State Update: Northern Territory – September 2015

NAB Group Economics

Contents

Photo: Ken Hodge

Key points

- In recent years, the construction of the Ichthys LNG project in Darwin has boosted business investment and driven NT's above average economic growth. The Ichthys LNG project, currently under construction, will bring gas from the Browse Basin off the Kimberley coast onshore to an LNG processing and export facility in Darwin. However, with the effects of construction wearing off over the coming years, **we forecast GSP growth to fall to 4¼% in 2015-16 and 2016-17.**

- The economic structure of the Northern Territory is very different from that of other states and territories. Its high dependence on mining and mining-related construction and transport industries makes it highly prone to the effects of irregular and highly variable capital investment levels and prevailing commodity prices. The territory also has a large public administration and defence presence. During times of strong commodity prices and mining investments, NT's economy tends to grow strongly, but this leaves the Territory exposed in the event of a downturn. Due to the lack of diversity in its economic base, NT's economic growth rates can vary greatly from year to year.

- Onshore engineering construction is showing signs of peaking, suggesting the recent strong employment and economic growth may wane over the coming years. Growth is expected to then ease in 2015-16, as the resource projects move from the labour and capital intensive construction phase to the operations phase, resulting in slower employment and economic growth, with only some offset coming from a ramp-up in export volumes. This has begun to adversely affect consumer spending, dwelling investment and the outlook for house prices.

- Although the Northern Territory has a relatively high level of public sector employment and large military presence, this is unlikely to offset the effects of the wind-down in LNG investment. Tourism remains a bright spot however, with interstate holiday visitors up 12% and international holiday visitors up 6.2% in the year ending March 2015.

Photo: Robert Kerton CSIRO

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Chart 1: State GSP Growth Forecasts

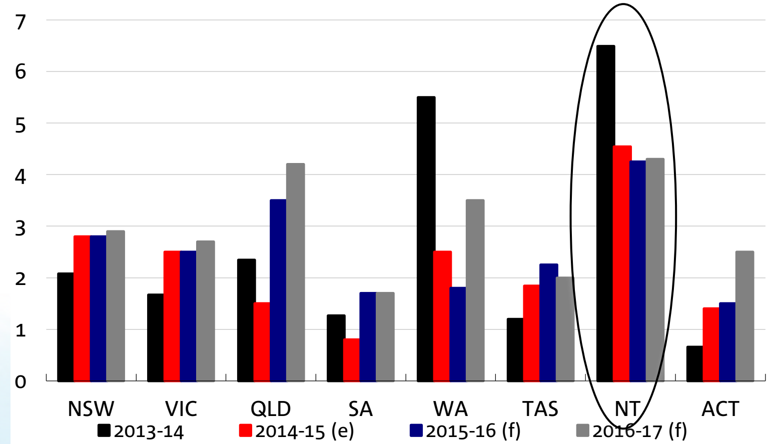
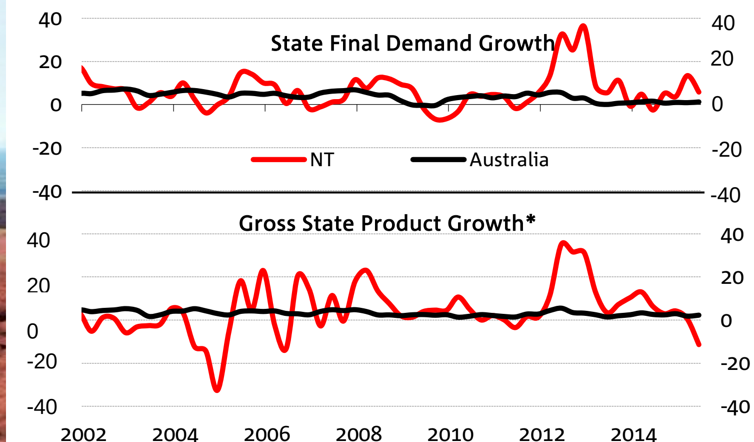


Chart 2: State Growth



*NAB Estimate

Source: ABS , NAB Economics

In Focus: Northern Territory LNG construction boom in context

- Australia is significantly ramping up LNG production capacity, with new terminals in Western Australia, Queensland and the Northern territory opening over the coming two years. This will give Australia the world's largest LNG production capacity – some 85.4 million tonnes per annum (mtpa) by 2017, over 20% of global capacity. The Northern Territory has 3.7 mtpa of operational capacity (Darwin LNG) and 8.4 mtpa under construction (Ichthys LNG) (Chart 3).
- Global LNG prices have fallen significantly since mid-2014 on the back of lower oil prices, to which many LNG contracts are tied (Chart 4). For example, most Japanese LNG contracts are based on the Japan Crude Cocktail (JCC) – the import price of crude oil into Japan. However, total contracted volumes are still ramping up significantly in the NT (Chart 5).

