



NORTHERN TERRITORY GOVERNMENT

NORTHERN TERRITORY ECONOMY OVERVIEW

BUDGET 2015-16

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ECONOMY OVERVIEW



Northern Territory Economy Overview

This overview is a summarised assessment of the Northern Territory economy, including a brief description of recent performance and growth prospects, the external economic environment, population, labour market, and prices and wages. It represents a summary of the more detailed document, Northern Territory Economy. (For more information, visit www.budget.nt.gov.au)

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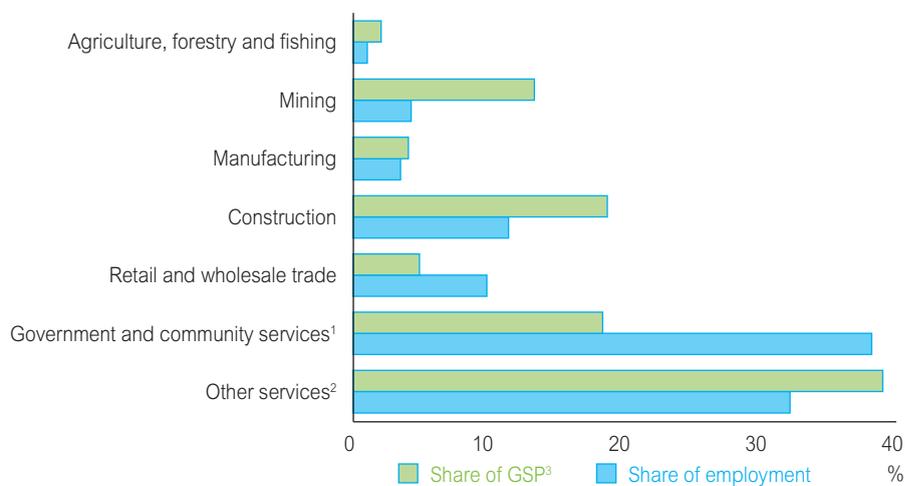
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Structure of the Economy

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

The Territory economy is dominated by the construction; government and community services; and mining industries. These industries account for about half of the Territory’s total economic output (Chart 1). Similarly, the key employment industries in the Territory are government and community services; construction; and retail and wholesale trade.

Chart 1: Share of Territory GSP and Employment by Industry, 2013-14¹



GSP: gross state product

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

² Includes ownership of dwellings, taxes less subsidies on products, and statistical discrepancy.

³ Inflation adjusted.

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

A notable difference between the Territory and Australian economies is the contribution by consumption and investment to final demand. Over the past decade, the balance between consumption and investment in the Territory has shifted following high levels of activity associated with major projects. Since 2003-04 investment in the Territory has grown by an average of 10.2 per cent per annum, compared with the 3.6 per cent per annum for consumption. As a result, investment’s share of the Territory’s final demand has risen from 30.6 per cent in 2003-04 to 44.9 per cent in 2013-14. Investment accounts for less than a third of Australia’s domestic final demand.

The Territory economy is heavily reliant on overseas trade. In 2013-14 international exports accounted for nearly one-third of the Territory’s total economic output. This was the second highest proportion of all jurisdictions, behind Western Australia (50.9 per cent) and above the national average of 19.6 per cent.

Economic Growth

The Territory economy performed strongly in 2013-14, growing by 6.5 per cent. This built on a sound result in 2012-13 (4.3 per cent) and was the highest rate of growth among jurisdictions, which ranged from 0.7 per cent in the Australian Capital Territory to 5.5 per cent in Western Australia (Chart 2). Australian gross domestic product (GDP) grew by 2.5 per cent in 2013-14.

Chart 2: Change in GSP and GDP¹



GSP: gross state product; GDP: gross domestic product

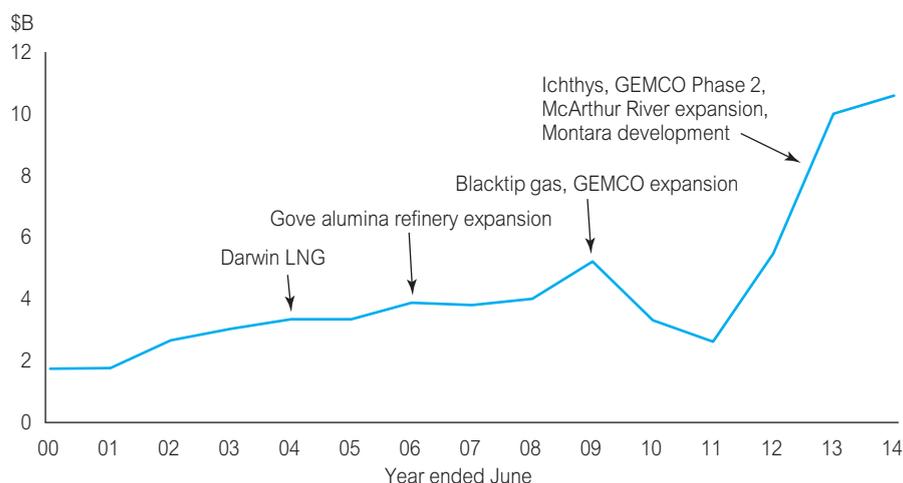
¹ Inflation adjusted.

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

The key driver of growth in the Territory was an increase in private investment, which rose by 8.0 per cent in 2013-14, driven by a 6.0 per cent increase in business investment and a 39.4 per cent rise in dwelling investment (Table 1). Territory household consumption rose by 3.4 per cent to \$9.5 billion, supported by an increase in net expenditure interstate and higher spending on health, and rent and other dwelling services.

