

State Update: Northern Territory – January 2016

NAB Group Economics



National
Australia
Bank



Contents

Key points	2
In Focus: LNG in context	3
Business and consumer sectors	4
Residential property	5
Labour market	6
Demographics	7
Fiscal outlook and semis	8
Economic structure	9

Key points

- The Northern Territory's economy is highly dependent on mining and mining-related construction, which sets it apart from other states and territories. Since 2012, the construction of the Ichthys LNG project in Darwin has seen skyrocketing investment, higher employment and surging GSP growth. The project will bring gas from the Browse Basin to an LNG processing and export facility in Darwin. However, construction is three-quarters complete and showing signs of peaking or having already peaked. This suggests that the **recent growth in employment is likely to come to an end upon project completion (likely to be in early 2017)**. Indeed, wages, consumer spending, dwelling commencements and house prices are already under pressure.
- The Northern Territory has long been prone to the impacts of extremely variable capital investment levels and prevailing commodity prices. With oil prices (to which LNG prices in East Asia are generally tied) at the lowest level in over a decade, it is unlikely that the Northern Territory will see much in the way of investment in the sector in the foreseeable future. **We forecast that GSP growth will fall to 4.5% in 2015-16 and 3% in 2016-17.** Further, the headline figure for 2016-17 will be boosted by LNG export volumes, but these will provide little support to the labour market or property prices. **We see the unemployment rate increasing to 4.5% in 2015-16 and 4.7% in 2016-17.** This remains below the national average however.
- Tourism has seen growth, with visitor numbers up 18% in Central Australia and 2% in the top end in 2014-15. We expect the lower Australian dollar to provide support to tourism, although our forecasts show the majority of adjustment in the AUD to have already occurred. The Northern Territory's remoteness means it has a relatively high level of public sector employment. Its budget is highly dependent on transfers from the Commonwealth, especially in the form of GST, which accounts for half of Territory revenue. This makes the Northern Territory highly reliant on nationwide consumption as well as Commonwealth policies to preserve its outsized share of the GST pool. Possible changes to federal taxation arrangements add to uncertainty. The Northern Territory also has a large defence presence.

Contact

Phin Ziebell, Economist

Riki Polygenis, Head of Australian Economics

Skye Masters, Head of Interest Rate Strategy

Chart 1: State GSP Growth Forecasts

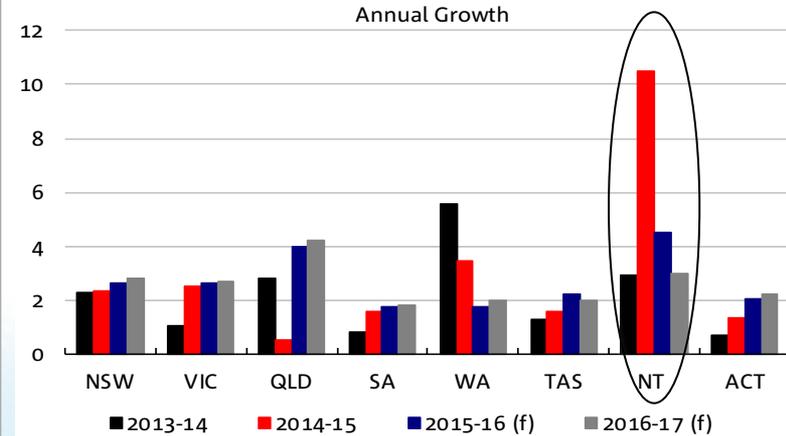
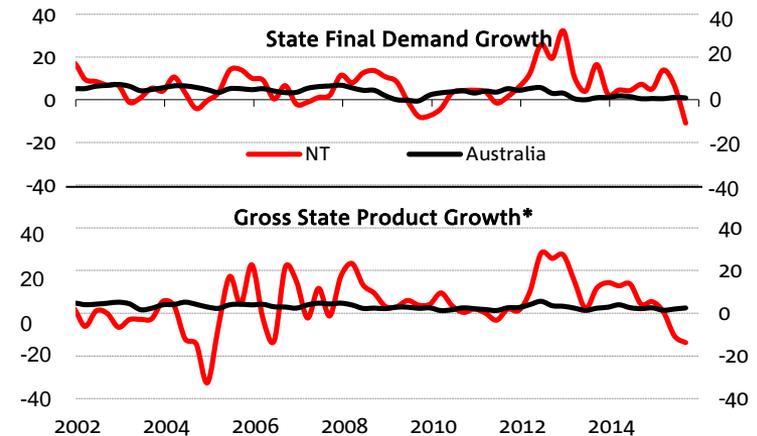


Chart 2: State Growth



*NAB Estimate

Source: ABS, NAB Economics





In Focus: Northern Territory LNG construction peaking

- New terminals in Western Australia, Queensland and the Northern Territory opening over the coming two years will see Australia become the world's biggest LNG exporter with some 85.4 million tonnes per annum (mtpa) installed capacity by 2017, over 20% of the global total. The Northern Territory has 3.7 mtpa of operational capacity (Darwin LNG) and 8.4 mtpa under construction (Ichthys LNG) (Chart 3). Ichthys is three-quarters complete and is headed for an early 2017 start-up.

