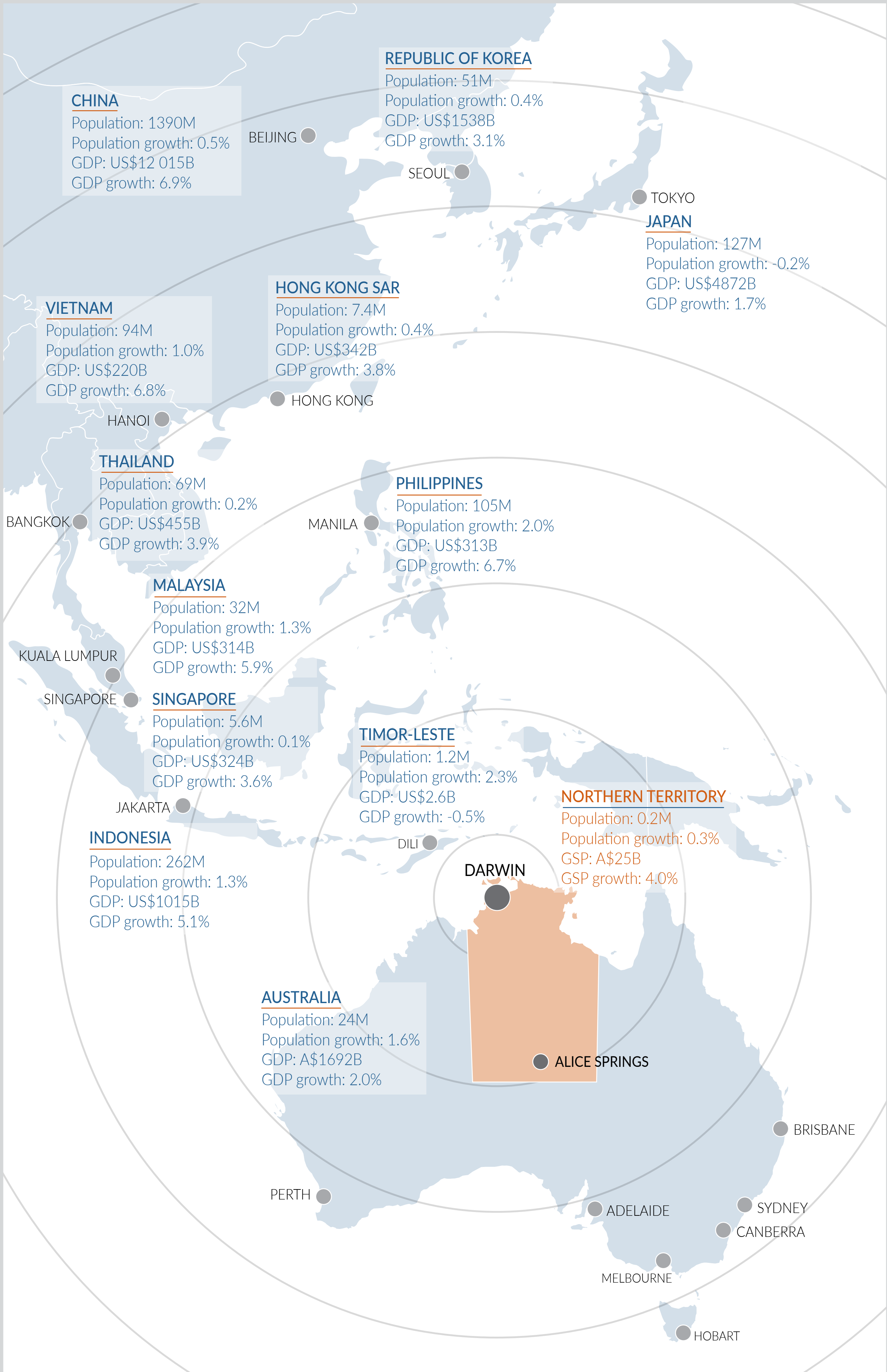
NORTHERN TERRITORY ECONOMY OVERVIEW


CHINA
Population: 1390M
Population growth: 0.5%
GDP: US$12 015B
GDP growth: 6.9%
BEIJING
REPUBLIC OF KOREA
Population: 51M
Population growth: 0.4%
GDP: US$1538B
GDP growth: 3.1%
SEOUL
TOKYO
JAPAN
Population: 127M
Population growth: -0.2%
GDP: US$4872B
GDP growth: 1.7%
VIETNAM
Population: 94M
Population growth: 1.0%
GDP: US$220B
GDP growth: 6.8%
HONG KONG SAR
Population: 7.4M
Population growth: 0.4%
GDP: US$342B
GDP growth: 3.8%
HONG KONG
HANOI
THAILAND
Population: 69M
Population growth: 0.2%
GDP: US$455B
GDP growth: 3.9%
BANGKOK
PHILIPPINES
Population: 105M
Population growth: 2.0%
GDP: US$313B
GDP growth: 6.7%
MANILA
MALAYSIA
Population: 32M
Population growth: 1.3%
GDP: US$314B
GDP growth: 5.9%
KUALA LUMPUR
SINGAPORE
SINGAPORE
Population: 5.6M
Population growth: 0.1%
GDP: US$324B
GDP growth: 3.6%
TIMOR-LESTE
Population: 1.2M
Population growth: 2.3%
GDP: US$2.6B
GDP growth: -0.5%
JAKARTA
NORTHERN TERRITORY
Population: 0.2M
Population growth: 0.3%
GSP: A$25B
GSP growth: 4.0%
DILI
INDONESIA
Population: 262M
Population growth: 1.3%
GDP: US$1015B
GDP growth: 5.1%
DARWIN
AUSTRALIA
Population: 24M
Population growth: 1.6%
GDP: A$1692B
GDP growth: 2.0%
ALICE SPRINGS
BRISBANE
PERTH
ADELAIDE
SYDNEY
CANBERRA
MELBOURNE
HOBART

Northern Territory Economy Overview

The Economy Overview is a summarised assessment of the Northern Territory economy, including a brief description of recent activity and outlook across a number of key economic indicators including: economic growth, the structure of the economy, the external economic environment, population, labour market, prices and wages, and the residential property market. There is also some discussion on performance and outlook for key industries. A more detailed document, Northern Territory Economy, can be accessed on nteconomy.nt.gov.au. Commentary on current and historical economic conditions in the Territory is also provided on the new Territory Economy website nteconomy.nt.gov.au.

Contents

The map left is produced from various sources. Department of Treasury and Finance cannot guarantee the accuracy, currency, or completeness of the information. To be used as a guide only.
GDP: gross domestic product; SAR: special administrative region; GSP: gross state product

Territory Economy Key Indicators

Table 1: Territory key economic indicators (%)

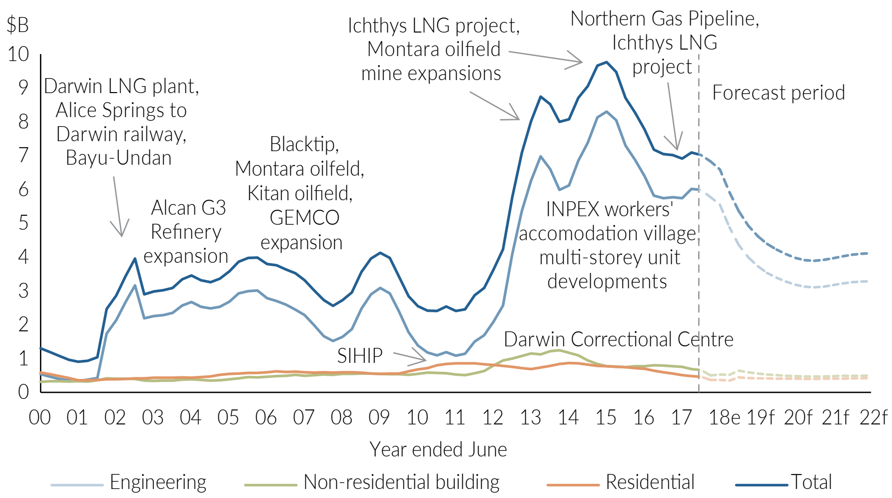
	2016-17	2017-18e	2018-19f	2019-20f	2020-21f	2021-22f
Gross state product[1]	4.0	2.6	2.1	- 0.4	2.6	2.8
State final demand[1]	8.2	0.1	- 8.0	- 4.4	2.0	2.8
Population[2]	0.3	0.0	- 0.7	0.6	1.0	1.1
Employment[3]	2.5	- 2.0	- 0.5	0.3	0.9	1.0
Unemployment rate[4]	3.4	4.3	4.9	4.5	4.3	4.0
Consumer price index[3]	0.1	0.5	1.0	1.7	1.9	2.3
Wage price index[3]	2.1	1.8	1.7	1.8	2.0	2.1

e: estimate; f: forecast
1 Year ended June, year-on-year percentage change, inflation adjusted.
2 As at December, annual percentage change.
3 Year ended June, year-on-year percentage change.
4 Year average.
Source: Department of Treasury and Finance; ABS

Structure of the Economy

The Territory economy has grown considerably over the past decade. Gross state product (GSP) grew by 37.5 per cent from $18.5 billion in 2007-08 to $25.4 billion in 2016-17, mainly driven by construction-related investment (Chart 1), and population increased by 12.9 per cent or about 28 000 to over 246 000 people during this period. The Territory's labour force has also expanded, increasing by about 26 300 (22.5 per cent) to over 143 100 people. The economy is more diverse, with a greater share of employment and output across goods and service industries.

