

STATE UPDATE: NORTHERN TERRITORY

JULY 2016



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KEY POINTS

CHART 1: STATE GSP GROWTH FORECASTS

Annual growth

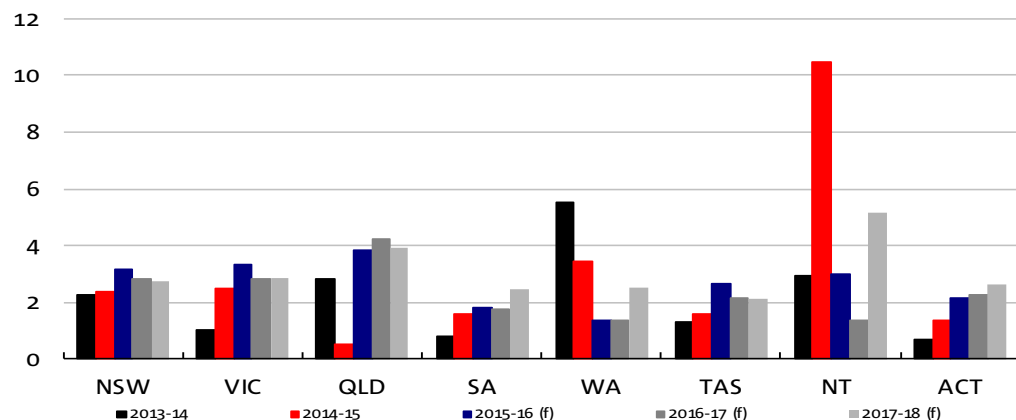
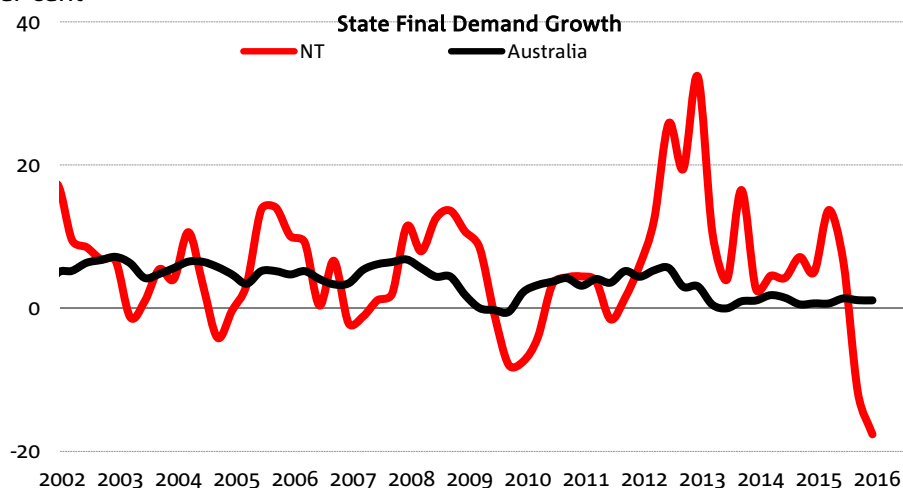


CHART 2: STATE FINAL DEMAND GROWTH

Per cent



Source: ABS and NAB Group Economics

The Northern Territory has just under a quarter of a million residents and an economy highly dependent on mining and mining-related construction, as well as a large defence and public sector presence. This sets it apart from most other states and territories.

Since the decision in 2012 to build the Ichthys LNG project in Darwin, the Territory 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 nearing completion** and much of the construction and civil engineering work is finished or close to finished. Recent data show that the positive impact of the project has already tailed off and **that employment, wages, business investment and dwelling prices are beginning to struggle**. This is likely to worsen upon project completion next year.

The Northern Territory's susceptibility to the impacts of extremely variable capital investment levels and prevailing commodity prices is not new. With oil prices (to which LNG prices in East Asia are generally tied) remaining subdued and Australian LNG projects expensive by global standards, it is unlikely that the Northern Territory will see much in the way of investment in the sector in the foreseeable future. While defence and public administration are a relatively large part of the Northern Territory economy, and tourism reveals some bright spots, we do not expect these to replace LNG construction. Likewise, the Territory is very dependent on Commonwealth grants, which we do not expect to grow strongly. We forecast that GSP growth will fall to 1.3% in 2016-17 before recovering to 5.1% in 2017-18, driven by LNG export volumes with domestic demand remaining weak. While the GSP figures once Ichthys is complete will be boosted by LNG export volumes, these will provide little support to the labour market or property prices. We see the unemployment rate at 5.0% in 2016-17 and 2017-18.

IN FOCUS

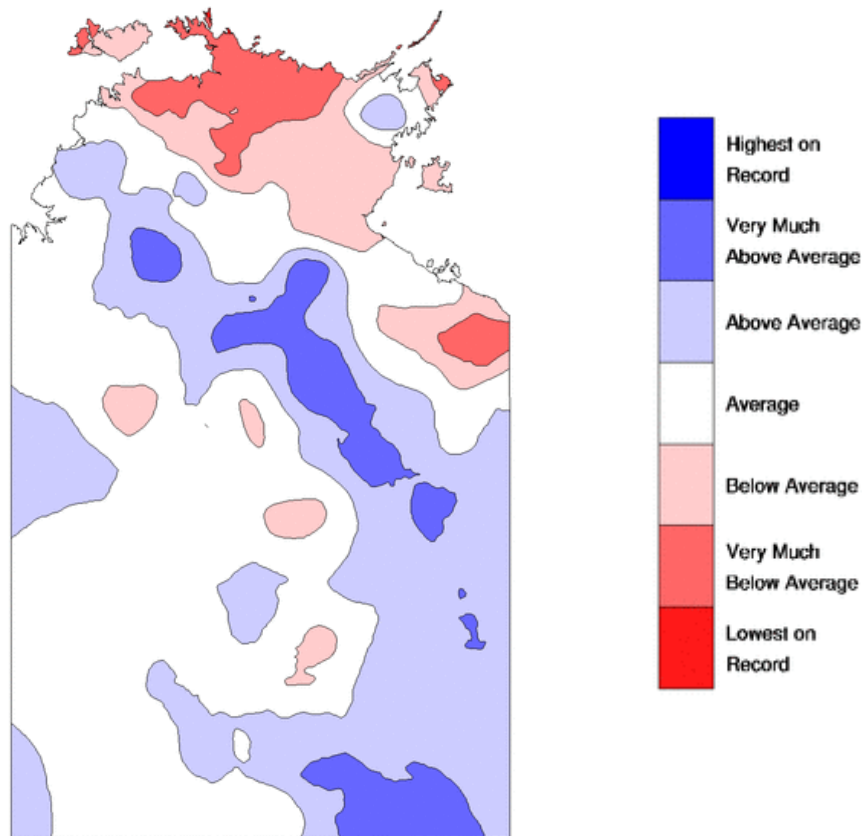
NT cattle industry

The Northern Territory cattle industry consists of mostly large outback stations and live export, primarily into South East Asia.