- 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). With oil prices low and LNG terminal capacity expanding rapidly, it is unlikely that the Northern Territory will see further LNG investment beyond Ichthys (for example an additional train), at least for several years. The Ichthys project completed a number of milestones in 2015 (Figure 1), this suggests that the labour requirement for the project will wane over the coming months.

Chart 3: Total contracted Australian LNG supply (mtpa)

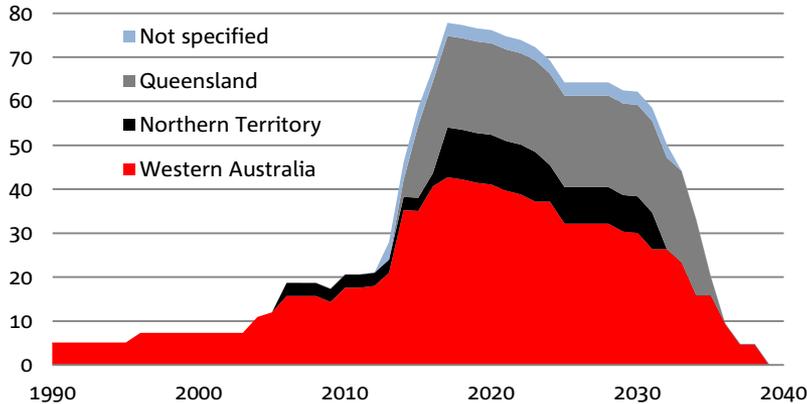


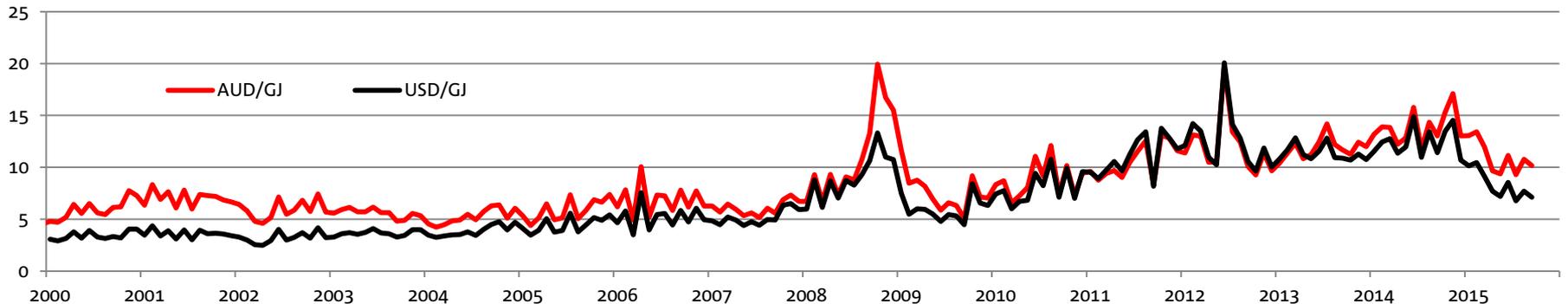
Figure 1: major milestones for the INPEX Ichthys LNG project in 2015

- Main civil works project at Bladin Point nearing completion
- Product loading jetty complete
- Gas export pipeline installed
- Outer walls and roof structures complete on all storage tanks
- All major components on CCGT power station installed

Figure 2: major items continuing construction in 2016

- LNG train construction
- Electrical and mechanical installations

Chart 4: NAB LNG export price indicator





Business investment declining from historic highs; households coming under further pressure

- Since the final investment decision in 2012, construction of the Ichthys LNG project in Darwin has boosted business investment, employment, wages and supported consumer spending. After construction began in 2012, business investment skyrocketed as did demand for labour for project construction. However, with construction activity on the project peaking, average compensation per employee, retail turnover and house price growth have all turned negative (Charts 5 and 6). Household consumption growth remains slightly positive.

- Wage growth has turned negative (Chart 5) and we expect weaker employment prospects over the coming year. This will pose an increasing challenge for consumer spending and the housing market. Building approvals data reflect the significant capital investment of the Ichthys LNG project but little in the way of recent approvals (Chart 7). The depreciation of the AUD has boosted International tourist numbers but recent data show a slight downturn. (Chart 8). Visitor growth has been strongest in Central Australia (up 18% in 2014-15) but slow in the top end (up just 2%).