Chart 3: Total Australian LNG nameplate capacity by project (mtpa)

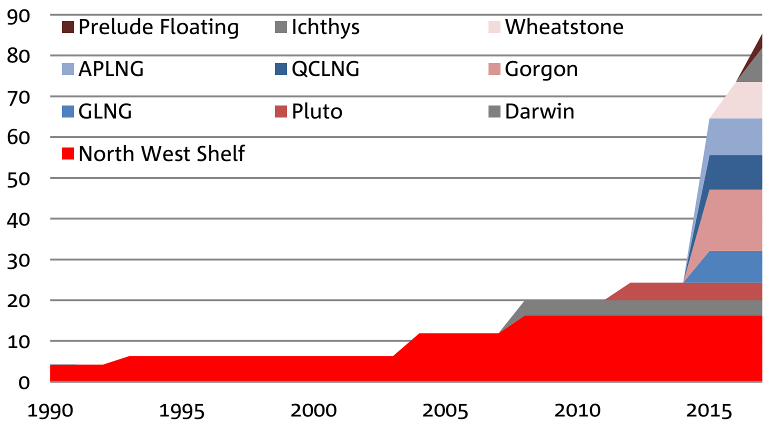


Chart 5: Total contracted Australian LNG supply (mtpa)

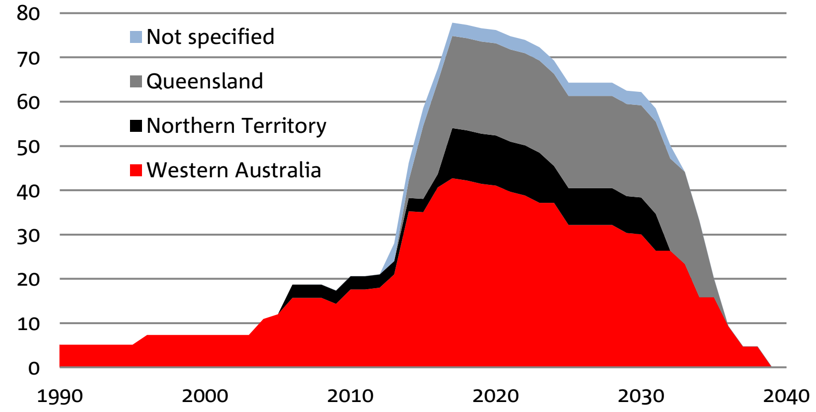


Chart 4: NAB LNG export price indicator (AUD/GJ)

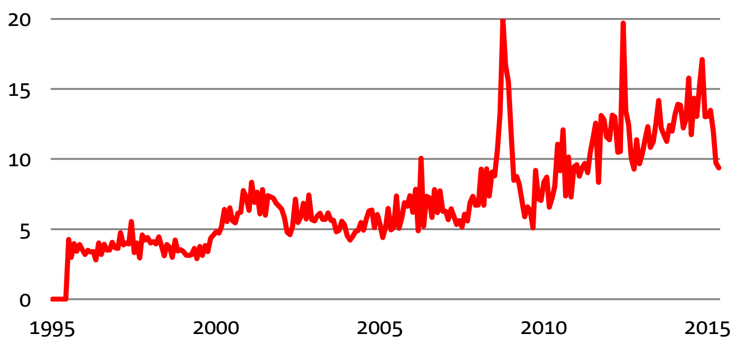
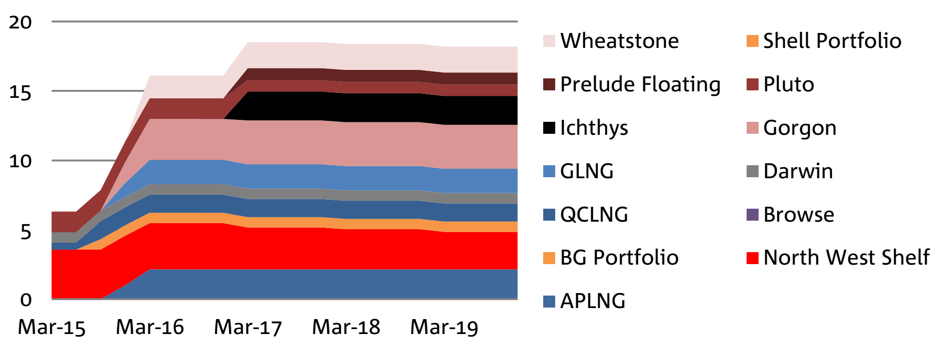


Chart 6: Forecast LNG export ramp-up by project (excluding Browse contracts) (million tonnes per quarter)