The industry depends on a good wet season for feed growth and last season (October to April) was patchy. While parts of the Territory saw above average rains, the top end, especially around Arnhem Land, as well as parts of the south west were dry to very dry, bringing forward mustering. NT cattle producers will be hoping for a decent wet season this year.

CHART 3: NORTHERN WET SEASON RAINFALL DECILES

Rainfall – 1 October 2015 to 30 April 2016



Source: Bureau of Meteorology, ABS, Meat and Livestock Australia and NAB Group Economics

Prices have improved markedly since 2014. While the price of live export cattle was previously around \$2/kg liveweight, recently prices have reached the \$3-4/kg range. This reflects the flow on into Asian markets of Australia's beef export boom to the United States. With US cattle supply now increasing and increased competition in global markets from South America, the peak of this boom looks to have passed.

Nonetheless, we expect Australian cattle prices to remain high this year on domestic restocker interest as producers look to rebuild following drought.

CHART 4: LIVE CATTLE EXPORT PRICES – DARWIN TO INDONESIA

c/kg lwt

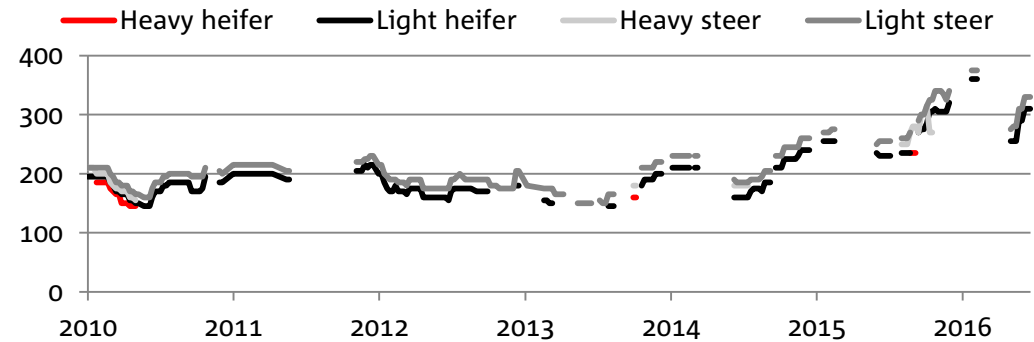
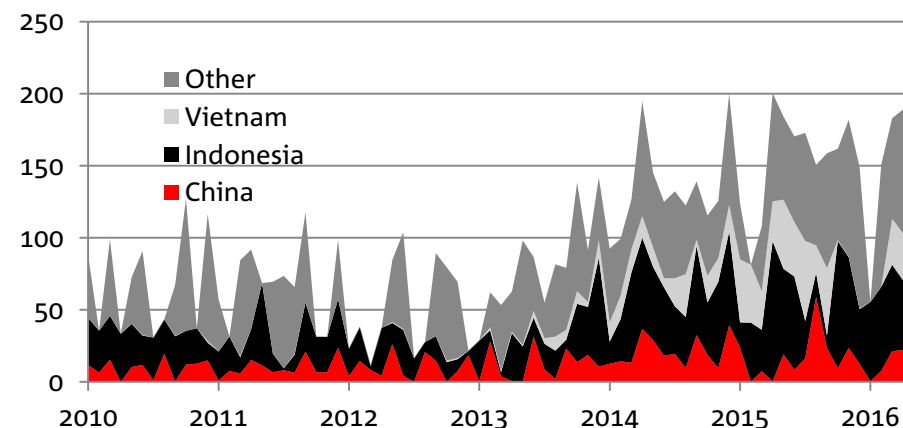


CHART 5: NORTHERN TERRITORY LIVE EXPORTS BY DESTINATION

Value - \$ million monthly



TOURISM

Domestic tourism booming but international visitor numbers under pressure

The latest tourism statistics present something of a mixed picture – domestic tourism is booming with interstate visitors up 31% to 819,000 in the year ended March 2016. However, international visitors were down 2.8% over the period, driven by lower visitor numbers from China and much of Europe offsetting increases from the United States and Japan.

Interstate visitors increased their spending 8.3% in the year ended March 2016, while Intra-Territory spending was up 59% and international spending down 15%.

CHART 6: HOLIDAY VISITORS BY REGION

y/y % 12 months to March 2016

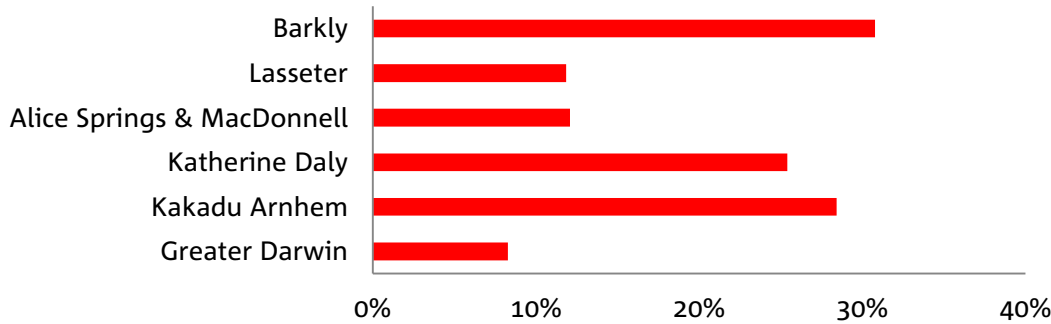
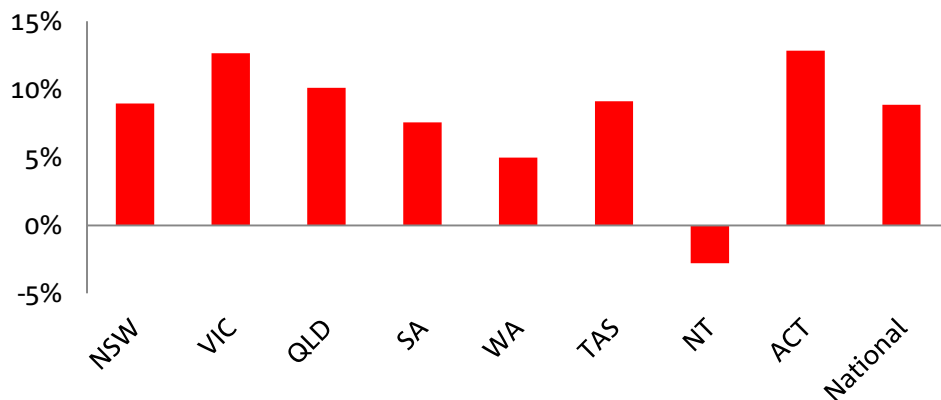


