
NORTHERN TERRITORY ECONOMY

MINI BUDGET 2001-02

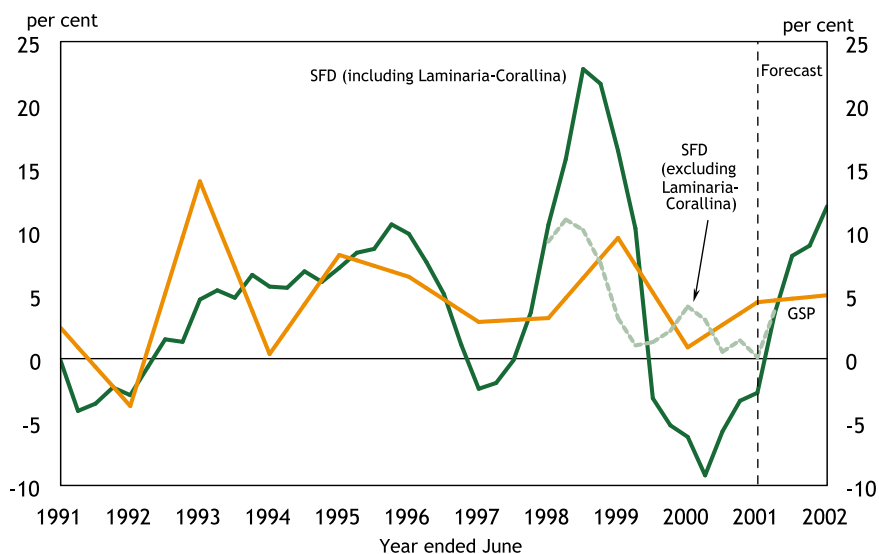
Budget Paper No. 4



Contents

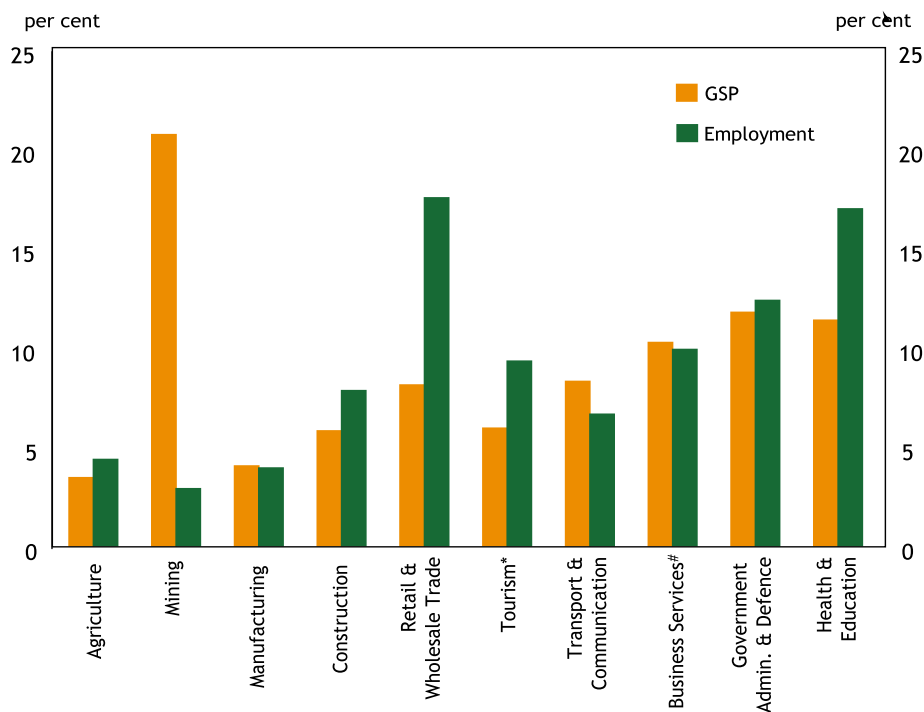
	Page
Overview	1
Recent Economic Performance	3
Economic Outlook	5
External Risks	7
Employment	9
Population	11
Prices	12
International Trade	13
Mining	14
Tourism	15
Construction	16
Transport and Communications	17
Rural Industries and Fisheries	18
Defence	18

Chart: Territory Gross State Product and State Final Demand



Source: ABS data, NT Treasury

Chart: Territory Industry GSP/ Employment Percentage of Total (5 year average to 2000-01)



* Accommodation, Cafes, Restaurants and Cultural & Recreational Services
Finance & Insurance and Property & Business Services

Source: ABS data, NT Treasury

Overview

Recent Economic Performance

1990s growth phase came to an end...

During the mid to late 1990s, the Territory economy outperformed the rest of Australia. This was largely due to impetus provided by the defence relocation program, with high population growth creating strong demand and fuelling a construction boom. As the stimulus from the defence force program eased back, the construction boom ended, the labour market softened and growth eased.

...2000-01 result masks real story...

Over 2000-01, the Territory economy continued to experience relatively subdued growth. Gross State Product (GSP) growth of 4.5 per cent was recorded but this was mainly due to the full year effect of the increase in offshore oil production as new capacity from the Laminaria-Corallina oil fields came on stream. The spike in oil production acted to mask the weaker underlying rate of onshore economic growth in 2000-01. Offshore oil production has a limited effect on the Territory's onshore economy, as most of the labour and capital required are sourced from interstate or overseas.

...of weak consumption and investment

After three years of strong growth, Territory private consumption growth weakened markedly in 2000-01. This reflected the overall slowing of the onshore economy and the lagged effects of previous interest rate rises as well as high petrol prices. Dwellings investment fell significantly for the second year in a row, reflecting slowing population growth and defence related activity, but also the magnitude of over-building and build up of excess stock during the boom period.

Economic Outlook

Territory economy can improve...

After two years of weak onshore growth, economic activity is expected to show some signs of a pick up over the remainder of 2001-02. Territory GSP is forecast to grow by 5 per cent in 2001-02. Growth will be driven by domestic factors, notably construction of the \$1.3 billion Alice Springs to Darwin railway and a pick up in dwellings investment and household consumption expenditure.

...along with employment...

Construction of the railway will continue to boost employment in 2001-02, although employment in tourism-related sectors will suffer the effects of the world economic slowdown, exacerbated by recent international events and the collapse of Ansett. Private sector forecasters have been forecasting strong employment growth in 2001-02, however, given recent events and uncertainty surrounding major oil and gas projects, the anticipated phase of sustained employment growth may be delayed.

