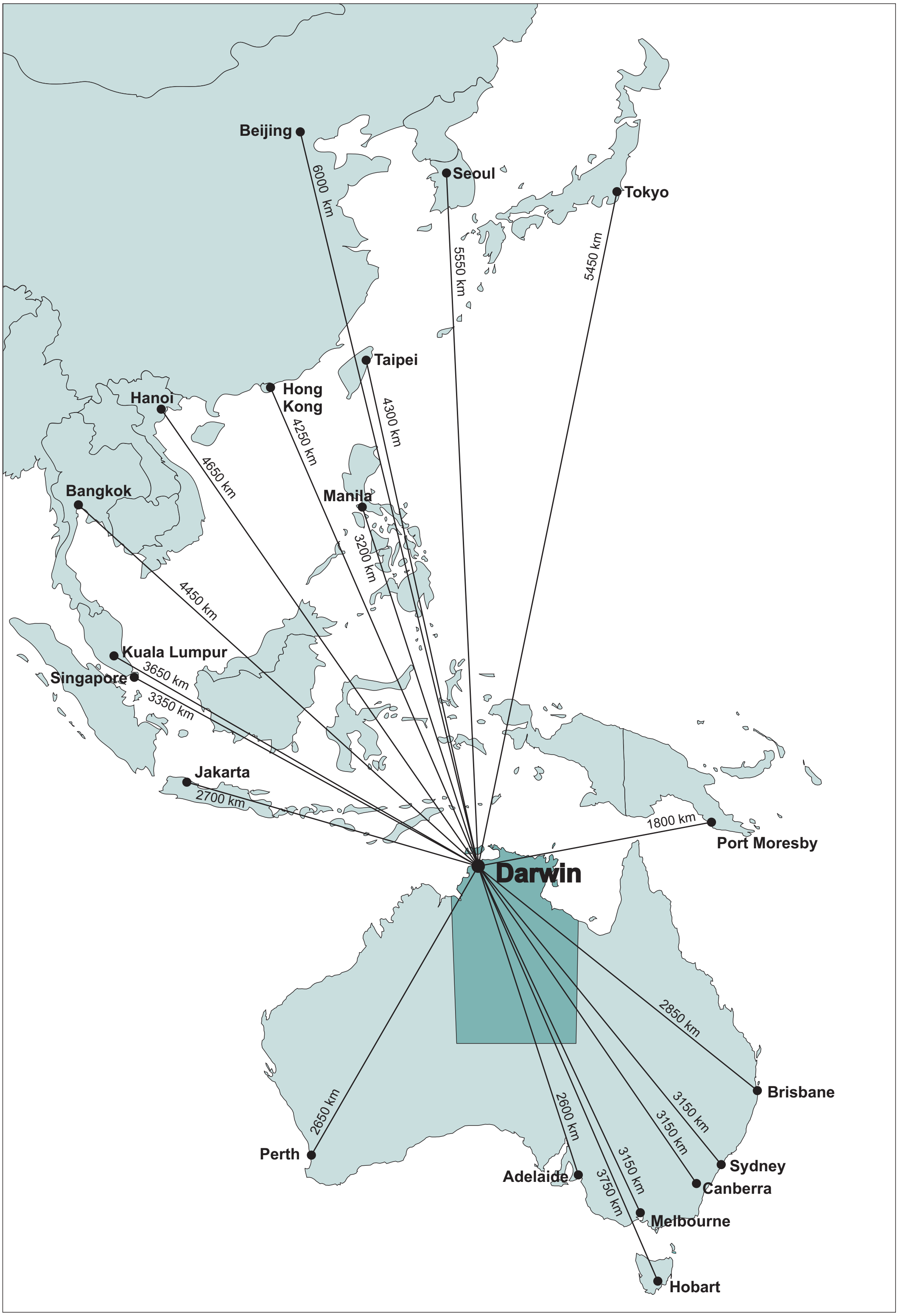
NORTHERN TERRITORY ECONOMY

1998-99

Budget Paper No. 5



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

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF MAPS

LIST OF ABBREVIATIONS

ABARE	Australian Bureau of Agricultural and Resource Economics
ABC	Australian Broadcasting Corporation
ABS	Australian Bureau of Statistics
ACTU	Australian Council of Trade Unions
ADG	Airport Development Group
APEC	Asia Pacific Economic Cooperation
APIN	Army Presence in the North
ASEAN	Association of South East Asian Nations
AWE	Average Weekly Earnings
B	billion
CBD	Central Business District
CDEP	Community Development Employment Program
CPI	Consumer Price Index
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DCAT	Department of Communications and Advanced Technology
DHA	Defence Housing Authority
DME	Department of Mines and Energy
DPIF	Department of Primary Industry and Fisheries
FPSO	floating production storage and offtake
GBD	Government Business Division
GDP	Gross Domestic Product
GSP	Gross State Product
IMF	International Monetary Fund
LNG	Liquefied Natural Gas
M	million
NTTC	Northern Territory Tourist Commission
NTHA	Northern Territory Horticultural Association
RAAF	Royal Australian Air Force
RBA	Reserve Bank of Australia
REIA	Real Estate Institute of Australia
SBS	Special Broadcasting Service
SFD	State Final Demand
TDZ	Trade Development Zone
ZOC-A	Area A of the Zone of Cooperation

OVERVIEW

Over the past year the Territory economy continued its impressive rate of growth with further strong population and economic growth.

In 1997 the Territory population recorded a rate of growth of 2.2% to a total population of just under 190 000. Once again, this rate of growth was faster than in any other State or Territory and close to double the national rate of growth. Continued strong growth is expected in 1998 with a large contingent of defence personnel and their families scheduled to arrive.

For most of the 1990s strong population growth has fuelled healthy economic growth by increasing the demand for goods and services. Economic growth also acts as a stimulant for population growth with large numbers of migrants from overseas and interstate attracted by the job opportunities and lifestyle benefits that the Territory offers.

After growing by 6.3% in 1996-97, faster than any other State or Territory, it is estimated that the Territory economy grew by a more modest rate of 4.5% in 1997-98, still considerably higher than the national average.

Economic growth over the next few years is set to accelerate with a significant increase expected in 1999-00 due to the planned commencement of oil production from the Laminaria-Corallina field in the Timor Sea.

The Territory continues to enjoy a very substantial trade surplus with exports almost double the value of imports in 1997-98.

Exports are estimated to have fallen slightly in 1997-98, largely due to the decline in live cattle exports to Asia. Imports increased significantly, with most growth in machinery and equipment.

South East Asia is an important destination for Territory exports accounting for 16% of total exports in 1997-98. The Asian currency crisis has had some impact on Territory exports, although this has largely been confined to live cattle exports. To a large extent increased exports of commodities to other regions, particularly North America, have offset the decline to Asia.

On a per capita basis, Territory exports continue to be higher than the national average and second highest after Western Australia.

Favourable conditions in the Territory labour market continue to prevail, with the Territory having Australia's lowest rate of unemployment, Australia's highest rate of employment growth and a labour force participation rate second only to the ACT.

Over the past year Territory employment increased by 2 100 or 2.5%, with growth strongest in a range of service industries, including retail and tourism, as well as construction.

The Territory unemployment rate for 1997-98 is expected to average 4.9%, considerably lower than the national average of 8.5%.

Further falls in housing interest rates and moderate wage rises, contributed to a further reduction in inflation in 1997. The Consumer Price Index recorded a fall 0.7%

in Darwin during 1997, compared to a fall of 0.2% nationally.

Territory average weekly earnings growth continued to be more moderate than the national average and during 1997 full-time earnings were on average about the same as the national average.

Slower growth in Territory average weekly earnings reflects the compositional changes taking place in the Territory economy with employment growth more rapid in lower paying service industries, where hours worked per week may also be lower. This diversification of the Territory economy represents a broadening of the Territory's economic base and signals a reduced reliance on a small number of industries.

The Territory's largest industry, in terms of contribution to GSP, is the mining industry. In 1997-98 it is estimated that the total value of production for the industry was down from the previous year.

Mineral production is estimated to have fallen by 10.5% in 1997-98 after two years of growth. Declining commodity prices over the past year, particularly gold prices, have been the cause of this reduction with the Mt Todd Gold Mine closing in November 1997.

However, energy production is much more promising. While the value of energy production also fell in 1997-98, due to dwindling reserves in existing Timor Sea oil fields, significant new fields will commence production over the next few years.

A tenfold increase in Territory oil production is expected in 1999-00 with the commencement of production from the Laminaria-Corallina field which will utilise the world's largest floating production storage and offtake vessel. Further, the Jabiluka uranium mine is expected to commence production in 1998-99.

In the medium term, further developments are anticipated in the Timor Sea with the construction of liquefied natural gas plants, utilising Timor Sea gas, currently being considered by two different consortia.

The Territory's rural industries and fisheries had another prosperous year. Overall production is estimated to have increased by 12% in 1997 with strongest growth in the value of cattle production (up 12%), aquaculture (up 29%) and mango cultivation (up 34%).

Evidence from early 1998 indicates that live cattle exports to Indonesia have been greatly reduced and may take a number of years to recover. Nevertheless, the Philippines and possibly other countries offer scope for export growth.

The strong growth in the tourism industry achieved in recent years was curtailed during 1997, with the number of visitors to the Territory decreasing 3.9% and expenditure by tourists falling 3.2%. Moderate growth in the industry is expected over the next five years with growth in international visitors expected to outpace growth from domestic visitors.

The development of the Territory's transport infrastructure has taken important steps forward in the past year. Stage 1 of Darwin's new East Arm Port is now complete and scheduled to be officially opened in August 1998. In addition, the construction of the Alice Springs to Darwin railway, which will complete the link to Adelaide, is now expected to commence in January 1999. Three shortlisted consortia are currently undertaking detailed analysis of the project. The railway and port will together provide the necessary infrastructure to enable Darwin to develop its role as a strategic transport hub serving and enhancing the flow of trade between Australia and Asia.

POPULATION

The Northern Territory occupies approximately one sixth of Australia's land mass but accounts for only 1% of the national population. It has a population density of 0.1 persons per square km, which is lower than any other State or Territory and well below the national density of 2.4 persons per square km. It is also very low compared to the population density of the South East Asian region to our north of 131.3 persons per square km.

Population Growth

Over the year to 31 December 1997, the Territory population is estimated to have increased by 2.2% to 189 400. This compares with the national population increase of 1.2% to 18 645 000 over the same period.

Table 1.1

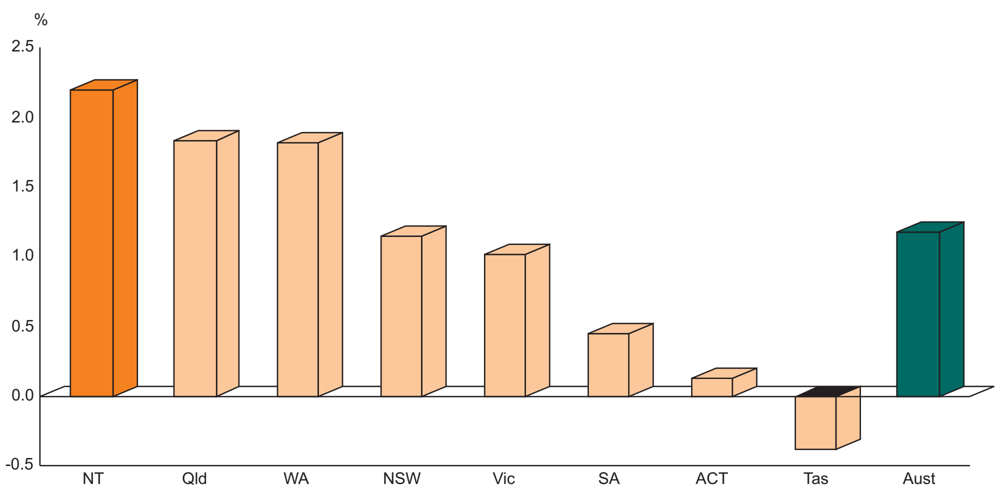
POPULATION
(December 1997)

	'000	PERSONS /KM2
New South Wales	6 313	7.9
Victoria	4 628	20.3
Queensland	3 433	2.0
Western Australia	1 483	0.6
South Australia	1 814	1.8
Tasmania	472	6.9
Australian Capital Territory	309	131.0
Northern Territory	**189**	**0.1**
Australia	**18 645**	**2.4**

Source: ABS Cat. No. 3101.0

Figure 1.1

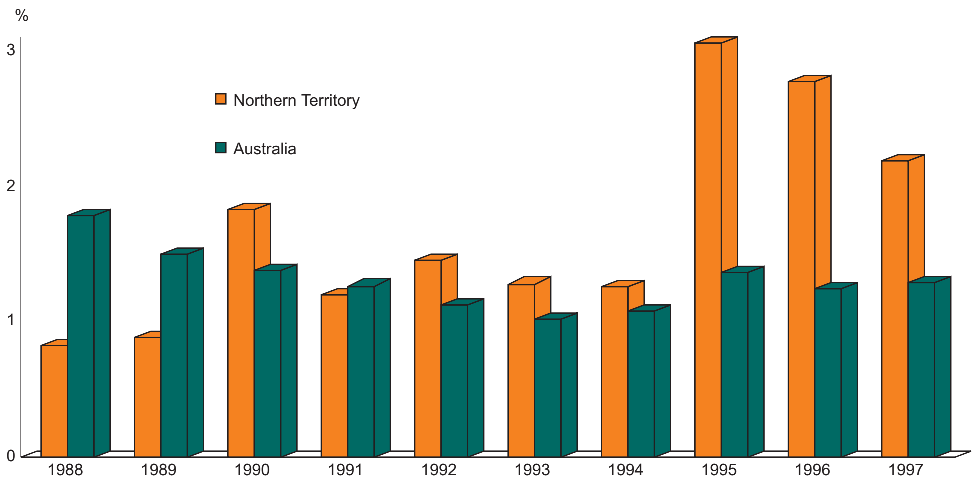
STATE AND TERRITORY POPULATION GROWTH RATES
(Year to December 1997)



Source: ABS Cat. No. 3101.0

Figure 1.2

POPULATION GROWTH RATES



Source: ABS Cat. No. 3101.0

In 1997, the Territory annual population growth rate was again the highest of any jurisdiction. However, the rate of population growth slowed in all jurisdictions except Victoria and South Australia.

Following the publication of the 1996 Census results, the Australian Bureau of Statistics revised upwards their previously published estimates of the Territory's population between 1992 and 1996.

The magnitude of the upward revision was 4 200 or 2.4% of the resident population of the Territory in 1996. The revised estimates are much more consistent with the very strong economic growth in the Territory in the past five years.

Components of Growth

Population growth comprises three independent components, natural increase (births less deaths), net overseas migration (immigration less emigration) and net interstate migration (arrivals less departures).

In 1997, natural increase continued to be the major contributor to the population increase in the Territory. While both net overseas and interstate migration made an equal contribution in 1997, interstate migration made a much more significant contribution in the previous two years.

The Territory has a younger than national age profile which contributes to a relatively low death rate. The large Aboriginal population of the Territory substantially contributes to the Territory's high birth rate, and hence, the high rate of natural increase. In 1996, natural increase in the Territory was 2 734, providing a population growth rate of 1.5%.

The rate of natural increase in the Territory in 1997 was the highest of any jurisdiction, and more than double the national rate of 0.7%. The rates of natural increase in the other jurisdictions ranged from 0.5% in South Australia to 1.0% in the Australian Capital Territory.

Overseas migration to and from the Territory is primarily driven by the Commonwealth's migration policy together with the perceived opportunities offered by the Territory relative to other jurisdictions.

Over recent years, the net overseas migration gain for the Territory has fluctuated between 79 in 1992 and 718 in 1997. However, the Territory, with one percent of Australia's population, has managed to attract only 0.5% of Australia's net overseas migrant intake.

Interstate migration is by far the most volatile component of the Territory's population growth. This is because of its dependence on a wide variety of economic and social factors. Volatility may be less apparent than real due to the acknowledged difficulties ABS has in estimating the interstate migration of a healthy young population to and from the Territory.

During the late 1980s and early 1990s, the ABS estimates that the Territory consistently recorded net interstate migration losses. This coincided with a period of low economic growth.

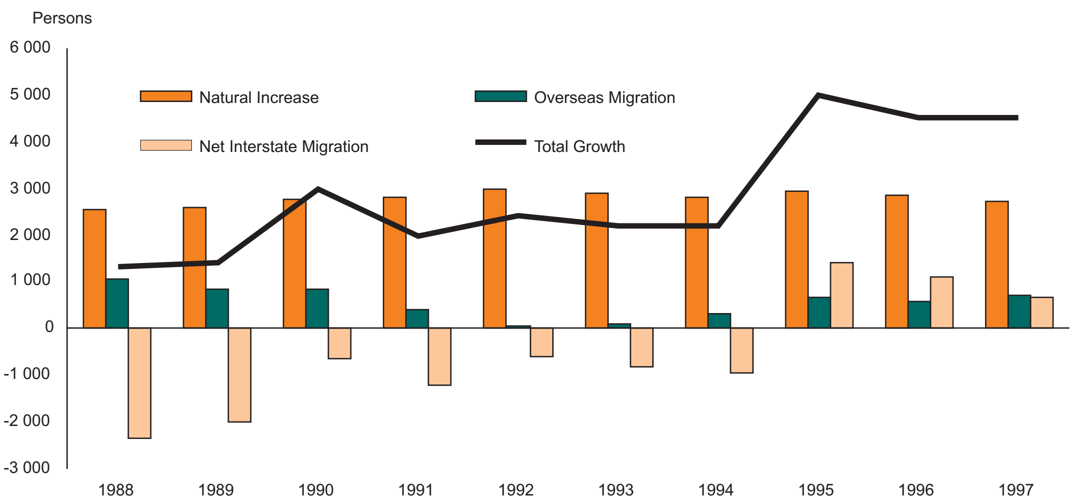
Over the past three years, the Territory has achieved net interstate migration gains largely as a result of the defence force build-up in the Top End. In 1997, the Territory is estimated to have gained a net 670 interstate migrants. This is down on the gains of 1 090 and 1 415 achieved in 1996 and 1995. These small net gains mask very large gross flows - some 20 000 enter and 20 000 leave the Territory each year.

CULTURAL DIVERSITY

In the 1996 Census, 28.5% of the Territory's population identified themselves as Aboriginal or Torres Strait Islander. This is up from the 27% in 1991, reflecting the higher rate of natural increase of the indigeneous population rather than an increase in identification. The Territory proportion is far higher than in any other State or Territory. Nationally, Aboriginal and Torres Strait Islanders account for only 2% of the population.

Figure 1.3

POPULATION GROWTH



Source: ABS Cat. No. 3101.0

In addition, 24% of the Territory's population were born overseas of which a significant proportion were from Asia.

Population Distribution

The Territory's population is concentrated in the urban centres. By 30 June 1997, the population of the Darwin Region had reached 98 500 and is estimated to have reached the 100 000 milestone in early 1998. The Darwin Region comprises Darwin City, Palmerston and the Litchfield Shire.

The region accounted for 52.6% of the total Territory population. Alice Springs accounted for a further 13.7% with the other major centres accounting for 9.2%.

The rest of the Territory comprises remote and sparsely settled areas. In 1997 these areas accounted for 24.4% of the Territory population (more than double the national average) and recorded rapid growth of 3.4%. The relative importance of remote areas in the Territory is an important factor impacting on the cost of delivering services in the Territory.

Table 1.2

POPULATION DISTRIBUTION
(As at June 1997)

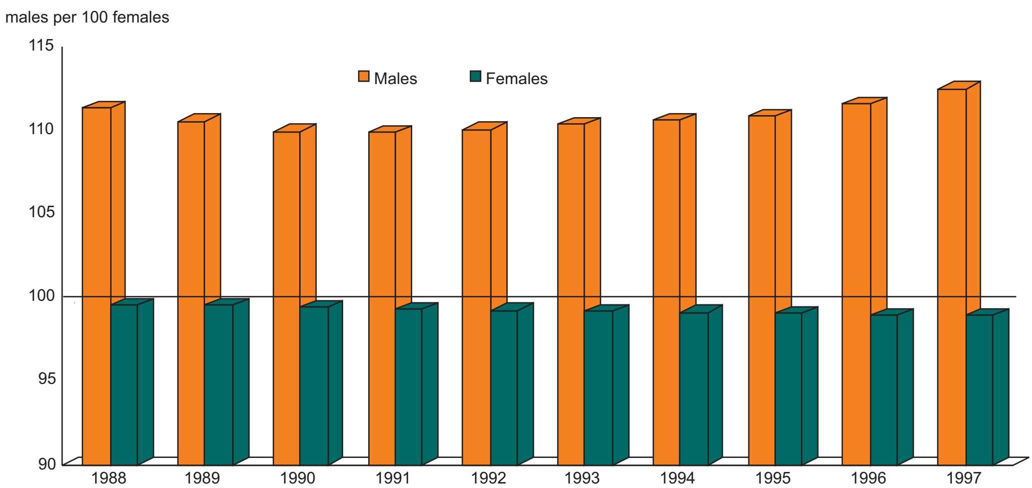
		% ANNUAL CHANGE	% OF TOTAL
Darwin Region	*98 466*	*2.8*	*52.6*
Darwin City	69 415	0.8	37.1
Palmerston	14 849	11.3	7.9
Litchfield	14 202	4.6	7.6
Katherine	9 752	3.3	5.2
Nhulunbuy	3 784	0.7	2.0
Tennant Creek	3 832	4.4	2.0
Alice Springs	25 713	2.7	13.7
Rest of Territory	45 585	3.4	24.4
Total	187 132	2.9	100.0

Source: ABS Cat. No. 3234.7

Over the year to 30 June 1997, Palmerston was the fastest growing urban area in the Territory with an annual increase of 11.3%. This growth reflected the continued impetus of the defence expansion as well as the fact that Palmerston contains almost all the available land in the Darwin Region zoned for suburban development.

Figure 1.4

GENDER PROFILE



Source: ABS Cat. No. 3101.0

The population of Darwin City increased by 0.8% in 1997, reflecting a continuation of the pattern of urban redevelopment and the continuing demand for medium density dwellings. This also reflects the ageing of the population as well as the steady reduction in average household size.

The Darwin Region grew by 2.8% over the year. Population growth was spread fairly evenly amongst all the other urban centres with the exception of Nhulunbuy.

Gender Profile

The national gender ratio of 99 males for every 100 females was almost balanced in 1997. In contrast, the Territory has significantly more males than females, with a ratio of 112.5 males for every 100 females. Prior to 1991, the ratio in the Territory had been falling due to a more rapid growth in the female population.

However, there has been a reversal of this trend since 1991 under the impact of the defence build-up and the increasing level of construction activity.

In the year to December 1997, the male population grew by 2.6% compared with 1.8% growth in the female population.

Age Distribution

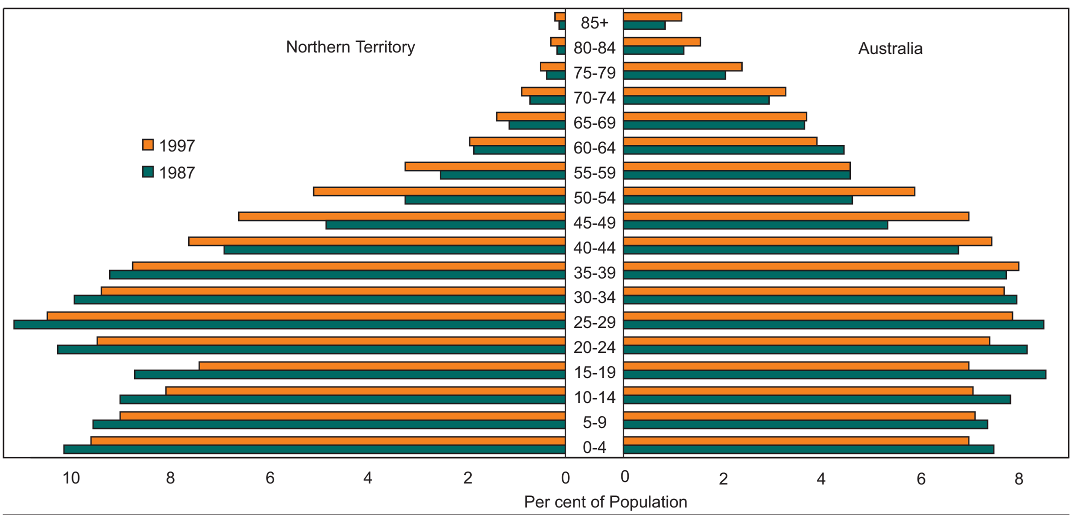
In 1997, the Territory's population remained the youngest of any jurisdiction. It had the largest proportion of population under 15 years, and the smallest proportion of people over 65 years, of any State or Territory. The median age of Territorians was 28.1 years, some six years younger than the national median age of 34.3.

While, the median age in the Territory is now some two years higher than a decade ago, the gap between the Territory and the nation has widened by one year as the nation is ageing even faster. The Territory has a higher proportion of its population in the prime working age group of 25-44 years than the national average.

The ageing of the Territory population has important implications for the provision of Government services. For instance, the number of people aged over 70 years is

Figure 1.5

AGE DISTRIBUTION OF POPULATION



Source: ABS Cat. No. 3201.0

forecast to double over the next thirteen years. This will generate demand for many health and other services that currently do not exist in the Territory.

The population age structure also has implications for the rate of household formation which drives the demand for housing. Between June 1991 and June 1996, the number of occupied private dwellings increased by 13.6% from 50 542 to 57 435. This rate of growth is significantly higher than the comparable population growth of 10.9%.

Population Outlook

The Territory's population growth in the short to medium term will continue to be underpinned by a high rate of natural increase due to the Territory's relatively young population profile, as well as the high proportion of Aboriginals. The ageing of the Territory population is expected to continue.

The net interstate migration gains of the last three years are expected to continue until at least 2001 as a direct result of the substantial defence expansion in the Top End. These migration gains will be underpinned by the prospect of jobs growth as the development of offshore oil and gas deposits in the Timor Sea, the railway, and other major projects proceed.

The population growth prospects are bright for 1998-99 as this year represents the peak of the APIN program. Some 500 personnel of the 5th/7th Regiment together with 700 dependants are programmed to move from Sydney to Darwin in 1998-99. This will ensure that population growth for 1998 will be higher than 1997, at around 2.5%.

The latest series of population projections published by the ABS show that by the year 2006 the population of the Territory will be between 198 200 and 206 300. This indicates an average annual population growth rate of between 1.1% and 1.5% over the next ten years, compared with the national average annual growth rate of between 1.0% to 1.2% over the same period. These projections are considered to be conservative and growth in the range 1.7-2.0% per annum is considered more likely.

The continued strong performance of the Territory economy will see the Territory population continue to grow at a more rapid rate than the national average.

ECONOMIC GROWTH

The Territory economy recorded another year of solid growth in 1997-98, continuing a trend which has now been evident for five years. Gross State Product (GSP), the broadest measure of economic activity, grew by an estimated 4.7% in 1997-98 to a current price estimate of about $6.1 billion. This came after a slightly better than expected increase of 6.3% in 1996-97.

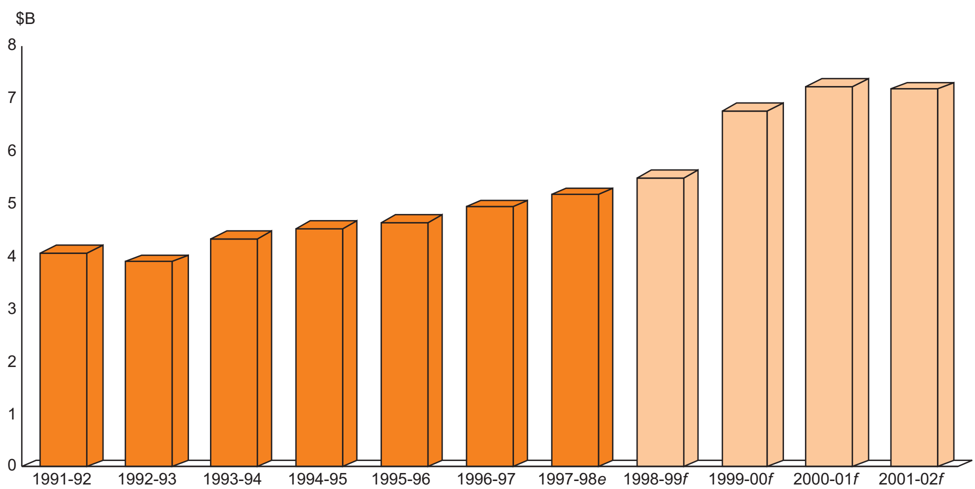
The Territory economy has recorded positive growth every year since 1992-93. In 1992-93 the Territory economy recorded a decline in GSP as oil prices returned to normal levels after the Gulf War. Over the past five years the Territory economy has averaged annual growth of 5.8%. This is considerably higher than the national average of 4.1% and higher than for any other jurisdiction.

During 1997 the ABS ceased the compilation of quarterly state accounts. This decision was taken partially in response to budgetary and human resource constraints within the ABS but most importantly due to ongoing concerns about the quality of data produced. In particular, the ABS were concerned about the quality of estimates of interstate trade, international trade in services and the change in stocks. These concerns were especially true for constant price estimates.

The ABS continues to prepare quarterly estimates of State Final Demand, and its components, as well as the annual state accounts. These are compiled sometime after the end of each financial year, using more reliable sources.

Figure 2.1

REAL GROSS STATE PRODUCT



Source: ABS Cat. No. 5242.0 (1989-90 dollars)

e: Treasury estimate, *f* forecast

STATE FINAL DEMAND

The major component of GSP is State Final Demand (SFD), the sum of consumption and capital expenditure by both the private and public sectors in the Territory economy.

Territory growth in 1997-98 incorporated a 4.9% increase in SFD. Growth in SFD in 1997-98 was dominated by a recovery in consumption expenditure, which experienced a decline in 1996-97. Private consumption growth was particularly strong, increasing by 7.5% in 1997-98, after growth of 7.9% in 1995-96 and –0.5% in 1996-97. Similarly, public sector consumption expenditure is estimated to have grown by 4.6% in 1997-98, after growth of 2.9% and –0.9% in the previous two years.

Overall capital expenditure was essentially unchanged in 1997-98. This followed a year of very high growth in 1995-96 (22.9%) and a much smaller increase of 1.3% in 1996-97.

Figure 2.3 shows a comparison of each of the four components of final demand for the Territory and Australia. Overall, the balance between consumption and capital expenditure is quite similar over time. Consumption expenditure both locally and nationally accounts for just over three-quarters of final demand.