Chart 1: Construction work done in the Territory[1, 2]

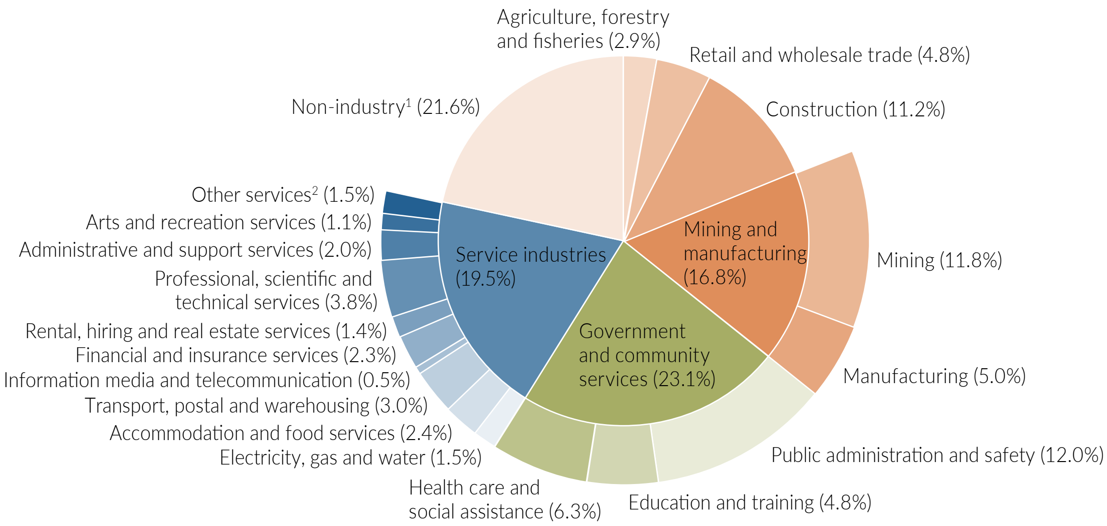


GEMCO: Groote Eylandt Mining Company Operation; LNG: liquefied natural gas; SIHIP: Strategic Indigenous Housing and Infrastructure Program
1 Construction work done preliminary data estimates.
2 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Construction Work Done, Australia*, Cat. No. 8755.0

The history of the Territory's economic development and growth cycles has largely been driven by the resources sector. The Territory economy has a relatively large public sector, a significant defence force presence and a small and remote population, which is distributed over a large and isolated area. In recent years, the construction and mining industries have been the main drivers of economic growth (Chart 2). However, growth prospects for the mining industry in particular are reliant on overseas demand and investment, and subject to movement in global commodity prices, exchange rates, and taxation settings relative to competing locations.

The government and community services industry has traditionally contributed a far greater share to both the Territory's economy and employment than it does nationally. By comparison, the services industry is the dominant industry in Australia.

Chart 2: Contributions to gross state product, 2016-17



1 Non-industry components include ownership of dwellings, taxes less subsidies and statistical discrepancy.
2 Other services components include personal services and general repair and maintenance activities.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

In the short term, the Territory economy is forecast to continue to face the challenging conditions, following a sustained period of record growth across many key industries as a result of the significant construction and investment associated with the Ichthys liquefied natural gas (LNG) project and other resources projects. As the impact of large resource-based projects move beyond peak growth, GSP, business investment, construction activity, dwelling supply and demand, employment and population are all expected to remain subdued.

Accordingly, the outlook for the structure of the Territory economy is a shift from construction as the dominant sector to mining and manufacturing because the Ichthys LNG project's contribution to total employment will be considerably less, as a smaller workforce is required for its operational phase. Net exports are then expected to emerge as the primary driver of Territory economic growth, increasing substantially over 2018-19 and 2019-20, and remaining at these levels well into the future.

Despite current and future potential challenging conditions, the Territory is well positioned to take advantage of a number of opportunities likely to redefine the structure of the Territory economy throughout the forecast period and into the next decade.

The Territory Government is committed to stimulating economic activity and attracting private investment opportunities to support local industries. There are a number of major projects identified in the Territory that will help sustain growth over the medium and long term. Furthermore, there are several other projects that have received major project status from the Territory Government and, if realised, are expected to sustain the economy into the future.

On 27 March 2018, the Independent Scientific Inquiry into Hydraulic Fracturing of Onshore Unconventional Reservoirs in the Northern Territory released its final report. The Territory Government has decided to lift the moratorium on hydraulic fracturing, accepting all 135 recommendations made by the report, which should reduce risk to an acceptable level while creating jobs and guaranteeing significant economic activity over the medium to long term. The economic implications of this decision have not been factored into forecasts as the expected economic impacts on production, employment and regional economic activity are largely beyond the forecast period for the 2018-19 Budget.

Economic Growth

Recent activity

Headline economic growth in the Territory strengthened to 4.0 per cent in 2016-17, driven by strong growth in private and public investment as well as consumption. Similarly the 8.2 per cent growth in state final demand (SFD) was also driven by investment and consumption expenditure.

Outlook

The Territory's economic growth rate is expected to average 1.9 per cent over the next five years. LNG exports will be the main driver of growth, more than making up for moderate consumption growth and a return to long-term trend levels of private investment.

The size of the Territory economy is measured by GSP, which represents the value of economic output on an annual basis, published by the Australian Bureau of Statistics (ABS). GSP is calculated by the ABS using three measures: income, production and expenditure. Headline GSP as published by the ABS represents an average of the three measures. The Department of Treasury and Finance forecasts of GSP are based on a single measure: GSP on an expenditure basis. The ABS also publishes quarterly estimates of state final demand (SFD), a measure of domestic economic activity, which is the sum of investment and consumption.

Outlook

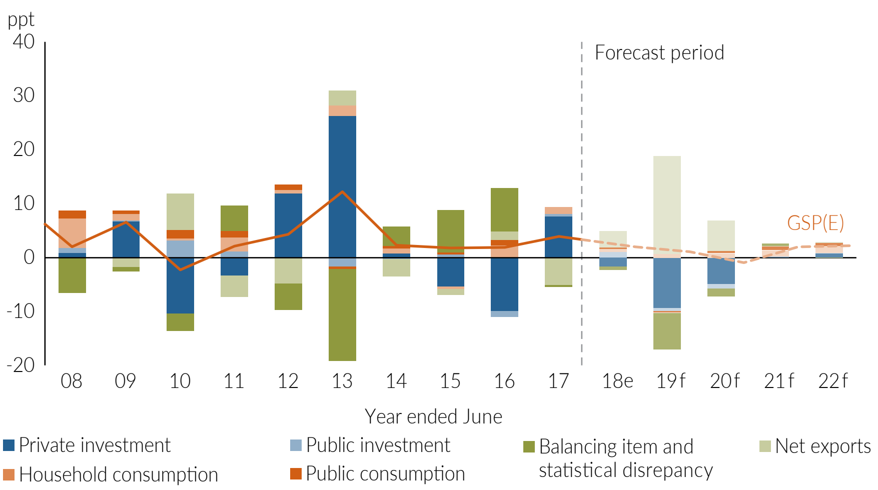
Table 2: Economic growth (%)[1]

	2016-17a	2017-18e	2018-19f	2019-20f	2020-21f	2021-21f
Gross state product	4.0	2.6	2.1	- 0.4	2.6	2.8
State final demand	8.2	0.1	- 8.0	- 4.4	2.0	2.8

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

The Territory recorded headline economic growth of 4.0 per cent in 2016-17, with GSP increasing to $25.4 billion, driven by strong growth in private and public investment, as well as consumption. The Territory recorded the second highest economic growth rate of the jurisdictions and above the national economic growth rate of 2.1 per cent.

Chart 3: Contribution to Territory economic growth[1]



GSP(E): expenditure measure of gross state product; ppt: percentage point; e: estimate; f: forecast
1 Inflation adjusted.
Source: Department of Treasury and Finance, ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

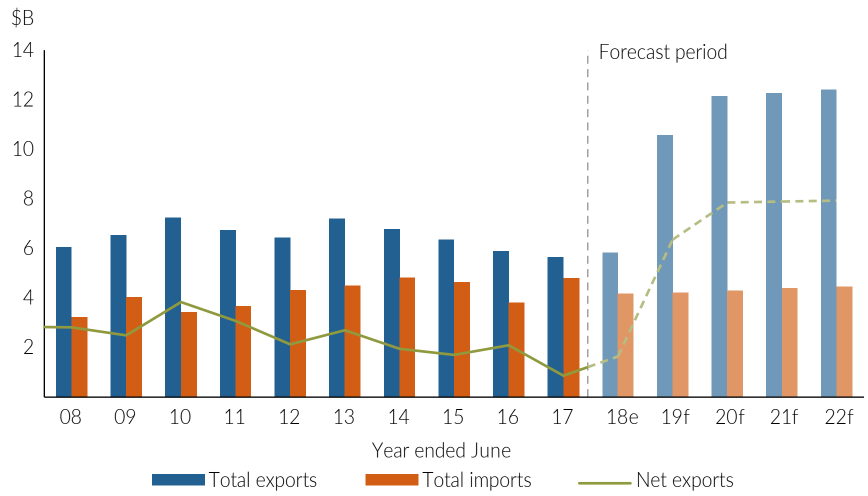
The Territory's economic growth over the forecast period continues to reflect a transition from record levels of private investment, towards export-driven growth (Chart 3). This transition will be largely dominated by activity related to the Ichthys LNG project. As construction of the Ichthys LNG project is completed and the plant commences production in 2018, growth in Territory domestic economic activity will moderate further. However, commencement of the production phase will benefit the economy significantly due to a boost in LNG, liquefied petroleum gas (LPG) and condensate exports beginning in 2018-19, reaching full export capacity in 2019-20 at levels expected to be sustained throughout the project's 40-year life.