Source: Bloomberg, Poten & Partners, Australian Bureau of Statistics, APPEA, Oxford Institute for Energy Studies and NAB Group Economics

Business investment likely to decline from historic highs; households coming under pressure

- In recent years, the construction of the Ichthys LNG project in Darwin has boosted business investment and supported consumer spending. After construction began in 2012, business investment skyrocketed from an average of 13% in 2010-11 to 36% in 2013-14. However, with construction activity on the project peaking, the household consumption growth has slowed, average consumption has turned negative, retail turnover growth turned negative and house prices have stagnated (Charts 7 and 8).
- Weak wages growth (Chart 7), in conjunction with weaker employment prospects, will remain a challenge for consumer spending and the housing market. Building approvals data reflect the exceptional capital investment of the Ichthys LNG project. Approvals have since declined substantially save for an uptick in retail/wholesale approvals (Chart 9).
- International tourist numbers have been increasing as the AUD depreciates (Chart 10).

Chart 7: Average Compensation and Household Consumption Growth

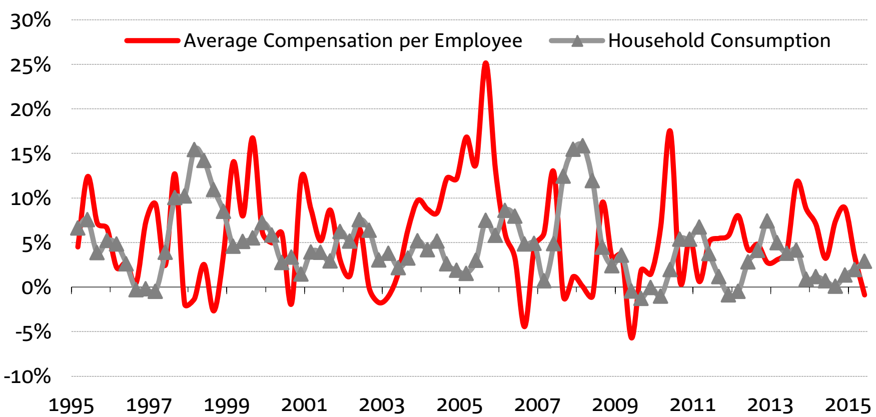


Chart 9: Non-residential Building Approvals ($ millions)

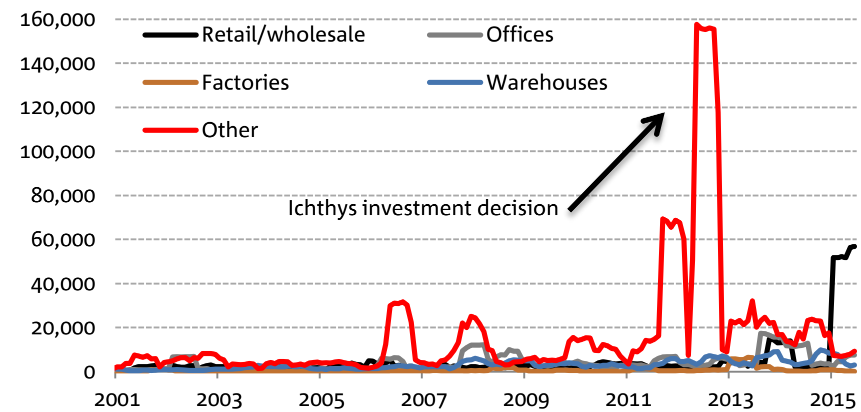


Chart 8: Retail turnover and house price growth (YoY)

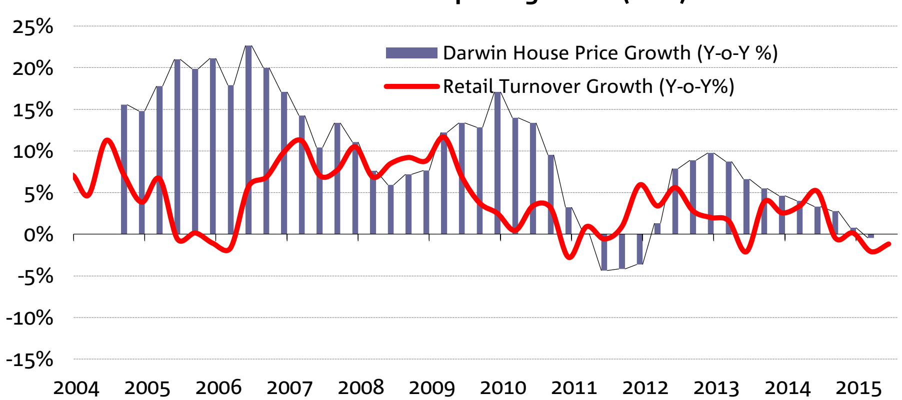
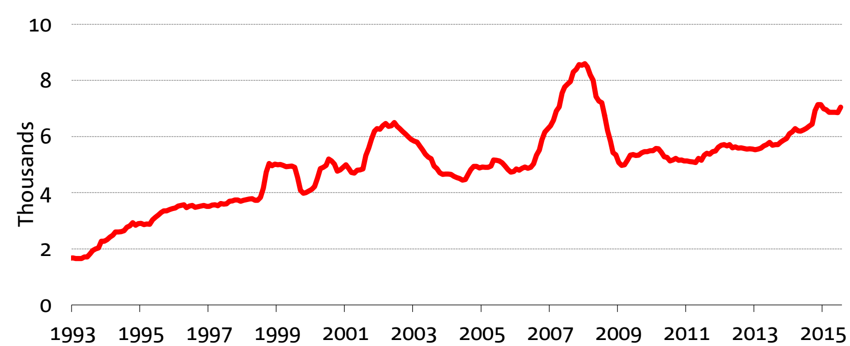