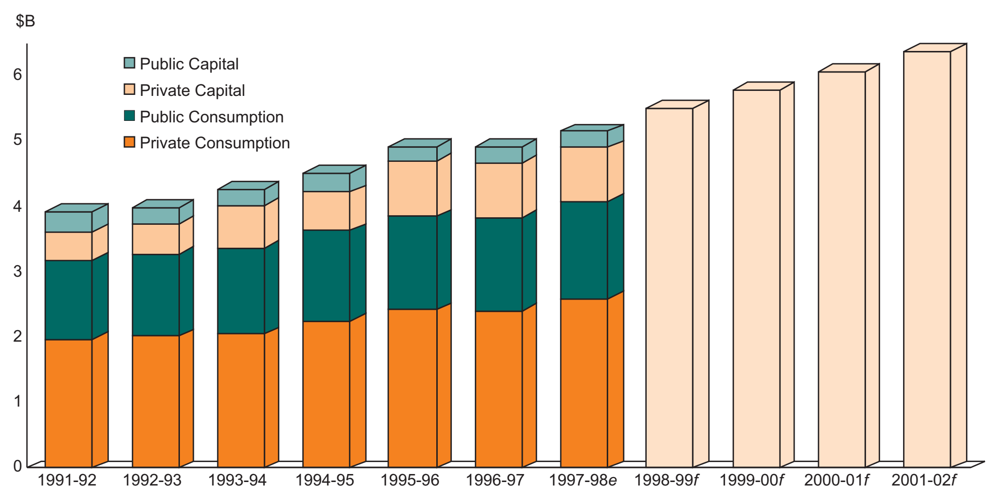
The most significant difference is that in the Territory the public sector accounts for a significantly higher share of total consumption expenditure than nationally. This is consistent with the higher proportion of government administration and defence in the Territory.The importance of the public sector has declined in recent years as the private sector has increasingly taken the lead in the provision of goods and services in the Territory economy.

STRUCTURE OF THE TERRITORY ECONOMY

A diversified economy is one in which economic activity is not concentrated in one or a few industries.

Figure 2.2

REAL FINAL DEMAND

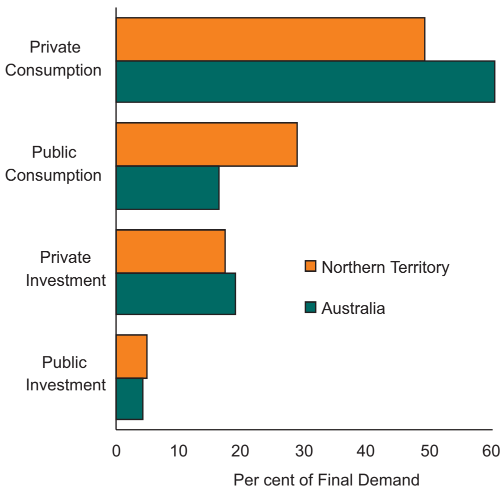


Source: ABS Cat. No. 5242.0 (1989-90 dollars)

e: Treasury estimate, *f* forecast

Figure 2.3

FINAL DEMAND - 1996-97



Source: ABS Cat. No. 5242.0 and 5206.0

A measure of diversity is the extent to which the four largest industries dominate output. In 1995-96 the Territory's four largest industries (in terms of value added to total output) accounted for 37% of Territory GSP at factor cost. This ratio was lower than in any other State or Territory, except Queensland (35%) and lower than the national average of 38%.

This suggests that the Territory economy is more diversified than the national economy and hence less reliant on its largest industries. The ACT (52%) and Western Australia (43%) were the least diversified economies, being heavily reliant on the public sector and mining industry respectively.

A measure of the exposure of an economy to outside influences is the ratio of exports to GSP. A higher ratio indicates that the economy is more integrated with the world economy and is potentially more vulnerable to adverse conditions in world markets.

In 1996-97, exports accounted for 26.1% of Territory GSP. This was considerably higher than the national average of 15.2%, indicating that in general terms the Territory economy is relatively more exposed to adverse conditions in world markets.

The only jurisdiction with a higher ratio than the Territory was the resource rich Western Australia at 37.6%. Queensland had the next highest ratio of exports to GSP at 17%.

Figure 2.4 shows a breakdown of Territory and national GSP, at factor cost, by industry. The most notable differences between the Territory and national economies on an industry basis are the relative importance of mining in the Territory and the relative importance of manufacturing in the national economy.

In 1995-96 mining accounted for 11.7% of Territory GSP, more than double the national proportion of 4.6%. While mining is extremely important to the Territory economy, in the most recent three years for which data is available, this dominance has diminished considerably. In the early 1990s the mining industry accounted for over 20% of Territory GSP, peaking at 24.9% in 1990-91.

This peak was the direct result of high oil prices inflated by the Gulf War, coupled with high levels of production of oil from the Timor Sea. As the price of oil fell and more importantly production quantities reduced as reserves in the three oil fields diminished, mining's share of Territory GSP fell by half.

The flow on effects of this fall in production were not particularly significant on the rest of the Territory economy due to the relatively weak linkages at that time between the Timor Sea oil fields and the onshore Territory economy.

Development of new oil fields in the Timor Sea over the next few years will see an increase in the importance of the mining industry. Improved linkages to the rest of the Territory economy will result in a flow on of benefits to those sectors of the economy which support the offshore oil industry and provide goods and services to workers in the industry.

The Territory lacks the secondary processing capacity of other states with the manufacturing industry accounting for only 5% of GSP. This proportion has changed little in recent years, and can be compared to 14.5% nationally.

Other notable differences between the Territory and national economies include:

- a higher proportion of government administration and defence. This reflects the high cost of providing public services to a small and dispersed population and the build-up of defence forces in the Top End in recent years;
- a higher proportion of construction – reflecting the high rate of development of the Territory and the consequent need for construction services;
- a lower proportion of property and business services – reflecting the provision of some of these services from outside the Territory; and
- a lower proportion of the ownership of dwellings "industry" which comprises the notional rent paid by home owners to themselves. This reflects the relatively low rate of home ownership in the Territory, although this has grown in recent years.

ECONOMIC OUTLOOK

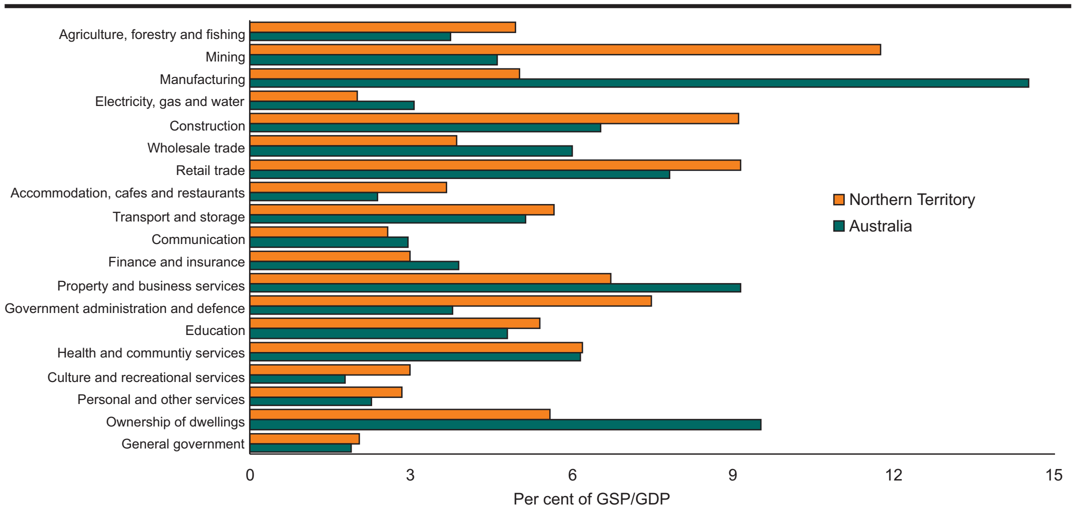
Table 2.1 shows the components of growth for the past three years and a forecast for 1998-99.

In 1998-99 overall economic growth in the Territory is expected to accelerate to 6.5%, up 1.8 percentage points on the estimated growth of 4.7% in 1997-98. This rate of growth is comparable with that in 1996-97. This is slightly higher than the 5.1% average experienced over the past ten years.

Factors contributing to higher growth in 1998-99 include:

Figure 2.4

GROSS STATE PRODUCT BY INDUSTRY



Source: ABS Cat. No. 5220.0, 1995-96

Table 2.1

NORTHERN TERRITORY GROSS STATE PRODUCT

	PERCENTAGE POINTS CONTRIBUTION				PERCENTAGE CHANGE			
	1995-96	1996-97	1997-98*e*	1998-99*f*	1995-96	1996-97	1997-98*e*	1998-99*f*
Consumption Expenditure								
Private	3.9	-0.2	3.7	2.3	7.9	-0.5	7.5	4.5
Public	0.9	-0.3	1.3	0.7	2.9	-0.9	4.6	2.5
Capital Expenditure								
Private	5.8	0.0	-0.5	1.8	44.8	0.1	-3.0	11.0
Public	-1.4	0.3	0.4	0.1	-22.4	5.9	8.9	2.5
State Final Demand	9.2	-0.2	4.9	4.9	9.3	-0.2	4.9	4.9
International Trade in Goods								
Exports	2.2	3.9	0.7	2.5	7.6	12.6	2.0	8.0
Imports	-0.6	-0.3	-3.4	-0.2	7.9	4.0	45.0	2.0
Balancing Item [1]	-8.4	3.0	2.5	-0.7	38.6	-10.2	-10.1	3.2
Gross State Product	2.5	6.3	4.7	6.5	2.5	6.3	4.7	6.5

1. Includes international trade in services, interstate trade, changes in stocks and the statistical discrepancy.
Sources: ABS Cat. No. 5242.0 *e*: Treasury estimate, *f* forecast

- Strong growth in both private and public consumption expenditure, albeit at rates lower than the very high rates experienced in 1997-98, following the small declines experienced in 1996-97. These rates of growth are also both about 1.0 percentage points lower than the average growth rates experienced over the past five years;
- A solid resurgence in private capital expenditure of 11.0% following on from two slow years of growth after the very strong increase of 44.8% recorded in 1995-96. Increased expenditure on residential construction, and retail developments in Darwin will account for the majority of this increase; and
- Modest growth in public sector capital expenditure is expected in 1998-99 with further investment by the Commonwealth on defence facilities at Robertson Barracks, Tindal and Bradshaw Station. This will be slightly offset by a decline in Territory Government expenditure following the completion of Stage 1 of the East Arm Port.

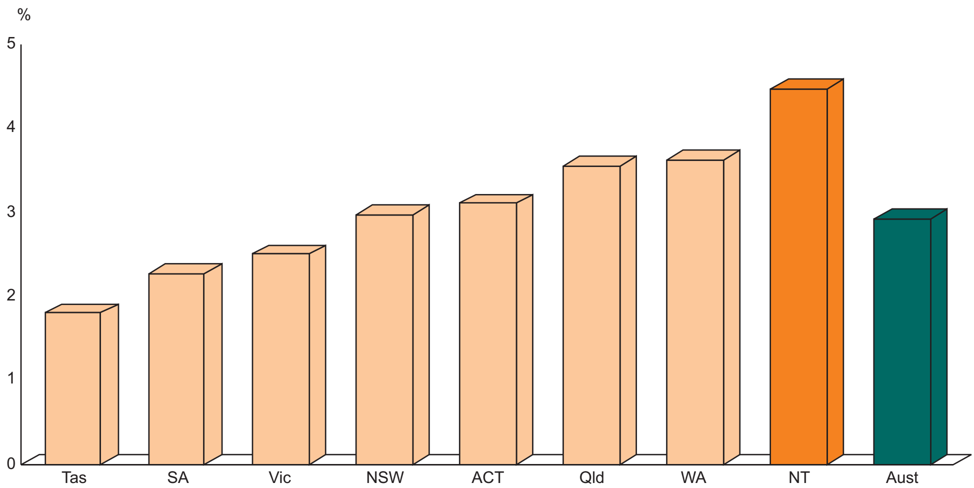
Beyond 1998-99 a number of major projects are expected to emerge.

Two liquefied natural gas plants, processing Timor Sea gas, are currently being evaluated for construction in Darwin. The Shell-Woodside proposal has a total capital cost of $10 billion. Production is expected to take place over 20 years. BHP-Phillips have proposed a smaller plant which would include a $500 million pipeline to Darwin.

The construction of the Alice Springs to Darwin Railway could start as early as 1999. Staged over 4 years, construction is expected to involve the investment of $1.2 billion, employing 1 000 construction workers. The long term implications of the railway and its potential to transform the Territory economy into a more robust and mature economy are considerable. Estimates of the impact on economic

Figure 2.5

FORECAST GROWTH
(Annual average 1998-99 to 2001-02)



Source: Access Economics

growth are very difficult to determine but are expected to be significant.

Ignoring the positive direct and indirect impact of the railway, the Territory economy is expected to continue to experience very strong growth over the next 3 to 4 years. The prime influence will be the commencement of production of oil and gas from new fields in the Timor Sea. Also the concluding stages of the APIN program together with the associated industrial development will provide added economic stimulus.

Economic growth is expected to average 9.2% per annum over the period 1999-00 to 2001-02. This reflects a massive increase in Territory oil exports from $100 million in 1998-99 to $1 100 million in 1999-00 with the commencement of production from the Laminaria/Corallina field in the Timor Sea.

This rate of growth is considerably higher than the average growth rate of 5.1% for the past ten years and an Access Economics forecast rate of growth of 4.5% per annum for the years 1998-99 to 2001-02.

Over this period Access forecast that the national economy will grow by 2.9% per annum. The next fastest growing economies are expected to be the other “Sunbelt” States of Western Australia and Queensland, both with 3.6%.

INTERNATIONAL TRADE

It is estimated that the value of Territory exports will decrease 2.4% to $1.2 billion in 1997-98. This slight decline stems primarily from a fall in food and live animal exports to South East Asia and is partially offset by an increase in commodity exports.

The Territory's imports of merchandise goods is estimated to increase markedly to $650 million in 1997-98, a rise of 61% on 1996-97. This is primarily the result of a significant increase in capital imports related to the mining, oil and transport industries.

As a result, it is estimated that, for the Territory, imports as a percentage of exports increased from 32% to 54%.

While Territory merchandise exports as a percentage of Australian exports fell slightly to 1.5% in 1997, exports per capita at $6 915 were 47% greater than the national average of $4 711.

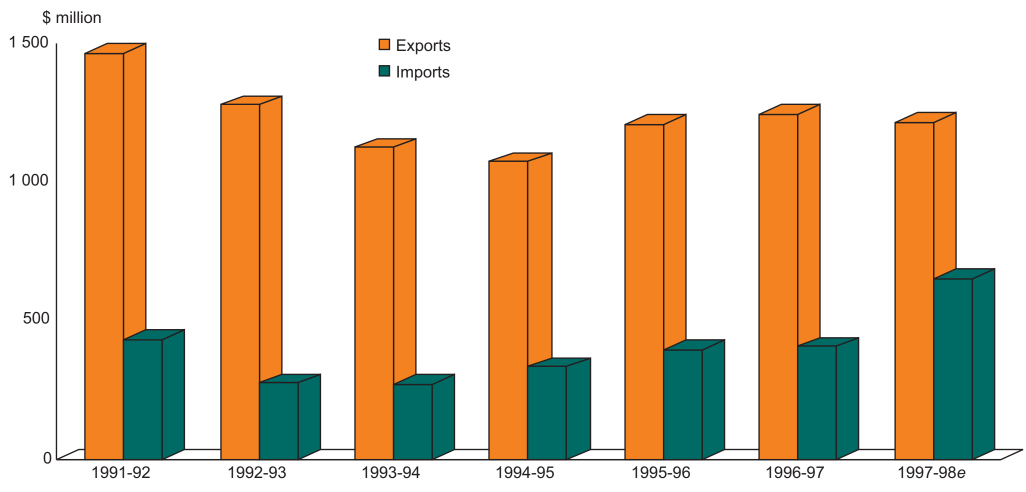
However, the Territory continues to be a substantial net exporter with an estimated merchandise trade surplus of $564 million in 1997-98 or 9.3% of GSP. Australia, by contrast has an estimated merchandise trade deficit of $4.2 billion or 0.8% of GDP.

International trade data, particularly for exports is limited because companies can choose to have their exports classified as confidential. In the Territory, unclassified exports account for 68% of total exports. In all likelihood, the vast majority of this category is made up of mining exports; particularly alumina, bauxite, manganese and uranium.

The slight decline expected in exports in 1997-98 follows two years of solid growth.

Figure 3.1

INTERNATIONAL TRADE



Source: ABS Foreign Trade Statistics, Treasury

Preceding this, exports had been declining for four consecutive years, largely due to shrinking oil exports.

The largest contributor to the 1997-98 decline is live animal exports to South East Asia, and Indonesia in particular. The decline in the live cattle trade was offset by a 12% increase in the exports of unclassified commodities.

An increase in imports of transport equipment, specialised machinery and professional controlling instruments were primarily responsible for the recorded increase in Territory imports.

Australia's total merchandise exports during 1997 increased 13.4% to $87.3 billion, a larger increase than the previous year. This figure was significantly boosted by the Reserve Bank's decision to sell off $2.5 billion in gold reserves during the year. The 9.2% increase in merchandise imports recorded was a reflection of stronger consumer confidence and higher consumer spending. The net result of these two increases was that Australia recorded a merchandise trade surplus of $2.2 billion in 1997.

Figure 3.2 shows Territory exports and imports by major category. Unclassified commodities (primarily minerals) account for 68% of exports. Mineral fuels account for another 6% of merchandise exports, although this is down considerably on the 14% share for mineral fuel exports in 1996-97. Exports of food and live animals are down an estimated 34% in 1997-98 primarily due to a substantial decline in demand from Indonesia.

EXPORTS

The major destination for Territory exports continues to be Asia. However, due to the deteriorating economic conditions in East Asia, exports to this region declined 24% in 1997-98. Asia's share of Territory exports has declined to 47% in 1997-98 from 61% in 1996-97. Figure 3.3 shows that Japan continues to be the dominant market within Asia, despite a 7% drop in exports to this country during the year.

Demand for food and live animals in the countries of the Association of South East Asian Nations (ASEAN) had increased significantly from 1991-92 until 1996-97. In 1996-97 exports of food and live animals to South East Asia totalled $192 million or 95% of the total Territory food and live animal export market.

The recent economic turmoil in the region, and in Indonesia in particular, has had a profound impact on this export market. Exports of live cattle to Indonesia are down 36% for the first seven months of 1997-98, compared to the previous financial year, and are expected to decline a total of 60% in 1997-98. The slight increase in demand from the Philippines in the second half of 1997 is encouraging and, given the slump in demand from Indonesia, the Philippines is now the biggest importer of Territory cattle.

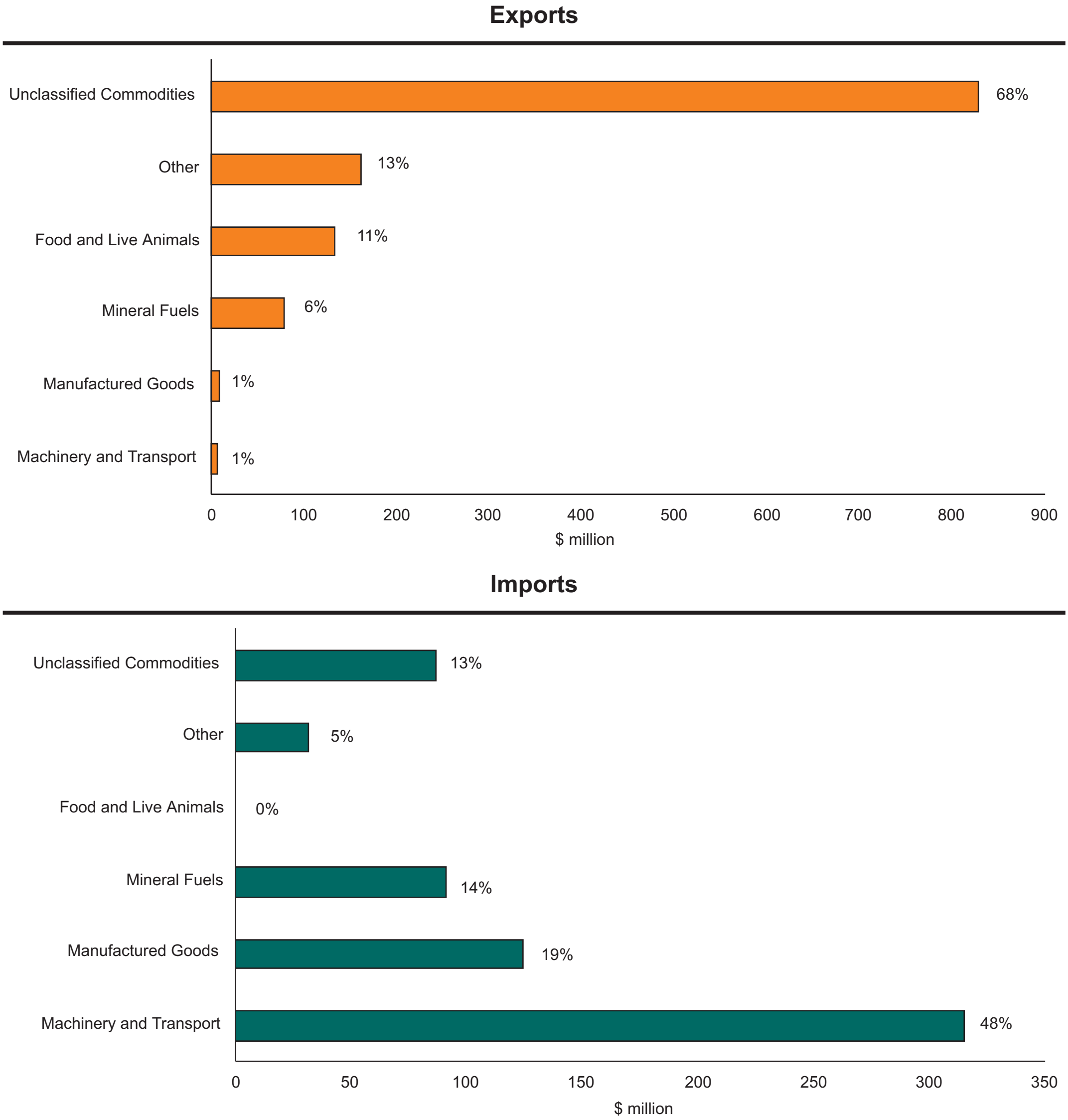
Consequently, the value of food and live animal exports is estimated at $133.5 million in 1997-98, a fall of 34.2% on the previous year. The speed and strength of any recovery is very much dependent on an improvement in the economies of South East Asia.

The decline in food and live animal exports was offset by an increase in the exports of unclassified commodities, the majority of which are minerals and energy. Since East Asian countries, excluding Japan, are the destination for only 19% of Territory mining exports, mining exports were largely insulated from the East Asian crisis.

There was a substantial (97%) increase in exports to North America during 1997-98, primarily the result of a $196 million jump in exports of unclassified commodities. North America now represents 32% of the Territory export market. The United States,

Figure 3.2

NT MERCHANDISE TRADE 1997-98



Source: ABS Foreign Trade Statistics, Treasury

at 24%, has overtaken Japan, at 16%, as the single largest recipient of Territory exports.

In addition to merchandise exports, exports of services, particularly tourism, have contributed to the Territory's trade performance. It is estimated that international travellers spent $221 million in the Territory during 1996-97 representing 31% of total tourism expenditure during this period. The Territory is also exporting telecommunications technology with a Territory company, International Communications and Electronics, winning a $120 million contract to build a fibre optic network in the Malaysian province of Sabah.

Preliminary estimates suggest that Northern Territory University has generated $2.6 million from overseas fee-paying students in 1997, an increase of $1.1 million on 1996. Other contributors to the Territory's service exports include international shipping services and insurance services associated with tourism and shipping.

Imports

The Territory's imports of merchandise goods are estimated to increase markedly to $650 million in 1997-98, a rise of 61% on 1996-97. An increase in imports of transport equipment, machinery and professional controlling instruments were primarily responsible for the recorded increase in Territory imports. The majority of machinery and transport equipment is sourced from Europe and North America.

Figure 3.2 provides a breakdown of imports by commodity group. The Territory has traditionally been a capital importing jurisdiction reflecting among other things the capital requirements of the mining industry. This continues to be the case. In 1997-98 imports of machinery and transport equipment were worth $315 million, representing 48% of total imports.

With the exception of mineral fuels, imports of all other categories rose during 1997-98. Imports of manufactured goods are expected to rise 84% in 1997-98. The majority of these goods are now sourced from North America after traditionally coming from Japan and Europe. Imports of commodities fell from 15% to 13% of total imports, despite increasing 47% in 1997-98.

Due to confidentiality reasons some mineral fuel imports are separately identified while others are not. Imports of identified mineral fuels, primarily from Singapore, continued to decline in 1997-98 and now comprise only 14% of total imports.

The Territory's commodity imports in 1997-98 were principally sourced from Europe, as well as from Japan and the United States. Imports from the Middle East, primarily oil, remained steady, as importation from other regions rose. The Middle East is now the source of only 11% of Territory imports. The source countries for imports to the Territory are shown in Figure 3.3.

International Trade Outlook

The Territory's international trade outlook is somewhat unclear given the uncertainty regarding the depth and length of the Asian economic crisis.

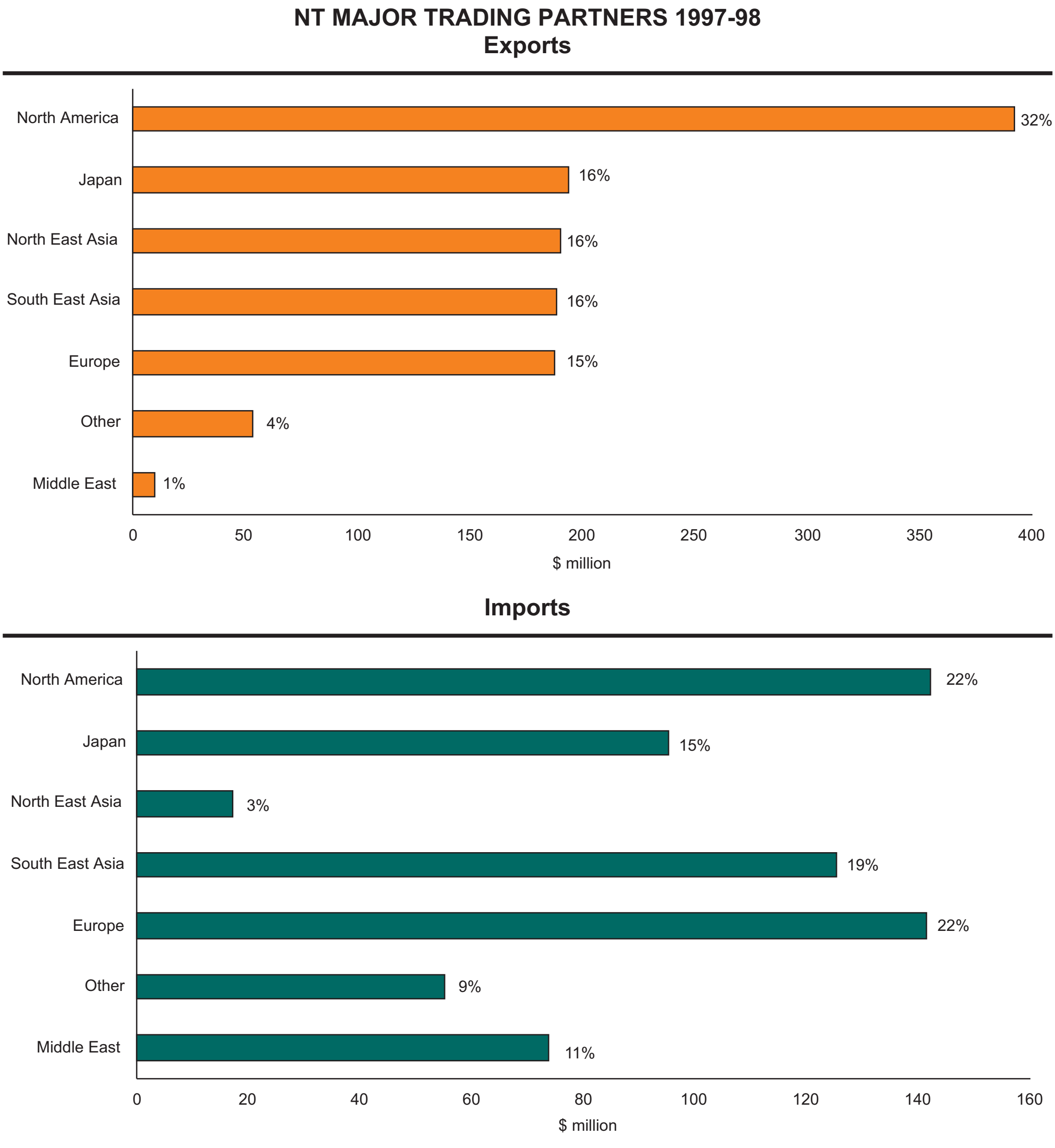
The Territory will continue to be a net exporter with Territory mining production expected to grow, as world demand for mineral commodities increases in the medium to long term. Lower world growth, associated with declining incomes in East Asia, is likely to lead to a general depression in commodity prices in the short to medium term. The Territory's major mineral exports are less likely to be effected since only a small proportion of Territory mining exports are directed to East Asia. The development of Jabiluka at a time of rising uranium prices will provide substantial export income over the next few years.

The prospects for the Territory's live cattle export industry are also uncertain. Exports reached record levels during 1997 before the East Asian economic crisis impacted, causing a substantial decline in demand. The speed and strength of any recovery depends on the improvement in the economies of countries in South East Asia.

Oil production at the Laminaria/Corrallina oil field is expected to start in 1999 and provide substantial export earnings for the Territory for more than a decade.

Increasing the diversity of exports and export markets is essential to mitigate the

Figure 3.3



Source: ABS Foreign Trade Statistics, Treasury

effects of regional economic problems such as those experienced in East Asia. Increasing service exports is one way of improving the stability in the export market. Tenders for the $1.5 million development of Stokes Hill Wharf as a cruise ship terminal are expected to be called early in 1998. This facility will provide Darwin with the ability to increase the service exports that accrue from visiting cruise ships.

The completion of Stage One of the East Arm Port Development will also provide impetus to increase shipping services and freight volumes to and from Darwin. The increased capacity of the Port, and the Darwin to Alice Springs railway, will increase the use of Darwin as the port for exports from, and imports to, interstate markets. The Port will also provide more handling options for specialised cargo.

REGIONAL ECONOMIC ENVIRONMENT

In terms of geography, culture, trade and economic growth, the Northern Territory is in many ways more closely aligned with the countries of South East Asia than with the southern states of Australia.

