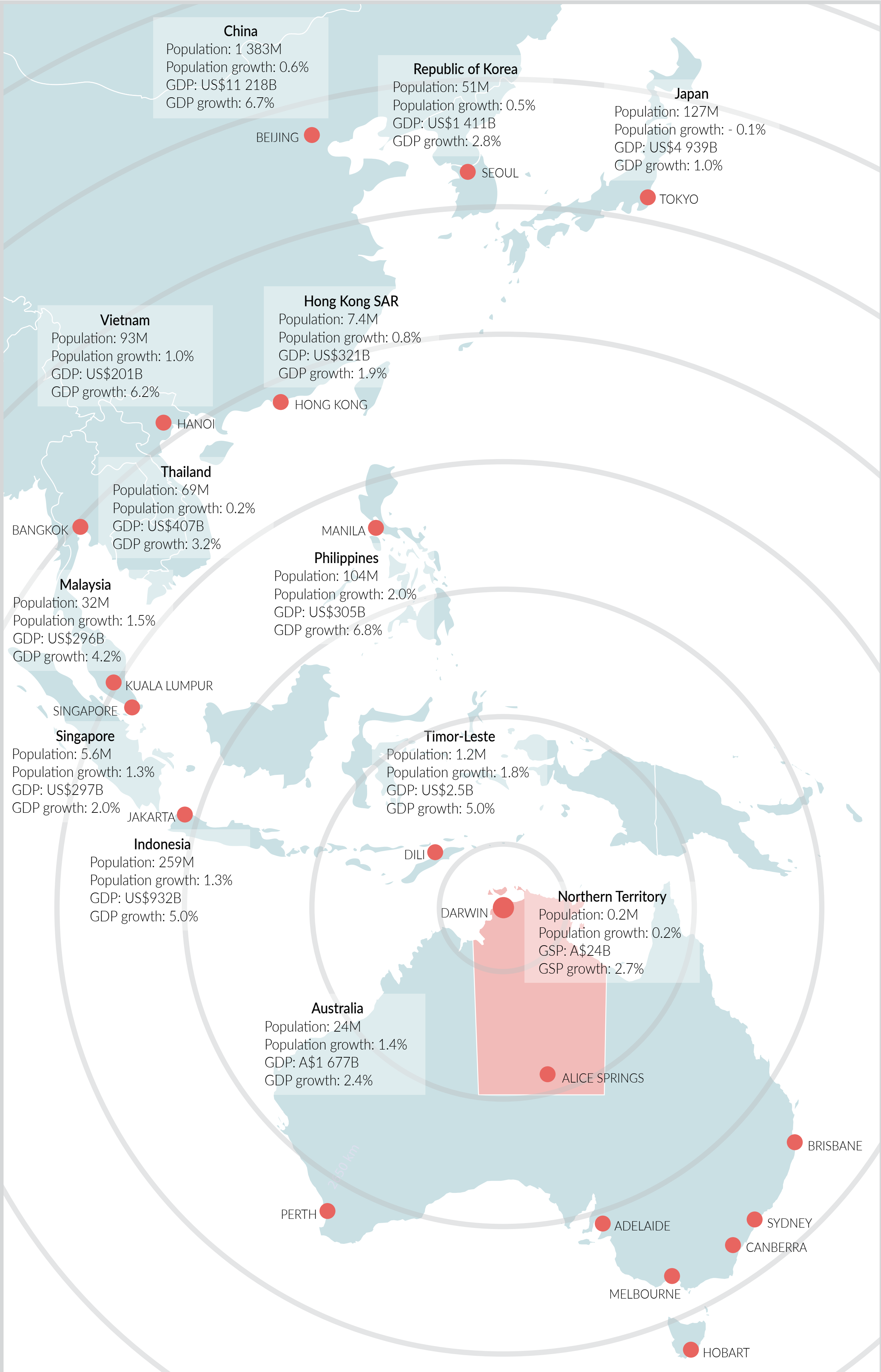
NORTHERN TERRITORY

BUDGET 2017-18

Northern Territory Economy


China
Population: 1 383M
Population growth: 0.6%
GDP: US$11 218B
GDP growth: 6.7%
BEIJING
Republic of Korea
Population: 51M
Population growth: 0.5%
GDP: US$1 411B
GDP growth: 2.8%
SEOUL
Japan
Population: 127M
Population growth: - 0.1%
GDP: US$4 939B
GDP growth: 1.0%
TOKYO
Vietnam
Population: 93M
Population growth: 1.0%
GDP: US$201B
GDP growth: 6.2%
HANOI
Hong Kong SAR
Population: 7.4M
Population growth: 0.8%
GDP: US$321B
GDP growth: 1.9%
HONG KONG
Thailand
Population: 69M
Population growth: 0.2%
GDP: US$407B
GDP growth: 3.2%
BANGKOK
MANILA
Philippines
Population: 104M
Population growth: 2.0%
GDP: US$305B
GDP growth: 6.8%
Malaysia
Population: 32M
Population growth: 1.5%
GDP: US$296B
GDP growth: 4.2%
KUALA LUMPUR
SINGAPORE
Singapore
Population: 5.6M
Population growth: 1.3%
GDP: US$297B
GDP growth: 2.0%
JAKARTA
Indonesia
Population: 259M
Population growth: 1.3%
GDP: US$932B
GDP growth: 5.0%
Timor-Leste
Population: 1.2M
Population growth: 1.8%
GDP: US$2.5B
GDP growth: 5.0%
DILI
DARWIN
Northern Territory
Population: 0.2M
Population growth: 0.2%
GSP: A$24B
GSP growth: 2.7%
Australia
Population: 24M
Population growth: 1.4%
GDP: A$1 677B
GDP growth: 2.4%
ALICE SPRINGS
BRISBANE
PERTH
ADELAIDE
SYDNEY
CANBERRA
MELBOURNE
HOBART

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

Overview

This overview provides a summary and outlook for the Northern Territory economy, across a range of key economic indicators. These include economic growth, population, labour market and prices and wages. Table i reports the outlook for key economic parameters, including estimates for the current year and forecasts for the budget year and forward estimates period.

While this overview focuses on the outlook for key economic indicators, other important components of, and contributors to, the Territory economy are covered in greater detail throughout this book. It includes dedicated chapters describing the structure of the economy, the external economic environment, the residential property market, as well detailed analysis and discussion of the performance and outlook for key industries, such as mining and construction.

Table i: Territory Key Economic Indicators (%)

	2015-16	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Gross state product[1]	2.7	1.0	1.0	5.1	2.0	2.1
State final demand[1]	- 12.5	0.2	- 2.8	- 5.0	0.1	1.5
Population[2]	0.5	0.3	- 0.3	0.3	0.8	1.2
Employment[3]	1.4	2.9	0.5	0.6	0.8	1.2
Unemployment rate[4]	4.2	3.6	4.0	4.2	4.3	4.3
Consumer price index[3]	0.1	0.1	0.4	1.3	1.9	2.4
Wage price index[3]	2.2	2.1	1.9	2.0	2.3	2.6

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, Australian Bureau of Statistics

Economic growth in the Territory is forecast to be moderate in 2016-17 and 2017-18 as the Territory transitions from investment-led growth to predominantly export-driven growth. The relatively modest rate of growth in the short term reflects a return to more historical levels of private investment compared to the record levels experienced in recent years. Record investment has been driven by a number of major projects, particularly the Ichthys liquefied natural gas (LNG) project. As construction of the Ichthys LNG project nears completion and it commences production in 2017-18, Territory economic activity is expected to shift towards underlying levels of consumption and investment accompanied by strengthening net exports. Economic growth in 2016-17 and 2017-18 will be supported by an increase in public investment, including a significant Territory Government infrastructure spend in both years.

Economic growth in the outer years is expected to be driven by a significant increase in exports, reflecting full production at the Ichthys LNG project, as well as a moderate increase in consumption growth. In 2019-20 and 2020-21 the Territory economy is expected to stabilise, with growth forecast to be 2.0 per cent and 2.1 per cent, respectively. This is generally in line with forecasts for the Territory's population and employment in the outer years, which will underpin growth in household consumption and dwelling investment.

Population growth over 2016 is expected to remain subdued, continuing the trend from 2015 and weakening to 0.3 per cent as a consequence of historically high levels of migration outflows as the economy adjusts to a general slow down in the mining sector. Population is expected to decline in 2017, with a forecast change of -0.3 per cent, as a significant proportion of resident construction workers are expected to depart the Territory with the Ichthys LNG project transitioning from the construction to operational phase during the year. These departures are expected to continue into 2018, albeit to a lesser extent, resulting in a small recovery in annual population growth to 0.3 per cent. Population growth is then forecast to steadily increase to 1.2 per cent in 2020.

Employment growth in the Territory is estimated to be 2.9 per cent in 2016-17 reflecting the continuation of peak workforce on the Ichthys LNG project. Employment growth is forecast to be 0.5 per cent in 2017-18 as the Ichthys LNG project completes construction during this period. It is the largest project in the Territory's history and the employment loss caused by its transition to the operational and export phase will be a one-off impact on the level of employment. From 2018-19 onwards, employment is forecast to increase due to the expected commencement of several major projects in the Territory. The unemployment rate is estimated at 3.6 per cent in 2016-17, when the Territory economy was at close to full-employment before increasing and stabilising at 4.3 per cent in 2019-20, which is slightly above the 10-year average of 4.0 per cent. The Territory is still expected to have one of the lowest unemployment rates of all jurisdictions in the medium term.

The Darwin consumer price index is forecast to remain near flat in 2016-17 at 0.1 per cent with modest growth over the forecast period of 0.4 per cent in 2017-18 and trending upwards to 2.4 per cent through the outer years as a number of categories are forecast to return to moderate levels of price growth, but nevertheless remaining below the historical trend. This growth in the outer years is forecast to be mainly driven by growth in transport prices (due to oil prices), alcohol and tobacco (mainly tobacco excise) and the housing category, which is beginning to contribute to growth.

Wage growth is expected to continue to moderate to 2.1 per cent in 2016-17, reflecting spare capacity in the national labour market and subdued inflation expectations. The Territory wage price index is forecast to remain subdued over the medium term, primarily driven by soft labour market conditions in the private sector and tightening wages policies across all levels of government.

Although the Territory economy is forecast to continue to face challenging economic conditions, the economy has grown by about 40 per cent since 2006-07, following a sustained period of record growth across many key industries, to be worth over $23.6 billion in 2015-16, reflecting a broader and more diversified economy compared to the mid-2000s.

Despite the current and forecast challenges, the Territory is well positioned to take advantage of a number of opportunities likely to reshape the structure of the Territory economy throughout the forecast period and into the next decade. The Territory's position as a gateway to Asia, a key defence hub, home to world renowned tourist attractions and a rich diversity of mineral, gas, petroleum and agricultural resources, all provide the strategic opportunities required to support a sustainable economy.

The Territory Government's Economic Development Framework provides a plan that is focused on unlocking economic opportunities for all Territorians, with policies that support growth and investment strategies to build a strong economy for the future. There are also a number of defence projects along with private sector projects in the pipeline, including agriculture and resource opportunities subject to final investment approvals. If realised, these projects have the potential to provide significant upside to the Territory's economic forecasts.

Chapter 1

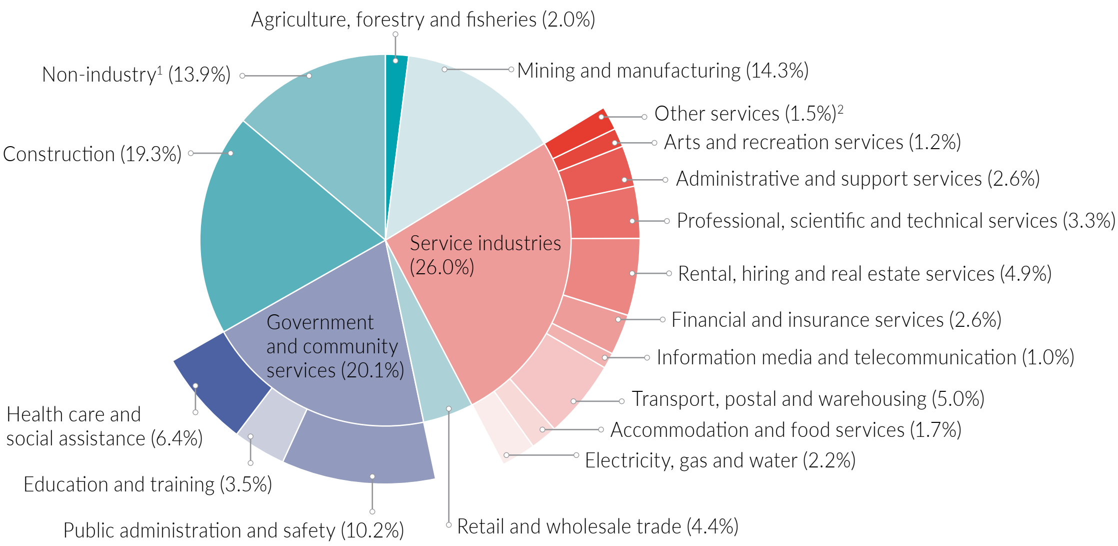
Structure of the Economy

Outlook

The Territory economy has grown considerably over the past decade. Gross state product (GSP) has grown from $16.9 billion in 2006-07 to $23.6 billion in 2015-16, which represents an increase of over 40 per cent, with population increasing during this period by approximately 31 000 (or 14.7 per cent) to over 245 000. The Territory's labour force has also expanded over this period, increasing by about 26 000 (or 23.2 per cent) to over 140 000. The economy is more diverse, with a greater allocation of employment and output across goods and service industries (Chart 1.1).

The outlook for the structure of the Territory economy in 2017-18 will be heavily influenced by the transition of the Ichthys liquefied natural gas (LNG) project from the construction to the production and export phase. This will shift the emphasis from construction as the main contributor to GSP to mining and manufacturing, however its contribution to total employment will be substantially less, mainly due to the smaller work force requirements of the operational phase. As a result, Territory net exports are expected to grow substantially over 2018-19 and emerge as the primary driver of Territory economic growth over the forecast period, supporting international trade into the future.

Chart 1.1: Contributions to GSP, 2015-16



GSP: gross state product

1 Non-industry components of GSP include ownership of dwellings, taxes less subsidies and statistical discrepancy.

2 Other services components of GSP include personal services and general repair and maintenance activities, however excludes units engaged in providing buildings or dwelling repair and maintenance services.

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

In 2017-18, the Territory economy is likely to face challenging conditions, following a sustained period of record growth across many key industries as a result of the investment associated with the construction of the Ichthys LNG project. As large resource-based projects transition from construction to production, business investment, construction activity, dwelling supply, employment and population conditions are all expected to moderate from historical highs. The Territory is also facing challenges with fiscal conditions as a result of moderating revenues, most notably the GST, the Territory's largest revenue source, and significant infrastructure investment resulting in increased fiscal deficits and indebtedness over the short to medium term.

Despite these challenges, the Territory is well positioned to take advantage of a number of opportunities likely to re-shape the structure of the Territory economy throughout the forecast period and into the next decade. The Territory's position as a gateway to Asia, a key defence hub, with world renowned tourist attractions and a rich diversity of mineral, gas, petroleum and agricultural resources, all provide the opportunity to support a sustainable economy. The Territory Government's economic stimulus program is focused on economic opportunities for all Territorians, with policies that support growth and investment strategies to build a strong economy for the future.

Government investment in economic infrastructure is critical to stimulating economic activity, creating jobs, growing labour force skills and expertise. The Territory Government recognises that delivering timely infrastructure is a key driver of business confidence, economic activity, business investment, jobs and social change. The Territory Government is committed to deliver the Northern Territory Infrastructure Strategy and a 10-year Infrastructure Plan. These will set the Territory's long-term infrastructure agenda and are expected to provide confidence to businesses and individuals to invest, establish new industries and develop skills to support the economy.

The Northern Territory Infrastructure Development Fund (NTIDF) is an independent infrastructure investment fund intended to create a self-sustaining pool of capital to be invested primarily in infrastructure in the Territory. The NTIDF continues to work towards the key objectives of attracting private investment, generating attractive risk-adjusted returns for investors and supporting the long-term economic growth and development of the Territory by investing in economic infrastructure projects.

Defence continues to be a significant contributor to the Territory economy and is expected to increase its contribution considerably over the medium outlook, providing stimulus to local businesses and creating employment opportunities in the region. As a result of the Joint Australia-United States Force Posture Initiative, the number of US Marines on rotation in the Territory is expected to increase in coming years, leading to greater defence infrastructure expenditure, as well as increased demand for local support services. The 2016 Defence White Paper highlights the importance of the Territory to Australia's defence and security. Furthermore, the 2016 Defence White Paper commits the Commonwealth to defence expenditure of 2 per cent of gross domestic product (GDP) by 2020-21, and positions the Territory to play a central role in Australia's defence strategy, which will further underpin sustainable long-term growth in the Territory economy.

Current free trade agreements with Japan, South Korea and China are expected to provide long-term trade opportunities for the Territory economy through the expansion of existing export markets and the opening of new export markets for Territory goods and services. The deliberated economic partnership agreement involving Indonesia and Australia is expected to provide significant economic opportunities in markets including live cattle, and services in tourism and education. The benefits of additional free trade agreements are likely to increase the flows and diversity of economic activity between the Territory and key trading partners.

The value of the mining industry has declined as a proportion of GSP over recent years, driven by closure or completions of several mines and a fall in commodity prices. The Territory has an abundance of reserves in manganese, uranium, phosphate, base metals, gold, vanadium and rare earths, and it retains substantial land that is yet to be fully explored for potential development and mineral projects. Furthermore, the Territory Government's focus on the resource and investment sector is expected to support exploration activities, facilitate job creation specific to the resource sector, and soften the impact of the construction wind-down.

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. There are a number of major projects identified in the Territory economy 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, which if realised, are expected to support a sustainable economy into the future. As these projects remain subject to the usual regulatory approval processes or final investment decisions, the economic contributions resulting from these projects have not yet been included in the published economic forecasts.

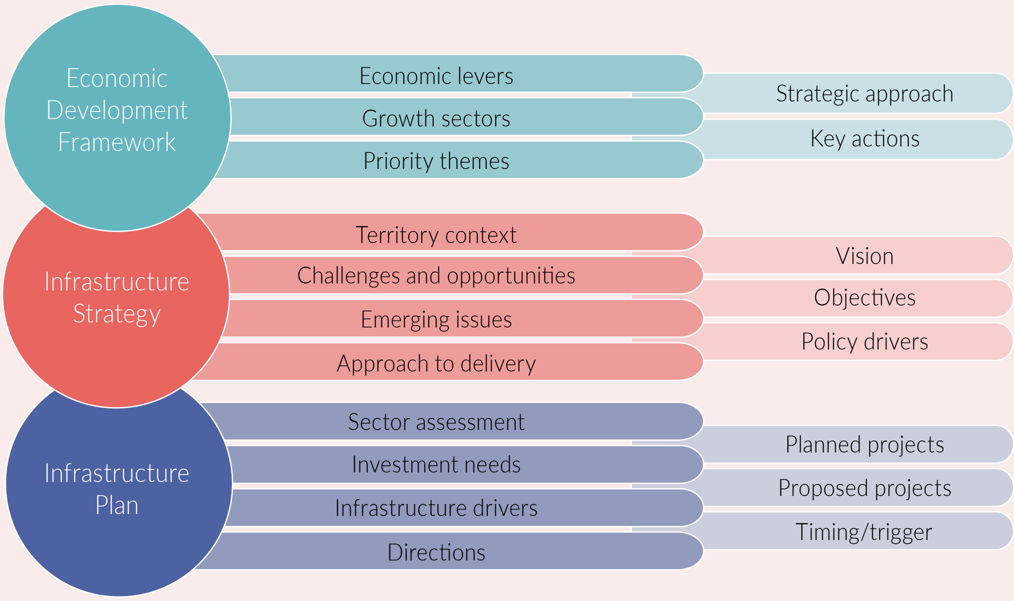
Northern Territory Economic Development Framework

The Economic Development Framework is the result of extensive consultation involving a range of stakeholders following a series of forums, workshops and economic summits across the Territory between October 2016 and March 2017.

The Economic Development Framework provides a strategy to develop the Territory's long-term economic growth, which will create employment and business opportunities, and underpin the standard of living for all Territorians, supported by effective policy settings in a more diverse Territory economy. The Government has committed to work in partnership with industry, investors, the community and regional partners to achieve sustainable employment and development opportunities across the Territory.

The economic summits process resulted in the development of the Infrastructure Strategy, the 10-year Infrastructure Plan, and a range of other supporting government strategies and policies.

Linkages between the Framework and other strategies and plans



Source: The Northern Territory Government; Discussion Draft: 10-year Infrastructure Plan

Consultation identified six levers that will be used to influence and grow the Territory economy and employment opportunities. These levers are natural resources, people, capital, connectivity, enterprise and innovation, and liveability.

Investing in existing key industries such as agribusiness, energy, minerals, tourism, defence, and international education will remain the focus of the strategy, while capitalising in emerging sectors such as environmental services, human services delivery, renewable energy, creative industries and tropical health as opportunities to underpin future growth.

The final versions of the framework, strategy and plan will be published in May 2017, supported by an implementation strategy that identifies key milestones and methods to track progress.

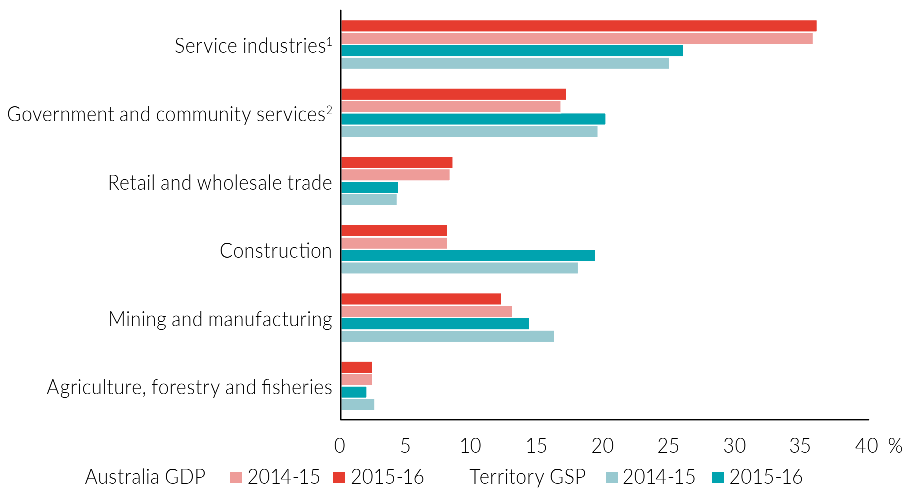
Industry Structure and Employment

The Territory economy is characterised by natural resources, a large public sector and a significant defence force presence. The Territory has a relatively small open economy, which is heavily influenced by external economic conditions such as exchange rates, commodity prices and major projects. The construction and mining industries have been the drivers of economic growth in recent years. However, growth prospects for the mining industry in particular is reliant on overseas demand and investment, and subject to movement in global commodity prices and the exchange rate.

The distinctive structure of the economy is also influenced by the relatively small population of the Territory distributed over a large and mostly remote area. Significant distances separate the Territory's main population centres from each other, and from the rest of Australia.

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. Other key industries in the Territory include the construction, mining and manufacturing sectors. Combined, these three dominant industries comprise about half the Territory's GSP (53.7 per cent) compared with about one third of Australia's GDP (37.4 per cent) (Chart 1.2).

Chart 1.2: Key Industry Proportion of GSP and GDP



GSP: gross state product; GDP: gross domestic product

1 Service industries includes electricity, gas and water; accommodation and food services; transport; postal and warehousing; information media and telecommunications; financial and insurance; rental hiring and real estate; professional, scientific and technical; administrative and support; arts and recreation; and other services.

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

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

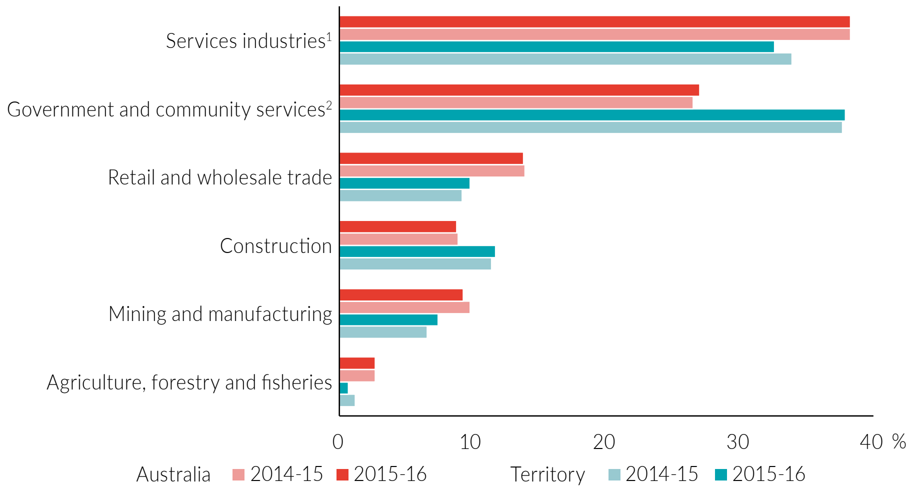
Construction

Construction is the single largest industry in the Territory, accounting for 19.3 per cent of GSP, compared with 8.1 per cent of Australian GDP in 2015-16. Since 2011-12, the construction industry in the Territory has grown by an average of 28.2 per cent per annum, reflecting strong growth in engineering work related to major projects, including the construction of the Ichthys LNG project and residential and non-residential buildings. As the work on major projects slows or reaches completion, the construction share of Territory GSP is expected to return to historical levels. Construction is also a key employer in the Territory, employing 11.7 per cent or approximately 15 400 persons of the total resident workforce (Chart 1.3).

Government and Community Services

The government and community services sector contributed 20.1 per cent to economic growth and employed over one third of the Territory workforce (37.9 per cent) in 2015-16. This industry includes public administration and safety, education and training, and health care and social assistance employees. While the industry is dominated by the Territory, Commonwealth and local government public sector employees (including defence), it also includes output from non-government providers of education and training, health, aged care and community services. The size of the government and community services industry reflects the relatively labour-intensive and high cost of delivering services to a small and highly dispersed population over a remote land mass with a relatively high Aboriginal population.

Chart 1.3: Share of Total Employment by Key Industries



1 Service industries includes electricity, gas and water; accommodation and food services; transport; postal and warehousing; information media and telecommunications; financial and insurance; rental hiring and real estate; professional, scientific and technical; administrative and support; arts and recreation; and other services.

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

Source: ABS, *Labour Force, Australia*, Cat. No. 6291.0.55.003

Mining and Manufacturing

In 2015-16, the mining and manufacturing industry accounted for 14.3 per cent of the Territory's GSP, above the national average of 12.2 per cent, with the mining industry having the greatest share. The significance of mining and manufacturing to the Territory's economy reflects the abundance of natural resources, including natural gas, petroleum, uranium, zinc/lead, gold and manganese. The contribution of the mining and manufacturing industry to GSP has continued to reduce, following the closure of a number of mines in the Territory and the cessation of manufacturing at the Gove alumina refinery in 2014. Lower demand for raw materials from the Territory's major trading partners and weak commodity prices have contributed to the decline in overall production values in the industry.

Mining and manufacturing accounted for only 7.4 per cent of the Territory's resident employment compared to 9.3 per cent of the national workforce. This is largely due to the more labour-intensive manufacturing industry at the national level. Following the completion of the Ichthys LNG project and the commencement of production, it is likely that the mining industry will become the single largest contributor to the Territory economy.

Agriculture, Forestry and Fishing

The agriculture, forestry and fishing industry's share of Territory output has been trending downwards since 2009-10. In 2015-16, the industry's share of Territory GSP reached a low of 2.0 per cent, reflecting a number of seasonal fluctuations and horticultural biosecurity setbacks, which affected production levels and output from a number of local businesses in the Territory. As a result, the value of the industry declined by 3.0 per cent in 2015-16 compared to the previous year. These setbacks are expected to be short term in nature, with the value of the industry likely to recover over the coming years. Although the agriculture, forestry and fishing industry makes a relatively small contribution to the Territory's GSP, it is a vital industry in terms of generating economic activity and employment in regional areas.

Retail and Wholesale Trade

Retail and wholesale trade, as a contribution to the Territory's output, remains relatively stable, averaging 4.6 per cent over the past decade. In 2015-16, the value of the industry declined slightly by 0.8 per cent, mainly reflecting conservative consumer spending in retail and household spending as a result of moderate wage and household consumption growth. Retail and wholesale trade is one of the largest employers in the Territory with 9.8 per cent of employed people working in this industry in 2015-16, compared to 13.8 per cent nationally.

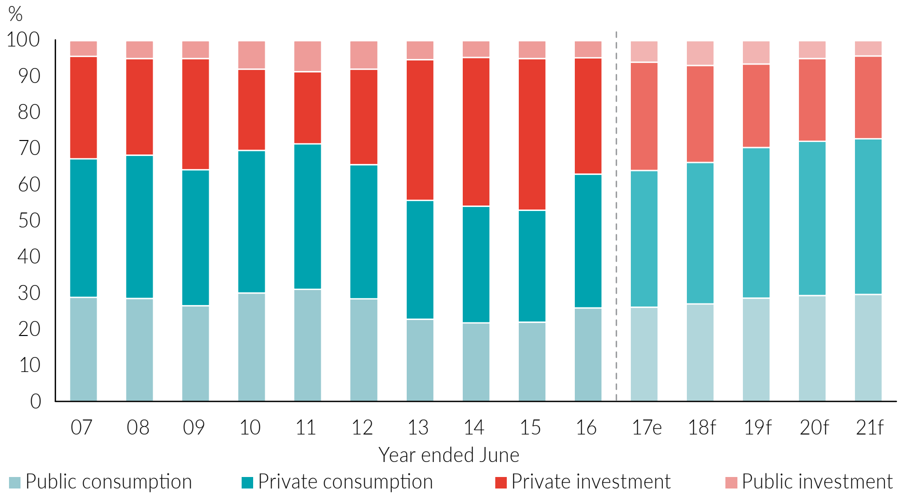
Service Industries

The service industries as a component of GSP includes a variety of industries which, although disparate, have been grouped because individually they make a relatively small contribution to the Territory economy. These comprise accommodation and food services; transport; postal and warehousing; information and media telecommunications; financial insurance services; rental, hiring and real estate services; professional, scientific and technical services; administrative and support services; electricity, gas, water and waste services; and arts and recreation services. In 2015-16 the service industries accounted for 26.0 per cent of the Territory's output and 32.6 per cent of total employment.

Investment and Consumption

The balance between consumption and investment in the Territory has shifted over the past few years following record high levels of private investment activity associated with major projects, particularly in the resource sector. This balance has begun to shift back in favour of consumption with investment contributing 37.0 per cent of state final demand (SFD) in 2015-16, decreasing from 47.0 per cent in 2014-15. This mainly reflects the level of private investment contracting in line with the construction timetable of the Ichthys LNG project. In contrast, household consumption has had a greater contribution to SFD compared to recent years (Chart 1.4).

Chart 1.4: Territory Investment and Consumption as a Proportion of SFD[1]



SFD: state final demand; e: estimate; f: forecast
1 Current prices.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

In 2016-17, total private sector investment and consumption activity is expected to return to similar levels experienced in 2006-07. Private investment's contribution to SFD is expected to contract significantly over the forecast period, returning to slightly lower than long-term average levels at about 25 per cent of SFD over the next five years, following record levels experienced in recent years. Public investment is anticipated to play a relatively larger role in supporting economic activity, particularly in 2016-17 and 2017-18, providing a solid contribution to SFD and economic growth through continued investment and stimulus.

The contribution of household consumption to SFD is expected to increase over the forecast period to an estimated 43.1 per cent in 2020-21. This reflects a return to long-term levels of household consumption and greater domestic demand supported by improving employment and population growth in the outer years. Public consumption is expected to strengthen over the forecast period as a result of an increase in both Territory and Commonwealth consumption to support the economy.

Net Exports

Net exports are the total value of goods and services exported, less the total value of imported goods and services. In the Territory, goods make up the vast majority of net exports, with services only accounting for about 9.7 per cent of exports and 18.3 per cent of imports.

Net exports in the Territory have been influenced by a number of key trends over the last decade including the mining boom, which resulted in strong growth in the Territory's mineral commodity and gas exports, along with fluctuating conditions for the agricultural industry, particularly live cattle exports. Furthermore, the Territory's succession of major projects in recent years, the greatest being the Ichthys LNG project, resulted in substantial imports of large, expensive components related to the construction of major energy and resources projects.

Much of the Territory's trade data is confidentialised by the Australian Bureau of Statistics (ABS), making it difficult to determine the exact composition of exports, however, in broad terms over the last decade, mineral commodities have ranged between 15 and 35 per cent of total goods exported, compared to gas exports, which ranged between 30 and 55 per cent. Although the level of production for mineral commodities is expected to be maintained or improve moderately, the composition of the Territory's major exports are expected to shift even further in favour of gas and petroleum-based products due to substantial growth in LNG exports, reflecting the commencement of production from the Ichthys LNG project from 2017-18 onwards. Based on these expectations, growth in total exports is expected to strengthen to record levels, while imports contract and settle around the long-term average, reflecting expectations of lower demand for construction materials and equipment-related imports for major developments over the medium outlook. As a result, net exports are likely to increase to above $10 billion from 2018-19 onwards.

Chapter 2
Economic Growth

Recent Results

Economic growth in the Territory strengthened to 2.7 per cent in 2015-16, driven by strong consumption and an improvement in net exports. State final demand recorded a 12.5 per cent decline in 2015-16, driven by large decreases in private investment.

Outlook

The Territory's economic growth rate is expected to average 2.2 per cent over the next five years, with liquefied natural gas exports being 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's economy is measured by its gross state product (GSP), which represents the value of economic output in an economy on an annual basis, published by the Australian Bureau of Statistics (ABS). GSP is calculated using three measures, income, production and expenditure. Headline GSP represents an average of the combined income and expenditure measure and production measure. ABS also publishes quarterly estimates of state final demand (SFD), which is a key component of GSP and the sum of consumption and investment expenditure. SFD reflects domestic activity, however does not include demand for Territory's goods and services from overseas, net interstate trade or changes in inventories.

The Territory's economic growth reflects the change in GSP from one year to another. GSP is forecast on an expenditure basis, which includes changes to consumption, investment and net exports as well as the balancing item. The balancing item measures interstate trade and changes in inventories. The balancing item also contains confidentialised expenditure such as the value of feedstock gas imports from the Joint Petroleum Development Area (JDPA), which were removed from the Territory's net export data, effective from December 2013.

ABS data and the Department of Treasury and Finance forecasts regarding public investment and consumption are not directly comparable to Territory Government expenditure reported in the Budget Papers. The ABS' treatment of public investment and consumption expenditure includes Commonwealth as well as Territory Government expenditure. This is the key difference to figures reported in the Budget Papers. Also, ABS treatment of public private partnerships may be reported differently compared to the Budget Papers, with some projects that could be considered as private sector investment from an accounting perspective being reported as public sector investment from an ABS perspective.

Outlook

Table 2.1: Economic Growth (%)[1]

	2015-16a	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Gross state product	2.7	1.0	1.0	5.1	2.0	2.1
State final demand	- 12.5	0.2	- 2.8	- 5.0	0.1	1.5

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

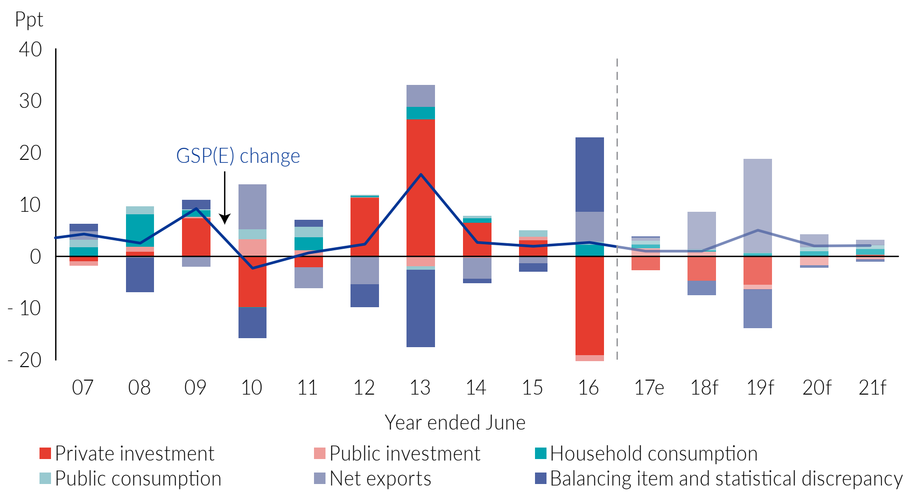
The Territory's economic growth over the forecast period will reflect a transition from record levels of private investment, towards export-driven growth (Chart 2.1). This transition will be largely dominated by activity related to the US$34 billion Ichthys liquefied natural gas (LNG) project. This is the Territory's largest ever project, which has provided a significant contribution to GSP growth through private investment, population, employment and consumption. The impacts on key economic indicators will moderate over the 40-year operational life of the project.

As construction of the Ichthys LNG project nears completion and the project commences production in 2017-18, Territory economic activity is expected to moderate. However, commencement of the production phase will benefit the economy significantly due to a boost in LNG, liquid petroleum gas (LPG) and condensate exports beginning in 2017-18, increasing in 2018-19 and then being sustained for a projected 40 years.

Territory GSP is expected to grow at 1.0 per cent in 2016-17 and 2017-18 (Table 2.1), largely reflecting anticipated declines in business investment. This will be partly offset by a significant increase in public investment and improvement in net exports in both years. Consumption growth will also make a positive contribution in 2016-17, before moderating in 2017-18. Despite the relatively low growth forecast for GSP in 2017-18, the size of the economy will be over 40 per cent larger than 10 years ago.

Economic growth in the outer years is expected to be driven by a significant increase in exports, reflecting full production at the Ichthys LNG project, as well as a moderate increase in consumption growth over the outer years. GSP is expected to increase by 5.1 per cent in 2018-19, with growth in net exports contributing 18.1 percentage points. In 2019-20 and 2020-21 the Territory economy is expected to stabilise, with growth forecast to be 2.0 per cent and 2.1 per cent, respectively. This is generally in line with forecasts for the Territory's population and employment in the outer years, which will underpin growth in household consumption. Also a projected return to long-term trend growth in dwelling investment will make a slight contribution to GSP growth.

Chart 2.1: Contribution to Territory Economic Growth[1]



GSP(E): expenditure measure of gross state product; ptt: 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

State Final Demand

The change in the domestic economy over the forecast period, as measured by SFD, reflects the impact of the Territory's economic transition on domestic demand, which will experience a significant readjustment following years of record private investment and consumption. SFD is expected to contract over the forecast period. Unlike GSP growth, SFD will not benefit from the boost in exports from 2017-18 onwards (Chart 2.2).

SFD is however estimated to strengthen to 0.2 per cent growth in 2016-17, following a 12.5 per cent decline in 2015-16. The estimate for 2016-17 is in-line with the latest data for SFD, which recorded an improvement of nine percentage points in the first two quarters of 2016-17 and was largely driven by an improvement in business investment, albeit continuing to detract from growth. The anticipated improvement in SFD will be driven by increases in public investment associated with the Territory Government's significant infrastructure program and continued growth in household consumption.

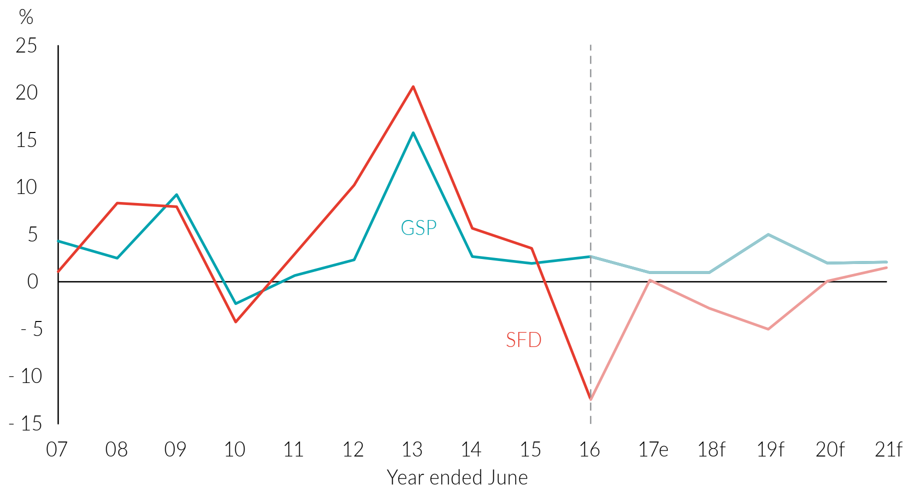
SFD is expected to moderate in the medium term, with a 2.8 per cent decline forecast in 2017-18. This is based on expectations of continuing declines in business investment as well as low population growth. This will be softened by strong underlying public investment, however this is not at the level to offset the scale of the decline in the private sector. SFD is expected to continue to contract with a forecast decline of 5.0 per cent in 2018-19, which will again largely reflect the continued decline in business investment to long-term trend levels, closer to those reported prior to the Ichthys LNG project.

SFD is expected to return to moderate growth of 0.1 per cent in 2019-20 and 1.5 per cent in 2020-21, as household consumption strengthens over the medium term, in line with population growth, and private investment rebalances, with support from smaller scale projects.

Despite moderate GSP and SFD growth over the forecast period, the Territory has a number of projects in the pipeline not considered in these forecasts, as they have not yet received final investment decisions or construction timeframes. These projects, if realised, have the potential to provide significant upside to the Territory's economic growth forecasts.

Potential projects have been identified in the 2016 Defence White Paper, such as the $550 million redevelopment of Larrakeyah Barracks and HMAS Coonawarra. Also, projects with Territory Government-awarded major project status that have not yet reached a final investment decision, such as the US$1.45 billion prawn farm development Project Sea Dragon, $850 million Mount Peake vanadium-titanium-iron mine and $750 million Ammaroo phosphate project.

Chart 2.2: Changes to Territory GSP and SFD[1]

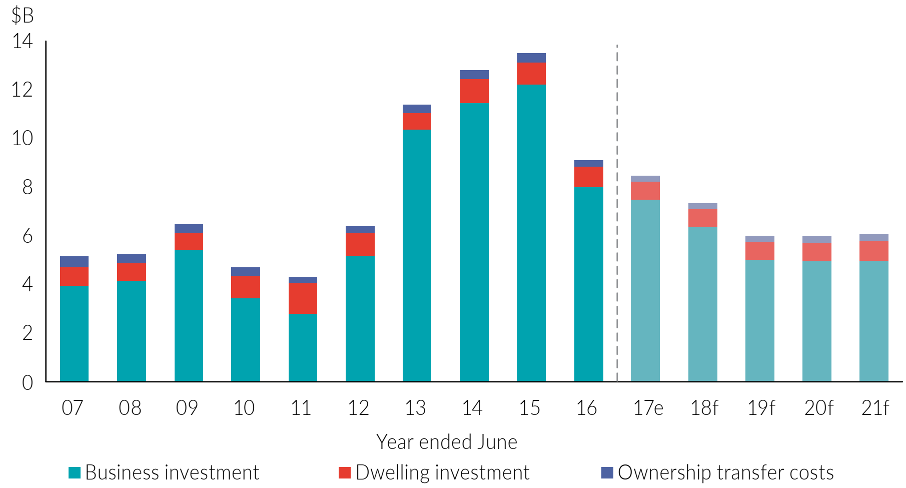


SFD: state final demand; GSP: gross state product; e: estimate; f: forecast
1 Inflation adjusted.
Source: Department of Treasury and Finance, ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Private Investment

Following record levels of private investment over the past few years driven by a succession of major projects in the Territory (Chart 2.3), private investment is expected to contract significantly over the forecast period. This will reflect a return to more long-term average levels of private investment in the outer years, taking into account that the size of the economy and underlying activity has grown over this time.

Chart 2.3: Territory Private Investment[1]



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

In 2016-17, private investment is estimated to decrease by 7.1 per cent. This is in line with the latest data for private investment, which shows an improving trend in the first two quarters of the year, following a 32.6 per cent decline in 2015-16. The estimate for 2016-17 reflects lower levels of investment related to the Ichthys LNG project as well as lower dwelling investment following elevated levels in previous years. Despite the decline, private investment in 2016-17 is expected to remain above the 10-year average level of $7.9 billion. This will be supported by a number of smaller-scale projects currently underway, including the new shopping centre developments at Palmerston and Coolalinga, mine expansion works in the Tanami and Darwin Port redevelopment works at East Arm.

Private investment is expected to contract further in the medium term, down 13.1 per cent in 2017-18 and 18.2 per cent in 2018-19. This will be largely driven by decreases of 15.1 per cent, and 21.3 per cent, respectively, in business investment relating to the Ichthys LNG project transition from construction to production. However, the forecast decline has been softened by the expected commencement of construction of the $800 million Northern Gas Pipeline (NGP), which is expected to partly offset the decline in business investment across both years. The NGP will be constructed between Tennant Creek and Mount Isa, which will connect the Territory's gas production to the east coast gas market.

Dwelling investment has also partly offset the decline in private investment forecast for 2017-18 and 2018-19, with 2.0 per cent growth in both years. This will be driven by ongoing housing development projects, Zuccoli in Palmerston and Muirhead in Darwin, as well as increased demand due to lower house prices across the Territory and the Territory Government-supported home owner incentive schemes. Further, strength in dwelling-related alterations and additions is expected to contribute to growth, with support from the Territory Government's Home Improvement Scheme in 2017-18.

In the outer years, private investment in the Territory is expected to return to long-term trend levels of around $6 billion. This will result in a 0.4 per cent decline in 2019-20, largely reflecting increased investment in the previous year due to work completed on the NGP. In 2020-21, private investment is expected to stabilise, with growth of 1.1 per cent. Growth will be supported by increases in dwelling investment, largely relating to the new land release, Northcrest, at Berrimah Farm. Business investment is expected to grow slightly, supported by smaller-scale projects such as the luxury hotel development in Darwin, however there are no new large-scale projects currently factored into forecasts. Despite this, the major projects currently in planning, as discussed above, have the potential to provide a significant boost to the Territory's private investment over the outer years if they progress.

Public Investment

Public investment is expected to play an important role in supporting economic activity over the forecast period and providing a significant contribution to economic growth, particularly in 2016-17 and 2017-18 (Chart 2.4). This will also be reflected in changes in the Territory's SFD. The Territory Government's infrastructure spending and the Commonwealth's large-scale defence projects are expected to be the key drivers of public investment.

Chart 2.4: Territory Public Investment[1]

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

In 2016-17, public investment is estimated to increase by 26.4 per cent and contribute 1.5 percentage points to economic growth in the year. This will largely reflect an increase in Territory Government investment related to the significant infrastructure spend throughout the year, which includes the Immediate Works Stimulus Package as well as new road upgrades, including the Keep River Plains Road to support development for Project Sea Dragon and the Ord. This also includes continued construction of Palmerston Regional Hospital and remote Indigenous housing. Growth is also expected to be supported by increased levels of Commonwealth investment, including defence expenditure as well as the continued roll-out of the National Broadband Network (NBN). The estimate for 2016-17 is in line with recent data, which shows public investment increased by 23.4 per cent in the year to the December quarter 2016.

To support the Territory economy over the next two years, public investment is expected to maintain high levels, supported by the Territory Government's $350 million worth of economic stimulus programs across 2017-18 and 2018-19. Public investment is forecast to grow at 12.8 per cent in 2017-18, driven by Territory Government investment, with a $1.75 billion infrastructure program in 2017-18, and Commonwealth defence investment.

Major Territory Government-funded projects scheduled for the year include Territory road upgrades along the Tablelands, Plenty and Buntine highways, as well as the Remote Housing Investment Package to be rolled out this year, new health infrastructure at Royal Darwin and Palmerston Regional hospitals, a $95 million contribution to the ship lift facility and the $120 million City Deals project for revitalising infrastructure in the Darwin and Alice Springs CBDs. Growth will also be supported a portion of $470 million in new development works at the Royal Australian Air Force (RAAF) Base Tindal for the New Air Combat Capability project, expected to be delivered over two years.

Public investment is expected to moderate over the remainder of the forecast period in line with fiscal targets. It is forecast to contract by 11.2 per cent in 2018-19, as investment levels begin to transition back to long-term average levels of about $1.2 billion in the outer years. This will largely be due to reduced levels of Territory Government expenditure in line with Budget forecasts. Increased levels of Commonwealth defence-related expenditure have partly offset the decline. Public investment is forecast to decrease by 23.5 per cent in 2019-20 and 12.2 per cent in 2020-21, which will largely reflect a transition from the elevated levels of Commonwealth expenditure in the past two years. Territory Government investment is expected to moderate slightly in 2019-20 and 2020-21.

Household Consumption

Growth in household consumption is estimated to moderate to 1.8 per cent in 2016-17, in-line with subdued expectations for population and wages growth in 2016 and 2017 as well as current trends in the latest retail trade data available for the Territory. Stable labour market conditions are expected to contribute to growth in the year. Growth in household consumption in 2016-17 is expected to be driven by expenditure on hotels, restaurants and cafés, rent and other dwelling services, and miscellaneous goods and services, which include finance and insurance services, and personal care goods and services. Household consumption growth will continue to moderate to 0.7 per cent in 2017-18, primarily due to low population growth following the change in workforce requirements for the Ichthys LNG project.

Household consumption is expected to strengthen in the outer years, increasing to 1.4 per cent in 2018-19. Following this, household consumption is expected to return to long-term trend levels, with growth forecast at 2.3 per cent in 2019-20 and 2.5 per cent in 2020-21. Growth will be supported by stronger employment and population growth in the outer years. Household consumption is expected to remain below the 10-year average actual growth rate of 3.8 per cent.

Public Consumption

Growth in public consumption is expected to moderate over the forecast period from growth of 2.2 per cent in 2016-17 to a low of 0.4 per cent in 2018-19, before increasing in the outer years to 2.7 per cent in 2019-20 and 2020-21, in line with long-term trends.

The growth estimate for 2016-17 reflects an improvement on the 2.0 per cent growth recorded in 2015-16, largely related to Commonwealth expenditure for the Royal Commission into the Protection and Detention of Children in the Northern Territory. Territory Government outlays are also expected to contribute to growth in 2016-17.

The moderation in public consumption to 2018-19 reflects the increased expenditure in the previous year as well as Territory Government budget constraints and announced saving measures. This also reflects low population growth forecasts impacting consumption of government services.

Growth in the outer years will be supported by Territory Government resourcing of health services, schools and police. Commonwealth expenditure relating to ongoing defence operations in the Territory, including the growing Joint Australia-United States (US) Force Posture Initiative will positively contribute to public consumption.

Net Exports

The Territory's net exports are expected to increase by 3.6 per cent in 2016-17. This will be primarily driven by lower levels of imports as the last of pre-assembled modules for the Ichthys LNG project were imported in 2015-16, however partly offset by lower exports in the year, both in terms of livestock and mineral commodity exports, as subdued market conditions continue.

It is expected that the Territory's net exports will increase rapidly from 2017-18 over the rest of the forecast period, with growth of 41.4 per cent in 2017-18 and strengthening to 75.7 per cent in 2018-19. This reflects exports commencing from Ichthys LNG as well as a decline in imports forecast in 2017-18, largely as a result of the project completing the majority of construction works through the year.

Estimated growth of 6.1 per cent in net exports in 2019-20 will largely comprise growth in exports of 5.3 per cent. This reflects increased efficiencies following a full year's production at Ichthys LNG, with conditions in commodity markets stable over the medium term resulting in moderate growth in the Territory's major export commodities. This is expected to be partly offset by 2.4 per cent growth in imports, which is lower than long-term average growth, however reflects expectations of lower demand for imports related to major projects such as refined automotive fuel and metal structures.