CHART 7: INTERNATIONAL VISITORS TO AUSTRALIA BY STATE

y/y % 12 months to March 2016

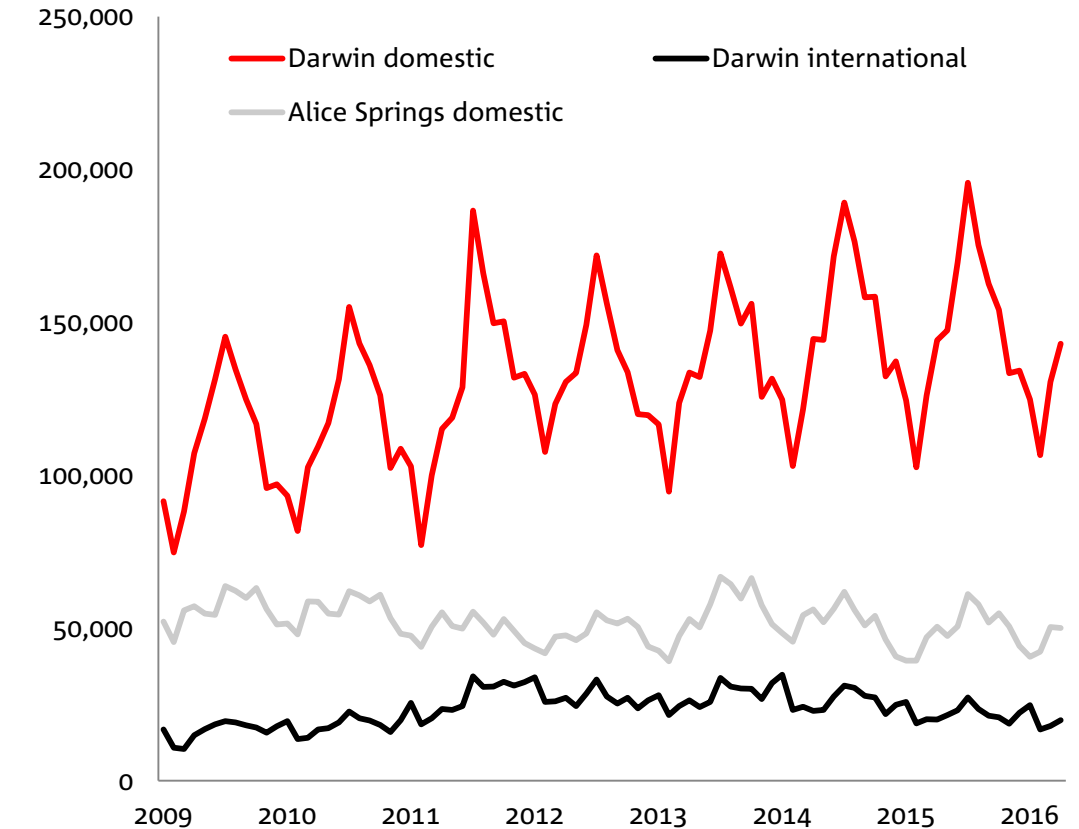


Holiday visitor growth has been strongest in Barkly, Kakadu Arnhem and Katherine Daly. However, the relatively poor wet season in the top end may have some impact more recent data.

BITRE airport passenger data show that Darwin domestic traffic continues to grow, albeit with a strong seasonal trend around peaks in July during the dry season. Meanwhile, international passenger traffic at Darwin airport has declined, partly reflecting lower international tourism.

CHART 8: MONTHLY AIRPORT PASSENGERS

Number



Source: Tourism NT, Austrade, BITRE and NAB Group Economics

BUSINESS INVESTMENT AND HOUSEHOLD SPENDING

LNG hangover affecting wages, consumption and building approvals

Construction of the Ichthys LNG project in Darwin has boosted business investment, employment, wages and supported consumer spending. However, with the project approaching completion in the coming year, labour demand has fallen, flowing through to lower average compensation per employee, household consumption and house price growth. Retail turnover has been struggling, but has improved somewhat in recent data.

We expect that employment prospects will further weaken over the coming period. Meanwhile total compensation per employee has turned negative. This will continue to be a challenge for consumer spending and the already weakening housing market. Building approvals data reflect the very substantial capital investment of the Ichthys LNG project but there have been relatively few approvals recently.