Chart 5: Average Compensation and Household Consumption Growth

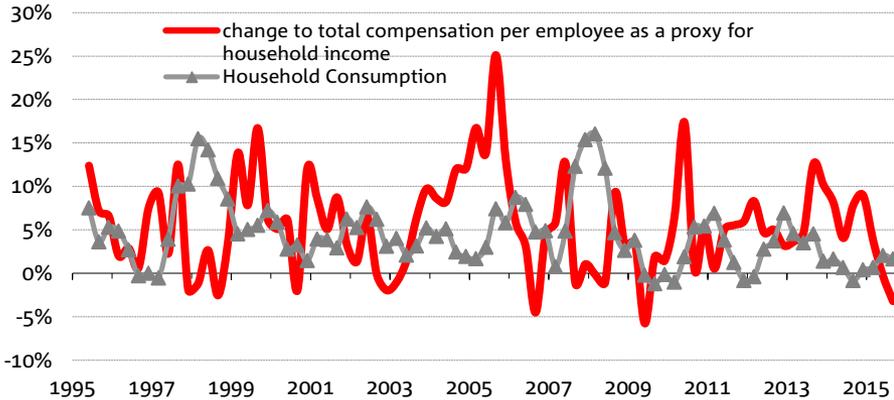


Chart 6: Retail turnover and house price growth (YoY)

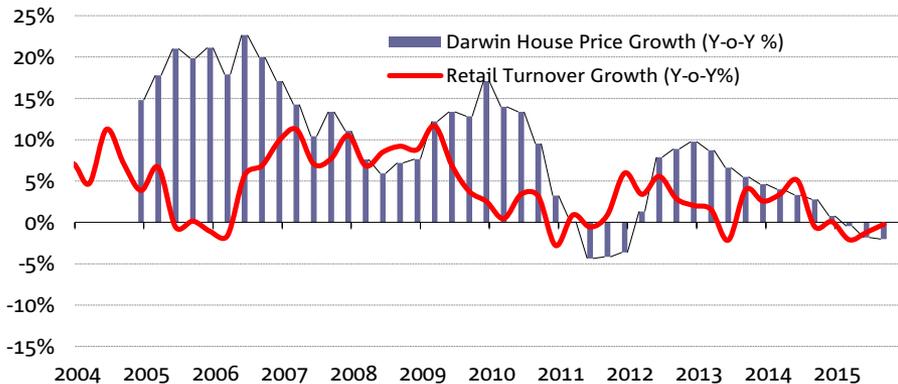


Chart 7: Non-residential Building Approvals (\$ millions)

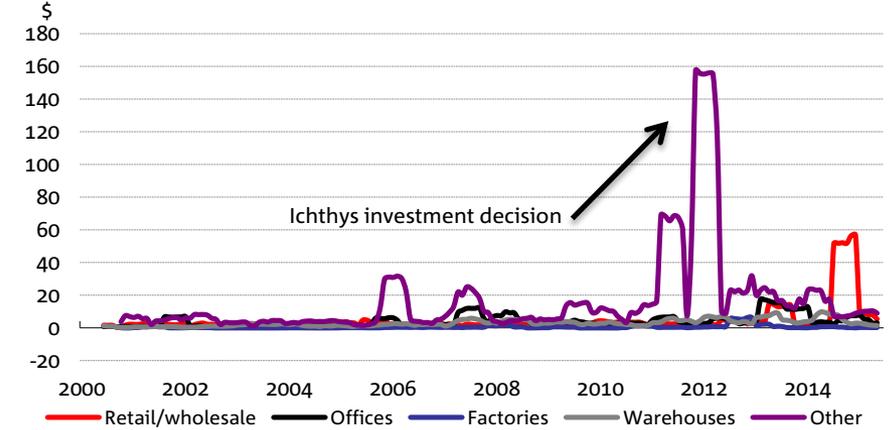
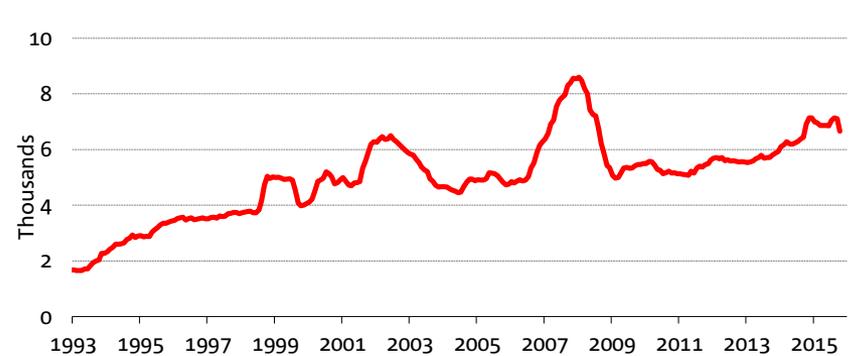


Chart 8: Short-term international visitors, 12-month moving average





Residential approvals recovering, but commencements down and price growth negative

- Recent data show an up-tick in dwelling approvals following a slide that began after peaking in the September quarter 2014. However, commencements have fallen significantly and the pipeline of residential construction will be under pressure with the completion of the Ichthys plant approaching (Chart 9) despite considerable building in the growth area of Palmerston. Approval types have also changed – apartment approvals have fallen recently while housing approvals relative to population have remained steady (Chart 10).

- Darwin house prices are well into negative territory and have been since early 2015. One area of Darwin which has seen increasing prices is Palmerston-East Arm. Palmerston, a satellite suburb to the south of Darwin, is seeing significant investment and a continued pick in prices, especially for apartments. Darwin city house prices have already seen a decline and we expect prices to remain under pressure.