...and population

Population growth has moderated with the army relocation program, falling to around 1 per cent in 2000-01, but is expected to increase in 2001-02, with less outflow through net interstate migration.

Table: Territory Economic Variables

Year on Year Percentage Change	1999-00 Actual	2000-01 Actual	2001-02 Forecast
Real GSP (chain volume measure)	0.9	4.5	5.0
Employment	-2.2	1.1	3.0*
Population [#]	1.5	1.0	1.3
Darwin CPI	1.4	5.4	2.5

* Access Economics' forecast # Based on mid year, December estimates

Source: ABS data, NT Treasury

Despite recent setbacks... The outlook for Territory economic growth has been affected recently by the deferral of the gas pipeline to Darwin from the Timor Sea and the decision by Methanex to pursue an alternative location for its methanol plant. In addition, the impact of an already weakening world economy has been exacerbated by fallout from the US terrorist attacks and the collapse of Ansett. Despite short term uncertainty, the Territory's medium term economic growth prospects have significant upside, particularly considering the number of potential gas-related projects under serious consideration.

...pick up 'in train'... The work done on the Alice Springs to Darwin railway will boost output, employment, and incomes in the Territory. The additional activity in the construction and manufacturing industries will provide a timely boost to these industries and related sectors as the residential construction cycle begins to pick up again. Local contracts and employment associated with the railway will also act to improve consumer confidence and business sentiment.

...as negatives drop out Private consumption, which weakened markedly in 2000-01, is set to turnaround through 2002, although consumer confidence will play an important role in the short term in determining how quickly consumption expenditure recovers. After two years of negatives, dwellings investment is now forecast to make a positive contribution to economic growth in 2001-02.

External Risks

Mostly downside... Exports contributed strongly to growth in 2000-01. The spike in oil output from Laminaria-Corallina production was the major factor, although growth in international tourism also played a role. This will change in 2001-02 as oil field pressure and therefore production from Laminaria-Corallina falls. Also, deteriorating external conditions will act to undermine demand for Territory exports of goods and services.

...exports vulnerable... A large proportion of Territory exports are used in manufacturing production in South East Asia, often for subsequent export to the United States and other industrialised nations. It is through these industry and end use consumer demand linkages that economic conditions in the major growth centres of the world can affect the Territory economy.

...including tourism The twin effects of the US terrorist attacks and weaker economic conditions in many parts of the world will affect discretionary international travel. The number of international visitors to the Territory has been growing strongly, but in-bound international tourist numbers now look set to fall in the short term. Nonetheless, Australia's 'safe haven' status and competitive dollar will cushion the impact to some extent. There is also increased likelihood that Australians will defer international travel in favour of domestic travel.

Recent Economic Performance

Traditionally an export orientated economy...

The Territory represents approximately 1 per cent of Australia's population, but accounted for over 1.2 per cent of national output in 2000-01. Like Western Australia and Queensland, the Territory is rich in resources. The significance of the resources and tourism industries means the Territory economy has a substantial export sector, resulting in a dependence on external demand.

...defence-related stimulus led to over-performance in the 1990s...

During the mid to late 1990s, the Territory economy outperformed the rest of Australia. This was largely due to impetus provided by the defence relocation program, with high population growth creating strong demand and fuelling a construction boom.

...then an easing of conditions...

As the stimulus from the defence force program eased back, the construction boom ended, the labour market softened and growth began to slow. Over 2000-01, the Territory economy continued to experience relatively subdued growth.

Some sectors of the economy performed well, with tourism and the mining industry (particularly oil) benefiting from the low Australian dollar. However, the downturn in the construction industry and related sectors had a significant moderating effect on employment and spending. High petrol prices and the impact of previously high interest rates dampened both consumer and business expenditure, while the downturn in dwellings investment was amplified by the effect of the Goods and Services Tax (GST).

...though masked by a boost in offshore oil production

Territory GSP growth of 4.5 per cent was recorded in 2000-01, mainly due to the full year effect of the increase in offshore oil production as new capacity from the Laminaria-Corallina oil fields came on stream. However, the spike in oil production acted to mask the weaker underlying rate of onshore economic growth in 2000-01. Offshore oil production has a limited effect on the Territory's onshore economy, as most of the labour and capital required are sourced from interstate or overseas.

Table: Latest Territory Economic Indicators

Year on Year Percentage Change	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	Latest	Annual % change*
Real Retail Turnover	11.1	8.3	-6.8	2.1	6.1	7.0	-2.0	Sep Q 01	0.9
New Motor Vehicle Registrations	23.0	1.1	0.7	12.7	-3.3	-6.5	-7.9	Sep Q 01	-14.3
Tourist Accommodation Takings	15.9	10.3	10.4	0.8	7.0	16.7	1.4	Jun Q 01	2.2
Number of Dwellings Approved	5.3	-12.6	36.8	11.6	0.0	-30.7	-28.5	Sep Q 01	-2.0
Number of Dwellings Commenced	-9.6	-2.0	17.5	26.6	-9.7	-21.1	-34.2	Jun Q 01	18.9
Employment	10.1	2.0	3.2	3.3	5.1	-2.2	1.1	Oct Q 01	5.3
Darwin Consumer Price Index (year average)	2.8	4.1	1.8	-0.3	0.9	1.4	5.4	Sep Q 01	1.9
AWOTE# (year average)	2.4	2.5	4.0	4.9	3.1	4.6	3.7	Aug Q 01	2.2
Wage Cost Index	n.a.	n.a.	n.a.	n.a.	2.7	2.4	2.8	Sep Q 01	2.8
Population (Annual % change)	2.4	2.4	2.8	1.6	1.5	1.4	n.a.	Mar Q 01	1.1
Net Interstate Migration (number)	384	328	1790	-439	-917	-871	n.a.	Mar Q 01	-1569

* Quarter on corresponding quarter the previous year, or through the year

Source: ABS data, NT Treasury

Average Weekly Ordinary Time Earnings

Consumption growth has moderated...

...affected by local dynamics...

...and external factors

Investment weakened earlier...

...as dwellings investment declined...

Business investment affected by major projects...

...to benefit from railway investment

Final consumption expenditure provides an indication of government and consumer demand and is a key element of economic growth. Consumption typically accounts for around three-quarters of final expenditure in the Territory economy. After three years of strong growth, Territory private consumption growth weakened markedly in 2000-01 as the main drivers of growth moderated, reflecting the overall slowing of the onshore economy. Weak population, employment and wages growth, the construction industry downturn, a slowing of the impetus from the defence expansion and the scaling back of East Timor related consumption have acted to slow private and government demand and consumption growth.