CHART 9: COMPENSATION OF EMPLOYEES AND H-HOLD CONSUMPTION

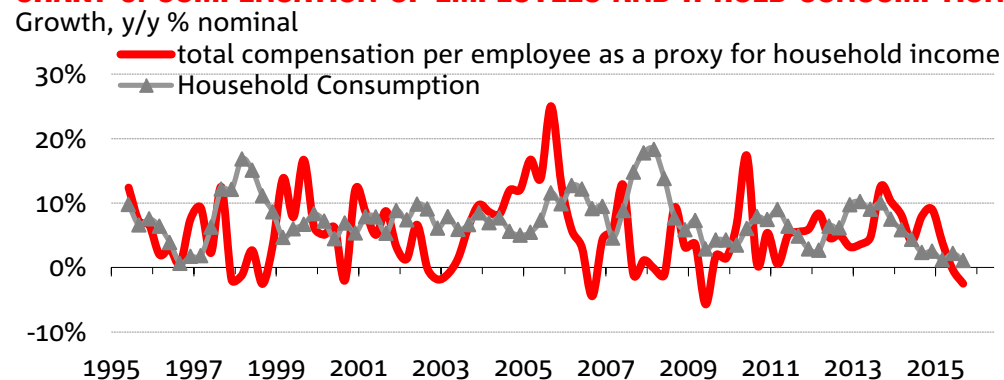
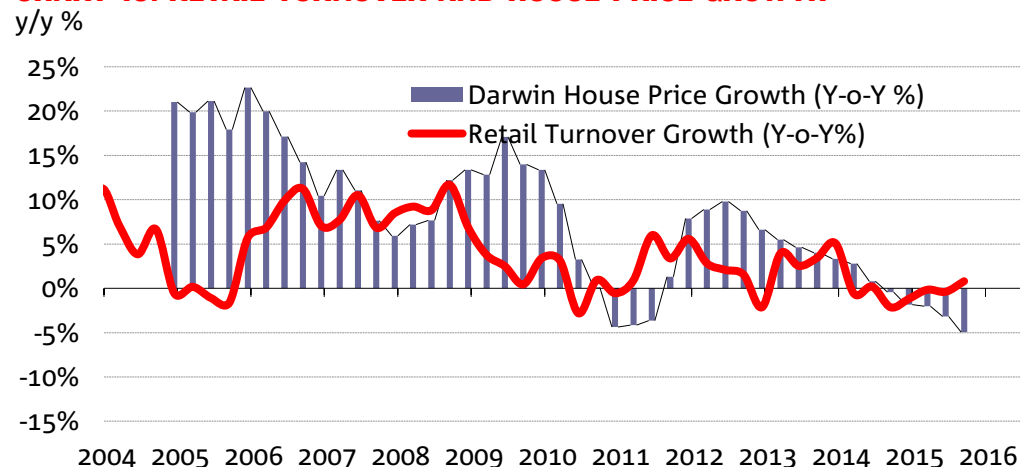
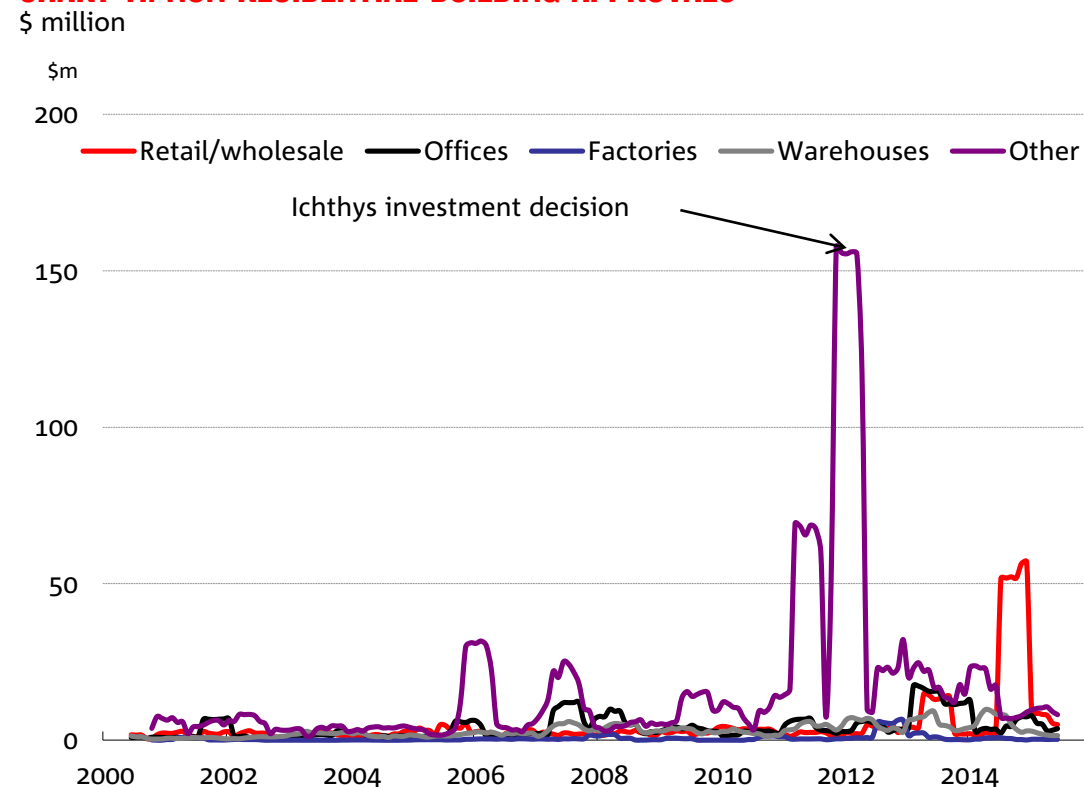


CHART 10: RETAIL TURNOVER AND HOUSE PRICE GROWTH



Source: ABS and NAB Group Economics

CHART 11: NON-RESIDENTIAL BUILDING APPROVALS



RESIDENTIAL SECTOR

Approvals down, house prices mostly lower

The previous up-tick in dwelling approvals was short lived and recent data show approvals falling sharply. While commencements have increased, the pipeline of residential construction will be under pressure after the completion of the Ichthys plant. Nonetheless, we continue to expect building activity in the growth area of Palmerston. Approval types have also changed – apartment approvals have fallen dramatically while housing approvals relative to population have remained closer to the national average.

CHART 12: RESIDENTIAL APPROVALS AND COMMENCEMENTS

Northern Territory

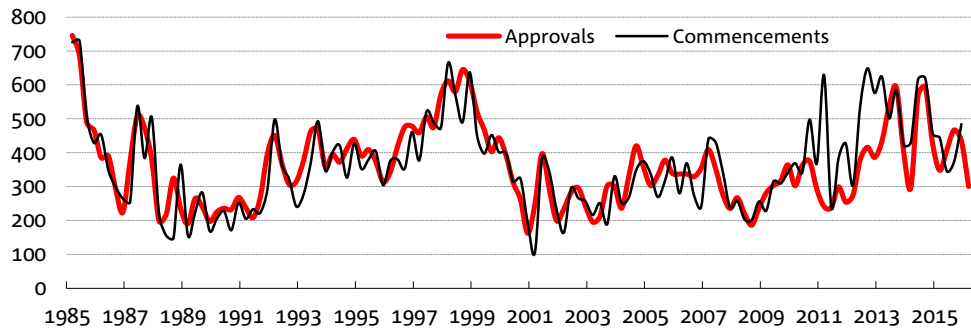
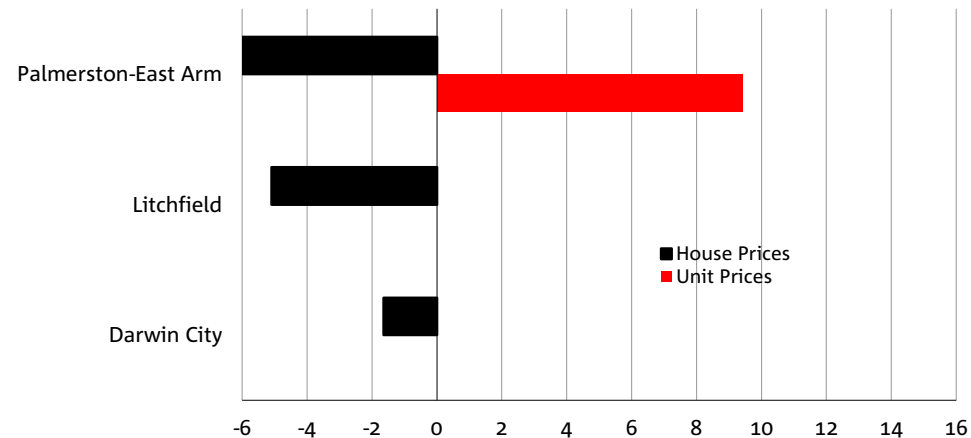