Chart 9: NT Residential Approvals & Commencements

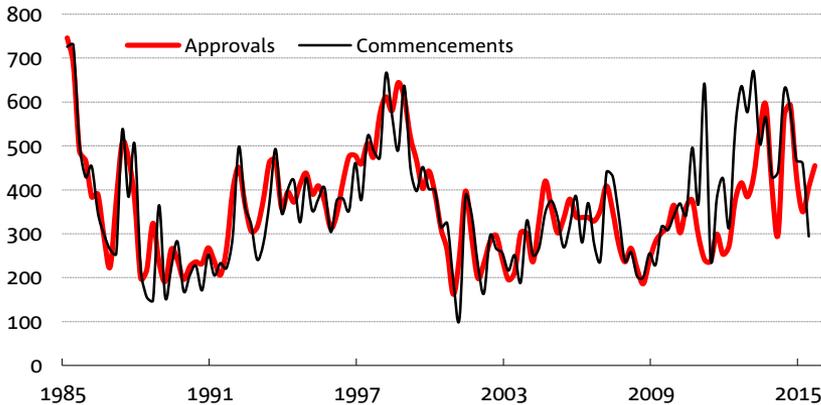
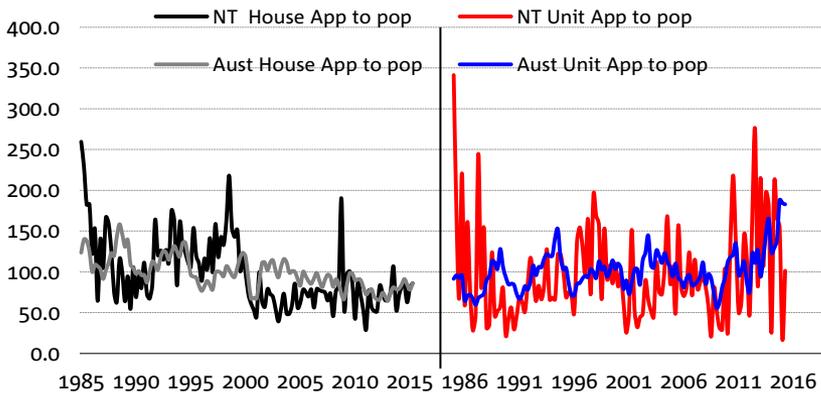


Chart 10: Building approvals relative to population (LRA=100)



Source: ABS, RP-Data and NAB Group Economics

Chart 11: Darwin Residential Property Price Growth (year to Q3 2015)

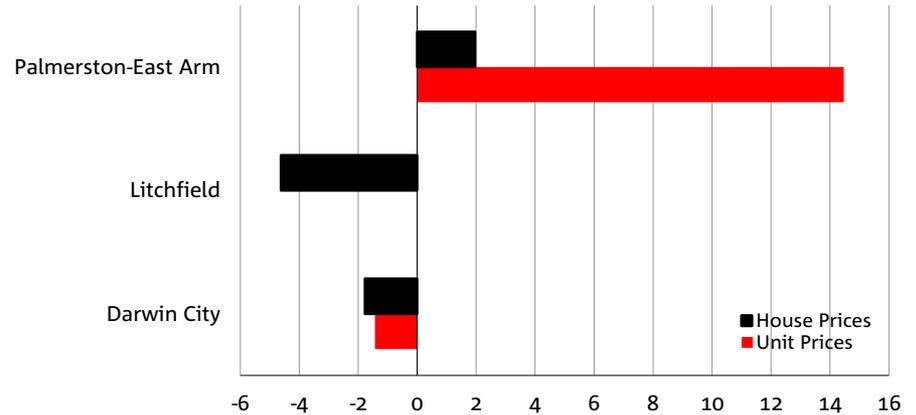
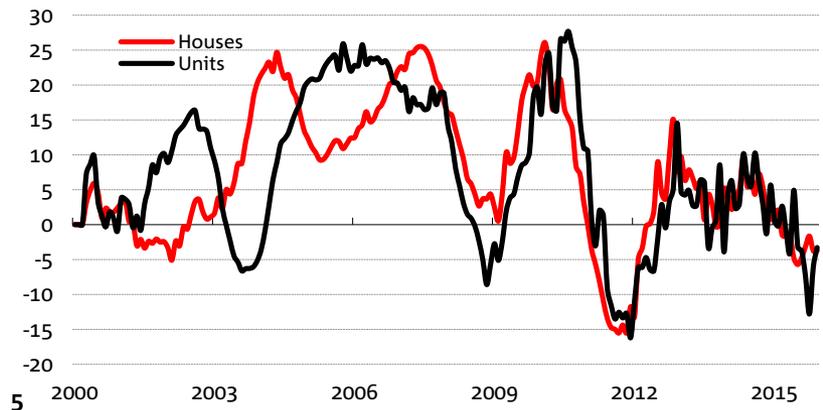


Chart 12: Darwin Residential Property Price Growth (year to Dec 2015)





Unemployment remains low, defying the construction peak for now

- The Northern Territory's unemployment rate remains well below the national average, thanks to the employment boost from the LNG construction boom. Owing to the centralised nature of construction, regional disparities are substantial – Darwin's unemployment rate remains at a very low 2.9% compared to 4.9% in Outback NT. The Darwin unemployment rate remains very low despite signs that wages are pulling back and LNG construction is peaking, but employment growth is slowing.

