

# Economy Overview 2004-05

## Structure of the Economy

- The structure of the Northern Territory economy is markedly different to other Australian jurisdictions, reflecting its abundance of natural resources, and the importance of the public sector and the large defence presence.
- A relatively large mineral and energy sector means that the Territory economy is capable of high growth as resources are developed which, in conjunction with a high reliance on tourism (particularly international), contributes to an economy that has significant exposure to the world economic cycle.
- This growth volatility in the Territory is exacerbated by the relatively small size of the economy, which comprises 1.2 per cent of the Australian economy.
- A key driver in the structure of the Territory economy was the increase in defence numbers over the 1990s, leading to a major cycle in economic activity and a construction boom, followed by a downturn in the early years of this decade.
- The next few years will see another phase of infrastructure and resource investment, including increased transport capacity (with the completed Adelaide to Darwin rail link) and mining and energy (mainly oil and gas), which in turn will broaden the economy in key industries such as manufacturing and services.

## Economic Growth

- Economic growth in the Northern Territory tends to be volatile from year to year. The small size of the economy means large, typically resource-based, projects can have a substantial impact on investment and income streams.
- During the mid to late 1990s, the Territory economy outperformed the rest of Australia. The impetus provided by the defence relocation program led to increased population growth, creating strong demand and fuelling a construction boom.
- As the stimulus from the defence force program eased back, growth began to weaken, with negative Gross State Product (GSP) growth in 1999-00.
- In 2000-01 and 2001-02, GSP was boosted by increases in offshore oil production, which acted to mask the weakness in the onshore economy.
- GSP growth is estimated at 0.3 per cent in 2003-04. Offshore oil production declined significantly for the second consecutive year, but was more than offset by the strengthening in the onshore economy.
- Improving onshore economic conditions in recent years is reflected in solid growth in State Final Demand (SFD), notably for private consumption and investment. SFD growth for 2003-04 is estimated at 4.4 per cent.
- Economic growth is forecast to strengthen to 5.8 per cent in 2004-05. Although moderating, consumption is expected to be the major contributor to growth. Employment will be boosted by work for the construction of the liquefied natural gas plant at Wickham Point and a pick up in the tourism sector.

Table 1: Summary of Territory Economic Indicators

| Year on Year Percentage Change | 1999-00 | 2000-01 | 2001-02 | 2002-03 | Estimate 2003-04 | Forecast 2004-05 |
|--------------------------------|---------|---------|---------|---------|------------------|------------------|
| Real GSP                       | -1.2    | 6.0     | 2.2     | -0.8    | 0.3              | 5.8              |
| Employment                     | -2.3    | 1.1     | 5.4     | -0.1    | -1.4             | 2.9              |
| Population*                    | 1.6     | 1.0     | 0.9     | 0.1     | 0.3              | 0.3              |
| Darwin CPI <sup>#</sup>        | 2.4     | 5.2     | 2.1     | 2.1     | 1.5              | 2.2              |

\* Annual percentage change to 31 December    <sup>#</sup> Annual percentage change to June quarter

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

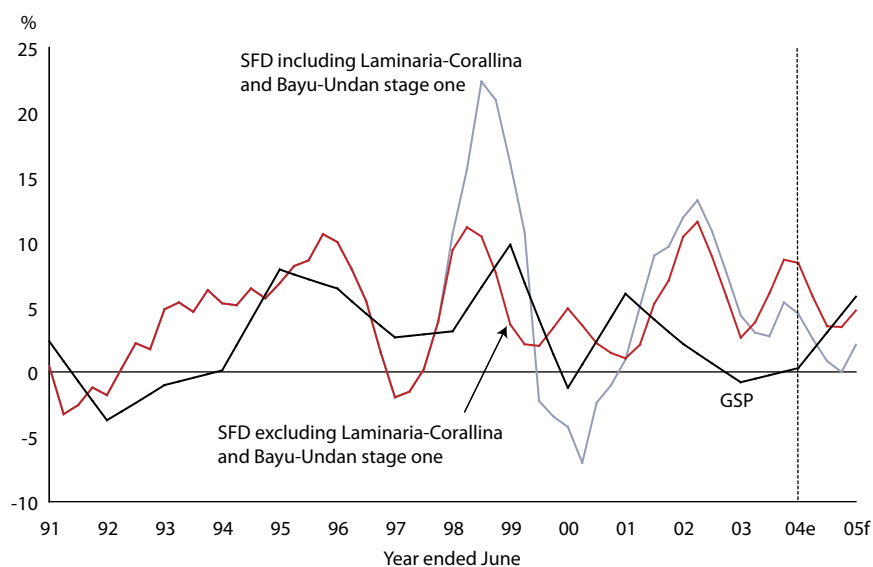
Table 2: Territory Economic Growth Profile

