

STATE HANDBOOK: NORTHERN TERRITORY

MARCH 2017



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KEY POINTS

CHART 1: STATE GSP GROWTH FORECASTS

Annual growth

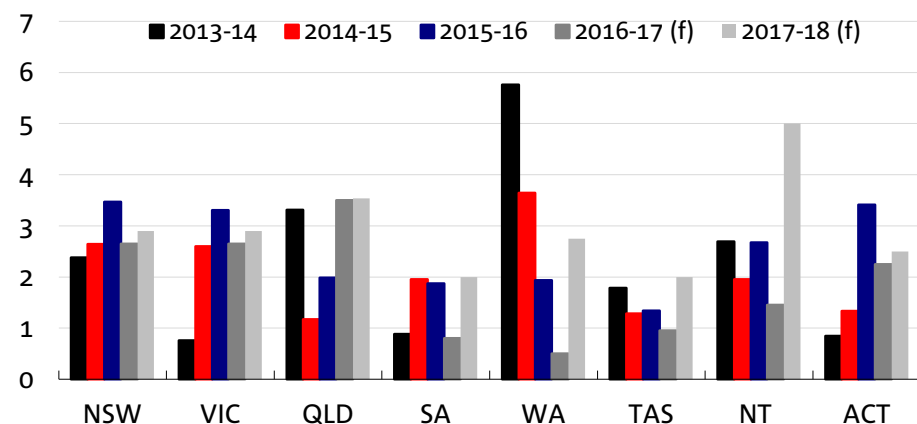
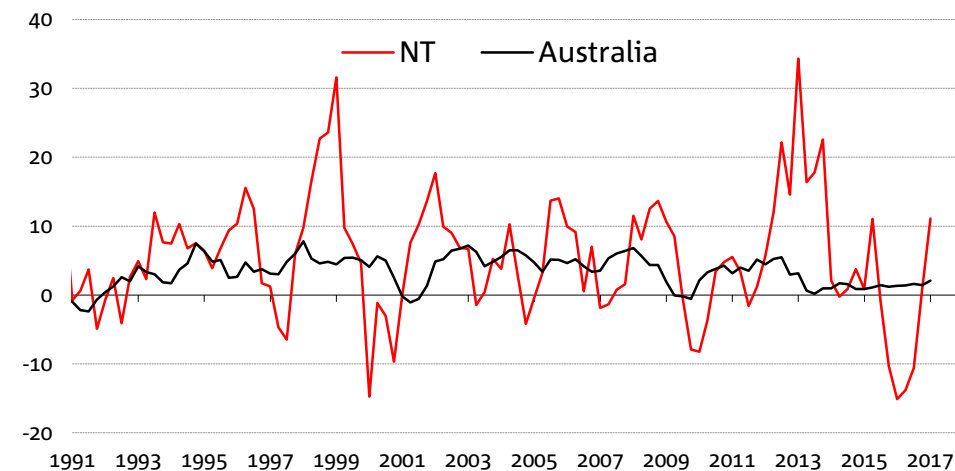


CHART 2: STATE FINAL DEMAND GROWTH

Per cent



Source: ABS and NAB Group Economics

The Northern Territory has just under a quarter of a million residents and its economy, especially in Darwin, has spent several years highly dependent on the construction of a single LNG terminal. The Territory also has a substantial army, RAN and RAAF presence, as well as US marines. This sets it apart from most other states and territories.

Since construction on the Ichthys LNG terminal peaked last year, project employment has begun to slide, with significant knock-on effects for the NT economy. The main power generators were fired up in September, the pipeline was completed in November and this month the subsea installation was finished. Ichthys is on track to ship LNG this year and we do not expect the shock to be offset by other important sectors such as public sector/defence, tourism and agriculture.

Business investment is currently strong, but will slow down sharply once the Ichthys LNG project is complete, while volatility in the housing market makes 2017 tricky to predict. Negative net interstate migration looks to be mitigating some of the labour market challenges of the investment wind-down, but it is unlikely that residential property will be spared.

While the Northern Territory's susceptibility to the impacts of extremely variable capital investment levels and prevailing commodity prices is not new, the lack of new projects on the horizon points to a slowdown. We forecast that GSP growth will fall to 1.5% in 2016-17 before recovering to 5% in 2017-18, driven by LNG export volumes with domestic demand remaining weak. We see the unemployment rate at 4.0% in 2016-17 and 4.8% in 2017-18.

IN FOCUS

Ichthys LNG terminal almost complete – where to for the NT gas industry?