As a consequence, Territory GSP is forecast to grow moderately over 2017-18 and 2018-19, before declining in 2019-20, largely reflecting declines in business investment as the Ichthys LNG project completes its construction and commissioning phase. This will be partly offset by a significant improvement (over 375 per cent) in net exports over 2018-19 and 2019-20, from 2017-18 (Chart 4). However, given the significant scale of the project, any changes to the construction completion, commissioning timing or initial level of exports from the Ichthys LNG project will have a material impact on the Territory's annual economic growth forecasts over the 2017-18 to 2019-20 period.

Public investment from the Territory Government's $1.45 billion infrastructure spend in 2018-19, combined with Commonwealth defence capital works projects, is expected to partially offset declining private investment over the same period.

Economic growth in the outer years is likely to be supported by the stabilisation of business investment and net exports, as well as moderate growth in consumption from both the household and public sectors. Growth over 2020-21 and 2021-22 is forecast to strengthen from 2.6 per cent to 2.8 per cent, as projects currently in the pipeline begin to contribute to the economy. This trend is in line with forecasts for the Territory's population and employment in the outer years.

Chart 4: Territory net exports[1]



e: estimate; f: forecast
1 Inflation adjusted.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Overall the Territory economy is expected to be over 50 per cent larger by 2021-22, at $28.0 billion in size, compared to 10 years ago.

Prospective investment projects in the pipeline, including those with major project status, are not included in the above forecasts as they have not yet received final investment decisions. If realised, these projects, as well as the expansion of the onshore gas industry, have the potential to provide significant improvement to the Territory's economic growth over the forecast period.

External Economic Environment

Recent activity

In 2016-17 the Territory's net exports decreased by 58.6 per cent to $865 million, primarily driven by a 26.1 per cent increase in total imports and a 3.9 per cent decline in total exports.

Outlook

Territory trade is expected to increase sharply as exports from the production phase of the Ichthys LNG project commence in 2018-19.

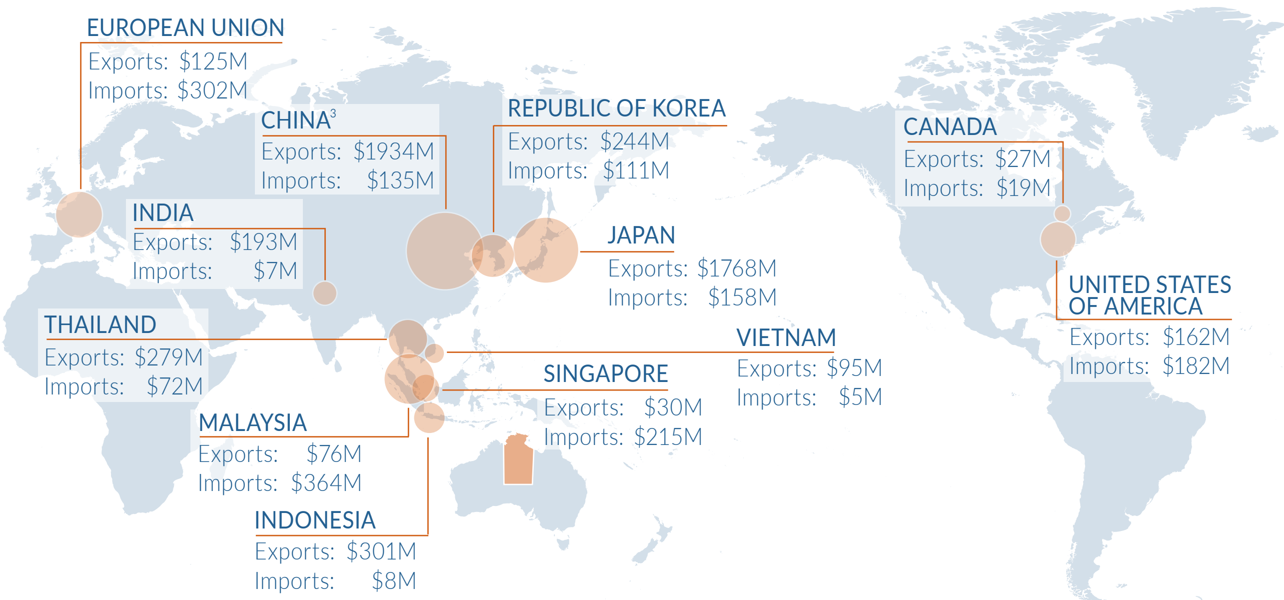
International and interstate economic activity influences the Territory's economy through changes to population, trade, tourism and the availability of workers to meet the Territory's labour requirements. Additionally, monetary policy set by the Reserve Bank of Australia (RBA) influences household consumption, business confidence and investment in the Territory.

Territory international trade

In 2016-17, the Territory's net exports decreased by 58.6 per cent to a record low of $865 million, down from $2.1 billion in 2015-16. This large decrease was driven by a 3.9 per cent decline in total exports, partly offset by a 26.1 per cent increase in total imports, associated with imported materials related to the construction phase of the Ichthys LNG project.

The Territory's net exports are expected to increase to $1.6 billion in 2017-18, primarily due to a decrease in imports, as the Ichthys LNG project approaches construction completion. Net exports are forecast to increase significantly as LNG, LPG and condensate products are exported to Japan and other global destinations, while imports are forecast to grow below trend, in line with major project completion.

Map 1: Territory's major goods trading partners, 2016-17[1, 2]



1 Current prices.
2 This map is produced from various sources. Department of Treasury and Finance cannot guarantee the accuracy, currency or completeness of the information. To be used as a guide only.
3 Excluding special administrative regions (Macau and Hong Kong) and Taiwan.
Source: Department of Treasury and Finance, ABS, *International Trade in Goods and Services*, Cat. No. 5368.0

Global economy

The International Monetary Fund (IMF) forecasts global growth to increase marginally from 3.8 per cent in 2017 to 3.9 per cent in 2018 and average 3.8 per cent over the outlook period. Advanced economies are forecast to grow at 2.5 per cent, while emerging markets and developing economies are forecast to grow at 4.9 per cent in 2018 (Table 3).

Global growth is expected to continue through to 2022, with emerging markets and developing economies remaining the key drivers of growth, increasing by 5.1 per cent in 2019. In Asia, growth will be driven by the advancement of Asia's tiger economies (including Indonesia, Thailand, Malaysia and the Philippines). Growth in the developing economies is partly offset by a slowing Chinese economy that reflects China's new commitment to a more sustainable growth path. The IMF forecasts China's economy to slow from growth of 6.9 per cent in 2017 to 6.6 per cent in 2018.

Table 3: GDP growth for the Territory's current major trade destinations, Australia and world regions (%)

	2017a	2018e	2019f	2020f	2021f	2022f
United States	2.3	2.9	2.7	1.9	1.7	1.5
Japan	1.7	1.2	0.9	0.3	0.7	0.5
China	6.9	6.6	6.4	6.3	6.0	5.7
Thailand	3.9	3.9	3.8	3.6	3.6	3.5
Indonesia	5.1	5.3	5.5	5.6	5.6	5.6
Singapore	3.6	2.9	2.7	2.6	2.6	2.6
India	6.7	7.4	7.8	7.9	8.1	8.1
Australia	2.3	3.0	3.1	2.9	2.7	2.6
Emerging markets and developed economies	4.8	4.9	5.1	5.1	5.1	5.0
Advanced economies	2.3	2.5	2.2	1.7	1.7	1.5
Global	**3.8**	**3.9**	**3.9**	**3.8**	**3.7**	**3.7**

GDP: gross domestic product; a: actual; e: estimate; f: forecast
Source: International Monetary Fund

National economy

The IMF forecasts economic growth in Australia to be 3.0 per cent in 2018 and average 2.9 per cent over the five-year forecast period to 2022. The 2017-18 Commonwealth Mid-Year Economic and Fiscal Outlook (MYEFO) anticipates that Australia's 26 consecutive years of economic growth will continue over the medium term. MYEFO forecasts the Australia economy to grow by 2.5 per cent in 2017-18 before increasing to 3.0 per cent by the end of the forecast period in 2021-22. Economic growth is expected to be supported by non-mining business investment, housing consumption and public investment, supported by a weaker Australian dollar, benefiting goods and service exports.