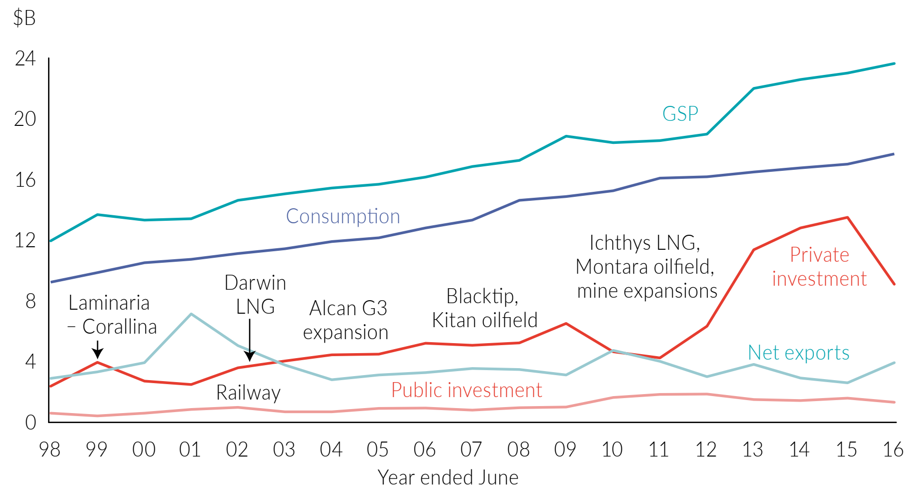
Net exports are anticipated to stabilise at around $11 billion in 2020-21, which represents growth of 2.3 per cent compared to the previous year. This reflects expectations of resource market conditions continuing, with a slight increase in commodity exports, partly offset by continued growth in imports, in line with expectations for population and business investment. This does not factor in potential growth in exports from any of the major projects yet to achieve final investment decision.

Recent Activity

The Territory recorded economic growth of 2.7 per cent to $23.6 billion in 2015-16, reflecting an improvement from 2.0 per cent growth in 2014-15 and in-line with the national economic growth rate of 2.8 per cent. The Territory recorded the fourth highest growth rate of the jurisdictions.

Over the past 10 years economic growth in the Territory has been largely driven by a succession of major projects, which had a significant impact on levels of investment in the Territory (Chart 2.5). These projects include the Gove alumina refinery expansion, Blacktip gas project, development of Kitan oilfield and, most recently, the Ichthys LNG project. This has resulted in economic growth ranging between a low of -2.3 per cent in 2009-10 to 15.8 per cent in 2012-13, reflecting peaks and troughs of private investment. The size of the Territory's economy in 2015-16 was about 40 per cent larger than 10 years ago.

Chart 2.5: Components of Territory GSP



GSP: gross state product
1 Inflation adjusted.
Source: Department of Treasury and Finance, ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Economic growth in 2015-16 was underpinned by a significant improvement in the Territory's net exports and consumption, partly offset by a moderation in investment, largely reflecting construction works related to the Ichthys LNG project compared to the previous year (Table 2.2). This reflects a transition from economic growth driven by significant increases in private investment, towards export-driven growth.

Table 2.2: Components of Territory GSP[1]

	2015-16	2016-17e	10-Year Average	Contribution to GSP Growth 2015-16	Contribution to GSP Growth 2016-17e	Contribution to GSP Growth 10-Year Average
	$M	$M	$M	ppt	ppt	ppt
Household consumption	10 466	10 657	9 241	2.2	0.8	1.8
Public consumption	7 219	7 379	6 589	0.6	0.7	0.9
Private investment	9 106	8 462	7 887	- 19.1	- 2.7	2.4
Public investment	1 326	1 676	1 401	- 1.1	1.5	0.2
State final demand	**28 116**	**28 175**	**25 074**	**- 17.4**	**0.2**	**5.2**
Net exports	3 943	4 085	3 525	5.7	0.6	0.3
Balancing item and statistical discrepancy[2]	- 8 412	- 8 369	- 8 571	14.3	0.2	- 1.5
GSP	**23 648**	**23 891**	**20 027**	**2.7**	**1.0**	**4.0**

GSP: gross state product; e: estimate; ppt: percentage point
1 Inflation adjusted.
2 Balancing item comprises interstate trade, change in inventories and balance of payment adjustments.
Source: Department of Treasury and Finance, ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

The Territory's GSP per capita also strengthened, up 2.3 per cent to $96 906 in 2015-16, from an increase of 1.8 per cent in the previous year. This is stronger than the Territory's 10-year average growth and higher than the 1.4 per cent increase in national GDP per capita, to $69 421. The higher level of GSP per capita in the Territory largely reflects the capital-intensive nature of investment activity in the Territory, as well as a heavy reliance on fly-in fly-out workers for major projects.

Data Revisions

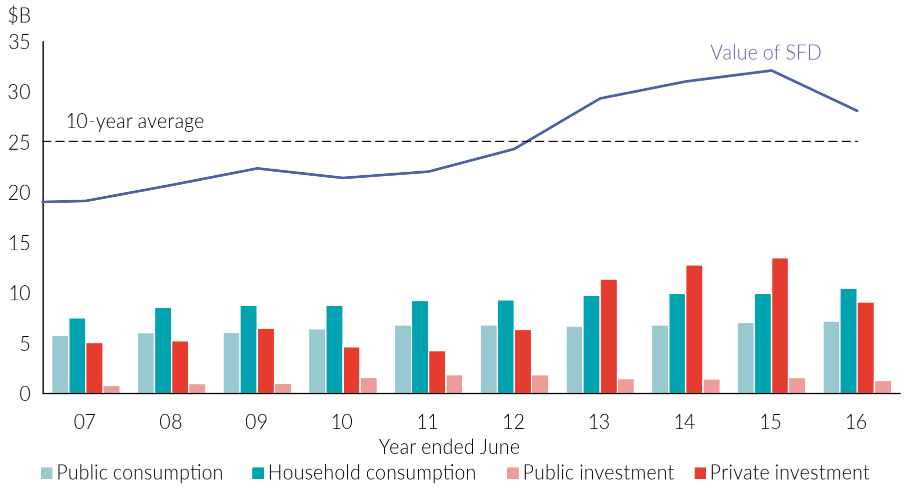
The latest release of GSP data by the ABS incorporates all available information about the Territory economy. Historical GSP data can be revised from year to year as a result of new information available to the ABS when compiling data. Given the size of the Territory economy, this information can have a significant impact on the Territory's headline growth rates.

The 2015-16 data released for the Territory's GSP included significant revisions relative to the 2014-15 data release for a number of the components across the time series. These revisions resulted in major changes to the headline economic growth rate over the past few years. Most notably, the 2016-17 Budget Papers published an increase in Territory GSP of 10.5 per cent in 2014-15, which has now been revised down to 2.0 per cent and the previously published 6.6 per cent increase in 2012-13 is now 15.8 per cent.

State Final Demand

In 2015-16, SFD decreased by 12.5 per cent to $28.1 billion compared to the previous year. The decline in Territory SFD follows a number of years of strong growth and total SFD remains above the 10-year average of $25.1 billion (Chart 2.6). SFD does not distinguish between demand met by goods and services produced within the Territory or by goods sourced from elsewhere (interstate or overseas), and therefore it is not a full measure of the economy, nor can it be used as a proxy for GSP.

Chart 2.6: Components of Territory SFD[1]



SFD: state final demand
1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Over the past five years, SFD growth has been driven by large prepayments for pre-assembled modules and equipment for the construction phase of the Ichthys LNG project. Payments captured in SFD business investment have pre-dated the modules' physical arrival onshore in the Territory. The modules were constructed overseas before being imported to the Territory for installation. In 2015-16 the final prepaid modules arrived in Darwin and construction continued at the site, which is reflected in the data.

The moderation in SFD in 2015-16 was driven by significant declines in private investment, following years of record growth. Public investment also detracted from SFD in 2015-16, largely as a result of a drop in investment following an increase in 2014-15 due to the completion of the Darwin Correctional Precinct. This was partly offset by strong growth in consumption, up 3.9 per cent in 2015-16, mainly driven by households.

Recent data suggests a slight improvement in SFD in 2016-17. This was supported by improvements in private investment, mainly the ongoing development of the Ichthys LNG project as well as investment in mine expansions, such as Newmont's expansion of operations in the Tanami region. It also reflects investment in public sector projects such as the ongoing Tiger Brennan Drive duplication, construction of Palmerston Regional Hospital, upgrades to Royal Darwin Hospital, along with new and upgraded public sector housing construction projects.

Household Consumption

Total household consumption in the Territory increased by 5.2 per cent to $10.5 billion in 2015-16, which was the highest growth recorded since 2010-11 and well above the 10-year average growth rate of 3.8 per cent. The growth in household consumption in 2015-16 outpaced the Territory's population growth, however was broadly in line with improvements in year-on-year employment growth throughout the year. Household consumption contributed 2.2 percentage points to GSP growth and 1.6 percentage points to SFD in 2015-16.

The strongest contributors to household consumption growth in 2015-16 were:

- food consumption;
- recreation and culture expenditure (includes gambling, sporting and cultural services);
- miscellaneous goods and services (includes personal care items, hairdressing and beauty salon services, and payments for insurance and finance services); and

- net expenditure interstate adjustment (expenditure by Territorians overseas or interstate minus consumption expenditure by non-residents).

Key detractors from household consumption in 2015-16 included alcoholic beverages and tobacco (which declined in five of the past six years largely due to increases in Commonwealth excise taxes), clothing and footwear, and education services.

Latest data for household consumption indicates strong growth continuing in 2015-16. In the year to December quarter 2016, the Territory's household consumption increased by 4.3 per cent, driven by increases in miscellaneous goods and services (such as insurance and finance services), hotel, cafés and restaurants, and rent and other dwelling services.

Private Investment

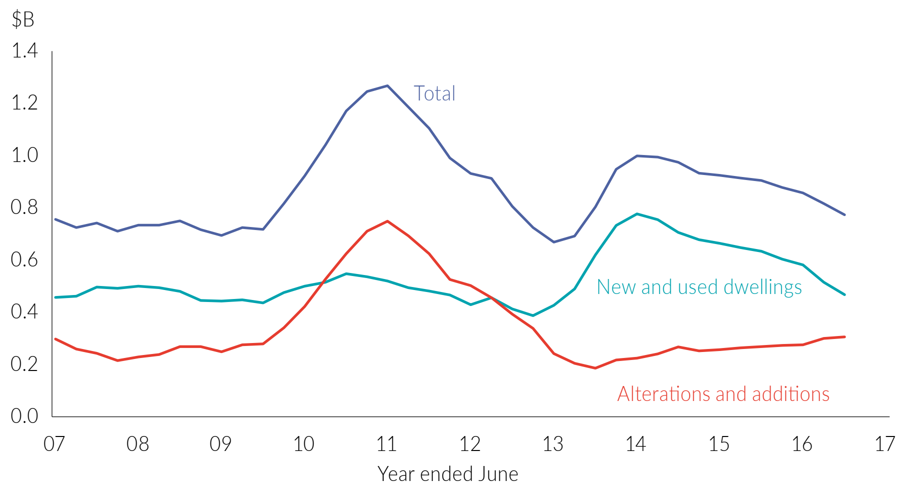
Record levels of private investment has been the key driver of economic growth over the past four years. Over this period, growth in private investment peaked at 79.2 per cent in 2012-13, reflecting the effect of large resource-based projects. Private investment decreased by 32.6 per cent in 2015-16 and was a major detractor from economic growth. This was the first recorded decrease since 2010-11 and follows a 5.5 per cent increase in the previous year. This was driven by declines in business and new dwellings investment, as well as ownership transfers of existing housing stock. Recent data shows this trend is continuing into 2016-17, with a 16.9 per cent decline in private investment in the year to December quarter 2016.

Dwelling Investment

Dwelling investment decreased 9.1 per cent to $839 million in 2015-16, reflecting the continued subdued conditions in the housing market following record growth in 2013-14. The decline in dwelling investment follows the completion of a number of large multi-unit developments over the previous three years, which has contributed to elevated levels of housing supply. The level of dwelling investment recorded for 2015-16 is below the 10-year average level of $873 million.

Recent data shows the decline in new and existing dwelling investment continuing in 2016-17. In contrast, investment in the form of alterations and additions to existing dwellings are showing signs of strength, up 13.8 per cent in the year to December quarter 2016 (Chart 2.7).

Chart 2.7: Value of Territory Dwelling Investment (moving annual total)[1]



1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: National Income, Expenditure and Product*, Cat. No. 5206.0

Business Investment

Business investment has been the strongest contributor to economic growth in the Territory for the previous four years, increasing from $2.8 billion in 2010-11 to $12.2 billion in 2014-15 (Chart 2.8). In 2015-16, business investment decreased by 34.4 per cent to $8.0 billion.

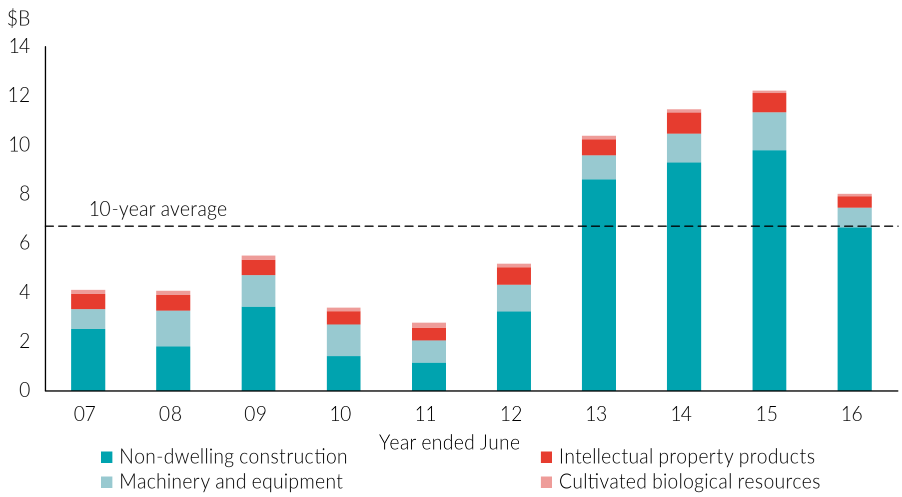
Major drivers of this decline in 2015-16 include a 32.1 per cent decrease in non-dwelling construction and 48.0 per cent decrease in machinery and equipment investment, largely reversing movements following record levels over the past few years, relating to the Ichthys LNG project.

Despite the decline, there were a number of projects that contributed to business investment in 2015-16. This includes the development of new mines and mining expansion projects in the Gove, Tanami, and Central Australia regions. There was also a significant amount of new retail business investment, including ongoing development of new shopping centres, Coolalinga Central, Gateway and Casuarina Shopping Square.

In contrast, cultivated biological resources investment increased by 5.5 per cent, signalling increases in livestock and orchard growth (number of trees) in 2015-16 compared to the previous year.

The declines in Territory business investment have continued, down 16.9 per cent in the year to December quarter 2016. This reflects weakness across all components except for cultivated biological resources, which continued strong year-on-year growth from 2015-16, though making a minor contribution.

Chart 2.8: Territory Business Investment[1]



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

Public Investment

Public investment decreased by 16.4 per cent in 2015-16, to $1.3 billion. The major driver of the decline was lower general government investment by state, local and Commonwealth governments by 25.2 per cent to $966 million. Partly offsetting the decline was an increase in investment by public corporations. ABS statistical treatment of state and local public investment is not comparable to Territory Government expenditure published in the Budget Papers, however provides a representation of public investment relative to GSP.

State and local general government investment decreased by 27.5 per cent to $756 million in 2015-16, largely driven by the statistical treatment relating to the completion of the Darwin Correctional Precinct (private to public transfer), which resulted in a strong one-off increase in public investment in 2014-15. Commonwealth general government investment also declined, down 15.7 per cent to $210 million, following increases in 2014-15 relating to the completion of the Robertson Barracks Joint Logistics Unit, as well as works on the redevelopment of the married quarters at RAAF Base Darwin.

Total public corporations investment increased by 22.0 per cent to $360 million in 2015-16, reflecting increased investment by state and Commonwealth public corporations. This reflects a number of projects such as the ongoing roll-out of the NBN and upgrades to power stations in Alice Springs and Tennant Creek.

Public investment has increased by 23.4 per cent in the year to December quarter 2016, largely driven by increased state and local investment. This likely relates to projects such as the Palmerston Regional Hospital, upgrades to Royal Darwin Hospital, the Tiger Brennan Drive duplication and remote housing upgrades. Commonwealth investment also increased following the launch of the second satellite for the NBN in late 2016.

Public Consumption

Growth in public consumption expenditure (including wages, salaries and operational expenditure on service delivery) moderated to 2.0 per cent to $7.2 billion in 2015-16, compared to growth of 3.8 per cent in 2014-15. This was the third annual increase in public consumption since 2012-13. Growth in 2015-16 was largely driven by a 3.0 per cent increase in Commonwealth consumption to $3.0 billion, as well as an increase in state and local consumption of 1.4 per cent to $4.2 billion.

The latest SFD data shows growth in public consumption strengthened to 1.8 per cent in the year to December 2016. This was driven by a 0.9 per cent increase in state and local government consumption and 3.2 per cent increase in Commonwealth consumption.

Net Exports

Net exports of goods and services in the Territory increased by 50.6 per cent, to a trade surplus of $3.9 billion in 2015-16, compared to a surplus of $2.6 billion in the previous year. The trade balance consisted of goods and services exports of $7.2 billion and goods and services imports of $3.3 billion. Goods make up the majority of both imports and exports in the Territory, with services only accounting for about 9.7 per cent of exports and 18.3 per cent of imports.

The increase in net exports was primarily driven by a decrease in imports. Goods imports decreased by 39.6 per cent to $2.7 billion, which was the lowest level of goods imports to the Territory since 2005-06, likely reflecting completion of imports for the Ichthys LNG project. Services imports, such as transport, travel, insurance and financial services, decreased 17.1 per cent to $604 million. This was partly offset by weakness in the Territory's goods and service exports, down 6.8 per cent to $6.5 billion and 11.1 per cent to $699 million, respectively.

Table 2.3: Components of Territory GSP[1, 2]

	Value ($M)[1, 2]									
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Total consumption	16 180	16 494	16 780	17 025	17 684	18 036	18 156	18 338	18 789	19 278
Household consumption	9 326	9 771	9 965	9 950	10 466	10 657	10 729	10 879	11 129	11 412
Public consumption	6 842	6 721	6 813	7 075	7 219	7 379	7 427	7 459	7 660	7 866
Total investment	8 231	12 878	14 239	15 094	10 431	10 139	9 241	7 694	7 273	7 180
Private investment	6 351	11 378	12 806	13 507	9 106	8 462	7 350	6 016	5 989	6 053
Dwelling investment	930	668	999	923	839	717	732	746	773	800
Ownership transfer costs	281	339	361	377	259	245	249	254	263	271
Business investment	5 181	10 374	11 447	12 207	8 007	7 500	6 369	5 015	4 954	4 982
Public investment	1 866	1 497	1 433	1 587	1 326	1 676	1 891	1 679	1 284	1 127
State final demand	24 333	29 362	31 020	32 119	28 116	28 175	27 397	26 032	26 061	26 458
Net exports	3 012	3 814	2 922	2 619	3 943	4 085	5 779	10 153	10 769	11 016
Total exports	7 829	8 839	8 303	7 808	7 242	6 920	8 529	12 938	13 620	13 968
Total imports	4 817	5 025	5 381	5 189	3 299	2 834	2 750	2 785	2 852	2 953
Balancing item[3]	- 8 343	- 11 176	- 11 351	- 11 705	- 8 412	- 8 369	- 9 040	- 10 830	- 10 960	- 11 070
Gross state product	**19 001**	**21 999**	**22 591**	**23 032**	**23 648**	**23 891**	**24 136**	**25 355**	**25 890**	**26 403**
	Year-on-Year Change (%)									
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Total consumption	0.5	1.9	1.7	1.5	3.9	2.0	0.7	1.0	2.5	2.6
Household consumption	0.7	4.8	2.0	- 0.2	5.2	1.8	0.7	1.4	2.3	2.5
Public consumption	0.3	- 1.8	1.4	3.8	2.0	2.2	0.6	0.4	2.7	2.7
Total investment	34.5	56.5	10.6	6.0	- 30.9	- 2.8	- 8.9	- 16.7	- 5.5	- 1.3
Private investment	49.2	79.2	12.6	5.5	- 32.6	- 7.1	- 13.1	- 18.2	- 0.4	1.1
Dwelling investment	- 26.7	- 28.2	49.6	- 7.6	- 9.1	- 14.5	2.0	2.0	3.5	3.5
Ownership transfer costs	12.0	20.6	6.5	4.4	- 31.3	- 5.4	1.8	2.0	3.2	3.2
Business investment	85.6	100.2	10.3	6.6	- 34.4	- 6.3	- 15.1	- 21.3	- 1.2	0.6
Public investment	0.6	- 19.8	- 4.3	10.7	- 16.4	26.4	12.8	- 11.2	- 23.5	- 12.2
State final demand	10.2	20.7	5.6	3.5	- 12.5	0.2	- 2.8	- 5.0	0.1	1.5
Net exports	- 25.0	26.6	- 23.4	- 10.4	50.6	3.6	41.4	75.7	6.1	2.3
Total exports	- 3.6	12.9	- 6.1	- 6.0	- 7.2	- 4.4	23.3	51.7	5.3	2.6
Total imports	17.3	4.3	7.1	- 3.6	- 36.4	- 14.1	- 3.0	1.2	2.4	3.5
Balancing item[3]	10.8	34.0	1.6	3.1	- 28.1	- 0.5	8.0	19.8	1.2	1.0
Gross state product	**2.3**	**15.8**	**2.7**	**2.0**	**2.7**	**1.0**	**1.0**	**5.1**	**2.0**	**2.1**
	Percentage Point Contribution to Year-on-Year GSP Change (ppt)									
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Total consumption	0.5	1.7	1.3	1.1	2.9	1.5	0.5	0.8	1.8	1.9
Household consumption	0.4	2.3	0.9	- 0.1	2.2	0.8	0.3	0.6	1.0	1.1
Public consumption	0.1	- 0.6	0.4	1.2	0.6	0.7	0.2	0.1	0.8	0.8
Total investment	11.4	24.5	6.2	3.8	- 20.2	- 1.2	- 3.8	- 6.4	- 1.7	- 0.4
Private investment	11.3	26.5	6.5	3.1	- 19.1	- 2.7	- 4.7	- 5.5	- 0.1	0.2
Dwelling investment	- 1.8	- 1.4	1.5	- 0.3	- 0.4	- 0.5	0.1	0.1	0.1	0.1
Ownership transfer costs	0.2	0.3	0.1	0.1	- 0.5	- 0.1	0.0	0.0	0.0	0.0
Business investment	12.9	27.3	4.9	3.4	- 18.2	- 2.1	- 4.7	- 5.6	- 0.2	0.1
Public investment	0.1	- 1.9	- 0.3	0.7	- 1.1	1.5	0.9	- 0.9	- 1.6	- 0.6
State final demand	12.2	26.5	7.5	4.9	- 17.4	0.2	- 3.3	- 5.7	0.1	1.5
Net exports	- 5.4	4.2	- 4.1	- 1.3	5.7	0.6	7.1	18.1	2.4	1.0
Total exports	- 1.6	5.3	- 2.4	- 2.2	- 2.5	- 1.4	6.7	18.3	2.7	1.3
Total imports	- 3.8	- 1.1	- 1.6	0.8	8.2	2.0	0.4	- 0.1	- 0.3	- 0.4
Balancing item[3]	- 4.4	- 14.9	- 0.8	- 1.6	14.3	0.2	- 2.8	- 7.4	- 0.5	- 0.4
Gross state product	**2.3**	**15.8**	**2.7**	**2.0**	**2.7**	**1.0**	**1.0**	**5.1**	**2.0**	**2.1**

GSP: gross state product; e: estimate; f: forecast; ppt: percentage point
1 Inflation adjusted.
2 Components may not add to totals due to rounding and chain volume estimation.
3 Balancing item includes statistical discrepancy.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Chapter 3

External Economic Environment

Recent Results

In 2015-16 the Territory's net exports increased to $3.9 billion primarily driven by a 36.4 per cent fall in total imports, which was partly offset by a 7.2 per cent decline in total exports.

Outlook

Net exports are expected to be subdued in 2016-17, before significantly increasing in outer year's, primarily driven by exports from the production phase of the Ichthys liquefied natural gas project.

The Northern Territory is a small open economy influenced by trade, investment and movements in commodity prices. This is particularly the case, as a large proportion (about 40 per cent) of the Territory economy compromises the mining, construction, manufacturing and tourism sectors.

The Territory is geographically located close to major Asian economies including China, Japan, Indonesia and Thailand and, as expected, these are the Territory's major trading partners.

This chapter outlines national and global economic conditions as well as key trading partners and commodities relevant to the Territory economy. Forecasts for key components of the external environment are also specified over the short to medium term.

Outlook

International Trade

The Territory's net exports are expected to moderately increase by $142 million in 2016-17, primarily due to a decrease in imports, following the last of the pre-assembled modules from the Ichthys liquefied natural gas (LNG) project being delivered. In the forward years, net exports are forecast to increase sharply as LNG, liquid petroleum gas and condensate products from the Ichthys LNG project are exported to Japan, Taiwan and other global destinations, while imports are forecast to remain in line with long-term trends. By 2020-21, net exports are expected to stabilise at around $10.7 billion.

Table 3.1: Net Export Component of Territory GSP ($M)[1, 2]

	2015-16a	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Total exports	7 242	6 920	8 529	12 938	13 620	13 968
Total imports	3 299	2 834	2 750	2 785	2 852	2 953
Net exports	**3 943**	**4 085**	**5 779**	**10 153**	**10 769**	**11 016**

GSP: gross state product; a: actual; e: estimate; f: forecast
1 Inflation adjusted.
2 Components may not add to totals due to inflation adjustments.
Source: Department of Treasury and Finance, ABS, *Australian National State Accounts*, Cat. No. 5220.0

In the remainder of this chapter the terms net exports and trade balance are used interchangeably.

Global Growth

The International Monetary Fund (IMF) forecasts global growth to increase from 3.1 per cent in 2016 to 3.5 per cent in 2017 (Table 3.2). Advanced economies are forecast to grow at 2.0 per cent, while emerging markets and developing economies are forecast to grow at 4.5 per cent in 2017.

Forecasts for the advanced economies is largely driven by strong growth in the United States (US), as a result of expansionary fiscal policy. Further cyclical recovery in Europe following crises in 2011-2012 and strong growth in the United Kingdom, also contributes to the outlook.

IMF forecasts for emerging markets and developing economies are the main driver behind global growth, increasing to 4.5 per cent and 4.8 per cent, respectively, in 2017 and 2018. Growth reflects improvement in a number of commodity exporters and stronger growth in India. Partly offsetting growth in emerging markets and developing economies, is a slowdown of the Chinese economy to more sustainable growth patterns.

Global growth is expected to average 3.6 per cent in the five years from 2017 for the remainder of the outlook period and be largely driven by emerging markets and developing economies, partly offset by moderating growth in advanced economies.

Table 3.2: GDP Growth for the Territory's Current Major Trade Destinations, Australia and World Regions (%)

	2016a	2017e	2018f	2019f	2020f	2021f
Japan	1.0	1.2	0.6	0.8	0.2	0.7
China	6.7	6.6	6.2	6.0	5.9	5.8
Thailand	3.2	3.0	3.3	3.2	3.1	3.0
Indonesia	5.0	5.1	5.3	5.4	5.5	5.5
Singapore	2.0	2.2	2.6	2.6	2.6	2.6
India	6.8	7.2	7.7	7.8	7.9	8.1
Australia	2.5	3.1	3.0	2.9	2.8	2.8
Emerging markets and developed economies	4.1	4.5	4.8	4.9	4.9	5.0
Advanced economies	1.7	2.0	2.0	1.9	1.7	1.7
Global	3.1	3.5	3.6	3.7	3.7	3.7

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

Commodity Prices

Price forecasts for the Territory's major commodity exports, including manganese and bauxite, are expected to remain subdued in the short to medium term. In the latter half of 2016, steel-related commodities experienced a sharp price increase due to a better than expected quarter of steel production in China. However, prices are forecast to lose most of the gains made in the last quarter of 2016 as China's residential construction sector slows and supply increases for steel-related commodities due to new mines coming online in Australia and Brazil.

Crude oil prices are forecast to increase in the short to medium term primarily due to Organization of the Petroleum Exporting Countries (OPEC) agreeing to cut production. In the long term, the crude oil price will be influenced by consumption levels in major Asian economies including India and China, and OPEC's ability to meet production targets and keep agreements between countries. World LNG prices are linked to crude oil prices, however LNG produced in the Territory is currently sold on long-term contracts.

Exchange Rates

Deloitte Access Economics forecasts that the Australian dollar will appreciate in the remainder of 2016-17 as a result of better than expected conditions in commodity markets. However, in the medium term the Australian dollar/US exchange rate is expected to depreciate as the US dollar strengthens, the Chinese economy continues to slow impacting commodity prices and Australia's terms of trade. An expected interest rate rise in the US is forecast to put further downward pressure on the Australian dollar. A weaker Australian dollar is expected to benefit the Territory's goods and service exports.

National Economy

The IMF forecasts economic growth in Australia to be 3.1 per cent in 2017 and an average of 2.9 per cent over the five year forecast period. The 2016-17 Commonwealth Mid-Year Economic and Fiscal Outlook forecasts national economic growth in Australia to be 2 per cent in 2016-17 before increasing to 3 per cent by the end of the forecast period in 2019-20. Economic growth will largely be supported by domestic demand, as the transition from a resource-intensive economy takes place, as well as a weaker Australian dollar benefiting goods and service exports.

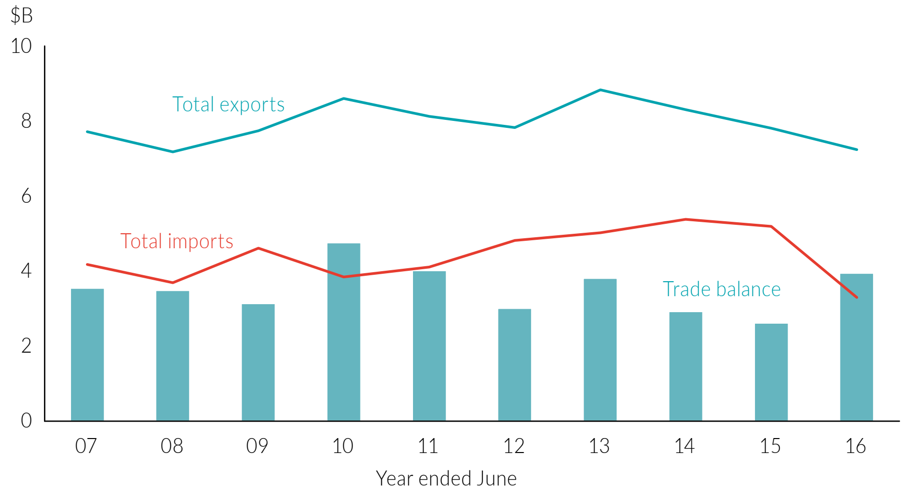
Interest Rates

According to Deloitte Access Economics, Australia's official cash rate is forecast to stay flat in 2017 before rising in 2018. Current monetary policy is supported by current low levels of inflation, wage growth and ongoing capacity in the labour market. Household debt to income ratios are also rising, therefore any sharp and sudden interest rate increases are unlikely in the outer years. Current low interest rates are expected to boost business confidence, consumption and investment decisions in the Territory economy.

Territory International Trade

The major industries in the Territory that tend to be most affected by global economic factors are mining, agriculture and tourism. Economic performance in the Territory's major trading partners and exchange rates affect demand for the Territory's goods and service exports. Over the last decade the Territory has had a trade surplus, mainly due to the high volume and value of exports related to energy and mineral products (Chart 3.1), with a 10-year average trade surplus of $3.5 billion. In 2015-16, the Territory's net international trade balance increased to $3.9 billion, up from $2.6 billion in 2014-15. This was driven by a 36.4 per cent decline in total imports, partly offset by a 7.2 per cent decline in total exports.

Chart 3.1: Territory International Trade Balance, 2006-07 to 2015-16[1]



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

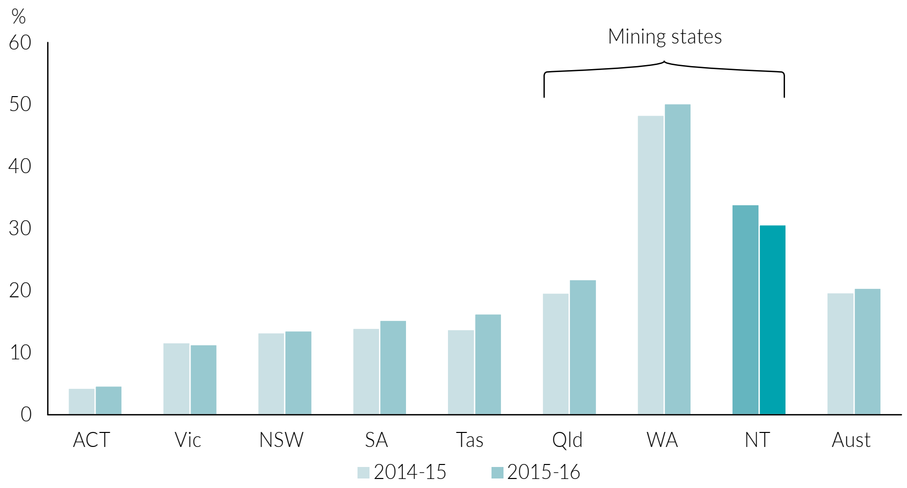
The Territory's trade balance mainly consists of trade of goods, with services only contributing a minor proportion. In 2015-16 service imports contributed 18.3 per cent to total imports and service exports contributed 9.7 per cent to total exports.

Goods Exports

In 2015-16 the Territory's total value of goods exported, in current prices, was $4.7 billion. The major components of exports included confidential items (68.6 per cent), metalliferous ores and metal scraps (14.1 per cent) and live animal exports (9.5 per cent). In general, confidential items for the Territory include petroleum, gas and mineral products. Confidential items include data where a firm's privacy may be at risk if it could be identified. Recent changes in classification of confidential items have increased the proportion attributed to this category for Territory-related data.

In 2015-16 the Territory had the second highest total goods exports as a proportion of gross state product (GSP), in inflation-adjusted terms. This is consistent with the other mining states of Western Australia and Queensland, which highlights the resource-intensive nature of the Territory economy (Chart 3.2).

Chart 3.2: Exports as a Proportion of GSP for 2014-15 and 2015-16[1]



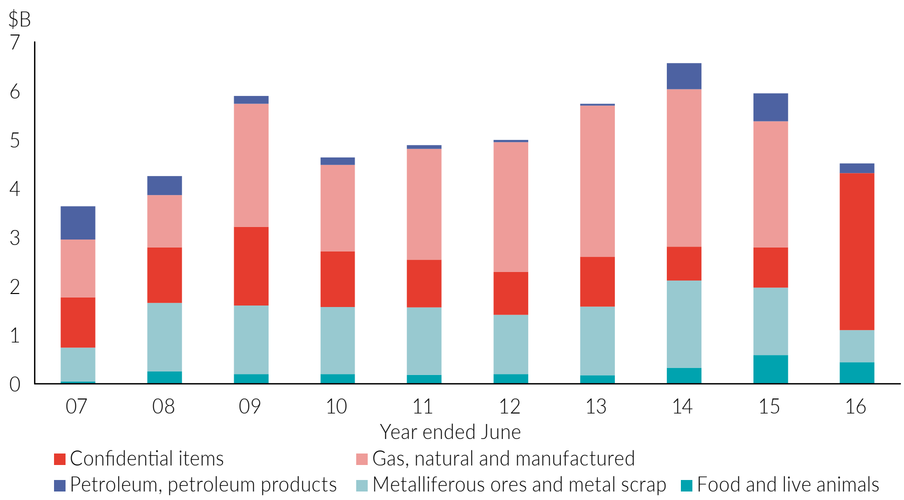
1 Inflation adjusted.
Source: ABS, *Australia National Accounts: State Accounts*, Cat. No. 5222.0

In 2015-16 the value of total exports from the Territory declined by 24.0 per cent compared to the previous year, mainly driven by a 24.0 per cent decline in food and live animals, and a 52.4 per cent decline in metalliferous ores and metal scraps. However, this was partly offset by a 290.1 per cent increase in confidential items due to the Australian Bureau of Statistics (ABS) confidentialising items between years (Chart 3.3).

Latest data published by the ABS shows that goods exported in current prices decreased by 11.4 per cent in the year to February 2017. The decline is in line with the result seen in 2015-16 and is primarily due to lower commodity prices and production levels.

Exports from the Ichthys LNG project are expected to commence in 2017-18, which will provide a boost to the Territory's total goods exports over the medium term.

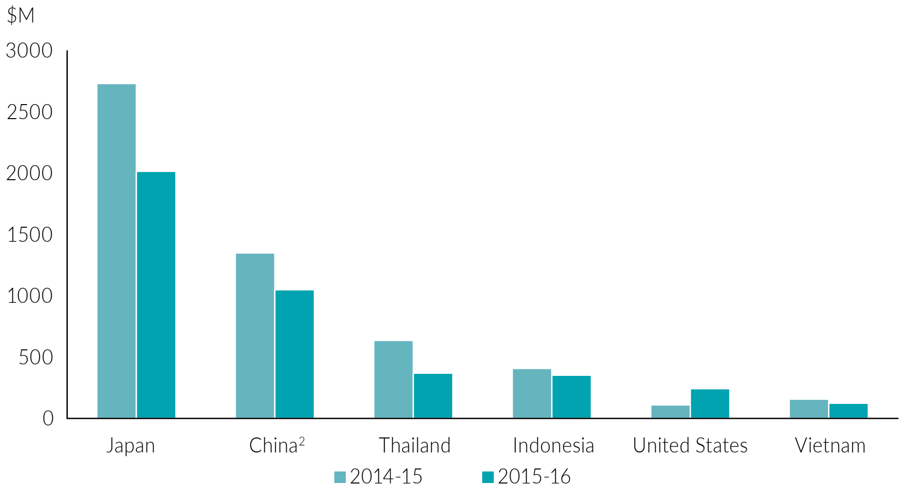
Chart 3.3: Value of the Territory's Major Goods Exported, 2006-07 to 2015-16[1]



1 Current prices, moving annual total.
Source: ABS unpublished data

The Territory's top three export destinations for 2015-16 were Japan (43.1 per cent), China (22.4 per cent) and Thailand (7.9 per cent). However, all three destinations experienced a decline in export value from the previous year (Chart 3.4). Increases in export value were seen for the US, an increase of $134 million, and Malaysia, an increase of $18 million, mainly due to a rise in confidential items.

Chart 3.4: The Territory's Major Goods Exports Destinations in 2014-15 and 2015-16[1]



1 Current prices.
2 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

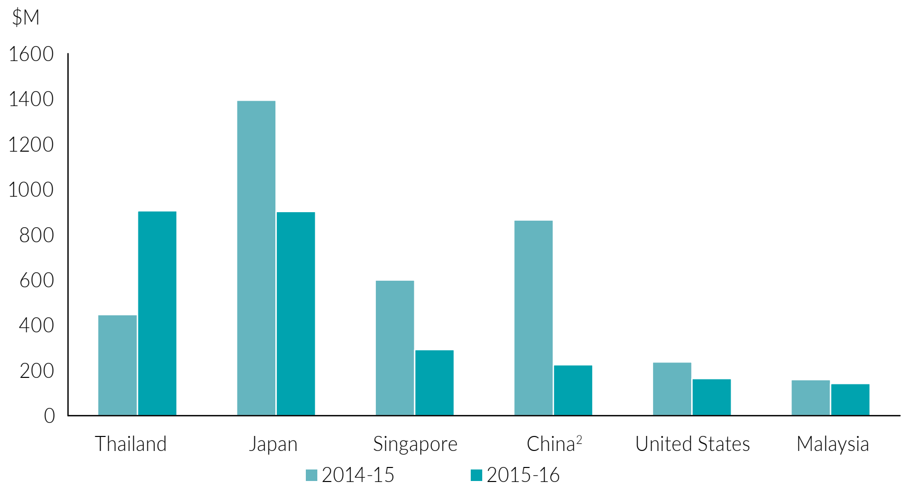
Goods Imports

In 2015-16 the total value of goods imported, in current prices, was $3.2 billion, down from $5.0 billion in 2014-15. This large decline was primarily attributed to a peak in the arrival of a number of assembled modules and construction equipment for the Ichthys LNG project in 2014-15, as part of the construction phase of the Ichthys LNG project. The majority of the Territory's goods imported in 2015-16 came from Asia. These include Thailand (28.3 per cent), Japan (28.2 per cent), Singapore (9.1 per cent) and China (7.0 per cent) (Chart 3.5). Increases in imports from 2014-15 to 2015-16 were only seen from two major destinations, which included Thailand, an increase of $459 million, and the Philippines, an increase of $49 million.

The Territory also imports refined automotive fuel from Singapore, the value of which has declined in 2015-16 compared to the previous year, consistent with movements in global oil prices. More information on the Territory's trading partners can be found in the Territory's Major Trading Partners section of this chapter.

The latest data published by the ABS shows similar trends as observed in 2015-16. In the year to February 2017, imports declined by 65.9 per cent, primarily driven by imports for the construction phase of the Ichthys LNG project tapering off.

Chart 3.5: Territory's Major Goods Imports Destinations in 2014-15 and 2015-16[1]



1 Current prices.
2 Excluding Special Administrative Regions (Macau and Hong Kong) and Taiwan.
Source: ABS, *International Trade in Goods and Services*, Cat. No. 5368.0

Service Exports and Imports

International service exports represent income received by local businesses from overseas travellers, foreign businesses, foreign students and foreign government personnel (mostly defence), for services provided including meals, education, accommodation, entertainment and tourism activities. Service imports reflect expenditure by Territorians on services provided overseas

In 2015-16 the international net trade balance for services decreased slightly to $53 million, down from $57 million in 2014-15. This was driven by a 10.2 per cent decrease in international service exports, which was partly offset by a 10.4 per cent decrease in international service imports (Chart 3.6).

Chart 3.6: Territory International Service Exports and Imports, 2006-07 to 2015-16[1]

1 Current prices.
Source: Department of Treasury and Finance; ABS, *International Trade in Goods and Services*, Cat. No. 5368.0.55.003

The Territory's major international service exports include personal travel services (50.6 per cent), business travel services (17.3 per cent), government goods and services (17.3 per cent) and transport services (12.9 per cent). International service exports are likely to be driven by depreciation in the Australian dollar and international business investment in major projects in the Territory. The Territory has a relatively small level of international service exports compared to other jurisdictions due to its small population size.

The decline in the Territory's major international service exports in 2015-16 was largely driven by a 26.5 per cent decrease in business travel services compared to 2014-15. Business travel services involves the provision of travel services for visitors arriving in the Territory for business-related purposes. The decline is likely to reflect less mining activity.

The major components of the Territory's international service imports include personal travel services (49.5 per cent), freight services (29.2 per cent) and passenger fares (10.7 per cent). In comparison, international service imports are likely to be driven by an appreciation in the Australian dollar, making travel and other overseas goods and services more affordable for domestic residents.

The decrease in the Territory's international service imports was largely driven by a 22.0 per cent decrease in freight services imports.

Global Economy

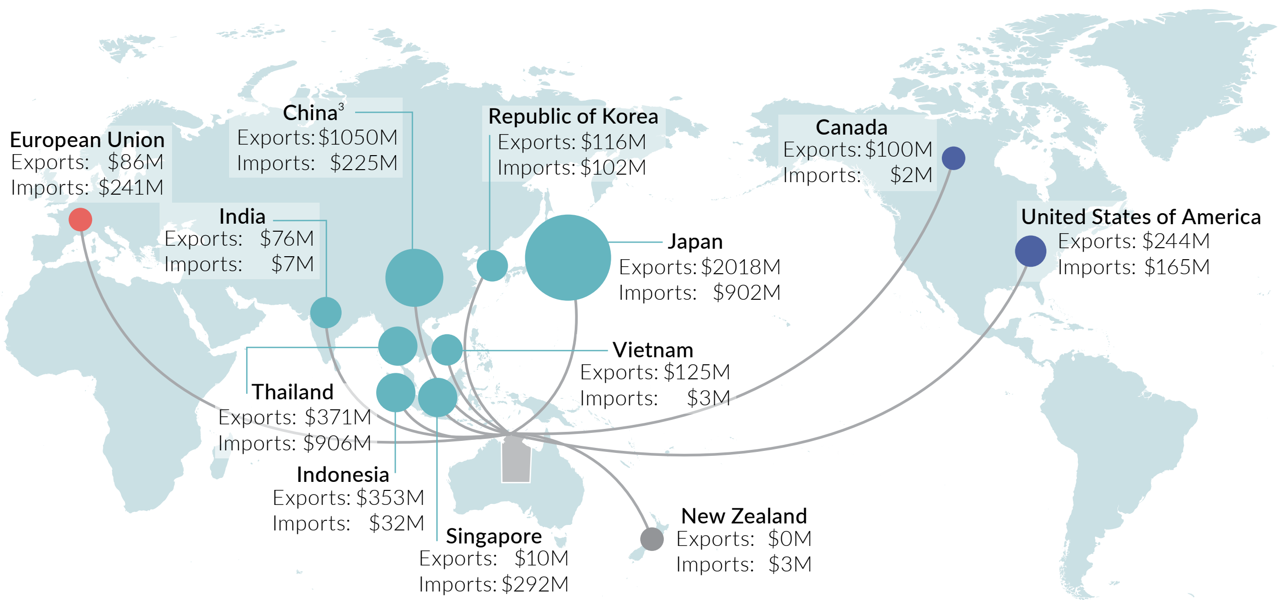
World output grew at 3.1 per cent in 2016 according to the IMF. Output is expected to increase to 3.5 per cent in 2017 and 3.6 per cent in 2018. This will be driven by high growth in the emerging and developing economies (such as India and Indonesia) and strengthening in advanced economies (such as the US, Japan and the United Kingdom), (table 3.2).

Global economic activity in 2016 reflected cyclical recoveries in investment, manufacturing and trade. This was influenced by:

- uncertainty surrounding US policy under the new administration, specifically economic and trade policies, however showed strength in the second half of the year, with the US dollar appreciating along with a rise in US stock markets;
- a rise in oil prices as OPEC members have agreed to limit supply; and
- a slowdown in China's residential construction sector, however expectations of continued policy support remain.

Economic conditions in the Territory's major trading partners influence the Territory's international trade performance and are outlined.

Map 1: The Territory's Major Goods Trading Partners, 2015-16[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

Japan

In 2015-16 Japan received $2.0 billion worth of exports from the Territory, making it the Territory's largest export market. However, this still represented a decline of 26.1 per cent from 2014-15, primarily due to a 35.2 per cent reduction in metalliferous ores and concentrates, and a 25.2 per cent reduction in confidential items, which is likely to consist of petroleum, gas and mineral products.

IMF forecasts that in 2017 the Japanese economy is expected to grow at 1.2 per cent, reflecting in increases in net exports continuing into the year. In the coming years, economic growth in Japan is expected to remain weak, with forecast growth of 0.6 per cent in 2018 and 0.8 per cent in 2019, largely attributed to the slowdown in Japan's labour force, a recovery in import levels and expectations of lower fiscal support.

In January 2015, the Japan Australia Economic Partnership Agreement (JAEPA) came into force, which aims to increase trade with Japan and reduce tariffs on exports. The agreement has the potential to boost agricultural exports to Japan as well as business investment.

China

In 2015-16, the Territory exported $1.1 billion worth of goods to China, down 22.3 per cent compared to 2014-15. The main export to China was metalliferous ores and metal scraps (48.7 per cent), mainly manganese and zinc/lead concentrate. Goods imported from China amounted to $225 million in 2015-16; a large decrease of 74.0 per cent from 2014-15, primarily due to the winding down of the construction phase of the Ichthys LNG project and the associated import of manufactured metal.

IMF forecasts China's economy to grow by 6.6 per cent in 2017, down from 6.7 per cent in 2016. In the coming years China is expected to grow at 6.2 per cent in 2018 and 6.0 per cent in 2019. Over the last three decades China has grown at above-average rates and is now transitioning away from investment and export-related growth and towards a consumption and service-based economy. This has resulted in a slowdown in Chinese demand for commodities as well as domestic construction activities. In line with the IMF forecasts, the Chinese National People's Congress, which met in March 2017, indicated it was targeting growth of around 6.5 per cent and a shift away from low-end manufacturing and state-directed infrastructure spending.

Economic activity in China significantly impacts growth in the global economy through trade, commodity prices, volatility and confidence in financial markets. The Chinese economy is expected to have a significant impact on the Territory. It is important to note that although the growth rate of the Chinese economy has decreased, in absolute numbers it is still larger than the 10 per cent growth a decade ago.

On 20 December 2015, the China-Australia Free Trade Agreement (CHAFTA) came into force, which supports trade through progressive removal of tariffs and trade barriers by 2024. A number of products are specifically targeted by the agreement including live animal exports, vegetables, seafood, kangaroo hides and leather. The agreement has already had a measurable effect with increases in exports for key commodities.

Thailand

The Territory exported $371 million worth of goods to Thailand in 2015-16, down 41.7 per cent from 2014-15. A large proportion of exports include petroleum and petroleum-related products (about 50 per cent). Goods imported from Thailand totalled $906 million, up 102.7 per cent from 2014-15. The majority of goods imported included manufactured metal (79.0 per cent), predominantly related to importing pre-assembled modules for the Ichthys LNG project.

IMF forecasts Thailand's economy to grow at 3.0 per cent in 2017 and an average growth rate of approximately 3.1 per cent over the next five years. Growth in Territory exports to Thailand is likely to be linked to petroleum and petroleum-related products, predominantly from the Montara oil field. Imports are likely to decrease as the Ichthys LNG project nears completion of its construction phase.

Indonesia

IMF forecasts the Indonesian economy to grow at 5.1 per cent in 2017, increasing to 5.3 per cent and 5.4 per cent in 2018 and 2019, respectively. Growth is supported by stronger domestic demand. Indonesia is likely to be a growing trade and business investment destination for the Territory due to its close geographical proximity as well as a strengthening global presence and middle class.

The Territory exported $353 million worth of goods to Indonesia in 2015-16, the majority was food and live animals (82.0 per cent), predominantly live cattle exports. Growth in this industry has been a result of increased import permits for live cattle by Indonesian authorities. However, the industry is facing increased competition in the Indonesian market from other regions in Asia, including India, which are relatively low-cost providers.

The sixth round of talks involving the Indonesia-Australia Comprehensive Economic Partnership Agreement took place in Canberra from 20 to 24 February 2017. This agreement is expected to provide economic opportunities for the Territory and its relationship with Indonesia. Potential markets are not limited to live cattle but also other goods and services including tourism and education. Further talks are to be held in Indonesia in May 2017.

India

In 2015-16, India contributed approximately 1.6 per cent to the Territory's total goods exports. Exports primarily consisted of metalliferous ores, most likely manganese, an input into steel production.

The Indian economy is becoming increasingly important to the global economy. IMF forecasts growth to be 7.2 per cent in 2017, ramping up to 7.7 and 7.8 per cent in 2018 and 2019, respectively. In the next few years, India is also expected to become the world's second largest steel producer due to the government's infrastructure development plans and the 'Make in India' manufacturing campaign. A growing middle class as well as expansions in infrastructure and the manufacturing industry will likely result in India becoming a key trade destination for the Territory in the future.

United States of America

The Territory's goods exports to the US more than doubled between 2014-15 and 2015-16 to $244 million. IMF forecasts the US economy to grow 2.3 per cent in 2017 increasing to 2.5 per cent in 2018. However, uncertainty remains around the new US administration and the policy stance around economic growth and trade relations. The US also has a large military presence in the Territory and it is unclear whether this will increase as the new US administration has indicated it will look at increasing the US defence budget.