| Period                  | GSP (Annual % Change) | Comment  |
|-------------------------|-----------------------|--|
| Five years 1994 to 1999 | 5.9                   | Strong growth phase. Associated with impetus from defence force relocation program. High population growth, strong demand for housing and other economic and social infrastructure, construction boom.   |
| 1999-00                 | -1.2                  | Downturn. Loss of defence impetus. Weak construction, decline in new motor vehicle sales, negative employment growth.  |
| 2000-01                 | 6.0                   | Weak onshore activity. Headline GSP boosted by offshore oil. Falling retail sales, rising unemployment rate. Major net interstate migration outflow.   |
| 2001-02                 | 2.2                   | Pick up in onshore activity. Recovery in consumption. Rail-related investment surge boosting construction and property and business services. Stronger defence-related output, partially offset by a fallback in offshore oil production, weak population growth and the setback to tourism. |
| 2002-03                 | -0.8                  | Sharp fall in offshore oil production major influence on weak headline result. Onshore economic performance was mixed. Consumption strengthened and business investment at a high level. Further weakening in population growth. Employment growth fell and further tourism shocks.          |
| 2003-04                 | 0.3 (e)               | Offshore oil production continues to fall. Recovery in onshore economy gained momentum, boosted by strong construction activity. Employment and population growth weak, but start to recover. Continued weak tourism activity.   |
| 2004-05                 | 5.8 (f)               | Onshore recovery broadens. Strengthening in construction, mining and tourism. Consumption growth moderates and business investment falls somewhat, but greater level of local value-adding. Strong employment growth. Population growth continues to recover, but remains weak.              |

e: estimate f: forecast

Source: NT Treasury, ABS Cat. No. 5220.0

Chart 1: Territory SFD and GSP (chain volume, annual percentage change)



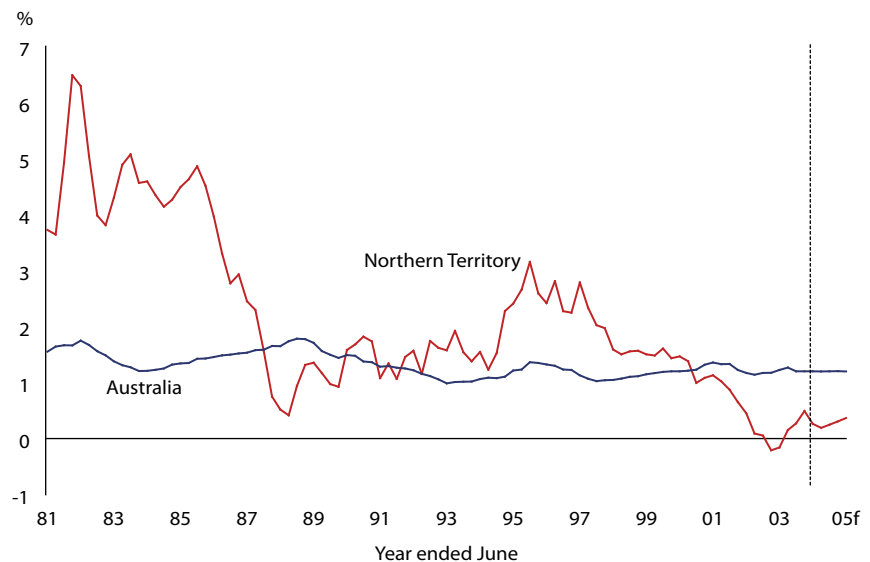
e: estimate f: forecast

Source: NT Treasury, ABS Cat. No. 5206.0, 5220.0

## Population

- Population growth, through natural increase and both interstate and overseas migration, is a key driver of Territory economic growth.
- Despite significant net average annual migration outflows, the Territory has a recent history of strong population growth: 4 to 5 per cent annually in the early 1980s, 1 to 2 per cent in the late 1980s and early 1990s, and 2 per cent annually during the late 1990s.
- Completion of the main defence force build up in the Top End saw growth decline to 1.1 per cent in 2000-01 and 0.5 per cent in 2001-02.
- A net interstate migration outflow of 3 389 people, associated with weaker economic growth, was the major contributor to the 0.2 per cent population decline in 2002-03 to 198 351. Latest available data show an increase to 198 617 as at September 2003.
- Changes in interstate migration patterns in recent years indicate annual outflows have remained relatively stable at 17 000 to 18 000 but inflows have declined steadily since 1997 from a peak of over 18 000 to less than 15 000.
- Treasury estimates modest population growth of 0.3 per cent for 2003-04, and forecasts 0.3 per cent for 2004-05, and 0.5 per cent for both 2005-06 and 2006-07.
- As the Territory's population ages into the future, the proportion which is of working age (15-64 years) is likely to increase rather than decline, as is the situation in the rest of Australia.