The Reserve Bank of Australia (RBA) has kept the official cash rate at a record low of 1.5 per cent. According to Deloitte Access Economics, Australia's official cash rate is forecast to stay flat before rising in late 2018 or early 2019. Current RBA monetary policy is influenced by Australia's subdued inflation and marginal wage growth. The Territory could benefit from ongoing low interest rates, which support business confidence, consumption and investment decisions.

Commodity prices

Prices for the Territory's major commodity exports, which include bauxite and manganese, are expected to remain subdued in the short to medium term. The increasing focus on environmental policies in China affects the demand for both bauxite and manganese.

Population

Recent activity

population growth remains significantly below historical trends, with net migration outflows at record levels.

Outlook

The Territory's population is expected to decline in 2018 before growth rates gradually recover towards the long-term average.

The Territory's population, compromises 1 per cent of the total Australian population and is spread over the third largest Australian jurisdiction by geographical area. About one third of the Territory's population are Aboriginal people, around 80 per cent of whom live in remote and very remote areas. The Territory has a younger age profile than Australia as a whole with a median age of 32.7 years, compared with 37.4 years for Australia, and a skewed gender profile, with 106 males for every 100 females.

Outlook

Table 4: Territory population forecasts (%)

Calendar year	2016a	2017e	2018f	2019f	2020f	2021f
Population growth	0.3	0.0	- 0.7	0.6	1.0	1.1

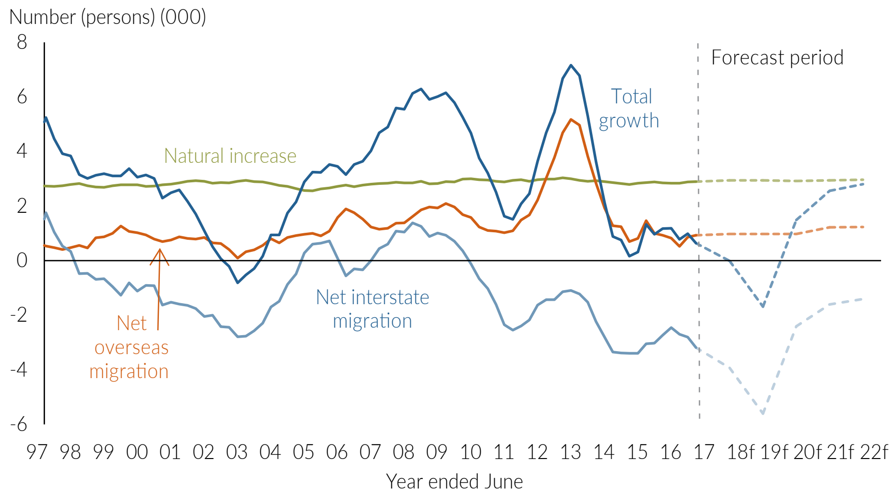
a: actual; e: estimate; f: forecast
Source: Department of Treasury and Finance; ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

The Territory's population growth has been subdued over recent times, driven by large net outflows of interstate migrants, as well as lower levels of overseas migration inflows. In 2016, the Territory's population increased marginally by 0.3 per cent, to 245 740. Since then, the rate of population growth has slowed, with no change in population reported between the September quarter 2016 and the September quarter 2017.

The Territory's population growth over 2017 is expected to be flat, with natural increase and a small improvement in net overseas migration (NOM) being offset by continued elevated levels of net interstate migration (NIM) outflows. Much of the increase in the NIM outflow is expected to have been driven by an underlying weakness in non-construction-related sectors of the Territory economy, such as retail trade, as well as lower levels of new employees required at the Ichthys LNG project as construction is completed in the first quarter of 2019. The first three quarters of 2017 also saw a strong decline in the number of people arriving in the Territory, reflecting strong economic and population growth in other jurisdictions, particularly in Victoria and New South Wales, which is also contributing to elevated NIM outflows.

In 2018 the Territory's population is forecast to decline by 0.7 per cent. Much of this decline reflects further expected NIM outflows over the year as workers, who had relocated to the Territory to work on major projects, depart (Chart 5). NOM is expected to continue to be a stable positive contributor to the Territory's population but levels are not expected to be high enough to offset NIM outflows.

Chart 5: Components of Territory population growth



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

The Territory Government is developing a Population Strategy and Action Plan, which will aim to improve the Territory's population growth. The Population Strategy will focus on key measures that will support the attraction and retention of key population cohorts in the Territory, as well as engaging with the Territory's alumni. These measures, through a range of incentives, marketing, branding and research, will include: generating investment and creating jobs; enhancing liveability; and moderating costs of living and costs to business.

The outlook for the Territory's population is expected to improve in the outer forecast period, returning to growth from 2019. This in part reflects much lower levels of anticipated post-construction outflows of workers from the Ichthys LNG project, the majority of whom are expected to depart in 2018. Fewer departures interstate from 2019 onwards should result in moderating NIM outflows. NOM and natural increase are both expected to remain steady contributors to population growth.

The outlook for the outer years does not include any impact from potential major projects currently in the pipeline. Although it would seem unlikely there will be another major project of the magnitude of the Ichthys LNG project in the near future, smaller projects could still provide a temporary boost to the Territory's population growth, particularly encouraging NIM. Similarly, economic conditions in other parts of Australia also have the potential to affect the outlook for Territory population growth, as people move from one region to another in search of new employment opportunities.

Northern Territory population projections

In addition to the five-year forecasts published as part of the 2018-19 Budget, the Department of Treasury and Finance has also developed preliminary long-term projections for the Territory's resident population to the year 2046, disaggregated by age, sex and Aboriginal status. The projections are based on ABS 2016 Census preliminary estimated resident population numbers at 30 June 2016. Supplementary regional population projections are currently being developed. The Northern Territory population projections are calculations of the future size and characteristics of the Territory population and have been developed to assist Territory Government agencies, non-government organisations and businesses to plan service delivery across the Territory.

Labour Market

Recent activity

The Territory's labour market performance in 2016-17 reflected strong construction workforce requirements associated with the Ichthys LNG project. At June 2017, the Territory's labour force consisted of about 143 100 people.

Outlook

Employment growth is expected to contract in 2017-18 and 2018-19 following completion of construction of the Ichthys LNG project. Similarly, the unemployment rate is forecast to increase following a period of job shedding, before labour force conditions return to more normal levels in the outer years.

Outlook

Table 5: Territory labour market forecasts (%)

	2016-17a	2017-18e	2018-19f	2019-20f	2020-21f	2021-22f
Employment[1]	2.5	- 2.0	- 0.5	0.3	0.9	1.0
Unemployment rate[2]	3.4	4.3	4.9	4.5	4.3	4.0

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

The Territory consistently has the highest participation rate of all jurisdictions. This reflects the comparatively young age profile of the Territory's workforce and that employment is often a key motivator for people to move to the Territory, whereas unemployment is usually a key reason for people to leave. This traditional trend is expected to continue over the forward estimates.

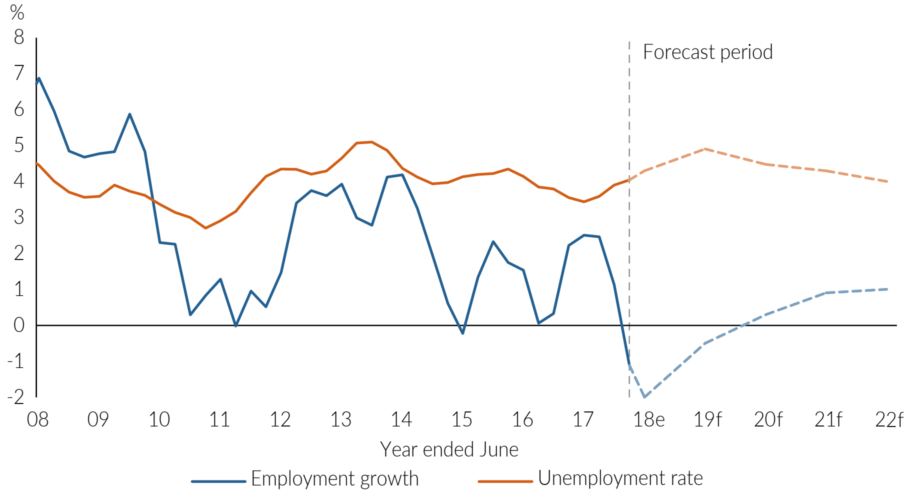
As construction work on the Ichthys LNG project nears completion and commissioning activities ramp up through 2018, employment growth is estimated to decline by 2.0 per cent in 2017-18. Being the largest project in the Territory's history, the Ichthys LNG project has been a dominant driver of employment in the Territory and, as such, changes in workforce requirements will have a strong influence on the labour market outlook.

As the workforce requirements associated with the Ichthys LNG project lessen, both employment and population growth will continue to moderate. The employment loss caused by the Ichthys LNG project transitioning to the production and operational phase in 2018-19 is expected to have a one-off impact on the level of Territory employment. Consequently, employment is forecast to decline by 0.5 per cent in 2018-19, as the remainder of the Ichthys construction workforce departs from the Territory's labour force in the year (Chart 6).