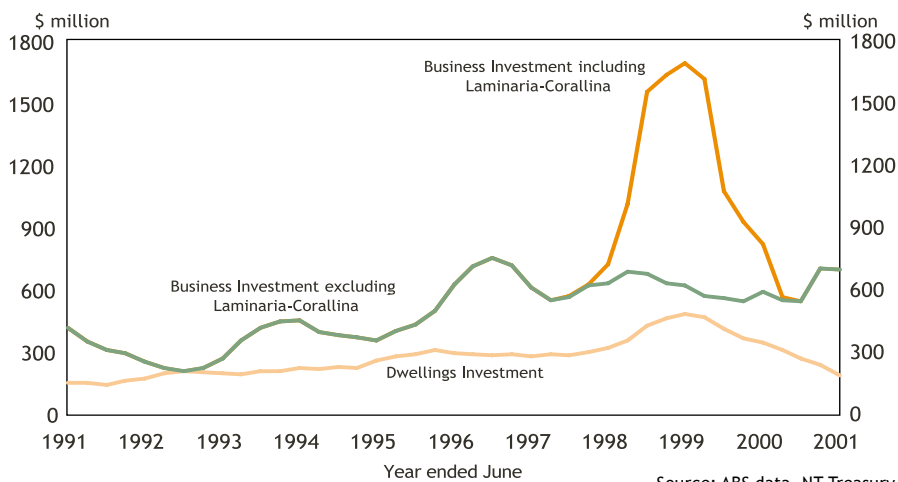
A number of important national factors also influenced Territory consumption expenditure in 2000-01. Although interest rates began falling in early 2001, the lagged effects of previous rate rises as well as high petrol prices impacted on growth. Consumer sentiment fell from the high levels experienced in 1999 and fluctuated over most of 2000-01.

The other major component of domestic demand is investment, which includes private investment in dwellings, business investment, and public expenditure on economic and social infrastructure. Investment is typically more volatile than consumption, reflecting the impact of capital intensive resource projects on the relatively small Territory economy. In 2000-01, dwellings investment fell significantly for the second year in row, reflecting slowing population growth and defence related activity, but also the magnitude of over-building and build up of excess stock during the boom period.

The \$1.1 billion Laminaria-Corallina related investment (most of which occurred offshore) added markedly to Territory investment in 1998-99. However, excluding the impact of this major project, business investment has been weak for a number of years. Although business investment excluding Laminaria-Corallina increased by 17 per cent in 2000-01, this included investment in stage 1 of the Bayu-Undan oil and gas fields (which began in early 2001). No reliable estimates of Bayu-Undan investment are currently available. However, as for Laminaria-Corallina, the majority of investment will occur offshore, therefore having a minimal impact on the onshore Territory economy.

Investment related to the railway also commenced in 2000-01, and will ramp up in coming years. Unlike the major oil and gas infrastructure projects, a significant proportion of the investment will occur in the Territory, with additional benefits to flow through to the rest of the economy.

Chart: Territory Dwellings and Business Investment (other buildings and structures, and machinery and equipment)



Source: ABS data, NT Treasury

Economic Outlook

Economy can pick up...

After two years of weak (onshore) growth, economic activity is expected to show some signs of a pick up over the remainder of 2001-02. Territory GSP is forecast to grow by 5 per cent in 2001-02. Growth will be driven by domestic factors, notably construction of the \$1.3 billion Alice Springs to Darwin railway and a pick up in dwellings investment and household consumption expenditure.

...despite the setbacks...

The outlook for Territory economic growth has been affected by the deferral of the gas pipeline to Darwin from the Timor Sea and the decision by Methanex to pursue an alternative location for its methanol plant. In addition, the impact of an already weakening world economy has been exacerbated by fallout from the US terrorist attacks and the collapse of Ansett.

...railway to bolster the outlook

Nonetheless, the work done on the railway will boost output, employment, and incomes in the Territory. The additional activity in the construction and manufacturing industries will provide a timely boost to these industries and related sectors as the residential construction cycle begins to pick up again. Local contracts and employment associated with the railway will act to strengthen economic activity, improving consumer confidence and business sentiment.

Consumption...

Private consumption, which weakened markedly in 2000-01, is set to turnaround through 2002. In the short term, consumer confidence will play an important role in determining how quickly retail sales and other consumption expenditure recover. Lower interest rates and petrol prices will help to boost disposable incomes, contributing to the pick up. However, the soft labour market may continue to have a moderating effect on consumption growth. Further out, stronger population and employment growth will drive another phase of consumption growth.

Table: Territory State Final Demand and Gross State Product

Year on Year Percentage Change (1999-00 Chain Volume Measure)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 forecast
Private Consumption	7.2	7.8	-2.3	7.4	5.2	5.7	1.6	3.4
Public Consumption	4.1	10.2	-0.7	9.9	6.3	6.9	4.6	2.2
Total Consumption Expenditure	5.8	8.9	-1.6	8.5	5.7	6.2	3.0	2.8
Private Investment*								
Dwellings	13.0	12.6	-4.3	13.3	45.3	-26.6	-41.4	10.1
Other buildings & structures	-12.8	39.8	1.9	70.2	175.2	-65.5	-63.6	484.4
Machinery & equipment	-25.6	98.4	-4.7	-22.0	52.7	-6.9	39.6	-19.8
Total Business Investment#	-19.7	69.2	-2.0	17.5	128.7	-50.7	-14.3	92.1
Total Private Investment	2.2	21.7	-6.4	19.3	70.0	-39.4	-21.1	62.7
Public Investment	40.3	-11.3	11.8	10.6	-45.6	50.5	-24.3	-0.1
Total Investment	9.6	13.5	-2.9	17.4	45.7	-32.3	-21.6	52.1
State Final Demand	7.2	9.8	-2.4	10.6	16.4	-6.2	-2.7	12.0
International Trade - export of goods	-1.5	6.3	11.2	-0.4	-1.6	47.2	25.9	-11.3
International Trade - import of goods	22.1	8.4	8.0	56.3	-27.8	178.5	-62.0	3.4
Total Gross State Product	8.2	6.5	2.9	3.2	9.5	0.9	4.5	5.0

* Investment in other buildings & structures, machinery & equipment, livestock, intangible fixed assets and ownership transfer costs

Investment in other buildings & structures, machinery & equipment

Source: ABS data, NT Treasury

...dwelling investment...

Residential construction is forecast to make a positive contribution to economic growth in 2001-02. Although oversupply continues to be reflected in high vacancy rates, lower interest rates and the various Government construction incentive schemes have led to a pick up in dwellings investment in the short term. However, to the extent that incentive schemes have pulled forward purchasing decisions, the upswing in the Territory housing cycle could be a little more muted than would otherwise have been the case.