Growth in business investment has underpinned the Territory economy's strong performance in recent years. In 2013-14 business investment in the Territory totalled \$10.6 billion, more than double the 10-year average of \$5.2 billion (Chart 3). Recent business investment in the Territory has been concentrated in the resource sector in response to strong global demand for the Territory's export commodities.

Chart 3: Territory Business Investment¹



¹ Inflation adjusted.

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

The Territory economy is expected to continue to perform strongly over the budget and forward estimates period (Table 1). Growth of 4.5 per cent is expected in 2014-15 with business investment forecast to remain the key driver of economic growth, largely reflecting peak construction activity on the Ichthys liquefied natural gas (LNG) project, although this will be partially offset by increased levels of imports related to the project.

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

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

From 2015-16 the Territory economy is expected to commence a period of transition as resource-led investment declines and the economy moves to the production and export phase. Territory Government investment is expected to be a key driver of economic activity in 2015-16. Public investment is forecast to increase in 2015-16 underpinned by the Territory Government's investment in economic, community and social infrastructure, which will assist in offsetting the expected decline in business investment. Furthermore, the Government's land release program and changes to the first home owner grant, announced in the 2014-15 Budget, which is targeted toward the purchase or construction of new homes, is expected to support dwelling investment in the Territory.

Table 1: Economic Growth (%)

	2013-14	2014-15e	2015-16f	2016-17f	2017-18f	2018-19f
GSP	6.5	4.5	4.5	4.5	3.0	3.0
SFD	4.5	5.8	-3.7	-15.6	-2.2	1.4

e: estimate; f: forecast; GSP: gross state product

1 Inflation adjusted.

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

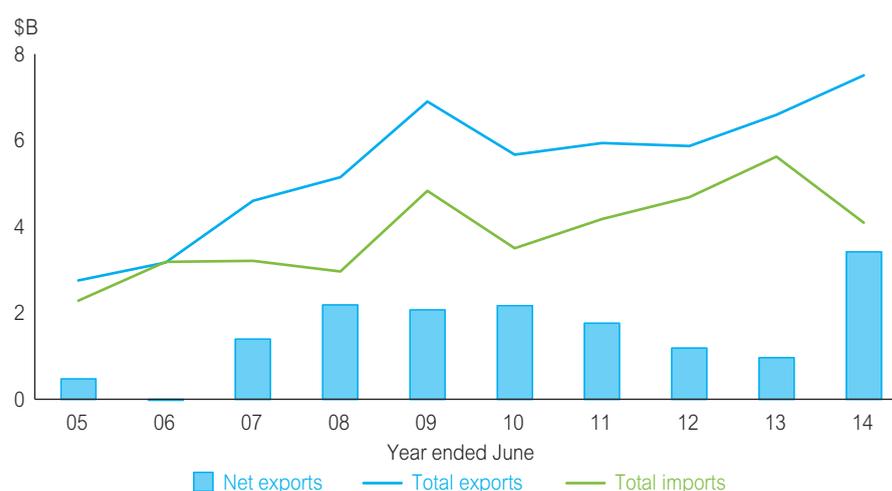
External Economic Environment

The Territory has a relatively small and open economy, which is highly dependent on overseas trade and investment. As a result, its economy can be influenced by external factors such as fluctuation in exchange rates, key commodity prices and financial conditions. The state of the national economy is also important for the Territory affecting population migration, interstate trade and tourism.

Territory International Trade

The Territory's international trade surplus widened to \$3.4 billion in 2013-14 from \$1.0 billion in 2012-13 (Chart 4). This was driven by a \$918 million increase in Territory exports to \$7.5 billion and a \$1.5 billion decrease in imports to \$4.1 billion. The decrease in imports was however, largely due to the Australian Bureau of Statistics (ABS) suppressing the value of Territory feedstock gas imports from the Joint Petroleum Development Area for reasons of commercial confidentiality from December 2013.

Chart 4: Territory International Trade Balance, 2004-05 to 2013-14¹



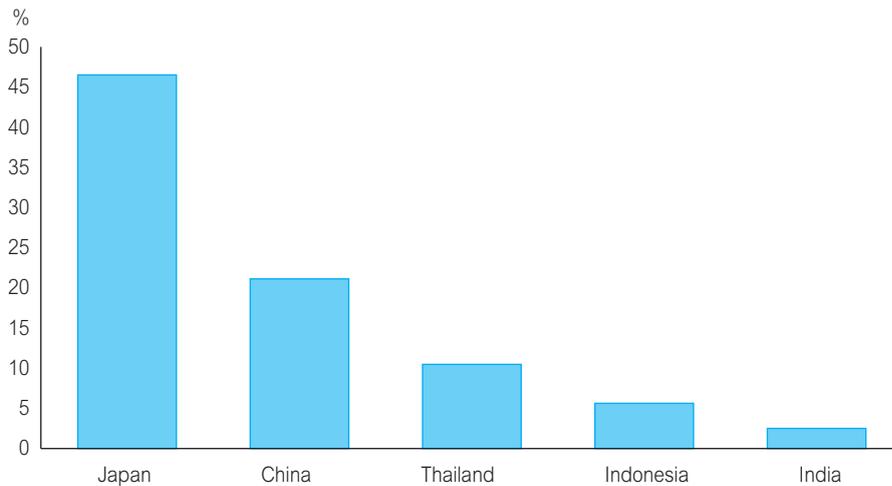
¹ Current prices.