The Ichthys LNG terminal, currently under construction in Darwin, processes gas from off the Western Australia coast for shipment to customers in Asia. The 8.9mtpa project will cost just shy of \$40 billion and estimates point to around 4,000 construction and 700 ongoing jobs.

Since construction peaked in the first half of last year, project employment has begun to slide as major plant components reach completion. We expect employment to further tail off by mid-year.

The project is on track to begin shipping LNG this year. When it is complete we do not anticipate further LNG projects in the NT for many years.

However, while the Northern Territory is currently islanded from the eastern Australian gas network, it will be connected through the proposed Northern Gas Pipeline, to be constructed by SGPA. This connection may spur a new wave of onshore gas investment in the NT for use in eastern Australia.

For more information see our [Natural Gas and LNG Market Outlook](#).

CHART 3: VALUE AND VOLUME OF AUSTRALIAN LNG EXPORTS

AUD billion per quarter (LHS), million tonnes per quarter (RHS)

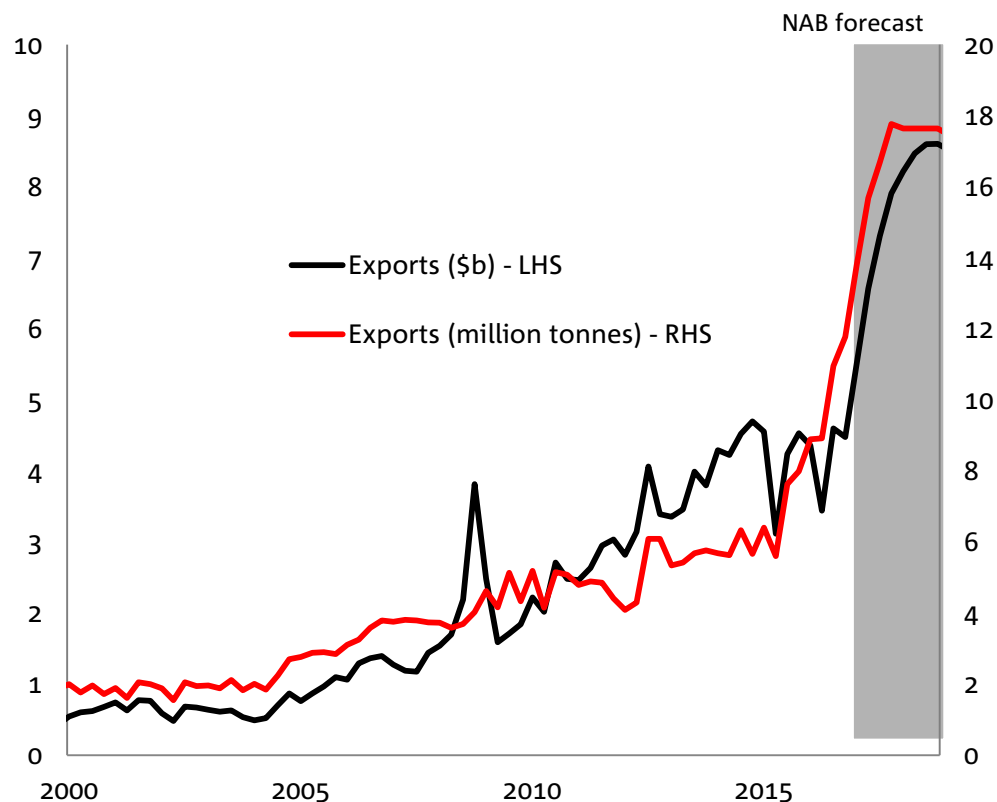


CHART 4: CONTRACTED LNG SUPPLY

Million tonnes per annum

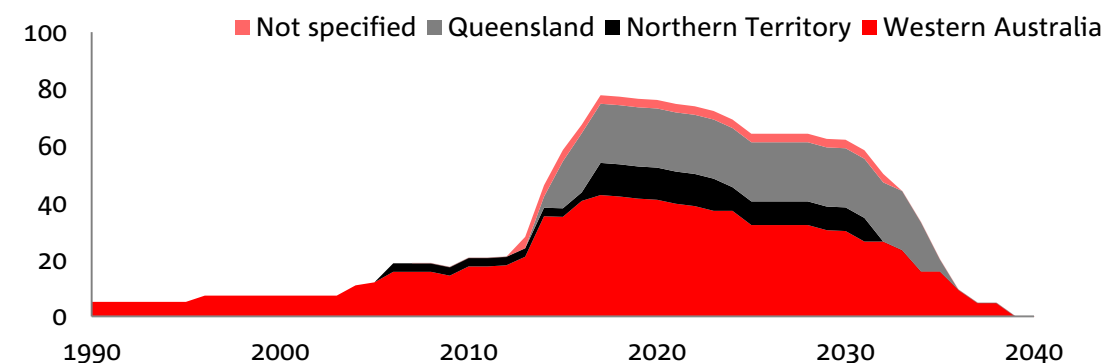
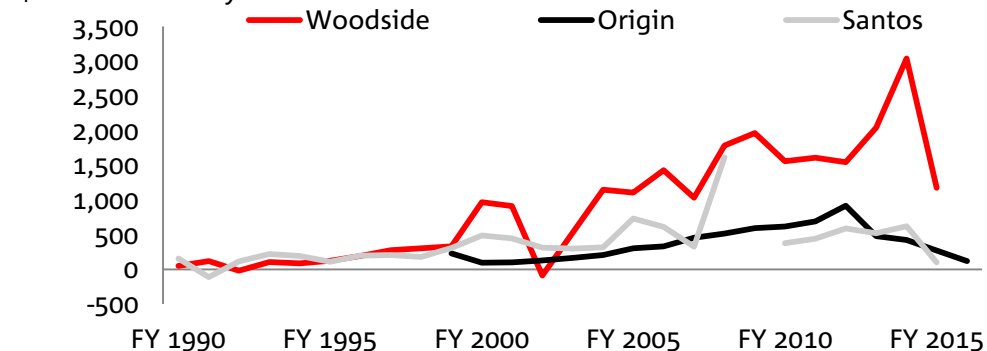


CHART 5: NET INCOME – SELECTED PRODUCERS

\$ million annually



Source: Bloomberg, Poten & Partners, APPEA, Department of Industry, Australian Bureau of Statistics and NAB Group Economics

TOURISM

Domestic tourism booming, international business travellers falling

Tourism statistics for the NT continue to present mixed picture, although we note that the holiday market is looking very strong. On one hand domestic tourism is booming with interstate visitors up 22% to 361,000 in the year ended September 2016. However, the international picture is a little more mixed: International holiday visitors grew a solid 11% but business visitors dropped 29%, potentially reflecting LNG construction. Overall the NT recorded the lowest international visitor growth for any state or territory in Australia in the 12 months to September 2016.