- Over the last 12 months, construction and mining have seen the greatest job losses in the Territory. This points to higher unemployment in the coming years as construction winds down, although our unemployment forecasts (4.5% in 2015-16 and 4.7% 2016-17) point to unemployment remaining below the national average.
- Education recorded the biggest employment gain. Hospitality recorded a small increase in employment, perhaps reflecting a pick-up in tourism.

Chart 13: Unemployment rate by region, %

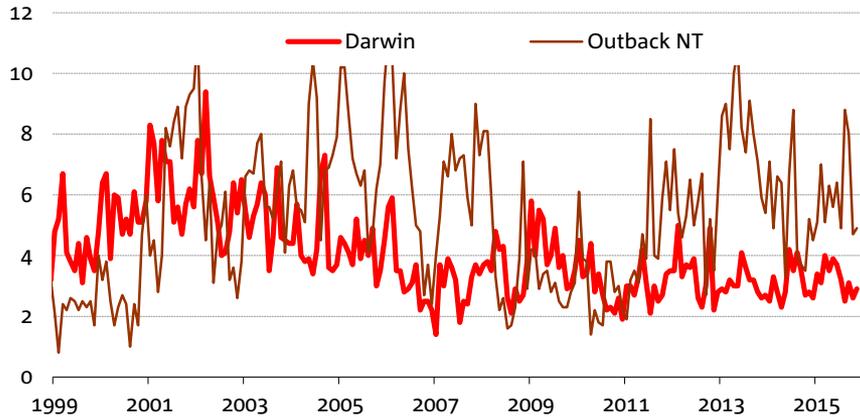
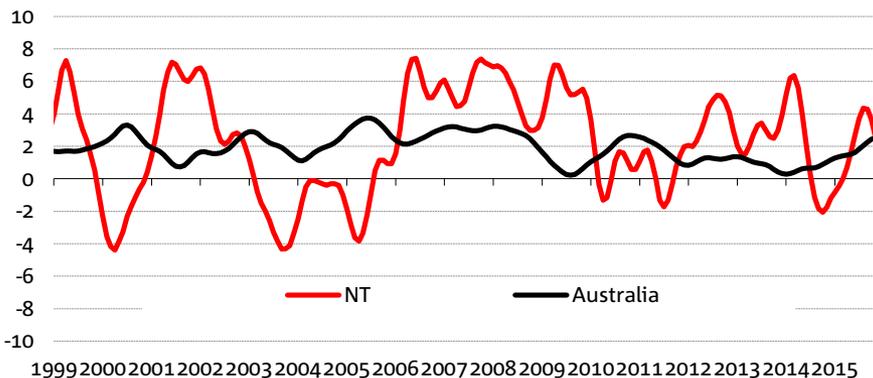
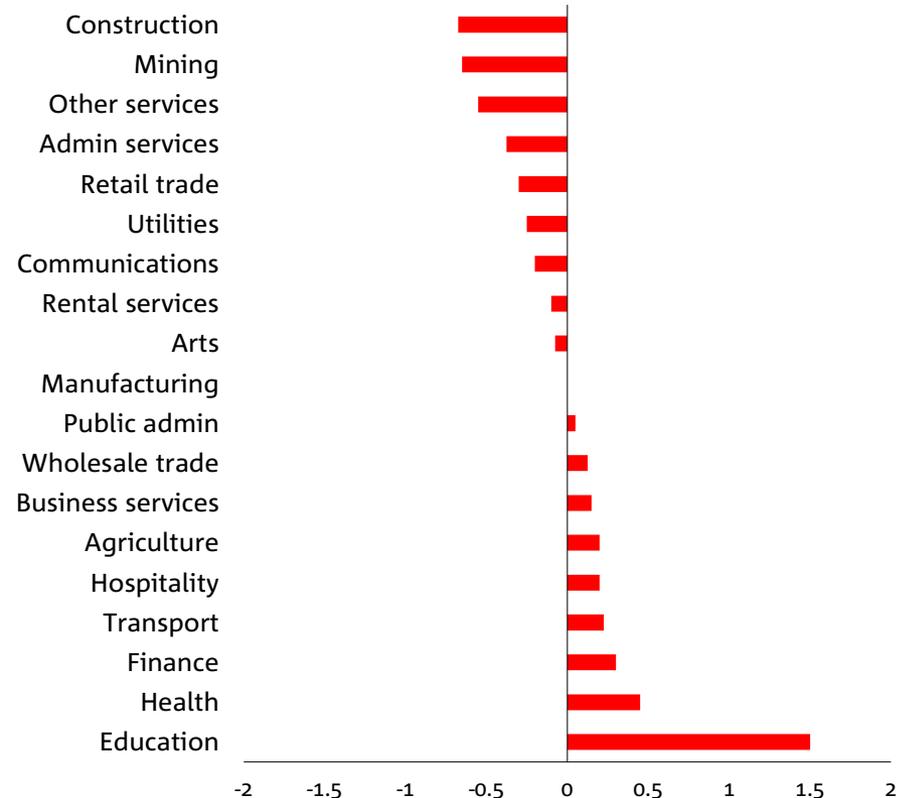