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

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

The main Territory goods exports are petroleum and gas, crude materials (largely mineral ores), and food and live animals (largely live cattle). The destinations for Territory exports reflect the nature of its key products, LNG and minerals, with demand for these products led by Japanese and Chinese markets. In 2014 Japan accounted for nearly half (46.5 per cent) of the Territory's exports (mainly LNG), while China accounted for a further 21.1 per cent of exports (Chart 5). Other key Territory export destinations are Thailand (largely petroleum products), Indonesia (mainly live cattle) and India (largely mineral ores).

Chart 5: Top Five Territory Goods Exports Destinations in 2014¹



¹ Current prices.

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

National Economy

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

Australia’s economy is forecast to grow at about 3 per cent over the budget and forward estimates period. Growth will be driven by non-mining investment and consumer spending as the national economy transitions away from resource-led investment. Current spare capacity within the national labour market may benefit Territory businesses through reduced wage pressures and greater ability to attract interstate workers.

Global Economy

In 2014 the global economy grew at a similar rate to the previous year (about 3.3 per cent), but slightly below earlier forecasts. The United States (US) economy strengthened during 2014 with positive implications for the global economic environment, most significantly through increasing exports from Europe and Asia. China’s economic growth continued to moderate in 2014 and slowing Chinese demand has contributed to a decline in commodity prices. Depreciation of the Australian dollar has positive implications for exporters, making products more competitive and assisting in offsetting downward movements in commodity prices. Falling oil prices have benefited Territory consumers through lower fuel prices, but the depreciation of the Australian dollar may increase the cost to households of imported goods.

The International Monetary Fund expects global growth to trend upwards in the medium term with the economic performance of the Territory’s largest export destinations expected to remain positive (Table 3). Growth in China is, however, forecast to decline below 7 per cent, which may place further downward pressure on commodity prices. A further risk is weak economic activity and uncertainty in the Eurozone, which could constrain demand and contribute to financial market volatility.

Population

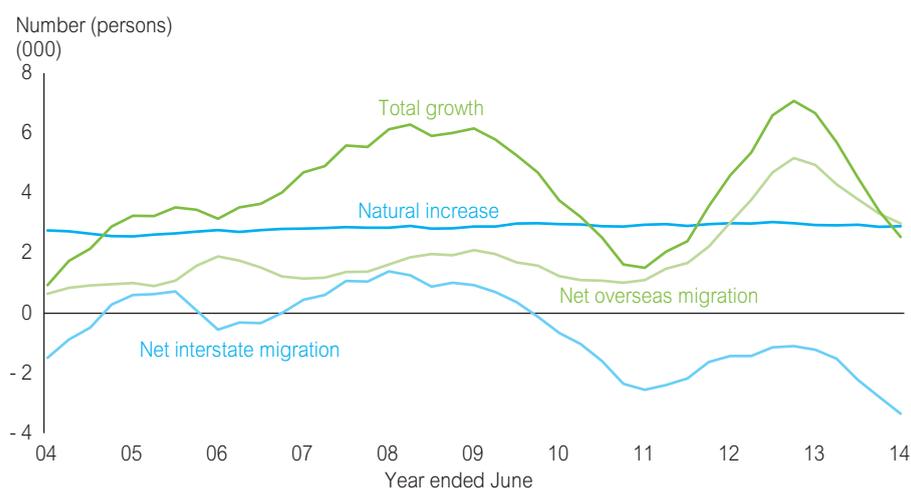
The Territory is sparsely settled with a relatively young and mobile population. It has a small population, accounting for about 1 per cent of the national population. A key feature of the Territory is the higher proportion of Indigenous people in the population. Indigenous people comprise 29.8 per cent of the Territory's total population compared with 3.0 per cent nationally.

Population Growth

The Territory's estimated resident population (ERP) increased by 1.0 per cent to 245 079 people in the year to 30 June 2014. Net overseas migration and natural increase made similar contributions to population growth in 2013-14, adding 2983 and 2899 people, respectively, to the population. These gains were partially offset by a loss of 3344 people through net interstate migration.

Historically, natural increase has been the key driver of population growth in the Territory, however since 2012 it has been surpassed by net overseas migration (Chart 6). Overseas migrants have been increasingly drawn to the Territory by favourable employment conditions and strong demand for skilled workers associated with major resource projects.

Chart 6: Components of Population Growth (moving annual total)



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

Historically, net interstate migration more often detracts from growth than contributes to growth. In 2013-14 outward flows from net interstate migration were at a historically elevated level. This reflected a combination of high numbers of interstate departures and low levels of interstate arrivals. Key contributors to these trends were increased outward movements, including among older age groups, and lower levels of interstate arrivals. Reduced interstate arrivals likely reflects changing work practices (increased fly-in fly-out (FIFO) workers) and difficulties capturing a mobile workforce drawn by the requirements of the Ichthys LNG project and other associated economic activity.

Regional Population

Table 2 shows the ERP as at 30 June 2014, population share, and annual and five-year growth rates (2009 to 2014) for the regions and major towns of the Territory. Over half the Territory's population resides in the Greater Darwin region (comprising Darwin, Palmerston and Litchfield local government areas) and the region recorded the highest growth rate (2.2 per cent) in the year to June 2014. East Arnhem recorded a population loss in 2013-14 (-3.6 per cent), largely reflecting losses in the township of Nhulunbuy, attributable to the curtailment of operations at the Gove alumina refinery.