CHART 13: DARWIN RESIDENTIAL PROPERTY PRICE GROWTH

% change from previous quarter



Source: ABS and NAB Group Economics

Darwin house prices are well into negative territory and have been since early 2015. One area of Darwin which had seen increasing prices is Palmerston-East Arm, although recent data confines price increases to the Palmerston unit market, with Palmerston house prices falling faster than Darwin or Litchfield. Palmerston, a satellite suburb to the south of Darwin, is seeing significant investment.

We expect Darwin house prices to remain under pressure and for prices to drift lower in the coming year.

CHART 14: BUILDING APPROVALS RELATIVE TO POPULATION

Long run average = 100

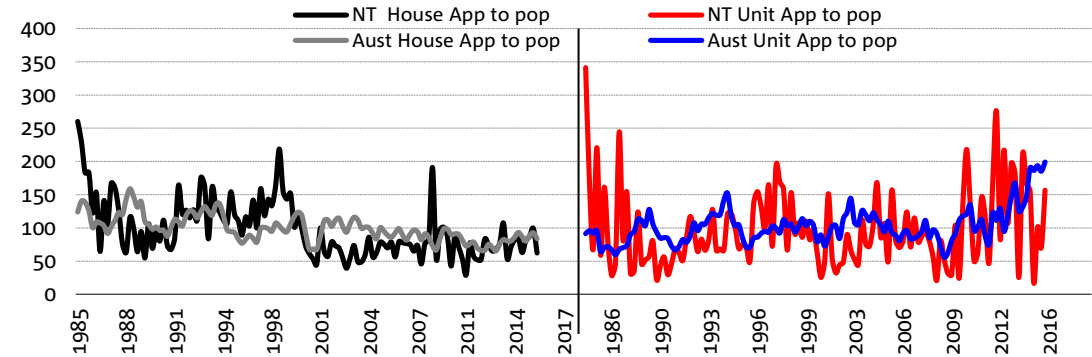
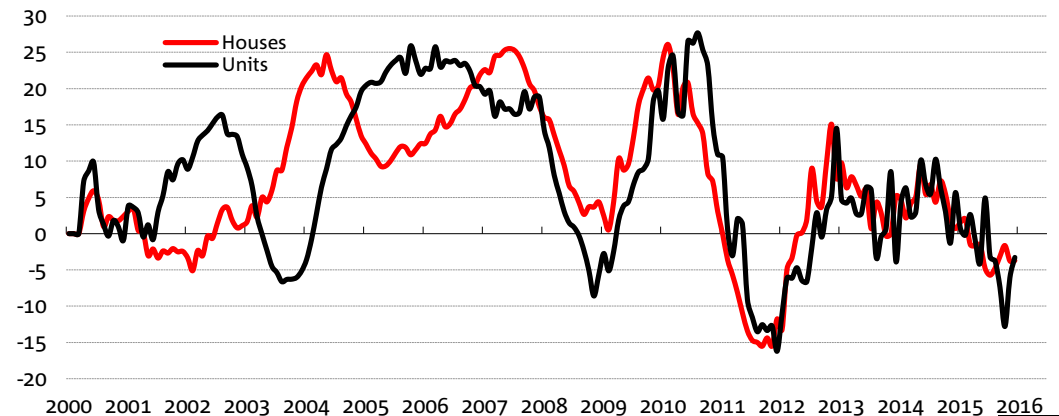


CHART 15: PRICE GROWTH BY REGION

UNIT



UNEMPLOYMENT

Data is volatile, but our forecasts point to higher unemployment in coming years

Although the Northern Territory's unemployment rate was well below the national average for some years, thanks to the employment boost from the LNG construction boom, the gap has narrowed. Darwin in particular saw unemployment jump substantially as the labour requirement for Ichthys begins to wind down (although recent data show a fall in unemployment). Meanwhile, the outback NT unemployment is up slightly. We approach individual labour force surveys with some caution as the small sample size makes the data volatile. Employment growth is well below the national average.

Over the last 12 months, hospitality, construction and mining have seen the greatest job losses in the Territory. This points to higher unemployment in the coming years as LNG construction winds down, although our unemployment forecasts (5.0% in 2016-17 and 5.0% 2017-18) point to unemployment remaining below the national average as population growth and the size of the labour force are likely to remain slow. Health recorded the biggest employment gain, followed by education. This reflects the Territory economy's dependence on public service delivery.