Europe

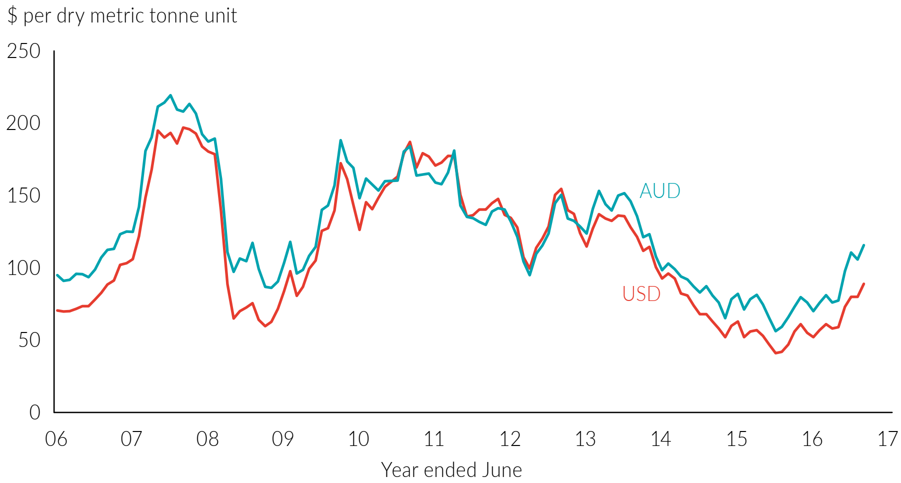
The Territory exported $86 million to the European Union in 2015-16, a decrease from $122 million in 2014-15. The region's economic growth expectations are strong, despite uncertainty as the United Kingdom finalises its exit from the European Union (Brexit). Currently the United Kingdom is performing above expectations with a rise in domestic demand. Given the small amount of trade between the Territory and the region, any direct impact from Brexit is unlikely. However, a flow-on effect to the Territory's trade partners or on the national level may occur.

Commodity Prices

In 2015-16, global prices of steel-related commodities remained subdued, impacting producers in the Territory. Commodity prices are largely driven by global demand, especially from the Asian region. At the same time a number of large new resource projects worldwide are adding to global supply. As of February 2017, prices once again are beginning to rise primarily due to better than expected steel production in China in the final quarter of 2016. However, prices are forecast to decline throughout 2017 as demand for steel production falls due to a depressed residential construction sector in China, which has been the major source of demand for steel in prior years.

The price of iron ore was stable in 2015-16, averaging $70.91 (Australian dollars) and decreasing 1.8 per cent over the period (Chart 3.7). The current price of iron ore was still approximately half the price observed during the mining boom and all iron ore mines across the Territory remain closed despite substantial deposits. The price of iron ore generally follows the same pattern as other steel-related commodities, which have increased in the last quarter of 2016. However, prices are forecast to decline throughout the remainder of 2017 as the Chinese residential construction sector continues to slow.

Chart 3.7: Average Monthly Iron Ore Spot Price



AUD: Australian dollar; USD: US dollar
Source: Department of Treasury and Finance; World Bank, Commodity Price Data (The Pink Sheet); Reserve Bank of Australia

In 2015-16 the price of zinc decreased slightly by 0.5 per cent in Australian dollar terms (Chart 3.8). Currently the average price of zinc has increased 57.3 per cent in the year to February 2017. Zinc is currently a major export from the Territory as outlined in the Mining and Manufacturing section of the Industry Analysis chapter.

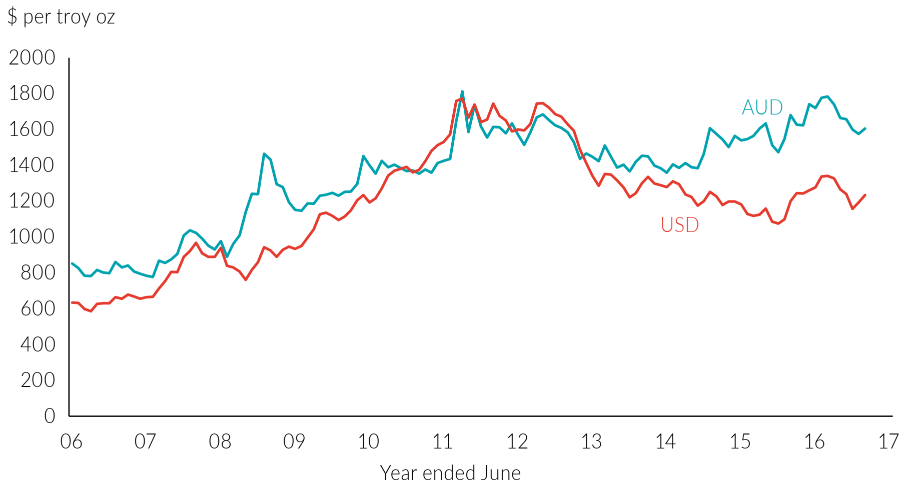
Chart 3.8: Average Monthly Zinc Price

AUD: Australian dollar; USD: US dollar
Source: Department of Treasury and Finance; World Bank, Commodity Price Data (The Pink Sheet); Reserve Bank of Australia

The price of gold increased by 11.1 per cent in Australian dollar terms during 2015-16, supported by risk-averse investors reacting to instability and uncertainty in the global economy due to global events including the US election and Brexit vote (Chart 3.9).

Gold prices are expected to moderate slightly in 2016-17 and 2017-18, primarily due to improving economic conditions in the US, as well as an expected rise in interest rates and the US dollar. However, this may be offset by increases in demand for fabricated gold such as jewellery due to increases in income for the two biggest consumers, India and China.

Chart 3.9: Average Monthly Gold Price

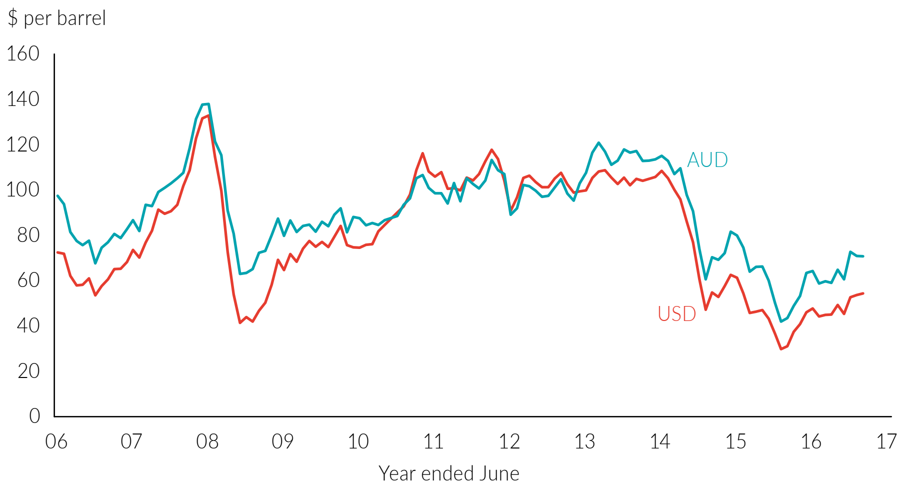


AUD: Australian dollar; USD: US dollar
Source: Department of Treasury and Finance; World Bank, Commodity Price Data (The Pink Sheet); Reserve Bank of Australia

In 2015-16, global oil prices declined significantly, reaching a low in January 2016 before rebounding in the remainder of the financial year, in Australian dollar terms (Chart 3.10). The decline resulted in reduced retail fuel prices in the Territory throughout 2015-16.

The decline in global oil prices was largely driven by increasing world oil supply, as OPEC recorded historically high levels of production. However, as of December 2016 OPEC agreed to cut production causing a 12.3 per cent increase in the average price of crude oil between October and December 2016, in Australian dollar terms.

Chart 3.10: Average Monthly Crude Oil Price[1]

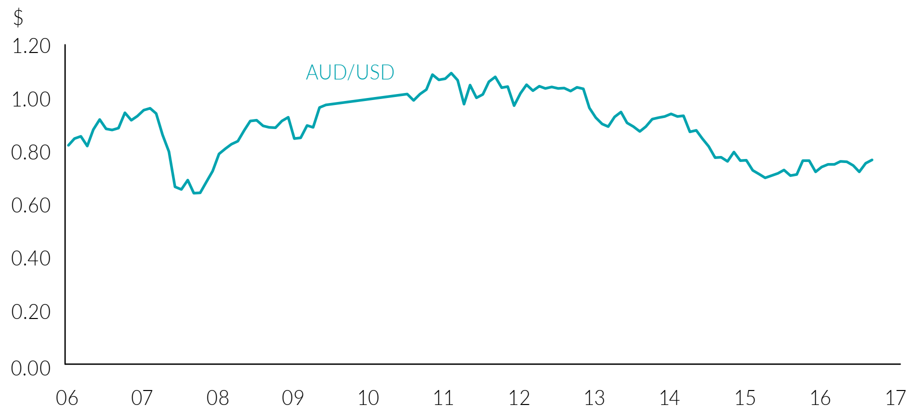


AUD: Australian dollar; USD: US dollar
1 Crude oil price is an average of the spot price of Brent, Dubai and West Texas Intermediate, equally weighed.
Source: Department of Treasury and Finance; World Bank, Commodity Price Data (The Pink Sheet); Reserve Bank of Australia

Exchange Rates

The Australian/US dollar exchange rate was relatively stable in 2015-16 with a 1.8 per cent increase and an average of 72.7 cents in the corresponding period (Chart 3.11). Movements in exchange rates are largely determined by the difference in inflation and interest rates as well as the trade balance between countries.

Chart 3.11: Exchange Rate of the Australian and US Dollar

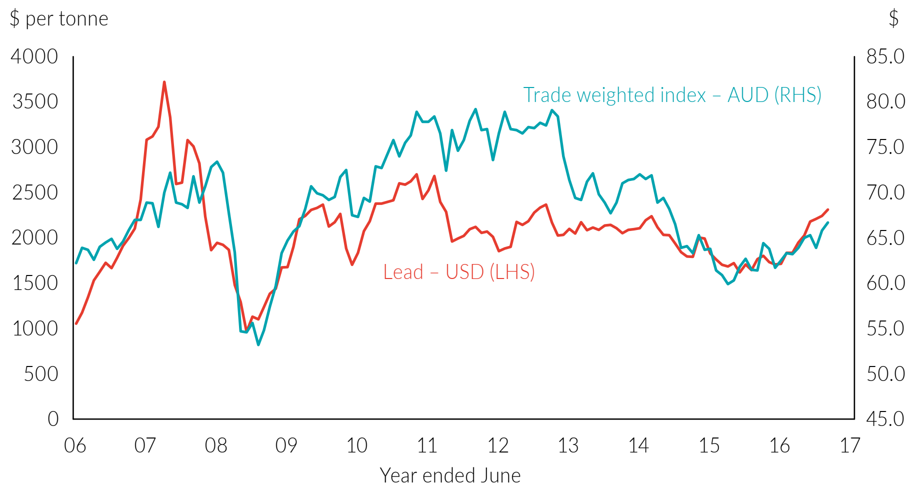


AUD: Australian dollar; USD: US dollar
Source: Reserve Bank of Australia

The Australian dollar has been below parity with the US dollar since May 2013, and steadily depreciating. The relatively weak Australian dollar should benefit the Territory, making goods and service exports cheaper and more competitive in overseas markets.

The trade weighted index (TWI) is a measure of the Australian dollar against a basket of currencies and measures the strength of the Australian dollar against major trading partners (Chart 3.12). The importance of other currencies depends on the proportion of trade done with that country. TWI is linked to commodity prices as the bulk of Australian exports are commodities. In 2015-16 the TWI was largely unchanged and only increased 1.8 per cent, which was in line with the movement in iron ore and other steel-related commodity prices.

Chart 3.12: Trade Weighted Index Exchange Rate and Lead Prices



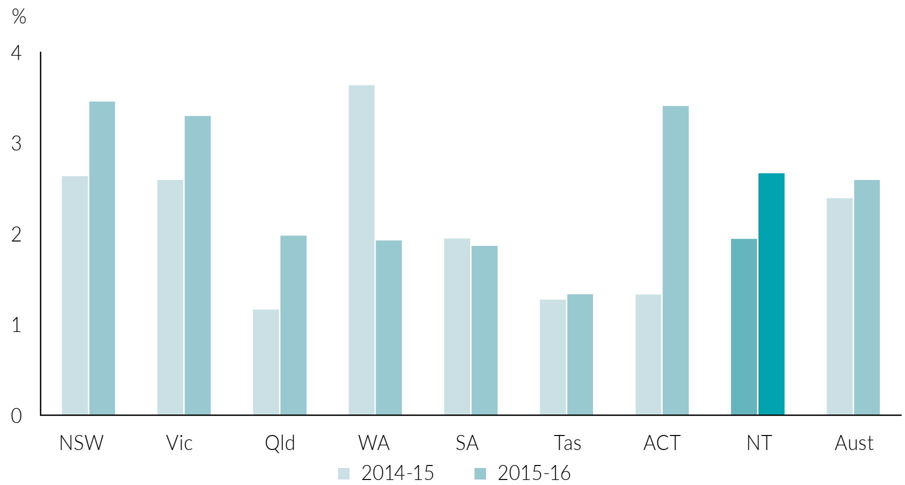
AUD: Australian dollar; USD: US dollar
LHS: left-hand side, RHS: right-hand side
Source: Reserve Bank of Australia; World Bank, Commodity Price Data (The Pink Sheet)

National Economy

National and interstate economic activity influences the Territory's economy through changes to population, interstate trade, domestic 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.

The Australian economy grew by 2.8 per cent to $1.7 trillion in 2015-16. Growth was largely driven by an increase in household and government consumption. This reflects a transition in the Australian economy away from mining to other sectors. In 2015-16 the Territory economy grew by 2.7 per cent, a 0.7 percentage point increase from 2014-15. In other jurisdictions, GSP was between 3.5 per cent in New South Wales and 1.3 per cent in Tasmania (Chart 3.13).

Chart 3.13: Year-on-Year Percentage Change in GSP and GDP in 2014-15 and 2015-16[1]



GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australia National Accounts: State Accounts*, Cat. No. 5222.0

RBA has kept the cash rate at 1.5 per cent since August 2016, which is the lowest level in the last two decades. Current monetary policy is supported by low levels of inflation and the transitioning nature of the Australian economy after the mining boom. The Territory economy should benefit from relatively low interest rates due to the impact on business confidence, consumption and investment decisions.

Chapter 4
Population

Recent Results

Population growth remains significantly below historical trends, with negative net migration close to record levels.

Outlook

Population is expected to decline in 2017 before gradually recovering towards the long-term average.

The estimated resident population (ERP) is the official Australian Bureau of Statistics (ABS) measure of Australia's population. It quantifies the number of usual residents of Australia and locations within Australia. The ERP provides the best available estimation of the Northern Territory's resident population. The ERP is based on the results of the five-yearly Census of Population and Housing, updated quarterly between censuses using information on births, deaths, net interstate migration (NIM) and net overseas migration (NOM).

All ERP data in this chapter is reported on a financial-year basis (as at 30 June), reflecting the most current available ABS data as at 30 September 2016. The availability of ABS data enables estimation of expected annual population growth at 31 December 2016 and forecasts of population growth in each calendar year of the budget and forward estimates period.

At the time of publication results from the 2016 Census were not available, with the main data release scheduled for 27 June 2017.

Outlook

Population growth over 2016 is expected to remain subdued, continuing the trend from 2015 and weakening to 0.3 per cent as a consequence of historically high levels of migration outflows as the economy adjusts to a general slowdown of the mining and construction sectors.

Table 4.1: Territory Population Forecasts (%)

Calendar Year	2015a	2016e	2017f	2018f	2019f	2020f
Population growth	0.5	0.3	- 0.3	0.3	0.8	1.2

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

Population is expected to decline in 2017, with a forecast change of -0.3 per cent, as a significant proportion of resident construction workers are expected to depart the Territory with the Ichthys liquefied natural gas (LNG) project transitioning from the construction to operational phase during the year. These departures are expected to continue into 2018, albeit to a lesser extent, resulting in a small recovery in annual population growth to 0.3 per cent. Population growth is then forecast to steadily increase to 1.2 per cent in 2020, achieving the long-term average of 1.4 per cent beyond the forward estimates period as long-run economic patterns progressively re-assert themselves. This return to trend is largely attributable to natural increase with a modest contribution from migration.

The population forecasts do not factor in the impact of future private sector projects in the resources and agriculture sectors awaiting final investment decisions. Commencement of these projects are likely to provide an upside to the forecasts, resulting in a quicker recovery to the long-term average population growth rate.

2016 Census of Population and Housing

The ABS released a preview of the 2016 Census results on 11 April 2017, providing insight into the 'typical' Australian in 2016 at the national and state/territory level. According to Census 2016, 'Mick' the 'typical' Territorian is a 34 year-old male whereas the 'typical' Australian is a 38 year-old female. These and other points of comparison between the 'typical' Territorian and Australian are summarised in the table below:

	Territorian	Australian
Median age	34	38
Gender	Male	Female
Country of birth of person	Australia	Australia
Social marital status	Not married	Married in a registered marriage
Family composition	Couple family with children	Couple family with children
Dwelling tenure type	Rented home	Owned with a mortgage
Aboriginal population – median age	25	23
Aboriginal population – gender	Male	Female
Persons born overseas – median age	40	44
Persons born overseas – gender	Male	Female
Persons born overseas – country of birth	England	England

The main data release from Census 2016 is scheduled for 27 June 2017 and will include national, state/territory and capital city data for key person, family and dwelling characteristics, including age, sex, religion, language and income. Additional data will continue to be released into 2018.

The census provides an important snapshot of Australia's people. It is the principal means of estimating Australia's population, which is used to distribute government funds and plan services for communities, including housing, transport, education and hospitals. The census provides information on a standard basis for the country as a whole as well as for small geographic areas and small population groups, like the Territory's remote and Aboriginal populations.

In light of the information technology access issues during the 2016 Census, an Independent Assurance Panel, established following the Department of Prime Minister and Cabinet's MacGibbon Review, is undertaking a review of 2016 Census data. The panel will provide, through its review, transparency of the census data quality-assurance process. Its report to the Australian Statistician will also be released on 27 June 2017.

Background

The Territory's population, compromising 1 per cent of the total Australian population, is spread over the third largest Australian jurisdiction by geographical area, making it the most sparsely populated jurisdiction, with 0.2 persons per square kilometre. Over half (58.6 per cent) of the Territory's population resides in Greater Darwin and the remainder is dispersed over remote and very remote areas. About one third of the Territory's population is Aboriginal, 79.7 per cent of whom live in remote and very remote areas.

The Territory has a younger age profile than Australia as a whole (Chart 4.1), with a median age of 32.5 years, in comparison with 37.4 years for Australia (based on the latest pre-Census 2016 data). The large number of persons aged 25 to 34 years in the Territory is indicative of the Territory's economy, dominated by mining, construction and defence. These industries typically employ more men than women, skewing the Territory's gender balance, with 112 males for every 100 females. This gender imbalance is concentrated within the non-Aboriginal population, who are more likely to migrate between Australian jurisdictions for work.

Chart 4.1: Population Age Profile – Territory and Australia[1]

1 As at 30 June 2016.
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

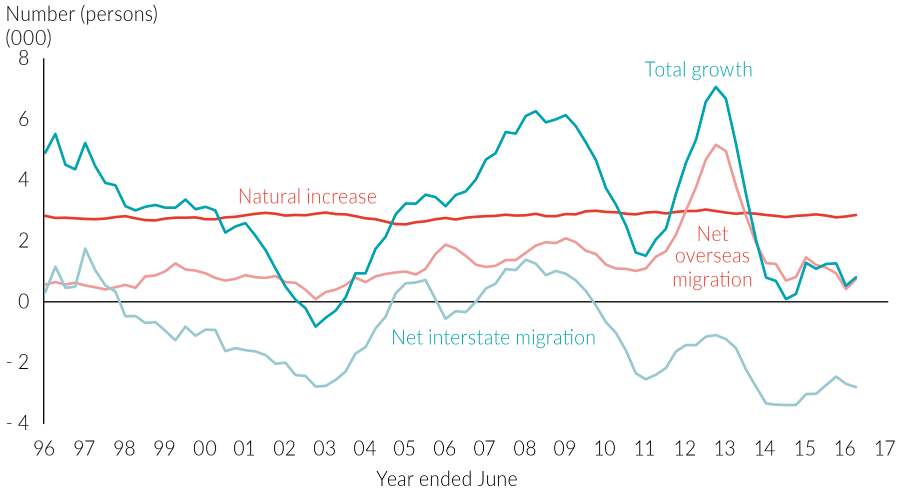
Population change within the Territory is volatile, driven by movement of the non-Aboriginal population to and from the Territory, largely in response to changing employment opportunities within and external to the Territory. Variations in NIM and NOM highlight the volatility in mobility of this population (Chart 4.2).

Population Growth

The Territory's ERP was 245 191 people as at 30 June 2016, a 0.2 per cent increase from 30 June 2015. Annual growth in the Territory was well below national growth over the same period (1.4 per cent) and below the Territory's 20-year average of 1.4 per cent.

Population growth is the sum of natural increase (births minus deaths), NIM (population change through the movement of people from and to other states) and NOM (population change through the movement of people from and to overseas). Chart 4.2 depicts the contribution of each component to total population growth for the Territory over the 20-year period from June 1996 to September 2016.

Chart 4.2: Components of Territory Population Growth (moving annual total)



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

Natural increase is a stable contributor to annual population growth in the Territory and has been the major driver of growth over the past 20 years. The exception to this is the period 2012 to 2014 when NOM made an equivalent or greater contribution to growth. In 2015-16 natural increase added 2810 people to the Territory population, in line with the 20-year average of 2834 people. NOM added 420 people, down from the high of 4966 in 2012-13 and less than a third of the 20-year average of 1340 people. NIM, the most volatile of the three components, detracted from population growth with a loss of 2696 people to other jurisdictions in 2015-16, a significantly greater annual loss than the 20-year average loss of 1027 people.

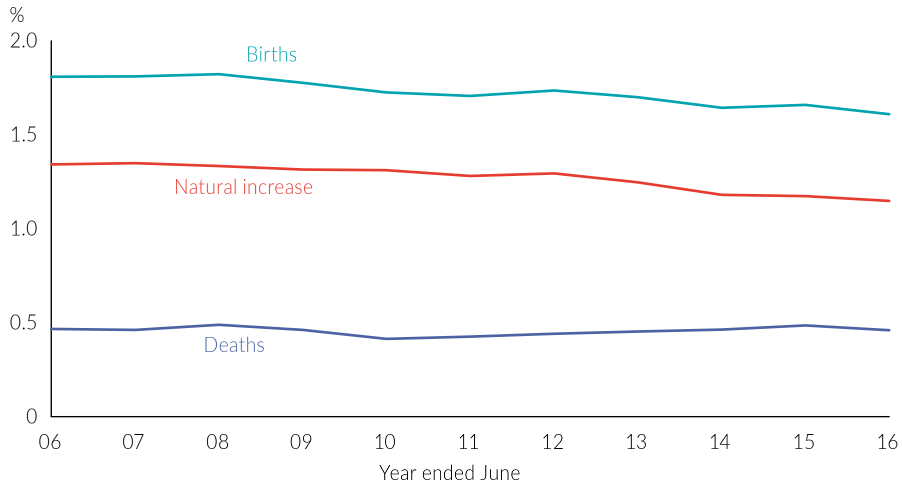
Natural Increase

Natural increase is the difference between the number of births and deaths, which shows whether a population will grow or decline in the absence of migration. Birth and death information is obtained from state and territory Registrars of Births, Deaths and Marriages.

In 2015-16 natural increase contributed 1.1 per cent to the Territory population, lower than the 20-year average of 1.3 per cent and continuing a slight but clear decline observable after 2011-12 (Chart 4.3). The decline is a result of fewer births.

The Territory differs markedly from the rest of Australia in respect of the impact of natural increase on total population growth. Natural increase's annual contribution to the population in the Territory remains higher than its contribution to the Australian population, which was 0.7 per cent in 2015-16, identical to its 20-year average.

Chart 4.3: Contribution of Natural Increase, Births and Deaths to the Territory Population

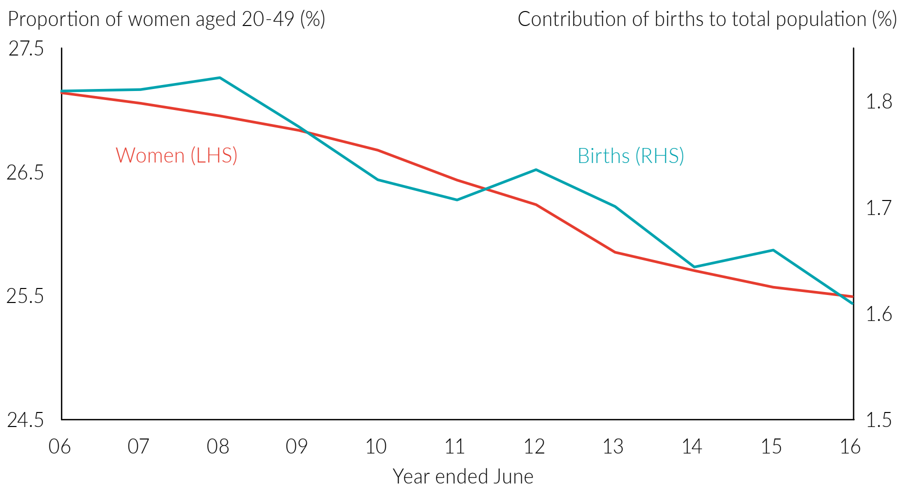


Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

Births

The contribution of births to population growth in the Territory has declined over the last 10 years (Chart 4.3). This decline is suspected to be largely attributable to a proportionate decline in the number of women aged 15 to 49 years resident in the Territory (Chart 4.4). As the chart shows, a 6.1 per cent decline in the proportion of women aged 15 to 49 years was matched by an 11.1 per cent decline in the contribution of births to the population. The decline in resident women is most likely concentrated in the non-Aboriginal population, a population dynamic considered in greater detail in the section on interstate migration.

Chart 4.4: Comparison between Proportion of Women Aged 15 to 49 Years and Contribution of Births to the Territory Population



LHS: left-hand side, RHS: right-hand side
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

Notwithstanding the proportionate decline in births in the Territory, the Territory's fertility rate remains high. Fertility is measured by the total fertility rate (TFR), which represents the average number of children that would be born to a woman if she experienced the current age-specific fertility rates through her reproductive life (ages 15 to 49).

In 2015-16 the Territory recorded the highest TFR (2.1) among jurisdictions followed by Tasmania (2.0). The Territory's average TFR over the past five years (2.1) was also the highest across all jurisdictions and higher than the Australian average of 1.9. Key reasons for the Territory's high TFR are the relatively high proportion of non-Aboriginal women of child-bearing age relative to other Australian jurisdictions, and greater fertility among Aboriginal women combined with the relative size of the Aboriginal population in the Territory compared with the rest of Australia.

Deaths

The proportionate impact of deaths on the Territory's population remained relatively unchanged at an annual average of 0.5 per cent over the previous 10 years (Chart 4.3).

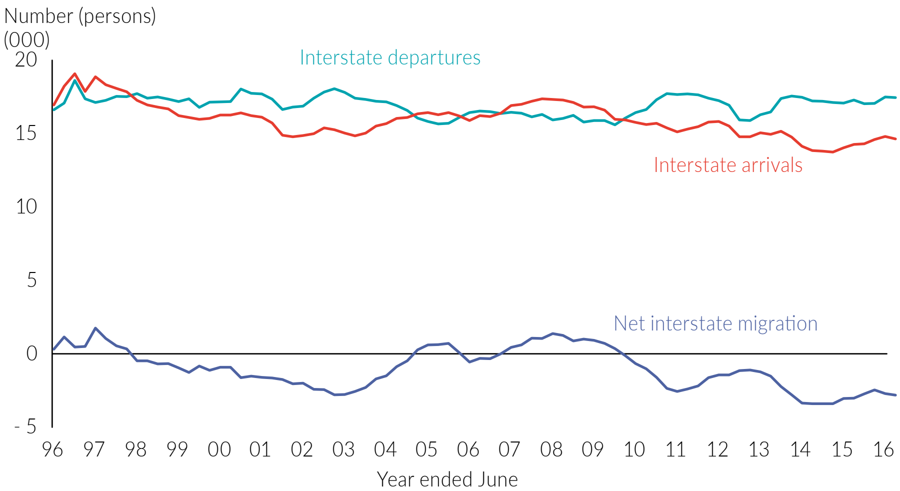
Age-standardised death rates enable the comparison of mortality between jurisdictions after accounting for the different age profiles of each state and territory. In 2015-16 the Territory recorded the highest age-standardised death rate (7.5 deaths per 1000 persons annually) among jurisdictions, followed by Tasmania (6.4), and Queensland and New South Wales (both at 5.4). The Territory's average age-standardised death rate over the past five years (8.1) was also the highest across all jurisdictions, and higher than the Australian average of 5.5. The Territory's higher age-standardised death rate can be attributed to its relatively large Aboriginal population and the lower life expectancy of Aboriginal persons.

Interstate Migration

NIM is based on Medicare interstate change of address information with adjustments for defence personnel not covered by Medicare. NIM in the Territory is highly volatile and it typically detracts from population growth. In 2015-16 there was a net loss of 2696 people from the Territory to other jurisdictions, a smaller loss than 2014-15 (3038 people) but a significantly greater loss than the 20-year NIM average loss of 1027 people.

These NIM flows are relatively modest in comparison with the component flows of people that move to and from the Territory each year, typically averaging between 15 000 and 17 000 people per annum, both arriving and departing (Chart 4.5). These movements are concentrated within the non-Aboriginal population, with most Aboriginal population movements restricted to within the Territory.

Chart 4.5: Territory Interstate Migration Flows (moving annual total)



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

Chart 4.6 details NIM by gender and age groups. The net loss of interstate migrants in recent years can be largely attributed to a decline in the number of children (aged 0 to 19 years) and persons aged 50 years and over. In 2015-16 NIM for children (around 29 per cent of the total population) was approximately 40 per cent of total NIM, and NIM for persons aged 50 years and over (around 23 per cent of the total population) was approximately 39 per cent of total NIM. For persons aged 20 to 49 years NIM flows for females were for the most part lower than males (lower net inflow and higher net outflow), resulting in the gender imbalance observed in the Territory population.

Combining these observations of the NIM dynamics of persons aged 20 to 49 years and children suggests that a considerable proportion of males aged 20 to 49 years in the Territory were single or unaccompanied by their families. This pattern most likely reflects the labour demands of the mining, construction and defence sectors, which tend to be relatively short-term and employ more males than females.

Despite the broad trend of declining NIM of children and females aged 20 to 49 years, a small increase in their NIM has been observed since 2014-15, providing early indications of a change in population dynamics with more families with children residing in the Territory.

Declining NIM of persons aged 50 years and over is probably a result of lifestyle considerations, the desire for proximity to family and social networks, and the need for aged care services.

Charts 4.6 a to d: Net Interstate Migration to the Territory by Age Groups

Source: ABS, *Migration, Australia*, Cat. No. 3412.0

Overseas Migration

The main sources of NOM data are the incoming and outgoing passenger cards completed by all persons arriving in or departing from Australia, collected and compiled by the Department of Immigration and Border Protection (DIBP). The outgoing passenger card is scheduled to be discontinued on 30 June 2017 and ABS has been working with DIBP to identify alternative sources of information to ensure critical population data is not compromised.

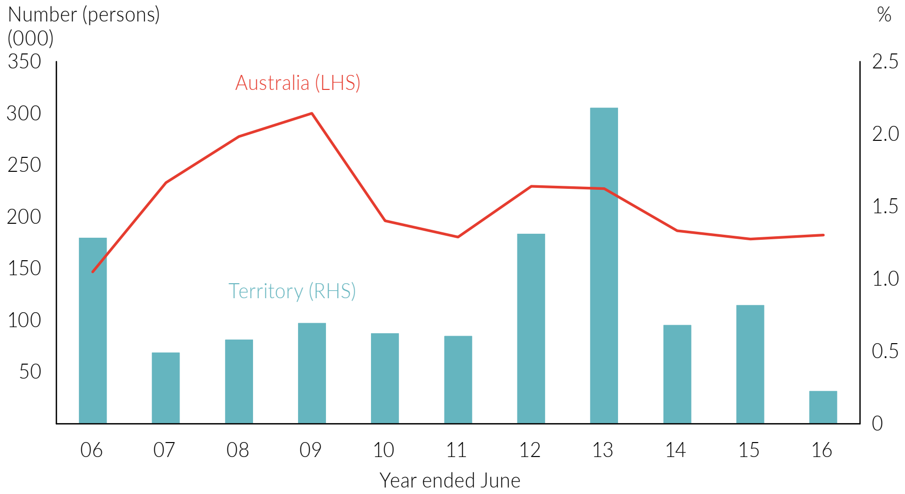
NOM has been a positive contributor to population growth in the Territory over the past 20 years (Chart 4.2) and, while more volatile than natural increase, is substantially more stable than NIM. In 2015-16 NOM added 420 people to the Territory's population, substantially lower than the 20-year average of 1340 persons. This decrease in NOM is reflected across both genders, with a negative NOM of 172 males and a positive NOM of 592 females. While the lower NOM flow for males relative to females reflects the 10-year average NOM flow of 874 males and 931 females, 2015-16 was the only year in the past decade when more men departed than arrived in the Territory from overseas.

In general, the Territory's NOM flows over the past 10 years have tracked Australia's NOM flows (Chart 4.7). Total NOM to Australia, while cyclical in nature, has declined over the past 10 years with the NOM inflow of 182 165 persons in 2015-16, lower than the 10-year average NOM inflow of 219 009 persons. Consequently, some of the decline in NOM to the Territory can be attributed to an overall decline in NOM to Australia. In addition the Territory's NOM flows have displayed greater volatility than Australia's flows, being a small population responding to changing employment opportunities within and external to the Territory. In 2015-16 NOM to the Territory comprised 0.2 per cent of total NOM to Australia (Chart 4.8), lower than the 10-year average of 0.8 per cent.

Chart 4.7: Annual Percentage Change in Territory NOM and Australian NOM

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

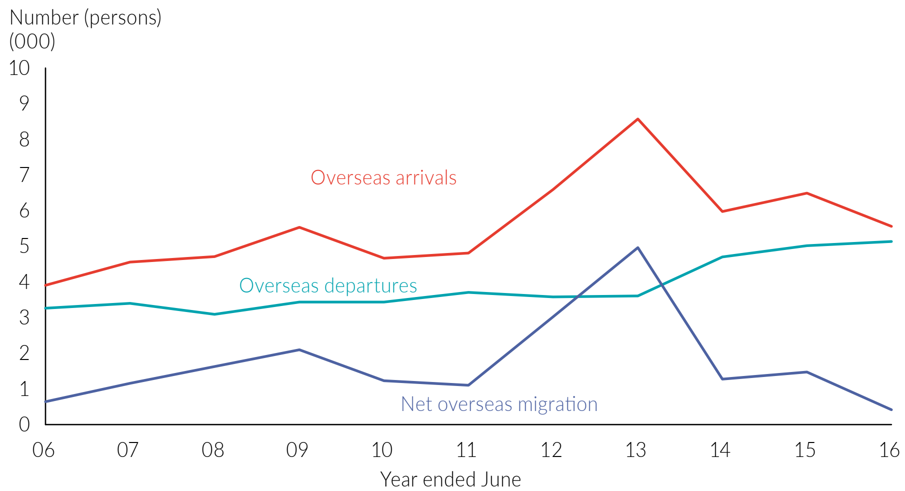
Chart 4.8: Total NOM to Australia and NOM to Territory (as % of NOM to Australia)



LHS: left-hand side, RHS: right-hand side
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

The drop in Territory NOM resulted from a decline in overseas arrivals and an increase in overseas departures. There were 5560 overseas arrivals in 2015-16, down 14.4 per cent from 2014-15, and below the 10-year average of 5749 arrivals (Chart 4.9). Over the same period, the number of overseas departures increased 2.3 per cent to 5140 people, greater than the 10-year average of 3913 departures.

Chart 4.9: Territory Overseas Migration Flow Components



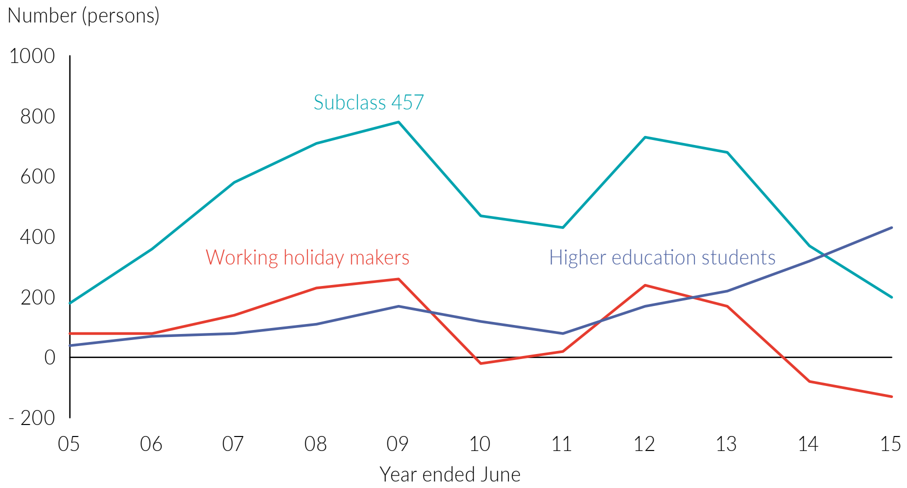
Source: ABS, *Migration, Australia*, Cat. No. 3412.0

The movement of temporary visa holders largely determines changes to NOM. Since 2004-05 temporary visa holders have on average constituted over half of NOM and include international students, working holiday makers, visitors and subclass 457 visa workers. Of these, working holiday makers and people arriving on subclass 457 visas have on average comprised the majority of temporary visa holders. The peak in NOM through 2008-09 and 2012-13 is reflected in the movement of these temporary visa holders (Chart 4.10) who were responding to employment opportunities within and external to the Territory.

The Commonwealth recently announced the abolition and replacement of the subclass 457 visa in March 2018. The new Temporary Skill Shortage visa is part of a larger reform of Australia's temporary and permanent employer sponsored skilled migration programmes, and will include condensing the occupation lists used for skilled migration visas along with tightening eligibility requirements. Implications of the reforms for the Territory are unclear at this stage.

The number of international students migrating to the Territory for higher education has increased progressively since 2004-05 (Chart 4.10). In 2014-15 a net of 430 international students migrated to the Territory, significantly more than the 40 persons in 2004-05.

Chart 4.10: Territory Overseas Migration by Visa Category (working holiday makers, subclass 457 visa holders and higher education students)



Source: ABS, *Migration, Australia*, Cat. No. 3412.0

Department of Treasury and Finance – Charles Darwin University Partnership

The Department of Treasury and Finance (Treasury) provides funding for and works closely with the demography research program at the Northern Institute within the Charles Darwin University. The institute is a significant research hub in northern Australia and the population program presents Territory population issues and related research at national and international forums.

Key elements of the institute's current and planned population work program include the creation of a new population projection model for the Territory, undertaken as a joint project with Treasury, in-depth international comparisons of the Territory's population with other remote populations worldwide, and analysis of Territory data from the 2016 Census. The program also offers Treasury staff a range of demography training opportunities.

The institute has recently produced a series of research papers to inform the Territory Economic Summits that outline the key challenges in economic development for the Territory Government. The papers include:

- A Snapshot of Current Population Issues in the Northern Territory – The paper notes that the Territory population is at a critical juncture, facing low rates of population growth. It identifies and provides a brief commentary on nine key population issues using the latest available data.
- The Importance of International Education to the Northern Territory – The paper provides some background to the importance of international students to the Territory and highlights key findings from research and consultancies undertaken by the Institute.

These and other papers can be accessed at:

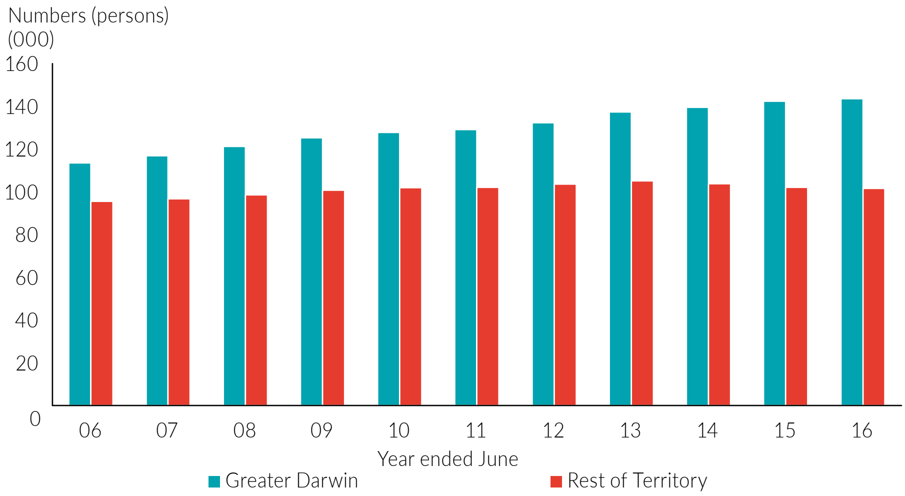
http://www.cdu.edu.au/northern-institute/informing-nt-economic-summit

Regional Population

Greater Darwin

Slow population growth in the Territory as a whole masks strongly differing regional patterns. Greater Darwin's population grew by 0.8 per cent in 2015-16 and has grown at a faster rate than the rest of the Territory over the past 10 years (Chart 4.11). In addition, Greater Darwin's population has grown every year over the past decade, while the rest of the Territory's population has declined since 2013-14. Greater Darwin's population growth rate is expected to decline temporarily in 2017-18 as the Ichthys LNG project, based in Darwin, reduces its labour force as it transitions from the construction to operational phase.

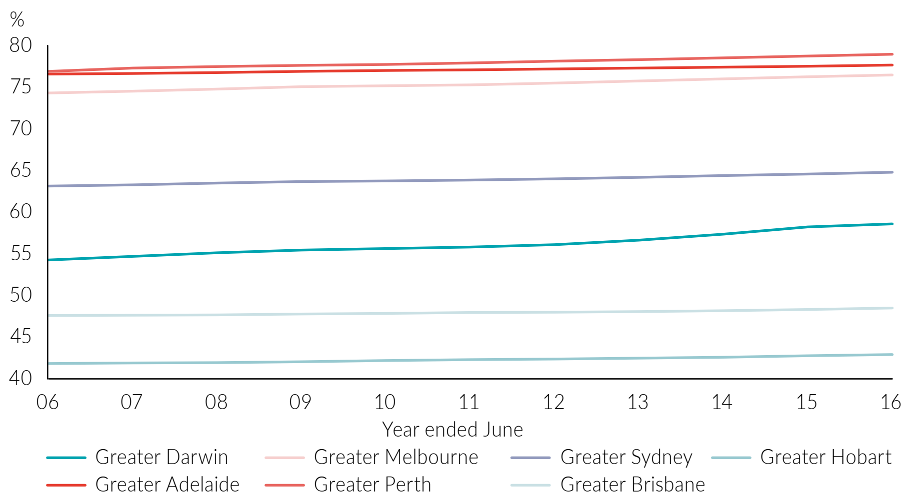
Chart 4.11: Greater Darwin's ERP Compared to the Rest of the Territory's ERP



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

Growth in Greater Darwin's share of the Territory's population reflects a similar pattern observable in greater capital city areas across Australia (Chart 4.12), and the broader global trend of increasing urbanisation and spatial concentration of populations. In addition while Greater Darwin's population share at 58.6 per cent (June 2016) was the third lowest of the seven greater capital city areas (not including the Australian Capital Territory), above Greater Brisbane at 48.5 per cent and Greater Hobart at 42.9 per cent, it was the fastest growing greater capital city area in population share over the previous decade (7.1 per cent growth in share of total Territory population over 10 years).

Chart 4.12: Proportion of Total State/Territory Population in Australian Greater Capital City Areas



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

Within the Greater Darwin region, population growth in 2015-16 was strong in Palmerston south (26.4 per cent), Lyons (7.0 per cent) and Darwin city (4.7 per cent) reflecting the construction of new houses and units in those areas. Small population declines of between 1.0 per cent and 1.3 per cent were observed in Stuart Park, Ludmilla-The Narrows, Anula, Leanyer, Wulagi, Moulden and Woodroffe.

Rest of the Territory

Table 4.2 shows the ERP (at 30 June 2016), population share, and the annual and five-year growth rates (2011 to 2016) for the regions and major towns of the Territory. Chart 4.13 details the annual population change for each of the regions from 2011 to 2016.

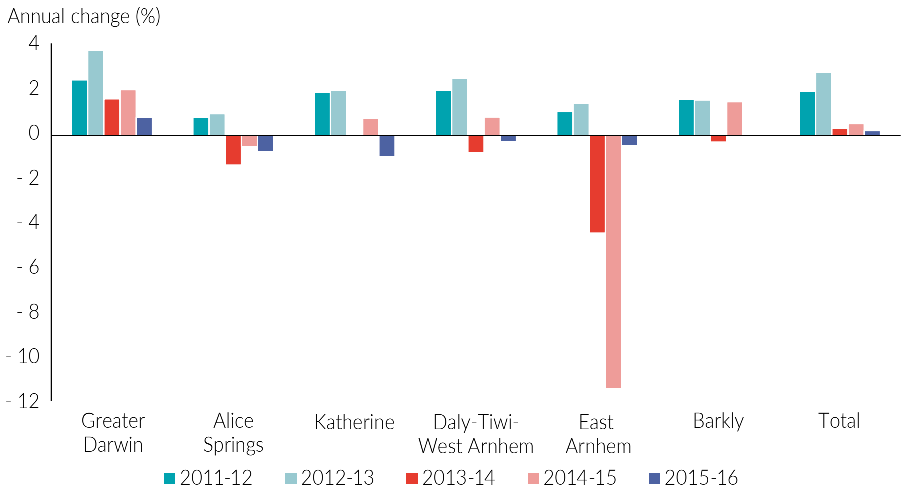
Table 4.2: Territory Regional and Major Townships ERP

	ERP[1]	Proportion of Total Population	Annual Population Change[2]	5-Year Average Annual Population Change[3]
	Number	%	%	%
Region[4]				
Greater Darwin	143 629	58.6	0.8	2.2
Alice Springs	40 715	16.6	- 0.7	- 0.1
Katherine	21 158	8.6	- 1.0	0.7
Daly-Tiwi-West Arnhem	18 892	7.7	- 0.3	0.9
East Arnhem	13 935	5.7	- 0.5	- 2.7
Barkly	6 862	2.8	0.1	0.9
Total	**245 191**		**0.2**	**1.2**
Major Townships				
Darwin[5]	120 106	49.0	0.8	1.9
Alice Springs[6]	25 426	10.4	- 0.2	- 0.4
Katherine	11 057	4.5	- 1.0	1.0
Tennant Creek	3 662	1.5	0.5	0.8
Nhulunbuy	2 057	0.8	- 1.0	- 12.3

ERP: estimated resident population
1 Estimated resident population at 30 June 2016.
2 Annual change in ERP between 30 June 2015 and 30 June 2016.
3 Average annual change in ERP between 30 June 2011 and 30 June 2016.
4 ABS statistical area 3 (SA3) or statistical area 4 (SA4 Greater Darwin).
5 Comprising SA3s of Darwin city, Darwin suburbs and Palmerston.
6 Comprising SA2s of Charles, East Side, Flynn, Larapinta and Mount Johns.
Source: ABS, *Regional Population Growth, Australia*, Cat. No. 3218.0

Outside Greater Darwin, only the Barkly region recorded annual population growth with a 0.1 per cent increase in population in 2015-16. Population declined in the Alice Springs, Katherine, Daly-Tiwi-West Arnhem and East Arnhem regions in 2015-16. Among these, the Alice Springs and East Arnhem regions have recorded annual population declines for the three years from 2013 to 2016 (Chart 4.13). The regional pattern was reflected in the major townships within the regions in 2015-16, with annual population growth in Darwin and Tennant Creek and population decline in Alice Springs, Katherine and Nhulunbuy. Nhulunbuy's annual population decline, which commenced in 2012-13 (-0.9 per cent) and peaked in 2014-15 (-46.3 per cent) as a result of the closure of the Gove alumina refinery, tapered-off to -1.0 per cent in 2015-16.

Chart 4.13: Territory Regional Annual Population Change (%) 2011-16



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

Aboriginal Population

The ABS currently estimates the Aboriginal population every five years following a census. Preliminary Aboriginal population estimates following the 2016 Census are expected in June 2017. Therefore the most current Aboriginal population estimates are from the 2011 Census. The ABS projects forward census population estimates to obtain Aboriginal population numbers for the intercensal years.

At 30 June 2011 there were 68 850 Aboriginal people living in the Territory, which represents 29.8 per cent of the Territory's population and 10.3 per cent of the national Aboriginal population. Based on ABS projections, the Territory's Aboriginal population was, 74 543 persons at 30 June 2016, representing 30.0 per cent of the Territory's population.

Between 2006 and 2011, the Territory's Aboriginal population grew by 5.0 per cent, the lowest rate of growth among jurisdictions and below national growth of 11.4 per cent (Table 4.3). A key contributor to the higher rate of growth in the Aboriginal population in other jurisdictions were people being newly recorded as identifying as Aboriginal. In addition, children born to parents of 'mixed heritage' with one parent identifying as Aboriginal are increasingly identified as Aboriginal. Both of these factors tend to be more prevalent in Australia's metropolitan centres.

Although there was a decline in the Aboriginal proportion of the Territory's population between 2006 and 2011 (from 31.4 to 29.8 per cent), the Territory still remains well above other jurisdictions in terms of population share. Tasmania is next highest with Aboriginal people comprising 4.7 per cent of its population.

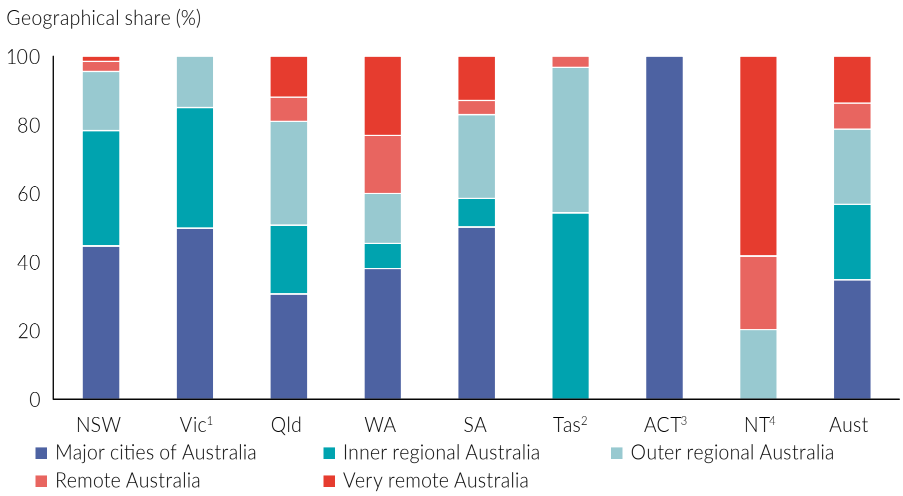
Table 4.3: Total Aboriginal Population and Aboriginal Shares of Total State/Territory Population

	ERP June 2011	Growth 2006-11	Aboriginal Proportion of State/Territory Population June 2006	Aboriginal Proportion of State/Territory Population June 2011	Proportion of Total Aboriginal Population June 2006	Proportion of Total Aboriginal Population June 2011
	Number	%	%	%	%	%
New South Wales	208 476	10.6	2.8	2.9	31.4	31.1
Victoria	47 333	16.3	0.8	0.9	6.8	7.1
Queensland	188 954	13.6	4.1	4.2	27.7	28.2
Western Australia	88 270	10.1	3.9	3.8	13.3	13.2
South Australia	37 408	12.8	2.1	2.3	5.5	5.6
Tasmania	24 165	11.6	4.4	4.7	3.6	3.6
Australian Capital Territory	6 160	21.4	1.5	1.7	0.8	0.9
Northern Territory	68 850	5.0	31.4	29.8	10.9	10.3
Australia	**669 881**	**11.4**	**2.9**	**3.0**	**100.0**	**100.0**

ERP: Estimated resident population
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

At June 2011 the vast majority (79.7 per cent) of the Territory's Aboriginal population resided in remote and very remote areas, a population distribution pattern distinctly different from that of all other Australian jurisdictions (Chart 4.14). Overall, 21.3 per cent of Australia's Aboriginal population resided in remote and very remote areas, and among the jurisdictions, Western Australia had the second highest proportion after the Territory at 40.1 per cent, followed by Queensland (19 per cent).

Chart 4.14: Geographical Share (%) of Total State/Territory Aboriginal Population



1 Victoria's outer regional and remote areas are combined.
2 Tasmania's remote and very remote areas are combined. Hobart is included within inner regional Australia.
3 The Australian Capital Territory's major city and inner regional areas are combined.
4 Darwin is included within outer regional Australia.
Source: ABS, *Estimates of Aboriginal and Torres Strait Islander Australians*, Cat. No. 3238.0.55.001

Chapter 5
Labour Market

Recent Results

The Northern Territory's employment growth in 2015-16 was slightly below the five-year average. However, unemployment remained relatively low, with the participation rate reaching record high levels. The year to March 2017 employment growth is 2.5 per cent.