CHART 6: INTERNATIONAL HOLIDAY VISITORS BY REGION

12 months to September 2016

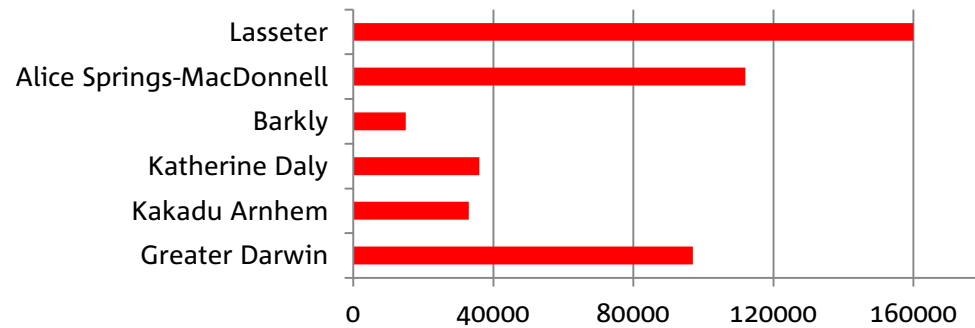


CHART 7: INTERNATIONAL VISITORS TO AUSTRALIA BY STATE

y/y % 12 months to September 2016



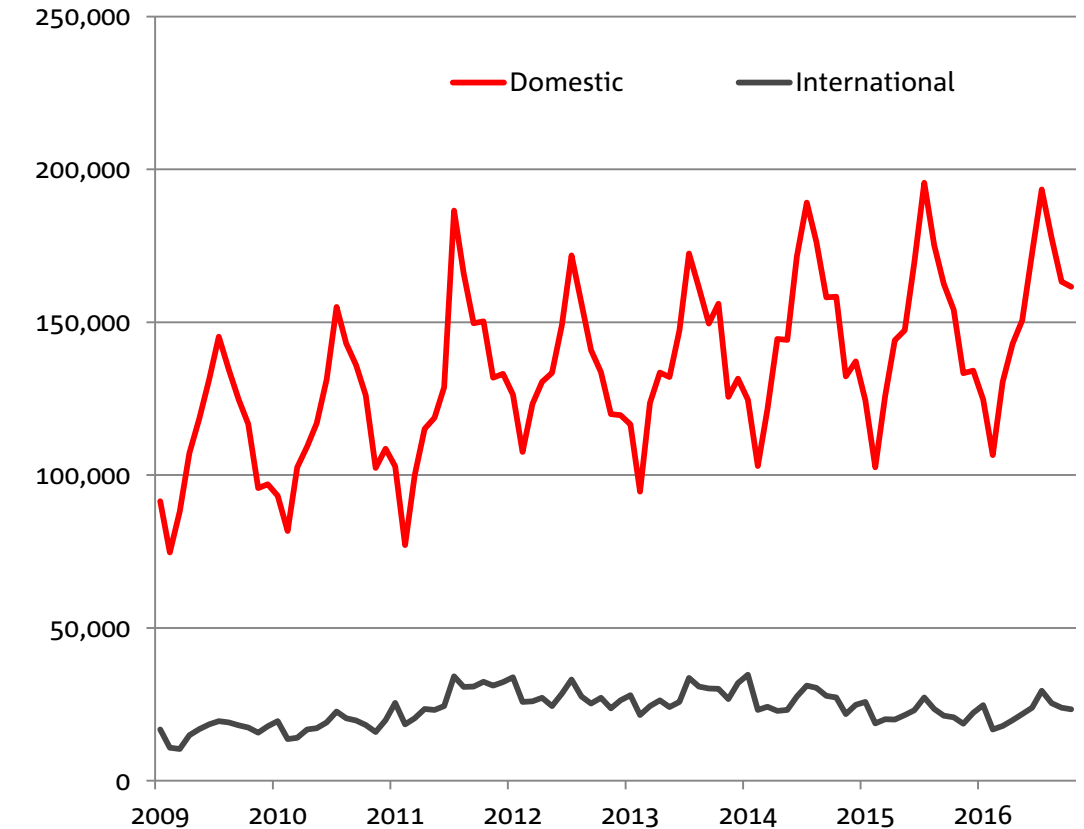
Source: Tourism NT, Austrade, BITRE and NAB Group Economics

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. The very wet wet season in parts of the NT this year may have some impact on passenger numbers, and it is unclear what impact the higher Australian dollar had last year. Meanwhile, international passenger traffic at Darwin airport remains stagnant.

Tourism Research Australia estimates that tourism comprised 3.9% of territory GVA in 2014-15, the second highest in Australia after Tasmania.

CHART 8: MONTHLY AIRPORT PASSENGERS - DARWIN

Number