Territory employment growth is expected to average below long-term trends over the outlook period, with a shift from the construction sector as a major contributor to employment, to an increased reliance on general growth across other key industries in the Territory including tourism, health and education services, public administration, agricultural, mining and defence sectors.

The Territory Government is committed to stimulating economic activity and attracting private investment opportunities to support local industries through the transition of the Ichthys LNG project into the production and operational phase. The roll out of the EDF in May 2017 is helping to sustain long-term growth in the Territory by supporting infrastructure investment and creating employment opportunities in a range of sectors. Further to this, the Territory Government's $103 million stimulus package for the tourism sector and infrastructure spend of $1.45 billion in 2018-19 are expected to contribute to employment opportunities.

Chart 6: Employment growth in the Territory



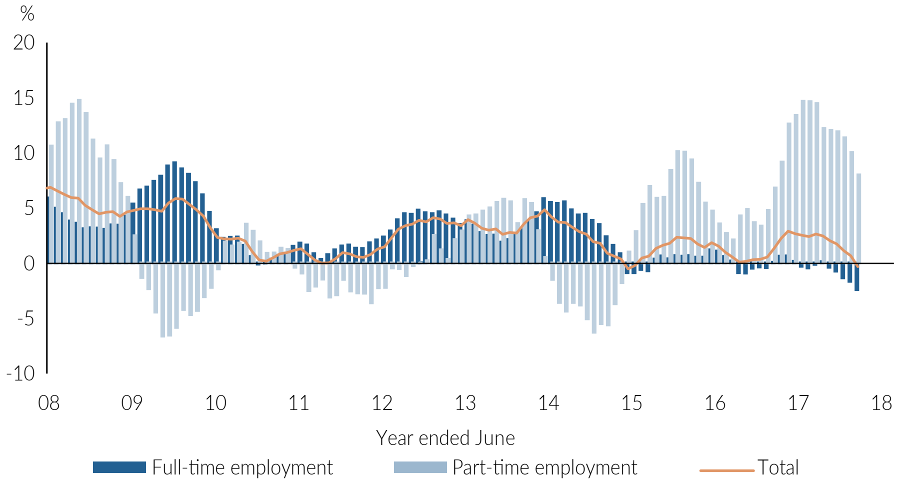
e: estimate; f: forecast
1 Year-on-year change in resident civilian employment.
Source: Department of Treasury and Finance; ABS, *Labour Force, Australia*, Cat. No. 6202.0

The unemployment rate is expected to peak at an average of 4.9 per cent in 2018-19 as employment growth deteriorates following the major transition to the production and operational phase of the Ichthys LNG project. From 2019 onwards, a large portion of workers who became unemployed and were unsuccessful in securing other employment are expected to move interstate for other employment opportunities or return to their usual place of residence.

While reducing employment and the overall size of the labour market, the outflow of workers from the Territory is expected to limit the impact of the wind-down of the Ichthys LNG project construction phase on the Territory's unemployment rate over the outlook. Thus, the unemployment rate is expected to average 4.3 per cent over the four years from 2018-19.

Although the completion of construction for the Ichthys LNG project will substantially reduce private sector non-residential construction activity in the Territory, employment growth is forecast to be supported by several other projects commencing in the Territory, albeit at a smaller scale.

Chart 7: Employment growth by status[1]



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

Recent trends saw a shift towards part-time employment being a stronger contributor to employment growth than in previous years, which further suggests an increase in spare capacity in the workforce (Chart 5.2). In the year to February 2018, there was a 2.4 per cent decrease in full-time employment, partially offset by an 8.0 per cent increase in part-time employment. Given this current trend, the outlook for employment growth is expected to be weak.

Prices and Wages

Recent activity

Growth in the Darwin consumer price index (CPI) remains well below long-term trend, with the few drivers in growth being fuel, alcohol and tobacco prices.

Territory wage growth is at record low levels, reflecting moderate increases in both private and public sector wages and generally soft labour market conditions.

Outlook

The outlook for growth in the Darwin CPI remains restrained for 2017-18 and trending to the long-term average over the forecast period, as the economic cycle returns to growth.

Growth in the Territory's wage price index (WPI) is expected to remain positive but subdued in the short term, increasing in the outer years, consistent with national trends and demand for labour.

Inflation measures the change in the general level of consumer prices over a given period of time. CPI provides a basic measure of inflation through the changes in prices of a representative basket of goods and services, as measured by the ABS. The ABS publishes WPI as a measure of the price employers pay for a standard unit of labour.

Outlook

Table 6: Forecasts of growth in the Darwin CPI and Territory WPI (%)

Financial year	2016-17a	2017-18e	2018-19f	2019-20f	2020-21f	2021-22f
Consumer price index	0.1	0.5	1.0	1.7	1.9	2.3
Wage price index	2.1	1.8	1.7	1.8	2.0	2.1

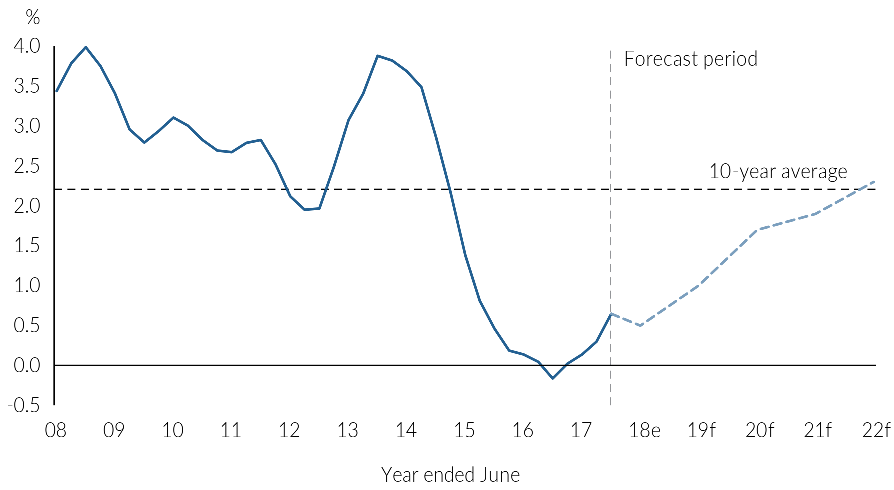
CPI: consumer price index; WPI: wage price index; a: actual; e: estimate; f: forecast
Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0, *Wage Price Index, Australia*, Cat. No. 6345.0; Department of Treasury and Finance

In 2017-18, the Darwin CPI is estimated to grow by a modest 0.5 per cent, following historically low growth in CPI in 2016-17. The key reason for the soft inflation expectation for 2017-18 is the housing category, which represents around a quarter of CPI weightings, again detracting from inflation, offset by some upward pressure from increases in fuel prices.

In 2018-19, the Darwin CPI is forecast to grow by 1.0 per cent, again well below long-term trends (Chart 8). The alcohol and tobacco category is likely to be the strongest contributor to price growth in the Territory with regular implementation of increases to the Commonwealth's tobacco excise regime. The new $1.30 minimum floor price per standard drink for all alcoholic beverages to be introduced in 2018-19 could also result in a one-off increase in this category.

Over the forecast period, growth in the Darwin CPI is anticipated to continue to be modest without any strong inflation drivers and remain in the lower range of the RBA's target band of 2 to 3 per cent at the end of the forecast period.

Chart 8: Darwin CPI, year-on-year percentage change

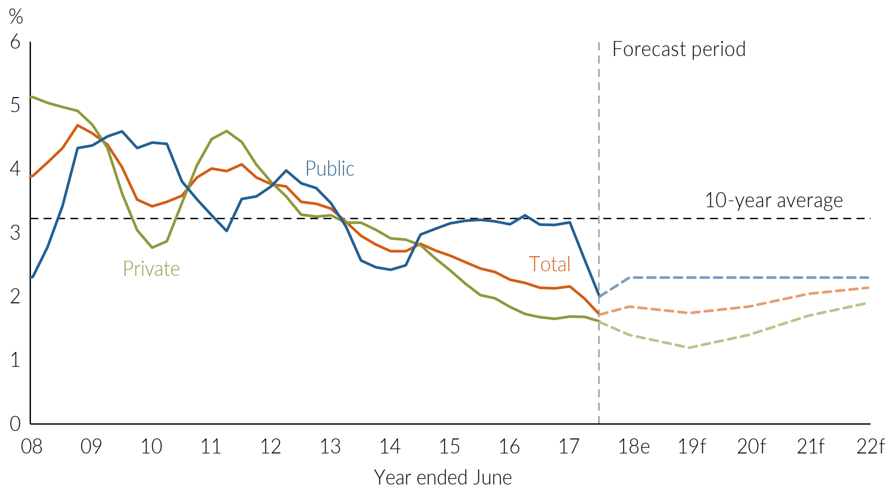


CPI: consumer price index; e: estimate; f: forecast
Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0; Department of Treasury and Finance

As a result of the historically low performance in 2017, wage growth in the Territory is expected to remain moderate for the rest of 2017-18, increasing by 1.8 per cent, due to low inflation expectations and a weaker labour market (Chart 9). There has been a shift towards part-time employment in the Territory, in particular for males, consistent with other jurisdictions in Australia, putting downward pressure on wage growth. Wage growth is expected to remain below the 10-year average over the outlook period, partially reflecting historically high wages growth from major projects over the last 10 years and current low wage conditions.