Outlook

Labour market growth is anticipated to remain below the long-term average following completion of major projects, along with slower population growth. There is some upside to employment growth in the medium term, driven by smaller scale construction projects.

Labour market statistics are based on data reported by the Australian Bureau of Statistics (ABS). The Territory has proportionately more households out of its total population surveyed each month, compared to other states. However, due to the relatively small population of the Territory, the labour market estimates are subject to a relatively high standard error. It is for this reason that the ABS recommends using trend estimates, which addresses the volatility in monthly data.

The monthly labour force survey measures the labour market status of people aged 15 years and over who are residents in the Territory. People are considered employed in the Territory if they work for one hour or more in a week and unemployed if they were not working but were actively looking for work and available to start work. The labour force participation rate measures the proportion of the civilian population aged 15 years and over that is either employed or unemployed.

Outlook

Table 5.1: Territory Labour Market Forecasts (%)

	2015-16a	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Employment[1]	1.4	2.9	0.5	0.6	0.8	1.2
Unemployment rate[2]	4.2	3.6	4.0	4.2	4.3	4.3

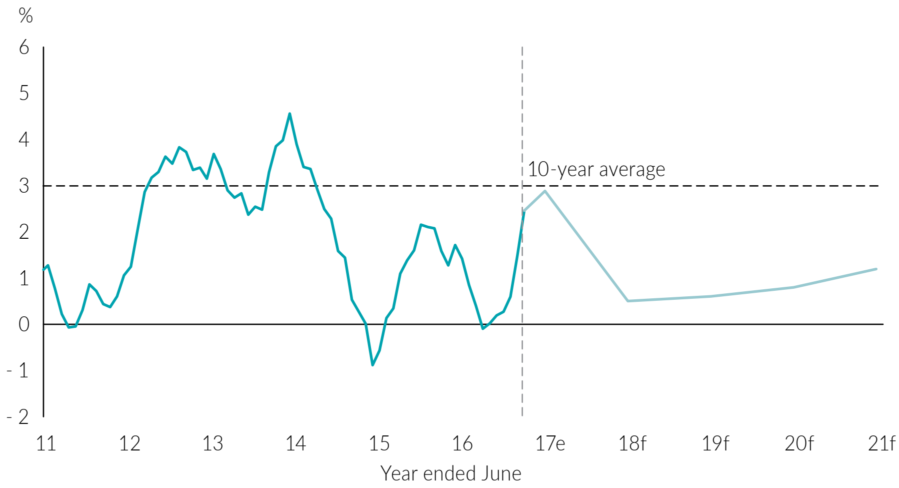
a: actual; e: estimate; f: forecast
1 Year-on-year change in resident civilian employment.
2 Annual average.
Source: Department of Treasury and Finance; ABS, *Labour Force, Australia*, Cat. No. 6202.0

Employment growth in the Territory is estimated at 2.9 per cent in 2016-17, slightly below 10-year average growth of 3.0 per cent (Chart 5.1). The employment growth rate in 2016-17 is in line with peak construction employment levels achieved on the Ichthys liquefied natural gas (LNG) project site. The Ichthys LNG project has been a strong driver of employment in the Territory in recent years and as such, fluctuations in its workforce will have a strong influence on the employment outlook over the short term.

Employment growth is forecast to be 0.5 per cent in 2017-18 as the Ichthys LNG project completes construction during this period. It is the largest project in the Territory's history and the employment loss caused by its transition to the operational and export phase will be a one-off impact on the level of employment. From 2018-19 onwards, employment is forecast to increase due to the expected commencement of several major projects in the Territory. The unemployment rate is estimated at 3.6 per cent in 2016-17, with the Territory economy at close to full-employment, before increasing and stabilising at 4.3 per cent in 2019-20, which is slightly above the 10-year average of 4.0 per cent.

In addition, the increase in the number of Territorians 'actively looking for work' has affected the unemployment rate and reflects the 'softening' in the non-export economy reflected in lower levels of business investment, flat to modest growth in household consumption, lower levels of job creation and population growth. Nevertheless, over the outlook period the Territory is forecast to retain the lowest unemployment rate of the Australian jurisdictions.

Chart 5.1: Changes to Territory Employment (%)[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

With the construction phase of the Ichthys LNG project winding down over the next twelve months and the workforce at peak levels, the project will remain a strong influence on employment growth in 2016-17. As the Ichthys LNG project transitions from the construction phase to the operational phase, the scale of total workforce requirements is expected to decline to around 350 to 400 working at the Bladin Point facility, resulting in an overall reduction in employment from 2017-18.

In the March quarter 2017, two companies involved in the Ichthys LNG project experienced significant contractual difficulties resulting in work being suspended on the associated power station and cryogenic tanks, resulting in over 800 personnel being released from the project. The Territory Government allocated $200 000 towards re-skilling local workers affected by these issues, which may assist these workers in gaining other employment in the Territory. Given construction of these works must be completed, employment growth for 2016-17 is anticipated to hold up and be slightly higher than 2015-16. This reflects the Ichthys LNG project maintaining peak workforce levels throughout the vast majority of 2016-17.

As the Ichthys LNG project transitions to the operational phase, the Territory's unemployment rate is anticipated to increase in the medium term. Some workers may seek employment in other industries in the Territory. Other people drawn from interstate and overseas for the Ichthys LNG project are likely to either find employment in other construction projects in the Territory, may seek employment in other Australian or global jurisdictions or return to their usual residence. As a result, while affecting employment, the outflow of workers to interstate or overseas is expected to limit the impact of the wind-down of the Ichthys construction phase on the Territory's unemployment rate. The proportion of people employed in the construction industry is expected to decline as the Ichthys LNG project nears completion. The construction industry is already reporting weakened conditions with the number of people employed declining by 11.4 per cent in the year to February 2017, which was the largest year-on-year decline since August 2002. This is expected as even at this stage of the project, the vast majority of construction activity is nearing completion and commissioning and start up activities are well underway on site.

The Territory Government's $ 1.75 billion infrastructure spend in 2017-18 which includes the continued construction of the Palmerson Regional Hospital, is expected to contribute to employment growth in the short to medium term.

Major defence construction projects, such as the $470 million New Air Combat Capability Facilities Project at Royal Australian Air Force (RAAF) Base Tindal, near Katherine (commenced in early 2017), and $550 million redevelopment works at Larrakeyah Barracks and HMAS Coonawarra in Darwin (expected to commence in early 2018) are expected to provide boosts to employment in the construction industry.

The Territory Government has also granted major project status to TNG Ltd's $850 million Mount Peake vanadium-titanium-iron project, the Verdant Minerals' $750 million Ammaroo phosphate project and KGL Resources' $190 million Jervois copper-silver-gold project. These projects are still subject to regulatory approvals and final investment decisions. However, if realised, it is expected that they will stimulate employment growth during the construction phase, which could begin as early as 2018. The construction of Project Sea Dragon, a US$1.45 billion aquaculture project in northern Australia would also contribute to employment growth, subject to a final investment decision.

The $42 million Immediate Works Stimulus Package will support smaller scale infrastructure projects across the Territory. A package of $30 million is available to the community and not-for-profit groups, $5 million for urban public housing works, $5 million for local steel fabricators and $2 million for repairs and maintenance on remote health clinics. The Northern Gas Pipeline, to connect Territory gas to eastern gas markets, is scheduled to commence in 2017 and will support further employment growth. The construction of a luxury hotel in Darwin and the Warren Park Rugby League ground will also contribute to employment growth in the medium term. The Berrimah Farm redevelopment is also expected to create jobs over the 10 to 15-year life of the project.

The Federal Government's change to the taxation arrangements for individuals on working holiday visas may have a dampening effect on employment growth in the Territory. Certain industries, such as agriculture and hospitality, rely heavily on these visa holders as a source of labour. From 1 January 2017, working holiday makers' income is taxed at 15 per cent from their first dollar and superannuation will be taxed at 65 per cent when they leave the country. This may result in labour shortages in specific industry sectors in the short term.

In the Territory, population growth is closely related to employment opportunities. As large employment projects wind down, both employment growth and population growth will moderate in the medium term. It is also expected that some unemployed people will move interstate or overseas to seek employment elsewhere, limiting the impact on the unemployment rate.

Recent Activity

Employment

Resident employment in the Territory strengthened from a 0.6 per cent decline in 2014-15 to an increase of 1.4 per cent in 2015-16. This equates to, on average, about 133 280 residents employed in the Territory during the year, which represents about 1.1 per cent of total employment nationally. The Territory's year-on-year employment growth was driven by a 3.7 per cent increase in part-time employment and a 0.9 per cent increase in full-time employment. The increase in part-time employment was the largest increase in a financial year since 2012-13, which was at 4.2 per cent. However, this increase in part-time employment was accompanied by a 3.6 per increase in full-time employment in 2012-13. The results in 2015-16 suggest a shift towards part-time employment being a stronger contributor to employment growth than previous years. This phenomenon is not limited to the Territory, with part-time employment nationally also increasing strongly compared to full-time employment, reflecting the growth of service industries.

Gender

Female employment grew by 2.2 per cent in 2015-16, while male employment grew by 0.8 per cent. The increase in female employment was in full-time employment, growing by 3.1 per cent, while part-time female employment was flat in the year. The growth in male employment was driven by part-time employment, increasing by 11.8 per cent, while full-time employment decreased by 0.5 per cent in the year.

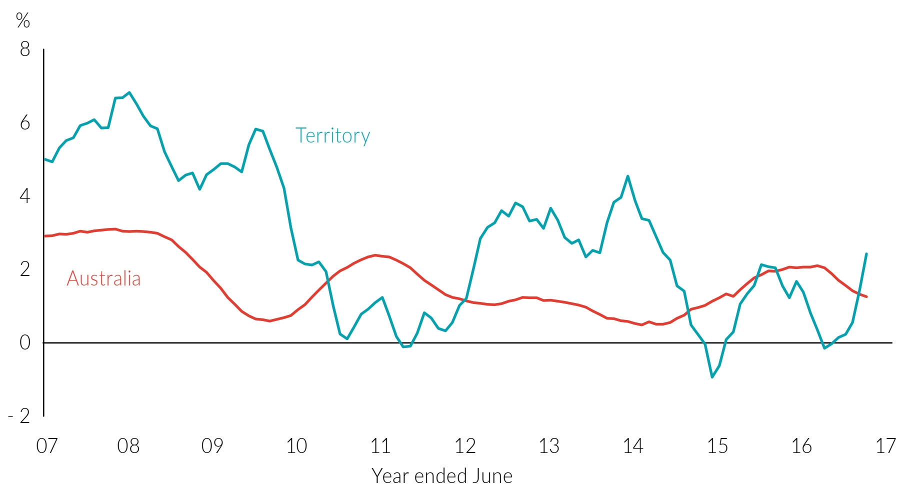
Regions

The 2015-16 growth in employment has not been evenly distributed across the Territory, with Darwin employment increasing by 3.8 per cent but declining by 2.3 per cent in the Territory Outback. The year-on-year decline in the Territory Outback was driven by a 2.9 per cent decline in female employment and a 1.8 per cent decline in male employment. The ABS does not break down the Territory Outback into smaller regions.

The Territory's year-on-year increase in employment in 2015-16 was below the national growth of 2.1 per cent in 2015-16 (Chart 5.2) and ranked the fourth highest of all jurisdictions. In other jurisdictions, the change in employment ranged from a decline of 0.3 per cent in Tasmania to an increase of 3.7 per cent in New South Wales.

Based on the latest year-to-date figures, Territory employment has grown by 2.5 per cent in the year to March 2017.

Chart 5.2: Year-on-Year Change in Employment



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

Industry

The stronger employment figures in the Territory in 2015-16 were likely due to an improvement in tourist visitors to the Territory with the number of people employed in the accommodation and food services industry increasing by 1120 persons. Despite the moderation in construction activity in the Territory, the proportion of people employed in this industry (11.7 per cent) remains the second highest behind government and community services. However, recent data shows that employment in the construction industry declined by 11.4 per cent in the February quarter 2017, which was the largest year-on-year decline since August 2002. Following a contraction in the mining industry in 2014-15, the growth in the number of people employed in this industry has strengthened from a decrease of 8.8 per cent in 2014-15 to growth of 18.7 per cent in 2015-16. The government and community services industry remains a major employer in the Territory with an increase of 2.6 per cent in the year to February 2017. Recent data shows that the level of employment in the retail and wholesale trade industry has grown very strongly, with an increase of 15.1 per cent in the year to February 2017, which was the highest year-on-year increase since November 2009.

The industry that experienced the largest decline in the number of employed persons was the professional, scientific and technical services industry (down 1600 persons) as the Ichthys LNG project nears completion, the demand for the specialist skills in this industry has been greatly reduced. The contributions of the retail and wholesale trade industry and the agriculture, forestry and fishing industry are below their 10-year average. This trend may reflect moderate household consumption as well as recent visa changes in which volunteer work on farms by backpackers no longer counts towards the 88 days required for backpackers to extend their stay in Australia (Table 5.2).

Table 5.2: Industry Contributions to Territory Employment

	2015-16	2015-16	10-Year Average
	Number[1]	%[2]	%[2]
Agriculture, forestry and fishing	910	0.7	2.3
Mining and manufacturing	9 800	7.4	6.9
Construction	15 540	11.7	10.0
Retail and wholesale trade	13 050	9.8	11.1
Government and community services	50 410	37.9	35.6
Service industries	43 410	32.6	34.1

1 Annual average number of persons.
2 Contributions to total employment.
Source: ABS, *Labour Force, Australia*, Detailed, Cat. No. 6291.0.55.003

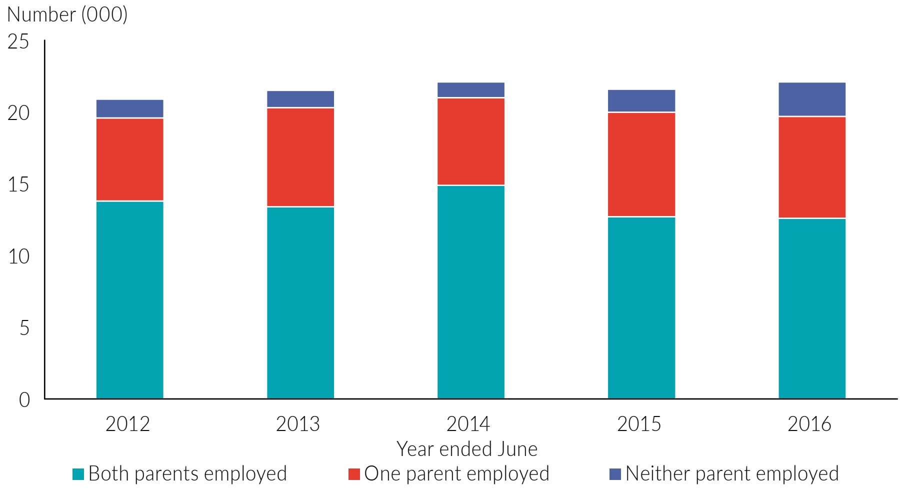
The Territory consistently has the highest labour force participation rate of any jurisdiction in Australia, as well as one of the lowest unemployment rates. Therefore, there is little capacity to provide extra workers from within the local labour market as a major project commences. Consequently, the use of fly-in fly-out (FIFO) workers and or a reliance on workers from interstate and overseas is critical to meeting the labour force demand for these projects.

The ABS labour force survey reports on the employment of Australian workers in the jurisdiction based on place of usual residence rather than place of employment. Therefore, the survey does not record FIFO workers in the Territory if they are allocated in the survey to their state of residence. Similarly, permanent or temporary overseas workers will be classified as employed in the Territory only if they consider themselves to be a resident in the Territory. Permanent defence force personnel are excluded from the survey and therefore the ABS labour force survey may not reflect actual employment. It is estimated there were between 6000 and 7000 FIFO workers in the Territory in 2015-16 and the Australian Defence Force reported 4784 permanent defence force members in the Territory as at June 2016. The proportion of FIFO workers and defence force personnel present in the Territory is higher compared to most jurisdictions.

Families

The employment status of parents in young families provides some insight into the economic wellbeing of families with dependents. In June 2016, there were an estimated 59 700 families living in the Territory, a decrease of 3.7 per cent from June 2015. The number of families with at least one child aged under 15 years increased by 2.3 per cent to 26 500. Within couple families with at least one child aged under 15 years, 57.0 per cent had both parents employed and 32.1 per cent had one parent employed in June 2016 (Chart 5.3). Nationally, 63.2 per cent had both parents employed and 30.6 per cent had one parent employed. Within one-parent families with at least one child aged under 15 years, 59.1 per cent of the single parents were employed, compared to 55.0 per cent nationally.

Chart 5.3: Employment Status of Couple Families in the Territory with at Least One Child Aged less than 15 Years

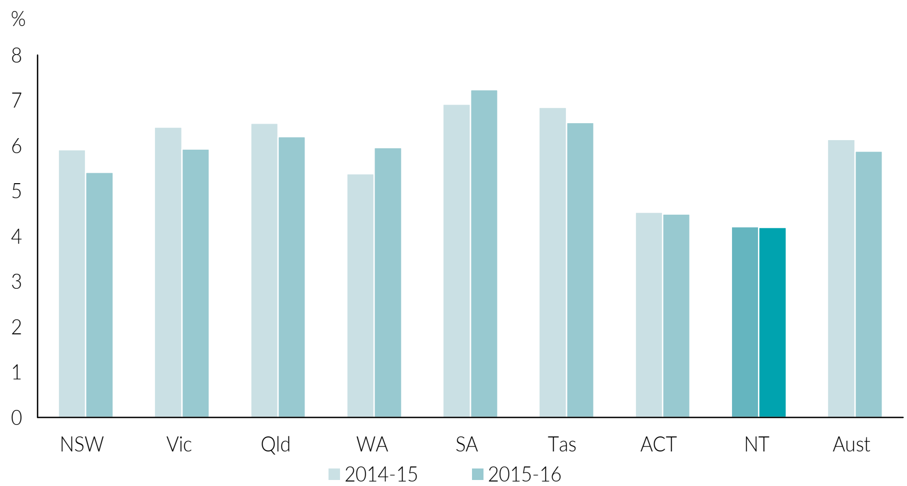


Source: ABS, *Labour Force, Australia*: Labour force status and other characteristics of families, Cat. No. 6224.0.55.001

Unemployment

In 2015-16, the Territory's average annual unemployment rate remained unchanged at 4.2 per cent. The Territory recorded the lowest annual average unemployment rate of all jurisdictions in 2015-16, below the Australian Capital Territory (4.5 per cent). South Australia and Western Australia were the only jurisdictions to record an increase in the average unemployment rate over the year (Chart 5.4). Nationally, the average annual unemployment rate was 5.9 per cent in 2015-16, a decrease of 0.3 percentage points from the previous year and above the 10-year historical average of 5.3 per cent.

Chart 5.4: Average Annual Unemployment Rate, by Jurisdiction



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

According to estimates from the Commonwealth Department of Employment, the unemployment rate fell across all Territory regions in 2016, with the exception of Greater Darwin. Despite the increase, the unemployment rate in Greater Darwin remains the lowest of all Territory regions at 3.6 per cent in 2016 (Table 5.3). The Barkly region recorded the greatest improvement in the unemployment rate, decreasing by 1.3 percentage points to 7.4 per cent in 2016 and is below its five-year average unemployment rate. The Daly-Tiwi-West Arnhem region recorded the highest unemployment rate at 7.7 per cent in the same period, but also below its five-year average unemployment rate.

Table 5.3: Estimated Unemployment Rate by Territory Regions (%)

	2015[1]	2016[1]	5-Year Average
Greater Darwin	3.4	3.6	3.4
Alice Springs region	4.0	3.6	4.5
Katherine region	5.6	4.7	5.7
Barkly region	8.7	7.4	8.9
East Arnhem region	7.4	6.8	7.2
Daly-Tiwi-West Arnhem region	8.0	7.7	8.5

1 Annual average for calendar year.
Source: Commonwealth Department of Employment

The annual average unemployment rate for the Territory in the year to March 2017 was 3.6 per cent and is estimated to remain at 3.6 per cent for 2016-17.

The shift towards part-time employment in 2015-16 may mean the underemployment rate should be used in conjunction with the unemployment rate to paint a more complete picture of the health of the labour market. The underemployment rate, as a proportion of the labour force, measures the extent to which those working part-time wanted to work more hours and those employed full-time who actually worked part-time hours for economic (involuntary) reasons, such as being stood down. In 2015-16, the Territory's annual average underemployment rate was 4.3 per cent. The annual average underemployment rate was higher for females (4.7 per cent) compared to males (4.0 per cent). The annual average underemployment rate increased to 5.2 per cent in the year to February 2017.

The underutilisation rate combines the underemployment and unemployment rate and provides more comprehensive information on the state of the labour market and the extent to which all available people in the labour force are being utilised in the economy. In the Territory, the average underutilisation rate was 9.4 per cent in 2015-16 compared to 14.2 per cent nationally. Despite the underutlisation rate in the Territory being significantly higher than the annual average unemployment rate, it is the lowest underutilisation rate of the jurisdictions. In other jurisdictions, the annual average underutilisation rate ranges from 9.5 per cent in the Australian Capital Territory to 16.9 per cent in South Australia.

Participation Rate

In 2015-16, the Territory's average participation rate increased by 0.6 percentage points to 74.8 per cent, while the national annual average rate was 65.0 per cent (Chart 5.5). The Territory consistently has the highest participation rate of all jurisdictions. Victoria was the only other jurisdiction that recorded an increase in the annual average participation rate in 2015-16. The trend participation rate for the Territory was 78.5 per cent in March 2017. This was the highest trend participation rate for the Territory since ABS began publishing labour force data. This reflects the comparatively young age profile of the Territory's workforce and that employment is often a key motivator of people moving to the Territory.

Chart 5.5: Average Annual Participation Rate by Jurisdiction

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

The annual average participation rate in Darwin was 9.9 percentage points higher compared to the Territory Outback in 2015-16. The annual average male participation rate (82.2 per cent in Darwin and 72.2 per cent in the Territory Outback) was higher than the female participation rate in both regions (75.6 in Darwin and 65.3 per cent in the Territory Outback). Rates in Darwin have increased in the year for both genders, while they have declined for both genders in the Territory Outback.

Chapter 6

Prices and Wages

Recent Results

Growth in the Darwin consumer price index is at its lowest level since 1998, mainly driven by a lower costs associated with housing, fuel, new vehicle costs and domestic holiday travel.

Territory wages growth is at record low levels, reflecting moderate increases in both the private and public wage price index.

Outlook

The outlook for growth in the Darwin consumer price index remains flat for 2016-17 and trending below the long-term average over the forecast period, albeit on an upward trend over the outer years.

Growth in the Territory's wage price index is expected to remain positive, but subdued in the medium term, increasing in the outer years, consistent with national trends.

Inflation is a key economic indicator that measures the change in the general level of consumer prices over a given period of time.

The Australian Bureau of Statistics (ABS) measures inflation in the economy through changes in the consumer price index (CPI). CPI measures the price of a representative basket of goods and services in each Australian capital city. The basket is made up of 11 groups and weightings as outlined in Table 6.2.

The year-on-year percentage change in the Darwin CPI is used throughout this chapter, and compares the four quarters' Darwin CPI ending June to the same four quarters of the previous year.

The ABS wage price index (WPI) measures the influence of market factors on the price employers pay for a standard unit of labour. To establish a standard unit of labour for the index, the ABS holds the quantity and quality of labour services constant by excluding changes in the composition of the labour force, hours worked and changes in characteristics of employees (such as productivity) from the index.

Outlook

Table 6.1: Forecasts of the Darwin CPI and Territory WPI (%)

Financial Year	2015-16a	2016-17e	2017-18f	2018-19f	2019-20f	2020-21f
Consumer price index	0.1	0.1	0.4	1.3	1.9	2.4
Wage price index	2.2	2.1	1.9	2.0	2.3	2.6

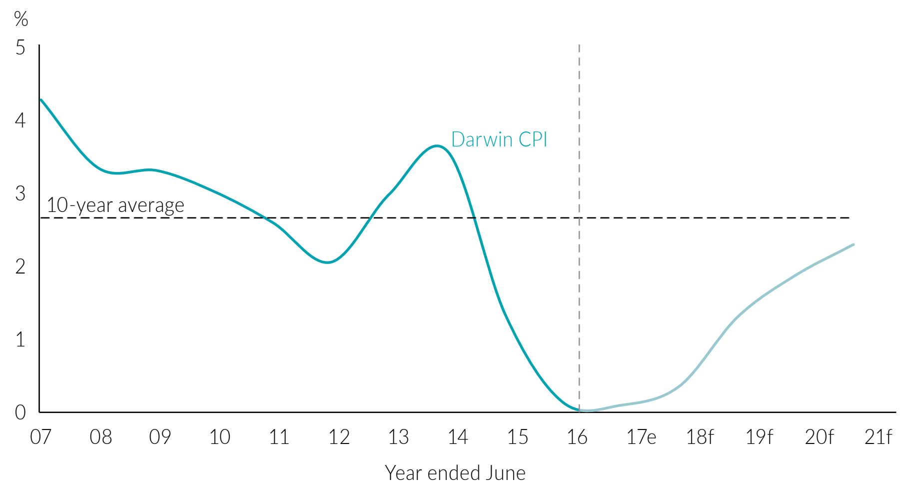
Calendar Year	2016a	2017e	2018f	2019f	2020f	2021f
Consumer price index	- 0.2	0.2	0.9	1.6	2.2	2.6

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

The Darwin CPI is estimated to be near flat at 0.1 per cent in 2016-17, with the year to December 2016 declining 0.2 per cent, mainly due to lower domestic travel and holiday costs, housing rents and transport costs. Modest growth of the Darwin CPI is estimated over the forecast period with 0.4 per cent in 2017-18 and trending upwards to 2.4 per cent through the outer years. This reflects moderate levels of price growth across a number of categories though remaining below the historical trend, mainly driven by increasing growth in transport prices (due to global oil prices), alcohol and tobacco prices (mainly tobacco excise), and the housing category beginning to contribute to growth.

Chart 6.1: Darwin CPI, Financial 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

Forecasts in the Darwin CPI reflect the continuing impact of trends in population and employment growth, along with lower growth in input and labour costs, and the continuing effect of lower fuel prices and housing conditions, particularly lower rents, compared to recent rates of growth.

Alcohol and tobacco, education, health, and financial and insurance services represent 21.8 per cent of the Darwin CPI basket and are forecast to contribute 108.0 per cent of total price growth over the five-year period. In contrast, housing and transportation, which represents 38.4 per cent of the Darwin CPI basket, detracts 10.5 per cent from the total Darwin CPI growth over the five-year forecast period. Recreation and culture, and household contents and services expenditure contributes 19.8 per cent to the Darwin CPI basket, however is forecast to contribute limited growth to the Darwin CPI (9.4 per cent) over the five-year period.

Remaining categories, including food and non-alcoholic beverages, clothing and footwear, and communications, contribute 20.0 per cent to the Darwin CPI basket and are forecast to detract 6.8 per cent from the five-year Darwin CPI growth.

Wage growth is expected to continue to moderate in 2016-17 to 2.1 per cent, reflecting spare capacity in the national labour market and subdued inflation expectations. The Territory WPI is forecast to remain contained over the medium term, primarily driven by a reduction in the demand for labour as the construction of the Ichthys liquefied natural gas project progresses through 2017 and transitions to the operational phase in 2017-18. Wages growth in the public sector is anticipated to reflect broader labour market conditions consistent with the moderate CPI forecasts.

Consumer Price Index

Each group in CPI is given a weighting depending on its relative importance to household expenditure. To determine the price index, the price change in each group is combined according to its weighting. Housing, which comprises rent, house purchase, utilities and other housing costs, has the largest weighting in the index and accounts for over a quarter of the Darwin CPI basket. The food and non-alcoholic beverages category is second largest, accounting for around a further 14 per cent of the Darwin CPI basket. Recreation and culture, and transport each account for about 11.4 per cent of the Darwin CPI basket (Table 6.2).

Table 6.2: Darwin CPI Basket Groups and Percentage Contribution

CPI Basket Group	Examples of Basket Items	Darwin CPI Basket Percentage Share June 2016 (%)
Food and non-alcoholic beverages	Purchases associated with bread and cereal products, meat, seafood, dairy, fruit and vegetables, tea, coffee, juice, restaurant meals and takeaway	13.93
Alcohol and tobacco	Spirits, wine, beer, cigarettes, cigars and tobacco	9.90
Clothing and footwear	Garments for adults and children, shoes, accessories, dry cleaning, shoe repairs and tailoring	3.47
Housing	Rents, new dwelling purchase, maintenance and repair of dwellings, and utilities	26.87
Furnishings, household equipment and services	Furniture, linen, household appliances and utensils, cleaning products, child care and hairdressing	8.50
Health	Payments associated with medications, treatments, therapeutic equipment, and medical, dental and hospital services	4.59
Transportation	Payments associated with purchasing and hiring of vehicles, fuel, repairs of vehicles, maintenance of vehicles and public transport	11.51
Communication	Payments for delivery of mail and parcels, and purchases, repair and services of telephones and internet connections	2.56
Recreation and culture	Costs for audio, visual and computing equipment, newspapers, books, stationery, holiday travel and accommodation, sports equipment, gaming and hobby materials, and services for animals	11.35
Education	Fees related to preschool, primary and secondary education, and tertiary education	2.77
Financial and insurance services	Insurance fees, deposit and loan facilities (direct charges), and other financial services	4.55

CPI: consumer price index
Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0 and 6440.0

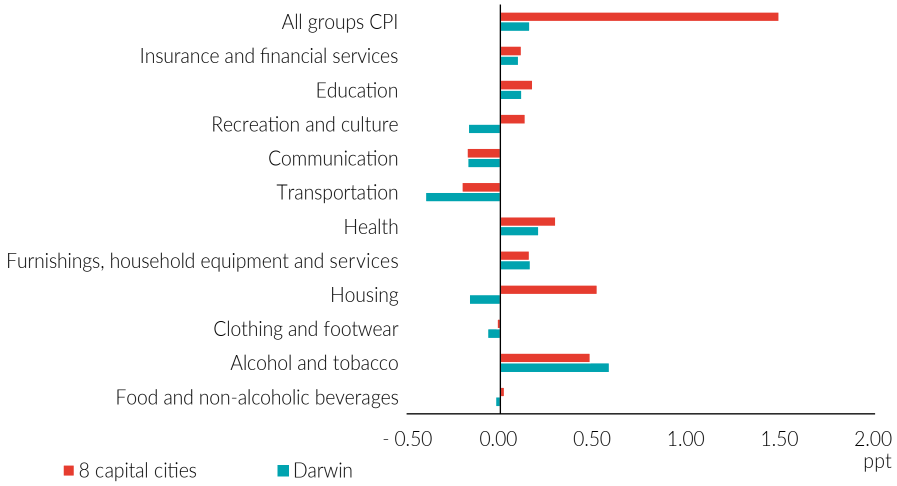
There was a negligible increase in the Darwin CPI of 0.1 per cent in 2015-16, continuing the substantial decline in CPI growth from recent years and a lower rate than the eight capital cities CPI movement of 1.4 per cent.

The moderation in prices growth primarily reflects declines in the costs of transport (fuel prices and motor vehicle prices), recreation and culture, and food and non-alcoholic beverages, respectively declining 3.1 per cent, 1.4 per cent and 0.2 per cent in 2015-16. The Darwin CPI also reflected lower growth in household contents and services categories, growing by only 1.8 per cent. The continuing impact of low population growth and expanded housing supply through new land releases and medium and high-density housing developments have led to significant reductions in housing cost pressures. Over 2015-16, the housing category detracted 0.17 percentage points from the Darwin CPI (Chart 6.2).

Alcohol and tobacco (mainly reflecting tobacco excise tax) along with health and education costs represented the largest increases in costs over 2015-16, with respective increases of 5.7 per cent, 4.3 per cent and 4.0 per cent, representing a 0.90 percentage point contribution to the Darwin CPI.

In the year to December 2016, the Darwin CPI declined 0.2 per cent. This reflects continued moderation of costs across many components of the CPI basket.

Chart 6.2: Year-on-Year Percentage Point Contribution to Change in CPI, 2015-16



CPI: consumer price index; ppt: percentage point
Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0

Housing

In 2015-16, growth in the housing category of Darwin CPI declined 0.6 per cent from 2014-15. This reflected moderate growth in the costs of most utilities and housing purchase prices and continuing declines in rents. Housing detracted 0.17 percentage points from total growth in 2015-16 (Chart 6.2).

In 2015-16 the utilities subcategory of the Darwin CPI increased by 1.5 per cent, up from 0.3 per cent in 2014-15. The increase in utilities costs was largely due to increased water and sewerage charges (up 3.1 per cent), while the cost of electricity fell (down 0.3 per cent). Property rates and charges contributed 0.06 percentage points (up 5.5 per cent) to the Darwin CPI, mostly due to local government rate increases.

The rents category of the Darwin CPI continued recent trends, declining a further 3.6 per cent in 2015-16. Similarly, growth in house purchase prices remains relatively flat at 0.5 per cent in 2015-16. This moderation reflects the impact of the expansion in the supply of new houses and units (for both owner-occupiers and renters) and a tapering in housing demand as the Territory experiences a period of below-trend population growth.

Nationally, housing purchase prices grew by 3.0 per cent across the eight capital cities' CPI. A more detailed analysis of house purchase prices and rents is provided in Chapter 7: Residential Property Market.

In the year to December 2016, the housing category declined 2.4 per cent, mainly driven by declines in rents and electricity prices, and relatively flat growth in new house purchase prices.

Transportation

Declines in transportation category costs of the Darwin CPI continued to reflect price decreases, with the category declining 3.1 per cent in 2015-16 from a decline of 0.8 per cent in 2014-15. This category detracted 0.40 percentage points from total Darwin CPI growth, reflecting declines in the costs of motor vehicle purchases, automotive fuel prices, and maintenance and repairs costs (Chart 6.2).

A key influence on the reduction in automotive fuel costs is the decline in global crude oil prices since January 2014, declining 45.7 per cent to April 2017 in Australian dollars.

Appendix 1 provides a detailed discussion of the Territory fuel market including:

- recent price movements;
- comparisons with national prices;
- drivers of cost; and
- current initiatives aimed at improving competition and transparency for Territory motorists.

In the year to December 2016, transportation category prices declined by 2.0 per cent. This continues to be influenced by limited strength in global crude oil prices and lower motor vehicle costs.

Alcohol and Tobacco

In 2015-16 the alcohol and tobacco category of the Darwin CPI increased by 5.7 per cent and accounted for 0.58 percentage points of total growth (Chart 6.2). This was largely driven by an increase of 12.9 per cent in tobacco prices, following scheduled further excise duty increases by the Commonwealth, in addition to biannual indexation of tobacco product prices by average weekly earnings. Overall alcohol prices in the Territory increased by 1.6 per cent in 2015-16, driven by higher prices of spirits (up 1.7 per cent) and beer (up 3.5 per cent) and partially moderated by wine (down 3.2 per cent).

To December 2016, the year-on-year growth in alcohol and tobacco prices was 6.4 per cent.

Recreation and Culture

The recreation and culture category declined by 1.4 per cent and detracted 0.17 percentage points from the Darwin CPI in 2015-16. This was largely due to a reduction in the cost of domestic travel for Darwin residents travelling interstate, and significant declines in the accommodation costs for Darwin residents travelling within the Territory and interstate (detracting 0.20 percentage points). International holiday and accommodation costs continued to provide the largest contribution to growth in the recreation and culture category, increasing 0.06 percentage points or up 3.0 per cent (Chart 6.2).

In year-to-date data up to December 2016, the Darwin CPI has seen a fall in recreation and culture category prices of 0.9 per cent. This is mainly driven by continued declines in domestic travel costs.

Food and Non-Alcoholic Beverages

Food and non-alcoholic beverages have the second largest impact on the Darwin CPI basket (after housing), detracting 0.2 per cent or 0.02 percentage points to overall Darwin CPI growth in 2015-16 (Chart 6.2). Key influences on the food and non-alcoholic beverages category include:

- 15.9 per cent increase in beef and veal prices;
- 7.6 per cent increase in lamb and goat prices;
- 6.9 per cent decline in fruit prices;
- 4.1 per cent decline in vegetable prices; and
- 2.4 per cent decline in dairy product prices.

Price growth in the category of food and non-alcoholic beverages was 1.1 per cent in the year to December 2016.

Health and Education

In 2015-16, health and education category prices increased by 4.3 per cent and 4.0 per cent, respectively, in the Darwin CPI and contributed 0.32 percentage points to growth (Chart 6.2). This reflected increases in prices for medical and hospital services, mainly due to rising private health fund premiums and continuing real cost increases in the health care sector. The increase in education prices moved in line with long-term trends, with near-equal contributions in price growth from each subcategory (pre-primary and primary, secondary and tertiary).

To December 2016, growth in both health and education prices increased by 3.4 per cent.

Furnishings, Household Equipment and Services

The furnishings, household equipment and services category of the Darwin CPI increased by 1.8 per cent and contributed 0.16 percentage points to growth in 2015-16 (Chart 6.2). This was largely driven by a 6.7 per cent increase in prices for childcare services in 2015-16, which contributed 0.08 percentage points to growth.

In the year to December 2016, furnishings, household equipment and services category prices increased by 1.2 per cent.

Communication, Insurance and Finance, and Clothing and Footwear

The categories of insurance and finance, communication, and clothing and footwear, each continue to follow long-term trends, contributing on average around 3.5 per cent to the Darwin CPI basket.

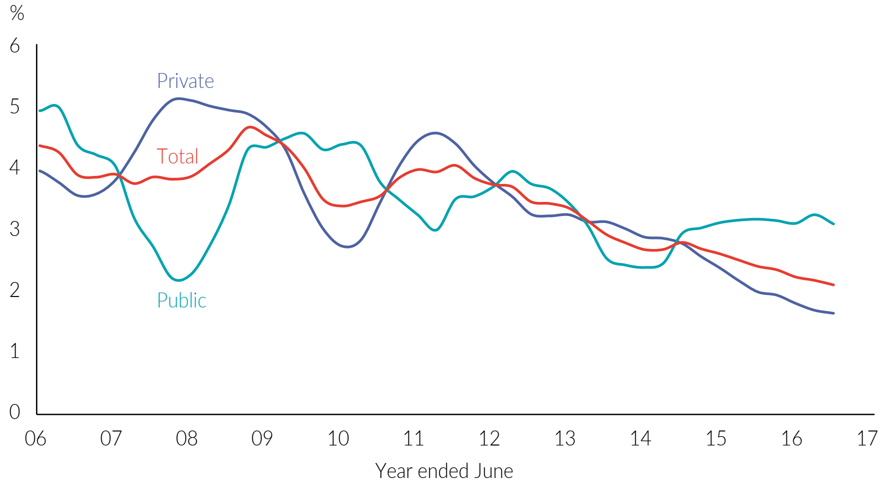
Insurance and financial services prices increased 2.0 per cent in 2015-16 and contributed 0.10 percentage points to growth. Communication, and clothing and footwear prices, respectively, declined 5.9 per cent and 1.8 per cent in 2015-16 and collectively detracted 0.24 percentage points from the Darwin CPI.

In the year to December 2016, insurance and financial services prices increased by 0.7 per cent, while communication, and clothing and footwear prices declined 6.7 per cent and 3.2 per cent, respectively.

Wages

In 2015-16, the Territory's WPI recorded an increase of 2.2 per cent compared to 2.1 per cent nationally. WPI growth in the Territory continued a moderating path, reaching historically low levels in 2015-16, and remaining below the 10-year average increase of 3.4 per cent. This largely reflects declining private sector wage growth and is consistent with increased capacity of the Territory labour market (Chart 6.3). Growth in the Territory's private sector WPI moderated to a record low of 1.8 per cent. Subdued growth over the forecast period in the private sector is largely consistent with current national labour market conditions.

Chart 6.3: Year-on-Year Percentage Change in the Territory's WPI



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

Growth in the public sector WPI remained flat from 2014-15 at 3.1 per cent, reflecting the annual increase from current enterprise bargaining agreements. Growth in public sector wages is expected to be subdued over the outlook period, partly reflecting the Territory Government's wages policy and financial consolidation across all tiers of government.

Based on the latest WPI data released for the December quarter 2016, year-on-year Territory wage growth was 2.1 per cent.

Appendix: The Territory Fuel Market

Recent Results

Territory fuel prices have tracked relatively competitively with national prices over the last year as global oil prices continued to be influenced by excess capacity in global oil production.

Outlook

Territory Government initiatives such as the rollout of MyFuel NT will increase transparency of fuel prices for Territory motorists. World oil prices are forecast to increase modestly from mitigate in the medium term.

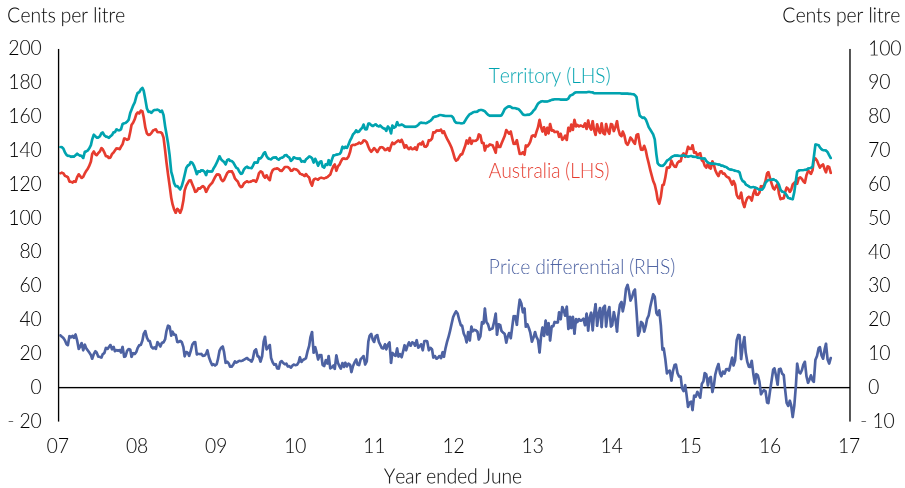
This appendix focuses on regular unleaded petrol (ULP) and diesel fuel, consistent with available data. The following information has been sourced from the Australian Petroleum Institute and the Australian Competition and Consumer Commission (ACCC).

2016-17 Fuel Movements and Initiatives

For the first three quarters of 2016-17, retail prices for both ULP and diesel in the Territory have largely tracked movements in national fuel prices and global oil prices.

The monthly ULP price in the Territory averaged 137.9 cents per litre (cpl) in March 2017, which is the highest monthly average since January 2015. The differential between the average price of ULP in the Territory and nationally has risen through the year from a low of -2.1 cpl in June 2016 to 9.3 cpl in March 2017, however this remains below the long-term trend.

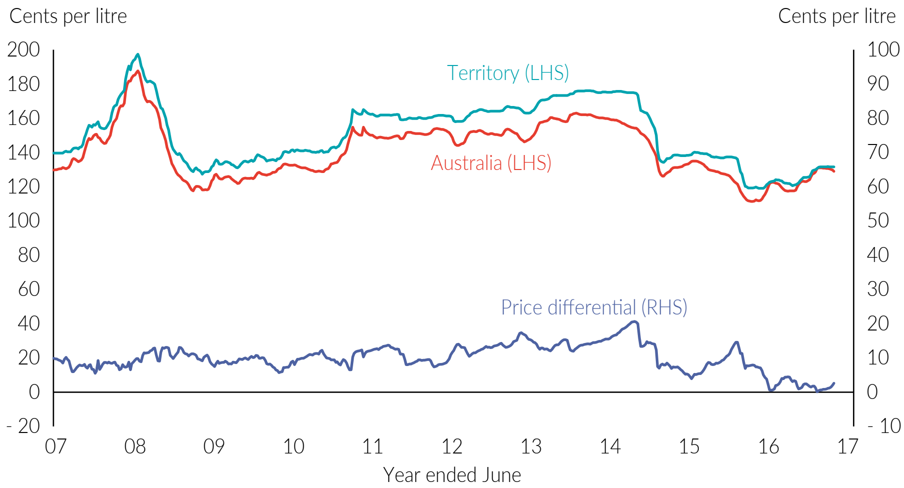
Chart 6a.1: Average Monthly ULP Retail Price



ULP: unleaded petrol; LHS: left-hand side; RHS: right-hand side
Source: Australian Institute of Petroleum

The retail price for diesel in the Territory has also increased to an average of 131.6 cpl in March 2017, the highest monthly average retail price for diesel in the Territory since January 2016. The average price differential between the Territory and the national average has also lowered to an average of 1.8 cpl in March 2017, down from the record high of an average of 20.4 cpl in September 2014.

Chart 6a.2: Average Monthly Diesel Retail Price



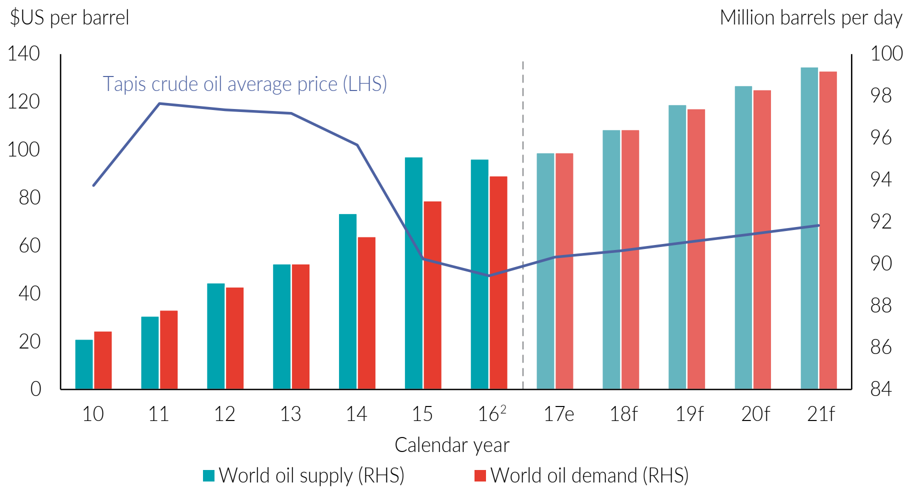
LHS: left-hand side; RHS: right-hand side
Source: Australian Institute of Petroleum

The Territory Government continues to implement a number of measures to improve fuel price transparency for Territory motorists and place downward pressure on fuel prices. These measures form part of the Territory Government's continuing response to recommendations made by the ACCC in its 2015 Report on the Darwin Petrol Market (ACCC Report) and initiatives developed by other jurisdictions. The measures include:

- The Department of Treasury and Finance has enhanced reporting and analysis of fuel prices across the Territory by including analysis of diesel fuel, wholesale price margins and capital cities fuel price comparisons.
- Progressing introduction of the first Territory-wide real-time mandatory fuel price report scheme, MyFuel NT, which will empower Territory motorists to easily compare fuel prices and shop around for the lowest local fuel price via an online web portal that will also make fuel price data freely available to third parties. MyFuel NT will be managed by Northern Territory Consumer Affairs and is expected to be fully operational in late 2017. MyFuel NT will also enable the Territory Government to more closely monitor regional and remote areas' fuel prices and explore future options to place downward pressure on fuel prices.
- Introduction of legislation to ban the display of conditionally discounted fuel prices on fuel display boards.
- Over 2017 the Department of Corporate and Information Services will be retendering fuel card arrangements for Territory Government fleet vehicles. As part of these retendering arrangements, the Territory Government will be considering recommendations from the ACCC Report around competition costs and benefits, and the development of MyFuel NT to maximise value for money for Territory Government fuel usage and enhance competition in the retail fuel market.

From a global perspective, world oil prices are expected to increase modestly over the medium term, driven by steady demand for oil, particularly in developing countries, largely keeping pace with supply (Chart 6a.3).

Chart 6a.3: Average Tapis Crude Oil Price and World Oil Supply and Demand[1]



LHS: left-hand side; RHS: right-hand side; e: estimate; f: forecast
1 Oil supply and demand includes oil and other liquids (such as biofuels, natural gas liquids, oil sands, coal-to-liquids and gas-to-liquids).
2 Total world oil supply and demand for 2016 is an estimate.
Source: Deloitte Access Economics; Organisation of the Petroleum Exporting Countries

Monitoring Retail Fuel in the Territory

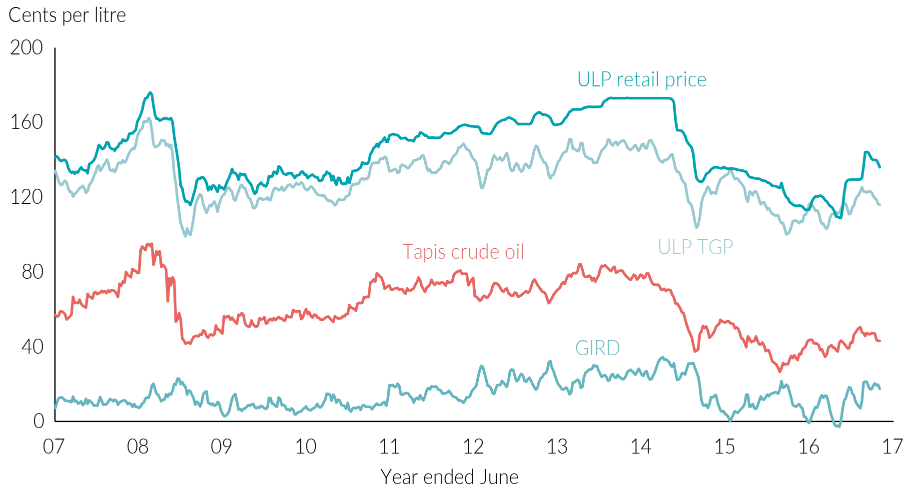
The majority of automotive fuel in the Territory is sourced from overseas through the fuel import terminal and wholesale storage facility located at East Arm, near Darwin. The remaining supply of fuel is sourced from interstate fuel import and refinery terminals.

Factors contributing to the retail price of fuel in the Territory are:

- benchmark crude oil prices;
- movements in the Australian dollar;
- production and import costs;
- Commonwealth fuel excise and GST;
- wholesale prices of fuel;
- transport costs associated with distributing fuel across large distances;
- lower sales volumes per retail outlet;
- lack of retail competition; and
- retail margins, which are generally dependent on the cost of doing business.

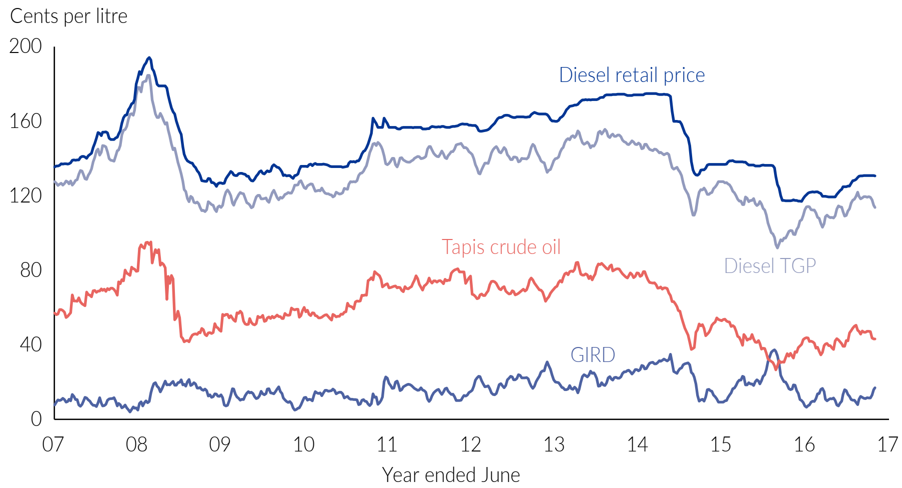
To monitor the components of retail fuel prices in the Territory, aggregated average weekly retail fuel prices and terminal gate prices (TGPs) are used, as actual wholesale prices are usually governed by contracts between the wholesaler and retailer. TGPs are spot prices at which fuel can be purchased from a refinery or terminal and incorporate the price of crude oil, refining costs, transportation costs, wholesale margins and the Commonwealth's fuel excise and GST. Gross indicative retail difference (GIRD) is the difference between the average retail price and TGP, which provides an indication of gross retail margins across the market. The introduction of MyFuel NT will greatly enhance the comprehensiveness of the Territory Government's monitoring of fuel prices across the Territory.