Chart 2: Annual Population Growth Rates, Australia and the Northern Territory

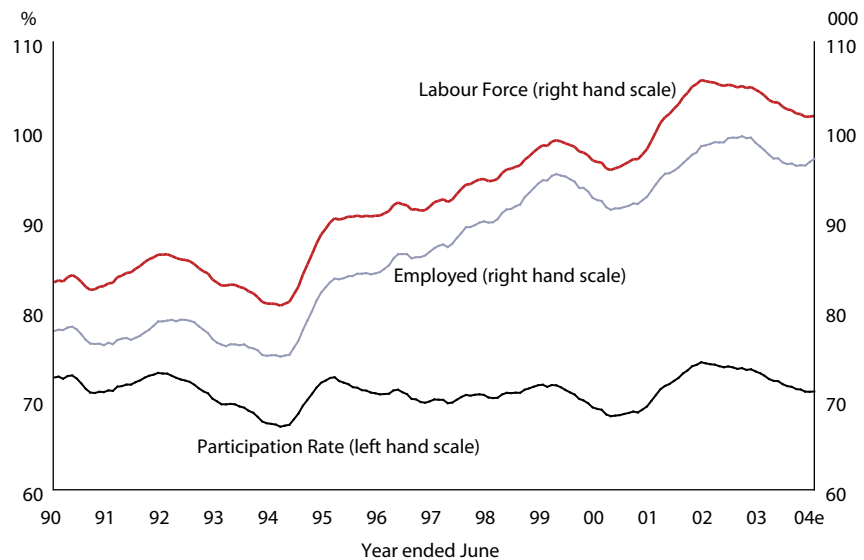


f: forecast  
Source: NT Treasury, ABS Cat. No. 3101.0

# 2004-05 Employment

- The Territory workforce of approximately 100 000 people is typically young, mobile and transient, and includes approximately 8 000 Indigenous participants on the Community Development Employment Projects (CDEP) program. In addition, there are approximately 5 500 defence force personnel resident in the Territory who are not included in workforce estimates.
- The past decade has seen the creation of about 20 000 non-defence force jobs in the Territory.
- Participation rates are typically close to, or about, 70 per cent and the unemployment rate typically in the 4-6 per cent range, both better than national averages.
- The Territory's labour force is heavily dependent on large interstate migration flows to overcome skills and expertise shortages, and to meet the short to medium term employment demands of major infrastructure projects.
- Recent employment growth has been negative (-0.1 per cent in 2002-03 and an estimated -1.4 per cent in 2003-04) following completion of the Alice Springs to Darwin rail link.
- Employment is forecast to increase by 2.9 per cent in 2004-05, boosted by work associated with the construction of the Wickham Point liquefied natural gas plant, and stronger tourism-related employment.

Chart 3: Territory Labour Market (moving annual average)

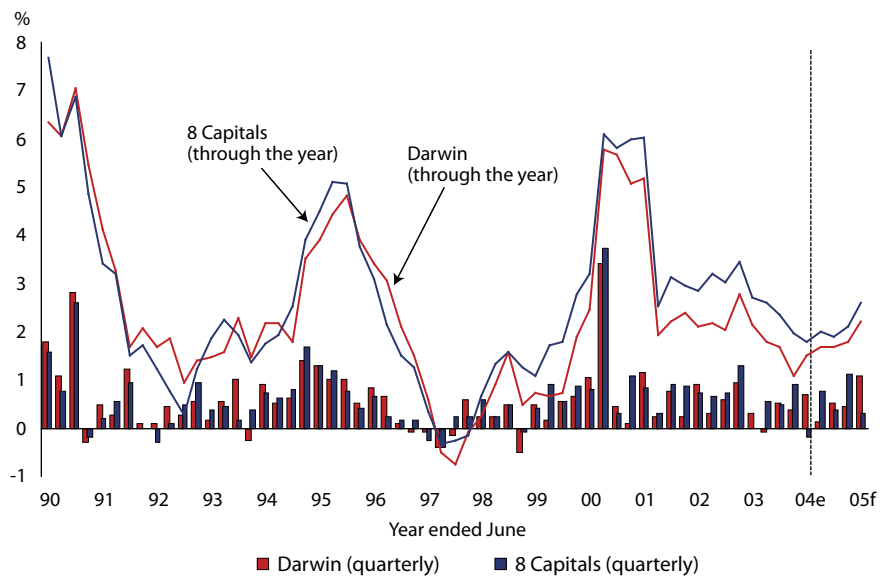


e: estimate  
Source: NT Treasury, ABS Cat. No. 6202.0

## Prices and Wages

- Price pressures in Australia are expected to increase in 2004-05, although inflation is forecast to remain within the Reserve Bank of Australia's (RBA) 2 to 3 per cent target band.
- Nationally, annual growth in the Consumer Price Index (CPI) is expected to increase from 1.8 per cent in the June quarter 2004 to 2.6 per cent in the June quarter 2005.
- In the Territory, upward wage and price pressures are expected to result in CPI growth for Darwin increasing from an estimated 1.5 per cent in the June quarter 2004 to 2.2 per cent in the June quarter 2005.
- Based on CPI and other data, the relative difference in consumer prices between Darwin and the other Australian capitals continues to narrow.
- With inflation largely contained at present and domestic demand moderating, the RBA has capacity to keep interest rates on hold in the coming year, although upside risks include a tightening labour market and increasing labour costs, capacity constraints and a softer Australian dollar.

Chart 4: Consumer Price Index



e: estimate f: forecast  
Source: NT Treasury, ABS Cat. No. 6401.0

- The significance of the mining and tourism industries makes the Territory economy particularly reliant on exports and susceptible to developments in key export markets.
- Demand for Territory-produced goods and services comes from the rest of the world and from other Australian States and Territories.
- The global economic recovery continued to gain momentum in 2003, led by the United States and China.
- Global growth has been supported by expansionary monetary and fiscal policy settings in many of the world's major economies.
- Despite weaker exports, the Australian economy has maintained a solid pace in recent years due to strong domestic demand and weak Australian dollar.
- Solid growth, nationally and internationally, in coming years is expected to boost demand for Territory exports, including tourism-related exports.