Darwin is closer to Jakarta than to either Sydney or Melbourne. Other South East Asian capital cites such as Singapore, Kuala Lumpur, Bangkok and Manila are not much further away.

For the past decade the East Asian region, incorporating the countries of South East Asia and North East Asia, have led the world in economic growth. Excluding Japan, economic growth in the region over the past ten years has averaged 8.0% per annum. However, in 1997 East Asia experienced a marked slowing in growth.

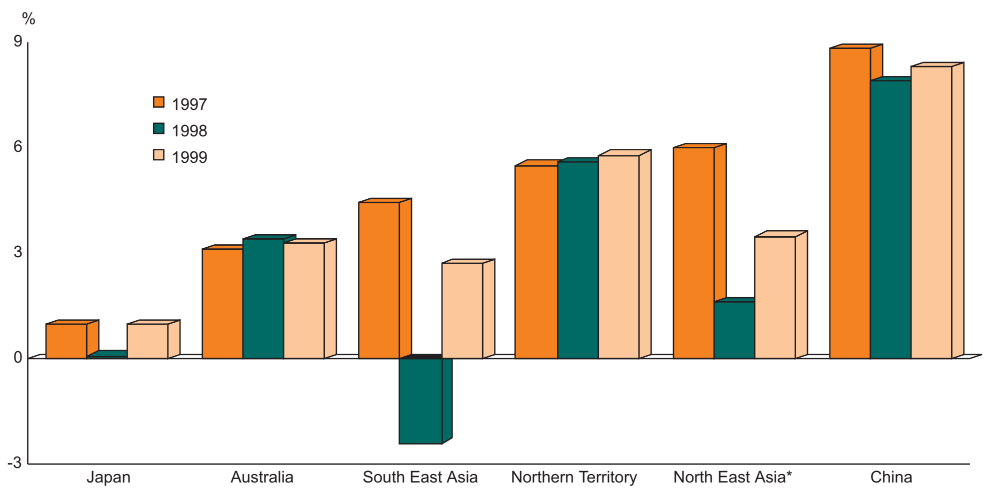
This slowing in growth was concentrated in a number of South East Asian countries, particularly Indonesia, Thailand and Malaysia. South Korea and Japan (albeit from an already low rate of growth), also experienced a slowing in growth. Other East Asian countries, including Singapore, China, Hong Kong and Taiwan have also been affected, but to a much less extent.

There is considerable debate as to the reason for the slowing in growth, however, the key feature of the slowdown has been the massive devaluation of a number of regional currencies. Hence the concept of the Asian currency crisis and the reduction in international confidence in these economies.

Figure 4.1 shows actual growth rates in 1997 and forecasts for 1998 and 1999. What the forecasts indicate is that while the crisis may

Figure 4.1

REAL ECONOMIC GROWTH



Source: Asia Pacific Consensus Forecasts, Asiaweek, Treasury

* excluding Japan and China

have been first felt in 1997 the full effects will primarily be felt in 1998 in Japan, South East Asia and North East Asia. By 1999 growth is expected to increase in each case, although growth is still expected to be lower than in 1996, the last full year of robust growth in East Asia.

The reasons behind the currency crisis are complex. Throughout the early to mid 1990s the developing economies of East Asia experienced, to varying degrees, unprecedented economic growth. However, to some extent this growth was illusionary as it was measured in local currencies, which were pegged or in other ways linked, to the US dollar.

Increased wages in these countries, in excess of growth in productivity, would have, in a free market, devalued local currencies appropriately. As a result these economies slowly became less and less competitive in world markets and pressure slowly mounted for Governments to take action to float or realign currencies.

Early signs of problems to come were high and rising current account deficits in a number of countries, particularly Thailand.

The pressure of this mounting problem was finally released when the Thai Government floated the Baht in July 1997. The Baht then began a huge devaluation. This set the scene for other countries to follow.

At the same time, less than prudent supervision of financial institutions by the region's central banks and a steady stream of foreign capital blindly seeking high returns, resulted in substantial over investment in unproductive assets, particularly high rise property.

With a large proportion of borrowings denominated in foreign currencies, the devaluation of Asian currencies created significant repayment difficulties for borrowers who were often forced to default on loans.

An additional factor was the response by Japan to its own stalled economy by reducing or ceasing production in lower wage cost offshore manufacturing facilities in East Asia, in preference to operating under-utilising facilities at home.

COUNTRY ANALYSIS

Table 4.1 shows a number of measures of output, trade and prices for the major countries of East Asia, along with comparative data for Australia and the Northern Territory.

The Territory's nearest neighbours are the countries of **South East Asia**. They are important strategic trading partners for the Territory and offer the greatest prospect for future development.

Indonesia is both the Territory's closest neighbour and South East Asia's largest economy. It has also been the economy worst affected by the currency crisis. After experiencing growth in excess of 7% per annum for the previous three years, the Indonesian economy grew by an estimated 4.8% in 1997. A decline in output of 4.9% is expected in 1998 perhaps followed by a mild recovery in 1999.

The currency crisis in Indonesia was exacerbated by an unprecedented, El Niño influenced, drought in Indonesia in 1997. This resulted in an extreme shortage of locally grown food and consequentially a very rapid escalation in prices in response to the shortage of food and the need to import food purchased in increasingly expensive foreign currency.

Nowhere was the currency crisis more evident than Indonesia where the Rupiah experienced a devaluation against the US dollar of 70% in the 12 months to February 1998. To a very large extent this devaluation was an over reaction by financial markets with the Purchasing Power Parity valuation of the Rupiah indicating that the currency

Table 4.1

REGIONAL GDP, TRADE AND PRICES - 1997

	REAL GDP			TRADE		PRICES
	TOTAL $US B	ANNUAL % CHANGE	PER CAPITA $US	EXPORTS $US B	IMPORTS $US B	CHANGE %
Japan	4 645	1.0	36 926	426	338	1.7
China	913	8.8	761	183	142	2.8
North East Asia	*967*	*6.0*	*13 227*	*447*	*458*	*3.6*
Hong Kong	162	5.2	25 777	188	209	5.8
South Korea	513	5.8	11 272	137	141	4.4
Taiwan	292	6.8	13 691	122	108	0.9
South East Asia	*725*	*4.4*	*1 719*	*343*	*332*	*5.0*
Brunei	6	3.0	20 000	2	3	3.2
Indonesia	247	4.8	1 272	54	44	6.6
Malaysia	99	7.1	4 795	76	73	2.7
Philippines	74	5.1	1 054	24	20	5.1
Singapore	94	7.8	31 360	122	124	2.0
Thailand	184	0.1	3 102	58	63	5.6
Vietnam	20	8.7	272	8	5	4.7
Australia	401	3.1	21 915	63	62	-0.2
Northern Territory	**4**	**5.5**	**21 213**	**1.0**	**0.4**	**-0.7**

Source: Asia Pacific Consensus Forecasts, Asiaweek, Treasury

was undervalued by 76% in February 1998. This view was somewhat confirmed by the fact that the Rupiah surged by 17% in a single week in March 1998, in response to news that the Indonesian Government had implemented long awaited economic policy changes in line with the IMF reform agenda.

Most large companies, including local banks, are experiencing extreme difficulties due to their foreign currency borrowings. Even export industries are closing down due to a lack of input materials, spare parts and finance.

Thailand was the second worst affected country in South East Asia and in many ways the economy that demonstrated the initial impact of the currency crisis with the Baht devaluing by 43% in the 12 months to February 1998. Consistent with this early devaluation, the Thai economy recorded growth of only 0.1% in 1997, following growth of 6.4% in 1996 and 8% plus growth in the previous two years. A decline in output of 3.5% in 1997 is expected with a very weak recovery of 2.1% expected in 1999.

Along with the Thai economy, **Malaysia** encountered difficulties early in 1997 with the Ringgit depreciating by 36% in the 12 months to February 1998. Despite this devaluation, the Malaysian economy experienced growth of 7.1% in 1997, down from the 8-9% growth experienced over the previous three years. Malaysia is expected to avoid negative growth in the near future with growth of 1.5% and 2.7% expected in 1998 and 1999 respectively.

The **Philippines** had not enjoyed the same very high growth rates of its South East Asian neighbours in recent years with growth in the more modest 4-5% range. Consequently the over investment in unproductive assets which plagued its neighbours had not occurred to the same extent. Growth of 5.1% was experienced in 1997. Growth of 2.3% in 1998 and 3.9% in 1999 is expected over the next two years as the recession in the Philippines' neighbours rubs off.

El Niño drought conditions have also caused substantial food shortages in the Philippines.

Singapore has also been relatively lightly affected by the Asian currency crisis, a consequence of the more mature development of the Singapore economy and the more rigid control of Singapore's important financial markets by the Monetary Authority of Singapore.

In 1997, Singapore experienced growth of 7.8%, following growth in the range of 7-10% in earlier years. Growth is forecast to slide to only 3.0% in 1998, in line with the poor performance by its larger neighbours, before recovering somewhat to 4.7% in 1999. In addition favourable trade and current account surpluses are expected in Singapore over the next two years.

While less important in a strategic sense, the economies of **North East Asia** are extremely important to the Territory as a destination for Territory exports, particularly mineral and energy exports.

Within North East Asia, **South Korea** has been the most notably affected economy. In 1997 South Korea experienced a slowing in growth to 5.8%, down from rates of 7-8% in earlier years. Investment fell by 1.4% in 1997 with a further slip of 16.6% expected in 1998, before stabilising in 1999. The result of this fall in investment is expected to be a decline of 1.3% in output in 1998 followed by a mild recovery to 1.9% in 1999.

While an important export destination for Australia, South Korea is of relatively minor importance to the Territory.

Japan is somewhat different to all other Asian economies. It is among the world's largest and wealthiest economies. Unlike its neighbours it has been in a low growth phase for a number of years, with average growth of only 2% in the 1990s. Poor financial management has also been a feature of the Japanese economy over the past year with some notable failures of financial institutions resulting from ill-considered loans.

Japan is expected to record growth of only 0.1% in 1998 with a slight improvement to 1.0% in 1999.

In many ways **China** is the sleeping giant of East Asia, experiencing a slowing in growth to 8.8% in 1997, down from 12.6% in 1994. A further slowing to 7.9% in 1998 is expected before a slight improvement to 8.3% in 1999. After a substantial devaluation in 1994, the Renminbi has not suffered a devaluation over the past year.

China's greatest risk in the immediate future is the renewed competitive position of its East Asian neighbours which is likely to weaken China's strengthening current account and mechanise trade surpluses over the next two years.

Like China, **Hong Kong** has so far been largely unaffected by the crisis with growth of 5.2% in 1997 actually a little higher than the average experienced over the previous three years. A slowing in 1998 to 2.7% with a small recover in 1999 to 3.5% is expected.

Taiwan has been one of East Asia's best-performed economies in 1997. Unlike South Korea, Taiwan has not been burdened by the overly ambitious and ill-considered development. Its growth in 1997 was 6.8%, Taiwan's highest since 1992. Forecasts indicate growth of 5.8% and 6.0% in 1998 and 1999.

REGIONAL ECONOMIC OUTLOOK

Commentators are mixed in their views on the implications of the crisis. Some argue that it will be a short pause in growth while others argue that a return to strong growth will take many years to eventuate. The forecasts prepared by Consensus Economics, referred to in Figure 4.1, suggest that the former will most likely be the case.

Some commentators argue that the crisis will benefit Asia in the long run. The reforms that have and will be effected to the financial systems will set Asia up for a renewed period of stronger, but more sustainable growth.

The progress towards freeing up trade in the region has not been affected by the currency crisis. The November 1997 meeting of APEC (Asia Pacific Economic Cooperation) leaders in Vancouver reaffirmed member countries commitment to the 1994 Bogor Declaration of free and open trade and investment by 2010 for industrialised members and 2020 for other members.

It is in this light that the Territory, as a strategic neighbour of East Asia will benefit in the medium to long term. Some Territory exports may suffer in the short term, particularly live cattle exports. However, Territory mineral exports to the region are less likely to be adversely affected, as they are vital inputs into East Asian manufacturing output which is expected to fuel an export led recovery for East Asia.

LABOUR MARKET

The Territory labour market performed solidly during 1997-98 with strong employment growth and a further decline in the Territory's consistently low unemployment rate. The Territory continues to have a higher than average participation rate and the lowest unemployment rate of any State or Territory.

Nationally, employment growth eased somewhat during 1997-98 from the relatively high rate of growth experienced over 1993 to 1996. Growth in employment was greater than the rate of increase in the labour force and, as a result, the national unemployment rate decreased to 8.5%.

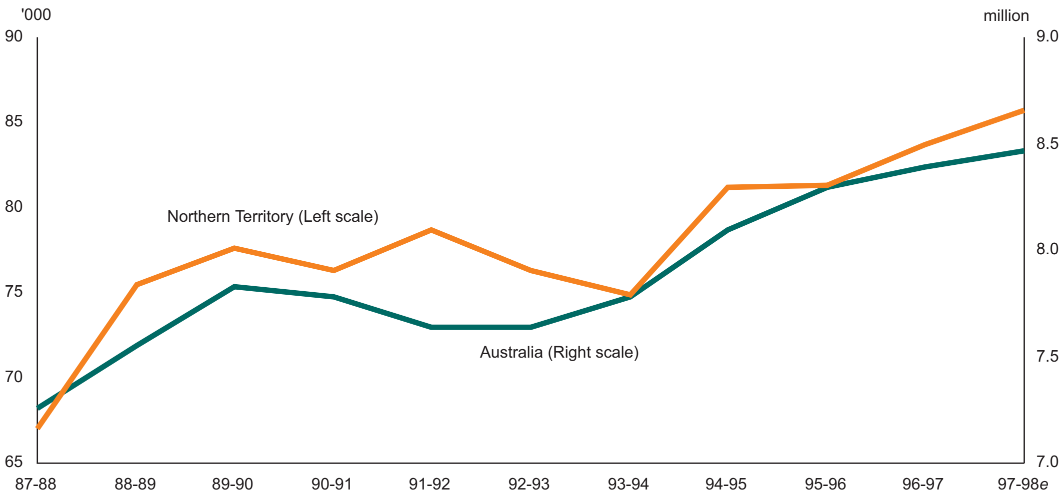
EMPLOYMENT

In 1997-98 employment in the Territory increased 2.5%, following the significant increase of 2.9% in the previous year. This increase was the net result of an increase in full-time employment (up 6.1%) partially offset by a fall in part-time employment (down 9.6%). The continuing expansion of a number of industries in the Territory were the major contributing factors to the Territory's increase in employment. These industries included construction, transportation and retail trade.

Nationally, full-time employment increased by 0.5% while part-time employment was up 2.2%, resulting in an overall increase of 0.9% during 1997-98. The slowing of national employment growth reflects the fact that the recovery of employment, lost

Figure 5.1

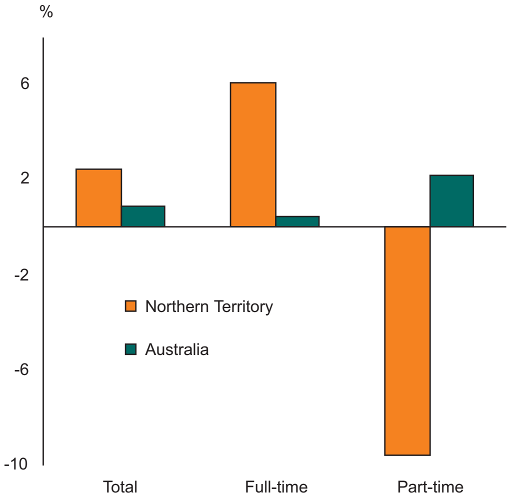
EMPLOYMENT



Source: ABS Cat. No. 6202.0 *e*: Treasury estimate

Figure 5.2

EMPLOYMENT GROWTH
(Annual change in 1997-98)



Source: ABS Cat. Number 6202.0, NT Treasury estimate

during the early 1990s recession, has now been completed.

Employment estimates exclude members of the permanent defence forces and therefore do not encompass the ongoing expansion of the defence force presence in the Territory. At January 1998, there were 4 500 defence force personnel based in the Territory, representing an increase of 1 170 since June 1996 and 1 930 since June 1992.

A significant and increasing proportion of Aboriginal and Torres Strait Islanders in the Territory are employed under the Community Development Employment Projects (CDEP) program. This program is administered by the Aboriginal and Torres Strait Islander Commission. Participants in the CDEP program partake in development initiatives in their community in return for a wage equivalent to the unemployment benefit. There were approximately 7 285 CDEP participants at 31 December 1997, and this acounted for 8.5% of total employment figures.

In 1997, overtime hours worked per employee and the percentage of employees working overtime in the Territory decreased by 17.0% and 2.8% respectively, compared to 1996. This is consistent with the increase in the level of employment. It suggests that increased business confidence has resulted in employers engaging new employees rather than extending the hours worked by existing employees. Consistent with this, the national average number of overtime hours worked per employee in 1997 decreased by 1.8% and the percentage of employees working overtime increased very marginally.

Skilled job vacancies decreased by 17.7% during 1997, back to more stable levels after significant growth in vacancies in both 1995 and 1996. There remains a skill shortage in the Territory for medical and skilled tradespeople, indicative of a general skills shortage. Nationally, skilled job vacancies increased by 4.4% over the same period.

In 1997, Wholesale and Retail Trade, Accommodation and Recreational Services, and Personal and Other Services accounted for over a third of the Territory's total employment due to the rapid growth of the service industries in recent years and the

Table 5.1

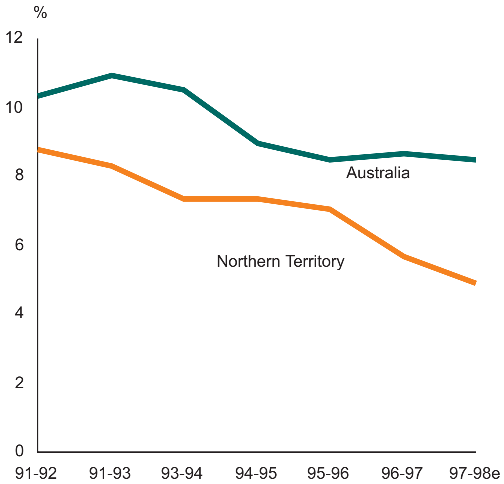
EMPLOYMENT BY INDUSTRY

INDUSTRY	NT %	AUST %
Wholesale and Retail	19.3	20.5
Community Services	15.9	16.2
Public Administration and Defence	11.3	4.2
Accommodation and Recreation	8.7	7.2
Construction	7.1	6.9
Property and Business Services	7.0	10.2
Transport and Communication	7.0	6.5
Mining	3.8	1.0
Manufacturing	3.8	13.5
Rural Industries	3.2	5.2
Finance	2.2	3.7
Personal and Other Services	10.4	4.0
Electricity, Gas & Water	0.4	0.8

Source: ABS Cat. No. 6202.0, 1997

Figure 5.3

UNEMPLOYMENT RATES
(Annual average)



Source: ABS Cat. No. 6202.0 *e*: Treasury estimate

retail developments at Casuarina and Palmerston.

Mining production, and Public Administration and Defence continue to account for proportionately more people employed in the Territory than nationally. In contrast, Manufacturing accounts for a significantly smaller proportion of Territory employment.

UNEMPLOYMENT

The Territory's unemployment rate for 1997-98 decreased from the previous fiscal year to 4.9%, compounding a significant decline in the previous year. The national unemployment rate fell slightly from 8.7% to 8.5% over the same period.

The Territory continues to have the lowest unemployment rate of any jurisdiction, and a rate well below the national average for the past seven years.

Unemployment rates in the Territory for the year to February 1998 averaged 5.2% for males and 4.9% for females. Nationally, unemployment rates for males and females were 8.7% and 8.2% respectively.

LABOUR FORCE

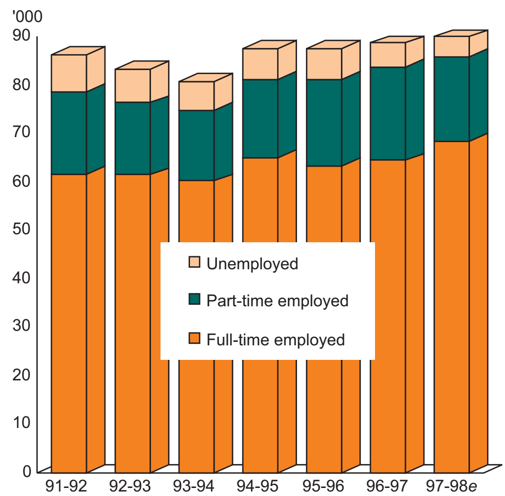
In 1997-98, the Territory labour force increased 1.7% to 90 000 persons, following a similar increase of 1.4% in 1996-97. Nationally, the labour force is estimated to have increased by 0.7% after an increase of 1.3% the previous year.

The size of the labour force at the national level has been increasing very rapidly each year since 1993-94 after a period of slow growth during the recession. However, the rate of growth is slowing towards a more sustainable level.

Labour force participation rates are typically higher in the Territory than elsewhere in Australia. This reflects the larger proportion of working age persons in the Territory population, higher female involvement in the labour force and the better availability of jobs. The average

Figure 5.4

LABOUR FORCE
(Annual average)



Source: ABS Cat. No. 6202.0 *e*: Treasury estimate

participation rate in the Territory over the twelve months to February 1998 increased slightly to 69.9%. Nationally, the average participation rate declined slightly to 63.2% over the same period.

The average participation rate in the Territory for females for the twelve months to February 1998 was 63.8%. This represents an increase of 0.1 percentage points from the previous year and is 10.2 percentage points greater than the national average for females at 53.6%. For Territory males, the average participation rate for the same period also increased by 0.4 percentage points to 75.9%, while the national average participation rate for males was lower at 73.1%.

LABOUR MARKET OUTLOOK

Employment forecasts reported by Access Economics in its 5 year forecasts predict that Territory employment will increase by 4.8% during 1998-99, compared with a 2.8% increase expected nationally. The average unemployment rate in the Territory is forecast to be 4.3% during 1998-99, the lowest of any State or Territory and 3.2 percentage points lower than the rate forecast for national unemployment.

The national labour force is expected to continue to expand but at a slower rate than previous years. The unemployment rate is expected to decrease marginally, offset somewhat by increased participation, as economic activity strengthens.

The Territory should experience some employment growth over the next year, albeit at a slower rate than the previous year. Prospects have been dampened slightly by the Asian currency crisis and its effects on the mining and other export orientated sectors. The continued growth of the tourism, construction and transportation industries will provide the basis for employment growth in 1998-99.

PRICES AND WAGES

Price movements in the Territory are more responsive to national than to local factors. In contrast, wage outcomes in the Territory tend to show a greater degree of independence, although movements in Territory wages are generally in the same direction as nationally. Historically, Territory wages have been higher than the national average, although in recent years there has been a convergence.

PRICES

From 1994, the Australian economy experienced a period of deceleration, resulting in an easing of inflationary pressures. In response to this slowdown, the Reserve Bank of Australia (RBA) reduced official interest rates five times by a total of 2.5 percentage points (from mid 1996 to mid 1997). This process saw some interest rates fall to their lowest level since the late 1960s.

These cuts reflected the RBA's assessment that underlying inflation was consistent with its target range of 2% to 3%, and that the economy had capacity for higher economic growth. ('Underlying inflation' is a measure developed by Commonwealth Treasury that excludes the effects of interest rates and other items subject to seasonal and policy fluctuations).

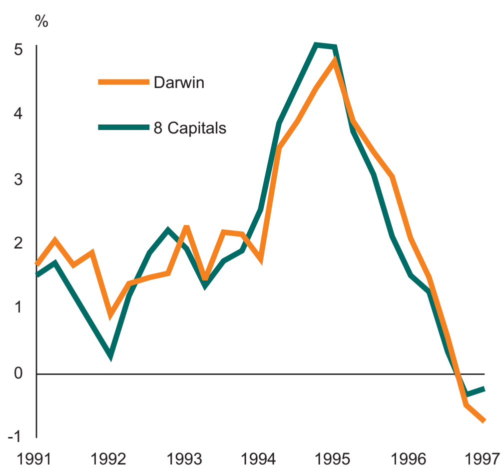
Even though the rate cuts were in part a response to low inflation, they have had the significant effect of reducing inflationary expectations, which has in turn dampened actual price and wage movements. This has been evidenced by the RBA Board's decisions over the latter half of 1997 and early 1998 not to raise rates, despite concerns about the possible inflationary effects of stronger domestic demand.

Prices are also affected by the exchange rate for the Australian dollar, the balance of economy-wide demand and supply, and the cost of productive inputs. The Australian dollar was relatively steady during 1997, with the Trade Weighted Index moving between 57 and 59 points. This was despite a significant depreciation of the Australian dollar against the US dollar towards the end of 1997, offset largely by the appreciation of the Australian dollar against many of the South East Asian currencies.

The firm Australian dollar generally supported price restraint, keeping the cost of most imports low, whilst also effectively placing a competitive discipline on local producers. Wages growth throughout 1997 was also moderate, minimising the threat of a wage-price blow-out.

Figure 6.1

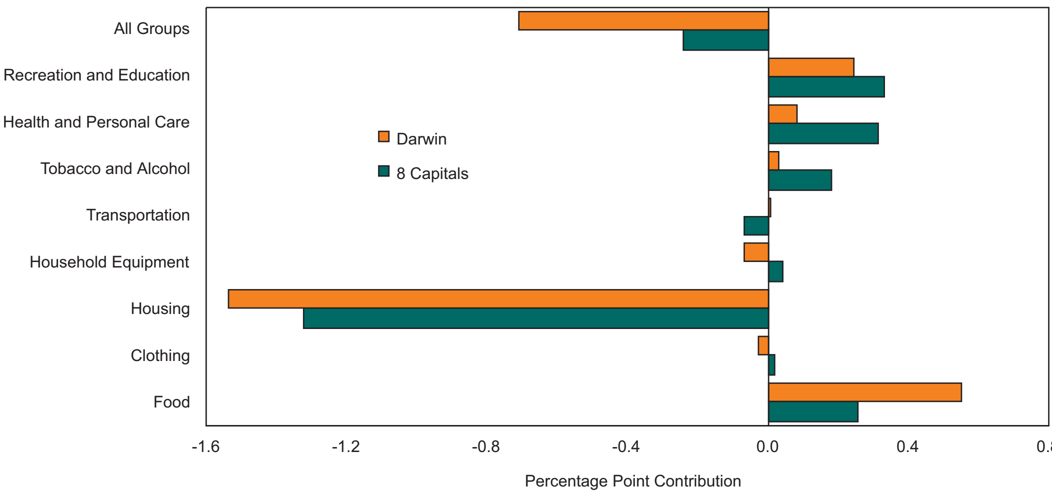
CONSUMER PRICE INFLATION
(Annual change)



Source: ABS Cat. No. 6401.0

Figure 6.2

PERCENTAGE POINT CONTRIBUTION TO CHANGE IN THE CPI



Source: ABS Cat. No. 6401.0, 1997

The latest Consumer Price Index (CPI) figures for the December quarter 1997 recorded a national annual inflation rate of –0.2% (deflation). The annual inflation rate for the previous quarter (September 1997) of -0.3% (deflation) was the lowest inflation rate recorded nationally since the June quarter 1962.

The national annual underlying rate of inflation for the December quarter of -0.2% (deflation) was well below the Reserve Bank's desirable range of 2% to 3%. In this current low inflation environment, the RBA has stated that it does not anticipate any further changes to its present monetary settings in the short term.

Inflation in Darwin for 1997 was -0.7% (deflation) and as Figure 6.1 shows, it generally moves with the national average. This suggests that most price movements in Darwin are guided by national factors. Low inflation rates were also recorded in other capitals with annual rates ranging from -1.3% in Canberra, to 0.5% in Brisbane (the only capital to record a rise).

Figure 6.2 shows that the housing group contributed the most to the annual decrease in prices for both Darwin and the eight capital national average. This was predominantly due to the further declines in mortgage interest charges following interest rate cuts.

Analysis of the eight categories of CPI shows that Darwin prices over the long term have grown at a lesser rate than nationally. There was a total increase of

Table 6.1

INFLATION IN 1997

	% CHANGE
Brisbane	0.5
Hobart	-0.1
Melbourne	-0.1
Sydney	-0.2
Darwin	**-0.7**
Perth	-0.7
Adelaide	-1.1
Canberra	-1.3
8 Capitals (weighted)	**-0.2**

Source: ABS Cat. No. 6401.0

137% for Darwin from September 1980 to December 1997, while nationally prices have risen by 151% over the same period.

Significant differences were recorded for the Food category (128% for Darwin against 142% nationally) and the Transport category (152% for Darwin against 171% nationally). This is consistent with relative improvements in transport infrastructure and increasingly greater competitive pressures in the Territory for freight and food retailing.

WAGES

The election of the federal Liberal-National Coalition Government in March 1996 precipitated a move away from the Accord process in the determination of wages to an emphasis on Enterprise Bargaining.

Despite fears that this could lead to a wages blow-out, agreements have been in the most part restrained. This reflected the high levels of unemployment and the subdued performance of the national economy over most of 1997. Pay increases under federal awards have been in the order of 4.3% in the private sector and 4.7% in the public sector.

The average weekly earnings of Territory employees have traditionally been higher than the national average. In November 1997, the average weekly full-time earnings of adult employees (AWE) in the Territory at $740.80 was below the national average of $753.10.

For all quarters from May 1993 to November 1996, the growth rate of national AWE has been higher than AWE for the Territory. Despite greater annual growth rates being recorded for the Territory for the first two quarters of 1997, AWE for the year to November 1997 grew by 1.0% in the Territory compared to 3.1% nationally.

Figure 6.3 shows that Territory's AWE have come more into line with national earnings since the national economy moved out of recession in 1992. This erosion of the wage differential between the Territory and nationally has been caused by lower earnings growth in the Territory than nationally, reflecting structural changes in the Territory's economy over that time.

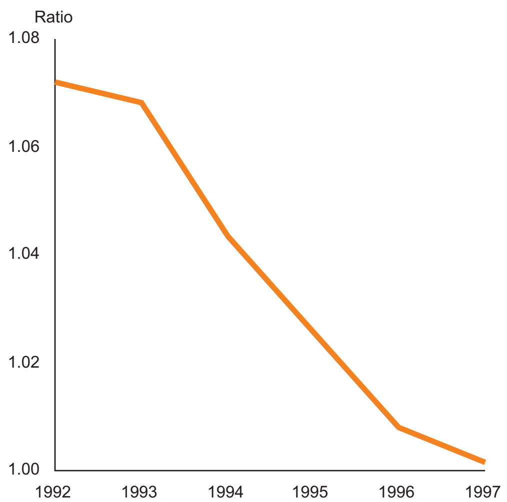
In the past, the Territory economy has been dominated by sectors that pay relatively high wages; such as the public sector, and mining. While the composition of the Territory economy has matured and diversified over time, these sectors have not always grown as fast as other sectors, with much of the expansion in lower paying industries such as hospitality and tourism.