Chart 6a.4: Components of Darwin's Weekly Average Retail Price of ULP



ULP: unleaded petrol; TGP: terminal gate price; GIRD: gross indicative retail difference
Source: Australian Institute of Petroleum; National Australia Bank

Chart 6a.5: Components of Darwin's Weekly Average Retail Price of Diesel

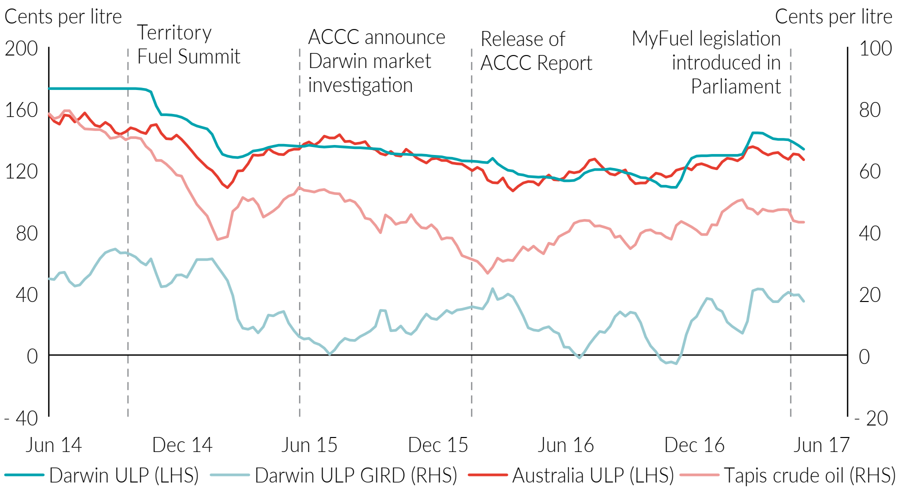


TGP: terminal gate price; GIRD: gross indicative retail difference
Source: Australian Institute of Petroleum; National Australia Bank

Public concern in the Territory over retail fuel prices rose in 2014 as the differential between the average weekly retail ULP price in the Territory and the national average, reached record levels of over 30 cpl in September 2014. The price differential for ULP maintained historically high levels until late 2014, without a clear cost driver to justify the higher prices in the Territory (Chart 6a.4). In response, the Territory Government convened a Fuel Summit in October 2014 and the ACCC announced an investigation into retail fuel pricing in Darwin.

Following this, the Territory fuel market experienced declines in fuel prices, with the weekly average retail price of ULP and diesel fuel declining 37.0 cpl and 35.6 cpl, respectively, through 2014-15. This trend has continued into 2015-16 and through much of 2016-17, with retail fuel prices in the Territory at near record low levels (Chart 6a.5). These declines also coincided with falls in global crude oil prices (Chart 6a.6).

Chart 6a.6: Unleaded Retail Fuel Prices, Gross Indicative Retail Difference and Crude Oil Prices



LHS: left-hand side; RHS: right-hand side; ULP: unleaded petrol; GIRD: gross indicative retail difference
Source: Australian Institute of Petroleum; National Australia Bank

Chapter 7
Residential Property Market

Recent Results
Housing market conditions have continued to soften due to lower demand for housing.

Outlook
Weak leading residential indicators suggest a further moderation in the residential property market in the medium term, following slowing economic activity and subdued population growth.

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 in the Territory, with 21.6 per cent of household income devoted to meeting average mortgage repayments and 24.5 per cent to meet median rents in the December quarter 2016.

The purpose of this chapter is to profile the current Territory property market and set this within the context of historical trends. Comparisons are provided with other capital cities, and trends in major regional centres in the Territory are also examined. The chapter uses median prices and rents as reported by the Real Estate Institute of the Northern Territory (REINT) and the Real Estate Institute of Australia (REIA). Unless stated otherwise, the reference period for the median property prices and rents, capital city comparisons, affordability and dwelling supply is the December quarter 2016, being the most recent data available at time of publication.

The chapter also discusses affordability based on average incomes, home loans and rents. Housing finance commitments, residential supply and building activity are also reviewed in this chapter to provide indicators of demand and supply for the Territory's property market,

Outlook

The Territory's residential property market performed strongly in 2012 and 2013, well above the long-term trend, but has softened in the last three years. This moderation in prices is mainly due to an increase in dwelling supply from increased activity in the residential construction sector and moderating population growth. The Territory housing market is likely to remain subdued in the medium term due to growth in supply exceeding demand, in addition to slowing in overall economic activity. Growth in housing supply over the medium term is likely to continue in various segments of the property market in the Territory at a more modest pace than in recent years.

The outlook for the Territory's residential property market continues to be supported by low interest rate settings. In April 2017, the Reserve Bank of Australia (RBA) left the cash rate unchanged at the record low of 1.5 per cent. However, sustained interest rate reductions have not been entirely passed on by major banks in recent times, as leading institutions have raised interest rates out of cycle with the RBA, in particular for investor loans, subsequently dampening growth in future housing finance commitments.

The Australian Prudential Regulation Authority (APRA) continues efforts to slow lending for housing investment which may also contribute to lower housing finance commitments in the Territory by investors. In March 2017, APRA announced a requirement for financial institutions to restrict new interest-only loans to 30 per cent of total residential mortgage lending. APRA further elected to maintain the 10 per cent growth cap for lending to residential property investors, which was issued in December 2014 as an enforceable lever to curb investment lending.

Continued land releases will offer support to Territorians to establish new dwellings and may contribute to more affordable property prices. Land development projects are expected to return to normal levels over the medium-term, following above-average trends in recent years. The land releases in the Greater Darwin region are expected to contribute sufficient supply to accommodate growth over the medium term, with land likely to be released in Durack, Zuccoli, Berrimah Farm and further developments in Muirhead North.

The current slowing momentum in building approvals suggests a slowdown in dwelling investment and construction following above average trends in recent years. Weak leading residential property indicators suggest further weakening in the residential property market in the medium term. As new dwelling construction falls from record levels, a recovery in home renovations work is expected in the medium term, flowing from a number of Territory Government funding incentives for owners of established dwellings.

The value of renovations increased by 13.8 per cent to $306 million in 2016. This trend is anticipated to continue over the short term with the Territory Government re-introducing the Home Improvement Scheme in February 2017, allowing eligible homeowner-occupiers a voucher valued up to $4000 to get work done on their home, with homeowners paying for at least half of the work themselves. In addition to this, the Territory Government's Home Renovation Grant is expected to improve the supply in the residential property market of the Territory.

Recent Activity

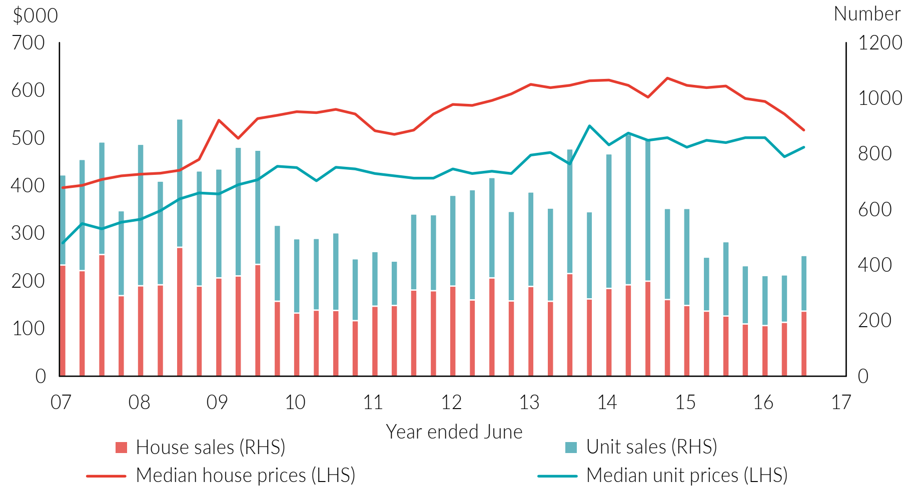
Greater Darwin

Greater Darwin (Darwin, Darwin suburbs and Palmerston) housing market conditions have continued to moderate over the last couple of years following strong growth. The median house price in Greater Darwin decreased by 6.1 per cent to $516 300 in the December quarter 2016.

In annual terms, median house prices in Greater Darwin decreased by 15.2 per cent. The annual decline was driven by decreases in median house prices across all areas. Greater Darwin median unit prices increased by 4.3 per cent in the December quarter 2016 but declined by 2.0 per cent in annual terms.

The number of houses sold increased by 8.3 per cent from 216 in 2015 to 234 in the December quarter 2016, due to a softening in house prices in Greater Darwin. In contrast, the number of unit sales decreased by 25.1 per cent from 267 in 2015 to 200 in 2016, reflecting a decrease in dwelling supply from high levels in recent years (Chart 7.1).

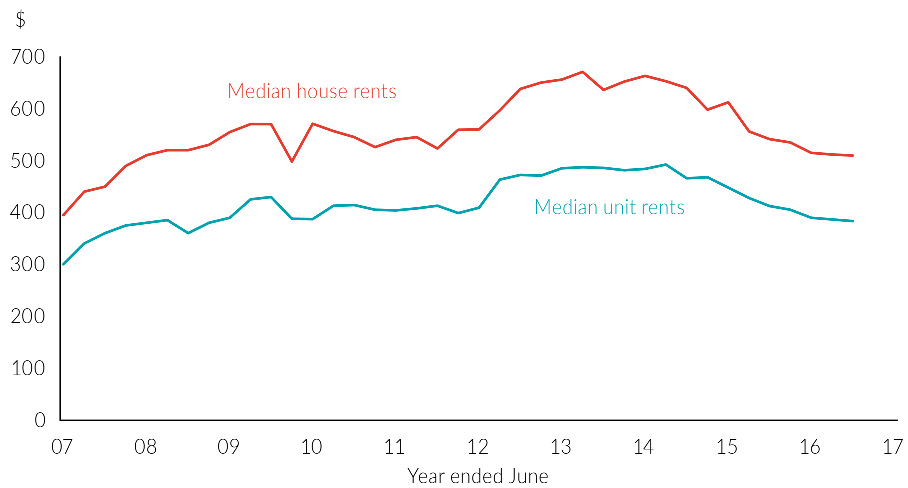
Chart 7.1: Greater Darwin Median House and Unit Prices and Sales



LHS: left-hand side; RHS: right-hand side
Source: Real Estate Institute of the Northern Territory

Median weekly asking rents for a house in Greater Darwin followed a similar trend to median house prices, falling by 5.9 per cent in annual terms to $510 per week in the December quarter 2016. Median weekly asking rents for a unit in Greater Darwin also decreased by 7.0 per cent to $383 per week in the quarter. Greater Darwin median weekly unit rents are at their lowest level since March 2009 (Chart 7.2).

Chart 7.2: Greater Darwin Median House and Unit Rents



Source: Real Estate Institute of the Northern Territory

The annual average vacancy rate in Darwin for all dwellings was 7.4 per cent in 2016. The vacancy rate for houses in Darwin has increased by 0.6 percentage points to 7.3 per cent in the December quarter 2016 and by 1.3 percentage points to 7.9 per cent for units.

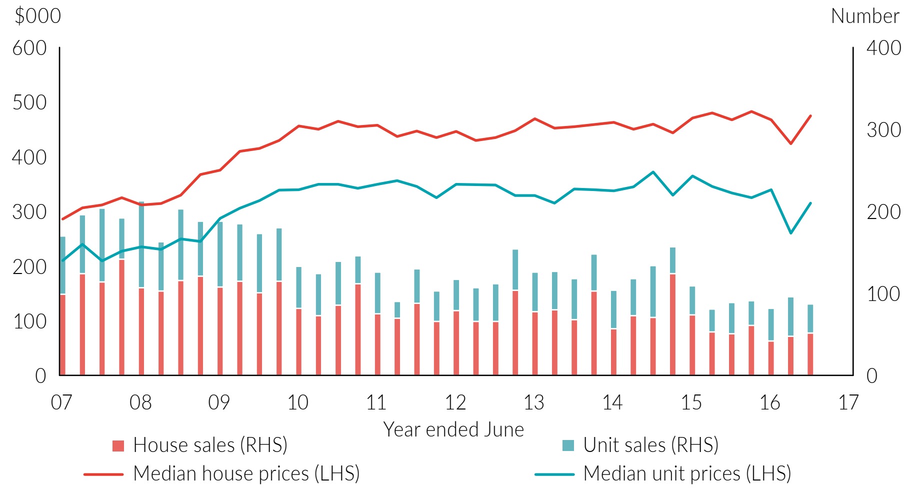
Alice Springs

Caution needs to be used when interpreting quarterly movements for regional markets. The small size of these markets and low number of sales can lead to volatile results.

In Alice Springs, the median house price increased by 12.2 per cent to $475 000 in the December quarter 2016 and was 1.6 per cent higher than the same time the previous year. In Alice Springs the median unit price increased by 20.9 per cent in the quarter, but decreased by 5.5 per cent in annual terms to $315 000.

Sales volume in Alice Springs increased for houses (up 13.1 per cent to 69 sales) but declined for units (down 7.9 per cent to 35 sales) in annual terms (Chart 7.3).

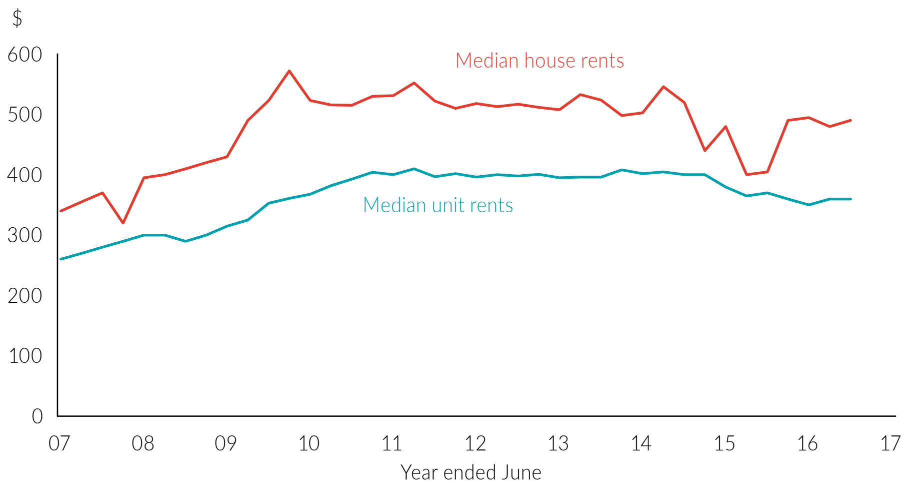
Chart 7.3: Alice Springs Median House and Unit Prices and Sales



LHS: left-hand side; RHS: right-hand side
Source: Real Estate Institute of the Northern Territory

The median weekly asking rent for a house was $490 per week in the December quarter 2016, up 2.1 per cent and 21.0 per cent compared to the same time in 2015. The median weekly asking rent for a unit in Alice Springs in the quarter was flat at $360 per week but declined by 2.7 per cent when compared to the same time in 2015 (Chart 7.4).

Chart 7.4: Alice Springs Median House and Unit Rents



Source: Real Estate Institute of the Northern Territory

The annual average vacancy rate in Alice Springs for total dwellings was 5.8 per cent in 2016. Vacancy rates for houses in Alice Springs increased by 1.0 percentage point in the December quarter 2016 to 2.8 per cent but decreased by 4.4 percentage points through the year to December 2016. Alice Springs reported the lowest house vacancy rate of the major centres in the Territory. Vacancy rates for units increased by 2.2 percentage points in the quarter to 7.1 per cent but declined by 6.6 percentage points compared to the same time in 2015.

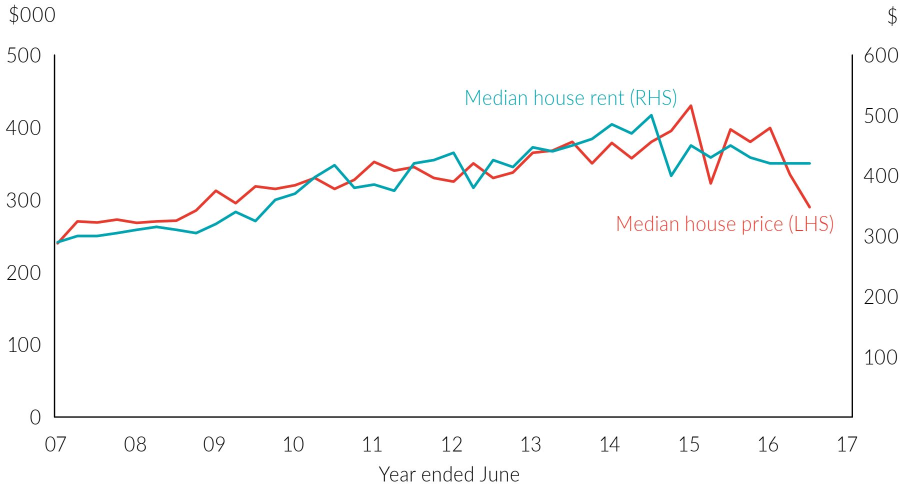
Katherine

Median prices for houses and units in Katherine tend to be highly volatile due to the small number of properties on the market.

The median house price in Katherine decreased by 13.4 per cent to $290 000 in the December quarter 2016 and by 27.0 per cent in annual terms (Chart 7.5). The median weekly asking rent for houses in Katherine remained the same at $420 per week in the December quarter 2016, but decreased by 6.7 per cent compared to the same time in 2015. The number of houses sold in 2016 declined by 47.4 per cent to 10.

The median unit price in Katherine was $282 500 in the December quarter 2016, a decrease of 2.6 per cent compared to December quarter 2015. The median asking rent for units has performed better, increasing by 3.0 per cent in the quarter and by 6.3 per cent compared to December 2015, to $340 per week.

Chart 7.5: Katherine Median House Prices and Rents



LHS: left-hand side; RHS: right-hand side
Source: Real Estate Institute of the Northern Territory

The annual average vacancy rate in Katherine for total dwellings was 5.0 per cent in 2016. Vacancy rates for houses in Katherine increased by 0.4 percentage points in the December quarter 2016 to 3.8 per cent. Vacancy rates for units decreased by 3.1 percentage points to 2.8 per cent in the December quarter 2016.

Tennant Creek

Median prices for houses tend to be highly volatile due to the small number of properties on the market. REINT does not report rental prices or vacancy rates for Tennant Creek.

The median house price in Tennant Creek remains the lowest of the Territory's major centres at $191 000 in the December quarter 2016. The median house price in Tennant Creek decreased by 18.7 per cent in the quarter and by 25.6 per cent compared to the same time the previous year (Chart 7.6).

Chart 7.6: Tennant Creek Median House Prices

Source: Real Estate Institute of the Northern Territory

Capital City Comparisons

In the December quarter 2016, Darwin had the fifth highest median house price of the capital cities at $516 300, below Sydney ($1 134 100), Melbourne ($770 000), Canberra ($621 000) and Perth ($525 000) (Chart 7.7). The median house price declined in Darwin and Perth, although increased across all other capital cities compared to the same time in the previous year. The eight capital city weighted average median house price was $743 500 in December 2016, an increase of 4.2 per cent in year-on-year terms.

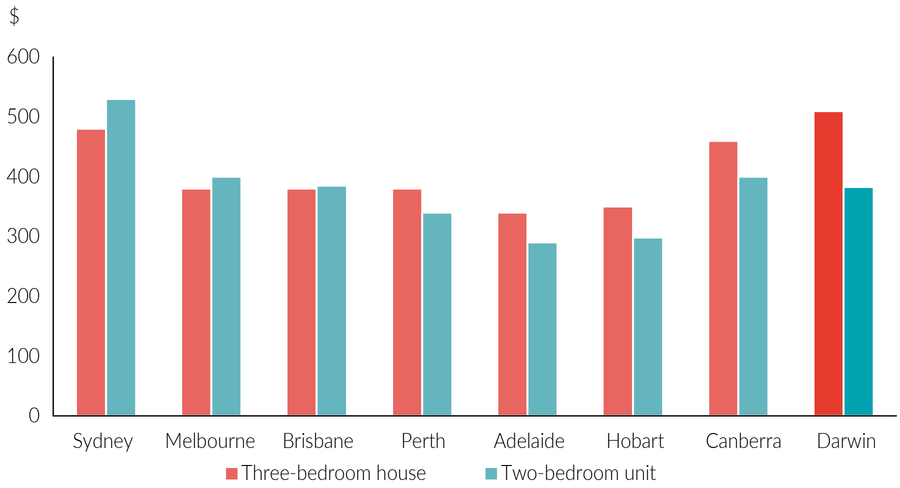
The Darwin median unit price was $480 000 in December 2016, ranking third highest of all capital cities, which ranged from $302 000 in Hobart to $719 700 in Sydney. The median unit price also declined in Darwin and Perth, although increased across all other capital cities compared to the same time in the previous year. The eight capital city weighted average median unit price increased by 4.1 per cent to $572 300 in 2016.

Chart 7.7: Median House and Unit Prices, December Quarter 2016

Source: Real Estate Institute of Australia

In the December quarter 2016, Darwin had the highest median house rent at $510 per week and the fifth highest median unit rent at $383 per week, of all capital cities (Chart 7.8). The median weekly asking rent for a house in other capital cities ranged from $340 in Adelaide to $480 in Sydney. The median weekly asking rents for units increased across most capital cities in annual terms, with the exception of Perth and Darwin, which declined, and Canberra, which was stable. The median weekly asking rents for units ranged from $290 in Adelaide to $530 in Sydney.

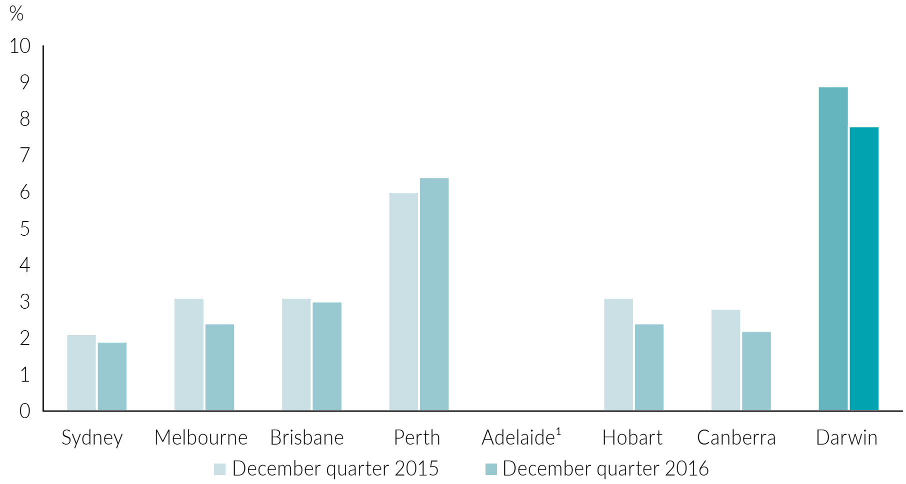
Chart 7.8: Median House and Unit Rents, December Quarter 2016



Source: Real Estate Institute of Australia

In the December quarter 2016 Darwin recorded the highest vacancy rate of all capital cities, which ranged from 1.9 per cent in Sydney to 6.4 per cent in Perth. Darwin's vacancy rate is susceptible to fluctuations due to the transient nature of the Territory's population (Chart 7.9).

Chart 7.9: Vacancy Rates for all Rented Dwellings



1 No data available for Adelaide in the December quarter 2015 and December quarter 2016.
Source: Real Estate Institute of Australia; Bendigo Bank

First Home Buyers

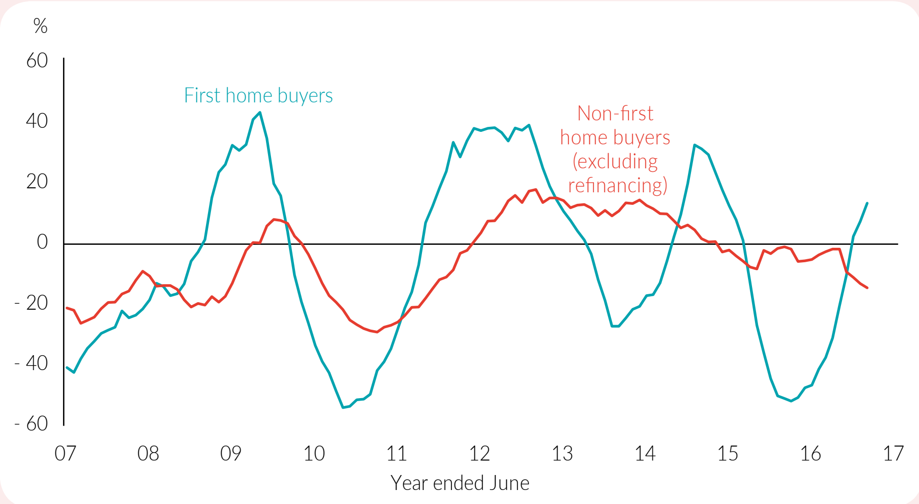
The number of housing finance commitments is a leading indicator and its current trajectory underlines a weaker performing residential property market in the Territory. To improve affordability in the Territory, in September 2016 the Government introduced a substantial increase in first home buyer tax relief, resulting in a maximum stamp duty concession of $23 928.60 for established homes valued at $650 000 or less, through the First Home Owner Discount incentive. The existing First Home Owner Grant also provides a $26 000 stimulus to first home buyers, which encourages the construction and purchase of a new home.

Increased stamp duty relief is set as a stimulus measure to respond to a downturn in the residential property market caused by subdued population growth, a slowing resource investment sector, increased land release and new housing supply experienced in recent years.

In the year to February 2017, the number of housing commitments (excluding refinancing) decreased by 9.8 per cent to 2603, which was mostly driven by a decline in the number of non-first home buyer commitments. Of the total, the number of first home buyer commitments increased by 13.6 per cent to 533, which is likely assisted by the recently introduced Government incentive.

Although there has been a reduction in sales activity from recent years, first home buyers still remain a significant proportion of the total, with about one in five transactions involving first home buyers. As at the end of February 2017, over 325 purchasers received the First Home Owner Discount, including 243 in the Darwin, Palmerston and rural area (137, 81 and 19, respectively), 72 in Alice Springs, eight in Katherine, and one in each of Tennant Creek and the Tiwi Islands.

Chart 7.10: Housing Finance Commitments in the Territory (year-on-year change)



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

Along with the increased stamp duty relief, in September 2016 a Home Renovation Grant valued up to $10 000 was introduced to first home buyers of established homes, to encourage buyers to engage one or more local businesses to undertake renovations to the home. Of this amount, $2000 can be spent on household goods. The $2000 Household Goods Grant Scheme also applies to first home buyers purchasing or building new homes. As at the end of February 2017, there were about 180 renovation grant applications submitted, which equates to $1.8 million in renovation works.

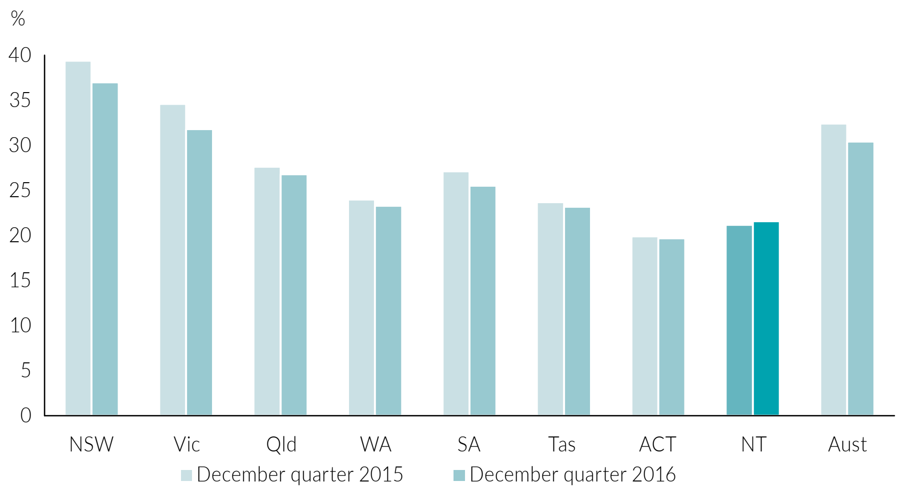
A recent announcement by the Commonwealth indicates that, at a national level, Government is considering new measures to assist first home buyers as part of a major housing package that may be announced in the Commonwealth's 2017-18 Budget on 9 May 2017.

Affordability

The following analysis of home loan and rental affordability is based on data published by REIA and the Adelaide Bank.

Housing affordability in the Territory contracted slightly with the proportion of income required to meet loan repayments increasing to 21.6 per cent in the December quarter 2016, an increase of 0.4 percentage points when compared to the December quarter 2015 (Chart 7.11). Despite this decline, the Territory recorded the second lowest proportion of income required to meet home loan repayments of all jurisdictions, which ranged from 19.7 per cent in the Australian Capital Territory to 37.0 per cent in New South Wales. Nationally, 30.4 per cent of income is required to meet home loan repayments.

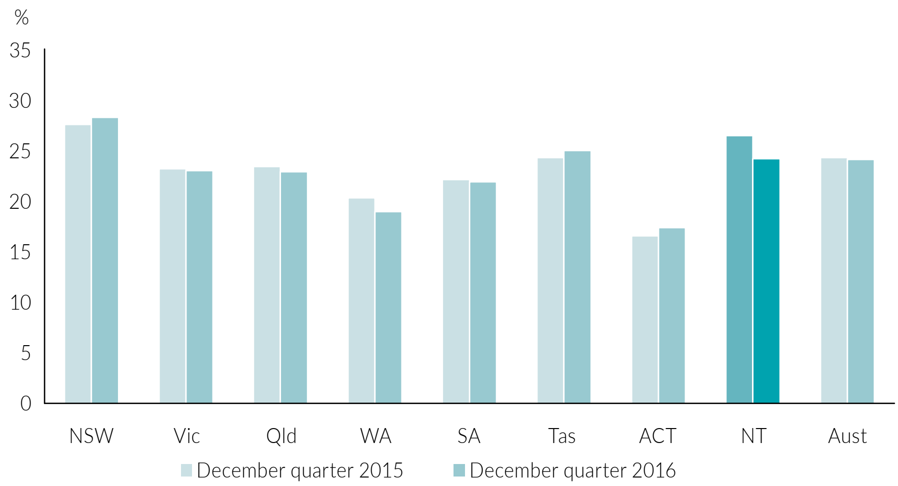
Chart 7.11: Proportion of Median Household Income to Meet Average Home Loan Repayments, December Quarter 2015 and December Quarter 2016



Source: Real Estate Institute of Australia

Rental affordability in the Territory improved slightly with the proportion of income required to meet the median rent decreasing to 24.5 per cent in the December quarter 2016, a decrease of 2.3 percentage points when compared to the December quarter 2015. The proportion of median weekly income required to meet the median rent in other jurisdictions ranged from 17.6 per cent in the Australian Capital Territory to 28.6 per cent in New South Wales (Chart 7.12). The Territory recorded the greatest improvement in rental affordability across all jurisdictions through the year.

Chart 7.12: Proportion of Median Household Income to Meet Average Home Rent Payments, December Quarter 2015 and December Quarter 2016



Source: Real Estate Institute of Australia

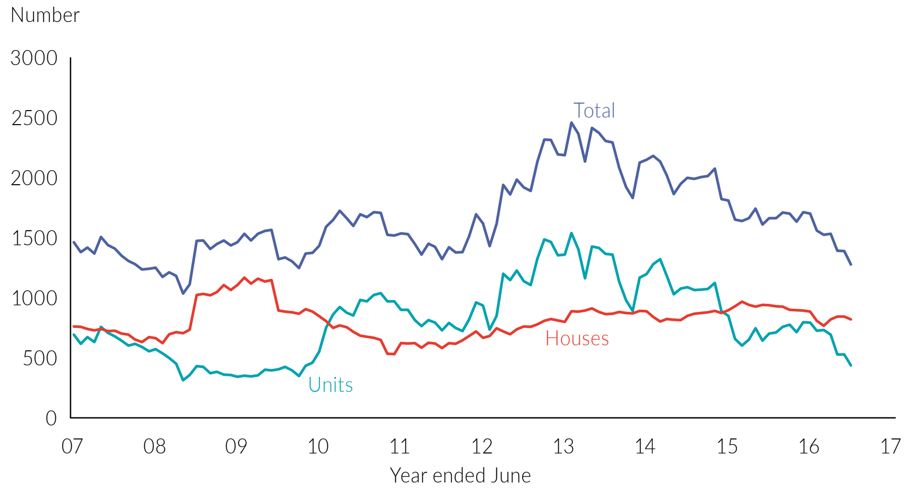
The number of new loans (excluding refinancing) established in the Territory increased by 14 per cent to 690 through the year to the December quarter 2016. This was mainly driven by the soft market conditions experienced in recent years. The average loan size increased by 9.1 per cent to $342 190 in the December quarter 2016, compared to the same time last year.

Dwelling Supply

Accessibility and affordability of residential property in the Territory is highly dependent on supply-side responses that boost the stock of housing. Over the past two years, there has been a significant increase in the number of new dwellings in the Territory, which has dampened prices. This, coupled with lower demand for dwellings, is anticipated to continue to restrain property prices in the Territory.

Building approvals is a leading indicator for future property supply. Since the recent peak in mid-2014, building approvals in the Territory have decreased markedly, down 23.4 per cent in 2016. This was driven by a 12.6 per cent decline in house approvals to 821 and a 38.0 per cent decrease in unit approvals to 435 in year-on-year terms (Chart 7.13). The number of unit approvals are at the lowest level since April 2010.

Chart 7.13: Territory Residential Building Approvals (moving annual total)

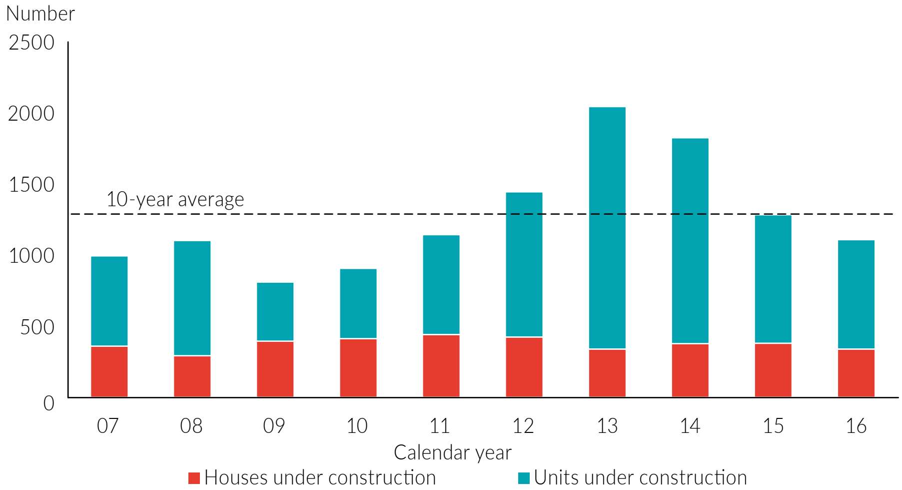


Source: ABS, *Building Approvals, Australia*, Cat. No. 8731

In 2016, the annual average number of total residential dwelling completions in the Territory decreased by 26.4 per cent (or 504) to 1406. The decline in dwelling completions was primarily driven by a 51.2 per cent decrease in other residential dwellings (to 483 units), following a 46.2 per cent decrease in unit completions in 2015, likely reflecting the significant increase in activity experienced during 2014-15. In 2016, new house completions also declined by 3.4 per cent to 863, reflecting the lower demand for housing.

New dwelling supply is anticipated to be moderate with residential construction softening and 1134 dwellings under construction, down by 15.3 per cent in 2016. This level remains below the 10-year annual average of 1310 dwellings (Chart 7.14). In 2016, the annual average number of residential dwellings under construction comprised of 770 units and 338 new houses. The number of new houses under construction is slightly below the five-year quarterly average of 386, whereas the number of units under construction is well below the five-year quarterly average of 1147.

Chart 7.14: Number of Residential Dwellings under Construction in the Territory[1]



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

In 2016, the value of residential building work yet to be done decreased by 11.3 per cent to $861.9 million. This was due to a 24.2 per cent decline in the value of houses and a 6.2 per cent decline in the value of unit work yet to be done. The combination of leading residential property indicators suggest further weakening in the residential property market in the medium term.

Chapter 8

Industry Analysis

The Territory's economic output is predominantly concentrated around a few industries including construction, government and community services, and the mining industry. These industries account for over half of the Territory's total economic output. In contrast, the main contributors to total employment are government and community services, construction, and retail and wholesale trade.

Table 8.1: Territory Industry Contribution to, and Growth in, GSP 2015-16

	Gross State Product[1]		Employment	
	Value $M	Change %[2]	Number[3]	Change %[2]
Mining and manufacturing	3 760	0.8	9 800	12.1
Construction	4 186	0.8	15 540	3.5
Agriculture, forestry and fishing	582	- 3.0	910	- 41.1
Retail and wholesale trade	977	- 0.8	13 050	8.0
Government and community services	4 731	5.2	50 410	1.7
Service industries	5 995	4.4	43 410	- 2.7
Total[4]	**23 648**	**2.7**	**133 110**	**1.2**

GSP: gross state product
1 Inflation adjusted.
2 Compared to 2014-15.
3 Annual average.
4 Total includes taxes less subsidies, ownership of dwellings and statistical discrepancy.
Note: Does not include defence and tourism as they are not measured components of gross state product.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6291.0.55.003

For the purpose of analysing the Territory's industry structure, this chapter combines the Australian Bureau of Statistics (ABS) industries of public administration and safety, health care and social assistance, and education and training into a single industry – government and community services. This recognises that these services are largely funded by the public sector.

The service industries category includes a range of industries, which are individually small but combined are the largest proportion of the Territory's economic output and second largest proportion of total employment. These industries include accommodation and food services; transport, postal and warehousing; information and media telecommunications; financial insurance services; rental, hiring and real estate services; professional, scientific and technical services; administrative and support services; electricity, gas, water and waste services; and arts and recreation services.

Although the agriculture, forestry and fishing industry is much smaller than the other key industries in the Territory in terms of its contribution to both gross state product (GSP) and employment, it has not been incorporated as part of service industries and instead is included as a separate section of this chapter due to its importance in regional areas.

Tourism and defence are not separate industries for the purpose of reporting by the ABS in national accounts. Rather the contributions made by these sectors are captured in other industries. Tourism and defence are, however, discussed individually in this chapter due to their relative importance in the Territory.

The following sections of this chapter analyse the contribution to the economy from each of the Territory's key industries, in terms of each industry's share of GSP and total resident employment. Key developments and the outlook for growth for each industry are also described.

Mining and Manufacturing

Recent Results

The mining and manufacturing industries recorded growth of 0.8 per cent in 2015-16, following two years of decline. This was driven by a slight recovery in the mining sector, partly offset by further moderation in manufacturing.

Outlook

The mining and manufacturing industries are expected to grow slightly in the short term, before increasing rapidly in the forward years, largely driven by petroleum production (mainly liquefied natural gas), however other mining production, including rare earths and gold, are also expected to contribute.

Table 8.2: Mining and Manufacturing Industries' Contribution to GSP, GDP and Employment

	2014-15	2015-16	10-Year Average
Northern Territory			
Contribution to GSP ($M)[1]	3 731	3 760	3 884
Share of GSP (%)[2]	16.2	14.3	22.0
Industry resident employment (number)[3]	8 740	9 800	8 460
Share of total resident employment (%)[3]	6.6	7.4	6.9
Australia			
Contribution to GDP ($M)[1]	210 329	214 335	192 513
Share of GDP (%)[2]	13.0	12.2	15.3
Industry resident employment (number)[3]	1 138 730	1 104 740	1 167 510
Share of total resident employment (%)[3]	9.8	9.3	10.5

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
2 Current prices.
3 Annual average.
Source: Department of Treasury and Finance, ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6291.0.55.003

The Territory's mining and manufacturing industries' data are reported together for the purposes of this publication, as ABS includes the gross value added of manufactured liquefied natural gas (LNG) in the mining industry classification. Mining and manufacturing activities in the Territory include mining of metal ores, petroleum production, quarrying and mining of non-metallic minerals, as well as manufacturing of a wide range of products for both domestic and overseas consumption such as concrete, wood chips and food products. The Territory's mining industry data also includes offshore petroleum production in Territory waters.

Analysis of the components of this industry is informed by a number of different data sources, including information published in company reports and data provided by the Department of Primary Industry and Resources.

Outlook

In the short term, the mining and manufacturing industries are expected to increase slightly, driven by a continued growth in the Territory's mining industry (including petroleum). The production of minerals is anticipated to increase as mine expansion projects come on line, partly offset by subdued conditions continuing in some commodity markets. Petroleum production is also expected to increase, mainly driven by increasing production at existing onshore gas operations. Exploration activities for both minerals and petroleum are expected to remain subdued.

The Territory's manufacturing activities are expected to continue to detract from growth in the mining and manufacturing industries in the short term. This will reflect slowing demand for the Territory's mineral-based manufactured goods, such as concrete and bitumen in line with anticipated declines in the Territory's construction activity over the short term.

The Territory's mining and manufacturing industries' contribution to Territory GSP is expected to increase significantly over the outer forecast period, largely driven by the mining sector as production commences at the Ichthys LNG project.

Minerals Production

The value of the Territory's mineral production in 2016-17 is expected to increase slightly on current levels, following a decrease of 5.7 per cent in 2015-16 due to adverse conditions in global commodity markets. A major driver of the increase in 2016-17 is expected to be the higher value of manganese production, following the completion of an expansion project at the Groote Eylandt mine in 2016, which installed a premium concentrate processing facility.

The value of the Territory's total mineral production will also be supported by increased production at the new garnet sands mine at Harts Range and continued high levels of bauxite production at the Gove mine. Improvements in the price of gold may also flow through to support the value of gold production in the year. However this may be slightly offset by a fall in production quantities following the end of production at Old Pirate mine in the Tanami as well as production constraints due to 2017 wet season flooding.

Mineral production in 2016-17 is expected to be partly offset by declines in zinc and lead production as a result of constrained output at McArthur River mine due to unfavourable market conditions, and continued low levels of uranium production from the Ranger uranium mine as stockpiles are processed but no new uranium is mined from the site.

From 2017-18 onwards, growth in the Territory's mineral production is expected to strengthen, as new mine operations and expansions come on line. Gold is expected to drive the increase, following the expected completion of expansion works at Newmont's Tanami gold mine operations in mid-2017. Manganese is also likely to contribute significantly, as the Bootu Creek manganese mine re-opened in early 2017, with production expected in 2017-18. Growth will also be supported by the ramping up of production at the Harts Range garnet sands mine as well as the reopening of the SILL80 ilmenite mine in mid-2017, with full production expected in 2018. Current prices for bauxite, zinc and lead are expected to continue over the forecast period.

The Territory currently has a number of mineral resource projects in the pipeline, which if realised, have the potential to drive substantial growth in the industry over the long term. In particular, the Territory Government awarded major project status to a number of new mineral resources projects in early 2017. This includes the Jervois copper-silver-gold project, the Mount Peake vanadium-titanium-iron project and Ammaroo Phosphate Project. Other potential projects include the Chandler Salt Mine, Nolans rare earths mine and Mt Todd gold mine.

Petroleum Production

The Territory's petroleum (oil and gas) production is forecast to increase over the forward years, largely driven by increases in gas production. The increase in onshore gas production will be supported by ongoing production at the Dingo gas field, which supplies gas to the Owen Springs power station near Alice Springs. Further, the Mereenie oil and gas field is expected to transition to a primarily gas producing field. The Palm Valley gas field is currently operating on stand-by mode and will only come online as a backup to Dingo, therefore is not expected to contribute to the outlook for petroleum production. Onshore oil production is expected to remain at current levels, as world oil prices remain relatively subdued compared to previous years, despite slight increases expected in the next year.

Offshore oil production is expected to increase in 2016-17, with year-to-date export data showing an increase of 115.0 per cent in the year to December 2016. This will be in part due to a slight recovery in world oil prices as well as an increase of oil production from the Laminaria-Corallina oilfield.

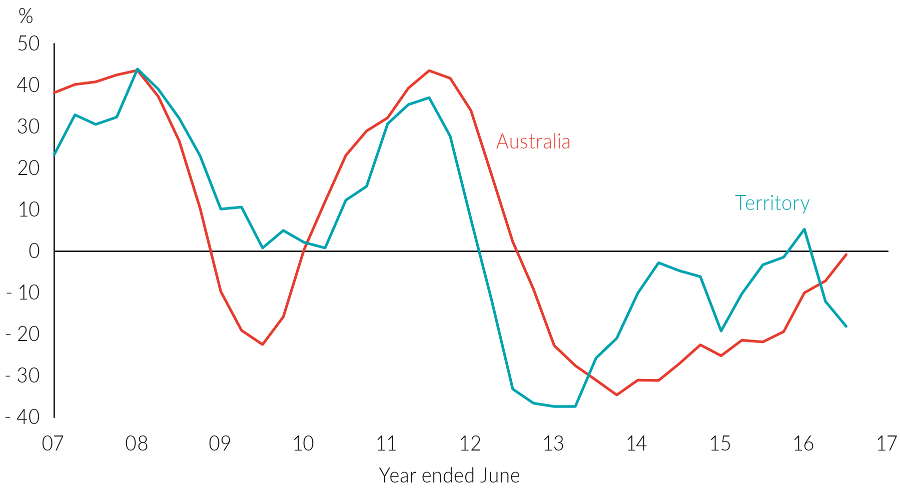
LNG production is expected to be a key contributor to growth in the Territory's mining industry in the outer years, driven by the Ichthys LNG project. It is expected that the project will commence production in 2017-18 and the Territory will experience the full effect of increased exports in 2018-19.

Exploration Activity

Total mineral exploration expenditure in the Territory has followed a similar downward trend to exploration activity nationally (Chart 8.1), coinciding with generally lower steel-related commodity prices over the year, with the exception of gold.

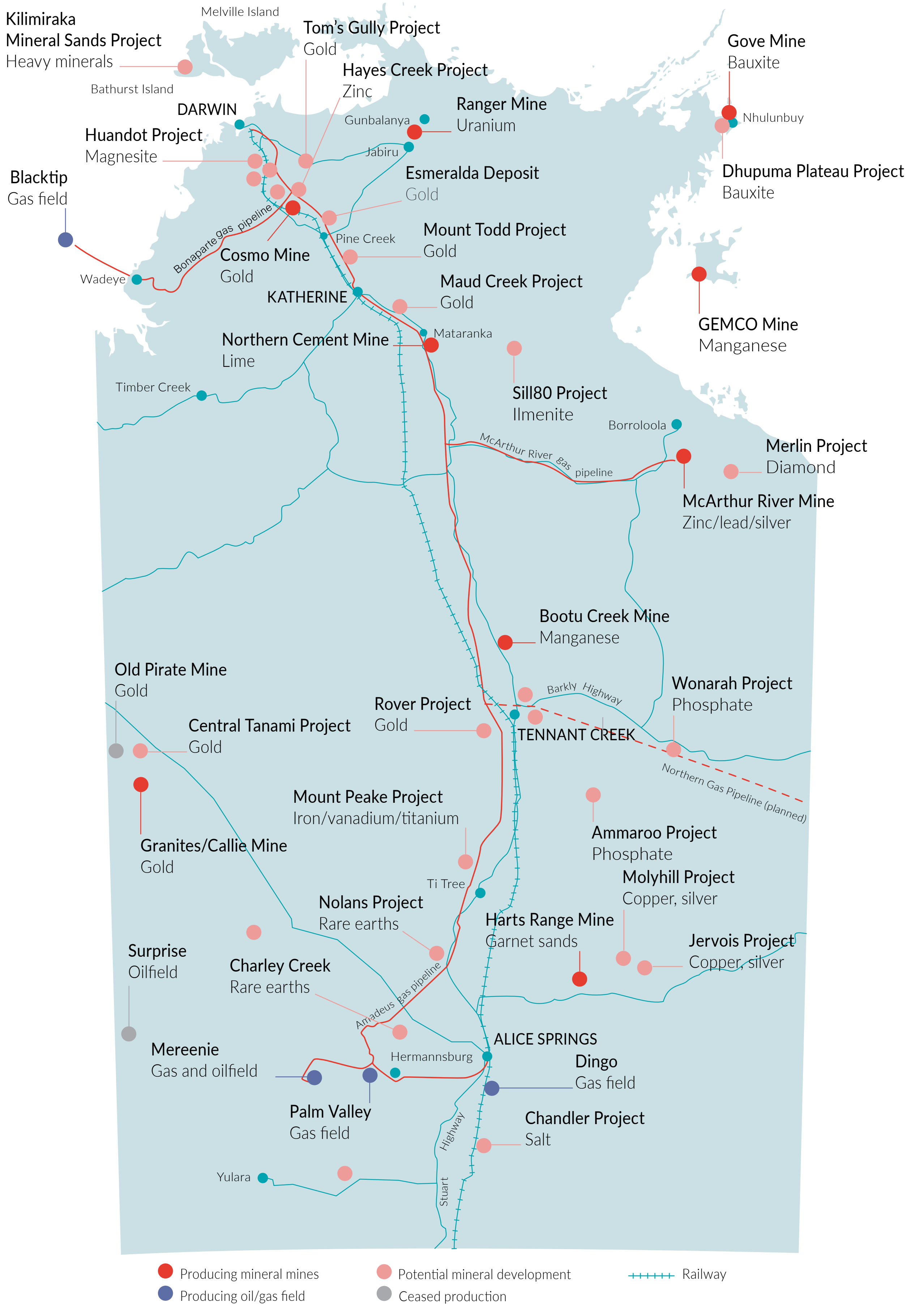
In 2015-16 mineral exploration expenditure in the Territory remained at its lowest levels for almost 10 years. This trend has continued into 2016-17, declining 18.1 per cent to $85.6 million in the year to December 2016. Around half of the Territory's mineral exploration is attributed to gold, which decreased by 10.5 per cent to $46.8 million over the same period, however remains above its 10-year annual average of $41.6 million.

Chart 8.1: Change in Mineral Exploration Expenditure in the Territory and Australia[1]



1 Year-on-year change, current prices.
Source: Department of Treasury and Finance; ABS, *Mineral and Petroleum Exploration, Australia*, Cat. No. 8412.0

Map 2: Current and Pending Mineral and Onshore Petroleum Operations in the Territory[1]



1 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.

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

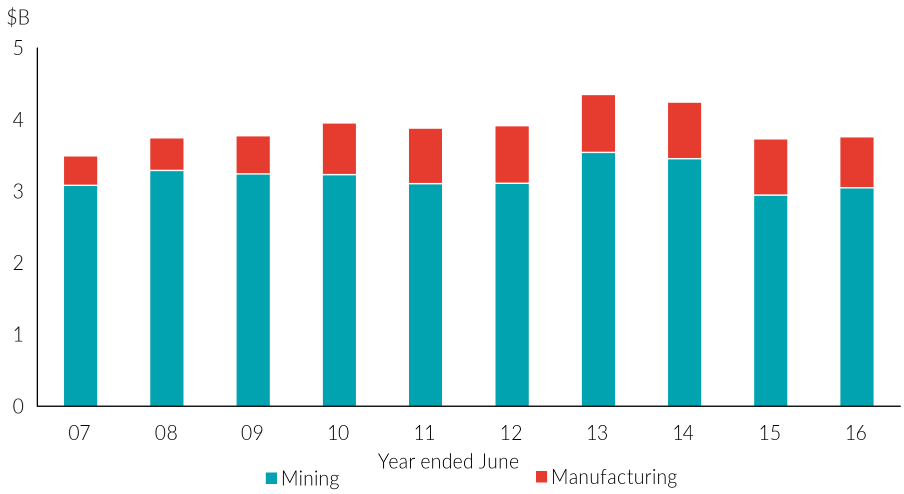
Recent Activity

Mining and manufacturing contribute to the Territory economy through international trade, private investment and employment. Mining and manufacturing industries also have a significant impact on the Territory's construction industry as mining and manufacturing development projects generally require significant levels of construction activity.

In 2015-16, mining and manufacturing accounted for 14.3 per cent of Territory economic output. Of the two industries, mining (including petroleum) is the key contributor to the Territory economy (Chart 8.2), and comprised 11.2 per cent of the Territory's GSP in 2015-16 compared to 6.0 per cent nationally. The manufacturing industry in the Territory is smaller and less diverse in comparison to the national manufacturing industry, contributing 3.1 per cent to Territory GSP, compared to 6.1 per cent nationally.