...business investment...

Investment related to the construction of the railway will have a major impact on the Territory economy in coming years. Manufacturing and engineering activity will generate significant and localised flow on benefits. Although most of the benefits associated with stage 1 development of the Bayu-Undan oil and gas fields will leak out of the Territory economy, the \$2.7 billion project is still likely to create opportunities for local value adding.

...exports

Exports contributed strongly to growth in 2000-01. The spike in oil output from Laminaria-Corallina production was the major factor, although growth in international tourism also played a role. This will change in 2001-02 as oil field pressure and therefore production from Laminaria-Corallina falls. Also, deteriorating external conditions will act to undermine demand for Territory exports of goods and services, including international tourism – a sector that has experienced high growth in recent years.

Medium term potential

Over the medium term, Territory economic growth prospects have significant upside, particularly considering the number of potential gas-related projects under serious consideration.

In addition, the Government hosted the Economic Development Summit on 4-6 November 2001. A range of economic development issues for the future emerged. In particular, the Summit identified the potential for cooperation between Aboriginal business people, industry and government to foster Indigenous economic development. The Summit also recognised the Territory had opportunities to develop knowledge-based industries and research relevant to tropical and arid-zone regions. Another key issue to emerge was the need to develop a plan to guide the identification of future skill requirements and delivery of training services.

External Risks

Territory exports vulnerable...

A large proportion of Territory exports are used in manufacturing production in South East Asia, often for subsequent export to the United States and other industrialised nations. It is through these industry and end use consumer demand linkages that economic conditions in the major growth centres of the world can affect the Territory economy.

...to a US recession...

In the United States, the aftermath of the September 11 terrorist attacks has worsened what was already a deteriorating growth picture. In the short term, weakening consumer confidence and slower household consumption growth will affect prospects. Expansionary monetary and fiscal policies are expected to support a recovery some time in 2002.

...and weaker world growth

Consensus Economics has reported particularly sharp downward revisions to growth forecasts for the Asian economies of Hong Kong, Singapore, South Korea and Taiwan, with only South Korea likely to avoid an outright contraction in Gross Domestic Product (GDP) in 2001. Growth forecasts for Australia, China, India, Indonesia and New Zealand have been less significantly affected, with growth forecasts for 2002 having been revised down by 0.6 of a percentage point or less.

Goods exports affected via trade linkages...

Japan's strong trade links to the United States, a deflationary environment and the prospect of tighter fiscal policy has Consensus forecasting negative growth in 2001 and 2002. The outlook for European economies is not as gloomy, though growth forecasts have weakened in the face of weakened United States' demand.

Many countries in the Asian region rely heavily on export sales to the United States (particularly of electronic goods) and demand from Japan. This is why growth prospects in many Asian economies have been scaled back so sharply over 2001. While the downturn in South East Asia is not expected to be as severe as the 1997-98 Asian crisis, several key Asian economies are already in the midst of recession, and exporters have fewer options to shift product between world markets.

Table: Overseas Growth Real GDP Forecasts
(calendar years)

Year on Year Percentage Change	2000 Actual	2001 Forecast		2002 Forecast	
		September Survey	October Survey	September Survey	October Survey
United States	4.1	1.6	1.0	2.7	1.2
Western Europe	3.3	1.9	1.7	2.4	1.2
Australia	3.3	2.5	2.1	4.0	3.4
China	8.0	7.6	7.5	7.9	7.6
Hong Kong	10.5	0.8	-0.2	3.6	2.3
Indonesia	4.8	3.0	2.9	3.9	3.4
Japan	1.5	-0.1	-0.5	0.5	-0.4
Malaysia	8.3	0.7	0.2	4.5	3.4
New Zealand	3.7	1.7	2.5	2.9	2.6
Singapore	9.9	-0.6	-1.6	4.7	3.2
South Korea	8.8	2.9	2.0	4.7	3.4
Taiwan	5.9	-1.3	-1.9	3.3	1.8
Thailand	4.4	1.9	1.1	3.4	2.4

Source: Consensus Forecasts, Asia Pacific Consensus Forecasts

...demand and commodity prices set to soften, but low \$A will help

Commodity prices are heavily dependent on world growth. Given the weakness of the world economy, US dollar denominated prices for many commodities may soften, with weaker industrial production particularly affecting base metals. In the Territory, mineral ore exports have been traditionally dominated by bauxite and alumina, manganese, zinc/lead concentrates, and uranium ore. Despite the global economic downturn, international merchandise exports, dominated as they are in the Territory by minerals and energy and live cattle, should remain relatively strong. The low Australian dollar should help to cushion Territory exports from the negative effect of weaker commodity prices.

Tourism affected by setback to international travel...

The twin effects of the US terrorist attacks and weaker economic conditions in many parts of the world will affect discretionary international travel. The number of international visitors to the Territory has been growing strongly, with average annual growth of 9.3 per cent in the six years to 2000-01. However, in-bound international tourist numbers look set to fall, though the weak Australian dollar will cushion the impact to some extent.

In the past, recessions in source countries have affected international visitation. Over two-thirds of international tourists to the Territory come from the developed economies of Europe, North America and Japan. American tourists represented about 13 per cent of all international tourists to the Territory in 2000-01.

... offset by increased travel from the rest of Australia?

On the positive side, there is increased likelihood that Australians will defer international travel in favour of domestic travel. The world has become less safe and the weaker Australian dollar will continue to boost the attractiveness of Australia as a holiday destination relative to overseas.

Although the Territory's relative dependence on air travel adds another risk factor, the negative effects associated with the collapse of Ansett are likely to be short term. Nonetheless, as was shown during the 1989 pilots' strike, the impact will depend on the nature and timing of replacement capacity that comes on stream. Already the loss of Ansett seat capacity has been offset to a large degree by extra Qantas services and the fast tracking of the entry of Virgin Blue into the Territory market.

Employment

Employment follows the economic cycle...

The remarkably strong period of employment growth in the Territory through the nineties peaked in 1999 in line with strong economic growth. The average unemployment rate fell from around 8 per cent in 1991 to 4 per cent in 1999. Inevitably after such a strong phase, employment growth subsequently fell back, particularly in the construction sector, and the unemployment rate began to rise through 1999-00.