Table 3: Australian and Overseas  
Real GDP Growth Forecasts  
(percentage change, calendar year)

|                | 1998  | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e | 2005f |
|----------------|-------|------|------|------|------|------|-------|-------|
| United States  | 4.3   | 4.1  | 3.8  | 0.3  | 2.4  | 3.1  | 4.6   | 3.7   |
| Japan          | -1.1  | 0.2  | 2.8  | 0.4  | 0.3  | 2.7  | 2.8   | 1.6   |
| European Union | 2.9   | 2.8  | 3.5  | 1.6  | 1.0  | 0.8  | 2.0   | 2.2   |
| Australia      | 5.5   | 4.4  | 3.2  | 2.8  | 3.8  | 3.0  | 3.9   | 3.3   |
| China          | 7.8   | 7.1  | 8.0  | 7.3  | 8.0  | 9.1  | 8.3   | 7.6   |
| Hong Kong      | -5.3  | 3.0  | 10.4 | 0.2  | 1.5  | 3.1  | 5.5   | 4.5   |
| Indonesia      | -13.1 | 0.8  | 4.8  | 3.3  | 3.5  | 4.1  | 4.6   | 4.7   |
| Malaysia       | -7.4  | 6.1  | 8.3  | 0.5  | 3.5  | 5.2  | 6.0   | 5.7   |
| New Zealand    | -0.2  | 3.9  | 3.8  | 2.5  | 3.0  | 3.5  | 3.1   | 2.4   |
| Philippines    | -0.6  | 3.4  | 4.4  | 3.2  | 4.0  | 4.5  | 4.2   | 4.3   |
| Singapore      | -0.1  | 6.9  | 10.3 | -2.0 | 3.6  | 1.1  | 5.3   | 4.5   |
| South Korea    | -6.7  | 10.9 | 9.3  | 3.0  | 6.3  | 2.8  | 5.3   | 5.4   |
| Taiwan         | 4.6   | 5.4  | 5.9  | -1.9 | 3.3  | 3.2  | 5.2   | 4.5   |
| Thailand       | -10.5 | 4.4  | 4.6  | 1.8  | 3.5  | 6.7  | 7.0   | 6.2   |

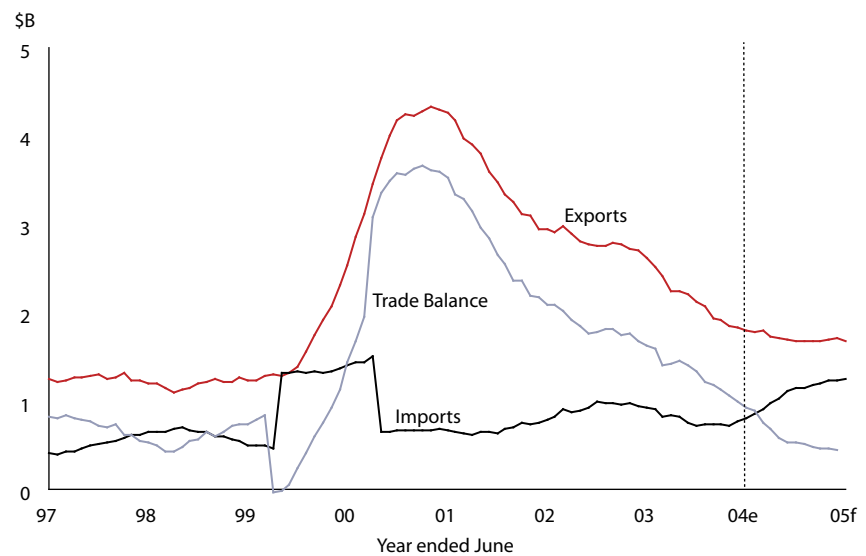
e: estimate; f: forecast.

Source: Consensus Economics, IMF, OECD

## International Trade

- Mineral and energy exports dominate Northern Territory international merchandise exports, while tourism-related activities are the major international services exports.
- Refined fuels, manufactured goods, machinery and equipment make up the majority of international imports. Significant levels of international imports enter the Territory via other Australian states and are therefore classified as interstate imports.
- Oil production has had a significant impact on Territory export levels since the Laminaria-Corallina fields commenced operation in 1999-2000.
- Territory exports are forecast to fall by 6.6 per cent to \$1.7 billion in 2004-05, as oil exports fall by 30 per cent. Imports are forecast to increase significantly as importation of material for the construction of the liquefied natural gas plant and pipeline continues.
- Over time, the operational phase of the Adelaide to Darwin railway is expected to generate increased international trade as landbridge-related opportunities develop. By 2007 it is anticipated that 50 000 containers of international freight will be moved by rail through the East Arm Port.