Table 2: Regional Population and Major Townships Estimated Resident Population

	ERP ¹	Proportion of Total Population	Annual Population Change ²	5-Year Average Annual Population Change ³
	Number	%	%	%
Region⁴				
Alice Springs	41 711	17.0	- 0.1	0.4
Barkly	6 795	2.8	0.3	0.9
Daly-Tiwi-West Arnhem	18 927	7.7	0.0	1.9
East Arnhem	15 914	6.5	- 3.6	0.1
Greater Darwin	140 386	57.3	2.2	2.3
Katherine	21 346	8.7	0.6	1.1
Major Townships				
Alice Springs ⁵	26 108	10.7	- 0.1	0.5
Darwin ⁶	118 700	48.4	2.1	2.2
Katherine	11 187	4.6	0.9	1.4
Nhulunbuy	3 906	1.6	- 12.7	- 3.5
Tennant Creek	3 634	1.5	- 0.4	0.6

1 ERP at 30 June 2014.

2 Annual change in ERP between 30 June 2013 and 30 June 2014.

3 Average annual change in ERP between 30 June 2009 and 30 June 2014.

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

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

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

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

Outlook

Population growth of 0.9 per cent is expected in 2014 before strengthening to 1.8 per cent in 2015 as workforce requirements for the construction phase of the Ichthys LNG project peak (Table 3). Growth is then forecast to moderate in the outer years as the Ichthys LNG project moves to the less labour-intensive production phase and population growth in the Territory returns to levels more akin to natural increase.

Table 3: Population Growth, Forecasts (%)

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

e: estimate; f: forecast

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

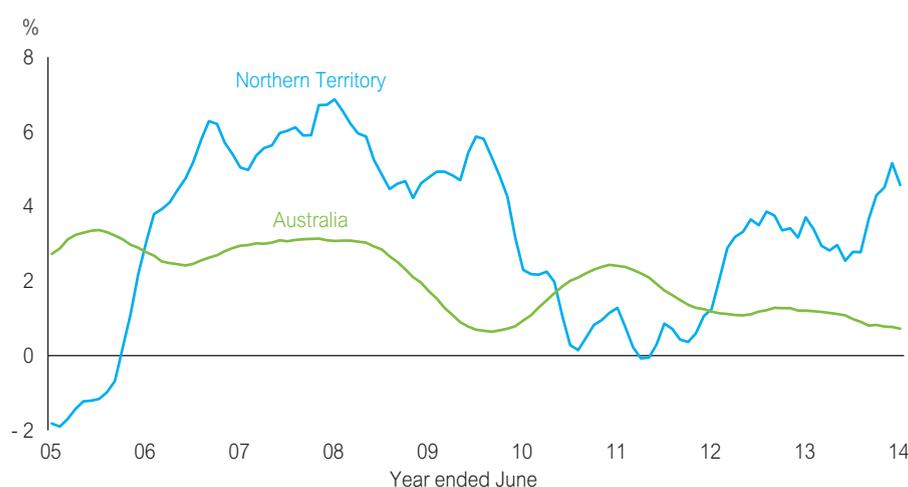
Labour Market

The Territory consistently has one of the lowest unemployment rates and the highest labour force participation rate among jurisdictions in Australia. These features mean the Territory is reliant on interstate and overseas workers to meet growth in the demand for labour associated with major projects and other economic activity. However, changes in workforce practices such as increased use of FIFO workers may mean that labour force statistics do not fully reflect the number of people working in the Territory.

Employment

In 2013-14 there were on average about 133 000 residents employed in the Territory, which represents 1.2 per cent of total employment nationally. Year-on-year employment growth in the Territory strengthened from 3.7 per cent in 2012-13 to 4.6 per cent in 2013-14 (Chart 7). This was the highest growth among jurisdictions, and well above national growth of 0.7 per cent in 2013-14.

Chart 7: Year-on-Year Change in Employment



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

Strong employment conditions in the Territory in 2013-14 reflected a ramping up of the construction workforce for the Ichthys LNG project workforce and increased dwelling construction activity. Employment growth in traditionally male-dominated industries such as construction led to growth in male employment (5.9 per cent) outpacing growth in female employment in 2013-14 (2.9 per cent).

The influence of major projects on the Territory's labour market is reflected in the variable growth rates in employment by industry. The strongest performing industries in terms of contribution to total employment over the past decade were construction, up from 7.9 per cent of Territory employment in 2003-04 to 11.5 per cent in 2013-14, and mining, up from 2.0 per cent to 4.3 per cent. In contrast, the contribution of the retail and wholesale trade industry to total employment has declined from 12.2 per cent in 2003-04 to 9.8 per cent in 2013-14. Similarly, the agriculture, forestry and fishing industry share of employment fell from 2.3 per cent in 2003-04 to 1.1 per cent in 2013-14.

Unemployment

In 2013-14 the Territory's average annual unemployment rate reversed the rise that occurred in 2012-13, returning to a level (4.4 per cent) more consistent with historical trends. The Territory recorded the second lowest annual average unemployment rate of all jurisdictions in 2013-14, behind the Australian Capital Territory and well below the national unemployment rate of 5.9 per cent (Chart 8).

Chart 8: Average Annual Unemployment Rate, by Jurisdiction



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

Across the Territory, the unemployment rates in all regions declined in 2013-14. Unemployment was lowest in Greater Darwin at 3.0 per cent, followed by Alice Springs at 4.9 per cent and Katherine at 6.1 per cent. The Barkly region continued to record the highest unemployment rate in the Territory at 9.7 per cent in 2013-14.