The Territory's mining and manufacturing industries increased by 0.8 per cent in 2015-16 to $3.8 billion (inflation adjusted), the first increase since 2012-13, where the industries grew by 11.2 per cent at the height of Australia's mining boom. The modest increase in 2015-16 was driven by 3.4 per cent increase in the mining industry to $3.0 billion, partly offset by a 9.0 per cent decrease in the manufacturing industry to $714 million.

Chart 8.2: Territory Mining and Manufacturing Industries' Contribution to GSP[1]



GSP: gross state product
1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Mining and manufacturing industries employed an average of 9800 persons in 2015-16. This is equivalent to 7.4 per cent of the Territory's total resident employment, reflecting an increase from 8740 persons (6.6 per cent) in the previous year. The increase was largely driven by an 18.7 per cent increase in mining industry employment as well as a 2.4 per cent increase in the manufacturing industry. The total number of resident employees in the Territory's mining and manufacturing industries remained well above the 10-year average level of 8460 persons.

The Territory's mining and manufacturing industries make up a lower proportion of the total resident employment than nationally, which is largely due to the capital-intensive nature of both industries. Also many mines in the Territory rely on fly-in fly-out (FIFO) workers from interstate and these workers are not included in the Territory's official employment figures. The number of FIFO workers in the Territory in 2015-16 was estimated between 6000 and 7000, in line with 2014-15.

Data for some commodities produced in the Territory is limited, especially for offshore petroleum production and a number of manufactured goods, however Table 8.3 lists the commodities produced in the Territory and included in the ABS mining and manufacturing industries' classification, subject to available data.

Table 8.3: Mining and Manufactured Commodities Produced in the Territory

	2014-15	2015-16	% Change
Mineral commodities sold ($M)[1]			
Manganese	971.9	829.3	- 14.7
Gold/gold dore	684.3	885.1	29.3
Zinc/lead concentrate	682.8	504.5	- 26.1
Bauxite	368.7	447.7	21.4
Uranium oxide	376.3	313.7	- 16.6
Iron ore	64.6	0.8	- 98.7
Mineral sands		0.2	n.a.
Non-metallic minerals[2]	86.7	68.7	- 20.7
Total	**3 235.3**	**3 049.9**	**- 5.7**
Onshore petroleum production[3]			
Oil	0.302 mmbbl	0.233 mmbbl	- 22.8
Gas	3.703 mmscf	4.202 mmscf	13.5
LNG[4]	174 bcf	168 bcf	- 3.4
Petroleum exports overseas ($M)[1]			
Oil	577.8	192.4	- 66.7

n.a.: not applicable; mmbbl: million barrels (oil); mmscf: million standard cubic feet (gas); bcf: billion cubic feet (gas)
1 Current prices.
2 Comprises crushed rock, sand, gravel, limestone, mineral specimen, quicklime, soil and vermiculite.
3 Calendar years 2015 and 2016.
4 LNG production values are reported in terms of total LNG sold to utility customers in Japan.
Source: Department of Treasury and Finance; Department of Primary Industry and Resources; Conoco Phllips annual reports; ABS unpublished

Mineral Production

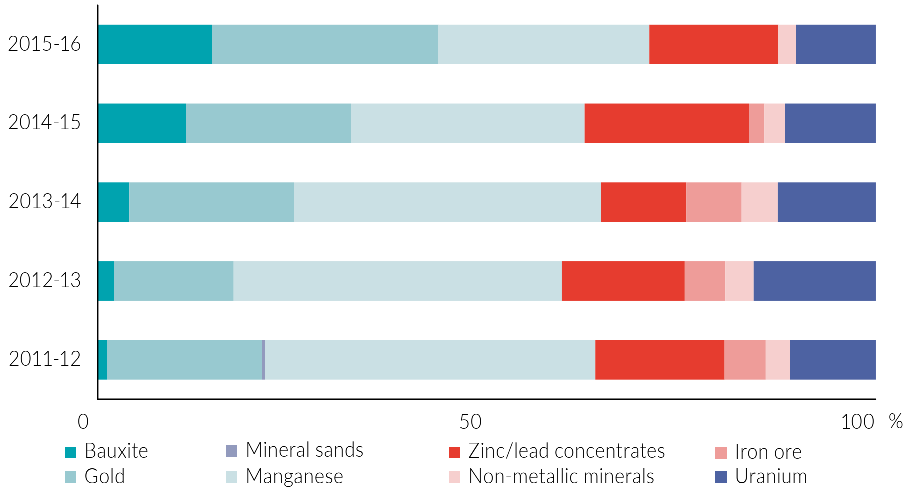
The Territory's mineral producers sold $3.0 billion worth of commodities in 2015-16, reflecting a 5.7 per cent decrease from 2014-15 in current prices (Table 8.3). The majority of mineral commodities produced in the Territory are metallic, including gold dore (a mixture of gold and silver), manganese, zinc/lead concentrate (including individual concentrates), bauxite, uranium and mineral sands (Chart 8.3). This compares to five years ago, when the Territory's major commodities included larger values of uranium as well as iron ore. Further, about half of the production of bauxite was manufactured into alumina prior to export up until 2014.

The moderation in the value of mineral production was largely driven by a 26.1 per cent decrease in the zinc/lead concentrate and a 14.7 per cent decrease in manganese. This was partly offset by a 29.3 per cent increase in gold dore and a 21.4 per cent increase in bauxite. The Territory also produces a range of non-metallic minerals such as rock, sand, gravel and quicklime, however these comprise 2.3 per cent of the total value of mineral commodities sold in 2015-16.

The Territory's metallic mineral commodities are predominantly exported overseas, as well as some transported interstate for processing, while non-metallic minerals, such as crushed rock, sand and gravel (defined in the 'other' category), are mainly used in the Territory for the construction of road infrastructure or land development.

Mineral production in the Territory is highly dependent on movements in global demand and prices for the commodities produced. Many of the commodities produced in the Territory are key elements in the manufacturing of steel and other metal products. Consistent with national and international trends, many of the commodities in the Territory have been affected by declines in mineral commodity prices over the past few years, following Australia's resources boom. This has the direct effect of decreasing the value of mineral production in the Territory and profitability of many mineral-producing companies. The changes in price of the Australian dollar relative to other currencies also has an effect. More detailed information about movements in commodity prices and exchange rates was outlined as part of Chapter 3: External Economic Environment.

Chart 8.3: Composition of the Territory's Mineral Production[1]



1 Proportion of value of commodities sold in current prices.
Source: Department of Treasury and Finance; Department of Primary Industry and Resources

Manganese

The Territory's manganese is produced on Groote Eylandt, at the Groote Eylandt Mining Company (GEMCO) mine and, prior to December 2015, at OM Holdings Limited's Bootu Creek mine, which is located about 100 kilometres north of Tennant Creek. Manganese is one of the raw ingredients used in the manufacturing of steel and production is largely driven by global steel demand, particularly influenced by China over the past few years.

The Territory's manganese production in 2015-16 was valued at $829.3 million, reflecting a 14.7 per cent decrease from $971.9 million in 2014-15. The decline in the total value of manganese production in the Territory reflects suspension of production activities at the Bootu Creek mine from December 2015, due to the downward trend in the manganese price, which has also led to the closure of several low-grade manganese mines around the world.

Future manganese production in the Territory is expected to increase due to increased production relating to the reopening of Bootu Creek mine in early 2017. Further, GEMCO completed its Premium Concentrate Project in 2015-16, which expanded the mine's production capacity of premium manganese concentrate for export. However, the mine is expected to continue current production levels, over 2016-17 and 2017-18, due to depressed market conditions, including lower demand and prices. In June 2016, GEMCO's owner, South32 also entered an agreement with traditional owners to expand mining operations to the eastern leases region. This was scheduled to commence in 2017 and provides for additional years of ore reserves. At the same time, GEMCO received approval to explore the southern areas region of the island, which may have potential to extend the life of the mine in the long term.

Gold

In 2015-16, gold was mined at the Cosmo Deeps mine in Pine Creek as well as at the Granites/Callie and Old Pirate mines in the Tanami region. Production ceased at the Old Pirate mine in April 2016 due to lower than expected grades of gold recovered from the site. Most gold is produced in the form of gold dore, which is transported to the Perth Mint in Western Australia for refining into gold bars.

The value of gold and gold dore production in the Territory increased by 29.3 per cent over the year from $684.3 million in 2014-15 to $885.1 million in 2015-16. The increase was mainly driven by increased production volumes due to Old Pirate mine operations from March 2015 to April 2016. The gold sector was also supported by high Australian gold prices as well as a reduction in oil prices, which resulted in a lower price of diesel and reduced overheads for many miners. Current expansion works undertaken at the Granites/Callie gold mine are also expected to result in higher levels of gold production in the Territory from 2017-18.

Zinc and Lead

Zinc and lead are produced at the McArthur River mine, located 65 kilometres southwest of Borroloola, in the form of a combined zinc, lead and silver concentrate as well as individual zinc and lead concentrates. The value of total zinc and lead production (including individual concentrates) in 2015-16 was $504.5 million, reflecting a 26.1 per cent decrease from $682.8 million in 2014-15.

The decline in zinc and lead production in 2015-16 reflects the reduction in output from the mine due to falls in global zinc and lead prices. Despite constrained production, the completion of a development project at McArthur River mine, including the commissioning of a second processing plant, has the potential to increase production upon a recovery of zinc and lead prices.

Bauxite

The Territory's bauxite is produced at the Rio Tinto mine at the Gove peninsula, which is the Territory's sole producer. Bauxite from the mine is exported to Asian markets predominantly for use in the production of aluminium. Up until 2014, about half of bauxite produced at the mine was used to manufacture alumina at the Gove alumina refinery, however is now exported in its mineral form from the peninsula.

The value of bauxite production in the Territory has increased by 21.4 per cent to $447.7 million in 2015-16, from $368.7 million in 2014-15. This was a record year for bauxite production at the mine, reflecting favourable market conditions, particularly strong demand from China as well as reductions in bauxite supply from Malaysia and Indonesia. The mine is expected to continue current elevated levels of bauxite production over the coming years, subject to ongoing bans in Malaysia, which were put in place to address socio-environmental concerns.

Uranium

Uranium is produced at the Ranger mine, which is located within the boundaries of the Kakadu National Park. Total value of production at the Ranger mine was $313.7 million in 2015-16, which reflects a 16.6 per cent decrease from $376.3 million in 2014-15. Production in 2015-16 was directly attributable to the running down of stockpiles at the mine following the curtailment of open cut mining in 2012. Total uranium produced at the mine is expected to remain relatively constant until January 2021, in line with existing approvals, as the mine has not obtained traditional owner support for an extension to the mine's operations beyond January 2021.

Other Minerals

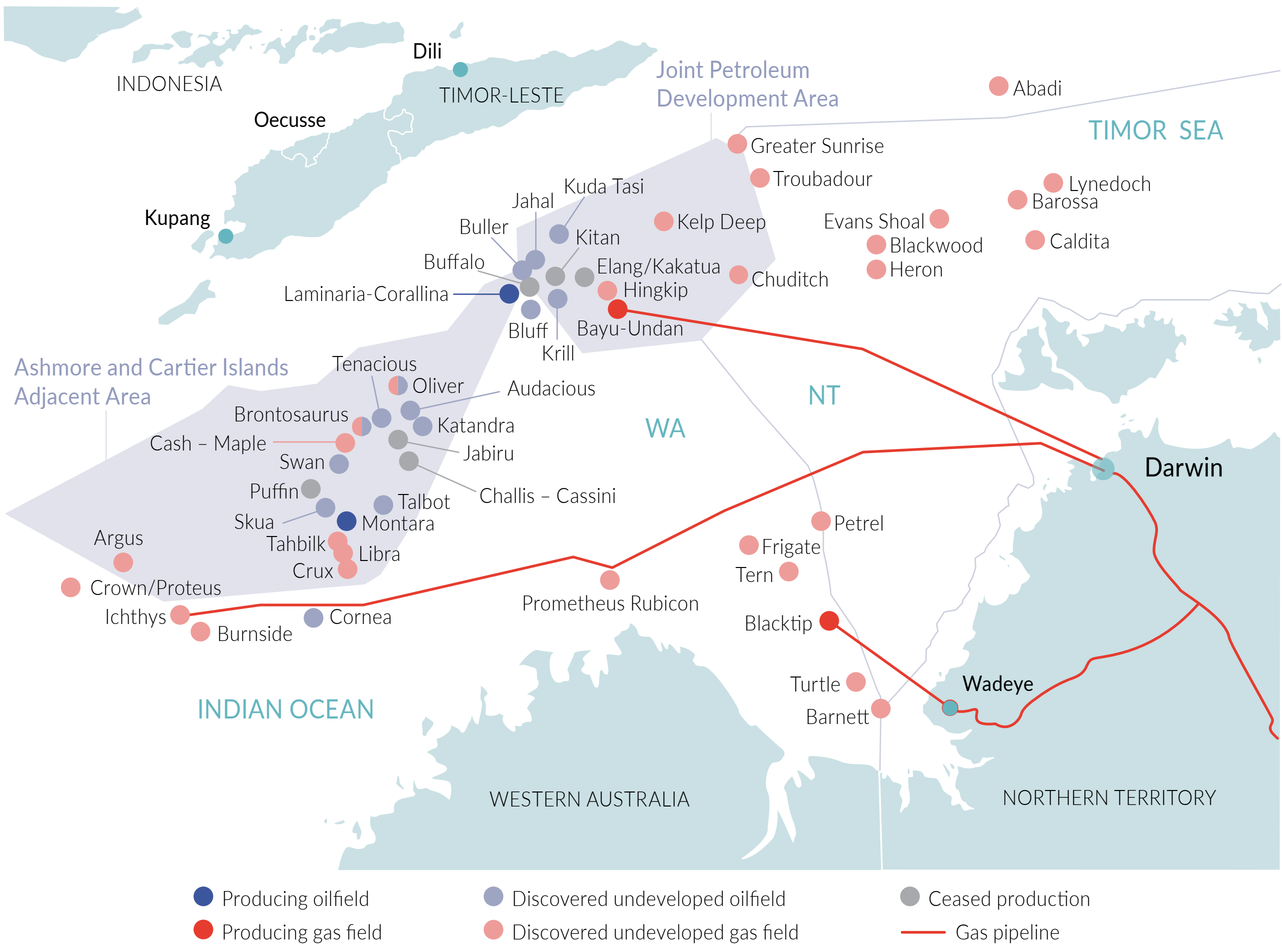
The Territory produced $0.2 million worth of mineral sands in 2015-16, reflecting the start of production at the Harts Range Garnet Mine, located about 200 kilometres from Alice Springs. It is expected that the mine will have a life of 29 years at full production. One third of the minerals produced will be consumed within Australia, with the other two thirds exported mainly to the United States and Europe.

Iron ore production in the Territory ceased in late 2014, with $0.8 million worth of iron ore sold in 2015-16. Despite the Territory still having substantial deposits of iron ore, located around Pine Creek and the Roper region, there is no future production expected over the forecast period.

Petroleum Production

Petroleum production in the Territory includes the extraction of crude oil, condensate and natural gas, as well as the production of LNG, which makes up a large proportion of overall production. Onshore petroleum production in the Territory occurs mainly in the Amadeus Basin around the central Australia region and at the Darwin LNG plant, located at Wickham Point. The Territory's offshore petroleum production comprises operations in the Bonaparte, Money Shoal and Arafura basins, in Territory and jointly administered waters, including the Ashmore and Cartier Islands Offshore Area (Montara Oilfield) and the Joint Petroleum Development Area (JPDA) (Map 3).

Map 3: Petroleum Activity[1]



1 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.

Source: Department of Treasury and Finance

ABS Treatment of Offshore Petroleum Production

Jointly administered waters to the north of the Territory contain several operating oil and gas fields. These include Bayu-Undan and Kitan located in the JPDA (jointly administered by Australia and East Timor), and Laminaria-Corrallina and Montara (located within the Ashmore and Cartier Islands Adjacent Area, administered by the Commonwealth). In all cases, oil and gas products are exported directly from the fields.

Production values from Bayu-Undan and Kitan are spilt 50:50 between Australia and East Timor, with Australia's value of production included in the Territory's balancing item of GSP, as a balance of payments adjustment.

Gas products from Bayu-Undan are transported via a pipeline to the Darwin LNG plant for processing. Half of which are considered as goods imports to the Territory, however the ABS suppresses the value of this due to confidentiality reasons.

Gas products from both Laminaria-Corrallina and Montara, as well as manufactured gas products from the Darwin LNG plant, are included in the Territory's official trade and production statistics, as they are located within the Territory and its administered waters.

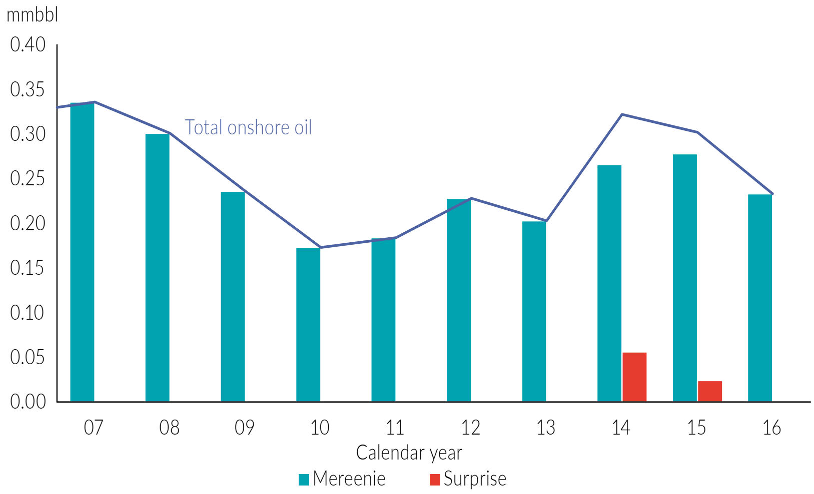
Oil

The Territory's onshore oil is produced at the Mereenie and Surprise oilfields, both located west of Alice Springs. The majority of the oil produced is transported to South Australia for processing to be sold to domestic customers as well as for export overseas.

In 2016, total onshore oil production decreased 22.8 per cent compared to 2015 (Chart 8.4). The decline was largely driven by the shut-in of the Surprise oilfield in August 2015 due to low oil prices and higher costs associated with the remoteness of the oilfield. Production from the Mereenie oilfield also declined, by 16.2 per cent in the year.

The offshore oil production attributed to the Territory in 2015-16 was at the Montara, Laminaria-Corrallina and Kitan oilfields. Oil produced offshore is exported directly from the fields for overseas trade. This activity is evident in the Territory's international exports data, though may be limited by confidentiality constraints. The Territory's petroleum oil exports decreased by 66.7 per cent to $192.4 million in 2015-16. The decrease likely reflects the shut-in of the Kitan oilfield in December 2015, as well as lower crude oil prices in the year.

Chart 8.4: Onshore Oil Production in the Territory



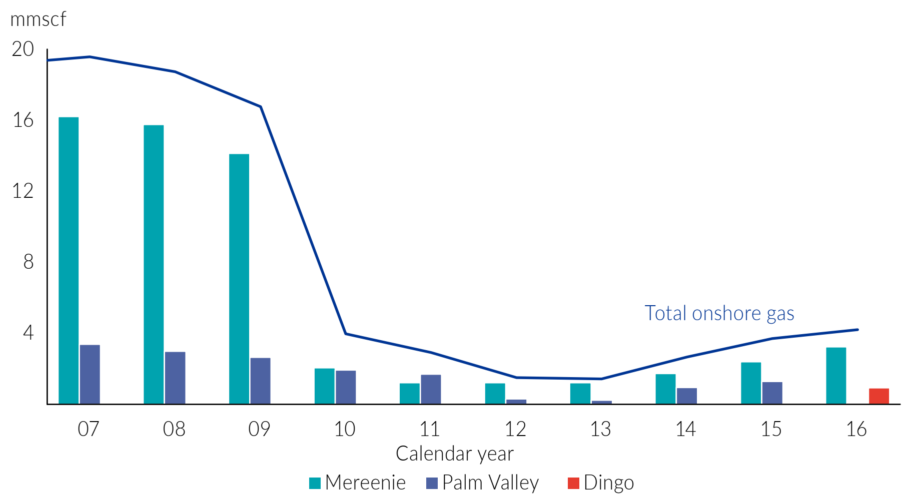
mmbbl: million barrels
Source: Department of Treasury and Finance; Department of Primary Industry and Resources

Gas

The Territory's onshore conventional gas is produced from the Amadeus Basin, at the Dingo, Mereenie and Palm Valley gas fields, located in the Central Australia region. The Territory's onshore gas production increased by 13.5 per cent in 2016 (Chart 8.5). This was the third recorded annual increase in the Territory's onshore gas production and was driven by increased production from the Dingo and Mereenie gas fields, which both transitioned into full production in 2016.

Prior to 2012, gas from the Palm Valley field was used for power generation in Alice Springs. Since then gas from the Palm Valley field has been sold under commercial gas sales agreements with Santos. The Mereenie field transitioned to the main producer of gas for Central Petroleum Limited, following the Palm Valley field being placed on stand-by. Previously gas produced from the Mereenie field was associated with oil production and was re-injected for reservoir pressure support. The new Dingo gas field, which commenced operation in early 2015-16, will supply gas for power generation at the Owen Springs power station near Alice Springs.

Chart 8.5: Onshore Gas Production in the Territory



mmscf: million standard cubic feet
Source: Department of Treasury and Finance; Department of Primary Industry and Resources

The Territory has a number of offshore gas reserves in Territory waters and in the jointly administered JPDA (Map 3). Current offshore Territory gas production is located at the Bayu-Undan gas field in the JPDA and Blacktip gas field near the Territory and Western Australia border. Gas produced at the Blacktip gas field is transported by pipeline to an onshore processing plant in Yelcherr, near Wadeye, for domestic consumption, supplying the Darwin-Katherine power network. Gas from Bayu-Undan in the JPDA is transported via pipeline to the Darwin LNG plant for processing.

LNG production is the largest manufacturing activity in the Territory and total goods exported, however is included in the mining industry classification by the ABS. The Territory's LNG is produced at the Darwin LNG plant and is exported to Japan. Total sales from the Darwin LNG plant to utility customers in Japan decreased by 3.4 per cent to 168 billion gross cubic feet of LNG in 2016. The decline likely reflects maintenance activities at the plant as well as the maturing of the Bayu-Undan field, which would have reduced output throughout the year.

Territory's Manufacturing Industry

The Territory produces a wide range of manufactured goods, generally for local consumption, including steel fabrications, wood, paper and food. Larger scale manufactured goods exported from the Territory include boxed beef and helium. The Territory's manufactured goods production contributed $714 million to GSP in 2015-16, in real terms. This reflects a 9.0 per cent decline from the previous year. Despite the decline, the Territory manufacturing industry's contribution to GSP remains above the 10-year average level of $679 million.

The manufacturing industry employed an average of 3600 persons throughout 2015-16, reflecting an increase of 2.4 per cent from 3500 persons in 2014-15. The manufacturing industry accounted for 2.7 per cent of the Territory's total resident employment in the year. This was lower than the national manufacturing industry, which contributed 7.4 per cent to Australia's total resident employment.

Helium is extracted from gases during LNG refinement and is manufactured at the BOC Darwin Helium Plant, which is next to the Darwin LNG plant located at Wickham Point near Darwin. The plant in Darwin is the only liquid helium processing plant in the southern hemisphere and produces helium to meet Australia's domestic demand as well as for export overseas. Helium is used in the medical, electronic, space and defence industries.

Boxed beef is a significant contributor to the Territory's manufacturing industry and is produced at the Australian Agricultural Company (AACo) abattoir in Livingstone, which commenced production in 2014-15. More detailed information on boxed beef production can be found in the Agriculture section of this chapter.

Other manufacturing activities are supported by domestic construction activity, which generates demand for local manufacturing such as timber products, steel fabrication and concrete structures. Work on projects such as the Northern Gas Pipeline (NGP) has the potential to support local manufacturing producers, particularly in the Tennant Creek region, over the next few years. Further, a number of major projects listed above also include potential to grow the Territory's manufacturing industry. A metal refinery, as part of the Mount Peake project, and production of phosphate fertiliser products, as pert of Ammaroo Phosphate Project, are currently in the pipeline.

Construction

Recent Results

The construction industry recorded its fourth consecutive year of growth in 2015-16, however growth slowed to 0.8 per cent, in line with recent construction activity data releases.

Outlook

The construction industry is expected to undergo a significant adjustment over the coming years, which will reflect a transition from record levels of construction dominated by the Ichthys liquefied natural gas project and residential construction to smaller-scale construction projects, with expected levels of activity close to the Territory's long-term average.

Table 8.4: Construction Industry Contribution to GSP, GDP and Employment

	2014-15	2015-16	10-Year Average
Northern Territory			
Contribution to GSP ($M)[1]	4 152	4 186	2 727
Share of GSP (%)[2]	18.0	19.3	13.8
Industry resident employment (number)[3]	15 020	15 540	12 280
Share of total resident employment (%)[3]	11.4	11.7	10.0
Australia			
Contribution to GDP ($M)[1]	130 585	134 182	117 984
Share of GDP (%)[2]	8.1	8.1	7.7
Industry resident employment (number)[3]	1 031 530	1 050 250	996 740
Share of total resident employment (%)[3]	8.9	8.8	9.0

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
2 Current prices.
3 Annual average.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6291.0.55.003

Outlook

The Territory's construction industry is expected to experience a significant adjustment over the coming years, following four years of record activity, largely driven by work related to the Ichthys LNG project. Over 2016-17 and 2017-18, the project will transition from construction to production, which will dictate the headline construction figures for the Territory over these years, given the relative size of the project. The construction industry is expected to return to long-term trend levels in the outer years, which will comprise smaller-scale projects. The Territory Government's 10-year Infrastructure Plan, which includes a number of proposed and planned Territory infrastructure projects, also has the potential to support growth over the long term.

The Territory's construction industry is expected to contract in 2016-17, reflecting declines across all components including engineering construction, residential building and non-residential building activity. This is largely based on expectations about construction related to the Ichthys LNG project, which will near completion throughout the year, as well as a shift in the Territory's housing market, with low levels of new house and unit construction compared to previous years. Partly offsetting the outlook for 2016-17 are expectations of increased construction related to alterations and additions to residential buildings, supported by the Territory Government's Home Improvement Scheme and other stimulus measures.

From the private sector, a major contributor to the Territory's construction industry over the forecast period will be the $800 million NGP, which is expected to be constructed over 2017-18 and 2018-19. The NGP will run between Tennant Creek and Mount Isa to connect the Territory's gas production to Australia's east coast gas network. Also, the construction of a luxury hotel in Darwin will positively contribute to growth in the outer years.

New public sector investment will also partly offset the decline, largely supported by the Territory Government's $ 1.75 billion infrastructure spend in 2017-18 and Commonwealth defence-related expenditure. New Territory Government projects to commence over the forecast period include road upgrades to the Keep River Plains Road to support the development of Project Sea Dragon and the Ord, as well as the Tablelands, Plenty and Buntine highways. Other projects include the construction of a ship lift facility at East Arm, the Alice Springs Hospital redevelopment, Berrimah transport industry park and public utility infrastructure upgrades. Further, the continuation of construction of the Palmerston Regional Hospital will also have a positive contribution on non-residential building activity. Major Commonwealth investment includes the $470 million new works at Royal Australian Air Force (RAAF) Base Tindal to support the New Air Combat Capability project and Delamere Air Weapons Range redevelopment.

A number of dwelling construction projects are expected to continue over the forward years, however residential building approvals data suggests more subdued levels relative to previous years. Projects expected to continue from 2017-18 include remote housing upgrades, the Zuccoli subdivision in Palmerston, Kilgariff in Alice Springs, and further development of Muirhead in Darwin. Territory Government stimulus initiatives, such as the First Home Owner Discount and First Home Owner Grant, are expected to generate demand for purchase and construction of dwellings. In the outer years, growth in dwelling construction will be supported by the $300 million redevelopment of Berrimah Farm, into a new housing subdivision, Northcrest.

There is also a range of potential projects in the pipeline that, if realised, would help to support the construction industry over the forward years. This includes projects included in the Defence White Paper 2016, such as the $550 million redevelopment works at Larrakeyah Barracks and HMAS Coonawarra. Other potential Territory Government-awarded major projects include the Mt Isa to Tennant Creek railway and Project Sea Dragon prawn farm.

Further, resource-based projects such as the Nolans rare earths project as well as three new mining developments received major project status by the Territory Government in early 2017, all located in Central Australia region, north of Alice Springs. These include an $850 million Mount Peake vanadium-titanium-iron project, the $750 million Ammaroo phosphate project and the $190 million Jervois copper-silver-gold project. These projects have the potential to provide a significant boost to the Territory's construction industry and resources sector in the outer forecast period, however are still in planning phases and therefore are not included in the forecasts for the Territory's key economic indicators.

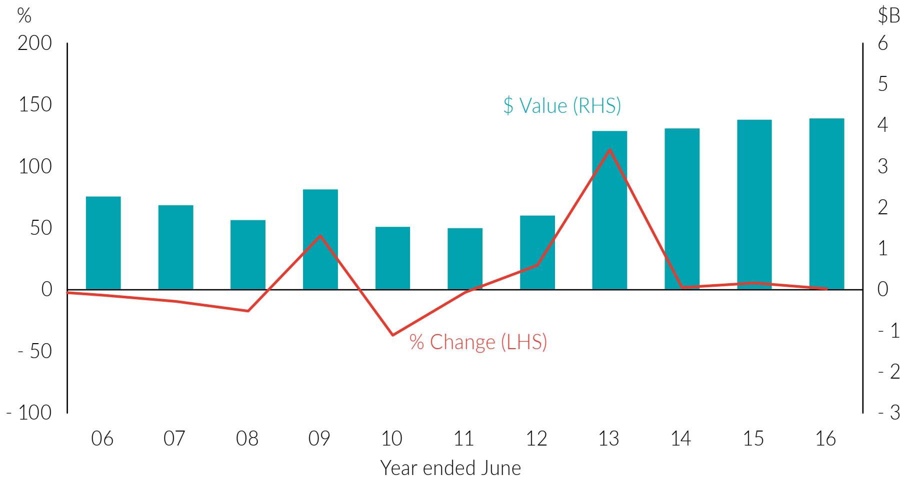
Recent Activity

The Territory's construction industry increased by 0.8 per cent in 2015-16 to $4.2 billion, contributing 0.15 percentage points to the total 2.7 per cent increase in GSP. Growth in the construction industry has moderated following rapid expansion over the past five years, which was driven by major projects, largely the Ichthys LNG project, as well as construction of the Darwin Correctional Centre, the duplication of Tiger Brennan Drive, mineral and petroleum resource project expansions and record levels of residential construction (Chart 8.6). The construction industry remained the Territory's largest industry, accounting for 19.3 per cent of total GSP in 2015-16, reflecting an increase from 18.0 per cent in 2014-15.

In 2015-16, there were an estimated 15 540 Territorians employed in the construction industry, representing an increase of 3.5 per cent compared to the previous year. The construction industry accounted for 11.7 per cent of the total resident workforce in the year, making it the second largest employing industry in the Territory, behind public administration and safety.

In comparison, the value of the national construction industry strengthened by 2.8 per cent in 2015-16 and accounted for 8.1 per cent of national gross domestic product (GDP) and 8.8 per cent of the national average total employment in the year.

Chart 8.6: Territory Construction Industry[1]



LHS: left-hand side; RHS: right-hand side
1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

The following analysis on the components of construction activity is based on ABS quarterly data on engineering construction and building activity, which is measured on a value of work done basis, compared to the GSP data. GSP data reflects the total gross value added to GSP by the industry, which includes wages paid to employees and value of construction work done.

Engineering Construction

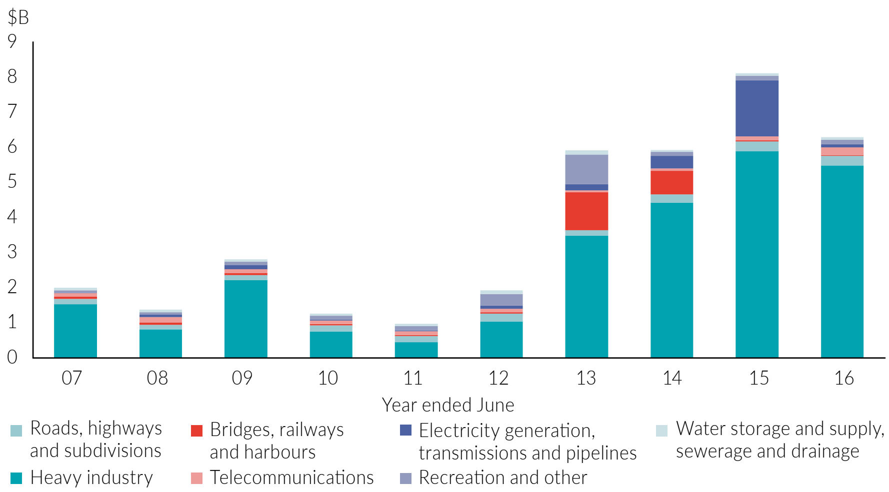
The value of engineering construction work done in 2015-16 was $6.3 billion, reflecting a 22.4 per cent or $1.8 billion decrease compared to 2014-15, in inflation-adjusted terms (Chart 8.7). This was largely driven by reduced private sector activity, which decreased by 25.0 per cent in 2015-16 to $5.9 billion, and partly offset by a 68.6 per cent increase in public sector construction to $408 million. Engineering construction includes mining, oil and gas, and other heavy industry developments, as well as infrastructure including roads, railways and bridges. Despite the decline, the value of engineering construction work done in 2015-16 remains well above the 10-year average level of $3.6 billion.

Almost 90 per cent of total engineering work done in the Territory is heavy industry-related construction, largely reflecting construction for the Ichthys LNG project. Heavy industry construction work done declined by 6.8 per cent to $5.5 billion in 2015-16. Also contributing to the decrease in total engineering work done was a 94.6 per cent decline in construction of electricity infrastructure and pipelines to $86 million, reflecting the 2014-15 completion of the subsea pipeline for the Ichthys LNG project. The 890 kilometre subsea pipeline connects the onshore processing facility to the Ichthys gas field some 250 kilometres off the Western Australian coast in the Browse Basin.

The decline was partly offset by a 105.5 per cent increase in telecommunications-related engineering construction activity to $228 million in 2015-16. This likely reflects construction relating to the roll-out of the National Broadband Network (NBN) in the Territory, as well as increased telecommunication service infrastructure in remote communities. Engineering work done on roads, highways and subdivisions also increased, up 3.5 per cent to $272 million, reflecting continued work on road upgrades across the Territory, and new land releases, such as Zuccoli in Palmerston and Muirhead in Darwin.

Latest data releases report these trends continuing into 2016-17, with engineering construction in the Territory down 23.5 per cent to $5.5 billion in the year to December 2016. This was the result of private sector construction work done decreasing 25.3 per cent, partly offset by a 42.4 per cent increase in public sector construction.

Chart 8.7: Value of Territory Engineering Construction Work Done by Type[1]



1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Engineering Construction Work Done*, Cat. No. 8762.0; 8782.0

Non-Residential Construction

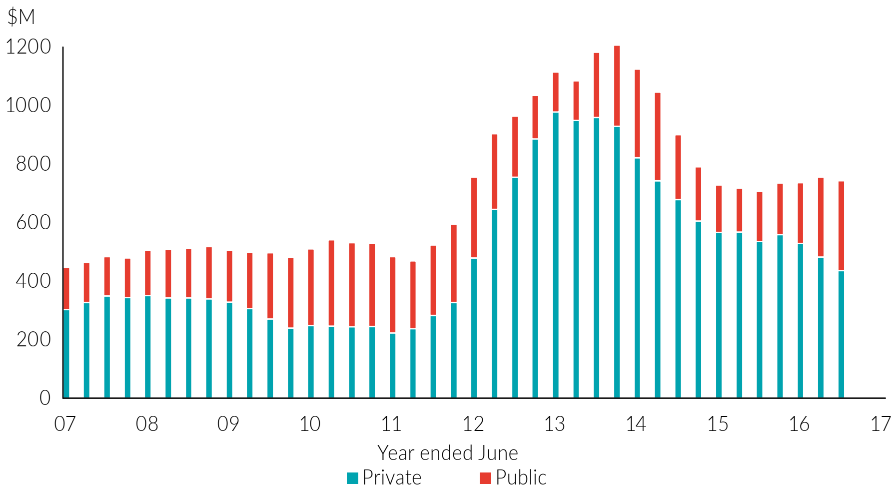
Non-residential building includes hotels and other non-residential accommodation facilities, shopping centres, factories, offices, warehouses, schools, medical centres, correctional facilities and other similar buildings. The value of non-residential building construction work done increased slightly by 1.0 per cent to $736 million in 2015-16, in inflation-adjusted terms. This follows a 35.2 per cent decline in 2014-15 to $729 million.

The increase in 2015-16 was driven by a 27.8 per cent increase in public sector non-residential building construction to $207 million in the year, in line with the 10-year average. This likely reflects increased construction work done in the health and education sectors, such as upgrades to the Royal Darwin Hospital and Alice Springs Hospital, as well as construction of Palmerston Regional Hospital and the new Palmerston Special School.

This was partly offset by non-residential building construction in the private sector, which decreased by 6.6 per cent to $529 million in the year (Chart 8.8). The decline largely reflects increases from previous years related to the construction of site offices and buildings for the Ichthys LNG project, as well as the completion of new office buildings, such as the Charles Darwin Centre in Darwin.

Latest data indicates these trends continuing in 2016-17, with 5.2 per cent growth in non-residential building construction work done to $743 million in the year to December 2016. Growth was driven by a 79.6 per cent increase in public sector non-residential building work done, to $307 million, the highest level of public non-residential building construction work done recorded over the past 10 years. This was partly offset by an 18.6 per cent decline in private sector non-residential building work done, to $436 million.

Chart 8.8: Value of Territory Non-residential Building, by Sector[1] (moving annual total by quarter)



1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Building Activity*, Cat. No. 8752.0

Residential Construction

In 2015-16, the value of residential construction work done in the Territory was $652 million, reflecting an 11.1 per cent decrease from 2014-15 in inflation-adjusted terms. Despite the decline, the value of residential construction work remains in line with the Territory's 10-year average.

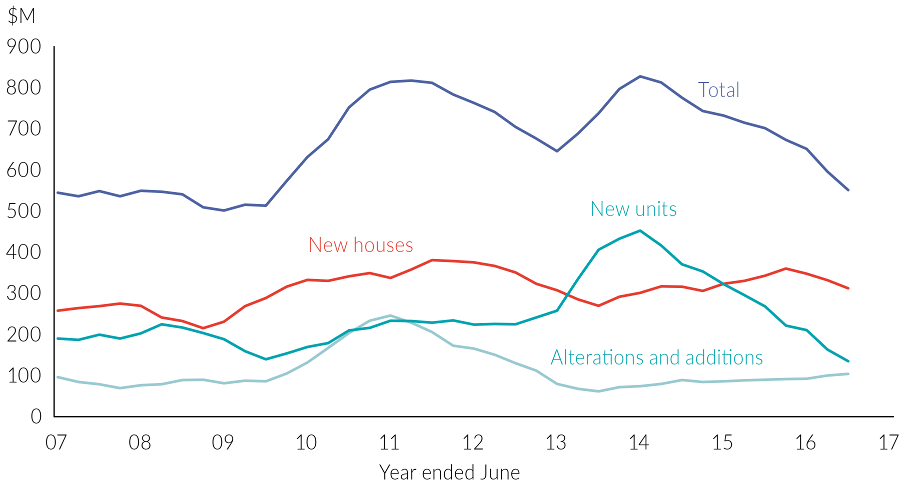
The decline in residential construction in the year reflects the completion of a number of large multi-unit developments, particularly in the Darwin CBD and in Palmerston. In 2015-16, the value of other residential construction (which includes units and townhouses) decreased by 34.5 per cent, to $211 million (Chart 8.9).

The Territory's new house construction work done strengthened by 7.6 per cent, to $348 million, in 2015-16, following an increase of 7.6 per cent in 2014-15. The increase in 2015-16 was largely driven by construction in areas of new land releases, such as Muirhead in Darwin, Zuccoli in Palmerston, Kilgariff in Alice Springs, as well as ongoing new defence housing projects in Alice Springs and Tindal. The value of house construction was the largest component of residential construction and is likely to remain so over the coming years.

Residential construction work in relation to alterations and additions also increased in 2015-16, up by 6.7 per cent to $92 million, following a strong increase in 2014-15. This likely reflects, at least in part, continued work on the repair of homes mainly in remote areas damaged by cyclones in 2015 as well as public housing development projects and defence housing upgrades.

Latest data reports further declines continuing into 2016-17, with residential building construction work done declining by 21.4 per cent, to $551 million in the year to December 2016. This was largely driven by weakness in new house construction work done, which decreased by 9.1 per cent to $312 million. Other residential (units and townhouses) construction work done continued its current trend, down 49.6 per cent to $135 million. This was partly offset by continued strength in alterations and additions construction work done, which increased by 15.3 per cent to $104 million over the same period. Growth was likely supported by the Territory Government's upgrades to public and government housing as well as home renovation grants as part of the Home Improvement Scheme.

Chart 8.9: Value of Territory Residential Building[1] (moving annual total)



1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS, *Building Activity*, Cat. No. 8752.0

Agriculture, Forestry and Fishing

Recent Results

Some sectors of the agricultural industry have shown signs of growth despite live cattle exports from the Territory being lower than recent years, partly driven by the relatively high price of Australian beef.

Outlook

The Territory's agricultural industry is expected to grow in the medium term, driven by the continued recovery in some sectors of the industry, particularly horticulture.

Table 8.5: Agriculture, Forestry and Fishing Industry Share of GSP, GDP and Employment

	2014-15	2015-16	10-Year Average
Northern Territory			
Contribution to GSP ($M)[1]	600	582	776
Share of GSP (%)[2]	2.6	2.0	2.3
Industry resident employment[3]	1 520	910	2 750
Share of total resident employment (%)[3]	1.2	0.7	2.3
Australia			
Contribution to GDP ($M)[1]	38 578	36 650	36 066
Share of GDP (%)[2]	2.4	2.4	2.3
Industry resident employment[3]	317 550	321 500	329 680
Share of total resident employment (%)[3]	2.7	2.7	3.0

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

The agriculture, forestry and fishing industry contributes to employment and economic activity in the Territory's regional and remote areas. The industry also has important linkages with other sectors of the economy, including retail and wholesale trade, manufacturing and transport.

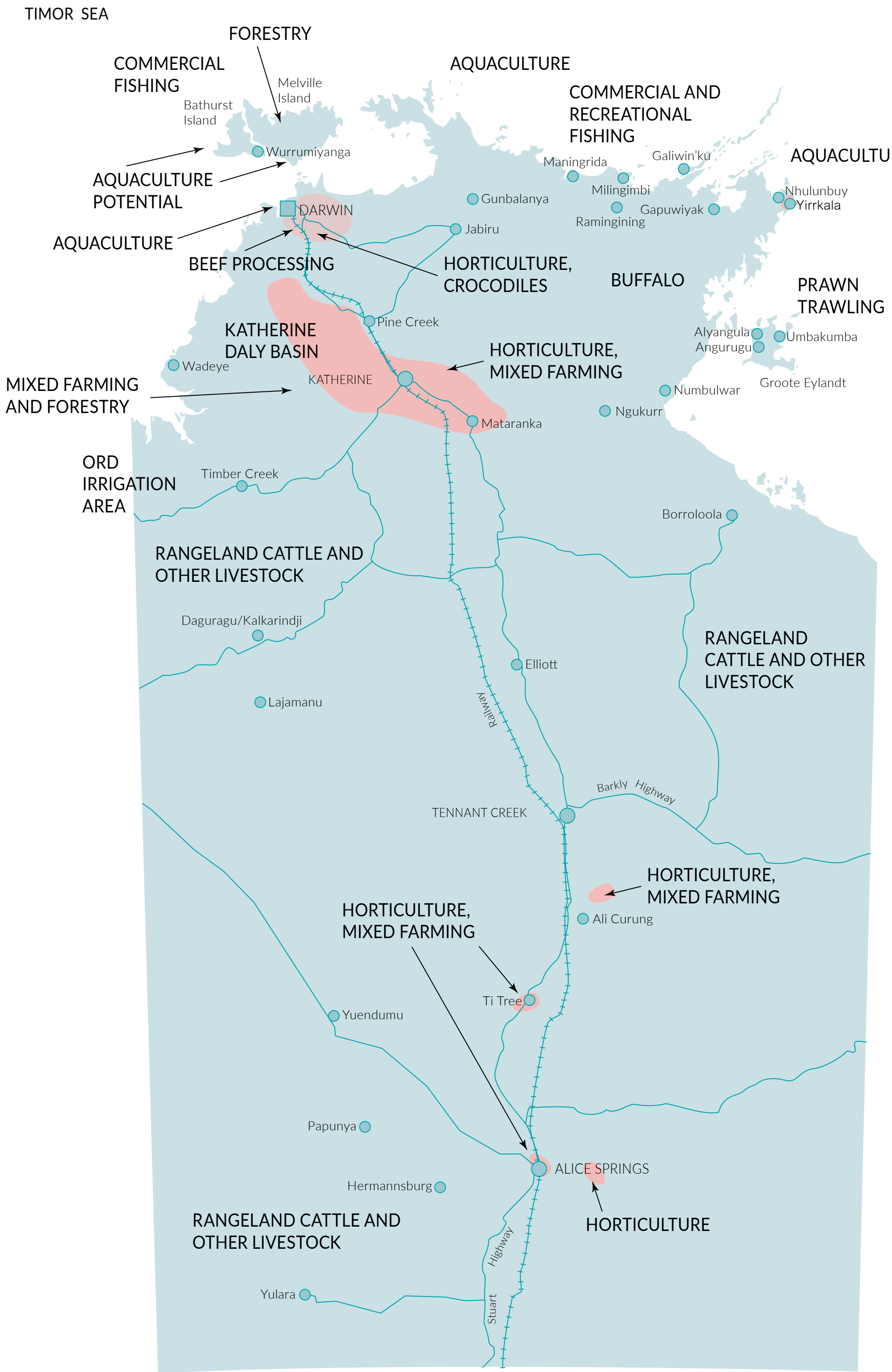
In 2015-16, the agriculture, forestry and fishing industry accounted for 2.0 per cent of the Territory's GSP. The industry's output can, however, vary significantly from year to year due to changes in production as well as seasonal conditions and changes in global and domestic demand for Territory commodities.

Employment figures for the agriculture, forestry and fishing industry in the Territory, as reported by the ABS, can be highly volatile due to the small sample size of the labour force survey, especially in regional areas. In 2015-16, the agriculture, forestry and fishing industry accounted for 0.7 per cent of total employment in the Territory, which was a decrease of 0.5 percentage points compared to 2014-15.

This is the first financial year since data was recorded that the agriculture, forestry and fishing industry accounted for less than 1.0 per cent of the total employment in the Territory. This may be a result of decreased production caused by the outbreak of banana freckle disease and cucumber green mottle mosaic virus (CGMMV).

The following analysis provides more detail on each of the sectors within the agriculture, forestry and fishing industry. The analysis is based on estimates from surveys undertaken by the Northern Territory Department of Primary Industry and Resources (DPIR), preliminary ABS data on the value of agricultural commodities produced in 2015-16, and information from the latest industry survey undertaken by the Northern Territory Farmers Association for 2015. Caution is needed when interpreting annual changes in the value of production for commodities reported in this chapter. This is due to changes in the scope and coverage of producers in the survey, changes in the level of detail on commodities reported by producers, large percentage changes from a small base and one-off weather events occurring in the Territory and adjoining states.

Map 4: Northern Territory Agriculture, Forestry and Fishing[1]



1 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.

Source: Department of Treasury and Finance; Department of Primary Industry and Fisheries

Outlook

The value of agricultural production is expected to grow over the medium term, supported by demand from Asia and the growing Australian population. Agribusiness is also a major focus of the Territory Government's Economic Development Framework, which identifies investment needs and potential projects in the sector and is expected to further encourage growth of the industry. The agriculture, forestry and fishing industry's share of Territory GSP is expected to increase over the forward estimates as the industry recovers from a decrease in share of Territory GSP arising from diseases in horticulture and moderation of the live cattle industry.

Live Cattle

The Territory's live cattle exports are expected to moderate as demand from traditional Asian markets continues to decline, partly driven by high prices of Australian beef. Relatively high prices have decreased demand for Territory cattle in South East Asia as these countries look for cheaper alternatives and relax rules regarding restrictions on importing beef from areas within certain countries.

The Indonesian Government has increased the maximum average weight of feeder cattle to 450 kilograms from 350 kilograms, which will benefit the Territory's cattle industry by increasing flexibility and encouraging exports to Indonesia. The Indonesian Government has also expanded import permits from four months to 12 months and eased restrictions on cattle age. This will allow better business planning for Territory exporters and increase the range of cattle eligible for export, encouraging suppliers of live cattle exports.

The intensity of the 2017 wet season in the Territory and drought in Queensland has encouraged some Territory exporters to purchase cattle from Queensland due to greater availability and lower prices. To support Territory exporters, the Territory Government has also fast-tracked a $4.1 million election commitment in November 2016 to upgrade facilities at the Berrimah Export Yards, which will enable the processing of cattle all year round.

Live Buffalo

The live buffalo industry is currently a small but emerging industry in the Territory. The high price of beef has made live buffalo more attractive as an export from the Territory. Live buffalo exports to Vietnam declined slightly in 2016 however, this was offset by the recommencement of exports to Malaysia. In February 2017, Indonesia also recommenced importing live buffalo from the Territory after several years of little activity, primarily driven by the Indonesian Government easing regulations regarding ship loads. Previously, Indonesian regulations required a full shipment per species and later a full deck per species. This became difficult as export ships have become much larger in recent years. The easing in regulation was temporary but buffalo exporters are hopeful the same regulation will apply in the future and that Indonesia becomes a consistent export market.

Trade in buffalo exports is expected to increase from 2016 as other countries seek cheaper alternatives to beef. The Northern Territory Buffalo Industry Council has also been working with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to develop processing methods for buffalo more suitable for the Middle East and South East Asian markets, which will make it easier for Territory exporters to market their buffalo. This will continue to support other livestock production in the Territory.

Other Livestock

Boxed beef production from the Australian Agricultural Company (AACo) is anticipated to remain stable as the company operates at full scale. Potential new markets such as China may create opportunities for additional exports of boxed beef in the future.

The Crocodile Farmers Association of the Northern Territory (CFANT) aims to increase the value of the Territory's crocodile farming industry over the next five years to almost $50 million per year. To achieve this target, CFANT with support from the Territory Government has put in place the Northern Territory Crocodile Farming Strategic Plan 2015-21, which is a strategy for optimising opportunities for sustainable industry growth and creating an environment for investment in crocodile production.

Australia accounts for 60 per cent of the global trade in saltwater crocodile skins, with about two thirds farmed and exported by the Territory. Of the remaining one third farmed interstate, the majority of stock is sourced from the Territory. In recent years, larger Territory crocodile farms in particular have invested heavily in infrastructure including construction and refurbishment of stock pens, improved water treatment and increased water supply and fencing. This may allow farms to produce more crocodiles and ensure higher quality skins. In 2016-17, it is estimated the crocodile industry will produce total revenue of about $24.6 million before increasing to approximately $31.0 million in 2017-18.

Horticulture

The Territory's horticulture production has begun to recover with farmers in the Territory beginning to plant bananas in May 2016 after being forced to destroy banana plants affected by the destructive outbreak of banana freckle disease. It is expected that the Territory banana industry will quicken its recovery from May 2017 if banana freckle is declared to be successfully eradicated. Melon production has recovered in 2016 and is expected to remain near long-term levels following the CGMMV outbreak in 2015. Fruit exports are likely to benefit in the long term from phased-in tariff reductions under the China, Japan and Korea trade agreements.

Mango production, which makes up a large proportion of the Territory's horticulture sector, is strongly influenced by seasonal conditions. In 2016-17, the level of the Territory's mango production is uncertain following record temperatures and delayed flowering. In October 2016, the first shipment of Territory mangoes left for the United States. This new export opportunity is expected to increase the production value of the Territory mango industry. The value of mango production remains strong, driven by demand from major Australian capital cities.