Chart 5: Territory International Merchandise Trade (nominal dollars)

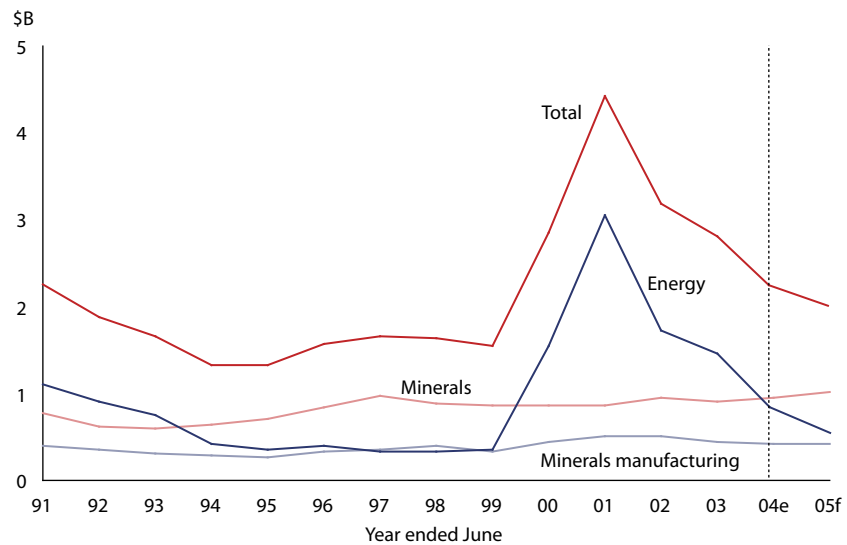


e: estimate f: forecast

Source: NT Treasury, ABS data service 5432.0.65.001

- In terms of output, mining is the largest industry in the Territory and was almost 22 per cent of Gross State Product in 2002-03, compared to 4.6 per cent nationally.
- Like most commodity-based industries, mining output is volatile. Global supply and demand conditions and the impact of exchange rate movements on competitiveness are key factors affecting production and income. Output can also jump markedly as new mines commence production.
- The Territory produces a diverse range of mineral products, most notably oil, bauxite, manganese, lead/zinc and uranium.
- Output has been dominated in recent years by oil production from the Laminaria-Corallina oil fields in the Timor Sea.
- Half of the production from developments in the Joint Petroleum Development Area in the Timor Sea will be attributed to the Northern Territory for national accounts purposes.
- In the short term, strengthening global demand is expected to lead to increased demand for minerals, although increased supply globally is expected to result in price falls for many Territory-produced minerals.

Chart 6: Mineral and Energy Production and Processing (nominal dollars)



e: estimate f: forecast

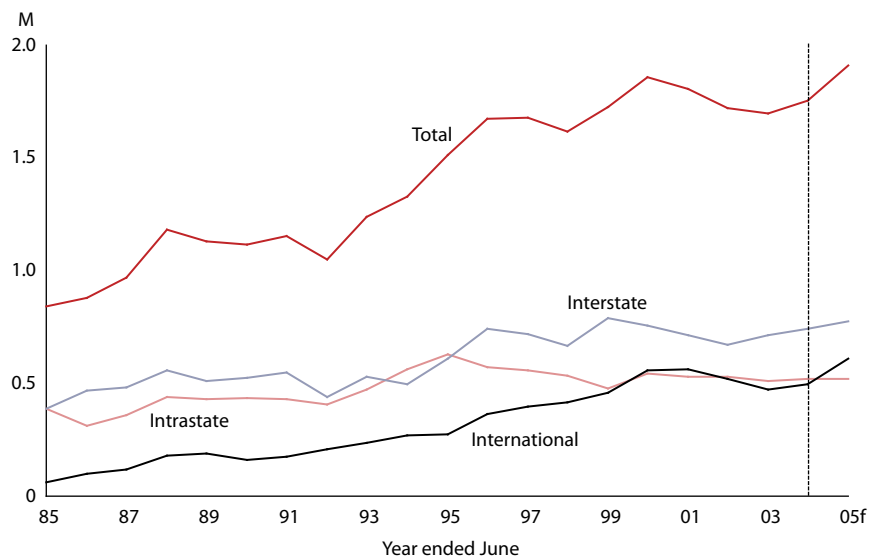
Source: NT Treasury, Department of Business, Industry and Resource Development



## Tourism

- During the 1990s, the Territory's tourism sector expanded considerably, driven by solid growth in international visitor numbers, which increased at an average rate of around 10 per cent per annum.
- The Northern Territory Tourist Commission estimates that total expenditure by tourists to the Territory increased by 5.2 per cent to \$1 080 million in 2002-03, of which international visitors accounted for 33 per cent, spending an average of \$174 per day each, up from \$148 per day in 2001-02.
- Over the past few years, however, international discretionary travel has declined due to weak global economic conditions exacerbated by the threat and reality of terrorist attacks, geopolitical uncertainty and the Severe Acute Respiratory Syndrome (SARS) outbreak.
- After three years of negative growth, total visitor numbers are estimated to have increased by around 3 per cent (to 1.75 million) in 2003-04 with growth of 9 per cent (to 1.91 million) expected in 2004-05. International visitor numbers are expected to rebound by 4.4 per cent (to around 500 000) in 2003-04 and by about 23 per cent (to around 600 000) in 2004-05.
- The appreciation of the Australian dollar is a major risk to the outlook, as it will act to constrain the strength of the anticipated upswing in international visitors while increasing the likelihood of Australians travelling abroad.