Outlook

Following a strong result in 2013-14, employment growth has slowed over the first three quarters of 2014-15, and while the unemployment rate has increased marginally, it remains the lowest in Australia. The moderation in employment growth likely reflects an earlier and larger than anticipated increase in the Ichthys LNG project workforce in the previous year. By the end of 2014-15, employment in the Territory is estimated to increase by 1.5 per cent, while the average unemployment rate is expected to be 4.2 per cent.

From 2015-16 labour market conditions in the Territory are expected to soften, reflecting the transition of the Ichthys LNG project to the less labour-intensive production phase and a forecast decline in dwelling construction activity, albeit from a high base. This is expected to lead to lower employment growth and a rise in the unemployment rate over the medium term (Table 4). As a result, employment growth in the Territory is forecast to be below historical trend levels over that period. From 2018-19 employment growth is forecast to begin returning to long-term average levels.

Table 4: Territory Labour Market Forecasts (%)

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

e: estimate; f: forecast

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

² Annual average.

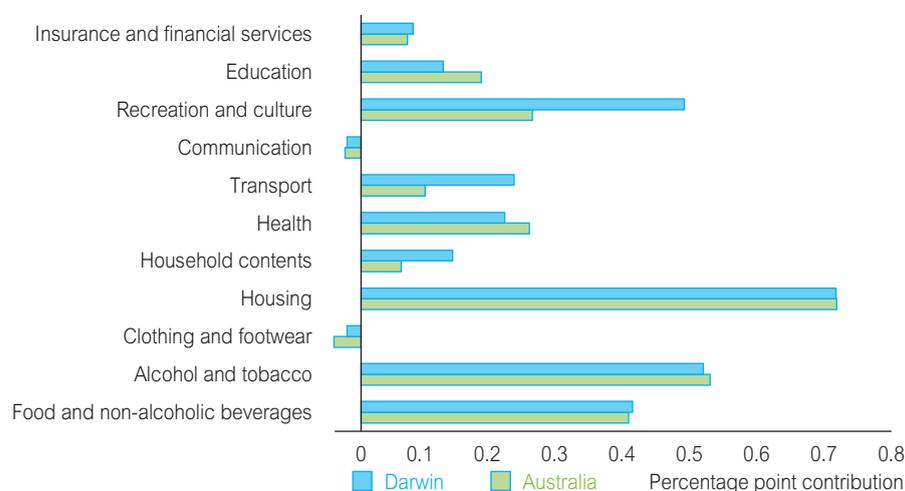
Source: Department of Treasury and Finance; ABS, *Labour Force, Australia*, Cat. No. 6202.0

Prices and Wages

Consumer Price Index

The Darwin consumer price index (CPI) increased by 2.9 per cent in 2014, down from 3.9 per cent in 2013. The key drivers of growth in Darwin CPI in 2014 were housing (contributing 0.72 percentage points to total growth), alcohol and tobacco (0.52 percentage points), recreation and culture (0.49 percentage points), and food (0.41 percentage points) (Chart 9).

Chart 9: Year-on-Year Percentage Point Contribution to Change in CPI, 2014



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

The outlook is for growth in the Darwin CPI to moderate to 2.5 per cent in 2015 and 2.3 per cent in 2016. This reflects the forecast of lower population and employment growth as the construction activity related to Ichthys LNG project winds down (Table 5). This is expected to lead to lower growth in demand for goods and services and consequently lower growth in prices. Increased supply of new dwellings and proposed land releases in Greater Darwin should reduce upward pressure on property prices and rents and support the forecast moderation in growth in the Darwin CPI. From 2017, the Darwin CPI is forecast to grow by 2.5 per cent.

Table 5: Growth in the Consumer Price Index (%)

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

e: estimate; f: forecast

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

Wages

In 2014 the Territory wage price index (WPI) increased by 2.8 per cent. This was below the 10-year average increase of 3.7 per cent. Growth in the Territory's WPI has been trending down since 2009, reflecting general downward movement in both private and public WPI. The Australian WPI increased by 2.6 per cent in 2014.

Subdued growth in Territory WPI partly reflects softness in labour market conditions in Australia, reducing wage pressures in the Territory, which relies on attracting interstate workers to meet labour force needs.

Territory public sector wages grew by 2.9 per cent in 2014, a modest increase from 2.5 per cent in 2013. Public wages have been subdued over recent years reflecting tight fiscal conditions across all tiers of government.

Growth in the Territory's WPI is expected to moderate to 2.7 per cent in 2015 and to 2.5 per cent in 2016 (Table 6). This reflects a reduction in the demand for labour as the construction phase of the Ichthys LNG project passes its peak as well as continued expenditure constraints in the public sector.

Table 6: WPI Forecasts, Year-on-Year Change (%)

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

e: estimate; f: forecast

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

Territory Residential Property Market

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

In general, Territory property market conditions were subdued in 2014. The Darwin median house price was \$585 000 in the December quarter 2014, the lowest level in two years. The median house prices in the Territory's major centres were \$459 500 in Alice Springs, \$380 000 in Katherine and \$291 250 in Tennant Creek.

In 2014 Darwin had the third highest median house price of the capital cities, below Sydney (\$882 000) and Melbourne (\$669 000) (Chart 11), and compares with the capital city average of \$641 500. The median Darwin unit price in 2014 (\$495 000) was the third highest of all capital cities, below Sydney (\$607 100) and Melbourne (\$511 500), and compares with the capital city average of \$512 600.