Chart 14: Employment, NT and Australia, YoY % growth, trend



Source: ABS

Chart 15: Change in employment by industry, last 12 months, NT, '000





Population growth struggling but may have bottomed out

- The Northern Territory is large and sparsely populated – it has the smallest population and the third largest land mass of Australia’s six states and two internal territories. Highly volatile net interstate and overseas migration but steady natural increases is a marked feature of its population growth (Chart 16). A spike in overseas migration around the time of Ichthys construction was particularly marked.
- The data show that the large numbers of skilled workers from both overseas and interstate brought in for LNG construction has now well and truly worn off as construction peaks. The Northern Territory’s population growth has slowed sharply and is now equal lowest with Tasmania (chart 17). However, recent data point to net overseas and interstate migration stabilising, suggesting that the worst may be over.

Chart 16: NT Population growth (000s, over the year)

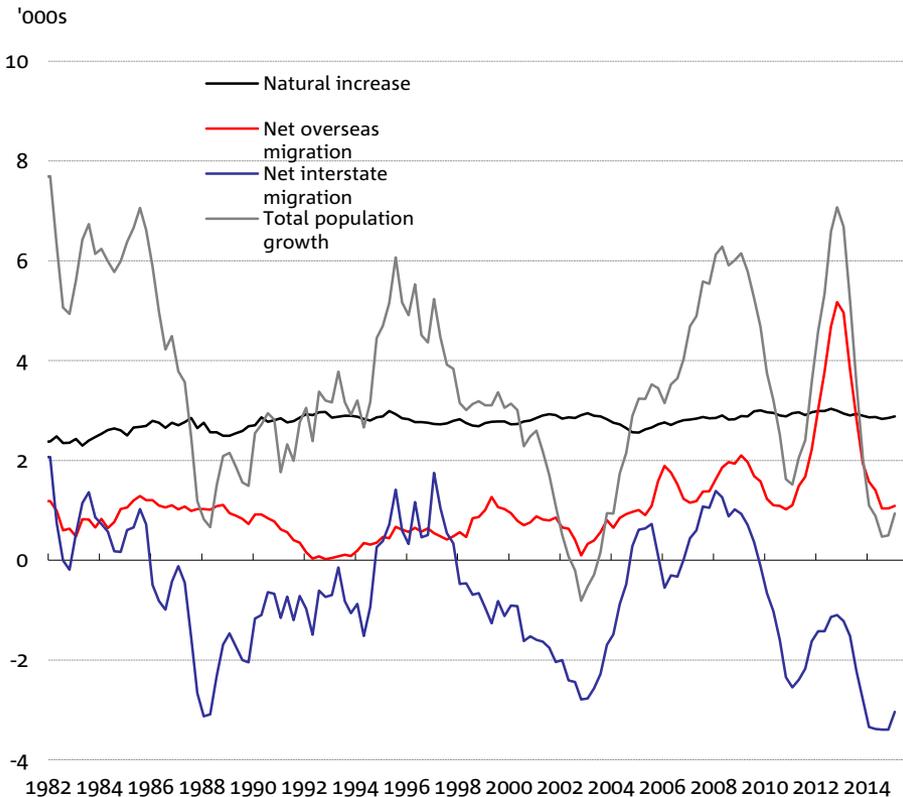
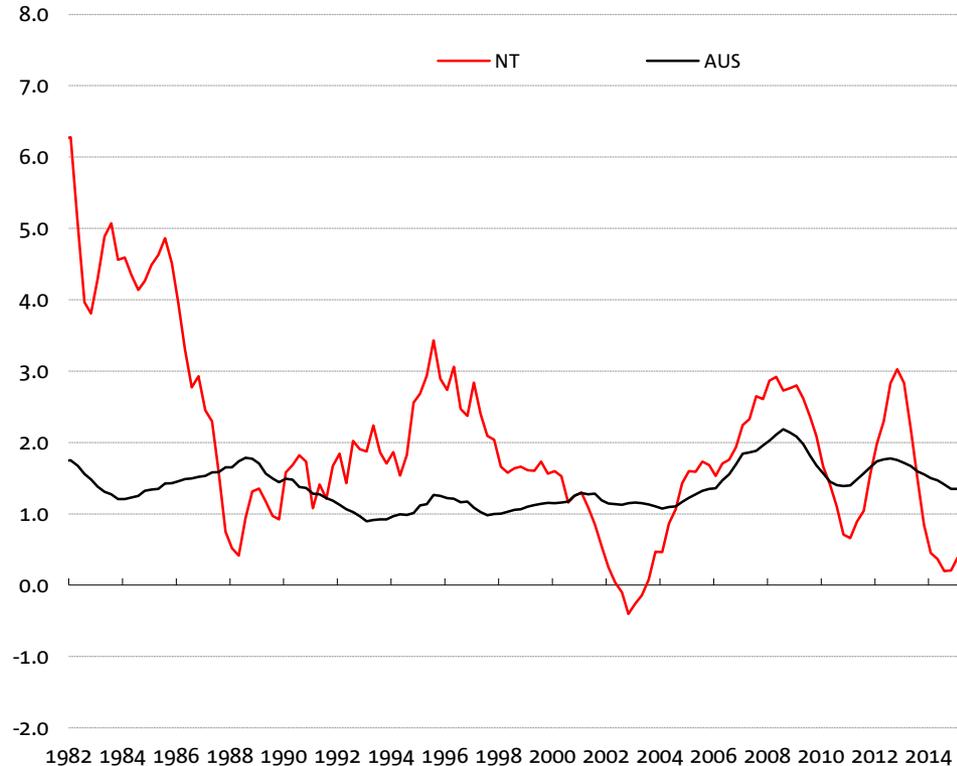