Pineapple production in the Territory is likely to increase in the medium term with Piñata Farms, a Queensland producer, commencing production in the Territory. Its first crop was harvested in 2015 and as of March 2017, 3.1 million pineapples have been planted at its farm in Darwin. The company expects to harvest 110 000 trays with a value of $2.8 million in 2017. This is expected to increase to 160 000 trays with a value of $4.0 million in 2018.

In 2016, TPI Enterprises received approval from the Territory Government to plant 100 hectares of a commercial poppy crop near Katherine after harvesting the Territory's first commercial crop in 2015. The introduction of poppy crops to the Territory offers a new opportunity for Territory farmers, as well as strengthening Australia's position as a reliable supplier of high quality raw materials for the global pharmaceutical industry. In August 2016, TPI Enterprises signed a five-year supply contract worth in excess of $30 million.

Fisheries

Fisheries production in the Territory has strong growth potential over the forward estimates, driven by aquaculture production. Prawn farm operators are optimistic about the upcoming banana prawn season given that the wet season so far has been conducive to prawn production. Seafarms has continued to progress Project Sea Dragon, a US$1.45 billion aquaculture project in northern Australia.

In March 2017, the Northern Territory Environmental Protection Authority recommended approval for stage 1 of Project Sea Dragon, however a final decision on the project has been delayed by three months because of various factors including wet season conditions at Legune Station, hampering on-ground access. The project aims to produce 100 000 tonnes of black tiger prawns each year and potentially provide significant employment outcomes at the Legune Station on the Northern Territory and Western Australia border.

The Humpty Doo Barramundi Farm, a family-run business and the Territory's primary producer and distributor of Australian saltwater barramundi, has experienced an increase in demand in recent years, selling about 1700 tonnes in 2015-16. To meet this increase in demand, the operators have acquired additional land and established more growing ponds, which will double the production capacity of the existing farm. Humpty Doo Barramundi expects to increase its production in 2017-18 to 50 tonnes of barramundi each week, or around 2600 tonnes per annum, potentially allowing it to export in the future.

Forestry

The outlook for the Territory's forestry industry is positive, subject to more certainty around Tropical Forestry Services, which changed its name to Quintis in March 2017. Quintis currently owns approximately 5230 hectares of sandalwood plantation in the Territory. In 2016, Quintus signed an agreement to supply Indian sandalwood oil to Young Living, an American company. African Mahogany Australia manages African mahogany plantations in the Douglas Daly region that industry estimates will have a projected value of $150 million by 2019. In April 2017, African Mahogany Australia and Northern Tropical Timbers provided industry funds for a research project into optimising value from African mahogany plantations. The Territory and Queensland governments will provide research support through their agricultural divisions.

Agribusiness is a key focus of the Territory Government's Economic Development Framework and potential projects and opportunities mentioned in the Territory Government's 10-year Infrastructure Plan may be beneficial for the agriculture, forestry and fishing industry in the Territory. In April 2017, the Territory Government released the $9.9 million Mapping the Future program, which will support scientific teams to identify potential productive land for future use in regional areas and improve natural resources information.

Recent Activity

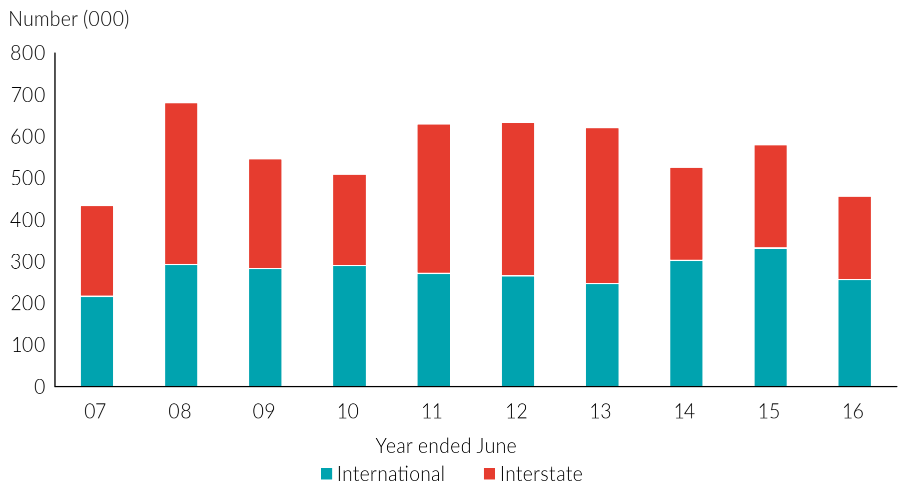
Agriculture

Live Cattle

The cattle industry is important to the Territory economy, with the industry generating expenditure on cattle transport, stock feed, wages, port charges and demand for services such as quarantine inspection and veterinary requirements. In turn, this provides significant employment opportunities, particularly in regional parts of the Territory, along with substantial export income, which supports regional economic growth.

The live cattle industry in the Territory consists of live cattle exported internationally and interstate. In 2015-16 there were 456 996 live cattle exported to overseas markets and interstate (Chart 8.10). This was the lowest total number of live cattle movements since 2006-07. This was driven by interstate cattle exports being at the lowest levels in 10 years and international live cattle exports declining from previous highs in 2013-14 and 2014-15. International live cattle trade figures do not include Territory cattle exported through ports outside the Territory. The ABS estimates that the value of livestock slaughtered and other disposals in 2015-16 was around $569 million in the Territory. This equated to 2.8 per cent of the total value of livestock slaughtered nationally.

Chart 8.10: Annual Number of Live Territory Cattle Movements



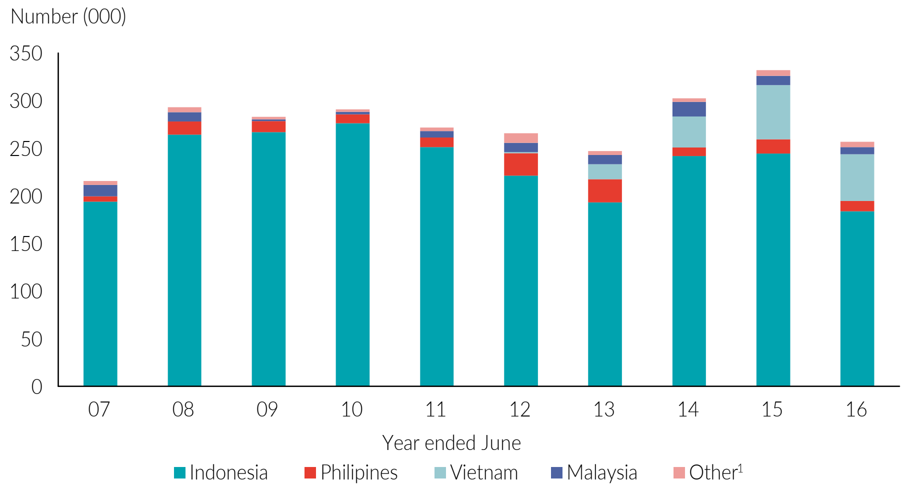
Source: Department of Primary Industry and Fisheries

International Live Cattle Exports

The Territory exports live cattle to a number of overseas countries, most of which are located in Asia. Indonesia is the Territory's largest overseas destination and accounted for 71.7 per cent (184 098 head) of live cattle exports in 2015-16 (Chart 8.11). Other significant overseas export destinations for Territory cattle include Vietnam, which accounts for 19.0 per cent (48 883 head), the Philippines, which accounts for 4.2 per cent (10 853 head) and Malaysia, which accounted for 3.0 per cent (7634 head).

In 2015-16, the Territory recorded international live cattle exports of 256 898 head of cattle, representing a 22.7 per cent decrease from record levels in 2014-15. The decline was primarily driven by decreases in live cattle exports to Indonesia (down 60 532 head), as well as decreases in exports to Vietnam (down 8109 head), the Philippines (down 4137 head) and Malaysia (down 1881 head).

Chart 8.11: Annual Number of Live Territory Cattle Overseas Exports, by Destination



1 Other comprises Brunei, Cambodia, Egypt, East Timor and Thailand.
Source: Department of Primary Industry and Resources

The decline in live cattle exports to Indonesia was driven by Indonesia's decision to cut imports from an expected 200 000 live cattle in the second quarter of 2015-16 to 50 000 head.

The Indonesian Government also introduced a new trade rule that stipulates one breeder cattle must be imported for every five feeder cattle. This may be adjusted to a one-to-10 ratio if Indonesian importers collaborate with a smallholder in a rural development program. Although this rule will apply from 2018, Indonesian importers had to agree in 2016 in order to receive permits. This may have contributed to the cessation of exports in September 2016 as Australian exporters and Indonesian companies waited for permits.

Vietnam has become the Territory's second largest live cattle export destination. However, in 2015-16, live cattle exports to Vietnam have moderated with a decrease of 14.2 per cent to 48 883 head, partly driven by high prices.

Interstate Live Cattle

In 2015-16 the number of Territory cattle sent interstate declined by 19.2 per cent to 200 098. This was driven primarily by a decrease of Territory cattle exported to Queensland, which declined by 43.1 per cent. Despite the decline, Queensland remained the Territory's largest interstate export destination with 65 445 head. The vast majority of Territory cattle exports to Queensland come from the Barkly region. Much of Queensland has been in drought since 2013, which has brought about a major decline in herd figures. The decline of exports to Queensland was partly offset by increases in exports to Victoria (51.8 per cent) and South Australia (7.9 per cent), which were driven by Victorian and South Australian abattoirs offering competitive prices. South Australia was the second largest interstate export destination, with a share of 27.1 per cent (54 161 head). The remaining Territory cattle were sent to Victoria (42 139 head), Western Australia (20 958 head) and New South Wales (17 395 head) (Chart 8.12).

Chart 8.12: Annual Number of Live Territory Cattle Interstate Exports, by Destination

Source: Department of Primary Industry and Resources

In 2015-16, the number of live cattle sent to the Territory decreased by 36.5 per cent to 194 372 head. The majority of live cattle arrived in the Territory from Queensland, which accounted for 64.3 per cent (125 030 head). The remaining live cattle came from Western Australia (66 079 head), South Australia (2874 head), Victoria (248 head) and New South Wales (141 head).

Other Livestock

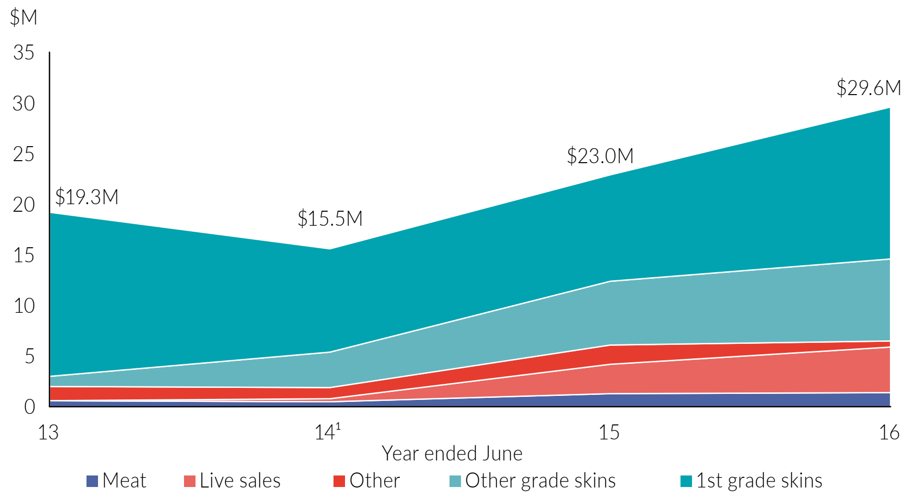
The continued production at the AACo's Livingstone abattoir near Darwin is expected to support further growth in the Territory's livestock industry. The United States of America (US) is the Territory's main export destination for boxed beef. Other markets include a number of Asian and Middle East countries.

Other livestock production in the Territory is dominated by crocodile production. Territory crocodiles are highly valued for their skins, which are used in the production of high-end market fashion accessories such as handbags, belts, shoes, wallets, jewellery, entire skins and other fashion items. Australia accounts for 60 per cent of the global trade in saltwater crocodile skins.

In 2015-16, total revenue from the Territory's crocodile industry was about $30 million. Around 50.7 per cent of this revenue was generated from the production of first grade skins (Chart 8.13). Around 43 full-time, permanent employees and a further 44 casual employees were employed in crocodile farms in the Territory in 2015-16.

Under the Crocodile Wildlife Trade Management Plan 2016-2020 (WTMP), the Territory Government plans to reduce regulatory red tape and provide certainty around quotas. The WTMP supports the growth of the industry by allowing an annual harvest ceiling of 90 000 viable eggs and 1200 animals a year, doubling the number of saltwater crocodiles that can be harvested from the wild.

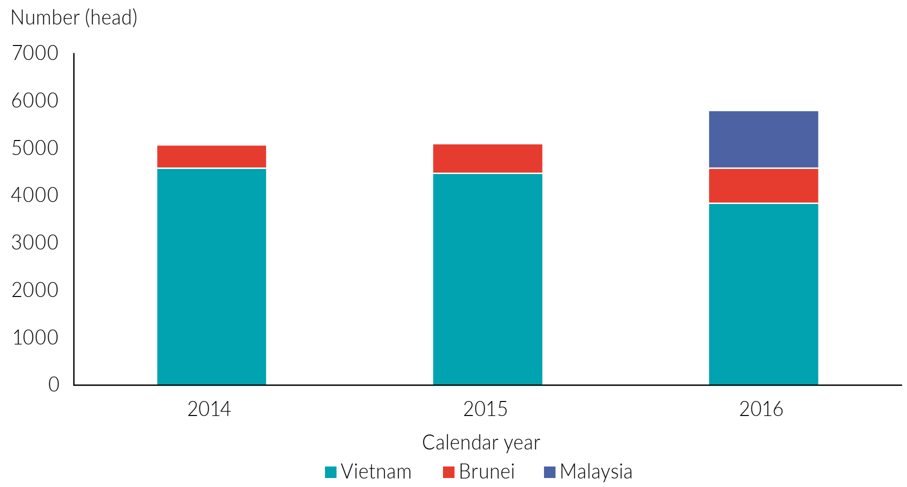
Chart 8.13: Territory's Crocodile Industry Total Revenue



1 Data excludes revenue from one crocodile farm, which is captured across all other years.
Source: Crocodile Farmers Association of the Northern Territory

Live buffalo continues to be an emerging export for the Territory. Buffalo exports from the Port of Darwin increased by 13.6 per cent to 5792 in 2016. The majority of live buffalo were exported to Vietnam, accounting for 66.2 per cent of total live buffalo exports or 3836 head. Regular buffalo exports to Malaysia recommenced in mid-2016 as Malaysian importers sought cheaper alternatives to beef. This contributed to 1212 head, accounting for 20.9 per cent of total live buffalo exports in 2016. In February 2017, the Territory exported 195 head to Indonesia. This was the first time Australia had exported buffalo to Indonesia in more than three years. Before the suspension of live exports in 2011, around 3000 head of buffalo per year were exported to Indonesia.

Chart 8.14: Annual Number of Live Territory Buffalo Overseas Exports, by Destination



Source: Department of Primary Industry and Resources

Horticulture

The horticulture sector comprises fruit, vegetables, nursery products, turf and hay. The following analysis on the components of horticulture production is based on Northern Territory Farmers' Association data and ABS data on the gross value of production for Territory plant industries. These datasets are not directly comparable as they are collected by different organisations with different methodologies.

According to the Northern Territory Farmers' Association, the value of horticulture production in the Territory was estimated at $244.5 million in 2015. This predominantly comprised $88.5 million for mango production, $52.6 million for melon production, $20.0 million for hay production,

$18.0 million for nursery and turf production, $13.0 million for other vegetables production, $8.0 million for grapes production, $8.0 million for minor crops production and $7.9 million for Territory market sales. Vegetables produced in the Territory include melons, beans, onions, cucumbers, okra, pumpkins, lettuce and asparagus. In 2015, mangoes accounted for 36.2 per cent of the total value of farming production in the Territory (not including forestry). This equated to about 26 500 tonnes of mangos. Almost all production was sold in the major capital city markets of Sydney, Melbourne, Brisbane, Perth and Adelaide. In October 2016, the first shipment of Territory mangoes left for the US.

According to preliminary ABS data, the Territory produced about $646 000 of wheat, $238 000 of barley and $19 000 of grain sorghum in 2015-16.

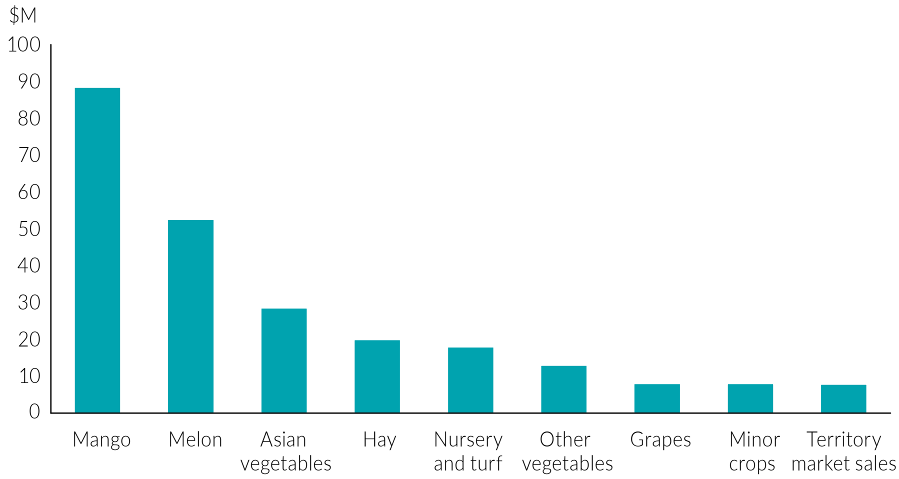
The production of bananas reduced significantly over the past few years due to the destructive outbreak of the banana freckle disease. The $26 million National Banana Freckle Eradication Program has finalised the distribution of 7500 sentinel banana plants to over 3200 properties in areas where banana freckle was originally found, and has delivered most of the required inspection schedule for the banana plants. Sentinel plants are intended to detect if the plant disease is still present in soils inside eradication zones. There has been no new detection of banana freckle during the sentinel planting period. The final phase involves seeking national clearance that the Territory is declared free of the disease by mid-2017.

In late 2014, CGMMV was detected on commercial watermelon and cucurbit farms in the Territory. As it was the first time the virus had been detected in Australia, it was assessed through a national response to determine the actions required to eradicate or limit the spread of the disease. Due to the virus being able to persist in soil and other host plants in the environment, it was determined it was not technically feasible to eradicate and that management of the disease in production systems was the most effective means for industry to recover.

The virus causes rotting and discolouration of the internal fruit and primarily affects melons, pumpkins and cucumbers. Quarantine arrangements on Territory cucurbit growers were lifted in February 2016 following endorsement of national measures to control and manage CGMMV in Australia, providing certainty for the Territory's melon and Asian vegetable growers to return to the Australian market. In 2016, production returned for growers as CGMMV was not detected in fruit at market.

DPIR is currently leading CGMMV research in Australia and was awarded $1.2 million by Horticulture Innovation Australia (HIA) to address critical CGMMV knowledge gaps. The three-year project commenced in February 2016 and includes key research on CGMMV hosts, rapid diagnostics and extension materials, including on-farm biosecurity protocols to assist cucurbit growers with management options. DPIR is working with growers and the Northern Territory Farmers Association to deliver this critical research and implement farm biosecurity plans for each property growing cucurbits to minimise the risk of infestation or spreading of CGMMV in the Territory and maximise production capacity of growers.

Chart 8.15: Gross Value of Territory Horticulture Production in 2015



Source: Northern Territory Farmers Association

Fisheries

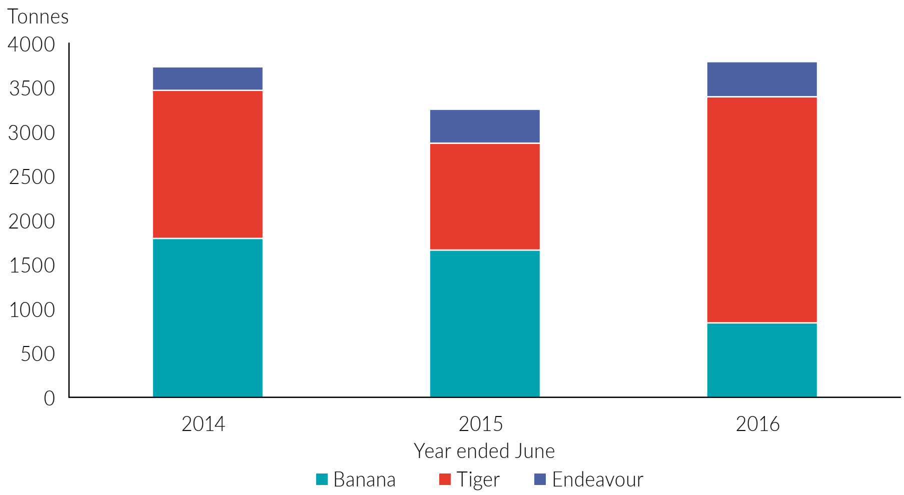
Crustacean production in the Territory is dominated by prawns and mud crabs. Fish production largely comprises snapper, barramundi and mackerel. Aquaculture in the Territory is primarily related to pearls and barramundi, with a small contribution from aquarium fish and spirulina production (the latter is used as a human diet supplement and a feed supplement in the aquaculture, aquarium and poultry industries). The commercial fishing industry has more than 230 commercial fishing licences, 192 registered fishing vessels and harvests about 6000 tonnes of fish and marine life each year. There is commercial activity in 15 different wild harvest fisheries.

In 2015-16, the estimated value of wild caught fish in the Territory was $34.8 million (excluding prawns), with aquaculture products contributing a further $24.5 million. Environmental factors, such as low rainfall, have affected production of barramundi and mud crabs with pearl production affected by reduced global demand. The lower inshore fisheries production was significantly offset by growth in prawn and offshore fish production over the same period. Sustained growth in snapper production is expected to support a modest increase in fisheries production in the Territory in 2016-17.

The Northern Prawn Fisheries (NPF) reports the number of prawn catches in northern Australia, in the area between Cape York in Queensland and Cape Londonderry in Western Australia. The NPF produces four common commercial species of prawns including white banana prawns, tiger prawns, eastern king prawns and endeavour prawns. The weather and ocean conditions, particularly the level of rainfall during the wet season, are very influential on the productivity of the fishery especially for banana prawns.

In 2015-16, NPF reported the total catch of prawns in the Territory was about 3796 tonnes. This comprised approximately 2557 tonnes of tiger prawns, approximately 839 tonnes of banana prawns, approximately 398 tonnes of endeavour prawns and 3.2 tonnes of king prawns. There was a 112.4 per cent increase in the total catch of tiger prawns in 2015-16, as the 2015 tiger prawn season was the largest in almost 20 years with around 3295 tonnes caught across fisheries in the Territory (compared to around 1708 in 2014). The CSIRO suggests that the lack of rain may have spurred tiger prawn levels with reduced freshwater in the nursery areas and more favourable conditions in the spawning grounds. The total catch of banana prawns decreased by 49.6 per cent in the Territory due to a fairly dry wet season over the last few years (Chart 8.16).

Chart 8.16: Territory's Prawn Industry Total Catchment[1]



1 Chart does not include eastern king prawns.
Source: Northern Prawn Fisheries Industry

Forestry

There are currently three plantation forestry projects in the Territory. Plantation forestry is becoming an increasingly important industry and is currently the second largest production land user in the Territory after cattle grazing, with more than 49 500 hectares of the Territory currently used to produce forestry products in managed plantations.

Quintis currently manages the largest area of Indian sandalwood plantations in the world and has approximately 5230 hectares, predominantly in the Katherine and Douglas Daly regions in the Territory. Quintis is a vertically integrated company that grows the trees and produces wood products and pharmaceutical-grade sandalwood oil. In September 2016, Quintis signed a five-year agreement, valued at approximately $50 million, to supply Indian sandalwood oil to Young Living, an American company. Throughout 2016, Qunitis completed the harvest of approximately 300 tonnes of heartwood, which was significantly more than the harvests completed in 2014 and 2015. During 2016, Quintis planted around 755 hectares of sandalwood plantations in the Douglas Daly region and around 505 hectares near Mataranka.

Approximately 14 000 hectares of African mahogany is being grown in the Douglas Daly region by African Mahogany Australia, which makes it the largest plantation estate of this species in the world. It is being grown for a high-value, sawn timber market, which includes veneer boards, floor boards and feature grade timber. The estate is less than 10 years old, which means there is no commercial harvest yet and it is grown without irrigation.

Tourism

Recent Results

Growth in the number of international visitors to the Territory was relatively steady over the year, while the number of domestic visitors continued to grow.

Outlook

The Territory tourism industry is expected to be supported by growth in the holiday market, however domestic visitors are likely to decline as business travel associated with fly-in fly-out workers for major projects decreases over the coming year.

Tourism differs from other industries as it is defined by the consumer's behaviour rather than the process of producing goods and services. Accordingly, standard ABS measures of production in the national accounts are not available for tourism. Rather, tourism's contribution to the Territory economy is captured in a range of industries, including accommodation and food services, retail trade, culture and recreation, and transport. Unless otherwise stated, the following analysis is based on estimates published by Tourism Research Australia (TRA).

Outlook

Attracting international visitors to the Territory continues to be a challenge as visitation continues to fall below national trends. In particular, there has been an increasing propensity of inbound visitors to Australia to congregate towards the east coast, making fewer stopovers and not dispersing to regional destinations such as the Territory. This is the case for large growth markets such as Greater China, but also for traditional markets such as the United Kingdom and Germany.

Despite this, international visitor numbers to the Territory are expected to continue growing over the medium term, reflecting improvement in economic conditions in the Territory's key tourist source markets and ongoing investments in the tourism sector. Domestic visitor arrivals to the Territory have grown considerably over the last three years and, despite anticipated ongoing growth in interstate holiday visitors, overall domestic arrivals are likely to decline as business and employment-related travel associated with major projects decline over the coming year.

Over the last few years, business travel has been a strong contributor to overall growth in the industry, primarily due to the Ichthys LNG project. The shift from the construction to operational phase is anticipated to return the business travel market to historical levels of activity.

In 2016, visitors to the Territory contributed an estimated $2.6 billion of expenditure to the local economy, surpassing the Tourism Vision 2020: Northern Territory's Strategy of Growth target of $2.2 billion, as a result of the increasing number in domestic overnight visitors to the Territory. The Territory received a total of about 1.8 million domestic and international visitors in 2016, with holiday visitors making up the majority of total visitation (about 840 000 visitors).

In 2015-16, the Territory experienced a peak of 8.5 million domestic visitor nights, which represented the highest number of visitor nights over the decade. Over the next five years, visitor nights in the Territory by domestic travellers are forecast to grow steadily at an average annual rate of 2.9 per cent, sustained by growth in holiday visitors.

In 2015-16, the Territory recorded 3.8 million international visitor nights, being the second lowest number recorded over the decade. This reflects the increasing trend for overseas visitors to take shorter holidays, which impacts on the number of regional experiences included in a holiday to Australia. Over the next five years, the inbound visitor nights spent by international travellers in the Territory is forecast to grow at an average annual rate of 6.3 per cent.

During 2015-16, a number of airlines expanded their services into the Territory and improved scheduling arrangements. The Territory Government also continues efforts to secure a direct air service between China or Hong Kong and Darwin. This air service is expected to help attract a greater share of the nation's Chinese visitors to the Territory and support future business and trade relationships between the two regions.

Investment by the Commonwealth and Territory governments in the tourism industry is strong and supports a positive outlook, focused around improving national parks as well as recreational leisure, arts and cultural activities. These investments help support an improved visitor experience, along with direct benefit to Territorians visiting these attractions. The Commonwealth and Territory governments also support investment in infrastructure to improve connectivity in the Territory, achieving road accessibility to remote and unique regions. With better access to road networks, visitors are expected to disperse beyond the major gateways into the regions.

The Territory Government will further invest in new tourism offerings in Central Australia, including a National Indigenous Art Gallery and a National Indigenous Cultural Centre. Both major projects are expected to increase visitation and deliver employment opportunities through the tourism and construction industries.

In August 2016, the Territory Government and the Landbridge Infrastructure Group Australia signed an agreement for the development of a luxury hotel in Darwin, which will be located at the Darwin Waterfront and operated by Westin Hotels and Resorts. This luxury hotel will broaden the range of accommodation available, helping to attract more tourists and unique business events in Darwin. Construction is expected to be complete by 2020.

The Landbridge Group, the operator of Darwin Port, intends to grow the port and trade opportunities between the Australian and Asian economies, and enhance cruise ship facilities at Fort Hill Wharf. As a result, the Territory's tourism industry is expected to benefit from increased interest from Chinese and other Asian holiday and business visitors.

The cruise ship sector is a key part of the tourism industry in the Top End, with strong numbers of stopover passengers likely to continue spending in the local economy. With a close proximity to Asia, Darwin is well positioned as Australia's northern gateway port and is expected to generate strong numbers of visitors over the forecast period. Cruise ship visits provide an influx of tourists into the region during the off-peak seasons, with passengers and crew undertaking tours, visiting local attractions, shopping at local retail outlets, and spending at cafés and restaurants.

Output and Employment

Tourism is an important economic driver for the Territory and a significant industry in regional areas. TRA reports the direct and indirect impact of tourism at the state and territory level based on data from the ABS' National Tourism Satellite Accounts. The 2015-16 State Tourism Satellite Accounts were not available at the time of publication, therefore the tourism output and employment data is based on 2014-15 results, as the latest available data.

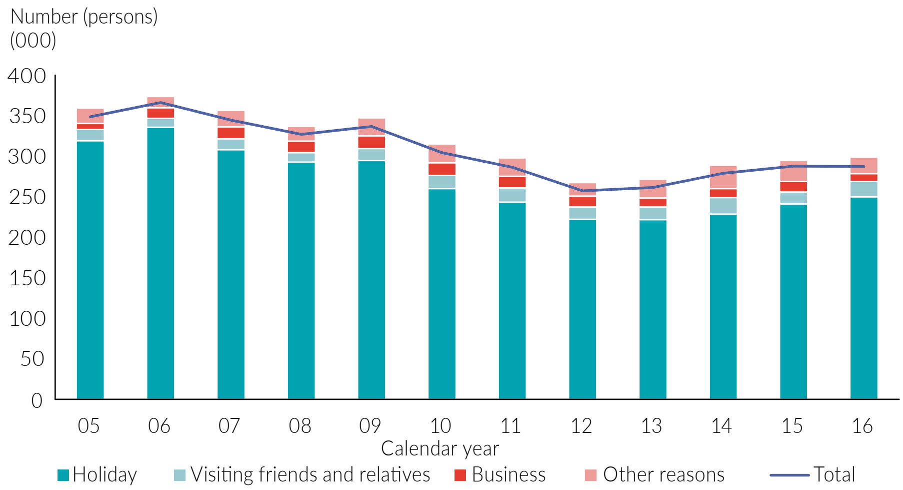
In 2014-15 the tourism industry in the Territory is estimated to have directly contributed 4.2 per cent (or $976 million) to GSP and 6.4 per cent (about 8500 persons) to employment. Tourism employment is spread across the Territory economy, covering all regions and a range of industries. The largest share of direct tourism employment in the Territory is in cafés, restaurants and takeaway food services; retail trade; accommodation; and air, water and other transport. Indirect tourism also contributed an estimated $976 million to the Territory's economy and about 7000 persons to total employment in 2014-15.

International Visitors

In 2016, the Territory received an estimate of 287 000 international visitors. Movement in the number of international visitors to the Territory has been relatively steady over the year, although remained below the peak experienced during 2006 (366 000 persons) and the 10-year average (297 000 persons). Over the year, visitation was primarily driven by people visiting friends and family (up 27.9 per cent an estimate of 19 000 persons) and holiday visitors (up 3.7 per cent to an estimate of 250 000 persons), which traditionally make up the majority of international visitors (87 per cent of total).

International visitors for business purposes significantly reduced in 2016 (down 25.6 per cent), mainly reflecting the downturn in workers on major projects and other business travel, and working holiday makers (Chart 8.17). International visitation to the Territory has been greatly affected over the last decade by the global financial crisis, global conditions, changing consumer behaviour and aviation access.

Chart 8.17: Number of International Visitors to the Territory by Purpose of Travel



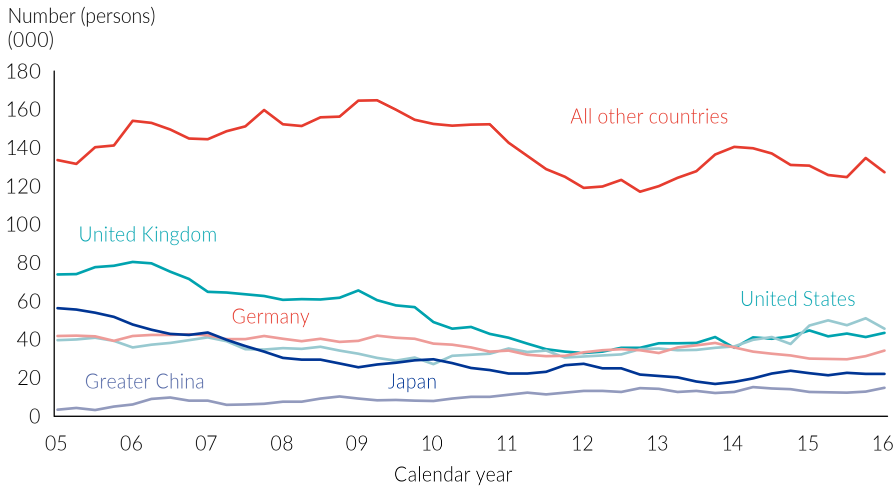
Note: Totals may not equal as visitors may travel to the Territory for more than one purpose at a time.
Source: Tourism Research Australia, *International Visitors in Australia*

In 2016, international visitation was underpinned by growth from Germany, being the third highest traditional source market of visitors to the Territory, and Greater China (mainland China, Taiwan and Hong Kong), being the fastest growing market (Chart 8.18). Other key source markets experienced a decline, which include the US (down 1600 persons), the United Kingdom (down 1300 persons) and Japan (down 300 persons).

Over the last decade, the Territory's tourism industry experienced the largest decrease in the number of visitors from both the United Kingdom and Japan, affected by weak economic conditions and major events such as the London Olympics. In recent years however, numbers have been slowly recovering.

While visitation to the Territory has been greatly impacted by the loss in volume from the United Kingdom and Japan, the US has provided positive growth in their absence, consolidating over the past two years. Visitor performance from the US has been a particular highlight, overtaking the United Kingdom as the Territory's largest international source market in 2014. Visitors from the US typically visit the Centre rather than the Top End.

Chart 8.18: Number of International Visitors by Key Source Markets (moving annual total)



Source: Tourism Research Australia, *International Visitors in Australia*

Over the decade, the Territory has experienced an increase in visitors from Greater China, which has become a growing source market for tourism, experiencing about 15 000 visitors in 2016, representing an increase of 17.5 per cent from 2015. The Territory's share of Chinese visitors has been focused around the regions of Central Australia. Chinese visitor arrivals to Australia have also increased strongly over the last few years to become the second largest source market in the nation, with about 1.1 million visitors in 2016. Chinese visitors to Australia have generally been centred around the east coast destinations.

Central Australia consistently records a higher number of international visitors (67.5 per cent) than the Top End (48.7 per cent), although this gap has been narrowing over the past decade. The softening in international visitors over the past decade had a larger impact on Central Australia due to that region's reliance on the Japanese market. The number of international visitors to Central Australia fell by 27.6 per cent from 2007 to an estimated 194 000 persons in 2016. In comparison, visitor numbers to the Top End fell by 8.0 per cent over the past decade to 140 000 persons in 2016. Despite this distribution of visitors, the increase in international holiday visitation to the Territory in 2016 was primarily focused around the Top End regions, which experienced positive growth of 5.9 per cent in international visitors compared to Central Australia, which declined by 1.7 per cent in 2016.

The international holiday youth market (visitors between the ages of 18 and 29 who are not travelling with family or school/sport group) in the Territory has continued to moderate to 2.1 per cent in 2016, in contrast to the increase experienced in this market to Australia. The decline has been relatively consistent since 2008 with an overall reduction of about 30 000 visitors since this time. In 2016, the United Kingdom and Germany accounted for 45 per cent of the decline, in addition to the decrease experienced in the youth visitors from France, the Netherlands and Japan.

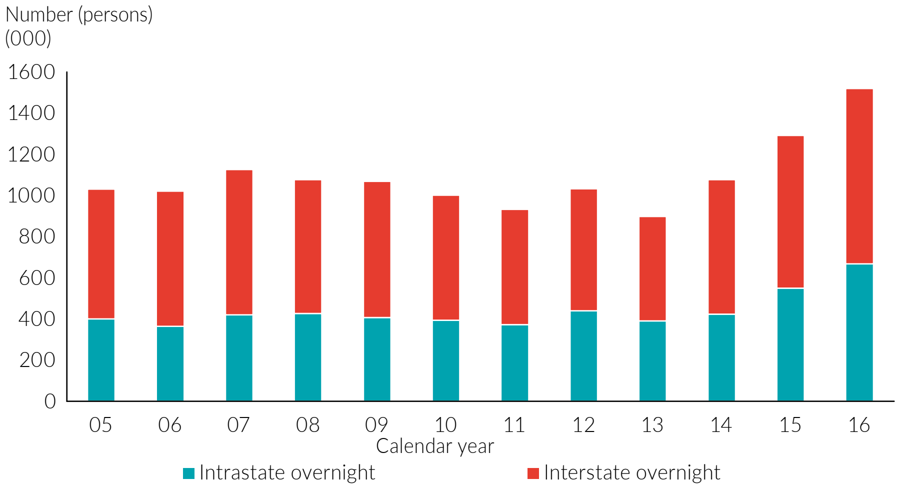
It is estimated that about 67 per cent of international holiday youth nights spent in the Territory were from those that arrived in Australia on a working holiday maker visa (WHMV). This market is expected to continue to moderate following the recent tax changes to the WHMV. These tax changes comprise a 15 per cent tax rate applied on earnings up to $37 000 from 1 January 2017, with ordinary tax rates to apply after that, and an increased tax on the Departing Australia Superannuation payment to 65 per cent, from 1 July 2017.

Domestic Visitors

In 2016, 1.5 million interstate and intrastate overnight visitors travelled to and within the Territory, representing the strongest result over the decade. Growth in domestic visitation to the Territory was also greater than the national average.

Territorians took an estimated 669 000 overnight trips within the Territory in 2016, experiencing strong growth over the last three years, mostly influenced by workers from the Ichthys LNG project living and working in Darwin. Interstate overnight visitors who travelled to the Territory was estimated at 851 000 persons in 2016. This market has also experienced strong growth since 2014, strongly influenced by travel for holiday and business activities. The contribution of interstate overnight visitors to the Territory, however continues to be greater than the intrastate overnight visitors (Chart 8.19).

Chart 8.19: Number of Domestic Visitors to the Territory by Interstate and Intrastate Travel

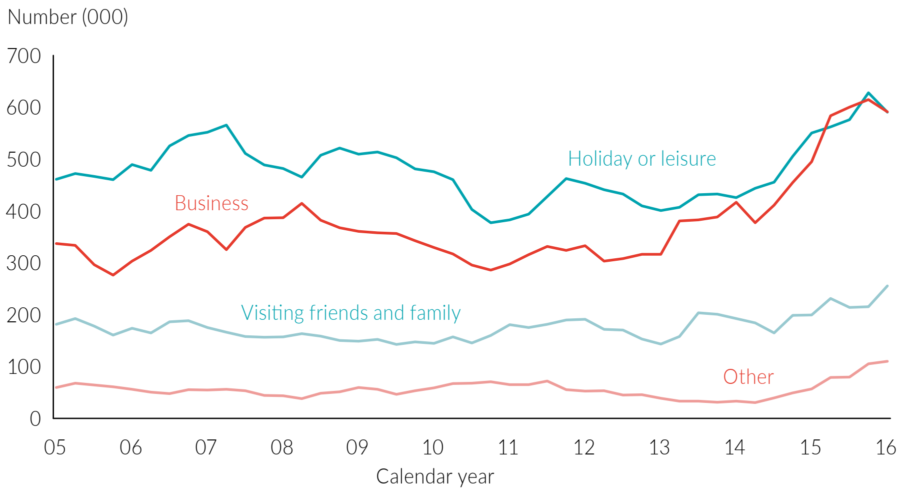


Note: TRA have advised that revisions to the current data reported from the December 2016 National Visitor Survey will occur in the next release issued in June 2017. Revisions are expected to impact domestic visitor numbers and growth rates from 2014 onwards, resulting from a change in the survey methodology during that year.
Source: Tourism Research Australia, *Travel by Australians*

The strong growth in domestic visitors in recent years was driven by increases in travel for all purposes (Chart 8.20). There was an estimated 590 000 visitors who travelled in the Territory for holiday or leisure, which made up about 39 per cent of all domestic overnight visitors in 2016. This contribution has been moderating over the last decade, overtaken by Australian business travellers, who also made up about 39 per cent of all domestic overnight visitors to the Territory in 2016, compared to 49 per cent and 32 per cent, respectively in 2007.

Domestic overnight visitors for business purposes was estimated at 592 000 persons in 2016. A key factor in the relatively high number of business travellers in the Territory over the last three years is likely to be increased business activity associated with resource and other major projects in the Territory, in particular the Ichthys LNG project. There has also been modest growth in travellers visiting friends and relatives over the last few years, estimated at 255 000 visitors in 2016.

Chart 8.20: Number of Overnight Domestic Trips in the Territory by Purpose (moving annual total)



Note: TRA have advised that revisions to the current data reported from the December 2016 National Visitor Survey will occur in the next release issued in June 2017. Revisions are expected to impact domestic visitor numbers and growth rates from 2014 onwards, resulting from a change in the survey methodology during that year.
Source: Tourism Research Australia, *Travel by Australians*

Tourism Infrastructure

Aviation

The Territory's tourism industry relies heavily on aviation due to large distances between major tourist attractions within the Territory and the remoteness of Darwin and Alice Springs from major metropolitan areas in other jurisdictions. Consequently, changes to flight routes and frequencies can have a significant impact on the industry. Only 10 per cent of international visitors who visit the Territory arrive in Australia through the Darwin International Airport. Therefore, strong domestic air networks from the major centres to the Territory, providing connectivity and stability in flight routes and frequencies are vitally important.

The Territory is serviced by five domestic airlines and eight international airlines. Inbound seat capacity to the Territory for 2016 increased by 3.8 per cent compared to 2015. Growth in inbound capacity was experienced across all airports in the Territory. Maintaining flight frequency and the number of services for business travel will be a challenge for the Territory over the next 18 months as the Ichthys LNG project transitions into the operational phase, reducing its FIFO workforce, and therefore affecting passenger numbers on some inbound and outgoing routes.

Table 8.6: Inbound Seat Capacity at Territory Airports in 2016

	Darwin (Domestic)	Darwin (International)[1]	Alice Springs (Domestic)	Yulara (Domestic)	Total
Number of seats	1 269 000	202 000	479 000	248 000	2 197 000
Year-on-year change (%)[2]	2.5	6.4	4.7	6.4	3.8

1 Darwin international capacity is derived by Tourism NT based on an average of minimum and maximum outbound seats.
2 Compared to 2015.
Source: Bureau of Infrastructure, Transport and Regional Economics, Department of Tourism and Culture

Cruise Ships

The cruise sector injected $31 million into the Territory economy in 2015-16 and plays an important role in the Territory's tourism industry as a key contributor to achieve a $2.2 billion visitor economy in the Territory by 2020. Darwin's geographic location and close proximity to Asia makes it an ideal Australian gateway port for visiting international cruise ships. In 2015-16, there were a total of 45 ship vists to Darwin, which carried 65 240 passengers. During 2016-17, 47 cruise ship visits are expected in total, with the capacity to carry about 68 000 passengers to Darwin.

Through 2016, there were also a number of cruise ship visits to remote and regional locations across the Top End including the Tiwi Islands, Elcho Island and Yirrkala, which created economic opportunities for the local communities. In October 2016, the Voyager of the Seas brought 3304 passengers and 1220 crew to the Territory. In February 2017, Ovation of the Seas, known to be the largest cruise ship to visit Australia, arrived in Darwin delivering strong trade for local retailers and tourism businesses. The cruise ship carried about 4000 passengers and 1500 crew to the Darwin region.

The Department of Tourism and Culture, in consultation with the Territory tourism industry, continues working to capitalise on the growth of the cruise sector through the Cruise Sector Activation Plan 2015-2020, which is a strategy that drives the sector in areas of cruise ship attraction, infrastructure and facilities to develop visitor experiences in the Top End.

Accommodation

The availability and quality of accommodation can influence the number of international and domestic visitors to the Territory. ABS reports on short-term commercial accommodation for hotels, motels, guest houses and serviced apartments with 15 or more rooms. In 2015-16 ABS estimated the average occupancy rate for tourist accommodation in the Territory was 61 per cent. The Lasseter region (centred around Uluru) recorded the highest average occupancy rate at 73.5 per cent in 2015-16, reflecting an increase in demand due to new experiences and more direct and affordable flights. Occupancy rates, however, went down in the Darwin region, falling 7 percentage points to 61.6 per cent, the result of an increase in new room stock in the third quarter of 2015.

The Department of Tourism and Culture reports on the Territory's hotel development pipeline. Increasing activity in the accommodation sector will place the Territory's tourism industry in a position to attain its target to grow the visitor economy. The department has estimated 10 672 short-term accommodation rooms will need to be available by 2020, with the majority of these rooms required in Darwin to retain occupancy rates at reasonable levels.

In 2015-16, a total of 101 short-term commercial accommodation establishments provided 8943 rooms across the Territory. This was an increase of four new establishments and 495 rooms when compared to 2014-15, with the increase confined to Darwin. In 2016-17, it is estimated that an additional 103 hotel rooms will become available. Development approvals have been provided for a further 340 rooms, with a remaining balance of 1350 rooms required to reach the short–term accommodation target by 2020 (Table 8.7).

Table 8.7: Short-term Accommodation Projects in the Territory (in progress or proposed)[1]

Project	Anticipated Completion	Additional Rooms
Finniss River boutique accommodation, Top End	Mid-2017	12
Darwin City Hotel, Smith Street, Darwin	Mid-2017	91
Total under construction/in progress		**103**
9 Daly Street, hotel, Darwin	Proposed	201
13 Daly Street, serviced apartments, Darwin	Proposed	72
87 Woods Street redevelopment, Darwin	Proposed	45
Total proposed/received development approvals		**340**

1 As at December 2016.
Source: Department of Tourism and Culture

Marketing and Initiatives

The Territory Government's national campaign, 'Do the NT' continued through 2016-17, promoting a range of tourism experiences on offer across the Territory. There has been an increased focus on highlighting the diversity of activities and events available in the Territory to increase awareness of regional travel opportunities before tourists leave their country of residence.

The Territory Government's new centralised approach 'Add On The NT', which targets holiday makers who are travelling to complementary destinations such as South East Asia or the east coast of Australia, will continue in 2017-18. Internationally this approach aims to encourage youth and backpackers, mainstream and luxury travellers to experience the Territory prior to continuing on to their planned destinations. The return of the Million Dollar Fish competition, which ran through October 2016 to February 2017, is also expected to stimulate local business in regional areas.

Digital accessibility to visitor information continues to be supported and improved through the online profile of Travel NT. The new tourism website established in August 2016, 'northernterritory.com' is also mobile responsive and continues to deliver strong results in terms of visitors to the site.

Defence

Recent Results

Annual defence expenditure is close to the long-term average, supported by ongoing operations for Australian forces and joint international exercises.

Outlook

A number of major capital projects have commenced with other initiatives in the pipeline, highlighting the ongoing importance of the Territory as a strategic defence location.

Table 8.8: Defence Sector Contribution to GSP, GDP and National Defence Workforce

	2014-15	2015-16	10-Year Average
Northern Territory			
Contribution to GSP ($M)[1]	1 590	1 638	1 643
Share of GSP (%)[2]	6.9	7.3	8.4
Total defence personnel (number)	5 746	5 674	6 515
Share of national defence personnel (%)	5.7	5.8	6.6
Australia			
Contribution to GDP ($M)[1]	32 092	33 973	29 544
Share of GDP (%)[2]	2.0	2.1	2.0
Total defence personnel (number)	100 528	98 071	99 715

GSP: gross state product; GDP: gross domestic product
1 Inflation adjusted.
2 Current prices.
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, ABS unpublished data; Department of Defence annual reports

For ABS reporting purposes, defence is not classified as a separate industry in national accounts, however it is reported against a number of industries and is predominantly included in the public administration and safety industry. Defence employment numbers are also not included in ABS labour force reporting. References to defence refer to the Department of Defence and the Australian Defence Force (ADF), collectively. Data for defence personnel and housing is sourced from defence and Defence Housing Authority (DHA) annual reports.

Outlook

Defence is a significant contributor to the Territory economy and is expected to increase its contribution considerably over the medium term, providing stimulus to local businesses and creating employment opportunities in the region.

A continued defence presence in the Territory was reinforced by the 2016 Defence White Paper, which outlines the Commonwealth's long-term plans for strengthened capability in northern Australia through increased personnel, investment, training, exercises and joint initiatives with international defence forces. The 2016 Defence White Paper also has a major focus on infrastructure investment in northern Australia. Expenditure for the Territory included in the White Paper is estimated to be valued at about $8 billion over the next decade and a further $12.2 billion between 2025-26 and 2035-36.

The two largest defence projects in the Territory to be conducted over the next 10 years are the $470 million new air combat capability facilities project at RAAF Base Tindal, near Katherine (commenced in early 2017), and $550 million redevelopment works at Larrakeyah Barracks and HMAS Coonawarra in Darwin (expected to commence early 2018). Initial work packages for the project at RAAF Base Tindal were awarded to local contractors in early 2017. The project is expected to continue over the next two years, prior to the F35A Lightning Joint Strike Fighter's arrival in 2019. Redevelopment of HMAS Coonawarra and Larrakeyah Barracks includes upgrades to engineering services, new buildings for North-West Mobile Force (NORFORCE) and multi-user facilities.

Other defence works include upgrades to existing facilities to support a number of new defence capability platforms and also a range of longer term potential projects outlined in the 2016 Defence White Paper. It is expected that defence projects in the Territory will provide employment opportunities for construction personnel from the Ichthys LNG project as its construction phase nears completion. The 2016 Defence Integrated Investment Program will guide the implementation of the bulk of the 2016 Defence White Paper investment over the period to 2025-26. Long-term infrastructure priorities identified in the program that may affect the Territory include:

- developing long-term options to establish naval facilities with greater capacity in the Territory to support Australia's larger maritime force into the future;
- adding ship loading capacity, including options for a possible new roll-on roll-off wharf in northern Australia to support Australia's amphibious capability;
- developing options to enhance air base capacity in the Territory to support the future ADF's air combat, intelligence, surveillance, reconnaissance, air-to-air refueller and air transport fleets, and with capacity to support visiting aircraft of allies and partners;
- developing options for establishing a new Northern Advanced Joint Training Area with the capacity for large-scale, joint and combined amphibious training; and
- establishing a rail link from the main line to RAAF Base Tindal to support the transport and handling of explosive ordnance and bulk fuel.

As part of cost-sharing negotiations for the Joint Australia-US Force Posture Initiative, the US will contribute over $1 billion in infrastructure investment in the Territory from the total 2016 Defence White Paper investment in the next 10-years as well as the ongoing operational costs of the initiative over the full 25-year life of the agreement.

Under the initiative, the number of US Marines on rotation in the Territory are expected to increase to 2500 in the coming years. Four tilt-rotor Ospreys, five Super Cobra helicopters and four Huey helicopters will also be deployed, which will constitute the largest deployment of US aircraft in Darwin. As a result, it is expected there will be increased defence infrastructure expenditure to support the initiative, as well as increased demand for local goods and services. The US has outlined that they will focus on enhanced air cooperation activities and the activities of the Marine Rotational Force in Darwin.

DHA is also progressing new developments and refurbishments of defence housing stock both on base and in townships, including Darwin and Katherine, reaffirming the long-term defence presence and increases to defence investment in the Territory.

Territory Government's Defence Strategy

The Territory Government released the 'Defence Strategy Northern Territory Beyond 2015: Expanding our role and capability in defence and national security' in March 2016, which outlines the Territory Government's approach to supporting defence. The strategy is aimed at defence support industry participants and outlines how the Territory Government is ensuring the Territory is strategically placed to benefit from future defence investment including in existing and potential new defence bases, exercises, training and support of operations. Updates to the strategy are expected to be released in late 2017.