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

In 2013-14 the number of residential dwelling completions increased by 51.0 per cent (or 725) to 2146, the highest annual figure since 1999. The increase in new dwelling supply over the past year has contributed to the rise in the Darwin vacancy rate for all rented dwellings to 5.4 per cent in the December quarter 2014, compared with 3.5 per cent in the same period last year.

The supply pipeline for new residential dwellings in the Territory remains strong with the number of residential buildings currently under construction and the number of residential building approvals at historically elevated levels. This is consistent with plans for the commencement of construction of a number of multi-unit developments as well as the Government's schedule of land release and new subdivisions over the medium term.

Industry Analysis

Mining

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

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

The mining industry's share of total employment is less than its share of GSP, reflecting the capital-intensive nature of the industry. In 2013-14 the mining industry accounted for 4.3 per cent of total resident employment in the Territory, compared with 2.3 per cent nationally. However, this figure likely underestimates the total number of jobs in mining in the Territory as it excludes FIFO workers who are residents in other states.

Mineral production in the Territory is dominated by manganese, gold and zinc/lead concentrate (Table 7). The Territory also produces bauxite, iron ore and uranium. In 2013-14 mineral production in the Territory was valued at \$2.7 billion, a 30.2 per cent increase from the previous year with the largest increases (in absolute terms) occurring in the production of manganese, gold, iron ore and bauxite.

Table 7: Value of Mineral Commodities Sold in the Territory (\$M)

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

¹ Other comprises crushed rock, gravel, limestone, mineral specimen, quicklime, sand, soil and vermiculite.

Source: Department of Mines and Energy annual reports

A decline in mining production in the Territory is expected in 2014-15, largely due to the cessation of iron ore mining at the end of 2014. Exports of iron ore are expected to continue until the end of 2014-15 as stockpiles of ore are shipped from the Territory. Lower production of crushed rock is also expected to detract from growth, following a period of high demand.

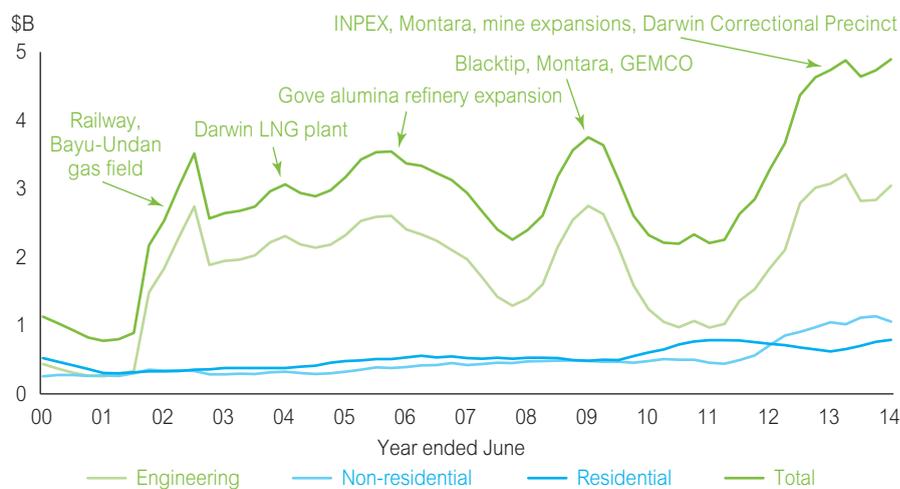
Energy production is expected to increase over the coming years, as production at the Surprise and Dingo fields in Central Australia commences, however the value of production may be reduced by recent declines in the price of oil. While the Ichthys LNG plant is expected to commence production in 2016, feedstock gas for the plant will not be recorded in Territory gas production as the Ichthys field is located in Western Australian waters.

Construction

Construction is the Territory's single largest industry and has a major role in determining economic growth. In 2013-14 construction contributed \$3.9 billion to the Territory's GSP, the highest level on record. This equates to 18.6 per cent of Territory GSP and 3.2 per cent of the total value of construction in Australia. In addition to its contribution to GSP, the construction industry is one of the largest employers in the Territory, accounting for over one-tenth of the total resident workforce.

Construction activity in the Territory has surged in recent years with the value of construction increasing by about 45 per cent since 2010-11 (Chart 10). While growth has largely been driven by increased engineering construction activity, the values of non-residential and residential construction are also at historically elevated levels.

Chart 10: Construction Work Done (moving annual total)



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

Construction activity in the Territory is expected to strengthen further over the short term, coinciding with the arrival and installation of more than 200 prefabricated modules for the Ichthys LNG project.

In the medium term, construction activity is expected to decline as engineering construction on the Ichthys LNG project winds down. The extent of the decline in construction activity during this time will depend on the future of potential major projects. These projects include the North East Gas Interconnector pipeline linking the Territory to the eastern seaboard; Ord Stage 3 project; Seafarm's Project Sea Dragon; and Arafura Resources' rare earth mine in Central Australia.