Furthermore, earnings growth itself has been higher in those areas (public sector and mining) than in other areas that have experienced stronger growth (hospitality and tourism).

The combined result of this compositional and earnings growth shift has caused a decrease in the significance of these high wage sectors, and consequently a move in

Figure 6.3

ANNUALISED EARNINGS DIFFERENTIAL
(Northern Territory / Australia)



Source: ABS Cat. No. 6302.0

average Territory earnings towards national levels.

PRICES AND WAGES OUTLOOK

Inflation is expected to continue to remain low in the short term. *National Fiscal Outlook* parameters published by the Commonwealth Treasury project a national underlying inflation rate for 1997-98 of 1.5%, increasing to 2.5% per annum thereafter (for 1998-99 through to 2000-01).

In the longer term, domestic inflation should remain low. A result of the RBA's inflation targeting has been to re-establish a climate of low inflation and low inflationary expectations. This is in part due to restrained wages growth through the predominance of enterprise bargaining, with its greater emphasis on productivity as a basis for wage growth.

The Industrial Relations Commission's April 1997 decision to reduce the ACTU's 'living wage' bid for a $20 per week safety net rise to a $10 per week wage rise added an element of restraint to wage pressures and hence inflationary pressures. However, this was based on the RBA's assessment that the national economy was somewhat sluggish. This has since proved to have underrated the strength of growth in domestic demand.

Stage two of the ACTU's current 'living wage' bid for a $20-60 per week wage rise, if successful, would place significant upwards pressure on inflation. *National Fiscal Outlook* parameters forecast wages growth in 1997-98 of 4.25%, decreasing to 4.0% in 1998-99, and 3.5% for the following two years.

Market views on the likelihood of further interest rate cuts are negative. In November 1997, RBA Governor Mr Ian Macfarlane stated that if the Reserve expected underlying inflation to move above 2.0%, it would not lower official interest rates.

Most major public and private sector forecasts predict that underlying inflation will move above 2.0% over 1998-99, with economists generally agreeing that the current monetary policy easing cycle is at an end. However, the Asian crisis remains somewhat of a wildcard. If it deepens, it may adversely affect domestic demand and exports, and place downwards pressure on inflation.

BUSINESS CONDITIONS

Economic indicators such as office vacancy rates, new business registrations, commercial and lease finance commitments, and bankruptcies can be used to gauge current business conditions in the Territory.

The number of new business registrations in the Territory rose 5.7% in the year to January 1998, compared to the previous year. Recorded bankruptcies increased substantially during 1997, some 70% of bankruptcies are individual while the balance are corporate.

Office vacancy rates increased in the Territory during 1997 as the increase in gross lettable area outpaced the increase in demand for office space.

Nationally the increased level of economic activity was evidenced by the strong growth in the value of commercial finance commitments, although the number of bankruptcies also increased considerably.

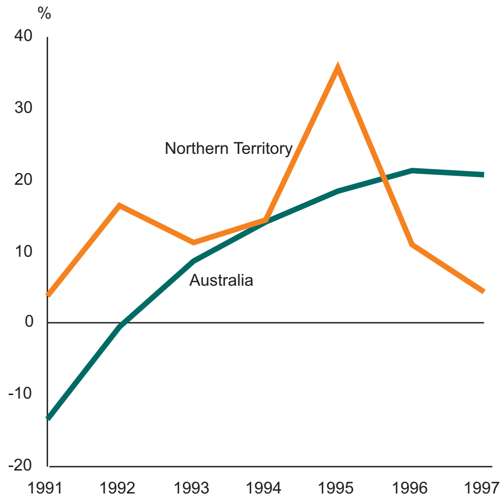
BUSINESS FINANCE

The level of business finance commitments reflects the prevailing and anticipated economic conditions and the confidence held by the business community. Commercial and lease finance includes the majority of finance commitments entered into by business to facilitate the acquisition of goods and capital items and to smooth cash flow fluctuations.

Figure 7.1 shows growth in commercial finance (new fixed loans less refinancing plus new and increased credit) in the Territory and nationally. The Territory has recorded growth in commercial finance commitments every year during the 1990s. Commitments made during 1997 were 4.3% higher than in 1996. There has, however, been a considerable slowdown in the growth of commercial finance committed to businesses in the Territory over the past two years. National growth in commercial finance was virtually unchanged over the year and remains strong.

Figure 7.1

COMMERCIAL FINANCE COMMITMENTS
(Annual change)



Source: ABS Cat. No. 5643.0

Finance raised by major national and transnational companies with operations in the Territory is generally not reflected in the Territory's commercial finance commitments data, as the amounts are more than likely to be borrowed outside the Territory. Furthermore, some borrowings by businesses and sole traders may not be classified as business finance.

Lease finance commitments decreased by 34.4% in the Territory during 1997, following a 24.2% increase the previous year. Lease finance, at $34.4 million, comprises a relatively small proportion of the funding requirements of business as can be seen by comparing the value of lease commitments against the value of commercial finance commitments, at $734.9 million.

BUSINESS REGISTRATIONS

The Northern Territory Office of Business Affairs compiles data on the registration of new business names.

Growth in the number of new business registrations is generally associated with periods of increasing economic activity, improving business confidence and an expectation that demand will remain buoyant for some time. New registrations for the year to January 1998 were 5.7% higher than in the year to January 1997.

OFFICE VACANCY RATES

The Australian Valuation Office in Darwin publishes office accommodation data for major centres throughout the Territory; namely Darwin, Katherine and Alice Springs.

As shown in Table 7.1, the weighted average vacancy rate increased from 7.6% in 1996 to 9.2% in 1997, as the increase in gross lettable area outpaced the increase in demand for office space. The largest increase in vacancy rates was recorded in Palmerston, up 9.2 percentage points to 16.0%. This was a result of the difficulty in immediately absorbing the 39% increase in gross lettable area, reflecting the opening of the Goyder building. Occupied office floor space actually increased 26% in Palmerston during 1997, demonstrating the region's growth as a commercial centre. Darwin suburbs continue to have the highest office vacancy rates at 25.1%.

Table 7.1

OFFICE VACANCY RATES

	1996 %	1997 %
Casuarina	6.6	3.2
Darwin CBD	7.2	8.3
Darwin Suburbs	23.0	25.1
Palmerston	6.8	16.0
Alice Springs	4.8	4.3
Katherine	13.1	14.1
Weighted Average	7.6	9.2

Source: Australian Valuation Office

Total gross lettable area in the Territory expanded 5.2% over the twelve months to November 1997. This increase was almost entirely due to the increase in office space in Palmerston although there were still substantial increases in office space of 8.1% in Darwin suburbs and 7.5% in Katherine. The Darwin CBD accounts for approximately two thirds of gross lettable area in the Territory, reflecting its continuing predominance as the commercial centre of the Territory.

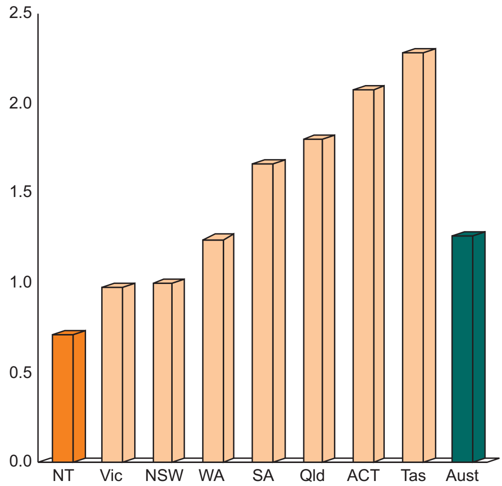
BANKRUPTCIES

Data on both business and non-business bankruptcies is compiled by the Commonwealth body, the Insolvency and Trustee Service Australia. Figure 7.2 shows the total number of bankruptcies across Australian jurisdictions during 1997.

In 1997, the total number of bankruptcies increased by 39% to 133 in the Territory and by 18% to 23 424 nationally. On a per capita basis, Territory bankruptcies are just a little over half the national average, and the lowest of any jurisdiction. It should also be noted that approximately 70% of Territory bankruptcies are individual rather than corporate. Figures for the Territory are also

Figure 7.2

BANKRUPTCIES
(per 1 000 population - 1997)



Source: Insolvency and Trustee Service Australia

very volatile due to the small number of businesses.

BUSINESS CONDITIONS OUTLOOK

The outlook for business conditions in the Territory is mixed. The completion of several retail and accommodation developments reflect the highest population growth of any jurisdiction. The increased defence force presence in the Top End. As well as the Darwin to Adelaide railway and a possible LNG plant, will provide a continued impetus to economic activity. This will be tempered by declining live cattle exports to South East Asia, slower growth in tourism and a possible decline in mineral commodity prices.

The Yellow Pages Small Business Index tracks confidence and behaviour in small businesses. Small businesses are defined as those employing 19 persons or fewer. The Small Business Index for February 1998 indicates that small business owners in the Territory have a higher level confidence in the prospects of their own business for the next twelve months than any other jurisdiction. Consequently, Territory businesses have the strongest expectations regarding future sales and profits. This is despite a slight fall in confidence in the last quarter of 1997.

Nationally, steady economic growth is expected to continue. Increased domestic consumption, combined with a decrease in export earnings to East Asian countries, is likely to feed in to a worsening current account deficit. The Commonwealth Government has indicated that public spending will continue to be restrained, despite the likelihood of 1998 being an election year. Interest rates and inflation should remain low, with the outside possibility of a further cut in official rates. This will encourage private investment and offset, to some extent, the contractionary effects of reduced Government expenditure.

MINING

The mining industry in the Northern Territory makes the single most significant contribution to Gross State Product (GSP) of any industry. In 1995-96, the mining industry accounted for 11.7% of the Northern Territory's GSP, and although this is considerably lower than a year earlier it is approximately two and a half times the national figure of 4.6%. Production forecasts and current exploration expenditures suggest that activity in the Territory's mining sector will decline in the current and next financial year.

Mining is a highly capital intensive activity, and employment levels are low relative to other sectors of the economy. As such, only one percent of national employed persons were employed by the industry, despite its contribution of 4.6% to Gross Domestic Product (GDP) in 1995-96. In the Northern Territory this capital intensity is as pronounced. While mining generated 11.7% of GSP, its employees only represented 3.7% of the total work force. These figures do not include minerals processing.

Table 8.1 shows the contribution of mining to each jurisdiction's GSP and to Australia's GDP. Mining's large contribution to Territory GSP reflects the Northern Territory's resource endowment and highlights the significance to the Territory economy of the mineral and energy sector.

The total value of production in 1996-97 was $1 666 million, an increase of 7.4% on 1995-96. Figure 8.1 shows the actual and forecast value of production from the Territory's mining industry for the years 1990-91 to 1999-00.

Production is forecast to decline by $141 million in 1997-98 to an estimated $1 525 million, primarily as a result of declining production of base metals, gold and oil.

Table 8.1

MINING

	% OF GSP
Western Australia	17.6
Northern Territory	**11.7**
Queensland	5.1
Victoria	2.9
Tasmania	2.9
South Australia	2.5
New South Wales	2.2
Australian Capital Territory	0.1
Australia	**4.6**

Source: ABS Cat. No. 5220.0, 1995-96

The value of energy production declined in 1996-97. Reserves and production rates of the Jabiru and Challis oil fields continue to fall as they approach the end of their productive lives. Despite increased uranium production, a significant fall in prices resulted in a lower value of production for uranium in 1996-97. The expected commissioning of Jabiluka uranium mine in 1998 and the Laminaria/Corallina oilfield in late 1999 should increase the value of energy mineral production significantly, especially in 1999-00.

Offsetting the decline in the value of energy production was growth in the value of metallic and non-metallic mineral production. The 1996-97 value of metallic and non-metallic mineral production was $1 328 million, an increase of 14% over 1995-96. The value of metallic and non-metallic mineral production in 1997-98

MINERAL AND ENERGY PRODUCTION

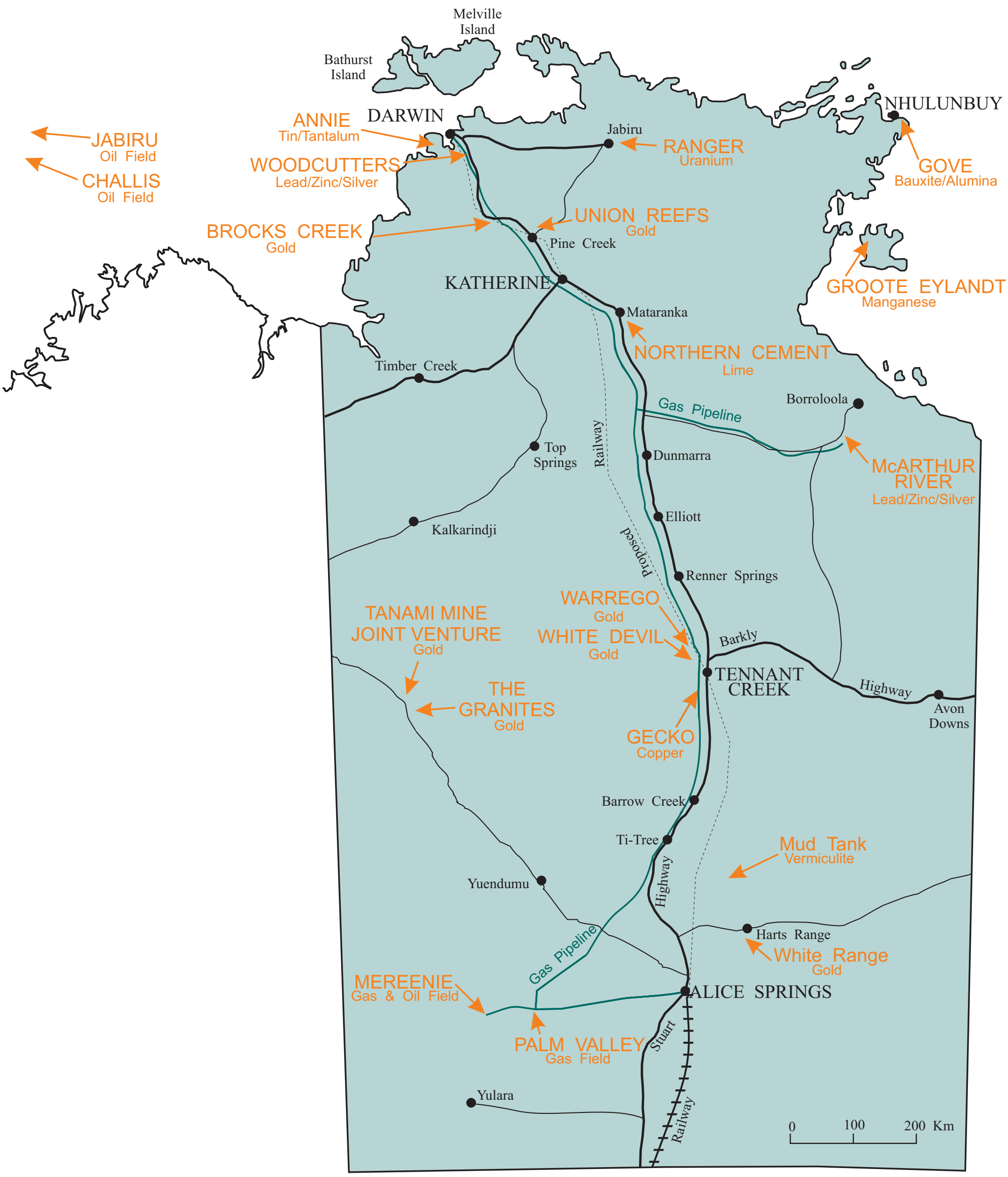
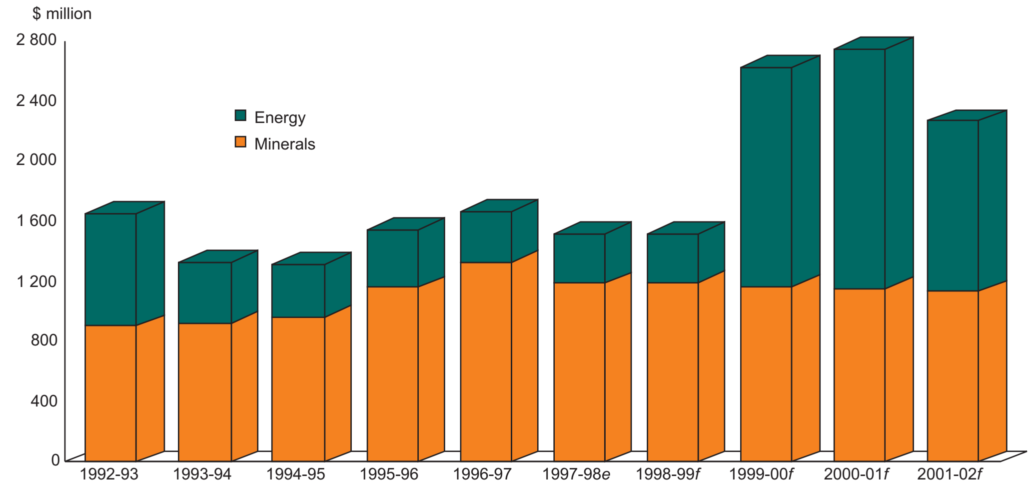


Figure 8.1

MINERAL AND ENERGY PRODUCTION AND PROCESSING



Source: Department of Mines and Energy

e: DME estimate *f*: DME forecast

is estimated at $1 188 million, a fall of 10.5% on 1996-97.

The short term forecast is that metallic and non-metallic minerals in the Territory will be characterised by declining value of production, declining new mine commissionings and decreasing exploration activity. The majority of this decline will be in greenfields exploration to justify new mining, rather than brownfield exploration which seeks to extend the life of existing mines. This decline can be related to falling commodity prices and increasing competition for exploration investment, both interstate and international. Land access remains an issue given the uncertainties associated with current Native Title and Aboriginal Land Rights legislation.

The outlook for energy developments in the Territory is much healthier. Timor Sea developments include the Laminaria/ Corallina oilfield and the prospect that Timor Sea natural gas will be brought onshore in Darwin for liquefication. Other developments include the proposed development of the Jabiluka uranium mine.

These developments will make major contributions to the Territory economy.

MINERALS

The Territory's most significant known metallic and non-metallic mineral resources are:

- bauxite - the third largest bauxite mine in Australia is at Gove;
- gold - major operating mines are located in the Pine Creek, Tennant Creek and Tanami Desert areas;
- manganese - Groote Eylandt is the world's third largest producer of high grade manganese ore;
- zinc, lead and silver - including one of the world's largest known ore bodies at McArthur River;
- deposits of copper, tantalite, tin, garnet sands and vermiculite; and
- diamond – the Merlin diamond mine could start operations in 1998-99.

Figure 8.2 shows the value of metallic and non-metallic mineral activity to the Northern Territory from 1992-93 to 2001-02. Value of production in 1996-97 was $1 328 million, a 14% increase on 1995-96. Production trends are expected to result in value of production of $1 188 million in 1997-98, a 10.5% decrease on 1996-97. Department of Mines and Energy (DME) forecasts metallic and non-metallic mineral production of $1 197 million in 1998-99, and $1 167 million in 1999-00.

The value of metallic and non-metallic mineral production in the Territory is underpinned by the world class deposits at Gove, Groote Eylandt and, to a lesser extent, McArthur River. These three mines accounted for almost 65% of the Territory's total value of metallic and non-metallic mineral production in 1996-97. It is expected that they will continue to be the major contributors in the future.

In 1996-97 $347 million of gold mining production accounted for 26% of the value of mineral production in the Territory. Since gold mines are generally short life operations, the current price slump could have a extensive impact if exploration activity is curtailed while gold prices remain low.

Three gold mines ceased production in 1997-98, with more expected to close in 1998-99.

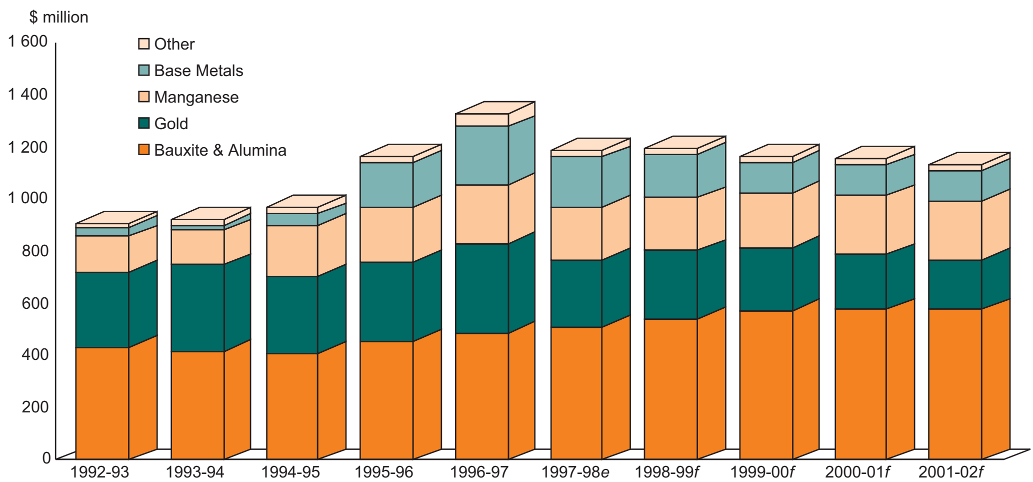
MINERAL EXPLORATION

Total Territory mineral exploration expenditure fell 5% in 1996-97 compared to 1995-96. Gold was again the most explored for commodity, accounting for almost 60% of expenditures in 1996-97. Figure 8.3 shows mineral exploration expenditure from 1991-92 to 1996-97 in the Territory by commodity group.

The Northern Territory and Queensland were the only jurisdictions to experience a drop in exploration expenditure in 1996-97. Total Australian exploration expenditure increased 20% on 1995-96 figures. As a result, the Territory's share of private mineral exploration expenditure fell from 9.8% ($93.9 million) in 1995-96 to 7.7% ($88.9 million) in 1996-97.

Figure 8.2

MINERAL PRODUCTION AND PROCESSING

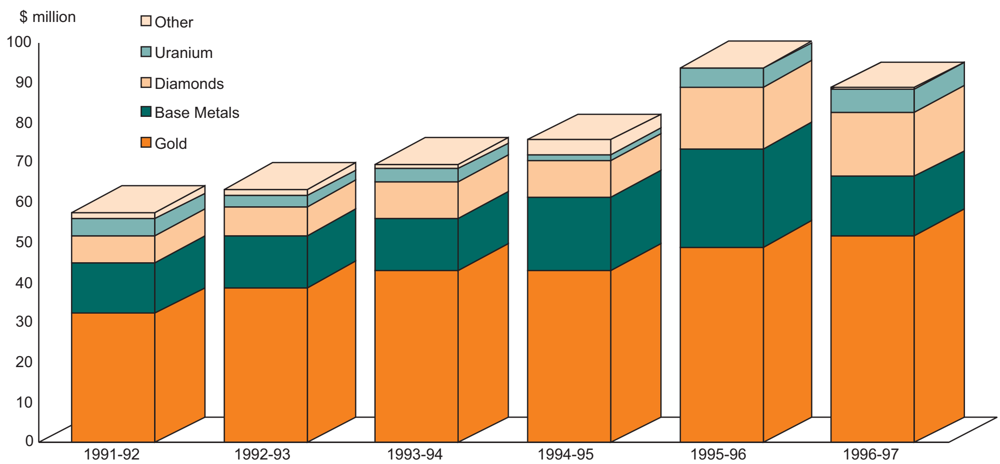


Source: ABS Cat. No. 8412.0

e: DME estimate *f*: DME forecast

Figure 8.3

MINERAL EXPLORATION



Source: Department of Mines and Energy

DME forecasts suggest that the Territory's mineral exploration expenditure will decline further to less than $80 million in 1997-98, while total exploration expenditure for Australia is forecast to continue to increase.

A survey of the Top 10 mineral explorers in the Territory in 1996-97 confirms that exploration expenditures will soften in 1997-98 and 1998-99. The reasons cited were gold prices and native title uncertainties, coupled with increasing competition from elsewhere for finite exploration expenditure.

Declining exploration expenditure is a serious concern, as a clear relationship exists between exploration expenditure and the commissioning of new mines. No new mines were commissioned in the Territory in 1997.

MINERALS OUTLOOK

The Australian Bureau of Agriculture and Resource Economics (ABARE) states that "Average world prices for Australia's major minerals and energy commodities are forecast to fall by between 6 and 25 per cent in 1998." There are two main reasons for the expected price decline. First, the increasing world supply of mineral and energy commodities, and second, Asian mineral and energy demand is expected to weaken further in 1998 following the financial upheavals in 1997.

The gold price reached a 19-year low in early 1998, when it fell below US$280. The significant decline in the United States dollar gold price has already led to the closure of the Mt Todd gold mine in November 1997. For Mt Todd, the fall in gold prices was exacerbated by low ore grades, technical problems and a lack of forward sales contracts. The Rustlers Roost and Orlando goldmines closed in 1997-98. Reprocessing of lowgrade stockpiles at the White Range gold mining project began in early 1998. Tom's Gully and Burnside goldmines are under consideration for production in 1998-99, although gold prices will influence the final decision.

The impact of the slump in gold prices on gold production is expected to continue into

1998. Fortunately for Australian gold producers, much of the price fall has been cushioned by depreciation of the Australian dollar and forward selling. Mines will continue to reassess their plans for further investment, expansion or closure while prices remain low, especially where low grades and tight margins exist.

A major source of uncertainty and concern in the mining industry has been the incapacity of the Government to issue valid tenure for resource exploration and mining. The Merlin diamond project in the McArthur Basin is subject to a native title claim. The full effects of the Wik Decision, handed down by the High Court of Australia on 23 December 1996, are still to be determined. As a consequence of the Wik decision, the validity of over 848 titles granted and 696 titles renewed since the commencement of the *Native Title Act* in January 1994 is uncertain.

Following the High Court's decision on the Wik claim, the Territory Government stopped issuing mining titles on pastoral leases, pending clarification by the Commonwealth Government. It is clear that the longer it takes for the Wik decision to be clarified, the greater will be its cumulative effect on exploration and mining industry activity in the Territory.

ENERGY

The Timor Sea to the north of the Territory contains significant oil and gas reserves. Only those activities occurring within the Northern Territory, and the offshore waters administered by the Territory are included in the ABS official Northern Territory statistics. However, significant benefits accrue to the Territory from the operations in all jurisdictions in the Timor Sea.

Part of the Bonaparte and Browse basins in the Timor Sea are administered by Western Australia. The Timor Gap Zone of Cooperation Area A (ZOC-A) is jointly administered by Australia and Indonesia.

The Territory's significant known energy resources are:

- uranium – deposits at Ranger, Jabiluka and Koongarra;
- natural gas – onshore at Palm Valley and Mereenie and large reserves offshore at Sunrise/Troubadour and in ZOC-A at Bayu-Undan;
- oil – onshore production at Mereenie and offshore production and reserves at Jabiru, Challis and Laminaria/Corallina in the Timor Sea.

The value of mineral energy production was $339 million in 1996-97, a 12% decrease on 1995-96 figures. Forecasts for the value of mineral energy production to 2001-02 are shown in Figure 8.4. The value of mineral energy production is forecast to increase significantly in 1999-00, principally as a result of the production from the Laminaria/Corallina oilfield in the Ashmore/Cartier area of the Timor Sea.

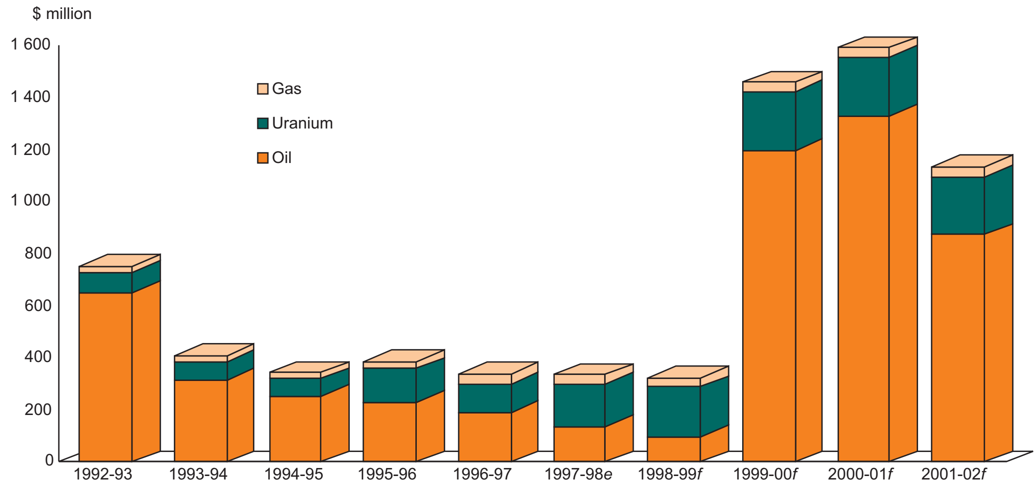
The value of Uranium oxide production is forecast to increase, while the value of natural gas production from central Australia should remain stable.

ENERGY EXPLORATION

Expenditure on petroleum exploration in the Northern Territory and offshore waters administered by the Territory (including the Ashmore and Cartier Islands Adjacent Area) fell 57% to $41.6 million in the 1996-97. Part of this decrease was related to a shortage of suitable drilling rigs available to explorers, and part to increased activity in ZOC-A and Western Australian areas. The decline in exploration expenditure in 1996-97 can be regarded as a temporary lull in activity.

Figure 8.4

ENERGY PRODUCTION



Source: Department of Mines and Energy

e: DME estimate *f*: DME forecast

The ABS reports that for calender year 1997 exploration expenditure in the Northern Territory and ZOC-A waters totalled $216.4 million, a significant increase on 1995-96 and the estimated 1996-97 expenditures.

Oil and gas companies are committed to drilling over 120 exploration wells in the Timor Sea, at an estimated cost of $1.2 billion, over the next five years. Competitive tendering for exploration permit areas and good prospectives should ensure that exploration activity in the Timor Sea remains high. There have been 15 discoveries since 1994.

Onshore, Native Title uncertainty is having a marked effect on greenfield oil and gas exploration.

Uranium exploration expenditure was $5.9 million in 1996-97, up from $4.6 million in 1995-96. Uranium exploration expenditure is reported under metallic and non-metallic mineral exploration expenditure by the ABS.

ENERGY OUTLOOK

The value of energy production in the Territory is forecast at $337 million in 1997-98, compared with $339 million in 1996-97. Increased uranium oxide production flowing from the mill upgrade at Ranger last year has counterbalanced the decrease in oil production. The Skua oilfield ceased production in early 1997. Commercial reserves at the Challis oilfield are expected to be depleted within one year. The life of Jabiru oilfield may be extended by linking it to the nearby Tenacious oil discovery.