...unreliable statistics and mixed signals

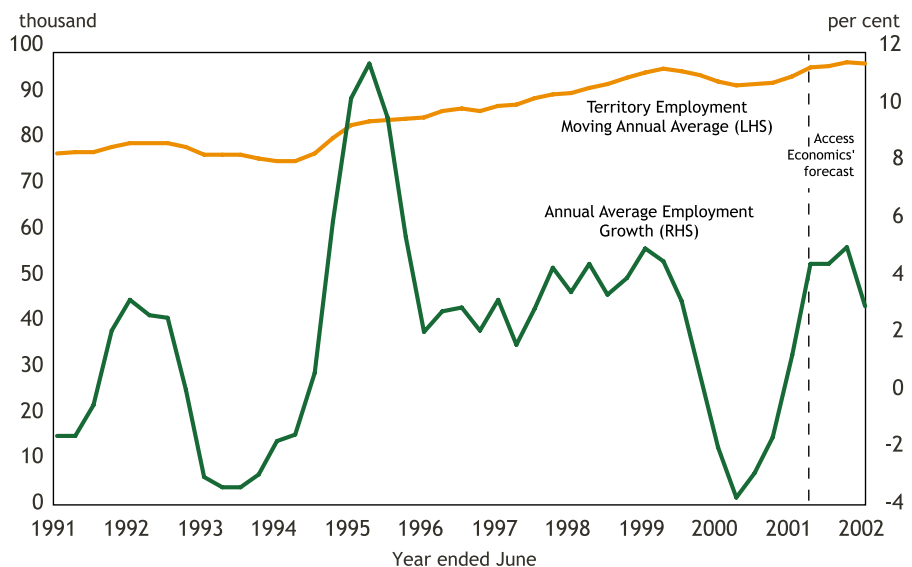
The Australian Bureau of Statistics (ABS) reported that employment growth picked up in 2000 and for most of 2001, probably more a sign of survey measurement problems than any strengthening in the labour market given the flat economy. Nonetheless, there was some increase in part-time work related to the opening of new supermarkets and, more recently, for the ABS itself, in relation to the 2001 Census.

ABS reported that average employment in the Territory over the year to October 2001 was 95 400, an increase of 4.3 per cent on the year to October 2000. Over the same period, average participation rates increased significantly from 68.5 to an implausibly high 71.9 per cent at this stage of the cycle. As a result, despite reported strong employment growth, the unemployment rate increased. The average unemployment rate over the 12 months to October 2001 was 6.5 per cent, up from 4.7 per cent in the year to October 2000.

Jobs boost from railway...

The commencement of construction of the Alice Springs to Darwin railway will continue to boost employment in 2001-02 with newly created direct and indirect jobs, as at September, estimated at over 400. The railway will have an increasingly positive influence on employment through 2001-02 as construction gathers momentum and track laying begins. This project alone is forecast to contribute more than one percentage point to growth in total Territory employment in 2001-02.

Chart: Territory Employment



Source: ABS data, NT Treasury, Access Economics

...but tourism setback...

The world economic slowdown, exacerbated by recent international events and the collapse of Ansett, is expected to have a negative short-term impact on employment in the Territory's tourism-related sectors, particularly accommodation, cafes and restaurants, cultural and recreation services and retail and transport services. In the medium to longer term, tourism will remain a strong driver of employment growth in the Territory.

...adds uncertainty to employment forecasts

Leading private sector economic forecasters, Access Economics and BIS Shrapnel, are both forecasting strong employment growth in the Territory in 2001-02 and an unemployment rate of around 7 per cent. However, given recent events and uncertainty surrounding major oil and gas projects, the anticipated phase of sustained employment growth may be delayed.

Population

Population growth slows...

Over the five years to March 2001, the Territory's population growth rate was 1.7 per cent per annum, equal with Queensland as the highest of all jurisdictions. The main component of growth has been natural increase (1.5 percentage points) followed by net overseas migration (0.4 percentage points).

...as defence expansion winds down

Net interstate migration has been negative (0.2 percentage points) over the period, despite the strong positive effect of the movement of Defence personnel into the Territory under the Commonwealth Government's Army Presence in the North (APIN) program. Rates of population growth have moderated as the APIN relocation program tailed off, falling from 2.2 per cent in the year to March 1997, to 1.1 per cent in the year to March 2001.

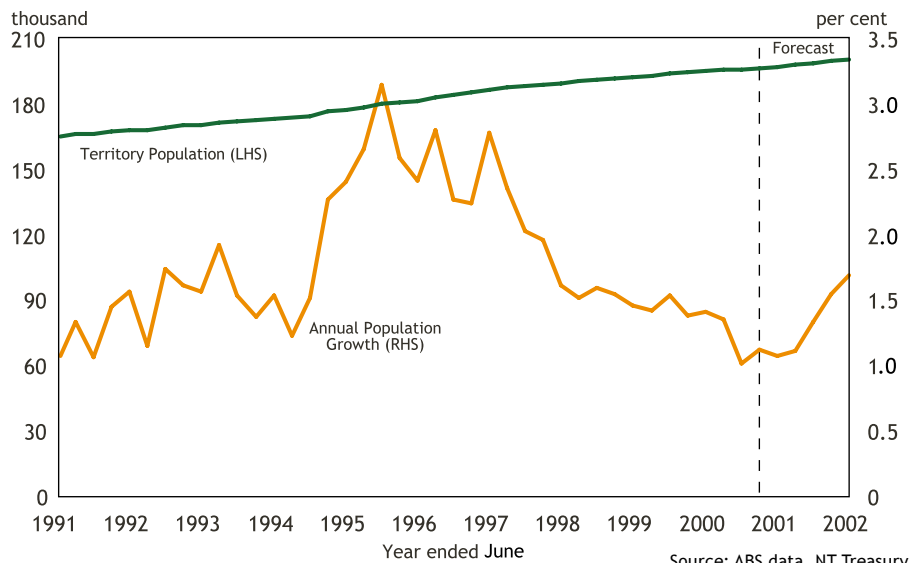
Pick up expected...

The Territory's population growth rate is expected to increase to around 1.7 per cent through the year to June 2002 (around 1.3 per cent in average year on year terms). Increased employment opportunities arising from the railway are likely to stem the outflow through net interstate migration, with natural increase and positive overseas migration driving the total increase in population.

...railway to boost net interstate migration

Further out, population growth has the potential to strengthen, increasing to annual rates of around 2 per cent as construction activity associated with the railway, and possibly oil and gas-related projects, gains momentum, driving further growth in employment and boosting net interstate migration.

Chart: Territory Population and Growth



Prices

Territory tends to mirror national price movements...

