 percentage points through the year to December 2020. Over the same period, Real Estate Institute of Australia's home loan affordability indicator reports that housing affordability has decreased by 1.9 percentage points to 45.8 (the higher the number, the more affordable). Average monthly loan repayments increased by 6% to $2,145 in annual terms in the December quarter 2020.

Chart 7.5: Housing and rental affordability[1] (Australia minus the Territory)



ppt: percentage point
1 Difference between Australia and the Territory in the proportion to meet loan repayments and rent.
Source: Real Estate Institute of Australia

Housing finance and construction

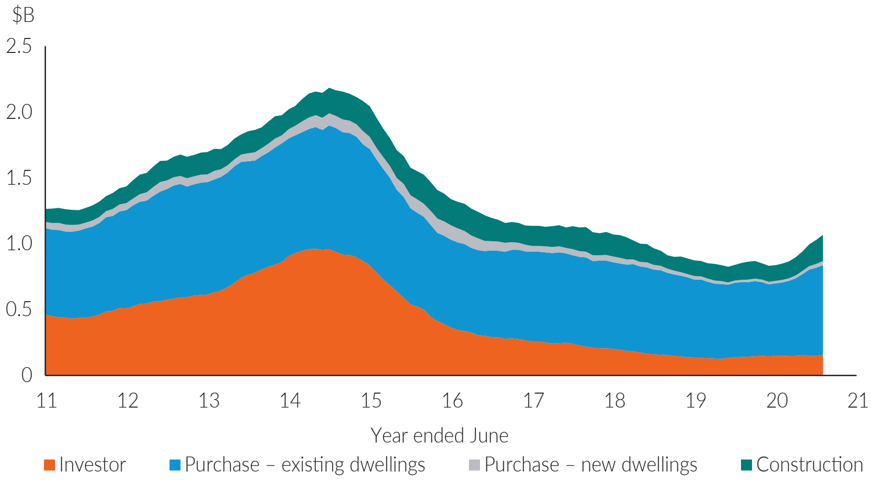
Low interest rates combined with Territory and Commonwealth government incentives have contributed to solid growth in housing finance commitments in the Territory in the past year. Excluding refinancing, the number of housing finance commitments increased by 24.8% to 2,543 in 2020, with commitments from first home buyers and non-first home buyers increasing by 28.8% and 21.9%, respectively.

The BuildBonus and HomeBuilder grants contributed to increases in Territory housing finance commitments, with commitments (excluding refinancing) increasing by 43% in the six months to December 2020 period, compared with the same period in 2019.

Investors have previously represented a significant proportion of housing finance commitments in the Territory given the high proportion of renters in the housing market (Chart 7.6). These investor commitments are highly cyclical as investors seek capital gains and rental yield, and contribute to volatility in dwelling construction and property markets. The value of housing finance for investors remains subdued and was 16.1% of the value of all housing commitments (excluding refinancing) in 2020, compared with 48.5% in 2015.

There were 700 residential building commencements in 2020, up from 559 in 2019.

Chart 7.6: Value of housing finance commitments in the Territory



Source: ABS, *Lending Indicators*, Cat. No. 5601.0

Abbreviations and acronyms

3D	three-dimensional
a	actual
ASEAN	Association of Southeast Asian Nations
ABS	Australian Bureau of Statistics
ATO	Australian Taxation Office
B	billion
Cat. No.	catalogue number
CBD	central business district
CDU	Charles Darwin University
CPI	consumer price index
e	estimate
f	forecast
FIFO	fly-in fly-out
GDP	gross domestic product
GSP	gross state product
GST	Goods and services tax
HMAS	Her Majesty's Australian Ship
IMF	International Monetary Fund
LHS	left-hand side
LNG	liquefied natural gas
MW	megawatt
M	million
NIM	net interstate migration
NAIF	Northern Australia Infrastructure Facility
NTPS	Northern Territory Public Sector
ppt	percentage point
RBA	Reserve Bank of Australia
RHS	right-hand side
RAAF	Royal Australian Air Force
STP	single touch payroll
SME	small and medium-sized enterprise
SFD	state final demand
TERC	Territory Economic Reconstruction Commission
US	United States (of America)
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. It is a measure of the cost of living.

Current prices

The value in nominal terms, not adjusted for inflation or changes in prices. It is the market value for the good or service at the time it was being sold.

Employed

Persons 15 years and older who worked for one hour or more in the reference week. Persons are measured as being employed in the jurisdiction in which they reside, regardless of the location of their employment. Employment and other labour market estimates are derived from the Australian Bureau of Statistics labour force survey.

Estimated resident population

The official Australia Bureau of Statistics population measure. It refers to all people, regardless of nationality, citizenship or legal status, who usually live in a defined locality, with the exception of foreign military or diplomatic personnel and their families. It includes usual residents who are overseas for less than 12 months over a 16-month period. It excludes overseas visitors who are in a defined locality for less than 12 months over a 16-month period.

Gross domestic product

The value of goods and services produced in Australia over the period for final consumption. Intermediate goods and services used in the production of final 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 value of goods and services produced in a state or territory.

Inflation adjusted (also known as chain volume)

Inflation-adjusted measures provide estimates of 'real' changes in activity by factoring in changes in prices from year to year.

Labour force

All persons 15 years and over who are either employed or actively seeking work. Excludes Australian Defence Force personnel and non-residents.

Net interstate migration

The net difference between arrivals to a state or territory from the rest of Australia and departures from that state or territory to the rest of Australia. This is measured based on change of address information from Medicare.

Net overseas migration

The difference between the number of incoming travellers who stay in Australia for 12 months or more and are added to the population, and the number of outgoing travellers who leave Australia for 12 months or more and are subtracted from the population.

Participation rate

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

Single touch payroll

A system for businesses to provide taxation and superannuation information to the Australian Taxation Office as employees are paid. The Australian Bureau of Statistics has secured access to aggregated single touch payroll administrative data, which it is currently reporting publicly on a fortnightly basis.

State final demand

A measure of the demand for goods and services in an economy. Demand can be for consumption or investment purposes.

Unemployed

Persons 15 years and older who are not employed and actively looking for work.

Unemployment rate

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

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.