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

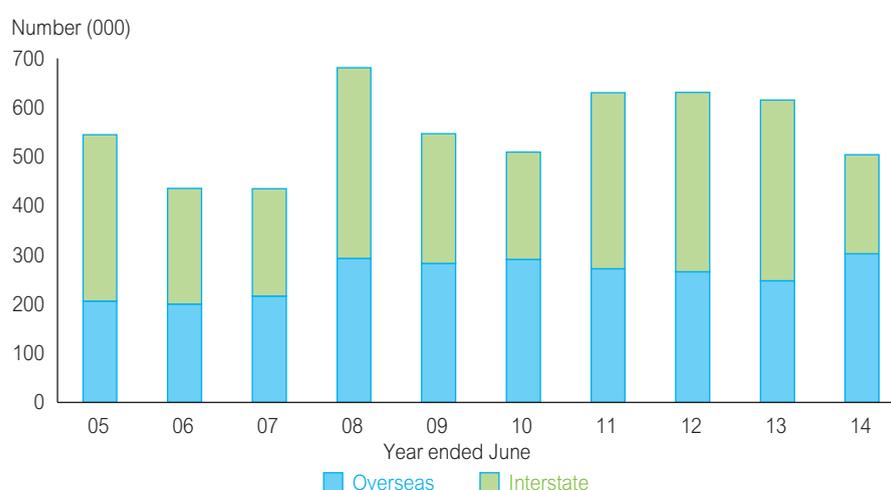
Residential construction activity is expected to remain at above historical trend levels in the short to medium term supported by the Territory Government's land release program. Non-residential construction is likely to moderate in coming years, albeit from record levels. Key non-residential projects include construction of the Palmerston Regional Hospital, the Palmerston Gateway shopping centre and infrastructure spending by the Australian Defence Force (ADF) to upgrade defence facilities in the Territory.

Agriculture, Forestry and Fishing

In 2013-14 the agriculture, forestry and fishing industry in the Territory accounted for 2.1 per cent of GSP and 1.1 per cent of total resident employment. While the industry's share of Territory economic output and employment is relatively small, it is an important industry for generating economic activity and employment in regional areas.

In 2013-14 about 506 000 live cattle were exported out of the Territory, of which 60 per cent were exported overseas while the remainder were exported interstate (Chart 11). Indonesia was the Territory's largest international market (80 per cent of overseas exports) in 2013-14. Other key overseas destinations were Vietnam and Malaysia. The bulk of Territory cattle sent interstate went to Queensland and South Australia.

Chart 11: Annual Number of Live Territory Cattle Movements



Source: Department of Primary Industry and Fisheries

The value of horticulture production in the Territory was estimated at \$115 million in 2013-14. The main fruits produced in the Territory are mangoes, melons and bananas. The main vegetables produced in the Territory are okra, bitter melon, snake beans, pumpkin and cucumber.

The horticulture sector faces two disease threats. Cucumber green mottle mosaic virus was discovered in Katherine in late 2014. The disease is anticipated to reduce the Territory's melon and pumpkin production over coming years. The production of bananas in the Territory is also expected to decrease as a result of banana freckle disease, which renders the fruit unsuitable for sale and can only be controlled through the destruction of banana plants. The Territory Government, with the support of industry stakeholders, has implemented measures to manage the cucumber green mottle mosaic virus and eradicate the banana freckle disease. These measures should see the industries impacted by the diseases recover over the medium term.

Fish production in the Territory largely comprises snapper, barramundi and shark, while crustacean production is dominated by prawns and mud crabs. The value of total fisheries production in the Territory was estimated at \$61 million in 2013-14.

Forestry is a developing industry in the Territory, based on the production of acacia on the Tiwi Islands, African mahogany in the Daly region and Indian sandalwood in the Katherine and Douglas Daly regions.

In value terms, the agriculture, forestry and fishing industry is expected to grow, largely supported by an increase in cattle exports. This is anticipated to be partly offset by a decline in horticulture production due to the impact of banana freckle disease and cucumber green mottle

mosaic virus. The industry’s share of Territory GSP is expected to continue to decline over the budget and forward estimates period, as growth in this industry is expected to be outpaced by growth in other industries.

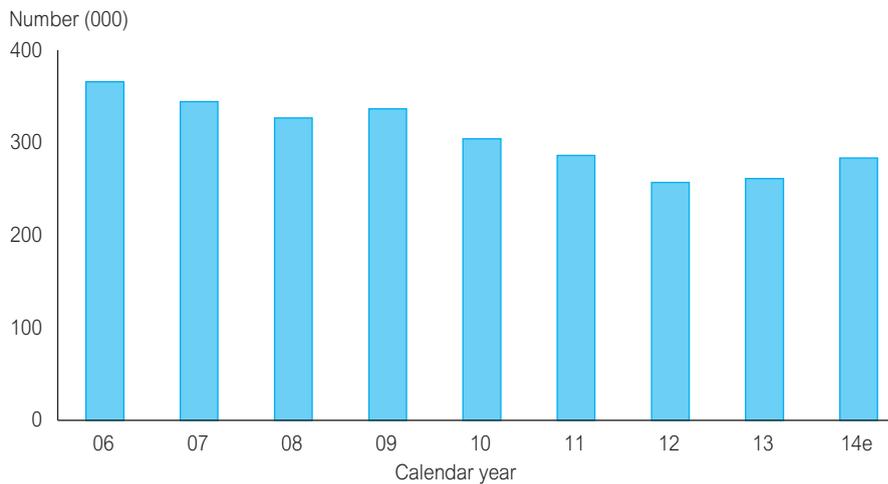
Tourism

Tourism is an important economic driver for the Territory and is a significant industry in regional areas. In 2013-14 the tourism industry in the Territory contributed 4.0 per cent to GSP and 5.7 per cent of total resident employment.