Chart 10: Short-term international visitors, 12-month moving average



Source: ABS, RP-Data and NAB Group Economics

Unemployment on the rise

- The LNG construction boom has provided a considerable boost to employment in the Northern Territory, allowing the NT to enjoy a below average unemployment rate. However, regional disparities are considerable. Darwin has an unemployment rate of 3.2% compared to 4.9% in Outback NT. The Darwin unemployment rate was just 2.6% at the end of 2014.
- Over the last 12 months, the retail sector and to a somewhat lesser extent construction and mining have seen the greatest job losses in the Territory. This reflects a peaking in LNG construction and points to increasing unemployment in the coming years as construction winds down. In contrast, hospitality recorded the biggest employment gain, perhaps reflecting a pick-up in tourism, followed by business services.

Chart 11: Unemployment rate by region, %

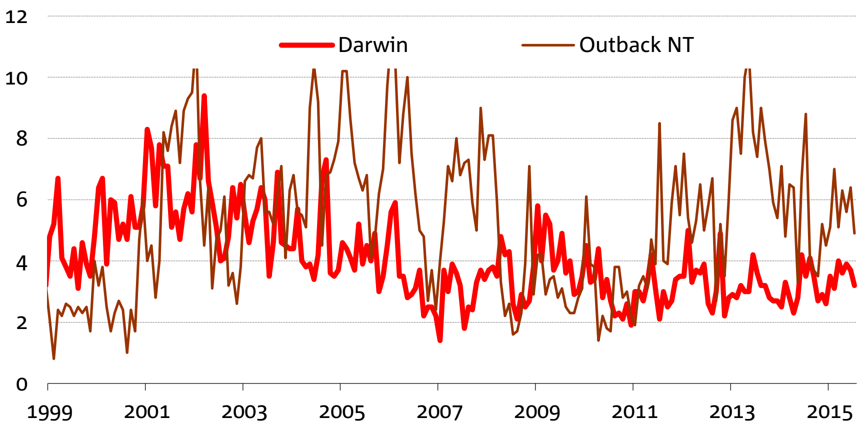
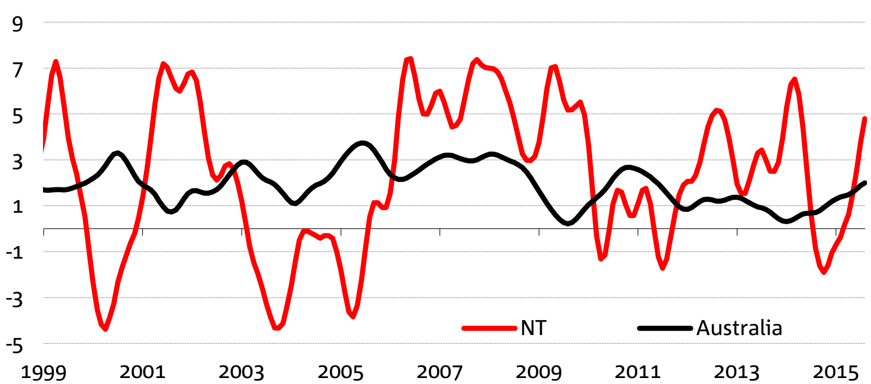


Chart 12: Employed persons, NT and Australia, YoY % growth, trend



Source: ABS

Chart 13: Change in employment by industry, last 12 months, NT, '000

Population growth struggling amid net interstate migration deficit

- The Northern Territory has the smallest population and the third largest land mass of all Australian jurisdictions. Its population growth has been characterised by volatile net interstate and overseas migration and steady natural increases (chart 14).
- The resource projects have brought in large numbers of skilled workers from both overseas and interstate but as their construction peaks, NT's population growth has slowed sharply and is now below the national average (chart 15).