Inflation in Darwin generally moves with national price inflation, suggesting that price movements are largely driven by national factors. The major determinants of inflation are labour costs, productivity growth, domestic demand, import prices and the level of competition in the economy. Over 2000-01, the one-off impact of the introduction of the GST influenced inflation, as did the value of the Australian dollar (AUD) and petrol prices.

...in 2000-01, GST spike and higher petrol prices...

In annual terms, Darwin's Consumer Price Index (CPI) increased by 5.2 per cent in 2000-01, well below the 6.0 per cent national increase. At the national level, it is estimated that the introduction of the GST accounted for 2.5 to 3.0 percentage points of the increase, with petrol prices responsible for another 0.5 of a percentage point. Excluding these effects, CPI inflation was around 2.75 per cent - at the upper end of the Reserve Bank's target range of 2 to 3 per cent.

...and weak domestic demand

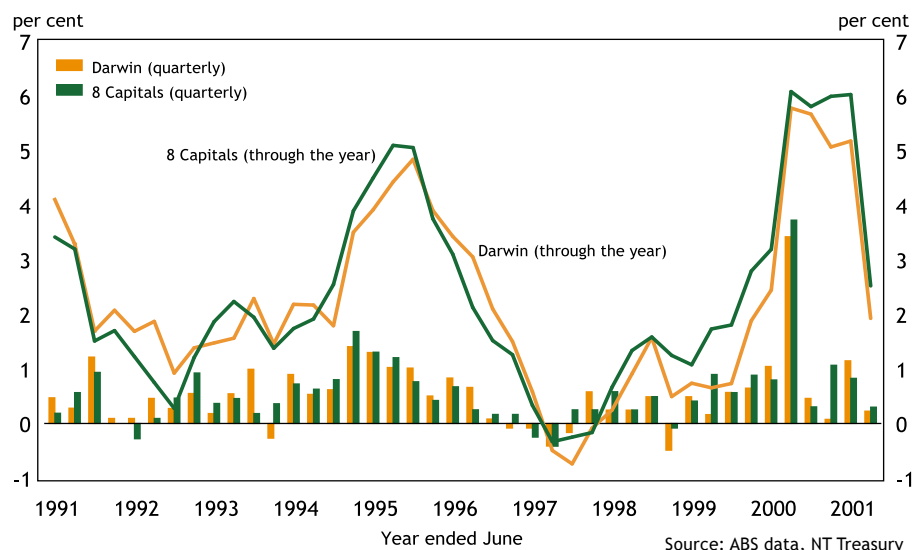
Fears the fall in the AUD and higher import prices would add to inflationary pressures were not realised until late in 2000-01. Although the effects of the lower exchange rate were passed through to producer and wholesale prices, as well as retail petrol prices, businesses absorbed costs as weaker domestic demand constrained the ability to pass on higher input costs. However, domestic economic conditions have begun to improve. Lower interest rates, the recovery in housing, improving confidence and the collapse of some major price discounters have provided some opportunities for businesses to rebuild margins.

Somewhat offsetting these factors, petrol prices have fallen recently in anticipation of weaker world growth, while the AUD has recovered slightly from the lows of March 2001. Any further appreciation in the AUD would reduce import prices, with potential flow-on benefits to industry, and ultimately consumers.

Moderate wage and price inflation in 2001-02

Territory average weekly ordinary time earnings growth slowed in 2000-01, reflecting the weak labour market. Territory wages growth is likely to remain contained in 2001-02, in line with national trends. In the September quarter, Darwin's annual CPI fell back to 1.9 per cent (2.5 per cent nationally) as the one off impact of the GST dropped out. Darwin CPI inflation for 2001-02 is forecast at 2.5 per cent.

Chart: Consumer Price Index



International Trade

Oil production a major boost to exports in 2000-01...

The value of Territory merchandise exports increased by 67 per cent during 2000-01, due almost entirely to an increase in oil exports, which accounted for around 70 per cent of merchandise exports. The Territory's merchandise trade surplus rose to \$3.6 billion. An estimated surplus in services trade reflected strength in tourism and defence spending in East Timor.

...as imports 'normalise'

Territory merchandise imports fell substantially because of an abnormally high value for imports the previous year, associated with a large one off import of production equipment for the Laminaria-Corallina oil field.

Exports to remain at very high levels...

The outlook for Territory merchandise exports over 2001-02 remains strong due to the weak Australian dollar and continuing high oil production levels (albeit, down from the peak year). The outlook for Territory mineral ores is also positive with prices for most forecast to remain steady. Live cattle exports to Asia are expected to remain healthy supported by firm prices and strong demand in Indonesia coupled with a recovering market in the Philippines.

...but to fall from the peak

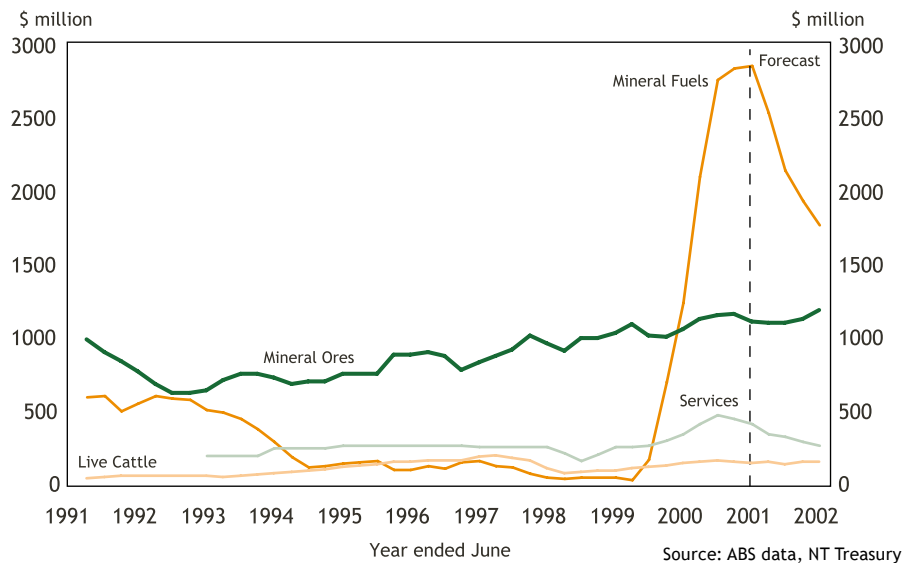
As the chart shows, the value of exports is likely to fall in 2001-02 due to lower oil production associated with falling well pressure as Laminaria-Corallina matures, in conjunction with an expected moderation in world crude oil prices.