Chart 17: NT population growth (year-ended growth)





Fiscal outlook: still in surplus but outlook weakening

- The Northern Territory Mid-year Report (MYR) shows a slight improvement in the 2015-16 budget position and a lower net debt level with the later due to the long term lease of the Darwin Port. In the outer years the budget position has deteriorated, (Chart 18) reflecting lower stamp duty and the bringing forward of Commonwealth grants to 2015-16. The Territory's borrowing programme for 2015-16 was estimated to be AUD300-550m. The Port of Darwin lease may affect funding needs (Chart 21) and the MYR has not allocated a use for the lease funds.

- The Northern Territory's budget is highly dependent on transfers from the Commonwealth, especially in the form of GST, which accounts for half of Territory revenue. This makes the Northern Territory highly reliant on nationwide consumption as well as Commonwealth policies to preserve its outsized share of the GST 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.

Chart 18: NT Net Operating Position (\$ million)

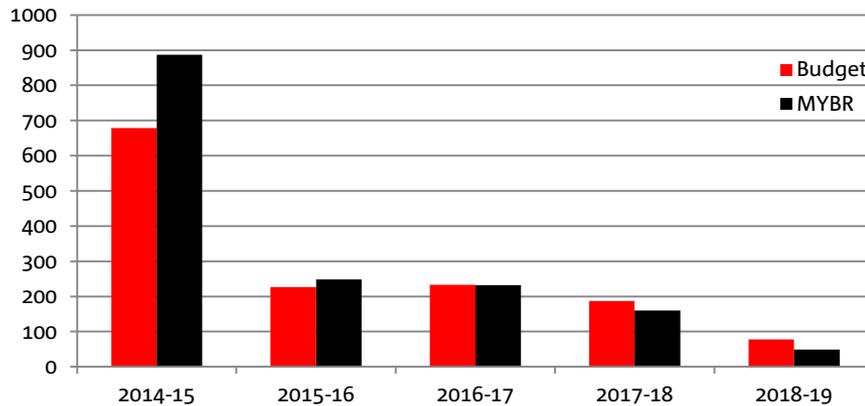


Chart 20: NT Composition of state revenues (2015-16 budget)

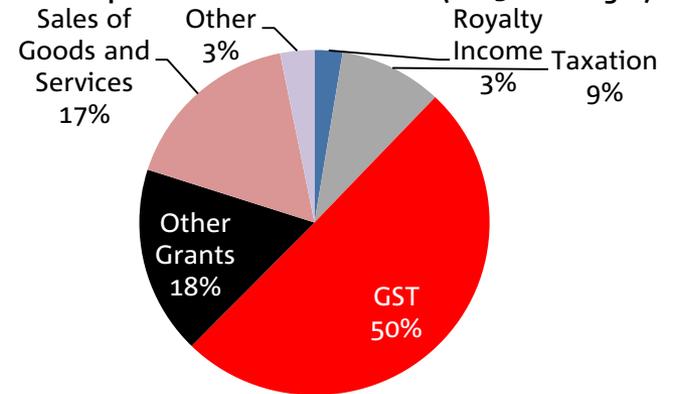


Chart 19: Northern Territory Non-Financial Public Sector net debt)