Chart 14: NT Population growth (000s, over the year)

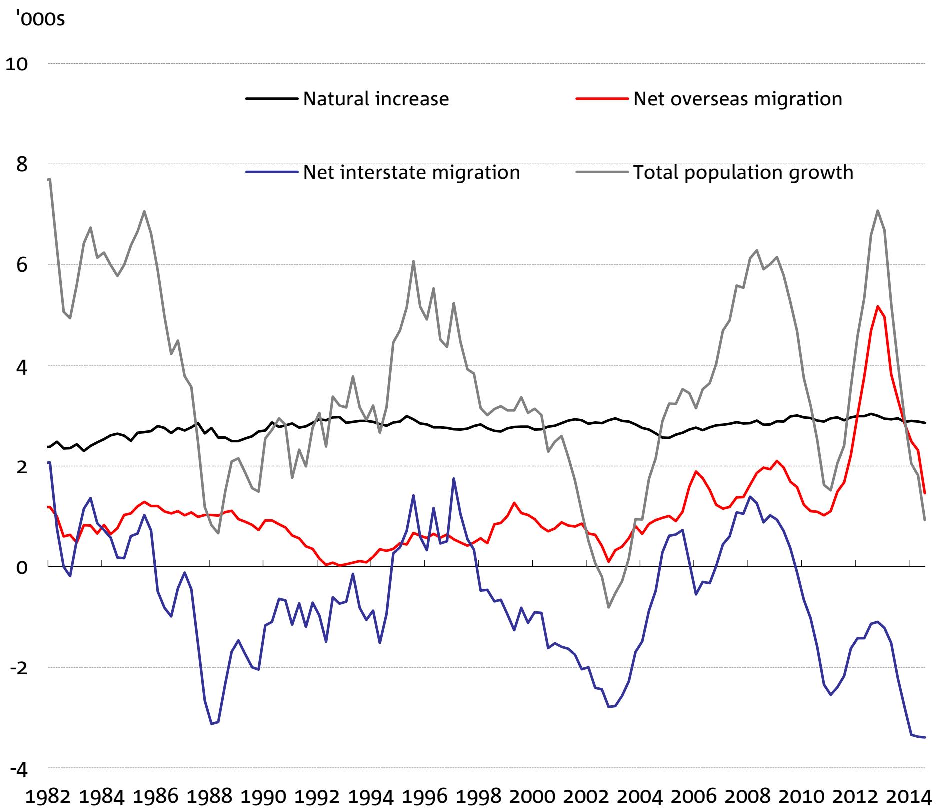
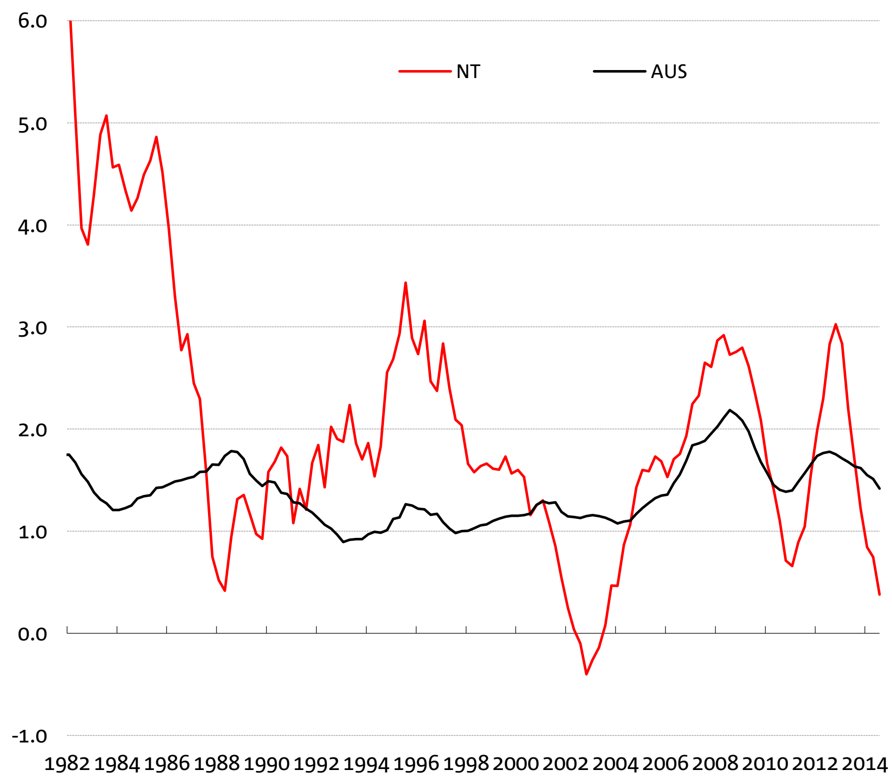


Chart 15: NT population growth (year-ended growth)



Source: ABS

Residential approvals falling, prices anaemic

- The peak in LNG construction has seen dwelling approvals begin to slide after peaking in the September quarter 2014. Although commencements have held up better in the latest data, the pipeline of residential construction will be under pressure with the completion of the Ichthys plant approaching (chart 16). The types of buildings being approved has also changed – apartment approvals have increased while housing approvals relative to population have remained steady (chart 17).