International visitation to the Territory has rebounded strongly in 2014 following a prolonged period of decline. It is estimated that the number of international visitors to the Territory increased by 8.5 per cent to 283 000 persons in 2014, primarily due to growth in holiday makers. Despite the improvement, the number of international visitors to the Territory remains below the previous peak of 366 000 persons during 2006 (Chart 12).

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

Chart 12: Annual Number of International Visitors to the Territory



e: estimate

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

In 2014, 1.1 million interstate and intrastate overnight visitors travelled to and within the Territory. This was the equal second highest annual total of domestic visitors in the Territory over the past decade.

The recent recovery in domestic and international visitation numbers to the Territory is expected to continue over the long term, reflecting forecast improvement in economic conditions in the Territory’s key tourist source markets and downward movements in the exchange rate. The depreciation of the Australia dollar should not only enhance the Territory’s ability to compete for international visitors, but also encourage Australians to travel locally rather than overseas.

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

Defence

The defence industry makes a substantial contribution to the Territory economy through direct and indirect employment and demand for local goods and services. In addition, the defence industry stimulates the economy through major ADF operations and exercises held in the Territory, and capital works projects that typically engage local businesses.

In current terms, defence spending in the Territory increased by 10.6 per cent or \$144 million to \$1.5 billion in 2013-14. Defence spending accounted for 6.9 per cent of the Territory's GSP in current terms compared with 1.9 per cent of Australia's GDP.

The Territory is home to nearly one tenth of Australia's permanent defence force and about 3 per cent of the total reserve and civilian defence personnel. In 2013-14 there were 6123 defence force personnel based in the Territory (Chart 15). The majority of the personnel (80.5 per cent or 4927 people) were permanent members, of which two thirds were in the army, one fifth was in the air force and the remainder were in the navy.

Defence is expected to continue to make a substantial and stable contribution to the Territory economy. In the medium term, the largest defence major project is the \$470 million upgrade at the Royal Australian Air Force (RAAF) Base Tindal and Darwin. The project is expected to support increased air force activity and accommodate and support the new Joint Strike Fighter. The project is expected to provide a boost to local businesses and create employment opportunities in the region.

There are a number of defence projects that are in the pipeline, awaiting Commonwealth approval. The largest projects currently being considered are the base redevelopments at RAAF Darwin, RAAF Tindal, Robertson barracks, Larrakeyah barracks and Delamere air weapons range. Other defence works in the planning phase include the East Arm hardened barge ramp project; refurbishments of health facilities at Robertson and Larrakeyah barracks; facilities to support a number of new defence capability platforms; and facilities to support the US Force Posture Initiative.

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

Retail and Wholesale Trade

In 2013-14 the retail and wholesale trade industry in the Territory accounted for 4.9 per cent of GSP and 9.8 per cent of total employment. Nationally, the industry contributed 8.4 per cent of GDP and 14.1 per cent of total employment over the same period.

Retail activity in the Territory improved in 2013-14 following a prolonged period of weak growth in the aftermath of the global financial crisis in 2008-09. In real terms retail trade growth strengthened from 1.0 per cent in 2012-13 to 3.7 per cent in 2013-14. Despite the improvement, annual growth in retail trade remains below the 10-year historical average (4.3 per cent).

The outlook for the Territory's retail and wholesale industry is expected to remain subdued in the short to medium term. Households remain cautious with their spending and continue to take a conservative approach to saving and borrowing. Although interest rates are at record low levels, it may take time for this to flow through to increased consumer spending, particularly on discretionary items. Over the medium term, growth in retail and wholesale trade is expected to be constrained by slow growth in population, employment and wages.

Manufacturing

The Territory's manufacturing industry is smaller and less diverse than nationally, and is dominated by mining-related processing. The largest component of manufacturing in the Territory is LNG. Other manufacturing activities include helium production, products for local consumption, such as steel fabrication, wood, paper and food, and more recently processed beef from the new abattoir at Livingstone in Darwin's rural area. In 2013-14 the manufacturing industry in the Territory accounted for 4.1 per cent of GSP and 3.5 per cent of total resident employment.

The outlook for the manufacturing industry in 2014-15 is negative with the cessation of alumina manufacturing from the Gove alumina refinery in 2013-14 expected to reduce manufacturing volumes in 2014-15. The Darwin LNG plant also underwent a scheduled maintenance shutdown in late 2014, which will lower its output in the 2014-15 year.

In 2015-16 the manufacturing industry is likely to experience limited growth, then increase substantially in volume and value as production from the Ichthys LNG plant commences in 2016.

Government and Community Services

In 2013-14 the government and community services industry accounted for 18.3 per cent of Territory GSP. This was the fourth highest proportion among jurisdictions behind the Australian Capital Territory (43.4 per cent), Tasmania (23.0 per cent) and South Australia (19.4 per cent).

The outlook for the government and community services industry is mixed. Public investment is expected to increase in the short to medium term, driven by an increase in Territory Government infrastructure spending. The Government will invest strongly in community and social infrastructure in 2015-16 and 2016-17, with a focus on transport, education and health infrastructure. Government investment is expected to be a key driver of economic activity over this period and will assist in offsetting the expected decline in private investment.

Public consumption is expected to remain subdued over the budget and forward estimates period. This is consistent with the Territory Government's strategy of eliminating the fiscal deficit by 2017-18 and returning debt to sustainable levels. This also reflects the Commonwealth Government's goal of achieving fiscal consolidation through structural savings to the budget.

Other Services

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

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