The $14.3 million Multi-User Barge Ramp facility at East Arm Logistics Precinct was opened in November 2016. The project was jointly funded by the Territory Government's Land Development Corporation and the Department of Defence. The barge ramp is designed to provide the Department of Defence with logistics support and a strategic interface between land and sea for up to 60 days per year, including logistic support capability for the Royal Australian Navy's two new landing helicopter dock ships and amphibious vessels. It will also be available to commercial customers for the remainder of the year.

The Territory Government has announced it will contribute $95 million to the development of the ship lift facility at East Arm. Pearl Marine Engineering has been selected as the preferred proponent to enter a negotiation phase for the Darwin ship lift facility. This project will have the capacity to service defence, the Australian Border Force and other commercial users, and reduce the need for defence vessels to use other ports either overseas or in other Australian cities for maintenance and repairs.

Defence Presence in the Territory

Defence is a significant contributor to the Territory economy through the creation of direct and indirect employment, building of infrastructure and generating demand for local goods and services.

Major defence sites in the Territory include RAAF Base Darwin, Larrakeyah Barracks, HMAS Coonawarra and Defence Establishment Berrimah in Darwin, Robertson Barracks in Palmerston, RAAF Base Tindal near Katherine and the Joint Defence Facility Pine Gap near Alice Springs. There are also a number of defence training areas located in the Territory, including the Bradshaw Field Training Area near Timber Creek, Kangaroo Flats Training Area near Berry Springs, Mount Bundey Field Training Area, Delamere Air Weapons Range near Katherine and the North Australia Exercise Area, which is located off the coast of Darwin and adjacent air space (Map 5).

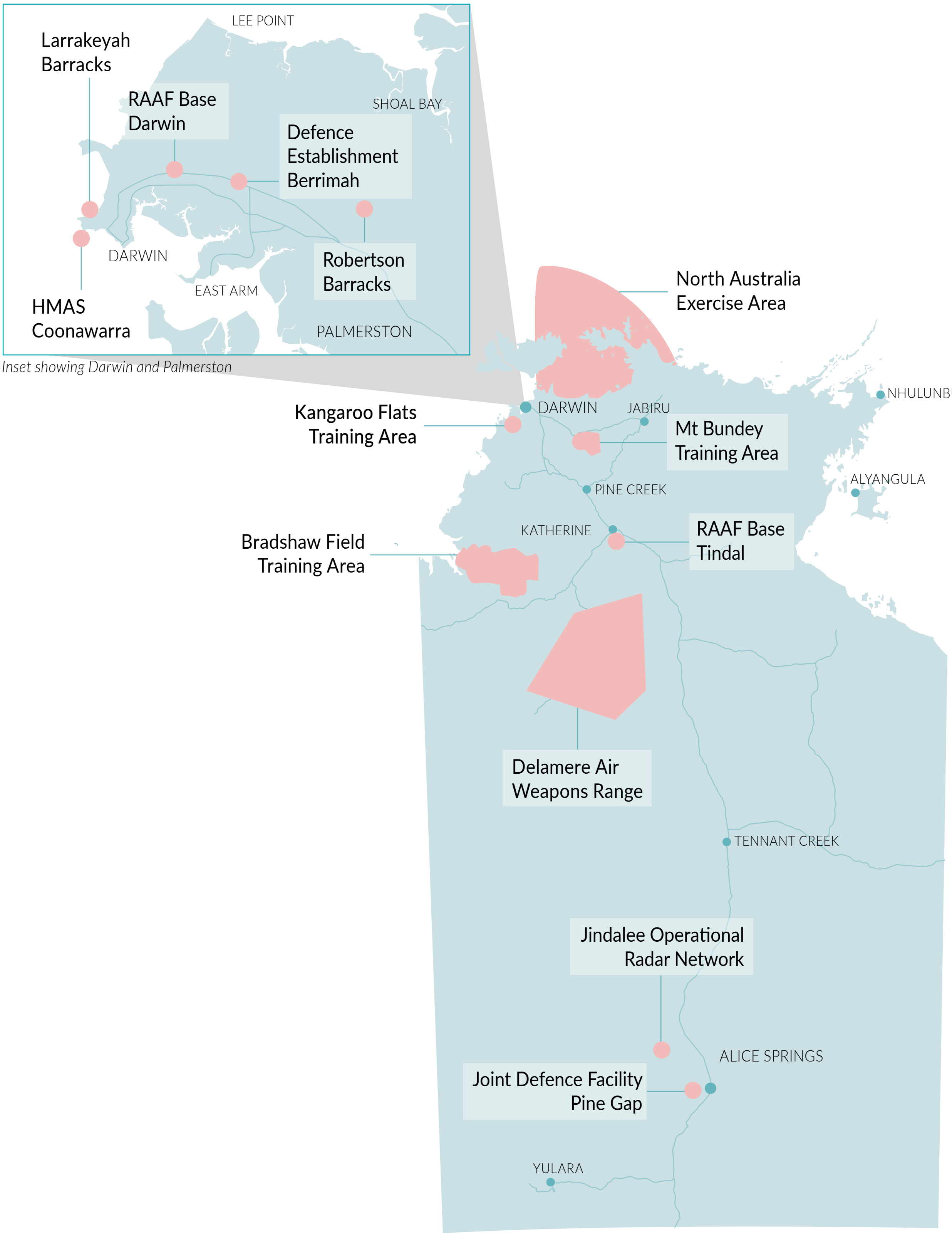
The Territory often hosts Australian and joint international defence force training exercises. Exercise Pitch Black was held in mid-2016 and included a large number of defence forces drawn from a range of regional, coalition and allied nations. It is aimed at improving the combat readiness and the cooperation of air forces, as well as to strengthen the ongoing military relationships between the countries involved. RAAF estimated that Exercise Pitch Black 2016 contributed more than $25 million to the local economy. Exercise Kakadu 2016 was held in September 2016 and involved aircraft and warships from various countries in Asia, Europe and North America working alongside Australian navy and air force assets. It was the first time assets from the US Navy had participated. The exercise aimed to develop interoperability between participating nations in the maritime and air domains.

Exercise Talisman Sabre is expected to be held in July 2017. Exercise Talisman Sabre is a major Australian and US military training exercise focused on the planning and conduct of mid-intensity ‘high end’ warfare. The exercise aims to improve ADF/US combat readiness and interoperability. The Territory also plays a significant role supporting Operation RESOLUTE, including hosting Armidale-class patrol boats, which are based at HMAS Coonawarra in Darwin. The operation focuses on maritime security threats including people smuggling, illegal fishing and protection of offshore oil and gas installations.

The Joint Australia-US Force Posture Initiative also demonstrates the importance of the Territory as a strategic location for regional security. The initiative involves the Territory hosting the rotation of US Marines at Robertson Barracks for six months around April to September each year to conduct joint military exercises and training with the ADF.

The significant defence presence in the Territory contributes to economic activity, primarily through investment in base infrastructure and training facilities. Defence also indirectly benefits the Territory economy through increased visitor numbers and spending on local services in industries such as tourism, retail trade, culture and recreation, and transport.

Map 5: Major Defence Sites in the Territory[1]



1 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.

Source: Department of Treasury and Finance; Department of Defence; Darwin Strategic Support Group; Department of the Chief Minister

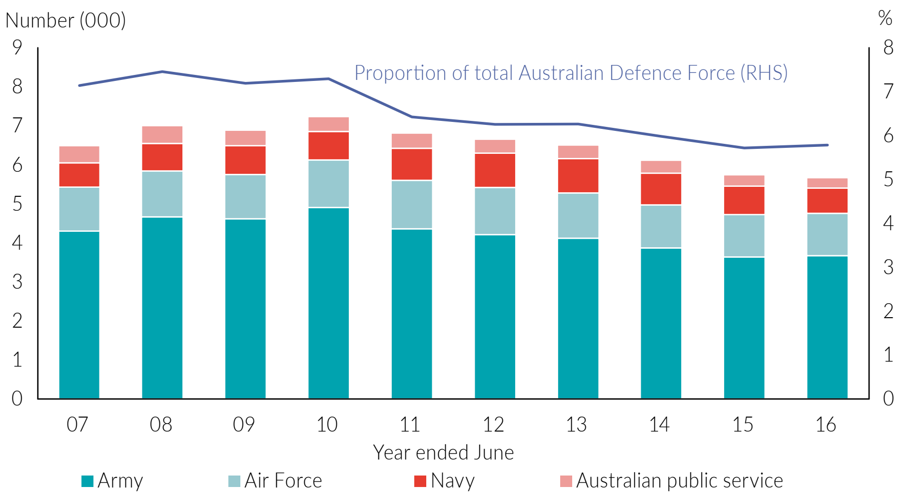
Defence Force Personnel

In 2015-16 there were 5674 defence personnel based in the Territory (including permanent personnel and reservists), of which 3675 were in the army, 1083 in the air force, 649 in the navy and 267 were Department of Defence civilians (Chart 8.21).

Defence's contribution to the Territory's population is significantly broader than personnel directly employed, as a significant number of defence force personnel arriving in the Territory also bring with them spouses and children. It is estimated that the Territory's total defence population (including personnel and their families) is approximately 12 000 or about five per cent of the Territory's population. Further, the number of US Marines arriving in the Territory has grown from 250 in 2012 to 1250 in 2017, as part of the Joint Australia-US Force Posture Initiative, which are also not included in the total defence force personnel data.

The number of defence personnel located in the Territory declined by 1.3 per cent in 2015-16. This was the fifth consecutive year of decline since a peak of 7234 people in 2009-10 (Chart 8.21). However, the Territory's share of defence personnel increased to 5.8 per cent in 2015-16 after declining in recent years.

Chart 8.21: Defence Force Personnel in the Territory



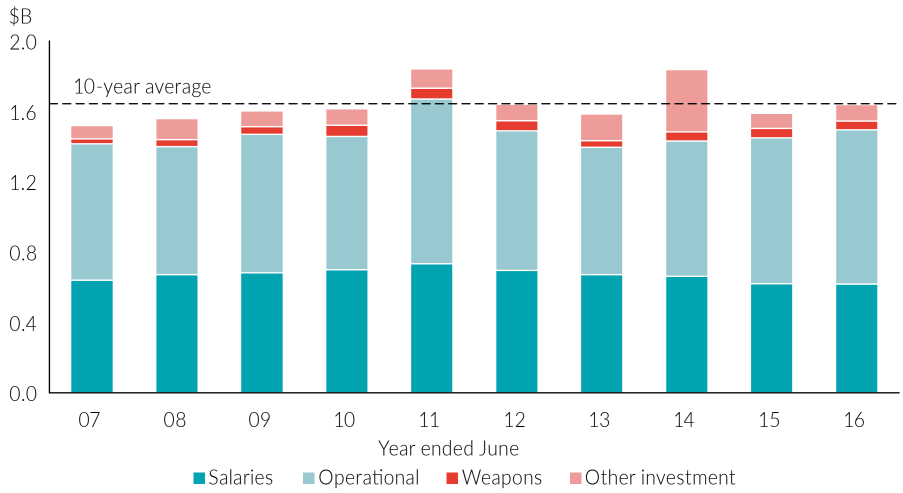
RHS: right-hand side
Source: Department of Treasury and Finance; Department of Defence annual reports

There was a decline in total defence personnel numbers in the Territory, however the number of permanent forces increased slightly in 2016 to 4784. This may be due to the rotation of troops and active servicemen moving overseas. Reserve forces numbers decreased by 19.4 per cent to 623 people in 2016.

Defence Expenditure

Defence expenditure in 2015-16 contributed 7.3 per cent to the Territory's GSP or $1.6 billion, in inflation-adjusted terms. This reflects an increase of 3.0 per cent compared to the previous year and remains in line with the 10-year average defence expenditure of $1.6 billion (Chart 8.22). This increase was largely driven by a 5.6 per cent increase in operational expenditure. Nationally, total defence expenditure accounted for 2.1 per cent of Australia's GDP.

Chart 8.22: Defence Expenditure in the Territory[1]

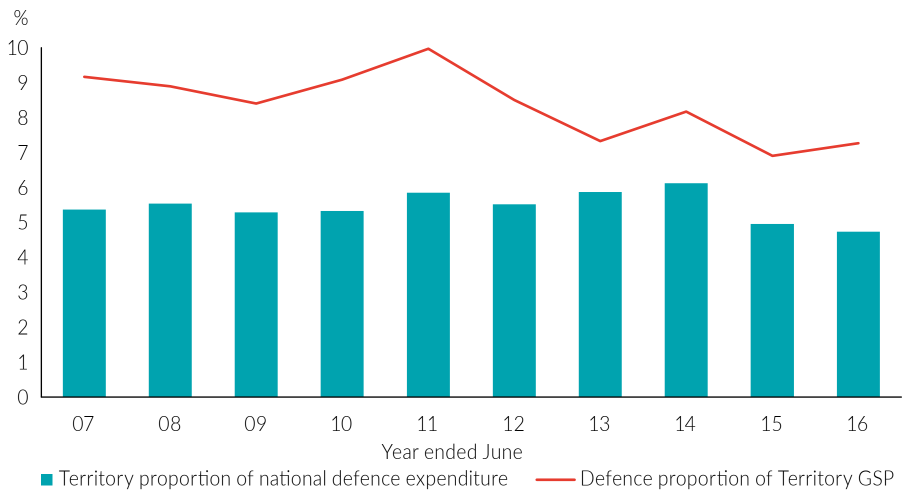


1 Inflation adjusted.
Source: Department of Treasury and Finance; ABS unpublished

Total national defence expenditure as a proportion of Australia's GDP is expected to rise over the medium term. A significant portion of the increased defence expenditure is likely to occur in the Territory, with a number of major investment projects commencing or planned in northern Australia as part of the 2016 Defence White Paper.

Defence expenditure in the Territory as a proportion of total national defence expenditure has remained somewhat constant, ranging between 4.7 to 6.1 per cent over the past decade. The share of defence expenditure as a proportion of Territory GSP has fallen over the same period from 9.2 per cent in 2006-07 to 7.3 per cent in 2015-16, mainly due to increases in economic activity from other sectors of the economy since 2011-12, rather than significant changes in defence expenditure (Chart 8.23).

Chart 8.23: Territory Share of National Defence Expenditure[1]



GSP: gross state product
1 Current prices.
Source: Department of Treasury and Finance; ABS unpublished data

Capital Works

As highlighted by the 2016 Defence White Paper, defence major capital works projects will continue to make a significant contribution to economic growth in the Territory. Proposed defence capital works projects currently in progress or expected to commence in the medium term in the Territory include (Table 8.9):

- pavement upgrade works, as part of the National Aircraft Pavement Maintenance Program 2014-2020 at RAAF Base Tindal, RAAF Base Darwin and Robertson Barracks;
- new purpose-built facilities and redevelopment works at Delamere Air Weapons Range valued at $130 million to support personnel training on the EA18G Growler aircraft, which are expected to be completed in late 2017;
- a facility upgrade for Shoal Bay receiving station, expected to be completed in 2017;
- upgrades to Robertson Barracks as part of the Defence Logistics Transformation Program;
- upgrades to RAAF Base Darwin to support the new F35A Lightning Joint Strike Fighters and the Poseidon P8 maritime patrol aircraft;
- replacing the existing Australian Defence Air Traffic system at RAAF Base Darwin;
- the New Air Combat Capability Facilities project at RAAF Base Tindal, including base infrastructure upgrades and establishing the new F35A Operational Precinct, which will accommodate and support operations relating to the new F35A Lightning Joint Strike Fighters arriving in 2019;
- redevelopment of Larrakeyah Barracks and HMAS Coonawarra to improve infrastructure services and provide new maritime facilities including a 250 metre wharf facility;
- upgrades to RAAF Darwin's explosive storage facilities in 2018 as part of the Explosive Ordnance Logistics Reform Program; and
- replacement of the existing Australian Defence Air Traffic systems at RAAF Base Tindal and RAAF Base Darwin.

Table 8.9: Defence Major Capital Works Projects in the Territory (in progress or proposed)

	Total Estimated Expenditure ($M)	Expected Timeframe
Current		
Delamere Air Weapons Range redevelopment	130	2016 to 2018
National Aircraft Pavement Maintenance Program	50	2016 to 2020
RAAF Base Tindal – new air combat capability facilities project	470	2017 to 2019
Proposed		
RAAF Base Darwin upgrades for Poseidon P8 aircraft	90	2018 to 2021
Larrakeyah Barracks and HMAS Coonawarra redevelopment works	550	2018 to 2020

Source: Department of Defence, Darwin Strategic Support Group; Department of the Chief Minister

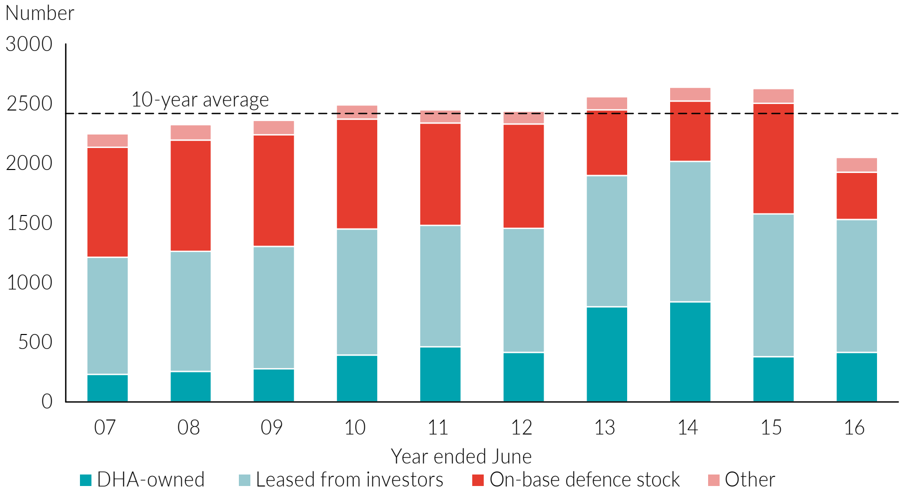
Defence Housing

In 2015-16, DHA managed 2050 properties in the Territory, reflecting a 22.0 per cent decline compared to the previous year. This was below the 10-year average number of properties in the Territory of 2418 (Chart 8.24). The sharp decline follows a period of consistent growth in DHA-managed properties. The Territory comprised around 11.3 per cent of the total number of DHA properties across Australia, of which about 83 per cent were located in Darwin, with the remainder in Tindal.

The majority of DHA-managed properties in the Territory were leased from investors (1115 properties), followed by on-base defence housing stock (395 dwellings) and off-base DHA-owned properties (414 properties). The year-on-year decline of DHA properties in the Territory was mainly driven by a decrease in on-base defence stock, which decreased by 57.3 per cent in 2015-16. This may have been a result of changes to 2015-16 DHA data reporting, which excludes properties not currently servicing active defence personnel, properties under major works and properties being transferred out of the portfolio.

More than half of the ex-DHA homes removed from RAAF Base Darwin over the last few years have already been bought. The relocation involved removing about 320 homes from Eaton to a former defence radar facility near Pinelands. Buyers were predominantly from the Darwin rural areas.

Chart 8.24: Territory Dwellings Managed by Defence Housing Authority[1]



1 Includes properties tenanted by ADF members, privately leased properties, vacant properties, properties offline for maintenance, properties pending sale or disposal and properties pending transfer to DHA portfolio. It excludes properties that are not currently servicing an active client, including DHA-owned properties under major works and properties being transferred out of the portfolio.

Source: Department of Treasury and Finance; Defence Housing Authority annual reports

The number of DHA-managed properties in the Territory is expected to remain at current levels over the medium term, driven by a number of residential developments in the Territory that will improve the quality of DHA's dwelling stock as well as increase housing supply in the Territory's residential property market.

DHA projects in the Territory currently underway or expected to commence in the coming years include:

- ongoing expansion of the suburb of Muirhead for completion in late 2017, which is expected to result in 1151 dwelling lots, of which around 30 per cent will be occupied by defence members and their families; and
- development of the former radar facility site, Number 2 Control and Reporting Unit located near Lee Point and Muirhead North, which is expected to result in about 800 residential lots, of which 30 per cent will be allocated for defence members.

In addition to the proposed new residential works, DHA is continuing to make significant investments in its existing defence dwelling stock in the Territory. DHA is expected to complete refurbishing about 20 houses in Alice Springs and 29 houses in Katherine in mid-2017. These upgrades will extend the life of properties for 10 to 15 years.

Retail and Wholesale Trade

Recent Results

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 modest in the short and medium term due to moderate wage and consumption growth.

Table 8.10: Retail and Wholesale Trade Industry Contribution to GSP, GDP and Employment

	2014-15	2015-16	10-Year Average
Northern Territory			
Contribution to GSP ($M)[1]	985	977	852
Share of GSP (%)[2]	4.3	4.4	4.6
Industry resident employment (number)[3]	12 080	13 050	13 400
Share of total resident employment (%)[3]	9.2	9.8	11.1
Australia			
Contribution to GDP ($M)[1]	134 171	138 527	124 812
Share of GDP (%)[2]	8.3	8.5	8.7
Industry resident employment (number)[3]	1 623 910	1 638 230	1 609 220
Share of total resident employment (%)[3]	13.9	13.8	14.5

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

Outlook

The outlook for retail trade is expected to remain subdued over the medium term, with moderate wages growth contributing to conservative consumer spending. Retail developments likely to contribute to retail trade activity in the Territory include:

- $300 million Gateway shopping centre in Palmerston, which is to host a Woolworths, Big W, Event Cinemas and over 100 stores, and is anticipated to be completed in 2017;
- Coolalinga Shopping Village, estimated at $80 million, to host a Coles, Kmart, Liquorland and 60 speciality stores anticipated to be completed in 2017; and
- Palmerston Boulevard upgrade, which will support new retail opportunities for restaurants, cafés and retailers.

Nationally, retail trade is anticipated to be stronger than in the Territory but still perform below long-term historical trends as online shopping becomes more dominant. Subdued inflation, low interest rates and strong housing construction, especially in the eastern states, is likely to drive strong demand for household goods. However, moderate wages growth is expected to continue to constrain retail spending.

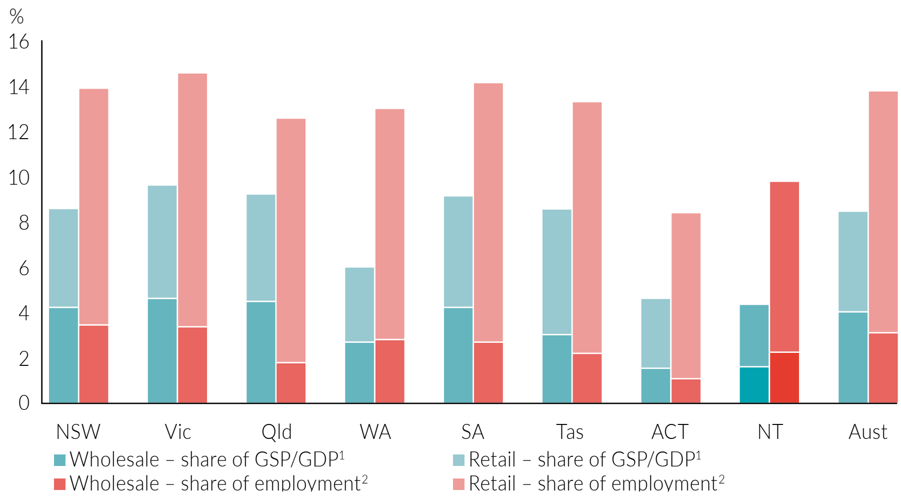
Background

In 2015-16, the retail and wholesale trade industry contributed $977 million in real terms to the Territory's economy.

Retail and wholesale trade expenditure in the Territory has grown by an average of 5.1 per cent per annum in the 10 years to 2015-16. In the past two years growth has moderated below the 10-year average, increasing by 2.0 per cent in 2014-15 and declining by 0.8 per cent in 2015-16, after 14 years of consecutive growth. Despite slowing activity, the retail and wholesale trade industry contributed 4.4 per cent to GSP in 2015-16, only slightly below the 10-year average of 4.6 per cent.

Within the larger jurisdictions, the retail and wholesale trade industry share of GSP and employment is broadly consistent, with the share of GDP averaging 8.7 per cent across Australia and employment averaging 14.5 per cent over the past 10 years. In the Territory, the contribution made by this industry to employment and GSP is smaller than the national average, reflecting the dominance of the government and community services industry, mining and construction industries and the relatively small size of the Territory's wholesale trade sector (Chart 8.25).

Chart 8.25: Retail and Wholesale Trade Share of GSP, GDP and Employment, 2015-16



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

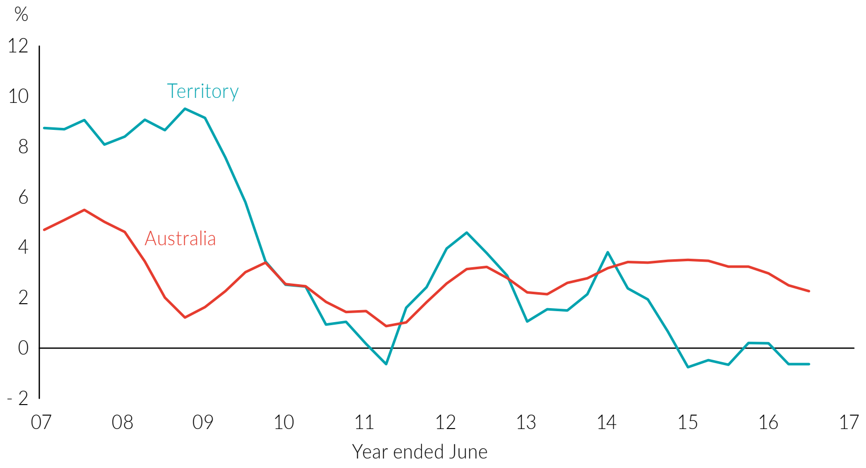
Despite this, the retail and wholesale trade industry is one of the largest employers in the Territory with 9.8 per cent of employed people working in this industry in 2015-16, below the 10-year average of 11.1 per cent. However, the industry's share of employment has increased in recent months and now has a share of employment of 10.5 per cent as of February 2017. Nationally, retail and wholesale trade as a share of employment has been trending downwards with the share of 13.8 per cent in 2015-16, below the 10-year average of 14.5 per cent.

Recent Activity

The following analysis on the components of retail activity is based on ABS data on retail trade, which is measured on a different basis to the GSP data.

In real terms, following declines in retail trade throughout 2015 and 2016, retail turnover decreased by 0.7 per cent in 2016 to $3.0 billion (Chart 8.26), well below the 10-year historical average growth of 3.2 per cent.

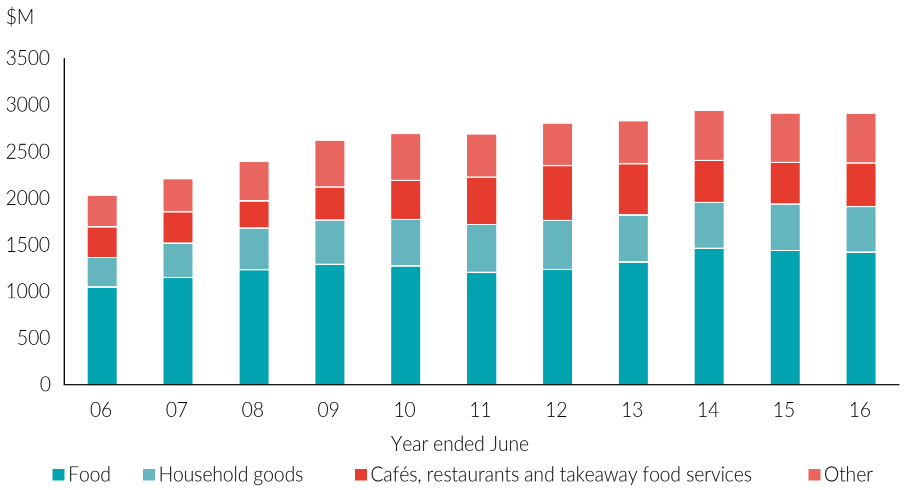
Chart 8.26: Year-on-Year Change in Retail Trade Turnover, (%)[1]



1 Inflation adjusted.
Source: ABS unpublished data

Chart 8.27 shows spending on food retailing and household goods decreasing over the past two and three years, respectively, while spending on clothing, footwear and personal apparel achieved its fourth consecutive year of growth.

Chart 8.27: Territory Retail Trade Expenditure (moving annual total)[1]



1 Inflation adjusted.
Source: ABS unpublished data

Food retailing detracted from growth in 2016, declining by 1.4 per cent to $1.4 billion. Despite the decline, food retailing contributes just under half of the Territory's retail trade. Part of the decline in food retailing may have been related to an increase in cafés, restaurants and takeaway retailing, which increased by 1.0 per cent in 2016 and a decline in fresh fruit and vegetable prices. Spending on other discretionary items in the Territory in 2016 was mixed, with an increase in clothing, footwear and personal apparel (up by 14.3 per cent) and declines in household goods (down by 4.4 per cent) and other retailing (down by 1.0 per cent). The decline in spending in household goods is likely to be due to a downturn in the housing market. The increase in clothing, footwear and personal apparel experienced the highest year-on-year growth in spending since December 2001. This was driven by a 14.7 per cent increase in clothing retailing and a 6.7 per cent increase in footwear and other personal accessory retailing. Table 8.11 compares the changes in retail spending in the Territory in 2016 and the average annual change over the past decade by sector.

Table 8.11: Territory Retail Trade by Sector, 2016

	Value[1]	Year-on-Year Change[2]	10-Year Annual Average Change
	$M	%	%
Food	1 416	- 1.4	2.7
Household goods	471	- 4.4	3.6
Clothing, footwear and personal accessories	176	14.3	4.0
Cafés, restaurants and takeaway food services	470	1.0	4.3
Other retailing[3]	519	- 1.0	4.4
Total	**3 052**	**- 0.7**	**3.2**

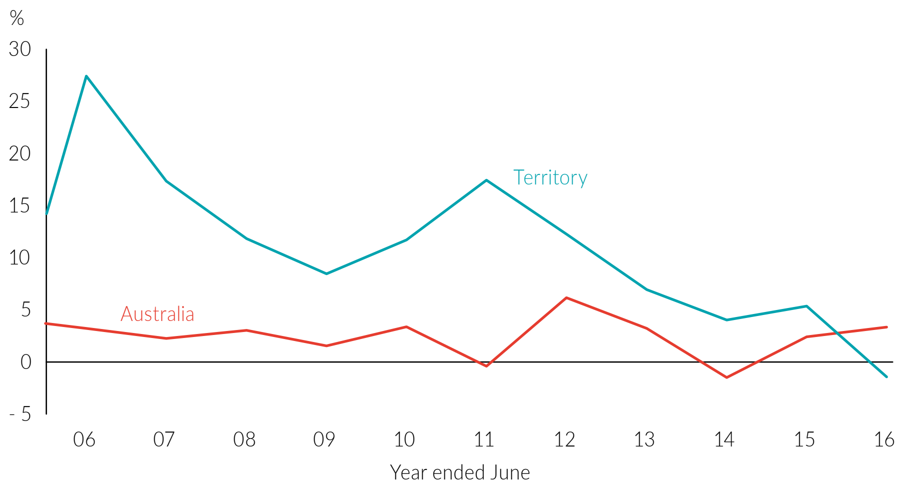
1 Inflation adjusted.
2 Compared with 2015.
3 Other retailing comprises: department stores; newspaper and book retailing; pharmaceutical, cosmetic and toiletry goods retailing; other recreation goods retailing; and other retailing (not elsewhere classified).
Source: ABS unpublished data

Wholesale Trade

Wholesale trade is a much smaller component of Territory GSP than retail trade and contributes less to GSP than in other jurisdictions. Wholesale trade is the sale of new or used goods to businesses and institutional users, but excludes government users. Activity in the Territory's wholesale trade industry is mainly in industrial storage and equipment, transport, and food wholesaling. The ABS does not publish disaggregated data on wholesale trade by jurisdiction.

Wholesale trade, as measured as a component of GSP, has grown sporadically over recent years, likely reflecting the influence of major projects in the Territory. Wholesale trade in the Territory continues to contribute a much smaller proportion (37.0 per cent in 2015-16) to the retail and wholesale trade industry than nationally (47.7 per cent). In 2015-16, wholesale trade declined by 1.4 per cent to $349 million in the Territory following eleven consecutive years of growth (Chart 8.28). This decrease of 1.4 per cent was well below the 10-year historical average growth rate of 9.4 per cent. Despite the relatively small size of the wholesale trade industry, it has more than doubled over the past 10 years. Nationally, the value of wholesale trade increased by 3.4 per cent in 2015-16, above the 10-year historical average growth of 2.4 per cent.

Chart 8.28: Year-on-Year Change in Wholesale Trade Turnover[1]



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

Government and Community Services

Recent Results

The Government and Community Services industry accounted for 20.1 per cent of gross state product and 37.9 per cent of total resident employment in 2015-16, remaining a significant employer for the Territory.

Outlook

Increased public infrastructure investment, defence spending and the opening of the Palmerston Regional Hospital is expected to benefit the Territory economy over the medium to long term.

Table 8.12: Government and Community Services Industry Contribution to GSP, GDP and Employment

	2014-15	2015-16	10-Year Average
Northern Territory			
Contribution to GSP ($M)[1]	4 496	4 731	3 870
Share of GSP (%)[2]	19.5	20.1	19.2
Industry resident employment (number)[3]	49 550	50 410	43 500
Share of total resident employment (%)[3]	37.7	37.9	35.6
Australia			
Contribution to GDP ($M)[1]	270 092	281 538	244 191
Share of GDP (%)[2]	16.7	17.1	15.9
Industry resident employment (number)[3]	3 083 550	3 210 800	2 824 070
Share of total resident employment (%)[3]	26.5	27.0	25.4

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

The government and community services industry comprises public administration and safety, education and training, and health care and social assistance. The outputs from these sectors are predominantly supplied and or funded by the public sector, including Commonwealth, Territory and local governments. This industry also includes output from private providers of education, health, aged care and other community services as well as contributions made by the defence industry, which is discussed further in the Defence section of this chapter on page 128.

Outlook

A series of public infrastructure projects approved in 2016-17 and 2017-18 are expected to benefit the Territory economy over the medium to long term. These projects include the Territory Government's $ 1.75 billion infrastructure spend in 2017-18 and the Force Posture Initiatives in northern Australia, which involves Australia and the US sharing the costs for more than $2 billion in infrastructure investment and defence-related spending.

About $20 billion in defence construction projects are planned for the Territory over the next 20 years under the 2016 Defence White Paper, which will strengthen activity in the Territory economy. The Territory Government has also provided for an additional $31 million per annum ongoing for school resourcing, which will fund school budgets and other school programs. The Territory Government has also committed $200 million to expand the remote government employee housing program to include accommodation for locally recruited government employees such as teachers. Additional funding has also been granted to recruit a further 120 police officers in the Territory. These funding increases will further stimulate the Territory economy by creating jobs and providing essential infrastructure and services for communities.

In the short to medium term, government and community services expenditure as a percentage of the Territory's GSP is expected to continue to increase. In addition, $26 million has been allocated to construct a new Palmerston Police Station including a community hall. Youth diversion programs will also receive around $18.2 million annually in increased funding, which will help provide jobs for 52 youth diversion workers throughout the Territory. Public investment encourages economic development and is projected to drive future growth opportunities across various industries in the Territory.

The Palmerston Regional Hospital is expected to open in 2018, which will increase health care expenditure by the Territory Government and generate significant job opportunities for health care professionals and other staff. Personnel funding of $3 million has been allocated in 2016-17 and 2017-18, and $25 million per annum ongoing from 2018-19 has been allocated to operational funding for the Palmerston Regional Hospital. A positron emission tomography (PET) scanner and cyclotron will also be established at Royal Darwin Hospital, which will improve the detection and treatment of cancer. The government and community services industry will also continue to remain a significant employer for the Territory.

Recent Activity

The government and community services industry contributed $4.7 billion to the Territory's GSP in 2015-16, up from $4.5 billion in 2014-15. This accounted for 20.1 per cent of the Territory's GSP, which was the fourth highest proportion of all jurisdictions behind the Australian Capital Territory (46.1 per cent), Tasmania (23.2 per cent) and South Australia (22.1 per cent) (Chart 8.29). The industry's share of GSP in the Territory has slightly increased in recent years and is now at its highest share in over 10 years.

Chart 8.29: Government and Community Services Industry's Share of GSP, GDP and Employment, 2015-16

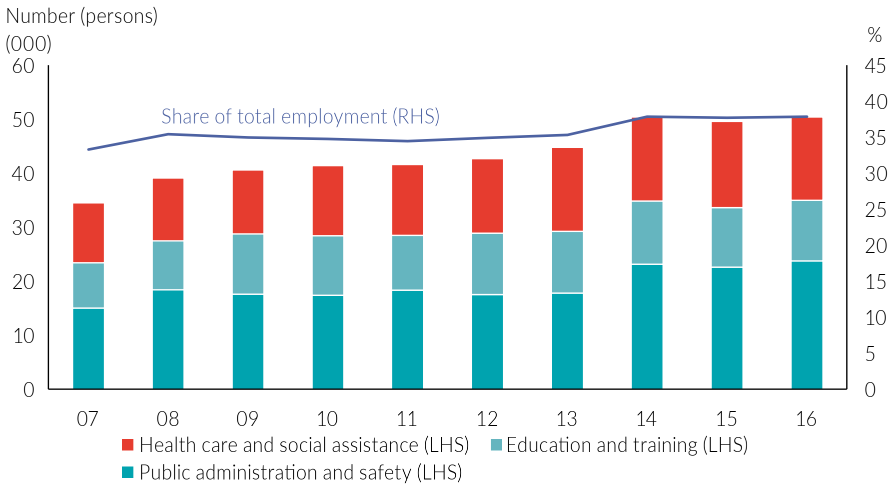
GSP: gross state product; GDP: gross domestic product
1 Annual average.
2 Current prices.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

It is estimated that 50 410 Territorians were employed in the government and community services industry in 2015-16. Of these, 47.1 per cent were employed in public administration and safety, 22.3 per cent in health care and social assistance, and 30.6 per cent in education and training.

The Government and community services industry's share of total employment in the Territory was 37.9 per cent in 2015-16, slightly above the 10-year annual average of 35.6 per cent. This was a slight increase on the industry's share of employment in 2014-15 of 37.7 per cent. The Territory had the second highest proportion of people employed in the industry, ranking only behind the Australian Capital Territory (48.3 per cent). Other jurisdictions have a much lower share with all other jurisdictions' proportions between 25 per cent and 30 per cent. (Chart 8.29).

The government and community services industry's share of total employment has remained relatively stable over the past 10 years but has trended slightly upwards in recent years, driven by an increase in the level of employment in the public administration and safety sectors (Chart 8.30). Nationally, the proportion has trended upwards since the early 2000s. The government and community services industry continues to be a significant employer in the Territory.

Chart 8.30: Government and Community Services Industry's Share of Employment in the Territory[1]



LHS: left-hand side; RHS: right-hand side
1 Annual average.
Source: ABS, *Labour Force, Australia*, Cat. No. 6291.0.55.003

Service Industries

Recent Results

The service industries increased by 4.4 per cent in 2015-16, driven by strength in rental, hiring and real estate, transport postal and warehousing, as well as information media and telecommunications.

Outlook

Growth over the coming years is expected to be supported by tourism-related industries. The continued rollout of the National Broadband Network will support information, media and telecommunications industries. This will be offset by subdued commodity prices and housing market, which will also impact the Territory economy as a whole.

Table 8.13: Service Industries Contribution to GSP, GDP and Employment

	2014-15	2015-16	10-Year Average
Northern Territory			
Contribution to GSP ($M)[1]	5 743	5 995	4 955
Share of GSP (%)[2]	24.9	26.0	24.3
Industry resident employment (number)[3]	44 600	43 410	41 330
Share of total resident employment (%)[3]	33.9	32.6	34.1
Australia			
Contribution to GDP ($M)[1]	579 151	595 038	532 331
Share of GDP (%)[2]	35.8	36.1	35.1
Industry resident employment (number)[3]	4 459 217	4 556 457	4 187 974
Share of total resident employment[3] (%)	38.3	38.3	37.7

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

Outlook

The outlook for the service industries is mixed, which reflects the wide variety and diverse nature of industries that belong to this category.

Accommodation and food services, and arts and recreation are likely to be supported by favourable conditions, including record domestic tourism visitor numbers. The close proximity of the Territory to growing tourist markets in Asia including India and China, with the potential of direct flights into the Territory from these destinations, further supports the positive outlook for these industries.

The outlook for the information, media and telecommunications industry is expected to be positive due to the continued rollout of the NBN, especially in rural areas, and the launch of the Sky Muster II satellite in October 2016. The ABS proportions the total value of the Sky Muster series of satellite launches to the each state and territory, while the NBN infrastructure rollout is based on the amount of work done in each jurisdiction.

Completion of the Ichthys LNG project's construction phase combined with subdued commodity prices are likely to detract from professional, scientific and technical services, which have historically been linked with mining and exploration activities. In addition, moderate conditions in the housing market and low levels of population growth are expected to detract from growth in the rental, hiring and real estate services sector.

Development of Service Industries

The Territory Government, as part of the Economic Development Framework, is committed to growing development industries including creative industries, tropical health, environmental services and renewable energy. Currently these industries are individually small in size but possess significant growth opportunities for the Territory economy.

These industries diversify the Territory economy and promote stable, sustainable economic growth, as well as providing employment opportunities. This is in contrast to traditional sectors of the economy that are less reliant on labour, and heavily influenced by external factors including exchange rates, commodity prices and foreign investment.

Recent Activity

Table 8.14: Territory Service Industries' Contribution to and Change in GSP and Employment, by Subcategories, 2015-16

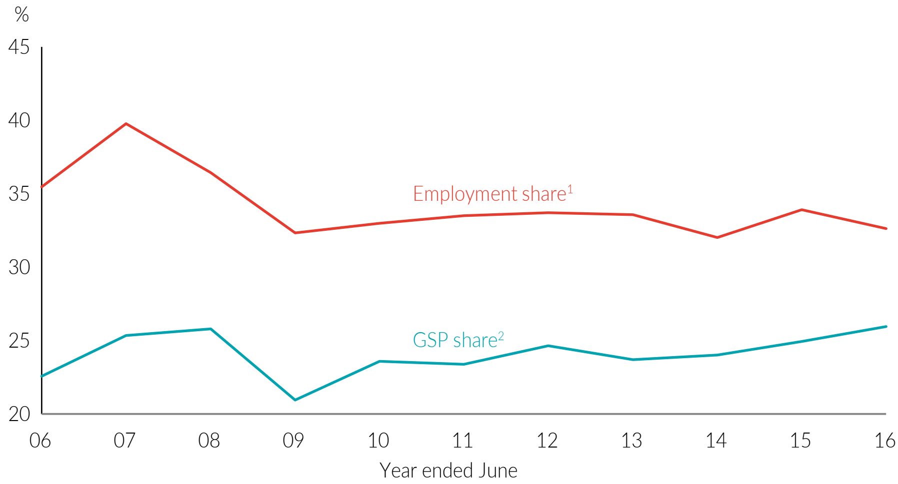
	Gross State Product			Employment		
	Value $M[1]	Share of Total %[2]	Change %[1,3]	Number[4]	Share of Total %	Change %[3]
Rental, hiring and real estate services	1 141	4.9	8.2	2 340	1.8	27.7
Transport, postal and warehousing	1 215	5.0	9.3	6 650	5.0	- 0.2
Professional, scientific and technical services	800	3.3	3.1	6 510	4.9	- 19.9
Financial and insurance services	574	2.6	2.3	1 530	1.2	- 14.5
Administrative and support services	555	2.6	- 3.3	4 040	3.0	- 7.1
Electricity, gas, water and waste services	437	2.2	1.6	2 340	1.8	- 2.9
Accommodation and food services	384	1.7	-0.3	9 210	6.9	13.8
Arts and recreation services	268	1.2	3.1	3 430	2.6	1.0
Information media and telecommunications	287	1.0	15.3	1 080	0.8	- 34.2
Other services[5]	334	1.5	- 2.1	6 230	4.7	- 0.4
Total service industries	**5 995**	**26.0**	**4.4**	**43 410**	**32.6**	**- 2.7**

GSP: gross state product
1 Inflation adjusted.
2 Current prices.
3 Compared to 2014-15.
4 Annual average.
5 Other services components of GSP include personal services and general repair and maintenance activities, however excludes units engaged in providing buildings or dwelling repair and maintenance services.
Note: Figures may not add due to rounding.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6291.0.55.003

The service industries category includes a wide variety of industries that, while individually small, combine to contribute a large proportion of the Territory's GSP. Over the last 10 years service industries have had a relatively consistent share of the Territory's GSP and total employment, with a 10-year average of 24.3 per cent for value of GSP and 34.1 per cent for employment (Chart 8.31).

In 2015-16 service industries constituted 26.0 per cent of the Territory's GSP and 32.6 per cent of the Territory's employment. On a national level, service industries constituted a higher proportion of Australia's GDP (36.1 per cent) and total employment (38.3 per cent), indicative of the growth in the broader services sector at a national level.

Chart 8.31: Territory Service Industries' Share of Employment and GSP



GSP: gross state product.
1 Annual average.
2 Current prices.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6291.0.55.003

In 2015-16, the total value of the service industries increased by 4.4 per cent compared to the previous financial year. This was driven by a 15.3 per cent increase in information media and telecommunications, which may have been a result of the continued expansion of the NBN network and the launch of the Sky Muster I satellite in late 2015. Other areas contributed to the increase including an 8.2 per cent increase in rental, hiring and real estate services, and a 9.3 per cent increase in the transport, postal and warehousing sector. The increase was partly offset by a 3.3 per cent decline in administrative and support services.

With respect to employment, the service industries reported a 2.7 per cent decline in 2015-16, driven by a 34.2 per cent decrease in information media and telecommunications employment. This was despite a corresponding increase in total value potentially attributable to the Sky Muster I satellite launch. The decrease in information media and telecommunications was partly offset by a 27.7 per cent increase in rental, hiring and real estate service and a 13.8 per cent increase in accommodation and food service employment. The increase in total value of service industries did not correspond to an increase in total employment, which highlights the variety of service industries, some of which are labour intensive, such as accommodation and food services, and others that are less labour intensive and usually dependent on emerging technologies, such as the information, media and telecommunication industry.

Abbreviations and Acronyms

a	actual
AACo	Australian Agriculture Company Ltd
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADF	Australian Defence Force
APRA	Australian Prudential Regulation Authority
AUD	Australian dollar
Aust	Australia
B	billion
bcf	billion cubic feet
Cat. No.	catalogue number
CBD	central business district
CGMMV	cucumber green mottle mosaic virus
CFANT	Crocodile Farmers Association of the Northern Territory
CHAFTA	China-Australia Free Trade Agreement
CPI	consumer price index
cpl	cents per litre
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DIBP	Department of Immigration and Border Protection
DHA	Defence Housing Australia
DPIR	Department of Primary Industry and Resources
dmtu	dry metric tonne unit
e	estimate
ERP	estimated resident population
f	forecast
FIFO	fly-in fly-out
GDP	gross domestic product
GEMCO	Groote Eylandt Mining Company
GIRD	Gross indicative retail difference
GSP	gross state product
GST	goods and services tax
HMAS	Her Majesty's Australian Ship
IMF	International Monetary Fund
JAEPA	Japan Australia Economic Partnership Agreement
JPDA	Joint Petroleum Development Area
LHS	left-hand side
LNG	liquefied natural gas
LPG	liquefied petroleum gas
M	million
mmbbl	million barrels
mmscf	million standard cubic feet
n.a.	not applicable
NBN	National Broadband Network
NGP	Northern Gas Pipeline
NIM	net interstate migration
NOM	net overseas migration
NORFORCE	North-West Mobile Force
NPF	Northern Prawn Fisheries
NSW	New South Wales
NT	Northern Territory
NTIDF	Northern Territory Infrastructure Development Fund
OPEC	Organisation of the Petroleum Exporting Countries
ppt	percentage point
Qld	Queensland
RAAF	Royal Australian Air Force
RBA	Reserve Bank of Australia
REIA	Real Estate Institute of Australia
REINT	Real Estate Institute of the Northern Territory
RHS	right-hand side
SA	South Australia
SA	statistical area
SAR	Special administrative region
SFD	state final demand
Tas	Tasmania
TFR	total fertility rate
TGP	terminal gate price
TRA	Tourism Research Australia
TWI	trade weighted index
ULP	unleaded petrol
US	United States (of America)
USD	US dollar
Vic	Victoria
WA	Western Australia
WHMV	working holiday maker visa
WPI	wage price index
WTMP	Wildlife Trade Management Plan

Glossary

Consumer Price Index

A general indicator of the prices paid by household consumers for a specific basket of goods and services in one period, relative to the cost of the same basket in a base period.

Current Prices

The value in nominal terms, not adjusted for inflation or changes in the purchasing power of money. It is the market value for the good or service at the time it was being sold.

Employed

Persons 15 years and older who worked for one hour or more in the week as measured by the Labour Force Survey. Persons are measured as being employed in the jurisdiction in which they reside, regardless of the location of their employment.

Estimated Resident Population

The official Australian Bureau of Statistics population measure that represents the number of persons that reside in a defined locality for more than six months of the year and for a period of at least 12 out of 16 consecutive months.

Goods and Services Tax

The goods and services (GST), is a broad based tax of 10 per cent levied by the Commonwealth on most goods and services sold in Australia. Some items such as basic food, health, education and exports are GST-free.

Gross Domestic Product

The total value of goods and services produced in Australia over the period for final consumption. Intermediate goods, or those used in the production of other goods, are excluded. Gross domestic product can be calculated by summing total output, total income or total expenditure.

Gross Indicative Retail Difference

Gross indicative retail differences are the difference between the average retail price and the terminal gate price for fuel, which provides an indication of gross retail margins for fuel.

Gross State Product

Similar to gross domestic product, except it measures the total value of goods and services produced in a state or territory. It is the sum of all income, namely, wages, salaries and profits, plus indirect taxes less subsidies. It can also be calculated by measuring expenditure, where it is the sum of state final demand and international and interstate trade, changes in the level of stocks, and a balancing item.

Inflation Adjusted (also known as Chain Volume)

Inflation-adjusted measures provide estimates of real changes by factoring in general changes prices from year to year.

Labour Force

All persons 15 years and over who are available for work, that is, employed plus unemployed persons actively seeking work. Excludes Australian Defence Force personnel and non-residents.

Moving Annual Total

A method used to smooth data and remove the short-term fluctuations in data by averaging observations collected over a 12-month period.

Participation Rate

The proportion of the population over 15 years of age who are working or looking for work.

Public Consumption

Public consumption includes government expenditure on goods and services (including wages and rents). National consumption is a combination of Commonwealth consumption, defence consumption and consumption by universities. State and local consumption includes all other public consumption.

Public Investment

Most data for public investment is sourced from state and territory government finance reporting. Adjustments are made to deduct expenditure that is classified as consumption, rather than investment. Statistical treatment of public investment does not always reconcile with the Territory Government's reporting of investment expenditure and as a result is not directly comparable.

State Final Demand

State final demand is a major component of gross state product and is a measure of the demand for goods and services in an economy. While state final demand includes consumption and investment expenditure, it does not include the contribution of trade or changes in inventories to economic growth and as such is not a comprehensive measure of economic growth.

Shut-in

A period in which an oil or gas well is available for use, but is not in production.

Terminal Gate Price

Terminal gate prices are spot prices at which fuel can be purchased from a refinery or terminal and incorporate the price of crude oil, refining costs, transportation costs, wholesale margins and the Commonwealth's fuel excise and GST.

Unemployed

Persons 15 years and older who were not employed during the week of the labour force survey and were actively looking for work in the last four weeks.

Unemployment Rate

The number of unemployed persons expressed as a percentage of the labour force.

Visitor

Tourism Research Australia defines a visitor as someone who has stayed in a place at least 40 kilometres from their usual place of residence for at least one night, but who is away from home for less than 12 months. An international visitor is defined as an overseas arrival who stayed in Australia for less than 12 months.

Wage Price Index

A measure of the change in the price of wage costs over time, unaffected by the change in the quality or quantity of work performed. It excludes non-wage costs such as superannuation, payroll tax and workers compensation.