- With the labour requirement of Ichthys expected to decline, leading to slower population growth, house prices are likely to come under some downward pressure. Darwin city house prices have already seen a decline, although new residential development in Palmerston has provided support to prices for units in particular (chart 18). Outback NT saw median house prices increase 3.7% over the year to Q1 2015.

Chart 16: NT Residential Approvals & Commencements

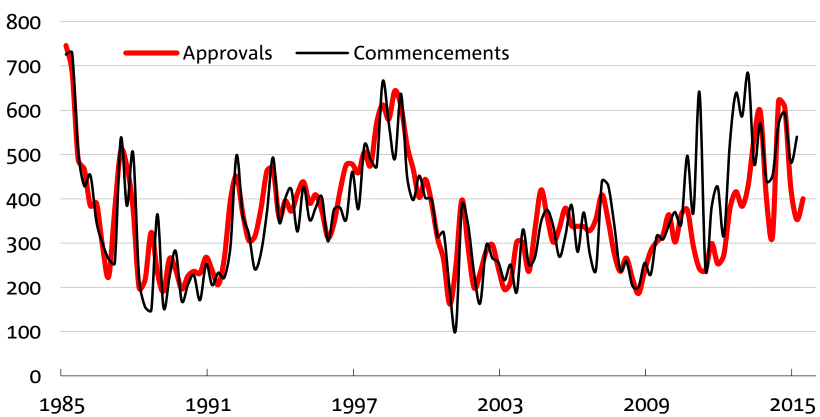


Chart 18: Darwin Residential Property Price Growth (year to Q1 2015)

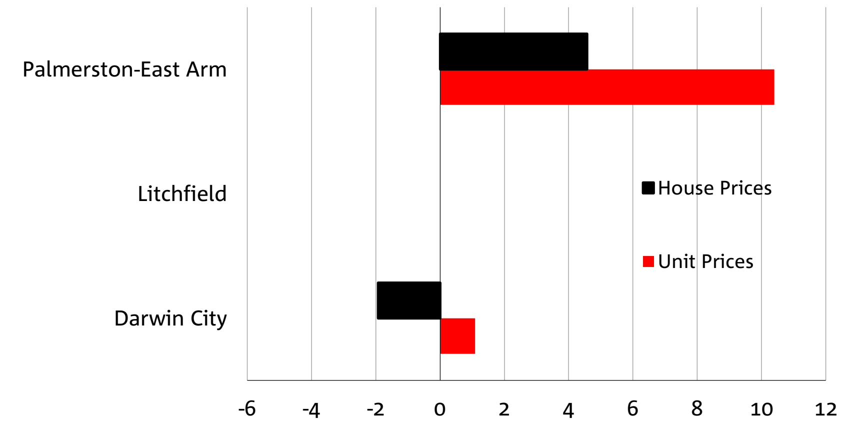


Chart 17: Building approvals relative to population (LRA=100)

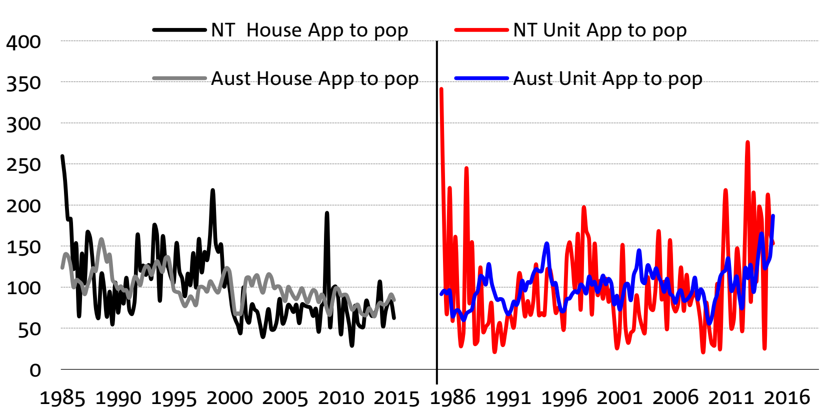
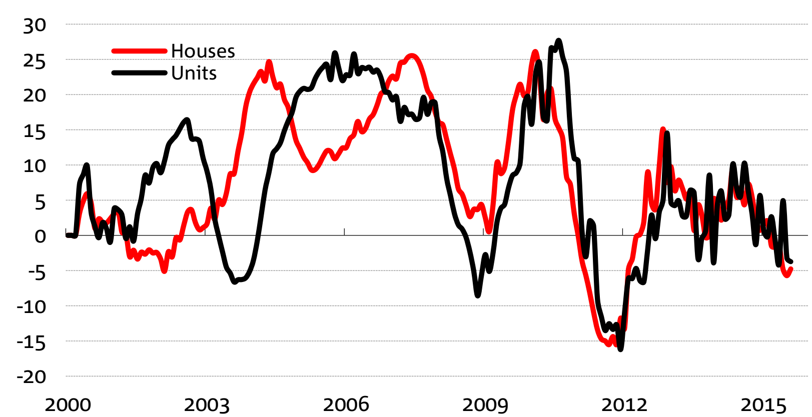