BUSINESS INVESTMENT AND HOUSEHOLD SPENDING

LNG hangover affecting wages, consumption and building approvals

The overall business investment and household spending picture continues to reflect an environment dominated by a single large project, construction of which has now well and truly peaked. During the peak of construction, the Ichthys LNG project in Darwin boosted business investment, employment, wages and supported consumer spending. But with the project approaching completion this year, wage growth has fallen, flowing through to lower growth in total compensation of employees, lower growth in household consumption and a challenging housing market.

CHART 9: COMPENSATION OF EMPLOYEES AND H-HOLD CONSUMPTION

Growth, y/y % nominal

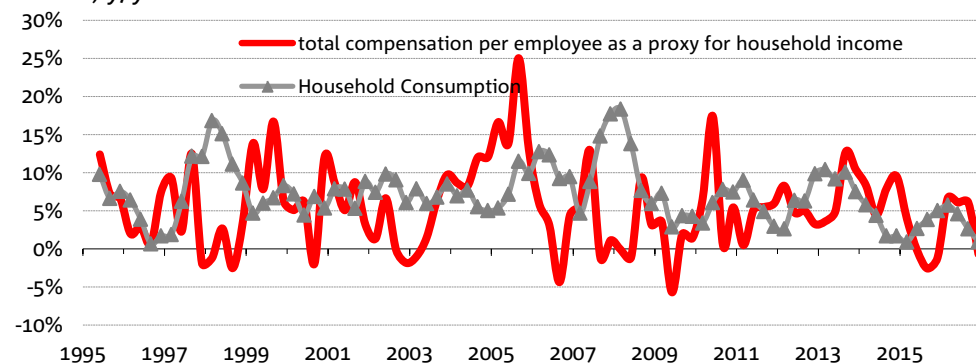
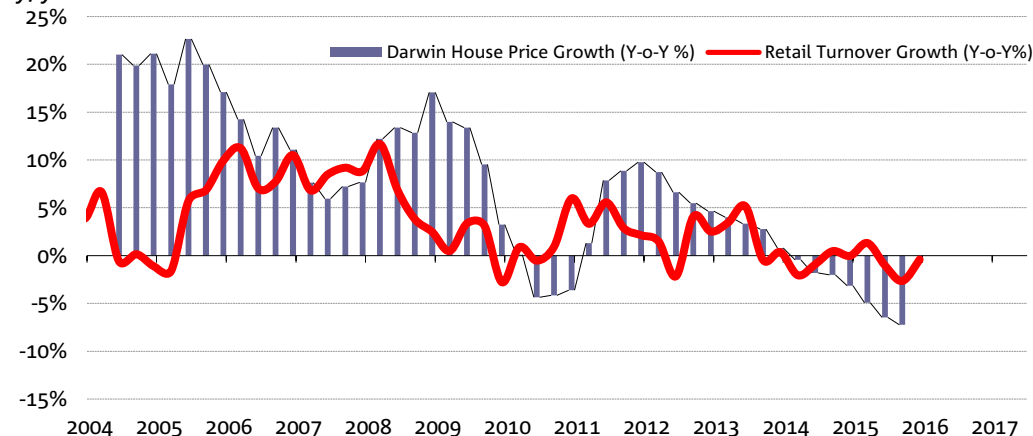