CHART 16: UNEMPLOYMENT RATE BY REGION

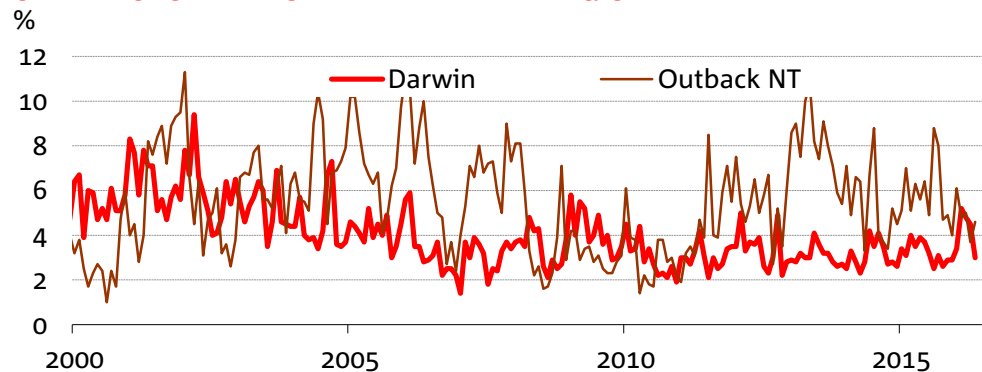
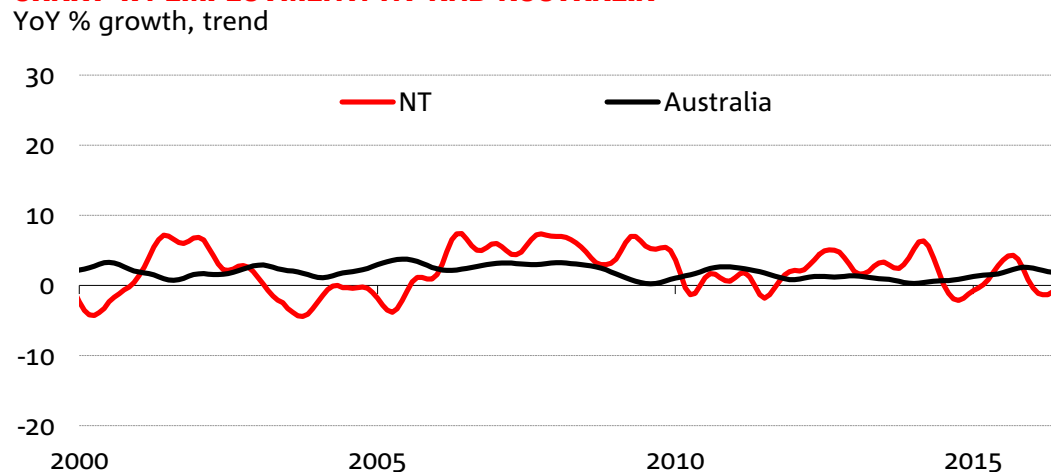


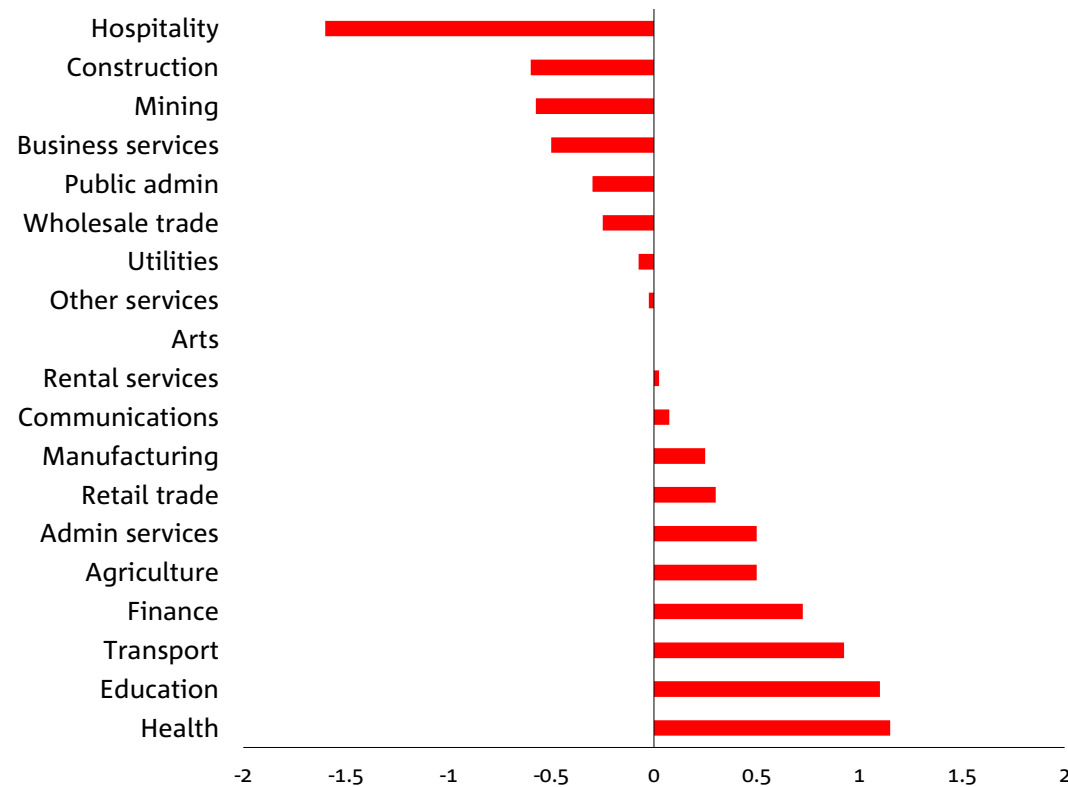
CHART 17: EMPLOYMENT: NT AND AUSTRALIA



Source: ABS and NAB Group Economics

CHART 18: CHANGE IN EMPLOYMENT BY INDUSTRY

12 months to June 2016, NT, '000



DEMOGRAPHIC TRENDS

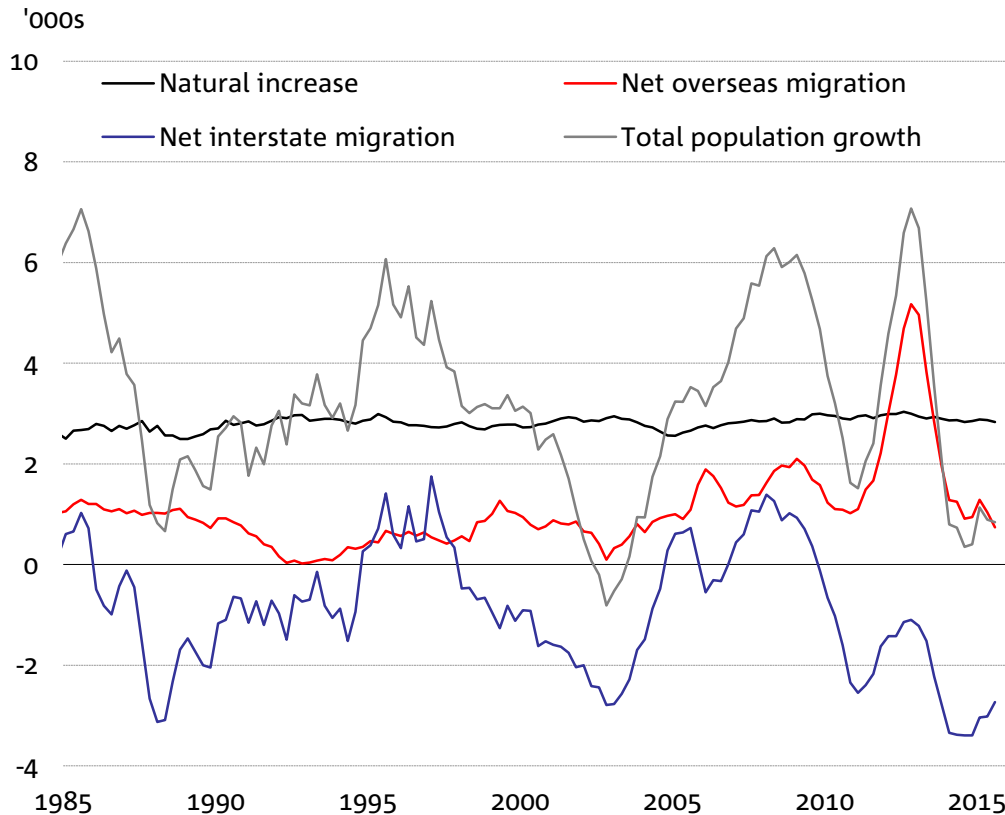
Population growth lower but some signs of stabilisation