ABARE reports that slower economic growth in Asia in 1998 will reduce the regional rates of growth in demand for energy and that Australian mineral energy exports can expect to face flat or easing US dollar denominated prices in 1998.

The Jabiluka uranium project is the major onshore energy development likely to begin construction in 1998. In October 1997 final Commonwealth Government conditional approvals for the mining of the orebody, 22 kilometres north of Ranger mine, were granted. Reserves are estimated as sufficient to maintain production until 2027. Over its life, the Jabiluka project is forecast to make considerable direct and indirect contributions to the Australian economy. In particular, it is estimated to increase Territory export earnings by at least $1.5 billion in present value terms.

The commissioning of the Laminaria/ Corallina oil field has been delayed until late 1999. The capital cost of the development is now estimated to be $1.3 billion and reserves are estimated at 155 million barrels, with peak production expected to be in excess of 150 000 barrels per day. Oil production facilities for Laminaria/Corallina will have the capacity to process 170 000 barrels per day. The world's largest floating production storage and offtake (FPSO) vessel is being constructed in Singapore for the project. The life of the project is forecast to be at least 13 years.

Significant projects emerging in ZOC-A are the Elang/Kakatua-Kakatua North oil fields and the Bayu-Undan gas/condensate field. Reserves in Elang/Kakatua-Kakatua North are estimated at 30 million barrels and would have an expected production rate of 33 000 barrels per day. The project has an estimated capital cost of $140 million, with first oil production likely in late 1998 via the refitted Skua Venture FPSO.

The liquids recovery project for the Bayu-Undan field is proceeding with engineering design. The project has an estimated capital cost of $2 250 million, and during peak production will produce 69 000 barrels of condensate, 24 000 barrels of propane and 20 000 barrels of butane per day. Production start-up is targeted for 2001.

The commercial production of gas from offshore fields is expected to take longer to achieve than for oil. The first gas from Bayu-Undan could be exported as Liquid Natural Gas (LNG) by the year 2002.

The main joint venture partners in Bayu/Undan are BHP Petroleum and Phillips Petroleum Limited. They are examining various options for the development of the field, including the construction of a $500 million pipeline from Bayu-Undan to Darwin. It is expected that an LNG development would provide sufficient critical mass to encourage exploration and development of other gas resources in the Timor Sea.

Shell and Woodside also have plans to construct an LNG plant in Darwin, based on Sunrise/Troubadour gas resource. The concept is for two LNG processing trains with a combined capacity of 7.5 million tonnes per annum. It would supply export contracts for 20 years, as well as supplying domestic gas sales to the Territory and possibly adjacent States. The project would require 10 trillion cubic feet of gas. Shell and Woodside are spending $120 million over the 18-month period to the end of 1998 to quantify the required gas reserves. Capital costs, including ships, for the project are estimated at some $10 billion.

Domestic availablity of Timor Sea gas is a new and exciting option for resource development in the Territory. During 1997 the Territory Government assisted in producing a report looking at the opportunities for Timor Sea gas in the Australian market. Given recent reforms to increase competition in the domestic gas market, market demand and infrastructure requirements, the report concluded that Timor Sea gas could be competitive in a number of Queensland markets in the short-term. In the longer-term, Timor Sea gas could service most east Australian markets.

BENEFITS TO THE TERRITORY

The major economic benefits generated by the mining industry for the Territory include regional development, employment, wages, the local purchase of goods and services and royalties. Several initiatives to improve the benefits flowing to the Territory from the mining sector began in 1997.

One of these initiatives was the formation of the Northern Australia Oil and Gas Taskforce in late 1997. The Taskforce is a government/industry initiative supported by the Department of Mines and Energy and the Department of Asian Relations, Trade and Industry. The primary aim of the taskforce is to facilitate commercial benefits to Darwin, and to maximise flow-on effects to local industry and businesses from offshore oil and gas operations.

It is estimated that some 15% of offshore exploration and 50% of offshore production expenditures undertaken in 1997 remained in the Territory. For the period 1996 to 1998 this proportion amounted to $210 million remaining in the Territory. The taskforce also identified several market opportunities that presently exist in servicing offshore facilities. Many of these gaps could realistically be filled by local suppliers.

In October 1997, a consortium was selected to develop an offshore supply and service base adjacent to East Arm Port. The $20 million base forms an important component of the Government's ambition to attract new technology and capital investment, and to supply and service operations in the Timor Sea. Such investment should enable Darwin to gain a greater share of the offshore industry's expenditures and in doing so become a world class service centre for the region. Presently Native Title issues and an Aboriginal land claim covering Darwin Harbour have delayed construction of the project.

Other benefits flowing from the offshore oil and gas sector include major work undertaken in Darwin. Work carried out on drilling rigs in Darwin in 1997 included the installation of a new crane on the Ocean Bounty, a major audit on the Ocean Epoch and maintenance work on the Sedco 703. The capital cost of a new drilling rig is in the vicinity of $300 million, while leasing costs are approximately $200 000 per day.

To maximise local benefits, the Northern Territory Local Content Policy was launched in June 1997. The aim of the policy is to ensure that local businesses have an opportunity to bid for work on resource development projects, particularly where the Northern Territory Government has facilitated the development. Currently this policy applies only to onshore operations, as all existing offshore operations are outside the Territory's administrative responsibility.

To maximise benefits from existing onshore operations the Local Content Working Group was established in 1997. The Group is coordinating the development and implementation of strategies and programs to maximise the benefits to Territory businesses and the local economy.

The Northern Territory share of goods and services consumed by the onshore mining industry is significant and increasing. In 1997, 55% of onshore mineral and petroleum operations expenditure was Territory sourced. Expenditure in the Northern Territory for 1996-97 was reported at $364 million for onshore operations, up 21.7% from $299 million in 1995-96.

In terms of local content and benefits to the Territory, onshore projects tend to provide greater benefits to the Territory economy than offshore projects. For this reason, the Jabiluka uranium project is the most important planned mining development for the Territory economy. The establishment of other new mines and the large volume delivery of Timor Sea natural gas to Darwin would also bring significant benefits to the Territory.

The Northern Territory Government secures direct revenue from onshore operations through royalties levied on a profit basis. Profit based royalties fluctuate from year to year, in line with company performance. Royalties to be received in 1997-98 are estimated at $26 million. A further $2.5 million is expected from the Commonwealth as a grant in lieu of uranium royalties.

TOURISM

The strong growth in the tourism industry achieved in recent years was curtailed during 1997 with the number of visitors to the Territory decreasing 3.9% and expenditure by tourists falling 3.2%. Moderate growth in the industry is expected over the next five years with growth in international visitation expected to outpace domestic visitation.

Due to the production based method of calculating GSP, information on the tourism industry is spread across a number of industry categories. The "Accommodation, Cafes and Restaurants, and Cultural and Recreational Services" categories captures a significant proportion of tourism expenditure although tourists also contribute directly to other industries such as retail trade and transportation.

Using "Accommodation, Cafes and Restaurants, and Cultural and Recreational Services" as a proxy for the tourism industry indicates that tourism contributes more to the Territory economy than in any other State or Territory (see Table 9.1). Using the same definition, the Territory tourism industry employs 8.7% of employed persons compared to 7.2% nationally.

Table 9.1

ACCOMMODATION, CAFES AND RESTAURANTS, AND CULTURAL AND RECREATIONAL SERVICES

	% OF GSP
Northern Territory	**6.6**
Queensland	5.1
Australian Capital Territory	5.0
New South Wales	4.3
Tasmania	4.2
Victoria	3.8
South Australia	3.5
Western Australia	3.0
Australia	**4.1**

Source: ABS Cat. No. 5220.0, 1995-96

VISITOR NUMBERS

Data prepared for the Northern Territory Tourist Commission (NTTC) shows that the total number of visitors travelling within the Territory decreased by 3.9% to 1.2 million in 1997 compared with the previous year. This decrease was the result of fewer interstate visitors (down 7.8%) and fewer Territorians travelling overnight within the Territory (down 6.1%). These falls were partially offset by an increase in the number of international tourists (up 4.2%).

Interstate visitors from New South Wales, Victoria and South Australia accounted for two thirds of interstate visitors to the Territory. Visitors from UK/Ireland represented 23.1% of international visitors while USA/Canada 17.0%, Germany 14.1% and Japan 13.8%, were the next most common countries of origin. Tourists from Asia (excluding Japan), make up only 3.7% of international tourists.

EXPENDITURE

During 1997, visitors spent some $695 million in the Northern Territory on accommodation, tours, food, souvenirs and other goods and services. This was down 3.2% on 1996. Figure 9.1 shows expenditure on a financial year basis and demonstrates that expenditure by tourists fell slightly in 1996-97 after a period of steady growth. The

TOURIST DESTINATIONS

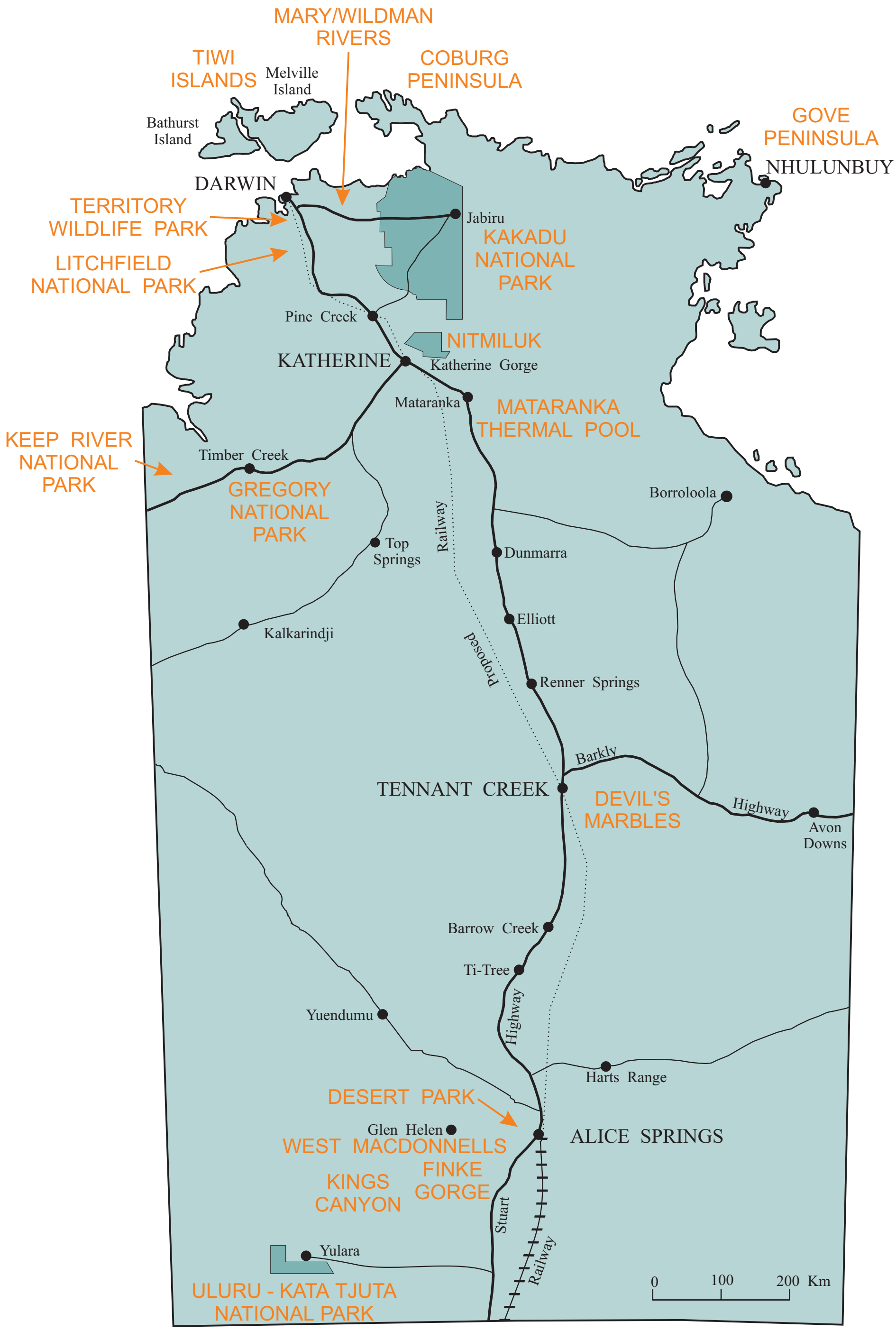
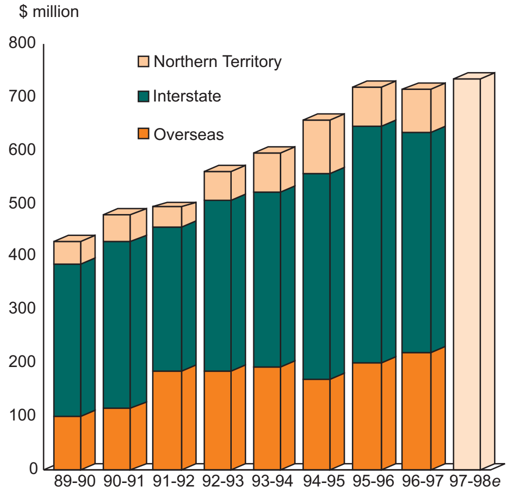


Figure 9.1

TOURISM EXPENDITURE



Source: NTTM Summary Report 1996-97 *e*: NTTC estimate

estimate for 1997-98 is a return to positive growth with expected expenditure growth of 2.6%. This rate of growth is slightly less than the average real annual rate of growth of 4.7% over the past seven years.

Expenditure by visitors reflects the fall in visitor numbers. Expenditure by interstate visitors decreased by 7.3% over 1997 while expenditure by Territorians fell by 15.3%. These falls was partially offset by a 9.4% increase in overseas visitor expenditure.

During 1997 the Top End was the only region to avoid a fall in tourist expenditure, with expenditure up only 0.1%. Both the Centre and Katherine experienced moderate decreases, down 4.8% and 7.1% respectively. Expenditure in the Tennant Creek region fell by 21.9%. The Top End accounts for 50.2% of total expenditure, followed by the Centre (39.6%), Katherine (7.7%) and Tennant Creek (2.5%).

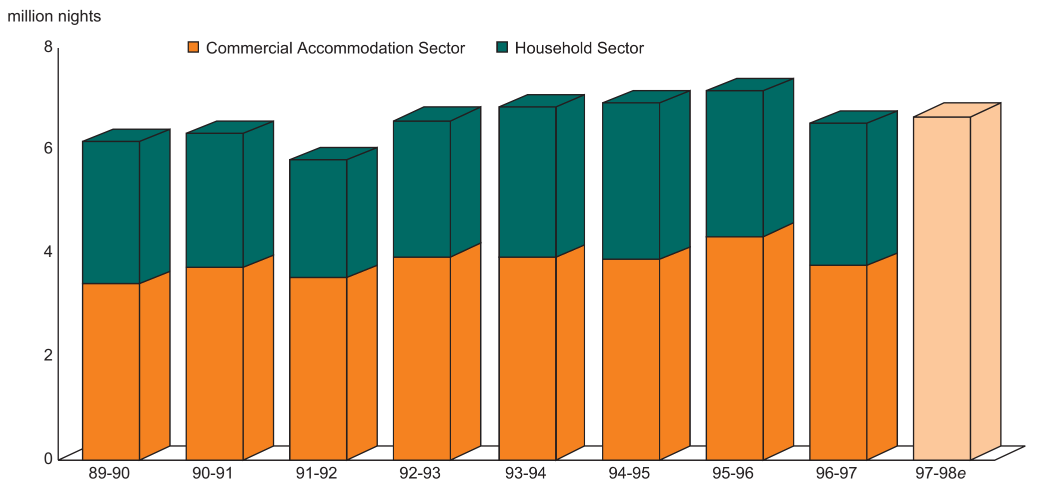
Average per capita expenditure for overseas visitors was $600 with New Zealanders spending the most at $1 007, followed by Germans spending $662.

VISITOR NIGHTS

Visitor nights decreased 0.9% in 1997 to 6.5 million. Increases occurred in visitor nights for both intra-Territory and international

Figure 9.2

VISITOR NIGHTS



Source: Northern Territory Travel Monitor *e*: NTTC estimate visitors. However, these increases were offset by a fall in visitor nights by interstate tourists.

Figure 9.2 shows the change in visitor nights on a financial year basis. With the exception of 1991-92 visitor nights have grown every year until a small decrease was recorded in 1996-97. Renewed growth in visitor nights is expected to have occurred in 1997-98 with an increase of 2.3%. Similar growth is expected over the next four years.

Cruise liners visiting Darwin are an important component of the Territory's tourism industry as most cruise ships arrive during the off-peak Wet Season and liner guests tend to spend a greater amount during their stay than the average tourist. Twelve cruise liners arrived in 1997, one more than in 1996. Visiting foreign warships, which dock all year round, are estimated to inject $20 million into the Territory economy every year.

DESTINATIONS

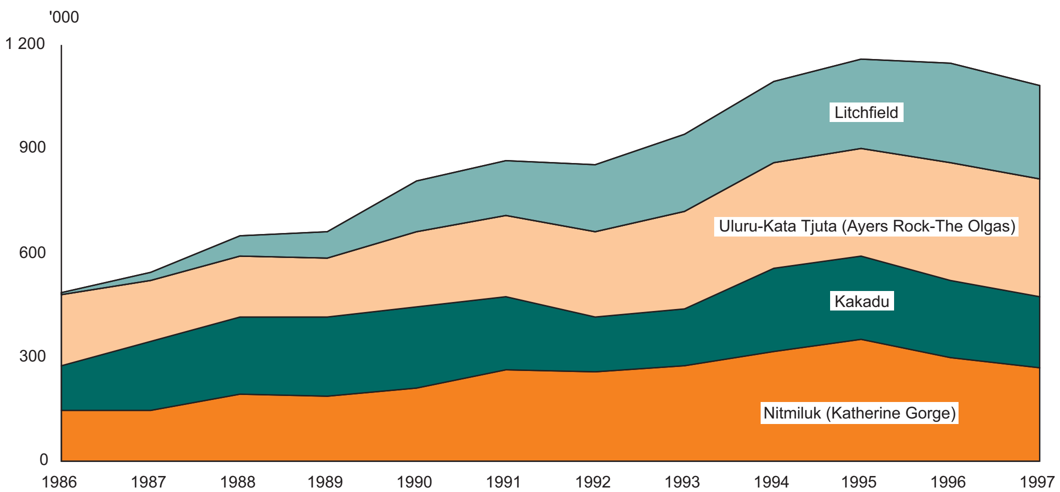
The Territory's unique flora, fauna and geographical features are key attractions for visitors. The Territory's most popular national park in 1997 was Uluru Kata Tjuta National Park with 337 735 visitors, a small increase of 0.3%. The park contains the world's largest monolith, Uluru - Ayers Rock, unique rock formations, Kata Tjuta - The Olgas and spectacular desert scenery to the south of Alice Springs.

In 1997 Litchfield, Nitmiluk and Kakadu National Parks all experienced a decline in visitor numbers. Visitors to Litchfield National Park fell by 8% to 266 612, visitors to Nitmiluk National Park fell by 10% to 269 699 and visitors to Kakadu declined by 7% to 207 000, the lowest number since 1993.

Visitors to the Territory Wildlife Park, located 40 kilometres south of Darwin, have increased from 29 109 in 1989 to 96 366 in 1997, although numbers in 1997 were down 8.3% on 1996.

Figure 9.3

VISITORS TO MAJOR PARKS



Source: Parks and Wildlife Commission of the Northern Territory, Environment Australia

The $20 million Desert Wildlife Park at Alice Springs was opened in March 1997 and 77 148 visitors visited the park to December 1997. The park features the Territory's desert habitat, a fascinating array of plants and animals as well as stories from Aboriginal culture.

While activities associated with Aboriginal art and culture are by far the most popular activity for overseas visitors, bushwalking was also popular for both interstate and intra-territory visitors. Other activities enjoyed by visitors to the Territory included 4 wheel driving, scenic flights and fishing.

CAPACITY

A Tourism Aviation Committee was formed after the Minister for Tourism publicly launched a *Tourism Aviation Strategy* in 1995. The primary role of this committee to increase the international aviation capacity of the Northern Territory. During 1996-97 there was a 9% increase in international seat capacity and a 20% increase in international service frequency. Domestically, seat capacity increased by 1%.

A total of 455 rooms were added to the tourism accommodation stocks in Darwin during 1997, increasing supply in Darwin by 25%. New hotels in Darwin include the Darwin Central Hotel, Holiday Inn Park Suites, Primavera Apartments, Luma Luma Apartments and Cullen Bay Apartments. This has amply satisfied current market demand and no further accommodation infrastructure is expected to be required before the Year 2000.

An additional 50 Bed & Breakfast rooms and 148 backpacker beds were also established during the year including the opening of the Nomad's facility. Backpackers contribute significantly to the Territory economy because of their propensity to stay for long periods and their expenditure on a variety of industry categories, including transport and services.

The Territory Government's 60% interest in Ayers Rock Resort Corporation (Yulara) was sold in late 1997 to the General Property Trust (part of the Lend Lease Group). The sale price of the Resort was a better than expected $220 million. The Group have also purchased an approximate half share in Kings Canyon Resort.

MARKETING

The Territory Tourism industry continues to have distinct peak and off peak seasons. The peak season coincides with the "dry season" in the Top End, particularly July to September, while extending to October in the Centre.

In the past, the NTTC has used a special tropical summer campaign to increase visitor numbers during the southern summer months. Last year, the Commission, in partnership with the airlines, promoted very attractively priced five and seven night packages to both the Top End and Centre Regions.

A special *Alice in Wonderland* print and press campaign was used to position Alice Springs as an integral component of a visit to the Centre. For the Top End, a combination Darwin/Bali package was trialed with a major airline as a key partner. This package will be refined and reintroduced for the 1998 shoulder and off peak time period and should enable the Territory to benefit from Bali's recent surge in popularity due to the devaluation of the Indonesian Rupiah.

An obstacle to tourism in the Territory is the significant distance between tourist attractions and population centres within the Territory. In order to alleviate this problem, three Tourism Drives are currently being developed through the Northern

Territory as part of the Tourism Drive Market Strategy.

The Explorer Highway Tourism Drive, a joint program with the South Australian Government, provides visitors with a Tourism Drive from the Southern Ocean to the Arafura Sea. Information stands are being installed at wayside inns and communities along the Drive providing visitors with information on the exploration and settlement of the region, as well as maps showing Heritage and 4x4 Trails, Fossicking Sites and visitor facilities.

Work has also commenced on developing the Nature's Way through the Mary River Wetlands and Kakadu and the Pioneers' Path through Ayers Rock, Kings Canyon and the Mereenie Loop Road. The sealing of the Mereenie Loop Road should commence in mid 1999. A consumer brochure advertising the Tourism Drives to the drive market was launched during February 1998 at the Adelaide Caravan and Camping Show.

The Commission launched its new domestic advertising campaign in February 1998 with an annual budget of $7 million. Research showed that those potential tourists with the highest propensity to spend were hesitant about visiting the Territory because of a belief that the Territory did not provide adequate holiday comforts. The new campaign, which included television, radio, print and press components, was developed to reassure more affluent potential tourists that the Northern Territory's unique natural destinations could be enjoyed in comfort.

In addition, the Commission is working to increase the amount of accurate and up to date information available to potential visitors in both the domestic and international market places. The Holiday Centre in Alice Springs will become a key provider of information to domestic and international travellers.

TOURISM OUTLOOK

The Territory tourism industry should be sheltered from the worst effects of the Asian economic crisis because the Territory receives a low proportion of tourists from the countries most effected by the crisis. However, the indirect effects of the crisis may include domestic tourists substituting cheaper holidays in South East Asia in place of planned Territory holidays and competing destinations using aggressive marketing campaigns to attract European and North American tourists away from the Territory.

Growth in visitors from the important European source markets slowed in 1997. To address this slowing growth, and increase in competition from other destinations such as South Africa, a new International Marketing Support Scheme has been developed. This aims to raise the profile of the Territory and demonstrate its suitability as a tourist destination. This support scheme commenced in 1998 and will come into full effect in 1999.

The Commission projects a 2.5% per annum growth in visitor numbers, 2.3% per annum growth in visitor nights and a 2.6% per annum growth in visitor expenditure for the next five years. These forecasts are based on 1996-97 visitation and assume that the average length of stay for visitors in the Northern Territory is stabilised at the 1996-97 levels. It also assumes that intra-Territory growth increases 1% per annum, interstate visitation grows at 1.5% and international at an average of 5.2% per annum.

The above forecasts have been made without factoring in the impact of the 2000 Olympic games. The impact of the Games on the Northern Territory is expected to be positive due to the Territory's distance from Sydney and the major icons within the Territory which are "must sees" for many international visitors.

RURAL INDUSTRIES AND FISHERIES

In the Northern Territory, rural industries and fisheries account for 4.9% of Gross State Product. Rural industries in the Territory include pastoral (cattle), other livestock (including buffalo, crocodile, poultry, and camel), horticulture (fruit, vegetables, nursery and cut flowers) and mixed farming (field crops, hay and seeds). Fishing includes harvesting of wildstock and aquaculture. Rural industries often have significant flow on benefits to other sectors of the economy.

The preliminary estimate of the 1997 gross value of production in the rural and fishing industries is $344 million, a 12% increase over 1996. Significant increases in value were recorded for cattle production (up 12%), in aquaculture (up 29%), and in mango cultivation (up 34%).

Table 10.1

AGRICULTURE, FORESTRY AND FISHING

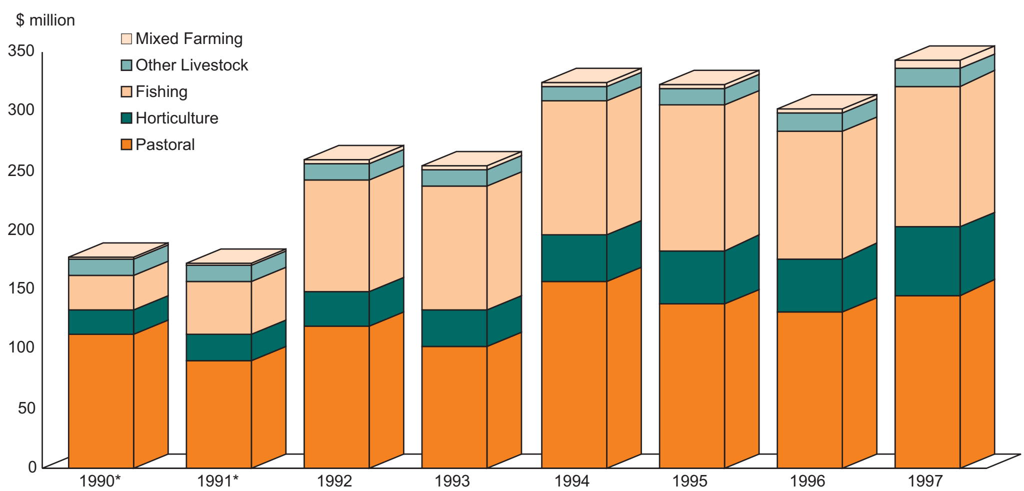
	% OF GSP
Tasmania	6.7
Western Australia	6.2
South Australia	6.0
Northern Territory	**4.9**
Queensland	4.1
Victoria	3.4
New South Wales	2.6
Australian Capital Territory	0.1
Australia	**3.7**

Source: ABS Cat. No. 5220.0, 1995-96

Stage Two of the Ord River Irrigation Project straddles the Northern Territory/ Western Australia border. It presents an

Figure 10.1

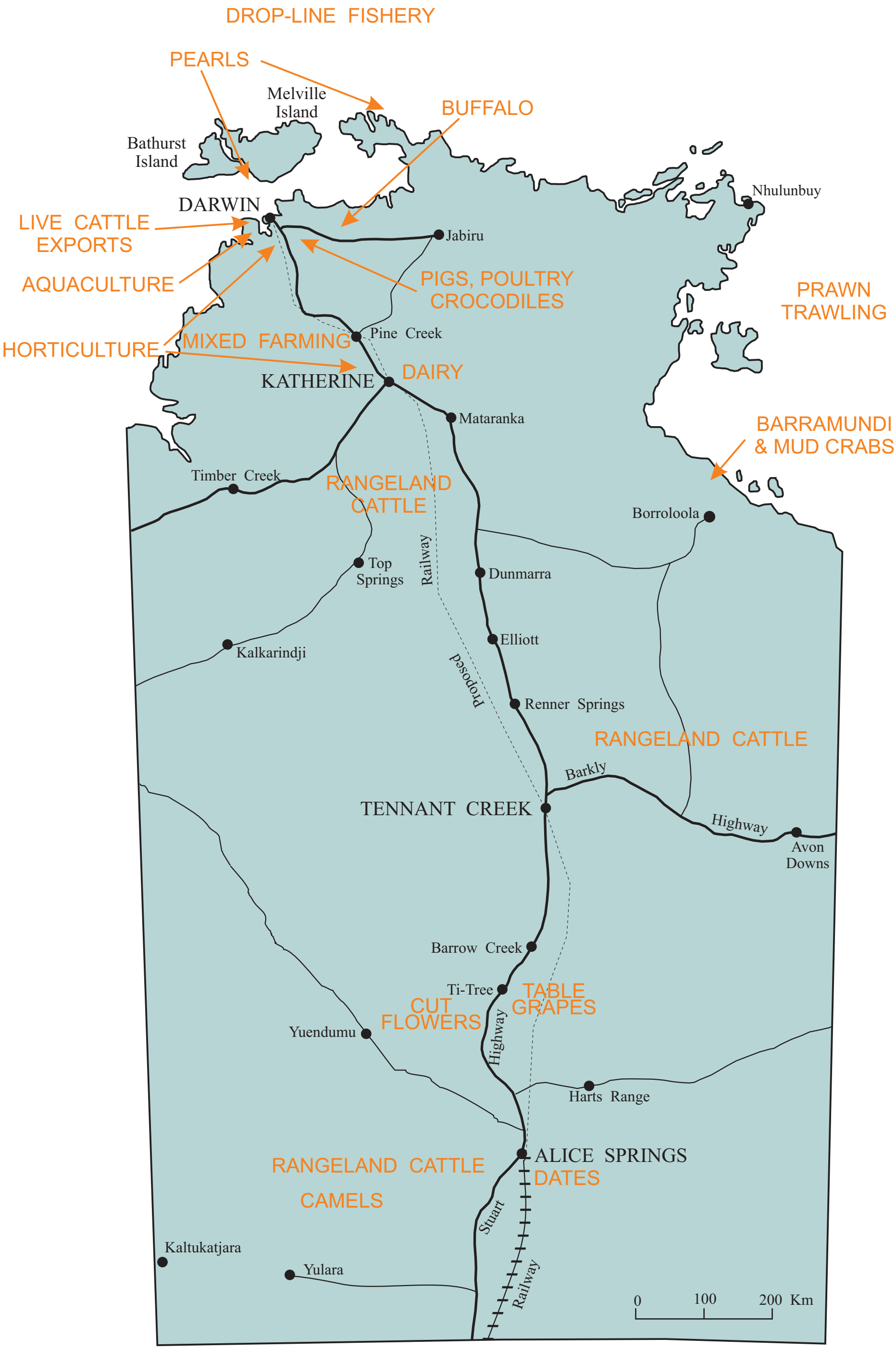
RURAL INDUSTRIES AND FISHERIES PRODUCTION



Source: Department of Primary Industry and Fisheries

Note: Data for Fishing, Other Livestock & Mixed Farming is on a financial year basis.
* Fishing excludes pearl production, while prawns have been valued on the basis of landings not catch as in later years.