Chart 19: Darwin Residential Property Price Growth (year to Aug 2015)



Source: ABS, RP-Data and NAB Group Economics

Fiscal outlook: still in surplus but under pressure

- The 2015-16 Budget forecasts a net operating result of $227 million this year. However the surplus is set to contract to just $78 million by 2018-19 (chart 20). Commonwealth grants dominate the Northern Territory's revenue base. Around half of the Northern Territory Government's revenue comes from GST, compared to less than a quarter for Victoria (chart 22). The Northern Territory is the only State or Territory not to levy land tax.

- The Northern Territory's dependence on GST leaves it exposed to fluctuations in GST pool growth and its share of the pool. An additional 18% of NT government revenue is from Commonwealth tied grants. This leaves the Territory also vulnerable to the lower indexation of Commonwealth tied grants. The borrowing programme for 2015-16 is estimated to be AUD300-550m. The sale of TIO and Port of Darwin may affect funding needs. (Chart 23).

Chart 20: NT Net Operating Position ($ million)

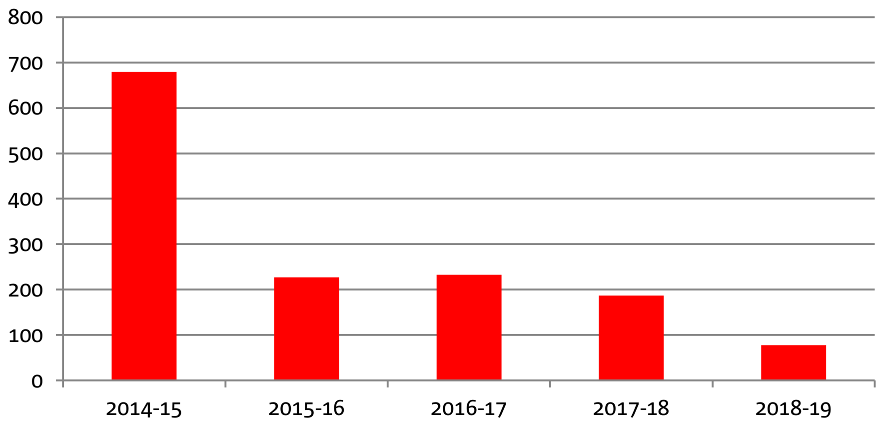


Chart 22: NT Composition of state revenues

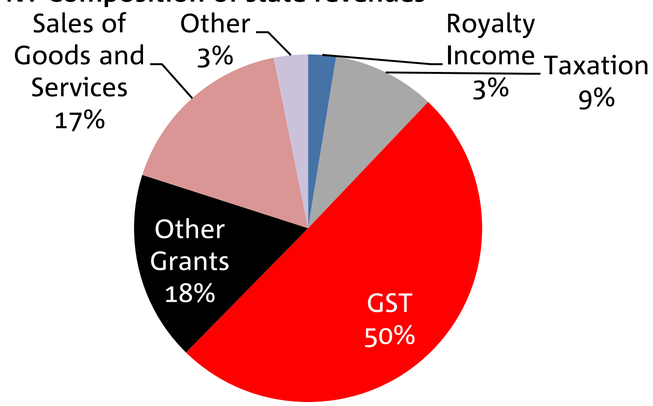


Chart 21: Northern Territory Non-Financial Public Sector net debt)