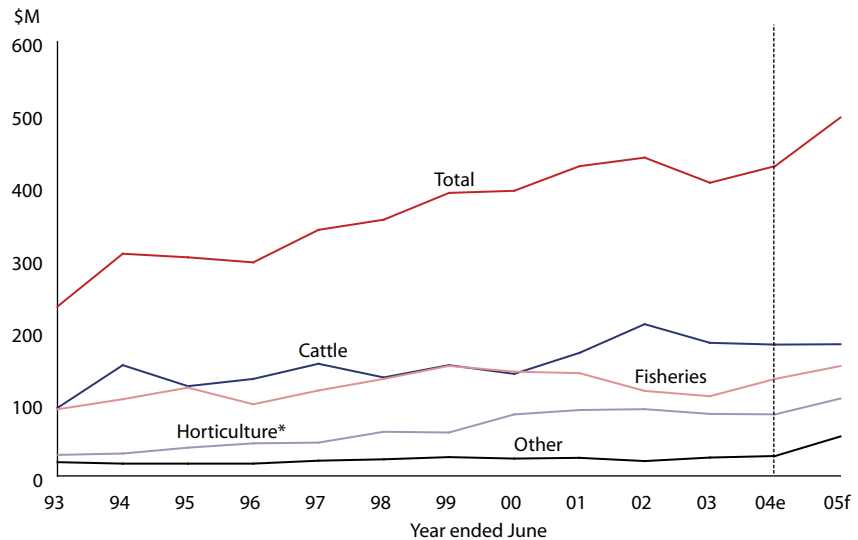
Chart 7: Visitor Numbers, Northern Territory



f: forecast  
Source: NT Treasury, NTTC

- Rural industries in the Territory comprise cattle and other livestock (including buffalo, crocodiles, poultry, pigs and camels), horticulture (fruit, vegetables, nursery and cut flowers) and cropping (field crops, hay and seeds). Fisheries include harvesting of wildstock and aquaculture.
- The Territory enjoys certain comparative advantages due to its capacity to supply markets with a range of early-season and out-of-season produce, as well as its 'clean' image.
- Output growth in the industry tends to be volatile due to variable weather, exchange rate and demand conditions. In the Territory, average annual output growth has been below broader economic growth over the past 10 years.
- Rural industries and fisheries accounted for 2.6 per cent of Territory Gross State Product in 2002-03, slightly above the national proportion.
- The value of rural industries and fisheries production was estimated at \$428 million in 2003-04, an increase of 5.7 per cent from 2002-03.
- The value of production is forecast to increase by 16 per cent to \$495 million in 2004-05. Except for cattle production, the outlook is for strengthening production values.

Chart 8: Rural Industries and Fisheries Value of Production (nominal dollars)

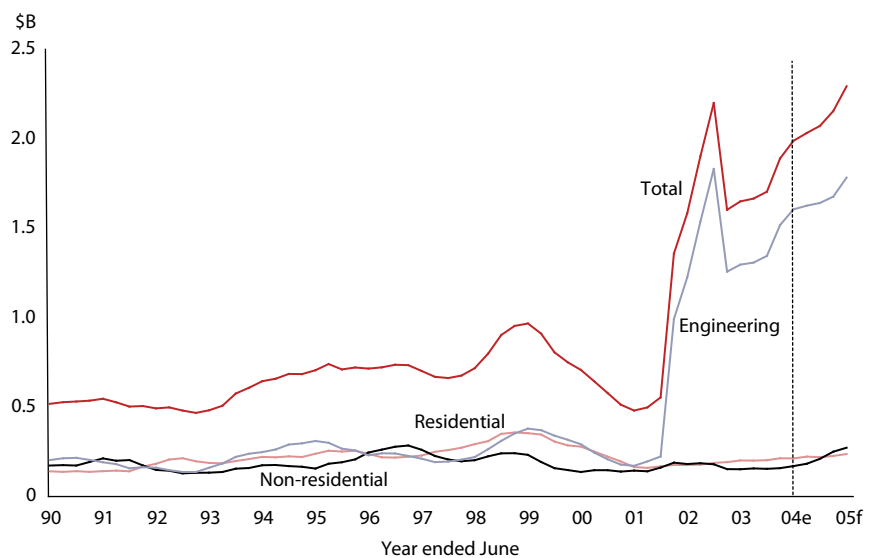


\* Data for Horticulture is for the previous calendar year  
 e: estimate f: forecast  
 Source: Department of Business, Industry and Resource Development

## Construction

- In the Territory, the construction industry accounted for 6.9 per cent of Gross State Product on average during the 1990s, and employed almost 8.0 per cent of the workforce.
- Construction activity slowed markedly in the period immediately following the major defence force relocation to the Top End in the late 1990s as economic and population growth weakened.
- Since then, residential and non-residential building and property markets have continued to be relatively weak, and the Territory has not participated in the national construction and property boom in recent years.
- Major infrastructure projects such as construction of the Alice Springs to Darwin leg of the rail link with Adelaide and work to develop the Bayu-Undan oil and gas project have kept engineering construction at record levels in recent years.
- Largely as a consequence of the liquefied natural gas plant being constructed at Wickham Point, the value of construction is forecast to increase by around 15 per cent to \$2.3 billion in 2004-05, after increasing by around 20 per cent to \$2 billion in 2003-04.