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 (excluding Jervis Bay). Highly volatile net interstate and overseas migration but steady natural increases is a marked feature of its population growth.

Net interstate migration remains in negative territory, reflecting education and employment opportunities for young people interstate, while the Ichthys spike in overseas migration has now passed.

CHART 19: POPULATION GROWTH DRIVERS

'000 over the year



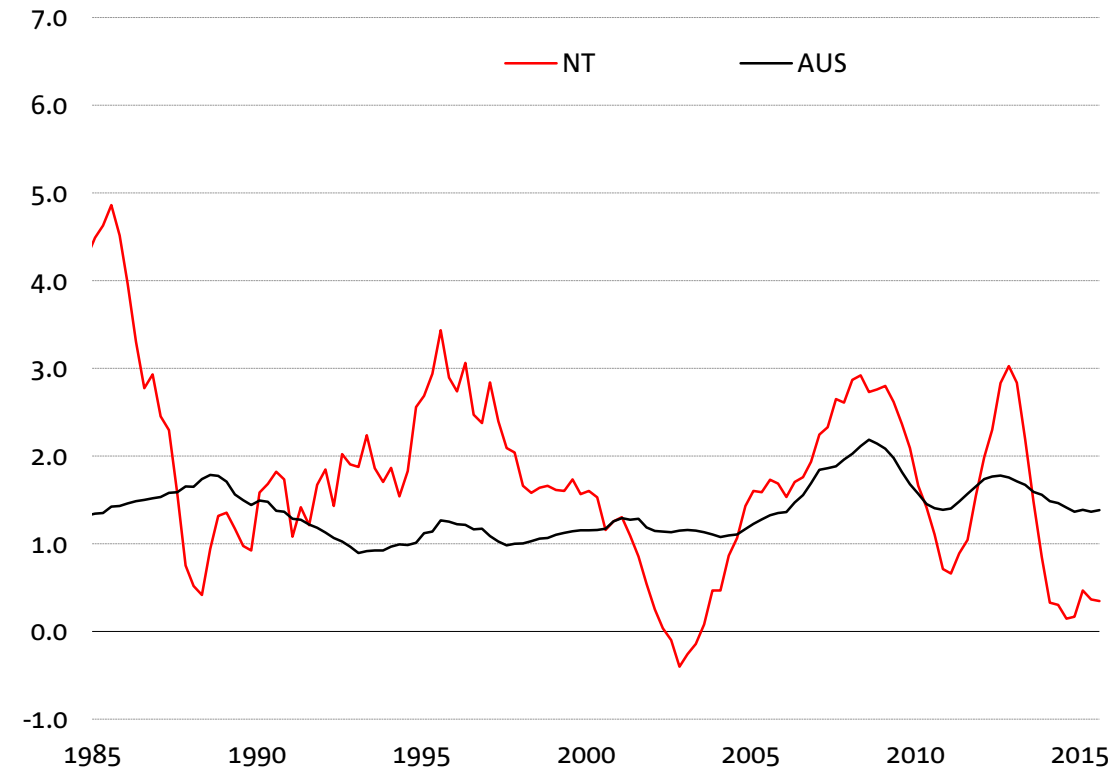
Source: ABS and NAB Group Economics

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 and the Northern Territory’s population growth has slowed sharply and is now barely in positive territory.

However, recent data point to net overseas and interstate migration stabilising, suggesting that the worst may be over.