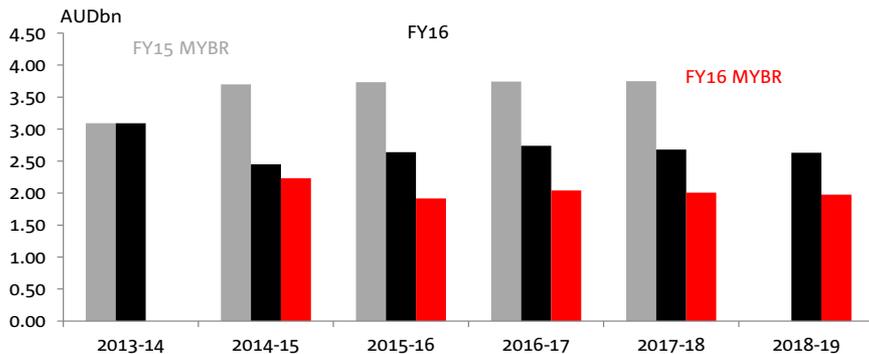
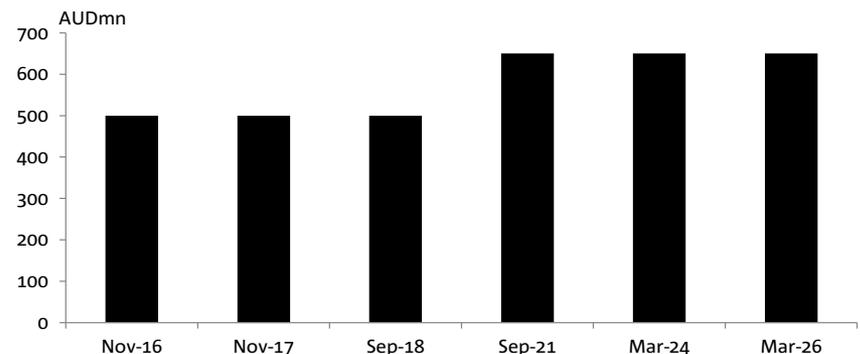


Chart 21: NTC bonds outstanding





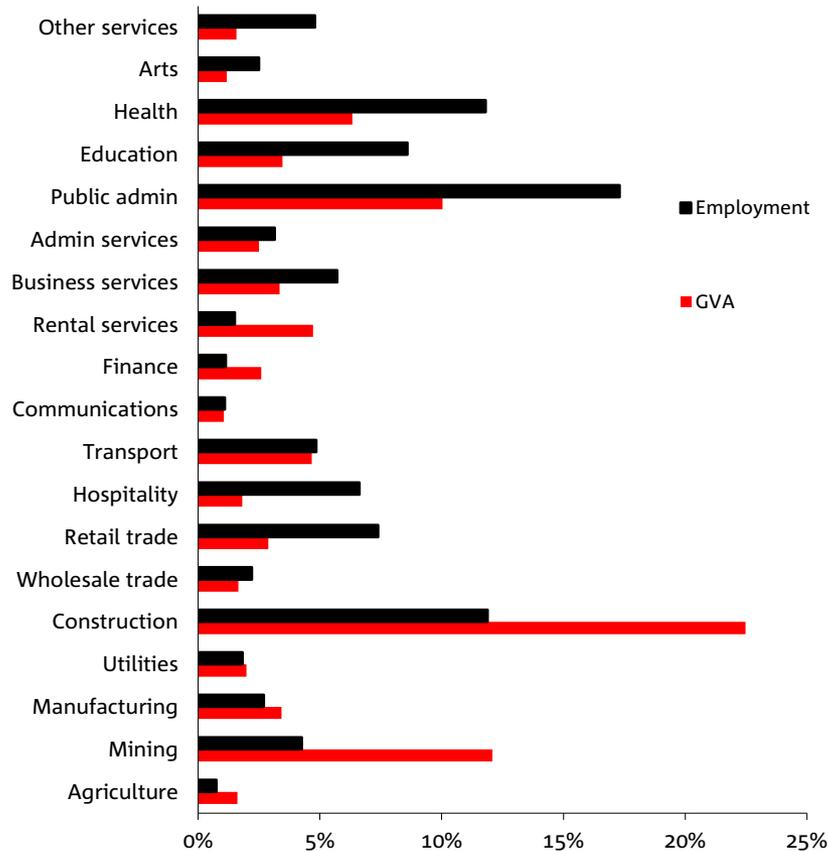
Economic structure & trade

- The Northern Territory's economy is highly dependent on mining and mining-related construction, which sets it apart from other states and territories. This dependence makes it highly prone to the cyclical movements in the economy. The territory also has a large public administration and defence presence, including permanently stationed US Marines (Chart 22).

- The economy has grown strongly during times of strong commodity prices and associated mining investments (Ichthys is a case in point) 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 23).

Chart 22: Composition of employment & GVA 2014-15



Source: ABS

Chart 23: Top export destinations, NT, 12-month average to November 2015

Value of exports (\$m)			Value of imports (\$m)		
1	Japan	2661	1	Japan	1829
2	China	1254	2	ASEAN	1536
3	ASEAN	1118	3	China	923
4	US	202	4	EU	416
5	Korea	136	5	Singapore	386
6	EU	114	6	US	238
7	India	56	7	Korea	153
8	Germany	28	8	Taiwan	58
9	Germany	28	9	UK	55
10	Singapore	7	10	Germany	46
11	HK	2	11	New Zealand	2
12	Taiwan	0	12	HK	1

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+(61 3) 8634 3837

Karla Bulauan
Economist – Industry Analysis
+(61 3) 86414028

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Andrew Jones
Credit Analyst
+61 3 8641 0978

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Jason Wong
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44 207 710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.