Another factor contributing to moderate wage growth over the medium term is the decrease in labour demand as the construction of the Ichthys LNG project nears completion. If these workers stay in the Territory, this is likely to increase the spare capacity in the Territory labour market in the short run, which will put further downward pressure on wage growth.

Chart 9: Territory WPI, year-on-year percentage change



WPI: wage price index
Source: ABS, Wage Price Index, Australia, Cat. No. 6345.0

Residential Property Market

Recent activity

Conditions in the Territory housing market have continued to softened, reflecting increased supply relative to demand for housing. This has improved both housing rental and housing purchase affordability.

Outlook

Residential property and construction indicators suggest a further moderation in the residential property market in the medium term, driven by slowing economic activity and subdued population growth in the Territory.

The residential property market encompasses building of homes, buying or renting a dwelling, and new land development. Housing costs are a significant proportion of household expenditure and investment in the Territory, with 20.9 per cent of household income devoted to meeting average mortgage repayments and 23.1 per cent used to meet median rents in the December quarter 2017.

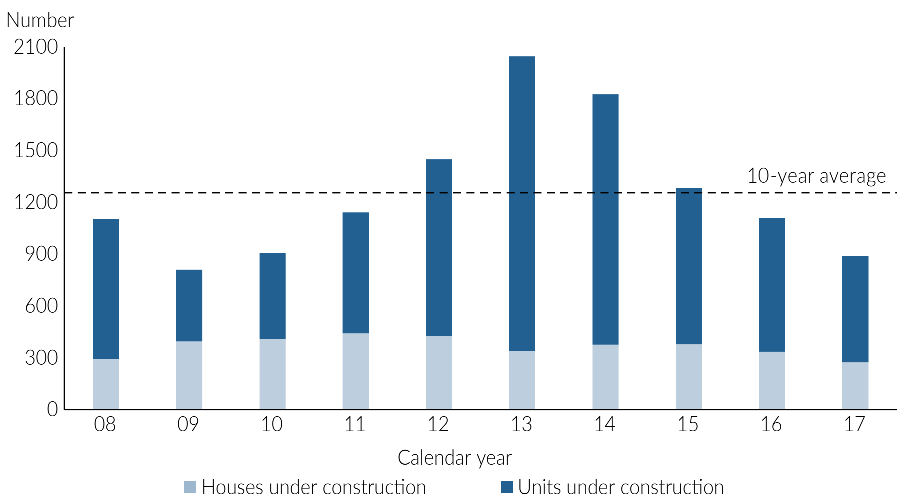
Outlook

The Territory residential property market over the medium term remains subdued with key leading indicators, building approvals and housing finance commitments remaining below long-term levels. This is consistent with other economic indicators, which are also showing signs of softening as the economy experiences a cyclical downturn before returning to long-term trends.

The Territory's residential property market continues to moderate from the historically strong performance in 2012 and 2013 that was driven by major projects in the resources sector. At that time, strong demand for houses and units drove up prices and rents and necessitated a strong supply response. However, the current softening conditions have now led to the level of supply exceeding demand, reflected in increased vacancy rates.

On the supply side, the moderation in the residential property market is also reflected by the decrease in the number of residential dwellings under construction, a leading indicator of the momentum of the property market that suggests a continuation of current conditions (Chart 10). This is supported by a softening in dwelling investment and building approvals, which are key leading indicators for residential housing supply.

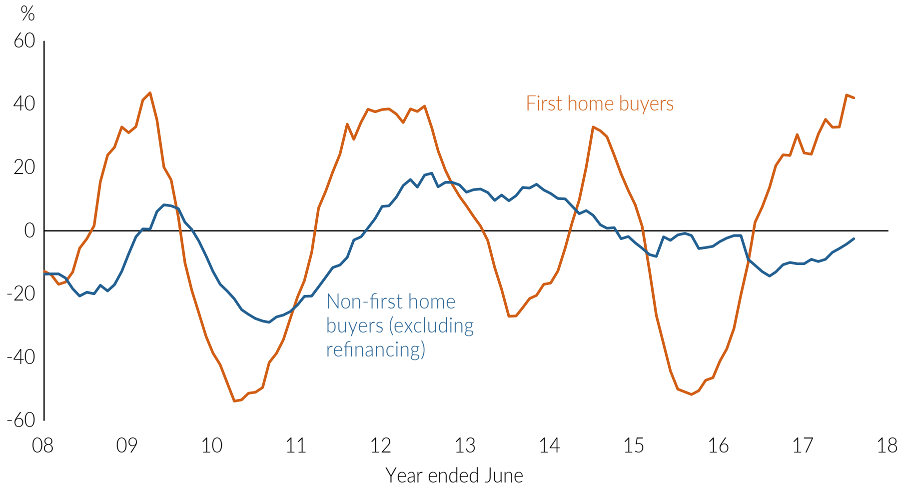
Chart 10: Number of residential dwellings under construction in the Territory



1 Annual average.
Source: ABS, *Building Activity*, Australia, Cat. No. 8752.0

On the demand and purchasing side, the number of housing finance commitments is a leading indicator for housing demand. The underlying conditions for housing commitments represented by the number of non-first home buyers (excluding refinancing) has continued its current demand trajectory, falling by 4.2 per cent in the year to January 2018 (Chart 11). Demand for housing is unlikely to be strong over the medium term due to ongoing softness in both population growth and employment conditions.

Chart 11: Housing finance commitments in the Territory (year-on-year percentage change)

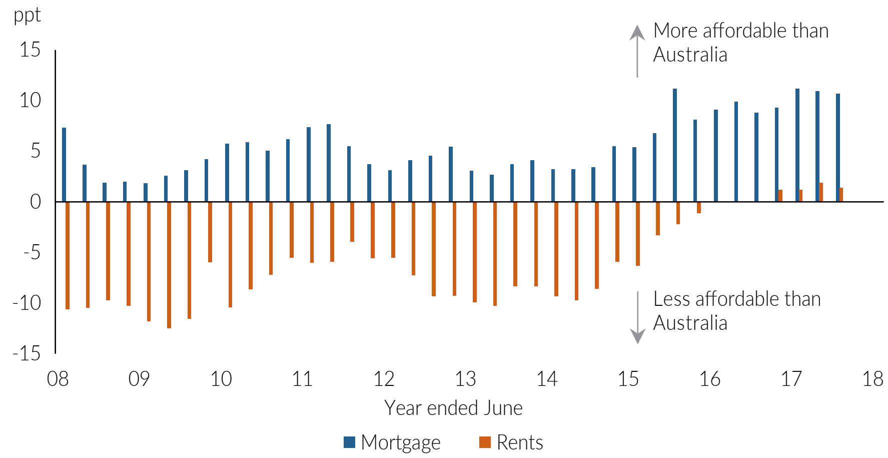


Source: ABS, *Housing Finance Australia*, Cat. No. 5609.0

In anticipation of the downturn in the housing sector, the Territory Government introduced a number of initiatives to support the residential property market such as the First Home Owner Discount, a stamp duty concession for first home buyers purchasing an established home, and the Home Renovation Grant for first home buyers of established homes to undertake renovations. Assistance also continued for first home buyers of new homes, under the First Home Owner Grant scheme. This has led to the increase in first home buyer commitments as shown in Chart 11.

Land releases will continue to offer opportunities for Territorians to build new dwellings and may contribute to more affordable property prices. Land development projects are expected to return to historical levels over the medium term, following above-average trends in recent years.

Chart 12: Difference between Australian and the Territory in the proportion of median income to meet loan repayments and rents



ppt: percentage points
Source: Source: Real Estate Institute of Australia and Adelaide Bank

According to data published by Real Estate Institute of Australia and the Adelaide Bank, the Territory's housing affordability has improved from the high of 30.4 per cent of median household income to meet average loan repayments in the March quarter 2012 to 20.9 per cent in the December quarter 2017. The Territory now ranks second for home loan affordability compared to other jurisdictions (Chart 12).

Industry Outlook

Government and Community Services

Recent activity

The government and community services industry accounted for 23.1 per cent of GSP and 37.7 per cent of total resident employment in 2016-17, remaining a significant industry and employer for the Territory.

Outlook

Over the medium term, growth in the sector is expected to be relatively constrained as the Territory Government implements a range of budget repair measures in response to reduced Commonwealth funding, mainly GST revenue, partially offset by expected growth in the defence sector.

The Territory is facing challenging economic conditions, with contracting population and employment growth, and declining levels of private investment and residential construction. Accordingly, over the medium term growth in the government and community services sector is expected to remain constrained. Nevertheless, government and community services will remain a substantial contributor to the Territory economy with an ongoing commitment from the Territory Government to the health, education and public order sectors, and the broader public service.

Service Industries

Recent activity

The value of service industries increased by 8.4 per cent in 2016-17, driven by growth in professional, scientific and technical services, administrative and support services, and financial and insurance services. Employment in service industries grew by 5.6 per cent 2016-17.