CHART 20: NORTHERN TERRITORY POPULATION GROWTH

Year ended growth

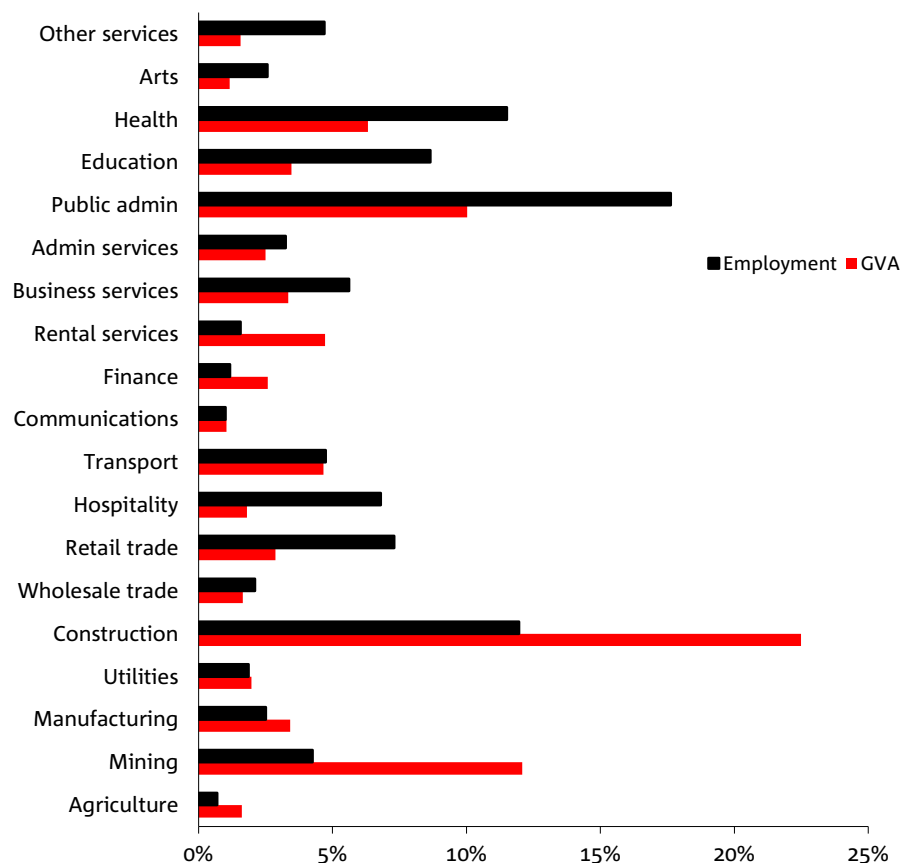


ECONOMIC STRUCTURE AND TRADE

The Northern Territory's dependence on mining and mining-related construction is reflected in the composition of employment and industry gross value added data. Construction has far and away the largest share of gross value added for any industry. This dependence makes it highly prone to the cyclical movements in the economy but this is offset by the large and reasonably stable public administration and defence presence. Public administration is the Territory's biggest employment sector and healthcare employment is similar to construction.

CHART 21: COMPOSITION OF EMPLOYMENT & GVA

2014-15



Source: ABS and NAB Group Economics

The economy has grown strongly during times of strong commodity prices and associated mining investments. Once Ichthys is operational, much of the LNG will be sent under long term contracts in Japan. This will cement Japan's place as the most important country for Northern Territory Exports. Due to the lack of diversity in its economic base, NT's economic growth rates can vary greatly from year to year.

CHART 22: TOP EXPORT DESTINATIONS AND IMPORT SOURCE COUNTRIES

12 month average

Value of exports (\$m)		Value of imports (\$m)			
1	Japan	2078	1	ASEAN	1455
2	China	1034	2	Japan	1108
3	ASEAN	909	3	China	424
4	US	219	4	Singapore	322
5	Korea	113	5	EU	258
6	EU	97	6	US	192
7	India	72	7	Korea	111
8	Germany	31	8	UK	52
9	Singapore	11	9	Germany	49
10	HK	3	10	Taiwan	48
11	Taiwan	2	11	New Zealand	2
12	New Zealand	0	12	HK	1

FISCAL OUTLOOK

The 2016-17 Budget reflects a deteriorating revenue situation due to lower stamp duty and mining royalty receipts, reflecting downturns in these sectors. The Territory's GST revenue share has also taken a hit. The net operating balance is forecast to head into negative territory from 2017-18 and remain in deficit until a return to a small surplus in 2019-20. The Northern Territory is heavily dependent on grants from the Commonwealth, more so than any other state. This leaves it very exposed to fluctuations in the GST pool, share and Commonwealth policy decisions.

CHART 23: NET OPERATING BALANCE

General government sector, \$ million

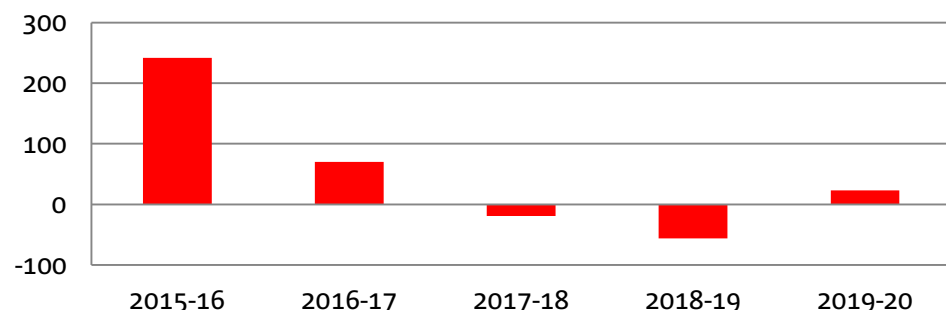
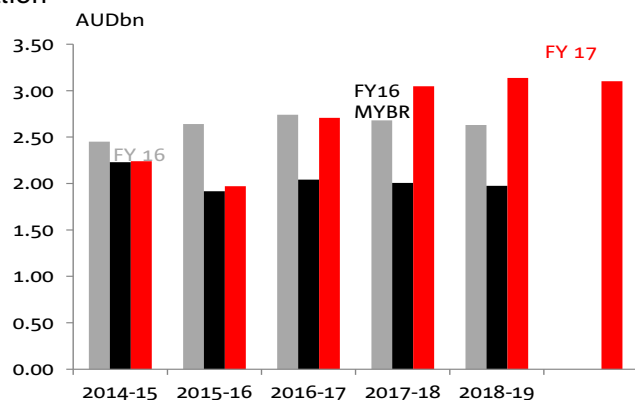


CHART 24: NORTHERN TERRITORY NON-FINANCIAL PUBLIC SECTOR DEBT

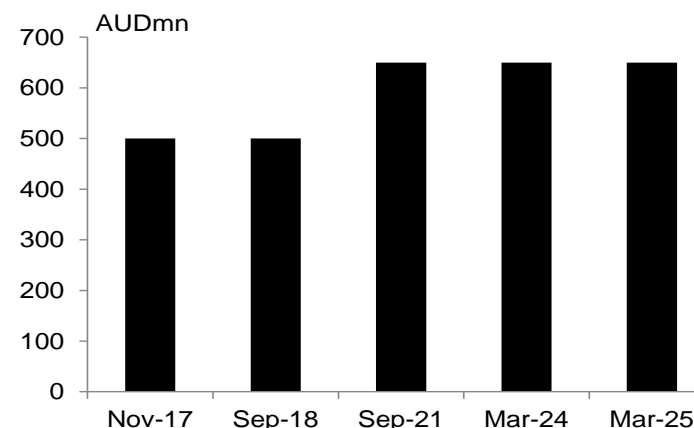
\$ billion



The \$670m reduction in net debt in 2015-16 is due to better than expected budget position in 2014-15 and lease proceeds from Port of Darwin. Non-financial public sector net debt is expected to increase in the outer years reflecting projection of fiscal balance deficits which have been impacted by lower revenue base and a decision to reinvest proceeds from TIO sale and Port of Darwin lease into improving state's infrastructure. Northern Territory Treasury Corporation (NTCC) announced that its total funding program for 2016-17 will be \$621mn comprising \$528mn of maturities and \$93mn of new money.

CHART 25: NT TERM BONDS OUTSTANDING AS AT END JUNE 2016

\$ million



Source: ABS and NAB Group Economics