RURAL INDUSTRIES AND FISHERIES



exciting prospect for rural industries in the Territory. The 50 000 hectare development, half of which is in the Territory, is expected to produce 400 000 tonnes of raw sugar per annum from 2002.

PASTORAL

In 1997, the gross value of production for the cattle industry was $146 million, up 12% on 1996. The industry now represents about 42% of the total Territory rural industries and fisheries production. However, when the indirect benefits of the industry are taken into consideration (such as live cattle transportation, abattoirs, and meat wholesale and retail trade) the contribution of the pastoral industry to the Territory economy is much higher.

In 1997, an estimated 455 000 head of cattle were turned off from Territory pastoral properties to abattoirs, interstate and overseas markets. Both the number and the value of cattle turned off in 1997 were higher than in 1996. This was due largely to an increase in both the number of cattle exported live to South East Asian markets and cattle slaughtered at the local abattoirs. The increased demand for live cattle in the South East Asian markets over most of 1997 impacted on the number of cattle sent to interstate markets, which declined by 26%.

The Territory's live cattle export trade has been growing rapidly both in terms of volume and value. In 1997, 256 310 head of Territory cattle were exported, an increase of 28% over 1996 exports. Indonesia and the Philippines have been the major markets, receiving over 90% of the Territory's live cattle exports.

Exports to Indonesia in 1997 reached 135 421 head, a 25% increase on 1996 exports. Exports to the Philippines were 94 656 head, an increase of 29% on 1996. Exports comprise mainly of feeder steers destined for feedlots prior to slaughter. The total value of Territory live cattle exported in 1997 was about $105 million, an increase of approximately 25% on 1996 levels.

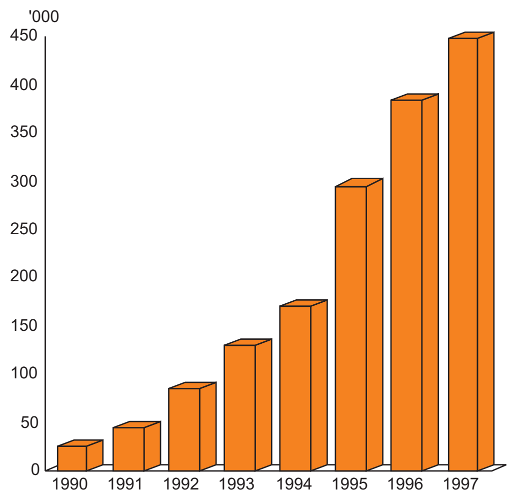
The Port of Darwin is an important port for live cattle exports from cattle stations all over northern Australia. Exports through the Port of Darwin (including cattle from Queensland and Western Australia) increased by 17% in 1997 (to 448 196), compared to 1996 exports. Of the 201 807 head of interstate cattle exported through the Port of Darwin (an increase of 4% over 1996 figures), 98% were from Queensland.

In 1997, the Territory provided 34% of all Australian live cattle exports to South East Asia, while approximately 61% of all live cattle exports to Asia were shipped through the Port of Darwin.

The financial crisis in South East Asian economies which emerged in 1997 has greatly dampened demand for live cattle exports, the adverse effects of which are now beginning to be more acute. The total number of cattle exported through the Port of Darwin during the first three months of 1998 was down by 53% compared to the same period in 1997.

Figure 10.2

LIVE CATTLE EXPORTS THROUGH DARWIN



Source: Department of Primary Industry and Fisheries

However, Territory live cattle exported through Darwin Port seem to be faring better than interstate cattle, with 16.4% growth comparing the first three months of 1998 with the same period in 1997. This is possibly due to Territory cattle being offered at more competitive prices than those from other states.

The general decline in live cattle exports has been worsened by a delay in the South East Asian monsoon season (particularly in Indonesia) which has resulted in a higher than normal turnoff of domestic cattle. The full impact of the crisis on the live cattle trade will be more evident when the new northern cattle season starts in April/May 1998.

PASTORAL OUTLOOK

Due to the financial crisis in South East Asia, the short term outlook for the pastoral industry is highly uncertain. The live export trade into South East Asia has been the driving force behind growth in the pastoral industry for the past few years.

Demand for imported cattle in South East Asia is expected to decline in the region due to rising consumer prices brought about by currency devaluations and an expected decline in incomes in the region.

Indonesia is the largest importer of live cattle from Australia (accounting for some 53% of the Territory live cattle export trade in 1997) and has experienced significant currency deprecations. The deterioration in live cattle trade with Indonesia is therefore expected to be much greater than with other South East Asian countries, such as Malaysia and the Philippines.

Other factors that may affect live cattle exports are:

- sharp increases in interest rates in South East Asian countries over 1997 have adversely affected the long term investment plans of some private feedlots importing cattle;
- tight fiscal policies planned by some South East Asian countries may include cuts to government assistance to their live stock sectors; and
- if the El Niño drought weather pattern continues well into 1998 in the region, it may adversely affect the availability of agricultural crops and crop by-products (such as from rice, maize, sugarcane & pineapples) which are used in feeding imported live cattle.

While it is difficult to predict when the South East Asian financial crisis will be over, live cattle exports to the region are forecast to fall sharply in 1998, and remain low over 1998-99. Prices are expected to be particularly volatile due to changing climatic conditions and currency fluctuations. This will in turn affect industries associated with the pastoral industry, including shipping, cattle road transport, feed suppliers, stock agents, veterinary services, and other related industries.

In the short term, demand for Territory cattle may be able to be supplemented by the interstate feedlot market and the abattoir market. Countries outside South East Asia which have generally experienced currency appreciations against the Australian dollar may now view Australian live cattle as a cheaper alternative to other sources.

A market with potential for longer term export growth is China. A new Australia -China quarantine protocol is being negotiated. This will allow the live export of 'slaughter and store' cattle to China from Australia. The cattle will initially be sourced from below the blue tongue disease vector line in northern Australia which currently excludes the Territory and Queensland.

The Chinese preference is for the Brahman breed of cattle, and the market potential is estimated at around 100 000 head per year. It is expected that the new protocol will allow live cattle exports from parts of the Territory and Queensland, including the use of export facilities at Darwin. This may open another window of opportunity for Territory pastoralists.

Similar opportunities also exist to market the Central Australian British breeds of cattle to the Middle East and Egypt (in 1997 some cattle exported live to Egypt were sourced from Central Australia).

As a consequence of the problems affecting the live cattle export trade at present, producers and the processors in the pastoral industry are being encouraged to diversify. To this end, the Territory Government is:

- working with cattle producers to encourage a more diverse and flexible industry by trialling new grazing techniques at the Sturt Plateau;
- promotion of breeds and breed management practices that provide producers with greater capacity to sell into either the live cattle trade, the interstate trade, or the boxed beef trade;
- extension of the Pastoral Water Enhancement Scheme to increase flexibility of management, stock carrying capacities and profitability; and
- the domestic licensing of abattoirs for export to provide an alternative market for Territory beef producers.

Australia's beef exports in 1997 were not significantly affected by the currency deprecations in South East Asia. However, beef consumption is forecast to decline in the region due to higher consumer prices and greater competition from pig and poultry meats. As a result, Territory beef exports to these regions are forecast to be lower in 1998.

Australian beef exports to the United States, Japan and South Korea are expected to increase in 1998. The Territory beef industry is expected to benefit from this growth. However, greater competition in this market is expected from other countries, particularly the United States, and possibly Argentina and Uruguay.

OTHER LIVESTOCK INDUSTRIES

The Territory has a number of other livestock industries, supplying eggs; poultry meat; pork; buffalo and camel meat; fresh milk; live exports of buffalo, deer, horses, camels and pigs; and crocodile skins and flesh. In 1996-97 the gross value of 'other livestock' industries was estimated at $15 million. This was a similar figure to 1995-96. The main change was in the crocodile industry where, although there was an increase in sales of crocodile flesh, sales of crocodile skins were markedly reduced due to lower market prices.

MIXED FARMING

In recent years mixed farming around Katherine, the Douglas/Daly and Darwin has focused on servicing the live cattle export industry. As this industry has grown, the demand for land for fodder production for cattle resulted in land used for grain cropping being converted to fodder crops. In the coming year, it is expected that some land will be converted back to grain cropping as the demand for fodder for export cattle eases. The area of field crops under irrigation has also expanded in recent years.

Pasture seed production expanded in response to demand between 1995-96 and 1996-97. The estimated value of pasture seed production increased from $0.1 million to $0.8 million over the period. In addition, the estimated value of hay production increased from $1.8 million to $5.2 million over the same period. This increase was due to the strong growth experienced in the live cattle export industry over that period.

The total value of grain crops (sorghum, maize, rice, sesame, soybeans and sunflower) declined from $0.5 million in 1995-96 to $0.4 million in 1996-97. In future years this amount is expected to be supplemented by the additional areas of grain crops, especially higher value crops such as peanuts.

The extension of the Ord River Irrigation Project into the Territory is expected to see a world-class sugar plantation developed in the Territory.

A consortium comprising Wesfarmers and Marubeni has been awarded sole development rights for the $400 million project and are now in the process of developing a final development proposal. They expect to commence sugar cane harvesting from 2002, with full production commencing in 2004. The consortium anticipates that the development will directly create 400 new jobs, with a further 1 200 positions generated by the flow on benefits arising from the project.

HORTICULTURE

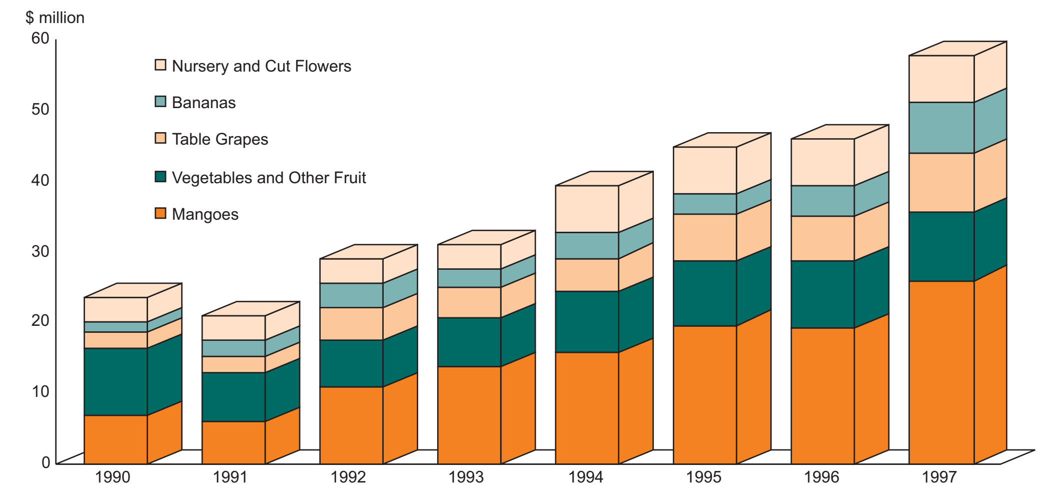
Horticulture production registered strong growth in 1997, due to a significant increase in the production of mangoes, bananas and table grapes during the year. The total value of horticulture production in 1997 (including the nursery and cut flower industry) is estimated at approximately $57.7 million, compared to $46.0 million in 1996, an increase of 25%.

An estimated 80% of Territory horticultural production (in value terms) was exported interstate in 1997, while 5% was exported overseas and 15% was consumed within the Territory. Most Territory horticultural commodities achieved good prices over 1997, especially mangoes, bananas, rambutans and most vegetables.

Mango production during 1997 jumped by approximately 52%, from 5 357 tonnes in 1996 to 8 158 tonnes in 1997, a record production for the Territory. In general, mango quality in 1997 has improved partly due to the Quality Assurance scheme run by the Northern Territory Horticulture

Figure 10.3

HORTICULTURE PRODUCTION



Source: Department of Primary Industry and Fisheries

Association (NTHA) and the Northern Territory Mango Growers Association.

The weighted average wholesale price was firm at around $22.50 a tray. The total 1997 mango crop was valued at around $26 million, an increase of 34% compared with $19.4 million in 1996. Exports of mangoes (a small but growing part of the market) were up from 46 tonnes in 1996 to 285 tonnes during 1997. Most exports went to Hong Kong, Singapore, France, Japan and Malaysia.

Some 1 800 tonnes of table grapes (from the Ti-Tree region) were produced in 1997, an increase of 35.7% compared with 1996 production of 1 326 tonnes. The value of the table grape crop in 1997 increased by 27% from $6.4 million in 1996, to around $8.1 million in 1997. Most of the table grape crop was sold at interstate markets, although a small quantity of the crop was exported via Sydney markets (estimates of overseas exports are unavailable).

Banana production rose from 3 768 tonnes in 1996 to 4 107 tonnes in 1997, an increase of 8%. Due to better prices received during the year, the overall value of the crop improved to $7.2 million, an increase of 68% compared to the 1996 value of $4.3 million.

The value of vegetable production in 1997 is estimated at $4.6 million, an increase of 5% from $4.4 million in 1996. The majority of the increase was in Asian vegetables; especially snake beans, bitter melons, gourds (or long melons) and luffas.

HORTICULTURE OUTLOOK

Horticultural production has increased and diversified markedly in recent years, illustrating a progressive realisation of the industry's potential. The Territory's distinct climate allows it to enjoy certain comparative advantages, notably the capacity to supply early season and out of season produce such as table grapes; mangoes; dates; melons; asparagus; cucurbit crops and Asian vegetables for the southern and overseas markets.

In recognition of the demand from these diversified markets, areas planted to fruit trees and grape vines are steadily increasing. A 1997 survey of grape vines and perennial fruit trees in the Territory showed that the total number of trees had increased by 108% since 1992. The largest increases in plantings were in mangoes, bananas, citrus and table grapes. Prospects for increased production in these areas therefore is particularly promising.

The Department of Primary Industry and Fisheries (DPIF), in conjunction with the NTHA, continues to examine alternative markets (including mango exports to overseas markets and mango downstream processing) to lessen reliance on the limited fresh fruit domestic markets.

DPIF is also working with the NTHA to improve the general quality of Territory mangoes through the implementation of a comprehensive long term strategic plan. This will incorporate programs such as the Quality Assurance Scheme, market promotion, and better communication between growers, packers and wholesale agents in southern markets.

A trade mark for Territory mangoes called "Northern A-peel" was launched in 1995 as part of the Quality Assurance Scheme. The scheme has worked well, resulting in Territory mangoes achieving a reputation for good quality, resulting in good returns to growers.

From 1996, a locally owned road transport company, Territory Produce Freight Management (TPFM), started providing refrigerated road services for vegetable producers as a cheaper alternative to air freight. As a result, most heavy/bulky horticultural products are now shipped to southern markets by road. This not only means considerable savings on freight costs for horticultural producers, but it also frees up valuable air-cargo freight space for other Territory perishable products.

Further banana plantings were carried out during the year at Lambells Lagoon by two major banana companies. A total of 200 hectares is expected to be planted by the end of 1998. This would see the Territory becoming a significant banana production area of Australia in the future.

During 1996, the Territory Government offered around 350 hectares of land near Lambells Lagoon for horticultural development. The area is set to become one of Territory's main commercial horticultural production regions in the future. Other new subdivisions around Lambells Lagoon and Marrakai (to the south of Darwin) are also being opened up for further horticultural developments.

Good prospects also exist for the nursery and cut flower industries. The nursery industry, in particular, possesses significant potential in light of the Territory's climatic advantages for the production of a wide range of tropical and subtropical plants. Cut orchids and heliconias are produced for markets in southern capital cities, as well as overseas. DPIF is currently assisting the industry through the provision of technical staff to produce disease-free tissue culture planting materials.

Volume of production and prices for fledgling exotic tropical fruits like durian, jackfruit, guavas, star apples and others have also increased. New plantings of durian, mangosteen and guavas are also being established by growers.

The outbreak of an exotic fruit fly (*Bactrocera philippinesis*) in late 1997 is a major concern to the Territory's horticulture industry. This will affect most horticultural producers during the coming season, especially in the Darwin region.

The Territory Government, in conjunction with the Commonwealth Government, other State Governments, and the horticulture industry, are currently carrying out a rigorous campaign to eradicate the pest. A more immediate benefit of the campaign has been to raise awareness among horticulturists about the importance of hygiene practices.

The impact of the Asian economic crisis on the Territory horticultural industry is expected to be minimal, as only a small percentage of Territory produce (under 8% in value terms) is currently exported to overseas markets. Additionally, the majority of these exports go to Hong Kong and Singapore, where the crisis is not as severe. Territory growers are currently looking at other markets (especially in Europe and the Middle East) to diversify their export base.

On the whole, the early stage of development of the Territory's horticulture industry, together with the Territory's specific natural advantages, augers well for future expansion. Favourable climatic conditions, the maintenance of disease-free status, improving product quality, concerted marketing efforts, and unrestricted access to domestic and international markets will underpin further industry growth.

FISHING

The Territory's fishing industry comprises commercial, recreational and traditional sectors. The commercial sector includes the harvesting of wild stock fisheries, and is dominated by prawns. Aquaculture is dominated by high quality pearl production and includes the processing, trade and retailing of seafood. The aquaculture of species other than pearls is in the developmental stage, with prawns and barramundi being farmed commercially in 1997. Research is continuing on the aquaculture potential of mud crabs and golden snapper.

The value of the mud crab industry again increased in 1997, making it the largest wildstock fishery under Territory management. The value of production by the Territory's commercial fishing industry is estimated at $118 million for 1996-97. Of this, wild stock prawns and pearl farming account for approximately 80%.

Figure 10.4 shows Territory fishing industry production from 1989-90 to 1996-97. The overall value of the fishing industry has fluctuated during this period. The value of aquaculture, principally pearls, has increased, while the value of the prawn catch increased up to 1994-95, but then fell in the following two years (primarily due to a fall in the higher valued banana prawn catch). The value of the mud crab catch, on the other hand, has increased substantially over the last two years (1995-96 and 1996-97).

Effective management of fisheries is an integral component of the Territory's long term resource use strategy. Over the past decade or so, a number of important management changes have occurred in fisheries within Territory waters.

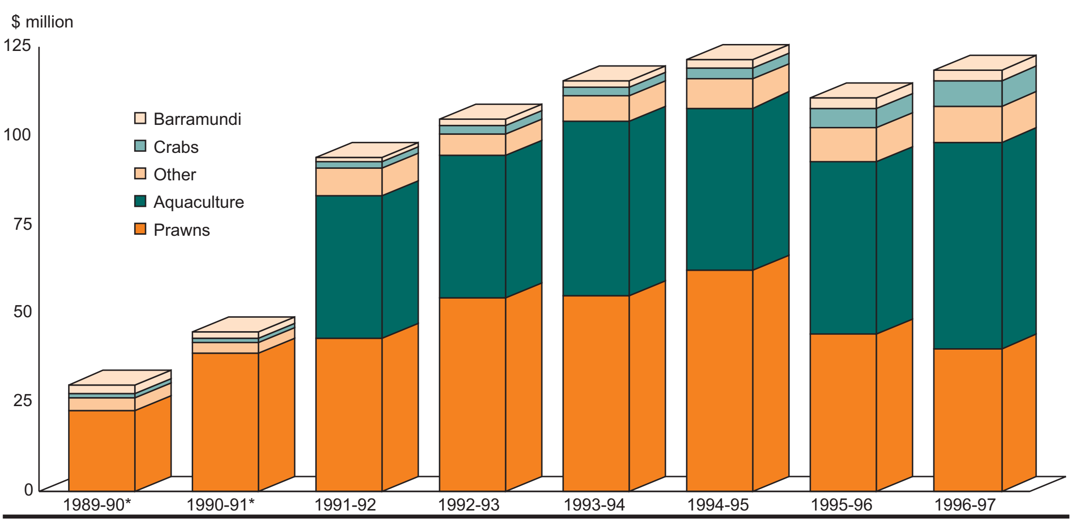
The Northern Prawn Fishery has seen the greatest adjustment, with voluntary and compulsory reductions reducing boat numbers from about 350 boats in the early 1980s to 125 boats (by early 1998). Further reductions in fishing effort are proposed to offset what CSIRO concludes is a 5% annual advance in the fishing power of the fleet (due to a larger average boat size and greater use of technology).

The barramundi/threadfin salmon industry has likewise undergone a shift towards a more sustainable fishing effort. This has been achieved through a range of measures, including licence buyback, gear restrictions, seasonal closures, river closures, and minimum size limits. A new Barramundi Fishery Management Plan was gazetted in January 1998, which included the closure of Darwin Harbour and Shoal Bay.

Management plans have been introduced for a number of fisheries, and all major

Figure 10.4

FISHING PRODUCTION



Source: Department of Primary Industry and Fisheries

*Fishing excludes pearl production, while prawns have been valued on the basis of landings not catch as in later years.

fisheries under Territory jurisdiction should soon be covered by such plans.

FISHING OUTLOOK

Management changes have stimulated an increase in fishing effort and further growth is anticipated. These changes include the redefinition of the boundaries of the coastal line fishery, and the introduction of transferability to the demersal, coastal and Timor Reef fisheries.

The fishery resource with best growth potential in the short to medium term is red snapper. Grounds in the Timor Sea, west of Darwin, are being targeted for further development. However, adverse sea temperatures (attributed to the El Niño weather pattern) have caused lower than expected catches in late 1996 and early 1997, disrupting this development.

Territory waters are relatively free from pollution and the extensive coastal settlement that is evident in other states and overseas fisheries. This "clean" image of Territory produce will attract premium prices in some markets.

The outlook for aquaculture is bright, with access to clean water and ideal climatic temperatures around the Darwin region allowing for the high growth rates in stock. Successful prawn culture has occurred since 1996, and considerable interest from investors could lead to an industry worth $30 to $40 million within 5 to 10 years.

Despite the Asian economic crisis, prices for farmed prawns have been relatively strong throughout the second half of 1997. The barramundi aquaculture industry is going through a period of adjustment due to current limitations in the market for plate size fish and increased competition from Asian suppliers. Demand from markets in southern Australia for fresh fish remains strong, though subject to seasonal variation in demand.

The Darwin Aquaculture Centre will be moved from the old Stokes Hill Power Station to Channel Island by mid 1998. The centre is conducting research on golden snapper, mud crabs, pearl oysters and zooplankton. It also provides support for the aquaculture industry.

The long term outlook for the industry (both landed catch and aquaculture) is promising, with Australian domestic consumption of seafood continuing to increase steadily. The Food and Agriculture Organisation predicts that world seafood demand will exceed supply over the next decade.

Continued improvements in transport infrastructure (such as the new Darwin Port), accompanied by greater flexibility in transport modes (such as the new railway), should strengthen the long term capacity of Territory seafood producers to supply quality fresh produce to domestic and overseas markets quicker and more cost-effectively.

HOUSING AND CONSTRUCTION

The housing and construction industry is a major contributor to economic growth in the Northern Territory. The industry contributes over 9% to Territory GSP, which is higher than in any other State or Territory, as shown in Table 11.1.

In 1997, the sector employed some 6 100 or 7.1% of all employed persons. The industry comprises residential and non-residential building activity, as well as engineering construction, which includes the construction of bridges, ports, railways and roads.

The relatively high contribution of the construction industry to the GSP of the Territory is consistent with high rates of population and economic growth.

Table 11.1

CONSTRUCTION

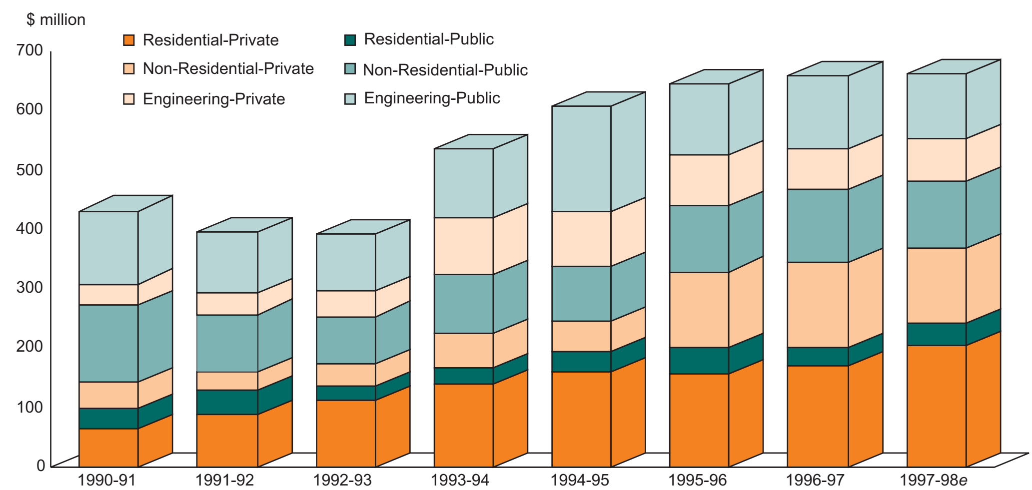
	% OF GDP
Northern Territory	**9.1**
Western Australia	7.8
Queensland	7.3
Australian Capital Territory	7.2
New South Wales	6.6
Tasmania	6.3
South Australia	5.8
Victoria	5.6
Australia	**6.8**

Source: ABS Cat. No. 5220.0, 1995-96

A similar pattern has been observed across all jurisdictions at similar stages of development.

Figure 11.1

VALUE OF CONSTRUCTION WORK DONE

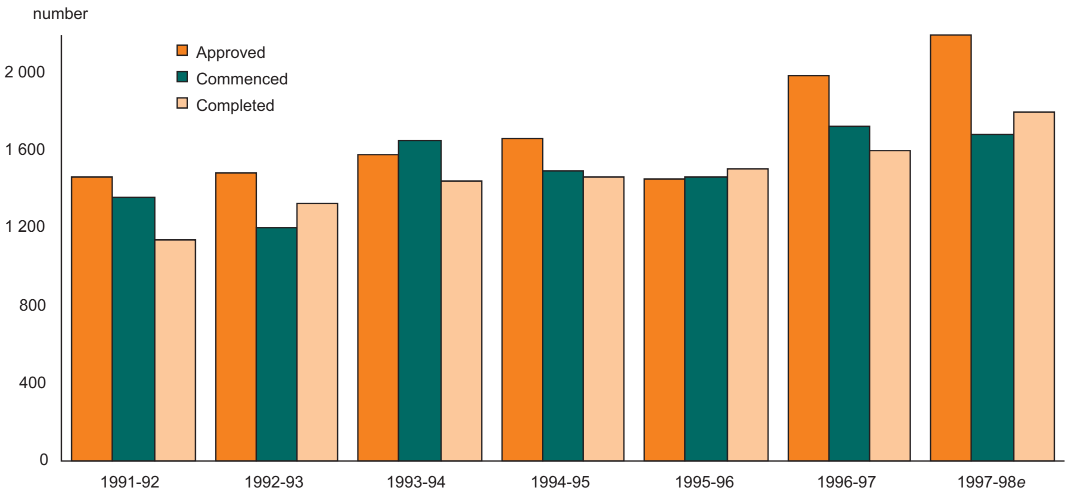


Source: ABS Cat. No. 8762.0, 8752.7

e: Treasury estimate

Figure 11.2

RESIDENTIAL BUILDING ACTIVITY



Source: ABS Cat. No. 8731.0, 8752.0

e: Treasury estimate

RESIDENTIAL BUILDING

The structure of the housing industry in the Territory differs significantly from other jurisdictions. The relatively young and mobile population in the Territory results in a very higher proportion of households renting, and a correspondingly lower proportion of households owning their homes in the Territory. It also accounts for a far higher proportion of medium density accommodation than any other jurisdiction.

Some 50% of the housing stock is rented in the Territory, a figure which is slowly falling, compared to 24-33% in other jurisdictions. Flats and apartments account for over 16% of the dwelling stock in the Territory, compared to 5-13% in other jurisdictions. Both of these factors can be explained by the transient nature of a large proportion of the Territory population and the relative youth of Territorians.

The Territory housing industry has sustained high levels of activity over the past two years. This is on top of the strong growth recorded during the early 1990s. Current levels of residential building activity are the highest for a decade. Estimates for 1997-98 indicate residential building activity has gained further momentum due to continued strong population growth and further falls in housing interest rates. Investor confidence in the local housing industry remains high.

The Australian Defence Force is midway through a significant relocation to the Territory. The most important component is the Army Presence in the North (APIN) project. By January 1998 some 4 500 Defence personnel were located in the Territory. The number is programmed to rise to 5 300 by 2001. This source of population growth has, and will continue to have, a significant impact on the Territory construction industry.

The Defence Housing Authority (DHA) has already spent over half of the $350 million programmed for the provision of housing for married couples and single personnel living off base. Over the five years to 1996-97, the DHA has lifted its stock of dwellings in the Territory by 57%, from 1 263 to 1 995.

Residential building approvals provide an important leading indicator for construction activity. The number of residential approvals for 1997-98 is up an estimated 11% on the previous year.

This suggests that residential building activity will remain very buoyant over the next twelve to eighteen months. The slight decline in the number of residential units commenced for 1997-98 compared to the previous year, reflects a deferral of some of the approvals in 1996-97. However, the number of completions was up 12% on the previous year.

HOUSING FINANCE

The level of housing finance is an indicator of demand for dwellings and provides evidence of future demand for new and existing dwellings by owner-occupiers. It does not cover the finance provided to private investors. Private investors service the private rental market, which in the Territory accounts some 20% of the housing stock.

The trend in the total value of housing finance commitments in the Territory has shown seven years of sustained growth since 1989-90. The number of finance commitments has exhibited a similar upward trend but has recorded declines in 1994-95 and 1996-97. A high level of housing finance continued to be provided in 1997-98 and is continuing to grow, albeit at a modest rate.

Over the last eight years finance for the purchase of existing dwellings has accounted for a declining share of housing finance commitments. While still the dominant category, its share has fallen from over 85% of the number of commitments in 1989-90 to 59% in 1997-98. This decline has reflected the very rapid growth in finance provided for both refinancing and for the construction of dwellings over this period.