Services exports may turn down

Exports of services (about 10 per cent of total Territory exports) will be affected in 2001-02 by the negative impact of the terrorist attacks, slowing world growth and the demise of Ansett, as well as the winding back of the United Nations' activity in East Timor.

Further out, resource and transport infrastructure developments should provide another major boost for Territory exports.

Chart: Territory Exports



Mining

Major Territory industry...	Although not a large employer, the Territory's mining industry remains the single most significant contributor to GSP, accounting for 31.4 per cent of GSP in 2000-01. Production in 2000-01 was valued at \$4.1 billion.
...crude oil presently driving growth...	Oil production from the Laminaria-Corallina oilfields continues to have a significant impact on the industry's value of production, which increased almost 45 per cent in 2000-01, following on from a near doubling in 1999-00. The value of oil production in the Territory increased more than 85 per cent to \$2.6 billion in 2000-01, supported by high crude oil prices and the weak Australian dollar.
...mineral production static	The value of mineral production and processing increased 3.5 per cent to \$1.3 billion in 2000-01, driven by higher alumina prices (up 18 per cent). Except for manganese, production of metallic minerals declined over the year. The non-metallic mineral value of production fell 26.9 per cent as diamond production fell and there was a sharp decline in the demand for crushed rock.
Outlook affected by drop off in oil pressure...	In 2001-02 the total value of production is forecast to fall to \$3.5 billion, down markedly on the previous year, but still more than double levels achieved in the late 1990s. Oil output is forecast to come back from peak levels as Laminaria-Corallina field pressure and production fall. Further out, Bayu-Undan production (planned to commence in 2004) will boost oil output.
...and weak world growth	Deteriorating external conditions will undermine the demand for Territory mineral and energy commodities. The synchronised downturn in many of the major global economies will also act to limit the scope to shift product between markets. Countering this, tight global supply, especially for alumina, could have a positive effect on prices. The demand for crushed rock, gravel, sand and soil will increase markedly from 2001-02 as the Alice Springs to Darwin railway proceeds.
Uncertainty surrounding major gas projects	<p>Proposed gas projects are dependent on the outcome of taxation negotiations and securing foundation customers. Negotiations with East Timor are continuing, and aim to reach agreement on company taxation and the treatment of project operations in the Timor Sea Joint Petroleum Development Area.</p> <p>Uncertainty has resulted in the indefinite deferral of the proposed gas pipeline from Bayu-Undan to Darwin, and the decision by Methanex to pursue an alternative location for its methanol plant. In another setback, offshore development options are being considered for the Greater Sunrise field which, if approved, could affect the development of interconnected offshore gas pipeline infrastructure.</p> <p>In the short term, these setbacks affect Darwin's prospects of attracting gas-based manufacturing industries. Nonetheless, it is expected that there may be announcements on development plans for the offshore gas fields in the next few months.</p>

Tourism

Recent events negative...

Tourism will be affected by the slump in international tourism due to the slowdown in world growth, exacerbated by the terrorist attacks in the United States and the collapse of Ansett.

...with the downturn in international travel...

The international segment of the Territory's tourism industry has provided the bulk of tourism growth over the past decade, boosted further in recent years by the low Australian dollar, increased exposure flowing from the Sydney 2000 Olympics and by the East Timor relief effort in 1999-00. The interstate market has been growing slowly and was affected in 2000-01 by the introduction of the GST on many tourism expenses and by high petrol prices.

...to impact on tourist-related sectors

With over a third of tourism expenditure coming from overseas, the current downturn in international arrivals will cause a decline in tourism-related growth in 2001-02. The Territory consistently averages around 3 per cent of international visitors to Australia. The chart below shows the effect on short-term visitor arrivals of past shocks such as the Gulf War, the Asian crisis and world economic slowdowns.

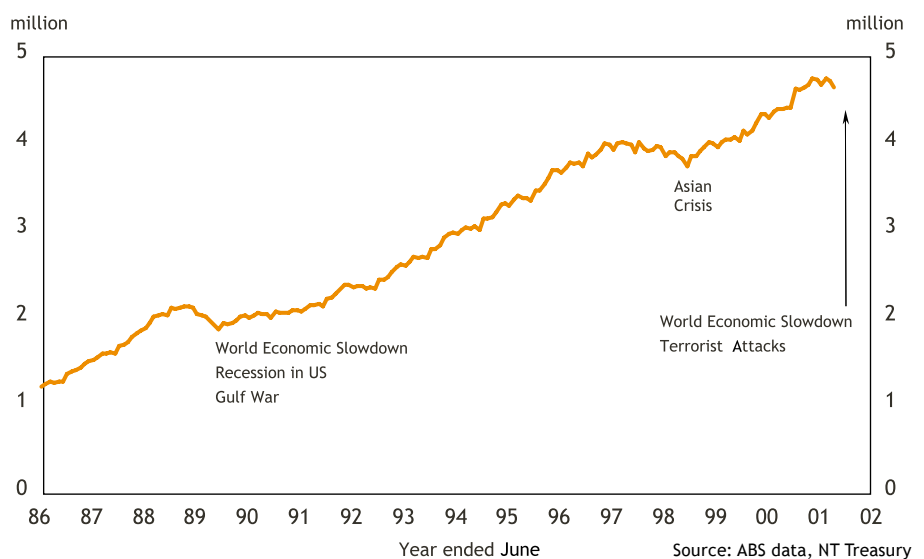
After the setback...

Key tourism sectors such as accommodation, cafes and restaurants will be negatively impacted in 2001-02, with a number of other tourism-related sectors also affected, including cultural and recreational services, personal and other services, retail trade, and transport and communications.

...a return to strong growth

A recovery is anticipated by 2002-03, as a pick up in world economic growth, the low Australian dollar and a favourable perception of Australia leads to increasing numbers of international visitors. The re-establishment of airline capacity (hopefully in conjunction with greater competition), a low dollar and stronger growth in the local economy will boost both interstate and intrastate tourism.

Chart: Australia - Short Term Arrivals



Construction

At the bottom of the cycle...

Following strong growth in the mid 1990s related to the Army Presence in the North program, Territory dwelling and non-residential building slowed markedly. In 2000-01, the industry accounted for 3.2 per cent of Territory GSP, its lowest contribution over the last decade and only the second year in the decade when it was below the national rate.

...residential recovery boosted by Government grants...

Residential construction is forecast to strengthen over 2001-02, buoyed by both Territory and Commonwealth Government grants, following weak activity in 2000-01. Activity, however, is likely to remain below longer term average levels until 2002-03 when population growth is expected to accelerate as a result of employment generated by the railway.