Outlook

In 2018-19, the transition of the Ichthys LNG project from construction to operation will detract from growth in service industries, partially offset by anticipated growth in tourism-related industries over the medium term.

The service industries category includes a wide variety of industries that, while individually small, combine to contribute a large proportion to the Territory's GSP. Service industries are expected to maintain or increase their share of Territory GSP (19.5 per cent) and employment (33.6 per cent) as the broad base of diverse industries continues to mature in the Territory over the forecast period.

Several service industries are expected to improve due to developments in the Territory's tourism industry over the medium term. The Territory Government announced a $103 million tourism stimulus package over 2017-18 and 2018-19, directed towards tourism marketing, infrastructure and events. In addition the commencement of direct flights from Shenzhen to Darwin on 30 May 2018 is expected to increase the number of Chinese visitors, and demand for tourism related services. This will be complemented by a luxury hotel in Darwin which, pending development consent approval in May 2018, will increase growth in accommodation services when constructed. The completion of the majority of the Ichthys LNG project's construction and the large ramp down in the workforce through 2017-18 and 2018-19 are expected to dampen demand in a broad range of service industries, particularly accommodation and food services. Continued moderation of the housing market and low levels of population growth in the Territory are expected to keep conditions subdued in the rental, hiring and real estate industry.

Mining and Manufacturing

Recent activity

The mining and manufacturing industry recorded growth of 3.0 per cent in 2016-17. The mining sector was driven by higher manganese prices, while manufacturing was driven by small-scale food manufacturing.

Outlook

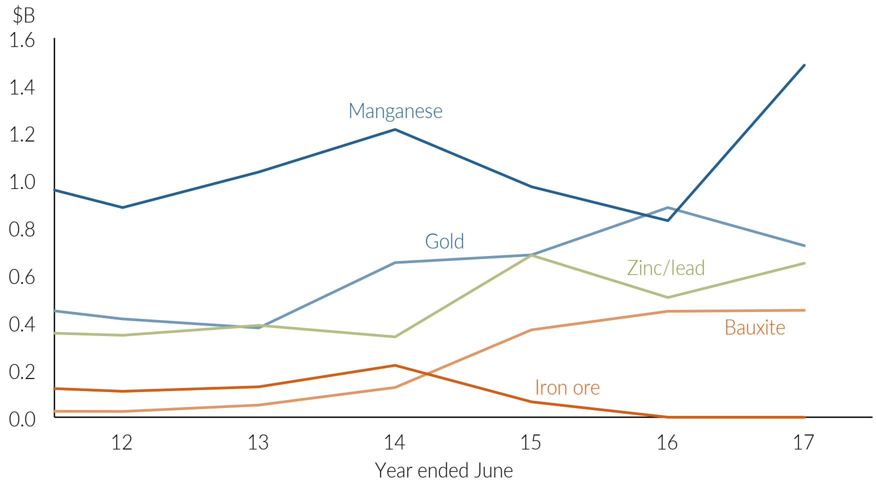
The mining and manufacturing industry is expected to grow rapidly over the coming years, largely driven by growth in LNG production.

The outlook for the mining and manufacturing industry will be dominated by the commencement of production at the Ichthys LNG plant, expected in 2018. This will dramatically increase the value of the mining industry over the coming years, and is likely to result in mining overtaking construction as the largest single-industry contributor to the Territory economy. Growth is expected to be more subdued in the non-LNG components of mining and manufacturing, with new mines opened in the first part of 2017-18, and potentially more in the outer years, being partly offset by the closure of other mines such as the Harts Range garnet mine in late 2017.

The Territory's mining and manufacturing industry increased by 3.0 per cent in 2016-17, to almost $4.4 billion. The increase reflects a 3.0 per cent increase in mining (to $3.0 billion) and a 2.9 per cent increase in manufacturing (to $1.3 billion).

The mining and manufacturing industry's share of total GSP has contracted over recent years, largely due to the rapid expansion of the construction industry. However, growth in construction has been strongly driven by the construction of mining-related projects, particularly the Ichthys LNG plant, which will next drive growth in the mining industry when production commences. In 2016-17, the mining and manufacturing industry contributed 16.8 per cent of total GSP in the Territory, compared to a high of 33.6 per cent of GSP in 2008-09.

Chart 13: Value of selected Territory mineral production



Source: Department of Primary Industry and Resources, Department of Treasury and Finance

The Territory's mineral producers sold $3.6 billion worth of commodities in 2016-17, an 18.9 per cent increase from the previous year. This increase was largely driven by a 79.1 per cent increase in manganese production, responding to an increase in global manganese prices (Chart 13).

The value of the Territory's mineral production is expected to increase slightly over the coming years, with an increase in the value of manganese, gold and ilmenite production expected to be offset by lower production of uranium and garnet sands.

Construction

Recent activity

Growth in the construction industry reached its second highest level on record in 2016-17, following rapid expansion over the previous five years driven by major projects.

Outlook

The construction industry is expected to contract following the completion of construction on the Ichthys LNG project, as well as residential building activity remaining below long-term trends. Commencement of smaller scale private and public construction projects are expected to help soften the construction downturn.

Current weak activity across a range of construction-related indicators suggests further moderation in the industry over the medium term, with activity forecast to return towards long-term averages, in line with underlying economic conditions. Although the completion of the construction phase for the Ichthys LNG project will have a significant effect on the private non-residential construction sector in the Territory, construction work will be supported by the commencement of several other projects in the Territory, albeit on a smaller scale.

With declining levels of private sector construction activity, the Territory Government is continuing to support the construction sector through its own infrastructure programs. The Territory Government's $1.45 billion infrastructure program in 2018-19 is expected to continue to support the local construction industry and economic activity, through a variety of construction works on Territory roads, hospital and health facilities, school and education facilities, public and regional housing, community safety facilities, community infrastructure, and tourism facilities. Furthermore, the Territory Government has allocated $50 million towards the development of the Alice Springs National Indigenous Art Gallery and $30 million to establish an agribusiness and logistics hub in Katherine from 2019-20 as part of the infrastructure program, which will continue to support industry development and construction activity over the outlook period.

Continued government support in remote communities and regional development will also sustain the construction industry in the remote regions of the Territory, providing new and upgrades to existing infrastructure. This includes ongoing works as part of the $1.1 billion Remote Housing Investment Package over 10 years, with $124 million in new works allocated for 2018-19, including land servicing. An additional $100 million as part of the City Deals project to revitalise the Darwin central business district (CBD), as well as a $20 million funding commitment to revitalise Alice Springs, will also support construction activity.

Other Territory Government-facilitated projects, such as the Alice Springs tourism commercial development, seniors' lifestyle accommodation and the Mount Isa to Tennant Creek railway project, have the potential to deliver significant infrastructure benefits and industry employment over the outlook. The defence industry will also play a significant role in terms of investment and job creation in the Territory with the $20 billion infrastructure investment planned over 20 years, supporting the construction sector and local businesses with various defence contracts.

Furthermore, there are a number of major projects in the pipeline that, if realised, will help stimulate growth in the construction industry over the medium and long term. These mainly relate to resources sector projects that received major project status, including Nolans rare earths project, Jervois base metal project, Chandler salt mine, Mount Peake mine and metals processing facility, Ammaroo Phosphate Project, and the Mt Todd gold mine.

Defence

Recent activity

Defence continues to make a substantial contribution to the Territory economy through direct and indirect employment, major joint operations and exercises, and capital works projects.

Outlook

A continued strong defence presence, as well as a long-term commitment in major infrastructure investment, will strengthen the Territory's strategic position and support the defence industry.

The Territory is a major strategic location for defence and the industry continues to make a substantial contribution to the Territory economy through direct and indirect employment and demand for local goods and services. Defence also generates economic activity through major operations and exercises held in the Territory, and capital works projects that engage local businesses.

A continued strong defence presence in the Territory was reinforced by the 2016 Defence White Paper, which outlined the Commonwealth's long-term plans for strengthened capability in northern Australia through increased personnel, investment, training, exercises and the joint US Force Posture Initiatives (USFPI) with international defence forces. The White Paper also has a major focus on infrastructure investment in northern Australia. Expenditure in the Territory included in the White Paper is estimated to be valued at about $8 billion through to 2024-25 and a further $12 billion between 2025-26 and 2035-36.

The 2016 Defence Integrated Investment Program will guide the implementation of the White Paper investment. Over the forward estimates, the Territory will become home to significant new defence infrastructure. This includes major new works and upgrades to existing infrastructure on defence facilities, bases and sites over the outlook period. One of the largest defence projects currently under way is the $538 million new Air Combat Capability Facilities project at RAAF Base Tindal and RAAF Base Darwin, to support the F-35A Lightning Joint Strike Fighters arriving at RAAF Base Tindal in 2021.

Furthermore, there are several other long-term potential defence projects in the Territory development pipeline, which are subject to approval from the Parliamentary Works Committee. If realised, it is expected the defence industry will help generate numerous employment opportunities to support construction workers, following the completion of the construction phase on the Ichthys LNG project.

The USFPI further demonstrates the importance of the Territory as a strategic location for regional security. This includes the US marine troop rotations across the Territory, an essential component in preserving stability and security in Australia's geographic region over the coming decades. Over the outlook period, the number of US marines on rotation in the Territory is expected to increase to 2500 as part of the USFPI.