Chart 9: Territory Construction Work Done (moving annual total, 2001-02 dollars)



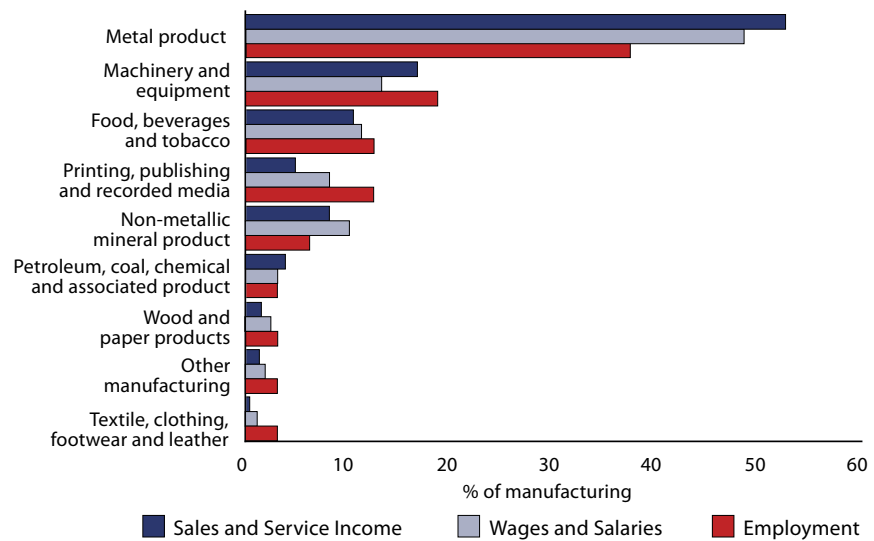
e: estimate f: forecast

Source: NT Treasury, ABS Cat. Nos 8752.0, 8762.0, 8782.0.65.001

# 2004-05 Manufacturing

- Manufacturing is currently a small contributor to the Northern Territory economy, contributing an average 4 per cent of Gross State Product, compared to around 11 per cent nationally, over the past decade.
- Manufacturing in the Territory is narrowly based and is dominated by the metal product sub-division (primarily alumina production from bauxite feedstock at Nhulunbuy), which is typically around 60 per cent of manufacturing value added.
- In the short term, metal products will continue to dominate manufacturing in the Territory. However, in the medium to long term, natural gas extracted from the Timor Sea could be used as an input for gas-related manufacturing industries and potentially as a cheaper energy source in gas-based manufacturing industry, which will significantly broaden the Territory's economic base.
- Feasibility studies are being undertaken to expand mineral processing capacity at Nhulunbuy (bauxite to alumina processing) and at McArthur River (zinc smelting) which, if successful, will also boost Territory manufacturing.
- The new rail link between Adelaide and Darwin could lead to the further development of export-oriented and other manufacturing opportunities.

Chart 10: Territory Manufacturing Industry Selected Indicators (2000-01)

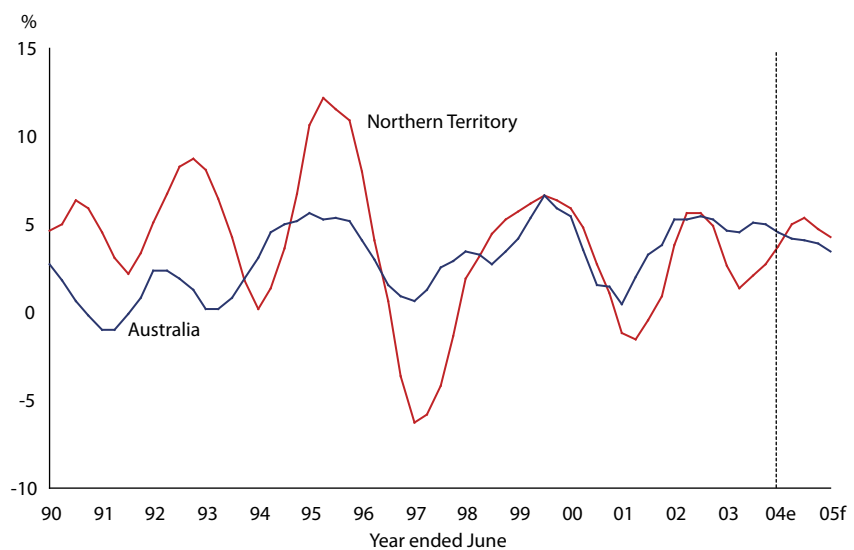


Source: NT Treasury, ABS Cat. No. 8221.0

## Retail Trade

- Retail and wholesale trade accounted for 7.0 per cent of Northern Territory Gross State Product in 2002-03, and over 15 per cent of employed people in the Territory.
- Compared to the national average, Territory consumers tend to spend more on food relative to other retail categories (in part due to the higher cost of freighting and storing many food lines), while relatively less is spent on recreational goods and clothing and footwear (reflecting differences in climate and lifestyle).
- Following soft growth in 2002-03, Territory real retail turnover is estimated to have grown by 3.8 per cent in 2003-04, boosted by an increase in spending on household goods (such as domestic houseware and hardware, appliances, furniture and the like).
- Territory real retail turnover growth of 4.2 per cent is forecast for 2004-05, supported by a steadily improving population growth rate and a healthy increase in employment (particularly from major projects such as the construction of the liquefied natural gas plant at Wickham Point).