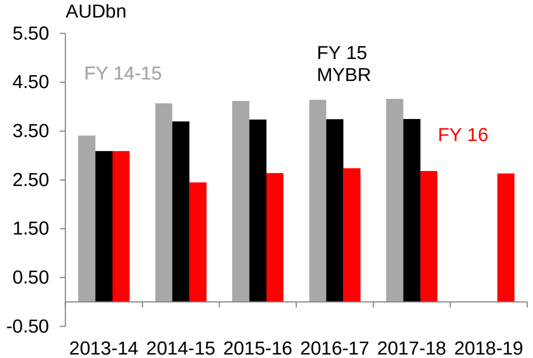
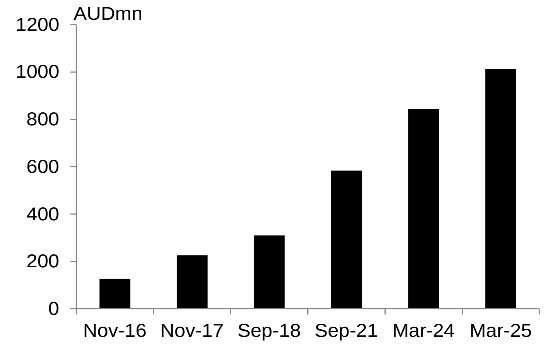


Chart 23: NTTC bonds outstanding

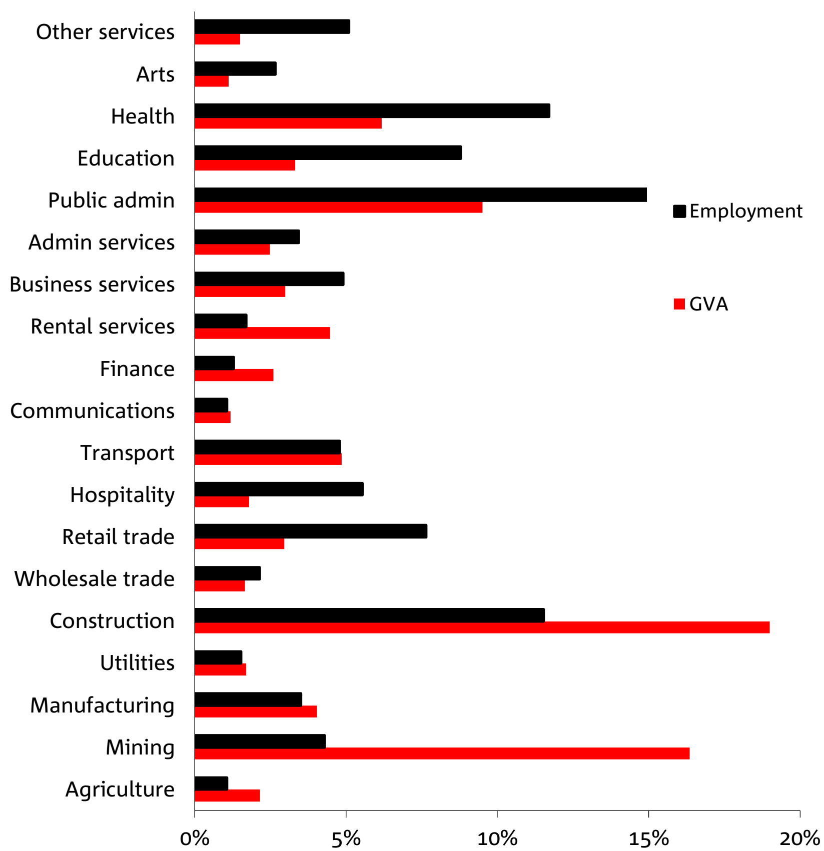


Source: NT Department of Treasury and Finance, Bloomberg and NAB Group Economics

Economic structure & trade

- The economic structure of the Northern Territory is very different from that of other states and territories. Its high dependence on mining and mining-related construction and transport industries makes it highly prone to the cyclical movements in the economy. The territory also has a large public administration and defence presence (Chart 24).
- During times of strong commodity prices and mining investments, NT's economy tends to grow strongly, but this leaves the Territory exposed in the event of a downturn. Due to the lack of diversity in its economic base, NT's economic growth rates can vary greatly from year to year.
- The NT's international trade is dominated by Asia (Chart 25).

Chart 24: Composition of employment & GVA



Source: ABS

Chart 25: Top export destinations, NT, 12-month average to July 2015

		Value of exports ($m)			Value of imports ($m)
1	Japan	2639	1	Japan	1573
2	China	1355	2	ASEAN	1416
3	ASEAN	1247	3	China	958
4	Korea	149	4	EU	569
5	EU	123	5	Singapore	523
6	US	115	6	US	206
7	India	94	7	Korea	150
8	New Zealand	29	8	UK	66
9	Germany	28	9	Germany	65
10	Singapore	19	10	Taiwan	33
11	Taiwan	1	11	New Zealand	3
12	HK	0	12	HK	1

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