The release of the Defence and National Security Strategy 2018 reinforces the Territory as a key defence and national security hub and the primary centre for maintenance and sustainment of facilities and assets deployed to the region. The strategy outlines key focus areas to support a strong defence and national security presence in the Territory and enhance opportunities in the industry over the outlook period, as part of developing northern Australia.

The Territory Government continues to invest in the critical transport and maintenance infrastructure that supports defence activity, including $95 million towards the Darwin ship lift facility.

Retail and Wholesale Trade

Recent activity

Retail and wholesale trade expenditure has been subdued in recent years. Despite this, the industry's share of employment in the Territory continues to increase.

Outlook

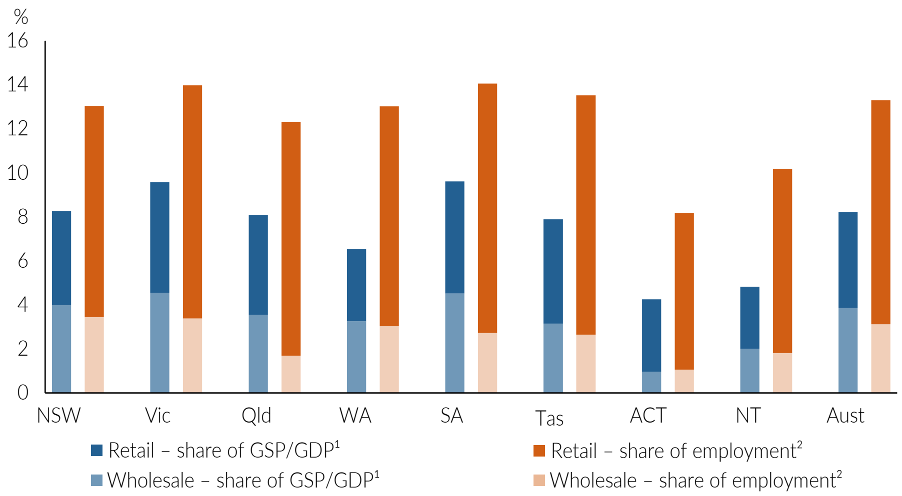
Retail trade activity is expected to be flat in the short to medium term due to subdued economic conditions contributing to weak wages growth.

Retail and wholesale trade expenditure in the Territory grew by an average of 5.3 per cent per annum in the 10 years to 2016-17. In the past four years growth has moderated to below the 10-year average, growing at 2.1 per cent in 2016-17. Despite growth remaining modest, the retail and wholesale trade industry has recorded 16 years of consecutive growth in the Territory.

In 2016-17, the retail and wholesale trade industry contributed $1.3 billion in real terms to the Territory's economy. As a share of GSP, the industry contributed 4.8 per cent in 2016-17, only slightly below the 10-year average of 5.0 per cent.

The retail and wholesale trade industry is one of the largest employers in the Territory with 10.2 per cent of employed people working in this industry in 2016-17. Nationally, retail and wholesale trade as a share of employment has been trending downwards since 2012-13 with a share of 13.3 per cent in 2016-17, below the 10-year average of 14.3 per cent (Chart 14).

Chart 14: Retail and wholesale trade share of GSP, GDP and employment, 2016-17



GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
2 Annual average.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; *Labour Force, Australia*, Cat. No. 6291.0.55.003

Retail trade is expected to remain subdued over the outlook period. One of the main contributors to slow retail activity is low wages growth, which affects consumer spending behaviour and confidence. Low wage growth in the short to medium term is expected to constrain retail turnover and discretionary spending. Additionally, subdued population growth and a softening in the housing market are expected to further limit the growth of retail trade.

Activity in the Territory's wholesale trade industry is mainly in industrial storage and equipment, transport and food wholesaling, and has been influenced in recent years by major projects. The outlook for wholesale trade remains relatively subdued, in line with expectations for major projects that are close to reaching construction completion.

Tourism

Recent activity

More domestic and overseas visitors travelled to Central Australia while domestic visitor numbers to the Top End were steady. The number of overseas travellers to the Territory decreased in 2017 compared to the previous year.

Outlook

The tourism industry in the Top End is expected to be negatively affected by the transitioning of the Ichthys LNG project from construction to operation in 2018 but increase steadily over the medium term. To support the industry over this time, the Territory Government is implementing a $103 million tourism stimulus package to boost leisure visitation.

Tourism is an important economic driver for the Territory and a significant industry in regional areas. Tourism has strong links to other sectors in the economy including accommodation and food services, retail trade, recreation and culture, and transport.

Attracting international visitors to the Territory remains a challenge as visitation continues to fall below national trends, resulting in declining visitor market share, now down to 3.6 per cent in 2017 from 3.8 per cent in 2016. Encouraging domestic overnight travel in the Territory is also a challenge with increased competition and cheaper destinations offered domestically and internationally. Interstate holiday travel to the Territory has declined over the past year.

There are a number of initiatives and attractions being developed to encourage visitors to the Territory and support the growth of the industry over the short and medium term. The Territory Government is implementing a $103 million tourism stimulus package over 2017-18 and 2018-19 to accelerate growth in the Territory's tourism industry. This includes $26.57 million in additional marketing spending to bolster business and leisure travel from key domestic and international source markets (that is, United States (US) and Europe), as well as potential markets in Asia. As part of the marketing spending, $10.85 million is allocated to cooperative marketing with key domestic and international airlines.

The package also includes $56.24 million for new tourism infrastructure, including $9.9 million to upgrade the George Brown Darwin Botanic Gardens, $12 million for new cycling tracks in Central Australia and $12.1 million to open new areas of Litchfield National Park. There is also $20.78 million allocated to festivals and events, including $4.5 million towards maintaining and enhancing Territory parks, $4 million to enhance existing and develop new festivals and events, and other initiatives including enhancing the visitor experience, activate Darwin and Alice Springs CBDs, and support arts, festivals and sports in the Territory.

Aviation access is critical to bringing tourists to the Territory. To improve airline services with China, the Territory Government has successfully attracted Shenzhen-based Donghai Airlines to commit to a non-stop direct service flight to Darwin, commencing on 30 May 2018.

The Territory Government and the Landbridge Infrastructure Group Australia continue to work towards the development of a luxury hotel in Darwin, to be located at the Darwin Waterfront. This luxury hotel will broaden the range of accommodation available, helping to attract more tourists and business events to Darwin, with around 200 rooms. Pending approval from the Development Consent Authority during May 2018, construction could commence on site in the 2018.

Agriculture, Forestry and Fishing

Recent activity

The agricultural, forestry and fishing sector accounted for 2.9 per cent of GSP and 1.4 per cent of total resident employment in 2016-17. It remains a significant employer and source of economic activity in the Territory's regional and remote areas.

Outlook

The value of the Territory's agricultural output is expected to moderate over 2018-19, driven by decreases in live cattle exports, partly offset by increased live buffalo trade, along with a positive outlook for horticulture and aquaculture.

The agriculture, forestry and fishing sector continues to be a significant employer and source of economic activity in regional and remote areas, contributing $697 million and employing 1899 people in the Territory in 2016-17. The sector also has important linkages to other industries in the economy, including retail and wholesale trade, manufacturing and transport.

The value of the agricultural industry is expected to moderate through 2018-19 due to continued declines in live cattle exports, the largest contributor to the industry. This is expected to be partly offset by growth in horticulture (mainly mango production) and the live buffalo trade. The value of horticulture and aquaculture is expected to continue to expand in the medium term, as the banana and melon industries recover from disease outbreak, and barramundi and prawn fisheries' production continue to perform well. Additional upside exists if Project Sea Dragon reaches final investment decision and begins production in 2020.

The Territory's live cattle exports are expected to moderate as demand from traditional Asian export markets continues to decline. Relatively high cattle prices have decreased demand for Australian and Territory cattle in South East Asia as these countries look for cheaper alternatives, such as frozen buffalo meat. This is expected to be partly offset in the short-term by increased demand from Queensland cattle farmers restocking herds after prolonged drought conditions, which ended in recent months.

Mango production, which makes up a large proportion of the Territory's horticulture sector (34.0 per cent), is strongly influenced by seasonal conditions. Despite a sub-par mango season caused by high temperatures in 2016-17, mango production in 2017-18 appears to be one of the strongest on record. International demand for Territory mangoes continues to grow with direct access to the Singapore market.

Since the commencement of the National Banana Freckle Eradication Program in 2013, no additional case of banana freckle has been detected and production has resumed. Once the Territory is declared free of banana freckle, farmers will be free to move banana trees and fruit across the border and quickly rebuild the Territory banana industry. Likewise, the melon industry has continued to recover since the cucumber green mottle mosaic virus outbreak that affected production in 2015.

The Territory agriculture industry is continuing to develop new ventures with strong market potential. These developments include the commercialisation of new crops for the Territory, expanded barramundi production at Humpty Doo Barramundi Farm, and the potential Seafarms Project Sea Dragon, a US$1.45 billion aquaculture project in northern Australia that, if realised, will produce around 100 000 tonnes of black tiger prawns each year.