Housing finance data for the construction and purchase of new dwellings has shown subdued growth over the first half of 1997-98. This data is a lead indicator for future construction activity and suggest that the current high levels of dwelling construction shown in Fig 11.2 will continue at least in the short term. The number of finance commitments for the construction and purchase of new dwellings in 1997-98 accounted for some 20% of total commitments in 1997-98, similar to 1996-97.

Declining interest rates and a proliferation of new finance providers and financial products have encouraged many borrowers in the Territory to refinance their existing loans. The growth of refinancing is expected to moderate as interest rates stabilise. Refinancing has rapidly grown over the last five years and currently accounts for around a quarter of the number of finance commitments, up from 19% in 1996-97.

While low interest rates have increased the affordability of dwellings and have encouraged many to refinance existing loans, the total level of housing finance commitments to owner occupiers has not grown over the last four years.

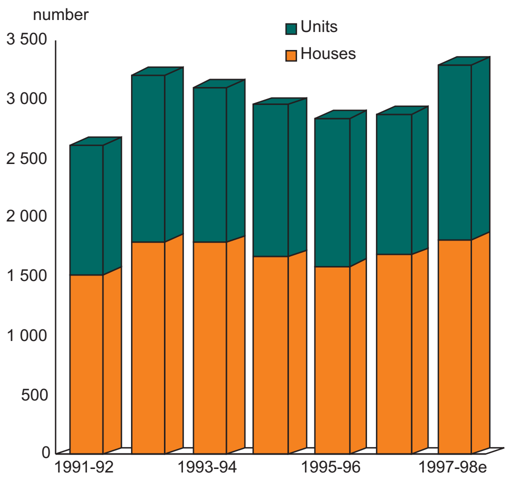
PROPERTY MARKET

The number of residential property sales recorded by the Australian Valuation Office grew strongly over the six years to 1992-93. This was followed by a slight moderation until 1997-98 as shown in Figure 11.3.

The number of properties being sold in recent years is nearly triple the number traded ten years ago. This reflects a rising rate of household formation and a 50% increase in dwellings over this period. It also reflects the increasing tendency for short-term residents to own a dwelling while they are here, in order to access capital gains and avoid paying high rent.

Figure 11.3

RESIDENTIAL PROPERTY SALES



Source: Aust. Valuation Office e: Treasury estimate

Throughout the decade to 1996-97, property prices have consistently risen – a pattern not achieved in any other jurisdiction. Since 1996-97, while unit prices appear to have slightly softened in 1997-98, house prices have continued to rise.

Upward pressure on house and land prices eased during 1995-96, as the supply of residential land in the Palmerston area became readily available. Upward pressure on unit prices eased during 1997-98 due to a slight oversupply in units available for the rental sector. Nevertheless, employment growth, particularly in the Darwin Region, has demonstrated the ability of the Territory to absorb the new dwellings that are being constructed and also to sustain continued price rises.

Figure 11.4 illustrates the substantial growth experienced in established house prices in Darwin over recent years as a result of the sustained demand for dwellings. Average established house prices in Darwin have increased by some 110% over the last ten years. This contrasts with the average of the eight capital cities, which increased by only 80% over the same period.

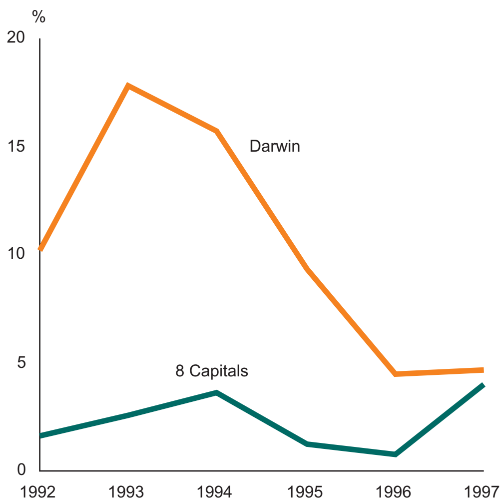
In 1997 the rate of growth in established house prices in the Territory was 4%. This moderate growth reflects the ready availability of land and new dwellings in the Darwin Region and a market in which supply and demand are reasonably in balance.

The growth in dwelling prices in the Territory has been largely the result of sustained population growth coupled with high housing affordability and a degree of optimism about the future. The rapid growth in dwelling prices has provided considerable incentive for investors and owner-occupiers seeking capital gains.

In the early 1990's land prices in most regions escalated very rapidly. While prices have stabilised since 1995-96 in the Darwin and Katherine Regions, they have continued to escalate in Alice Springs under the impact of shortages generated by the Native Title claim.

Figure 11.4

HOUSE PRICES
(Annual % change)



Source: ABS Cat. No. 6146.0

HOME LOAN AFFORDABILITY

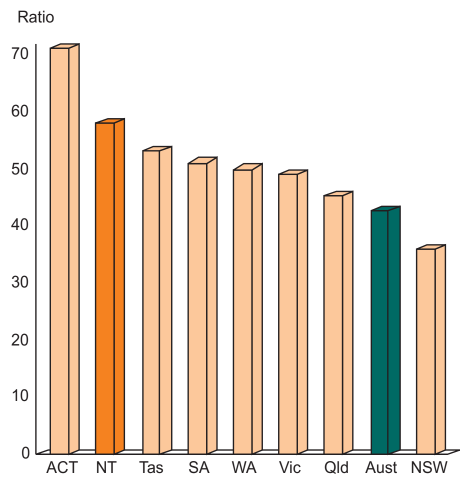
A little under one third of all households in the Territory are buying their home, a similar ratio to elsewhere in Australia. The level of home loan affordability in December 1997 as measured by the Citibank/REIA Home Loan Affordability Indicator is shown in Figure 11.5. This indicator represents the ratio of median family income to the average loan repayment.

Home loan affordability rose in all jurisdictions over the eighteen months to September 1997. However, in December 1997, affordability dropped in NSW, VIC, QLD and ACT under the impact of rising house prices and slowing interest rate falls.

Affordability continued to rise in the Territory in the December quarter 1997, with average repayments continuing to fall. The Territory continued to have the second most affordable home loans in Australia after the ACT - a rank held since March 1995.

Figure 11.5

HOME LOAN AFFORDABILITY



Source: CitiBank/REIA, Dec Quarter 1997

Home loans in the Territory are substantially more affordable than in any jurisdiction other than the ACT. This high affordability reflects the fact that high median family income in the Territory more than compensates for relatively high housing costs.

The rapid escalation in land prices in Alice Springs has caused affordability to decline markedly over the last decade and has made residential land in Alice Springs the second least affordable amongst similar sized towns around Australia. This rapid escalation in prices reflects the shortage of residential land to meet the lower end of the market as a result of the Native Title claim.

In December 1997 17.2% of median family income was required to meet average mortgage in the Territory, down from 20% a year earlier. This compares favourably with the national figure of 23.3%. Over the twelve months to December 1997, home loans have become more affordable in the Territory as a result of the 2% reduction in the standard variable home loan interest rate.

This fall in home loan interest rates has reduced the average monthly loan repayment in the Territory from $974 in December 1996 to $844 in December 1997. Over the same period median house prices in Darwin rose by $17 000. While there was a 2.5% increase in the size of the average loan in the Territory, median weekly family incomes showed almost no growth.

PUBLIC HOUSING

After investing significant resources in housing stock following Self-Government in 1978, the Territory Government is gradually withdrawing from the housing industry. This has increasingly allowed the private sector to meet the demand for additional housing.

Nevertheless, the Housing Commission continues to manage a substantial share of the total housing stock – 17% in Darwin, 19% in Alice Springs, 19% in Tennant Creek and 21% in Katherine. As a result, public housing represents 22% of the total housing stock in the Territory. This is far more significant than the 4-12% levels found in other jurisdictions.

The reduction in public housing stock managed by the Housing Commission has been achieved through a number of strategies: direct sales to existing tenants, the disposal of individual dwellings on the open market and sales of complete blocks of units to developers. The Territory Government has also refined its HomesNorth suite of subsidised finance packages targetted to the lower end of the market.

Current public housing policy targets the provision of public housing to low income earners, crisis accommodation, and Aboriginal community housing as well as housing for public servants in remote localities. The DHA actively provides housing for defence personnel, both as an owner, a developer and a lessee from the private sector.

RESIDENTIAL BUILDING OUTLOOK

Residential building activity is expected to remain strong in 1998-99 on top of sustained growth during 1997-98. The considerable increase in building approvals for 1997-98 is expected to generate a significant level of residential building activity in 1998-99. The most recent Indicative Planning Council projections are that commencements will reach 1 900 in 1998-99 - the highest level for fourteen years.

It is anticipated that the demand for dwellings will continue to be driven by strong population growth, favourable investment conditions and investor confidence. The Asian crisis is not expected to impact on the demand for dwellings in the Territory in the foreseeable future.

The current APIN program to relocate Army capacity to the Top End will continue until 2001. Hence, the prospect is that population growth and the demand for additional dwellings will remain strong for at least the next three years. APIN will peak in 1998-99 with the arrival of 1 200 people - 500 personnel and their dependants.

The expansion of the Joint Defence Facility outside Alice Springs requires the construction of at least 41 dwellings over 1998-99. This is expected to provide the majority of demand for new dwellings in Alice Springs market.

The prospect for interest rates is very hard to predict. For some time now, both official sources and respected market commentators have proclaimed that interest rates will fall no further. However, home loan interest rates have continued to fall. These falls have occurred both as a result of cuts in official rates, and the higher degree of competition amongst providers of home finance. The big unknown is whether the Asian crisis will deepen and what impact this will have on the Australian economy.

While interest rates do influence the timing of residential construction activity in the Territory, it is the ability of the Territory to generate employment and attract migrants that fundamentally drives the construction of additional dwelling stock.

Regions in the Territory which are expected to experience considerable growth in residential building activity are those where the demand for housing is strong and the supply of land is not restricted by Native Title claims. Much of the growth is likely to occur in the developing suburbs of the Darwin Region - Rosebery, Bakewell, Durack, Gunn, Bayview Haven and Cullen Bay as well as, the as yet undeveloped, Stuart Park North.

Continued demand for medium density residential living in the Darwin Region will continue to support substantial construction activity in this segment of the market. In the inner city, the Horizons development, now under construction will add 36 units, while the renamed Sentinel development, at the end of the Esplanade, went out to tender in early 1998. The construction of the Baywatch, Crownpoint and Kahlin Towers developments during 1998 will add 142 units to the existing stock of high rise at Cullen Bay.

The recent floods in the Katherine region will generate a substantial rebuilding program. By the end of March, the Territory Insurance Office alone had paid out some $14 million for residential rebuilding. The floods devastated the town and caused substantial damage to both housing, the commercial centre and to the Stuart Highway connecting the town to Darwin to the north and Tennant Creek to the south.

NON-RESIDENTIAL BUILDING AND ENGINEERING CONSTRUCTION

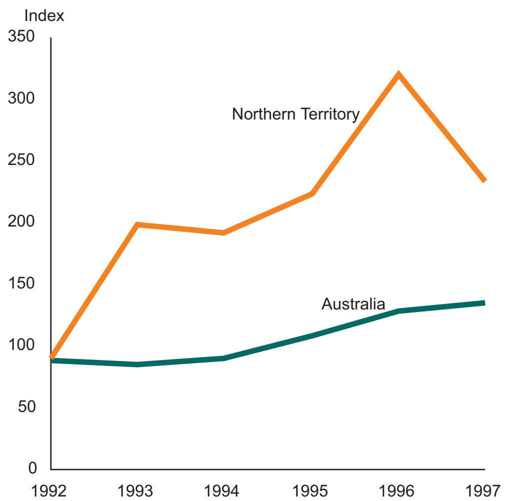
The level of private sector investment in non-residential building is determined by several factors: the adequacy of existing capital stock, interest rates, anticipated future demand and general business confidence. Public sector expenditure on non-residential and engineering construction is targeted to meet medium to long term needs and provide social and economic infrastructure such as schools, hospitals and roads.

Constant price estimates of private investment in non-dwelling construction from the State Accounts include both non-residential building and engineering construction as shown in Figure 11.6. Real growth in non-dwelling investment was very strong up to 1996.

In 1997 the level of activity declined somewhat to a more sustainable level.

Figure 11.6

REAL NON-DWELLING INVESTMENT
(1991 = 100)



Source: ABS Cat. No. 5242.0

There continues to be a high rate of development and substantial demand for infrastructure in the Territory. National increases are much less substantial and illustrate the more subdued national economic growth over the period 1992 to 1997.

It is estimated that the value of non-residential building approvals decreased 14% during 1997-98, compared to the previous year. This represents a return to the sustainable levels, after high levels of growth prior to 1996-97. The very high level of approvals in 1996-97 reflected the substantial planned expansion in retail, accommodation and to a lesser extent education capacity.

In 1997 $229 million of non-residential building construction work was done in the Territory. While this is a very high level of activity, it was nevertheless 18% less than the work done in 1996.

The high level of activity in 1997 was associated with the construction of hotels including the completion of the Holiday

Inn, holiday apartments, completion of the new RAAF control tower and substantial progress on Robertson Barracks. At its peak, the construction of the Barracks accounted for close to one million dollars per working day. In addition, 1997 saw the completion of the stage one of the substantial expansion of the Casuarina Shopping Square.

Engineering construction includes construction of other than buildings. It is estimated that the value of work done in 1997-98 will decrease by 5% after declining by slightly more in 1996-97. This reflects a slowdown in the rate of construction at both Robertson Barracks and the East Arm Port.

Due to the relatively small size of the Territory economy, large individual projects can have a significant impact on the total value of work done in any year. Significant contributors to the level of engineering construction were the maintenance and construction of roads and highways as well as infrastructure associated with defence force expansion and the new port facility at East Arm.

NON-RESIDENTIAL BUILDING AND ENGINEERING CONSTRUCTION OUTLOOK

Construction engineering in the Territory is forecast to increase over the next few years and should remain at peak levels until the middle of the next decade according to a recent BIS Shrapnel report. In the short to medium term, there are a number of projects, which will generate significant non-residential and engineering construction activity. These projects include the $1.2 billion Alice Springs to Darwin railway and two planned LNG plants in Darwin, costing $1.9 and $10 billion each.

A number of capital intensive projects are expected to commence or continue during 1998-99. The final tender for Robertson Barracks is to be let in mid 1999. The Barracks are planned to be finished by the end of 2000. Work is due to commence on the stage four upgrade of Tindal RAAF Base in Katherine worth $31 million and the Bradshaw Station worth $54 million.

Design work for stage II of the East Arm Port in Darwin is to be undertaken in 1998-99. This stage will add a railhead, an oil berth and more wharf frontage to the port. Construction of stage II will commence subject to the resolution of the Native Title claim. Expenditure of $20 million for the port is programmed for 1999-00. Also dependent on the resolution of Native Title, is the planned offshore supply base to service the Timor Sea oil and gas fields.

Work is continuing on a second stage of the extension of Casuarina Shopping Square, which will incorporate additional speciality shops and a cinema complex. A full-line Woolworths supermarket is also under construction in Coconut Grove. These developments should have a significant impact on the engineering and non-residential construction sectors.

The need for additional tourism infrastructure in the short term is difficult to predict given the uncertain impact on either demand or competing supply of the Asian crisis.

Continuing strong population growth in the Darwin Region will maintain the ongoing demand for social infrastructure, particularly in Palmerston where demand for schools, medical facilities, roads, electricity distribution and similar services will be high.

The ageing of the infrastructure in the Territory will ensure that repair and maintenance expenditure for housing and infrastructure will continue to rise. For example, road maintenance of $40 million is programmed for 1998-99. This is up some 50% from the $27 million spent in 1990-91.

MANUFACTURING

The manufacturing industry includes those activities which transform materials or components into new products through a value-adding process. In the Territory, the industry accounts for a relatively small portion of the economy compared to nationally (see Table 12.1).

Despite this small base, the Territory manufacturing industry has matured with the growth of the Territory economy. The development of the Territory's manufacturing base has traditionally been in response to the opportunities presented by the mining and construction industries, with food processing an increasingly important component.

The Territory has capabilities in most manufacturing segments, although activity is dominated by the secondary processing of minerals and the production of materials used in the construction industry (such as aluminium fabrication and concrete construction).

Territory firms are also involved in a wide range of other manufacturing activities, from fibreglassing, plastics, timber, and chemicals; to leather, fertiliser, electrical components, clothing and solar energy products. Figure 12.1 shows the proportions of employment, turnover and wages of the various manufacturing sectors in the Territory.

The conversion of bauxite to alumina at Gove is the dominant secondary processing activity in the Territory. With a value of $356 million in 1996-97, this processing accounts for around half of the Territory's total manufacturing output.

Table 12.1

MANUFACTURING

	% OF GSP
Victoria	18.0
South Australia	16.3
New South Wales	15.1
Tasmania	14.3
Queensland	11.9
Western Australia	9.8
Northern Territory	**5.0**
Australian Capital Territory	2.5
Australia	**14.5**

Source: ABS Cat. No. 5220.0, 1995-96

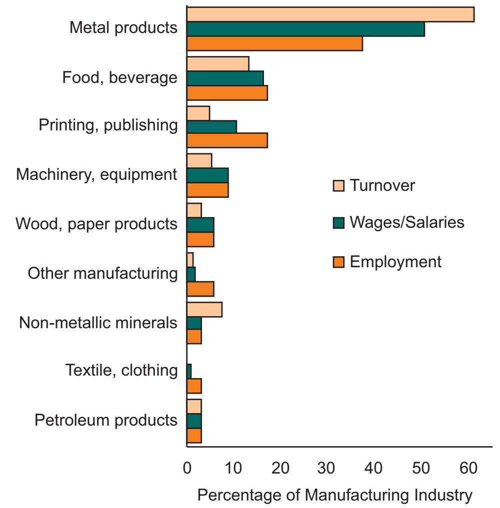
The food and beverage processing sector is also a significant contributor to manufactured output in the Territory, with milk, iced coffee, fruit juice, soft drink, bread, poultry and beef the major food and beverage items processed. These commodities are largely produced for local markets, except for beef, which accounts for a significant share of the Territory's meat and meat preparations exports (valued at $8.9 million in 1996-97).

TRADE DEVELOPMENT ZONE

The Trade Development Zone (TDZ) is a purpose-built industrial estate that was established in 1985 as an initiative of the Northern Territory Government to support and promote export oriented manufacturing businesses. The TDZ is strategically located in the fast developing East Arm region of Darwin, close to both the city's Central Business District, and the terminus of the proposed Adelaide to Darwin Railway at the new Darwin port.

Figure 12.1

MANUFACTURING EMPLOYMENT



Source: ABS Cat. No. 8201.0, 1995-96

The TDZ offers bonded warehouse facilities (where import duties are rebated on imported inputs to the manufacturing process if the final product is exported). It also allows businesses to take advantage of tax concessions, and it offers administrative services.

Currently 44 businesses operate in the TDZ. Enterprises presently established provide a wide range of manufactured products, including: precision engineered components; chemicals for mining; industrial lubricants for oil drilling rigs; power systems for remote areas and cardboard manufacturing.

MANUFACTURING OUTLOOK

Manufacturing output in the Territory is expected to continue expanding in future years. The Australian Bureau of Agriculture and Resource Economics has forecast an increase in world alumina prices and demand in 1998, which should increase Australian exports of alumina, and raise the value of alumina produced in the Territory. On this basis, Nabalco is seeking to expand its Nhulunbuy alumina processing plant.

Continued growth in the Territory's construction industry will generate new opportunities for manufacturers of fabricated construction materials. This demand will be augmented by the building of several large projects, such as the proposed Adelaide to Darwin Railway; Stages II and III of the Darwin Port; the offshore oil and gas supply base; and the proposed Liquid Natural Gas (LNG) plants.

The operation of a LNG plant in particular will influence the level of manufactured output in the Territory, both directly and through associated manufacturing opportunities.

Continuing steady growth in population and consumer demand is expected to consolidate growth in food and beverage processing. As the Territory economy develops a more sophisticated manufacturing capacity, an increasing number of products, previously imported into the Territory, will be able to be manufactured locally.

Local manufacturers are increasingly exploring opportunities in external markets. Despite the recent downturn in prospects for South East Asian markets, Darwin’s close proximity to these areas should continue to present niche opportunities for manufacturing businesses.

The Northern Territory Government's promotion of Darwin as a multi modal transport hub, and its commitment to facilitating export infrastructure (including the Darwin to Adelaide railway), will lay the groundwork for furthering the industry's continued expansion and export capacity.

WHOLESALE AND RETAIL TRADE

In 1997-98 wholesale and retail trade accounted for 13.0% of Territory economic activity (see Table 13.1), while employing some 19.3% of employed persons.

RETAIL TURNOVER

After exceptional growth in 1996, growth in retail turnover in the Territory in the twelve months to February 1998 has been significantly weaker, decreasing by 1.2% to $1.4 billion. The largest declines in retail turnover were in Clothing and Soft Goods (down 14.6%) and Food (down 6.4%). Slightly offsetting these, were increases in Household and Recreational Goods (up 13.8%), Department Stores and Other retailing (up 8.3%) and Hospitality and Services (5.3%). Nationally, retail turnover was stronger compared with one year earlier, increasing by 3.8% to $132.9 billion in the year to February 1998. Categories contributing most to national growth were Other retailing (up 9.0%) and Recreational Goods (up 5.6%).

Table 13.1

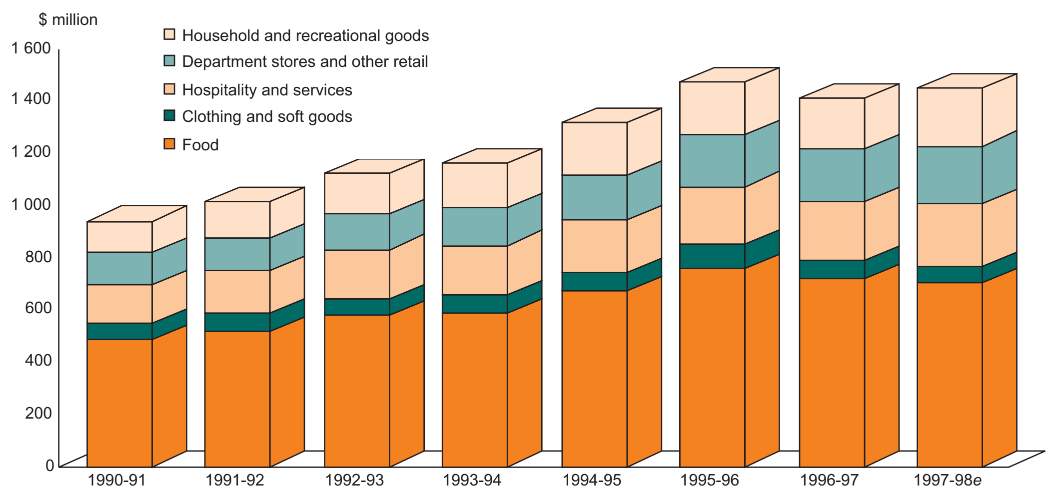
WHOLESALE AND RETAIL TRADE

	% OF GSP
Queensland	14.9
New South Wales	14.2
Tasmania	14.1
Victoria	13.8
South Australia	13.2
Northern Territory	**13.0**
Western Australia	12.7
Australian Capital Territory	8.6
Australia	**13.8**

Source: ABS Cat. No. 5220.0, 1995-96

Figure 13.1

RETAIL TURNOVER



Source: ABS Cat. No. 8501.0

e: Treasury estimate

The apparent lack of growth in retail trade may reflect a possible shift in consumer spending from consumables to investments such as home purchases, encouraged by a lower interest rate environment. However, it is more than likely that overall sales being recorded by the ABS are not inclusive of new traders which have captured a large proporiton of recent retail expenditure.

In 1997 Casuarina Shopping Square, the Territory's largest shopping complex, achieved the second highest national sales turnover per square metre of floor space for all Australian shopping centres in excess of 30 000 square metres; it has been ranked first in this category for the previous two years. Stage One of the redevelopment to Casuarina Square, which commenced in October 1996, was opened in November 1997 and consisted of a "New Generation" Woolworths supermarket, and 24 new specialty stores.

Several new retail outlets in Palmerston, the Mitchell Street tourist precinct, Cullen Bay, and Coolalinga and Humpty Doo located in Darwin's rural area, have added to the retail options available to consumers over the past year. Darwin Central, a mixed use development which includes All Season's Darwin Central Hotel, opened in the city in April 1997.

Despite the slightly weaker growth recorded in the year to January 1998, further retail developments are underway in both the city and northern suburbs of Darwin. These include a new Woolworths shopping complex with petrol station facilities in Nightcliff/Coconut Grove to be completed by August 1998. The Smith Street Mall upgrade, at an approximate cost of $4 million, is to be completed by May 1998. The Mall upgrade is aimed at encouraging further retail investment, and will include alfresco cafes, performance areas and an information booth.

The rebuilding of the flood devastated Woolworths complex in Katherine is expected to be completed by May 1998.

Stage Two extensions to Casuarina Square, consisting of 30 new stores, will gradually open over the first half of 1998. The extensions, which will increase the total retail floor space of the Centre by 34.9% to approximately 49 500 square metres, will cost $75 million. A seven cinema complex is also to be completed at the centre by the end of 1998.

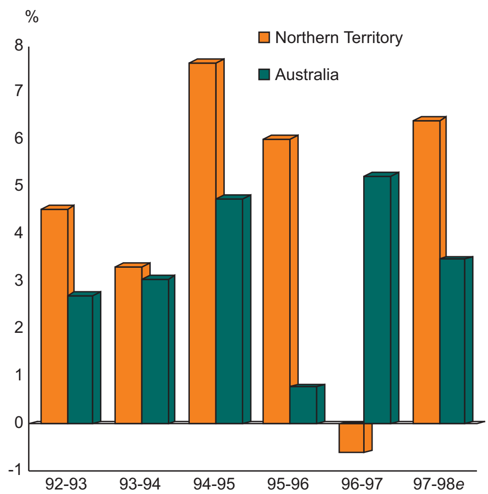
Factors that have influenced the decisions to expand include strong population growth, consistent growth in Territory earnings and the past strong performance of the Square's specialty retailers.

FINAL CONSUMPTION EXPENDITURE

Private final consumption expenditure measures current expenditure by both households and producers of private non-profit services to households, such as charities, clubs and private schools. It includes expenditure on:

Figure 13.2

REAL FINAL CONSUMPTION EXPENDITURE



Source: ABS Cat. No. 5242.0 *e*: Treasury estimate

- consumer durables such as cars, furniture and appliances;
- consumer semi-durables such as clothing and utensils;
- single-use goods such as food, cigarettes and alcoholic drinks; and
- services such as medical care, recreation, public transport and education.

With the inclusion of public consumption expenditure, total final consumption expenditure provides a broad measure of goods and services sold and is an indicator of government and consumer demand.

In 1997-98, total final consumption expenditure in the Territory is estimated to account for approximately 79% of the Territory's GSP. This is slightly higher than the national economy where total final consumption expenditure contributes about 76% of GDP.

In the Territory, public final consumption represents approximately 39% of GSP compared to 16% for the national economy.

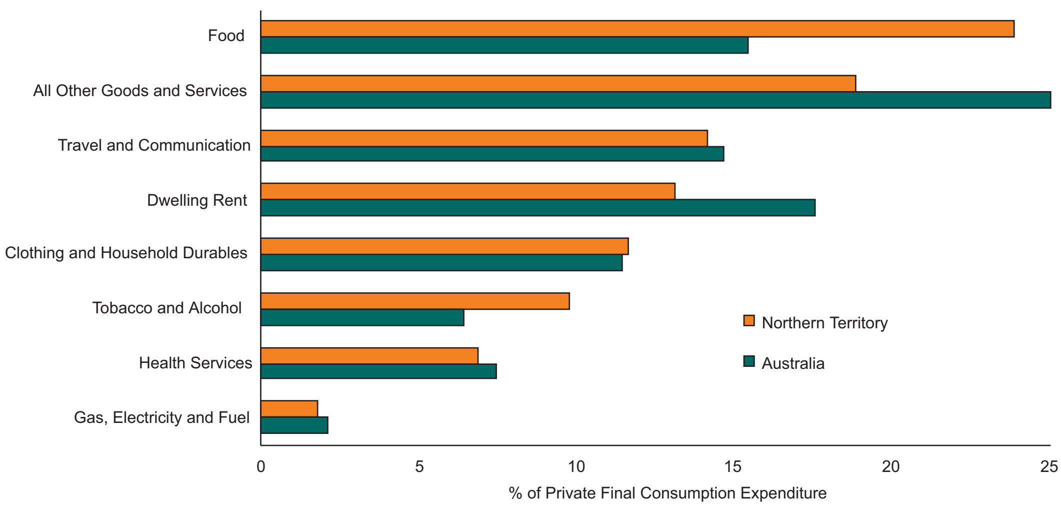
For 1997-98, estimated Territory real final consumption expenditure increased at a faster rate than nationally. As in the previous year, growth in final consumption expenditure in the Territory in 1997-98 will predominantly occur in the private sector. While growth in private final consumption is estimated to increase by 7.5%, public final consumption is estimated to increase by only 4.6%, reflecting the Northern Territory Government's budget management targets and the Commonwealth Government's continued budget restraint.

Compared to the national average, Territory consumers and businesses spend:

- relatively more on food, and tobacco and alcohol - due in part to the higher cost of freighting most lines of food products into the Territory and less competition to drive prices down; and
- relatively less on dwelling rent, including imputed rent for home owners/buyers - this is indicative of both the affordability of mortages in the Territory and large proprotion of Territory households in subsidised public housing.

Figure 13.3

PRIVATE FINAL CONSUMPTION EXPENDITURE



Source: ABS Cat. No. 5220.0, 1995-96

New Motor Vehicle Registrations

The number of new motor vehicle registrations in the Territory increased by 11.6% in the year to February 1998, while nationally there was a 11.7% increase over the same period. This increase continues a trend over the past five years, and is attributable to increased private and rental car registrations.

In the Territory, registrations of motor vehicles by the public sector account for a large proportion of total registrations (18.3% over 1996 and 21.8% over 1997).

Rental car companies also have a substantial influence on total registrations, accounting for 6.6% of total registrations over 1996 and 8.3% over 1997. At the start of the 'Dry Season' stocks of vehicles are increased in anticipation of higher levels of tourist activity from May to September.

Personal Finance

Personal finance commitments are defined as secured and unsecured credit facilities (including credit cards) provided to individuals to purchase goods and services.

During 1997, new personal finance commitments rose 6.2% in the Territory, compared to an increase of 7.4% nationally. Territory personal finance levels showed strong growth in the early-mid 1990s, but this has now slowed to more stable levels.