Chart 11: Territory Retail Turnover (moving annual total, annual percentage change)



e: estimate f: forecast  
Source: NT Treasury, ABS Cat. No. 8501.0

- Efficient transport and communication services are important to the Territory economy, given distance from national distribution centres and a small, dispersed population.
- In the 10 years to 2002-03, growth in the transport and communication industries was considerably stronger than broader economic growth, reflecting increasing capacity as infrastructure is developed.
- The completion of the Alice Springs to Darwin leg of the rail link to Adelaide, together with Darwin's East Arm Port, have established Darwin as a multimodal transport hub providing a 'landbridge' linking southern Australian and Asian markets.
- Lower transport costs will see rail become dominant on the north-south freight route. Nonetheless, road and air transport will continue to serve niche freight markets.
- Access to sophisticated information and communications technology and increased coverage has facilitated improved and innovative service provision mechanisms in remote regions.
- In the short to medium term, the major influence on the outlook for the transport sector is value-adding and trade opportunities associated with the new rail link and port.
- Further improvements in communications technology could increase the scope and quality of public and private service provision, particularly in remote areas.

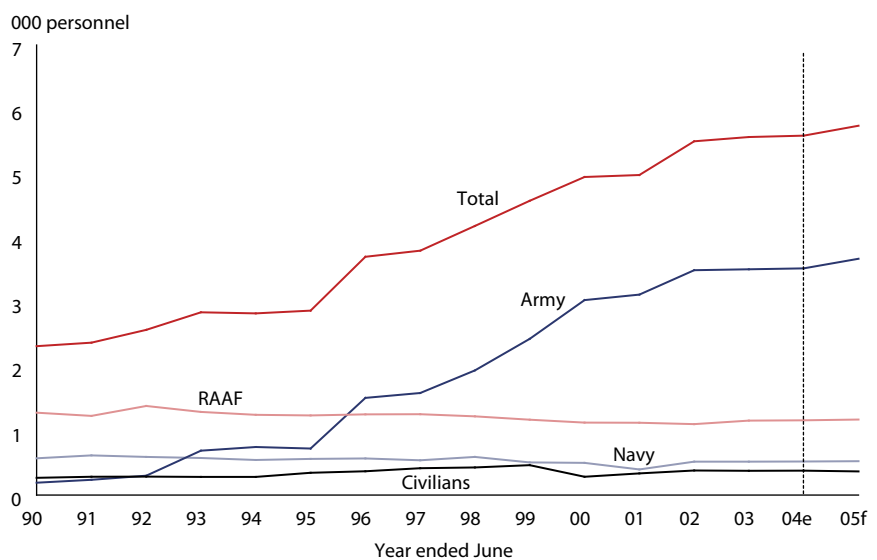
## Public Sector

- The public sector continues to be a major contributor to the Northern Territory economy and provides a wide range of economic and social services. It consists of the Commonwealth, Territory and local governments.
- In 2002-03, government administration and defence, and the other predominantly public sector industries (health and education), together accounted for more than 21 per cent of the Territory's Gross State Product (GSP). About 36 per cent of Territory State Final Demand was attributable to public expenditure, of which 89 per cent was consumption related.
- The proportion of public sector-related industries in Territory GSP continues to be well above the national average, in part because the cost of public sector service provision is relatively high in the Territory as a consequence of a small and widely dispersed population, compounded by higher average cost of servicing people in remote communities.
- The importance of the public sector in the Territory has not diminished in significance over the past decade, reflecting the defence build-up and increases in local and Territory government employment (partially offset by reductions in other Commonwealth Government non-defence employment).
- There is expected to be modest growth in public sector employment in the Territory in coming years, due partly to greater defence personnel numbers associated with further defence relocations and expanded Northern Territory Government service delivery initiatives currently being introduced.

## Defence

- The defence presence in the Territory has more than doubled since the early 1990s, with the number of defence personnel and their families increasing from around 6 200 in June 1992 to an estimated 12 900 by June 2004.
- Approximately 10 per cent of Australian defence force combat personnel are now based in the Territory.
- Since 1995, when the Army relocation began in earnest, defence expenditure in the Territory has increased at an average rate of 14.5 per annum.
- Major activities underway or planned include the formation of the Army's 1st Aviation Regiment (including 17 new Tiger Helicopters and a related \$75 million building program at the Army's Robertson Barracks in Darwin) and around \$50 million of additional work on the Army's Bradshaw Field Training Area (near Timber Creek).
- To help accommodate some of the 200 defence personnel and families expected to relocate to Darwin for the 1st Aviation Regiment, the Defence Housing Authority (DHA) is expected to commission the construction of housing stock worth around \$70 million over the next few years (from 2005) on land at Lee Point in Darwin's northern suburbs.
- Emphasis on Territory-based support and maintenance for military hardware such as helicopters, tanks and patrol boats is expected to increase over coming years.

Chart 12: Defence Personnel Stationed in the Territory



e: estimate f: forecast  
 Source: NT Treasury, Department of Defence