...non-residential building to remain flat through most of 2001-02...

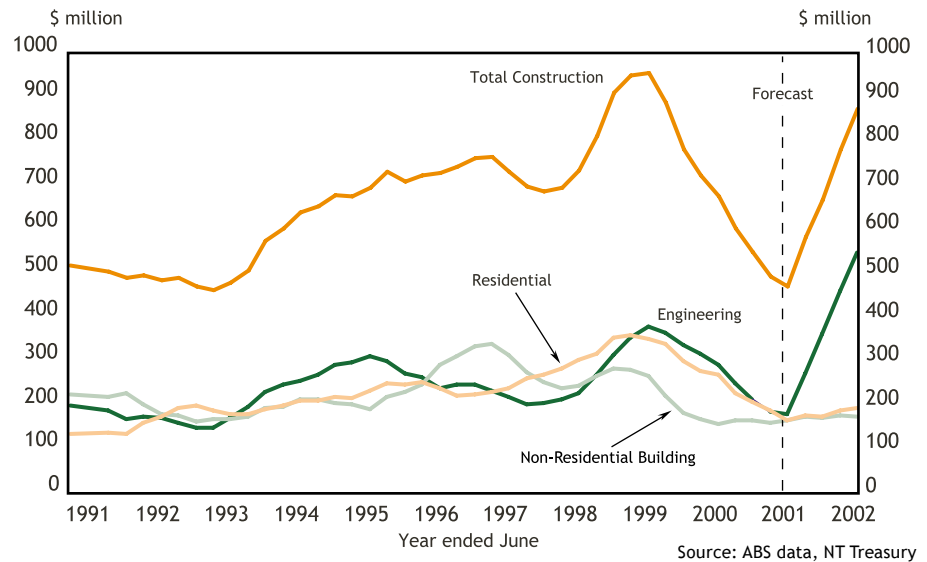
Non-residential construction is forecast to remain flat in 2001-02, reflecting hesitancy amongst both occupiers and investors as a result of recent events in the United States, the collapse of Ansett and deferral of the gas pipeline to Darwin from the Timor Sea.

Non-residential building levels are expected to recover from 2002-03 as the impact of employment and population growth associated with the railway begins to take effect, flowing through to an increased demand for social and commercial infrastructure.

...railway to drive strong growth in engineering construction

Engineering construction is forecast to grow strongly over the next two years, primarily as a result of the Alice Springs to Darwin railway and Timor Sea-related oil and gas activity.

Chart: Value of Construction Work Done (1999-2000 chain volume measure)



Transport and Communications

Alice Springs to Darwin railway...

The \$1.3 billion Alice Springs to Darwin railway is the largest infrastructure project ever undertaken in the Territory, and is one of Australia's largest transport infrastructure projects. The railway is scheduled for completion in early 2004, in conjunction with stage 2 of the East Arm Port. While the railway's construction phase will have an immediate economic impact, the operating phase has the potential to create a more robust and competitive Territory economy.

...impetus for transport hub...

The benefits of the railway will be most significant in Darwin and the Top End. The railway is expected to provide a greater impetus for Darwin to become a major multi-modal transport hub for the region, increasing the land to sea international freight coming from southern cities. Benefits will also accrue to Katherine, as a hub for regional produce, and Tennant Creek, as it emerges as a modal interchange for east-west freight traffic.

...and modal shift, over time

Over time it is expected that much of the long-haul freight carried by road within the Territory will transfer to rail, with a shift in emphasis of road transport to short-haul.

Airline capacity...

Global restructuring of airlines and the collapse of Ansett in 2001 have resulted in reduced airline capacity servicing the Territory, albeit at a time of weakening demand.

The number of international carriers that serve Darwin will fall to four by early 2002 although Royal Brunei Airlines has increased capacity, commencing a twice-weekly dedicated route into Darwin. In addition, Qantas proposes to introduce additional budget-type services from the middle of 2002.

...reduced

In the domestic market, the loss of capacity caused by the collapse of Ansett has been partially recovered through increased capacity on Qantas and AirNorth, although with uneven effects across the Territory. The entry of Virgin Blue into the Territory market will add further capacity into Darwin from December 2001.

Communications - a growth sector...

In 2000-01, the Territory's communications industry accounted for 2.9 per cent of GSP. The industry has increased its relative importance in terms of its share of the Territory's economy by around one-half over the last decade.

...with investment further boosted...

As part of a \$200 million contract awarded by the Territory Government, the Computer Sciences Corporation will invest around \$5 million in the Northern Territory to develop the information technology industry. The consortium was contracted in June 2001 to provide a standard operating platform for 11 000 desktop computers across 33 Territory Government agencies for a period of five years.

... by recent initiatives

Major infrastructure initiatives underway in remote areas include Mobiles for the Territory and the Electronic Outback Project. These projects will provide satellite telecommunications infrastructure to 14 communities and will extend mobile phone coverage to ten additional locations in the Territory.

Rural Industries and Fisheries

Small but growing industry...

The rural industries and fisheries sector accounted for 3.5 per cent of GSP in 2000-01. Over the 1990s, growth in the value of production appears to have been most pronounced in the horticultural sector.

...with strong links to other sectors...

Rural industries have strong links to other sectors of the Territory economy such as manufacturing, transport, and retail and wholesale trade, and provide economic activity and employment in regional areas. Rural industries also earn significant export revenue.

...and growth potential

Feasibility studies into stage 2 of the Ord River Irrigation Project are continuing. If the developers commit to proceed, approximately half of the new cropping area is planned to be in the Territory. Other industry developments include continuing solid growth in the horticultural sector, more intensive farming in the Katherine-Daly area, sea-cage aquaculture in the Tiwi Islands, and buoyant export markets for cattle.

Defence

Though the growth stimulus has tailed off...

The number of defence personnel in the Territory more than doubled during the 1990s. Defence expenditure also increased strongly, peaking at \$744 million in 1999-00. While the growth impetus of the Army Presence in the North expansion is tailing off, defence will continue to be a strong contributor to the Territory economy.

...defence still plays an important role

Defence has become a very important sector, helping broaden the base of the Territory economy. Recurrent expenditure remains significant, with further investment likely to provide opportunities for Territory businesses. Housing, retail and tourism industries have benefited substantially from the increased defence presence.

Further defence expansion and associated expenditure, albeit at a much reduced rate, will continue to provide benefits for the Territory economy. There are plans to expand the Navy patrol boat group and to base a new squadron of armed reconnaissance helicopters in Darwin.