Commitment categories which showed a significant increase in consumer confidence in the Territory include alterations and additions to dwellings (up 116.1%), motorcycles (up 31.8%) and new motor cars and station wagons (up 27.4%).

Continued competition amongst credit providers has resulted in an increasing number of financial products becoming available in the market place, such as store credit cards, credit facilities provided by car manufacturers, and credit facilities offered to members of a range of organisations which attract certain concessions. Other developments include aggressive marketing campaigns aimed at inducing consumer loyalty (such as reward schemes for credit cards). The highly competitive market of personal finance continues to provide consumers with greater flexibility and has assisted in promoting growth in wholesale and retail trade.

Outlook

Territory wholesale and retail trade and new motor vehicle registrations are expected to record steady growth through 1998-99. Strong population growth, low interest rates and high average weekly earnings, coupled with ease of obtaining credit and further expansion in tourism activity, will underpin further increases in wholesale and retail trade and motor vehicle registrations.

The completion of retail developments over the coming year will increase the range of retail outlets available. This is likely to result in higher levels of consumption expenditure.

The Territory Government's objectives for the planning and development of Central Darwin for the next 25 years have been set out in two related documents - *Central Darwin Planning Concepts and Development Opportunities*, and *Central Darwin Land Use Objectives*. The greater residential component planned for Central Darwin should revitalise its retail activities and increase the demand for retail variety.

The Territory's and Commonwealth's continued fiscal restraint will result in public final consumption growth remaining low during 1998-99. Meanwhile, private sector consumption expenditure in the Territory is expected to show moderate growth in 1998-99.

TRANSPORT AND COMMUNICATION

A feature of the Northern Territory is that it has a small population distributed over a large area. This has necessitated the development of efficient transport and communications links. As a share of Gross State Product, the transport and storage, and communication industries account for 8.2%, slightly above the national average.

TRANSPORT

The Territory Government has identified the development of Darwin as a multi-modal transport and logistics hub as a priority. This involves positioning Darwin as a gateway between Asia and the rest of Australia, utilising efficient transport links.

Consequently, the Territory Government has instigated several large transport infrastructure projects in recent years, and is actively pursuing strategies aimed towards the strategic integration of transport linkages in the Territory.

Stage I of the new East Arm Port, costing approximately $91 million, is already receiving ships, and is scheduled to be fully operational by August 1998. The new port will more than double Darwin's present port capacity, and will provide facilities for handling general cargo, livestock exports, rig tenders and the bulk import of clinker and sulphur.

In addition, a $20 million offshore supply base is being developed next to the East Arm Port to provide services for rig tender operation and maintenance, engineering and fabrication, equipment rental and stevedoring.

Table 14.1

COMMUNICATION, TRANSPORT AND STORAGE

	% OF GSP
Queensland	9.5
Northern Territory	**8.2**
New South Wales	8.2
South Australia	8.0
Victoria	7.9
Western Australia	6.9
Tasmania	6.2
Australian Capital Territory	5.6
Australia	**8.1**

Source: ABS Cat. No. 5220.0, 1995-96

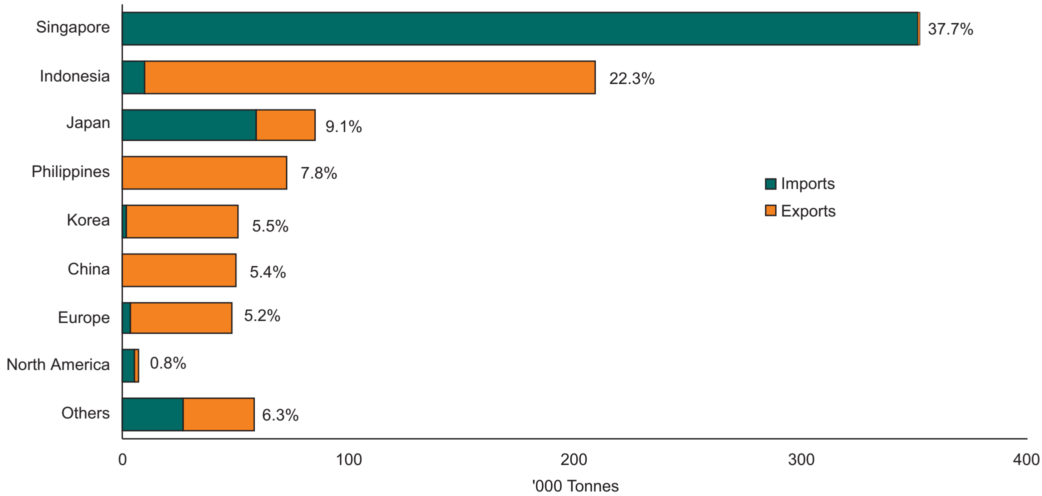
Stage II of the new port (due for completion in 2002) will comprise an additional wharf frontage and a dedicated Oil Berth. A terminal and railway access embankment will also be built to accommodate intermodal rail operations arising from the Adelaide to Darwin railway.

The existing Fort Hill Wharf will continue to service container vessels, roll on - roll off vessels, and bulk cargo exports in the short term. Fuel ships will discharge at the Iron Ore Wharf until the Joint User Fuel Terminal is relocated to East Arm. This is expected to take place in 1999/2000. Bulk mineral exports will continue to be received at the Iron Ore Wharf.

Stokes Hill Wharf is now a dedicated wharf for visiting naval vessels and passenger cruise ships. Tenders for construction of a $1.5 million cruise shipping terminal at Stokes Hill Wharf are expected to be called early in 1998, with the terminal to offer passengers all the facilities required, including undercover access.

Figure 14.1

INTERNATIONAL TRADE THROUGH THE PORT OF DARWIN 1997
(Excluding private berths)



Source: Darwin Port Authority

Figure 14.1 shows that the vast majority of international freight movements through the Port of Darwin (excluding private berths) are to and from Asia (accounting for over 90% of the total volume of trade).

The volume of both exports and imports shipped through the Port of Darwin (excluding private berths) increased by 9.5% in 1997. An increase of 42.9% in the volume of exports partly offset a decrease in the volume of imports of 12.0%.

Continued growth in demand for live cattle in the Philippines and Indonesia were major contributors to growth over 1997. Total live cattle exports through the Port of Darwin (including private berths) totalled 448 196 head in 1997, an increase of 17% over the previous year.

The majority of imports through the Port of Darwin are hydrocarbon products such as distillates, motor spirits and aviation gasoline; typically ex-Singapore.

Darwin has shipping links to Singapore, Jakarta, Kupang, Surabaya, the Philippines, Irian Jaya, Papua New Guinea, Malaysia, and Brunei, with many of these services directly linking to other major South East Asian and world ports. Darwin is also serviced by many routes that call into other Australian east and west coast ports.

Visits by trading vessels continue to increase (particularly livestock vessels). However, non-trading vessel visits to Port Authority facilities have declined recently in response to reduced visits by fishing boats. This has primarily been in response to changes in fisheries management policies and increased usage of marina facilities at Cullen Bay.

International traffic at Darwin Airport grew by 7.7% in 1996-97, reflecting the continued prosperity of international tourism in the Territory. Domestic passenger growth has stabilised from previously high levels, increasing by 0.9% over the same period.

International air freight movements through Darwin Airport decreased by 21.0% in 1996-97. Domestic air freight through Darwin Airport declined by 11.6% over the same period.

The Territory Government has formed the Tourism Aviation Committee, with a primary role to increase the international aviation capacity of the Northern Territory. During 1996-97 there was a 9% increase in international seat capacity and a 20% increase in international service frequency. Domestically, seat capacity rose by 1%.

The domestic airline market is predominantly serviced by Ansett and Qantas, who together provided an average of 350 services per week into and out of the Territory in 1996-97. The international market is served by seven carriers: Qantas; Ansett; Royal Brunei; Garuda Indonesia; Merpati Nusantara; Singapore Airlines; and Malaysia Airlines, with 24 international services per week.

In early 1998 Darwin, Tennant Creek and Alice Springs airports were leased by the Federal Government to the Airport Development Group (ADG), a majority Australian owned private sector consortium (also owners of Perth Airport). ADG have indicated they intend to upgrade Darwin Airport based on high potential rates of growth in passenger numbers.

There is an extensive network of small regional airlines in the Territory. There are 45 major communities with airstrips and many properties and outstations have airfields. The provision of air services to remote areas of the Territory is particularly important in the Top End where roads are regularly rendered impassable by heavy wet season rains.

The Territory is linked to the rest of Australia by three main roads, the Stuart, Barkly and Victoria Highways. Historically, development of the road network has been based on defence and primary industry needs.

However, tourism and freight transport are now the major impetus for new developments. Recent years have seen the completion of several major arterial road projects including the Kakadu Highway from Pine Creek to Jabiru, the access road to Kings Canyon, the Central Arnhem Road to Nhulunbuy, and sealed access to the major attractions in Litchfield Park.

More recent developments (just completed or soon to be completed) include the Tiger Brenann Drive extension from Winellie to Berrimah, more passing lanes on the Stuart Highway between Katherine and Darwin, and a two-lane seal of the Victoria Highway. A higher clearance Elizabeth River Bridge has also been constructed to avoid the cut-off of the Stuart Highway by extreme wet season flooding.

Road freight remains one of the most important methods for transporting goods into and out of the Territory. For 1996, the Northern Territory Department of Transport and Works, using road count figures and average payloads, estimated that 1.2 million tonnes of freight moved into and out of the Territory by road transport.

The most significant development in transport in the Territory will be the completion of the Adelaide to Darwin railway, with the construction of a new 1 410 kilometre track between Alice Springs and Darwin. The project is for a private consortium to build, own, operate and then transfer ownership of the railway back to the Territory and South Australian Governments. At this stage, the governments, together with the Australasia Railway Corporation, anticipate that the concession period will be fifty years.

Three consortia from over 30 expressions of interest were announced in early 1998; Northlink, Southern Cross, and Asia Pacific Transportation. The consortia will complete detailed submissions on the project by the end of October 1998.

Construction costs have been estimated at a total of around $1.2 billion. It is anticipated that construction will commence in the first quarter of 1999, taking no more than four years to complete. Subject to the successful consortium, the railway will provide both freight and passenger services. The addition of the major centres of Darwin, Katherine and Tennant Creek to the rail network is expected to more than double the present rail task of approximately 500 000 tonnes per year into and out of Alice Springs.

Transport Outlook

Darwin is strategically well positioned to become a major regional multi-modal transport and logistical hub; linking railways, highways, shipping lanes and aviation routes, both domestic and international. It is anticipated that when landbridging (moving freight by road or rail to Darwin and then by sea to Asia) takes full effect, transit times between some Australian and Asian cities may be reduced by up to seven days.

Continually improving transport infrastructure and linkages will provide consumer benefits through the provision of a greater depth and variety of goods, through faster delivery from overseas or from within Australia, and more competitive pricing structures. Export trade markets for Territory produce and other goods will be further enhanced by such developments.

The completion of the East Arm Port will facilitate the more expedient transhipment of goods through Darwin to Australia's southern centres. Export services will be similarly enhanced. The new Port has been strategically located on a site close to Darwin's Trade Development Zone with ample room for expansion of port and industrial facilities. Potential developments are an automated high capacity container facility, chiller facilities, and live cattle export yards. The construction of the railway will accelerate activity in this regard.

Innovative high speed freight vessels are also being developed to meet the needs of time-sensitive cargo. Transit times will be significantly reduced, although they will require high volume, high value routes to make them economically viable.

Communication

Due to the Territory's vast distances between its dispersed centres of population, it has benefited more than most jurisdictions from the continued advancement of communications technology. Continuing improvements in the scope and spread of the internet, along with an expansion of teleconferencing and satellite communications (with a corresponding reduction in costs), has enabled government and other services in remote areas to be carried out more effectively than before. Such technologies have helped to reduce the barriers of distance experienced by many Territorians.

In particularly, ABS figures show that Territorians are second only to people in the ACT in their usage of the internet. A significant number of internet services are now available in the Territory, including most national providers, along with a number of local providers. In addition, the Northern Territory University and the Northern Territory Government operate significant computer networks, and several large corporations in Darwin are linked via intranets to offices in other States.

Telemedicine is already being used in the Territory to assist with diagnosis by specialists. Data and images such as X-rays can be transmitted and analysed by specialists elsewhere, with consultations conducted person-to-person over video links. On a similar basis, it is expected that improvements in the network will enable it to offer further services, such as judicial hearings, interviews and other commercial services on a more regular basis.

Some remote areas in the Territory are also connected by the Tanami Network which is an Aboriginal owned and managed company that offers video-conferencing facilities. Services are available at six sites, with the main users being people studying by correspondence and family members of inmates of the Alice Springs and Darwin Correctional Centres. A network similar to the Tanami Network has also been proposed for use across the Top End of the Territory.

The deregulation of the telecommunications market has started to result in greater competition, with some reduction in costs and an expanded range of available services. The major competitor to Telstra, Optus, has invested significantly in telecommunications infrastructure throughout the Territory (mainly in mobile phone base stations) and now offers long distance, mobile and satellite services.

A variety of services are also provided via satellite to rural and remote Australia. Both Optus' MobileSat and Telstra's Satcom-M provide voice, fax and data transmission to the whole of Australia including 200 kilometres out to sea.

A second commercial free-to-air television license for Darwin has been awarded to Telecasters (Channel Seven). This is the fourth major broadcast television station available in Darwin, along with ABC, SBS and Channel 8. Other major centres of the Territory receive a combination of Imparja, Queensland Satellite Television (Channel Ten), SBS and ABC. Pay television (through Austar) is currently available in most Darwin and Alice Springs suburbs, with coverage expected to soon include all areas in Darwin and Palmerston.

Darwin is also well serviced by radio stations, including five ABC stations, along with two commercial stations, SBS and a community station. There are two commercial radio stations in Alice Springs, and community radio and ABC services are available in most communities. In addition, there are several narrowcast services broadcasting TAB and tourist information.

COMMUNICATION OUTLOOK

There are several important government initiatives in the communications area, the most significant of which is the Regional Telecommunications Infrastructure Fund. The aim of the fund is the development of regional Australia through improved information and communication services, with a minimum of $16 million to be spent on communications infrastructure in the Territory over the next five years.

Locally, the Territory Government has commenced installation of its own dedicated telecommunications network in the Darwin CBD to allow for the more efficient the transmission of data between agencies.

Telstra have also been upgrading services to the Territory, and are expected to spend $66 million in 1998-99 to expand and update their mobile phone and communications infrastructure.

One major consequence of deregulation is that other providers can offer local telephone calls, although there are no plans for this in the Territory as yet. The privatisation of Telstra has already commenced, with the remaining two thirds of the company likely to be floated in the next few years. Further competition from alternative providers is expected to drive prices lower.

Increases in telecommunication bandwidth, particularly through the extension of optic fibre networks, will provide both consumers and business with even greater access to communications and information in the near future.

PUBLIC SECTOR

This chapter examines the role of the public sector, including Local, Territory and Commonwealth Governments, in the Territory economy.

The public sector is a major participant in a range of industries, including Government Administration and Defence, Education, and Health and Community Services. In addition, the public sector generates demand for a variety of goods and services in most industries, in particular Construction and Wholesale and Retail Trade. Therefore, to some extent, there is a degree of double counting when the economy is examined by both sector and industry.

The public sector makes a significant contribution to the Northern Territory economy. It is more appropriate to measure the relative importance of the public sector against Final Demand, the sum of total public and private expenditure, rather than Gross State Product. Approximately one third of Territory Final Demand, and a similar proportion of Gross State Product, is attributable to public expenditure (see Table 15.1). Almost two thirds of this is Territory Government expenditure, with Local Government accounting for only one tenth of total public expenditure. The remaining one third of public expenditure comes from the Commonwealth Government.

The relatively high proportion of public sector expenditure in the Territory is indicative of the higher costs of providing services to a small and widely dispersed population, over 25% of whom are Aboriginal people with higher than average calls on public services.

Table 15.1

PUBLIC EXPENDITURE AS A PROPORTION OF FINAL DEMAND

	%
Australian Capital Territory	50.2
Northern Territory	**33.0**
Tasmania	25.2
South Australia	22.4
Queensland	20.7
Western Australia	20.7
New South Wales	19.9
Victoria	17.9
Australia	**20.7**

Source: ABS Cat. No. 5242.0, 1996-97

The significance of the public sector in the Territory has been declining as a proportion of Final Demand. It is now considerably less than it was in 1985-86, when it accounted for 40.4% of Territory Final Demand. The 7.4 percentage point reduction between 1985-86 and 1996-97 is the largest drop in public sector contribution to Final Demand of any Australian jurisdiction, and is greater than the decline nationally. This reflects the maturation and diversification of the Territory economy and highlights the growing contribution to Final Demand by the private sector over the last decade. However, this declining trend has moderated somewhat in recent years due to increased Commonwealth expenditure associated with the transfer of defence force personnel to the Territory.

Public sector outlays in the Northern Territory have been influenced in the past by major capital works projects such as State Square and expenditure related to defence force relocation. Figure 15.2 shows that Territory Government outlays have been rising in real terms over the past two years due to the expenditure on projects such as the new East Arm Port, and the need to provide infrastructure and services for a population which is growing faster than the Australian average.

It is expected that government total outlays will stabilise, especially as the Territory Government has a fiscal target to not increase recurrent outlays in real per capita terms.

ABS estimates of public sector employed wage and salary earners (excluding defence personnel) for September 1997 show that the public sector accounts for 23 200, or 31.6%, of employed wage and salary earners in the Territory. This comprised 16 100 Territory public servants, 3 600 Commonwealth public servants (down slightly on 1996 levels due to recent Commonwealth cutbacks) and 3 500 local government employees. The figure for Local Government has increased significantly, reflecting the growing number of Aboriginal Associations now incorporating under the *Local Government Act.*

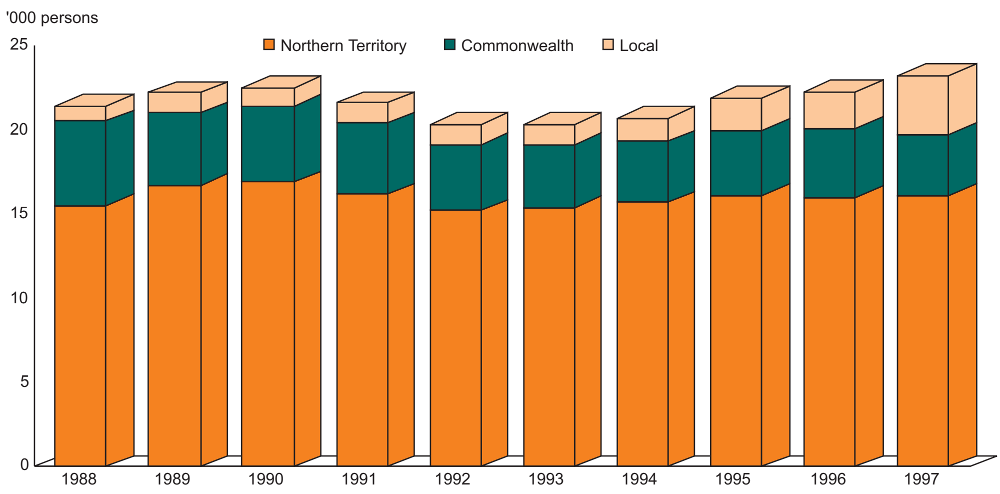
There was a rationalisation in the number of public servants employed by the Northern Territory Public Sector in the early 1990s as part of the Expenditure Review Committee. Recently, there has been a reduction of Commonwealth employees in the Territory due to Commonwealth budget cutbacks, as shown in Figure 15.1.

The Northern Territory Government has implemented several micro-economic reform initiatives. The most significant of these reforms is the implementation of a process of commercialisation for those activities classified as Government Business Divisions (GBDs).

The GBD classification was established as part of the *Financial Management Act 1995* and incorporates those Government activities which have the capacity to recoup a significant proportion of their operating costs through user charges. It includes those activities which sell goods to the general public, as well as activities which sell

Figure 15.1

PUBLIC SECTOR EMPLOYMENT
(As at September)



Source: ABS Cat. No. 6248.0

services to other Government agencies. The commercialisation process seeks to improve the efficiency of GBDs by increasing reliance on market based mechanisms and competition in order to promote allocative efficiency.

Commercialisation is based on the concept of "competitive neutrality" which requires that GBDs do not exploit their legislative or fiscal capacities to advantage their own businesses over real or potential private sector competitors. This involves public sector enterprises being subjected to levies, taxes and charges equivalent to their private sector competitors. This not only allows for benchmarking with the private sector, but also potentially enables greater competition for government inputs.

At the Council Of Australian Governments meeting of April 1995, heads of government signed agreements to implement the National Competition reform package. The package extends the competitive disciplines of the Commonwealth's *Trade Practices Act 1974* to Government Trading Enterprises.

The Territory has met all of its required National Competition Policy commitments.

PUBLIC SECTOR OUTLOOK

The Territory Government's fiscal strategy underpins its financial and economic management. Key objectives of the fiscal strategy are to constrain real current expenditure growth in per capita terms; to maintain the Territory's revenue raising efforts relative to the States; and to control debt levels and debt servicing costs.

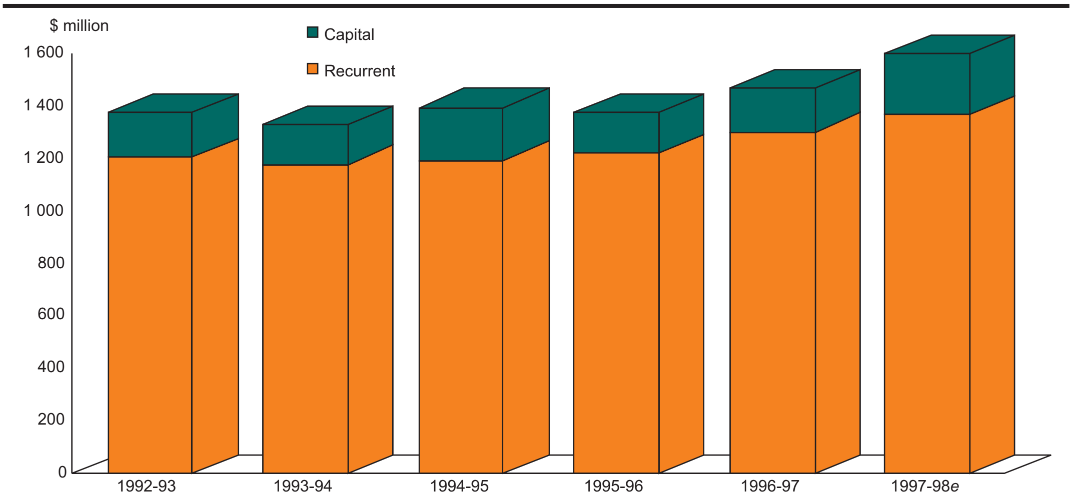
The strategy also recognises the Government's role in ensuring that infrastructure investment is sufficient to support economic and social development requirements.

As Territory Government activity within the economy largely reflects the operation of the fiscal strategy, activity can be expected to increase in line with rising activity in the economy and the increasing demands of a growing population for social infrastructure and services.

The Commonwealth Government's fiscal consolidation to reduce the underlying budget deficit during 1996-97 had some impact on Commonwealth employment

Figure 15.2

NORTHERN TERRITORY GOVERNMENT REAL EXPENDITURE



Source: ABS Cat. No. 5501.0 (1989-90 dollars)

e: Treasury estimate

and expenditure levels. This has been illustrated by the reduction of Commonwealth employees in the Territory during 1997.

However, the Commonwealth Government's commitment to continue the process of moving defence personnel to the Territory will help to offset some of the effects of Commonwealth budget cut-backs.

STATISTICAL APPENDICES

APPENDIX A: POPULATION
('000 persons as at December)

	1993	1994	1995	1996	1997
Northern Territory	172.3	175.0	180.5	185.3	189.4
Percentage Change	*1.5*	*1.6*	*3.1*	*2.7*	*2.2*
Australia	17 760.0	17 951.5	18 196.1	18 422.7	18 645.0
Percentage Change	*1.0*	*1.1*	*1.4*	*1.2*	*1.2*

Source: ABS Cat. No. 3101.0, Treasury Estimate

APPENDIX B: LABOUR MARKET
(annual average)

	1993	1994	1995	1996	1997
Employed ('000)					
Northern Territory	76.1	76.5	81.1	83.3	85.1
Australia	7 679.6	7 920.7	8 234.9	8 344.3	8 429.4
Unemployed ('000)					
Northern Territory	6.4	6.2	6.4	5.3	4.7
Australia	939.2	855.5	766.3	782.6	791.1
Labour Force ('000)					
Northern Territory	82.5	82.7	87.5	88.6	89.9
Australia	8 618.8	8 776.2	9 001.2	9 126.9	9 220.5
Unemployment Rate (%)					
Northern Territory	7.8	7.5	7.3	6.0	5.3
Australia	10.9	9.7	8.5	8.6	8.6
Participation Rate (%)					
Northern Territory	69.2	68.5	71.1	70.3	69.8
Australia	62.6	63.0	63.7	63.6	63.3

Source: ABS Cat. No. 6202.0

APPENDIX C: CONSUMER PRICE INDEX

	1993	1994	1995	1996	1997
Darwin	2.3	1.8	4.8	2.1	-0.7
8 Capital Cities	1.9	2.5	5.1	1.5	-0.2

Source: ABS Cat. No. 6401.0, December Quarter

APPENDIX D: AVERAGE WEEKLY EARNINGS
($ per week annual average - full-time adult earnings)

	1993	1994	1995	1996	1997
Northern Territory	678.08	688.05	708.48	723.15	743.45
Percentage Change	*2.2*	*1.5*	*3.0*	*2.1*	*2.8*
Australia	634.88	659.40	690.48	717.43	742.23
Percentage Change	*2.6*	*3.9*	*4.7*	*3.9*	*3.5*

Source: ABS Cat. No. 6302.0

APPENDIX E: MINING PRODUCTION

	1995-96		1996-97	
	QUANTITY ('000)	VALUE ($M)	QUANTITY ('000)	VALUE ($M)
Metals/Minerals				
Bauxite (tonnes)	5 878.4	132.9	6 382.7	130.7
Copper Concentrate (tonnes)	48.7	47.2	52.3	35.3
Gold (grams)	16 984.0	303.1	21 482.8	347.0
Lead Concentrate (tonnes)	17.9	6.3	42.0	3.1
Manganese (tonnes)	1 776.1	211.2	2 007.0	225.9
Silver (grams)	13 040.3	3.1	2 685.8	0.5
Uranium Oxide (tonnes)	3.2	127.4	4.2	109.6
Zinc Concentrate (tonnes)	80.8	46.1	115.6	46.7
Zinc/Lead concentrate(tonnes)	159.4	67.5	248.1	134.5
Hydrocarbon				
Crude Oil (kilolitres)	1 547.0	232.6	1 139.6	193.9
Natural Gas (kilolitres)	407 317.6	27.0	479 981.2	35.2

Source: Department of Mines and Energy

APPENDIX F: RURAL INDUSTRIES AND FISHERIES PRODUCTION

	1993	1994	1995	1996	1997
Cattle					
Live Cattle Exports through Darwin	129 765	170 785	295 814	383 535	448 196
Percentage Change	*51.4*	*31.6*	*73.2*	*29.7*	*16.9*
Value ($)					
Cattle Production	99.9	155.6	137.9	130.8	145.9
Percentage Change	*-15.4*	*55.9*	*-11.4*	*-5.2*	*11.6*
Horticultural Production	31.1	39.3	44.8	46.0	57.7
Percentage Change	*7.3*	*26.5*	*13.9*	*2.7*	*25.4*
	1992-93	1993-94	1994-95	1995-96	1996-97
Fisheries Production	104.7	112.7	122.0	107.0	118.4
Percentage Change	*11.5*	*7.7*	*8.3*	*-12.3*	*10.6*

Source: Department of Primary Industry and Fisheries

APPENDIX G: RESIDENTIAL BUILDING APPROVALS
(annual total)

	1993	1994	1995	1996	1997
Number					
Northern Territory	1 568	1 746	1 502	1 703	1 983
Percentage Change	*6.6*	*11.4*	*-14.0*	*13.4*	*16.4*
Australia	176 761	188 252	135 628	124 182	143 523
Percentage Change	*8.8*	*6.5*	*-28.0*	*-8.4*	*15.6*
Value ($m)					
Northern Territory	140	222	166	171	221
Percentage Change	*7.8*	*59.0*	*-25.2*	*3.0*	*29.6*
Australia	14 836	16 815	12 912	12 440	15 168
Percentage Change	*13.9*	*13.3*	*-23.2*	*-3.7*	*21.9*

Source: ABS Cat. No. 8731.0

APPENDIX H: NON-RESIDENTIAL BUILDING APPROVALS
(annual total)

	1993	1994	1995	1996	1997
Value ($m)					
Northern Territory	115	134	223	289	192
Percentage Change	*47.8*	*16.7*	*66.7*	*29.6*	*-33.5*
Australia	8 352	8 565	10 889	12 674	12 851
Percentage Change	*16.4*	*2.6*	*27.1*	*16.4*	*1.4*

Source: ABS Cat. No. 8731.0

APPENDIX I: HOUSING FINANCE COMMITMENTS
(annual total)

	1993	1994	1995	1996	1997
Number					
Northern Territory	4 072	4 187	4 394	3 928	4 224
Percentage Change	*25.5*	*2.8*	*4.9*	*-10.6*	*7.5*
Australia	491 972	532 276	430 952	468 364	483 253
Percentage Change	*17.8*	*8.2*	*-19.0*	*8.7*	*3.2*
Value ($m)					
Northern Territory	332	369	434	409	452
Percentage Change	*42.3*	*11.3*	*17.6*	*-5.8*	*10.4*
Australia	41 507	48 017	41 379	46 428	53 109
Percentage Change	*26.4*	*15.7*	*-13.8*	*12.2*	*14.4*

Source: ABS Cat. No. 5609.0

APPENDIX J: RETAIL TURNOVER
($ million)

	1993	1994	1995	1996	1997
Northern Territory	1 147	1 227	1 407	1 446	1 396
Percentage Change	*6.8*	*7.0*	*14.7*	*2.8*	*-3.5*
Australia	106 375	113 937	123 088	127 676	131 985
Percentage Change	*3.7*	*7.1*	*8.0*	*3.7*	*3.4*

Source: ABS Cat. No. 8501.0

APPENDIX K: NEW MOTOR VEHICLE REGISTRATIONS
(annual total)

	1993	1994	1995	1996	1997
Northern Territory	5 946	6 516	7 952	7 402	8 132
Percentage Change	*10.8*	*9.6*	*22.0*	*-6.9*	*9.9*
Australia	547 767	608 370	633 483	648 496	717 699
Percentage Change	*0.8*	*11.1*	*4.1*	*2.4*	*10.7*

Source: ABS Cat. No. 9301.0