CHART 10: RETAIL TURNOVER AND HOUSE PRICE GROWTH

y/y %

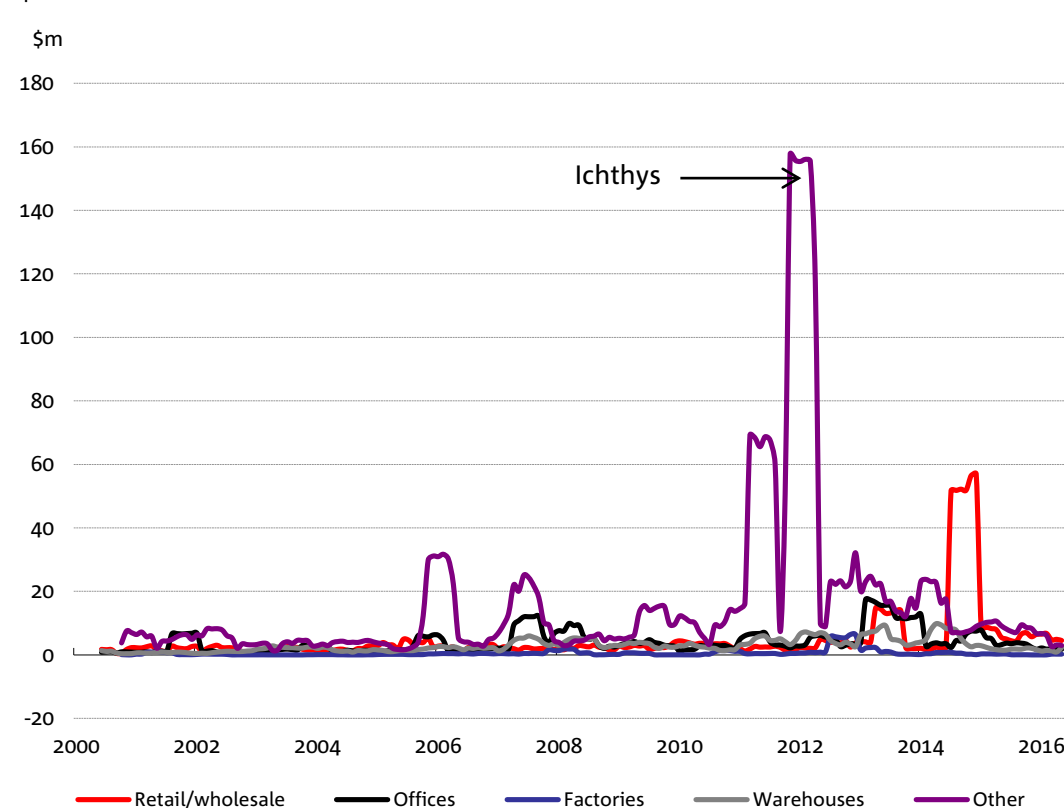


Source: ABS and NAB Group Economics

Once LNG construction is complete (and it is very close to complete) we expect challenging conditions for businesses which grew dependent on LNG construction. Non residential building approvals data show that there is little new investment in the pipeline.

CHART 11: NON-RESIDENTIAL BUILDING APPROVALS

\$ million



NAB CUSTOMER SPENDING BEHAVIOURS:

Spending growth stronger in the top end

CHART 12: NT

Year-ended growth to Q4 2016

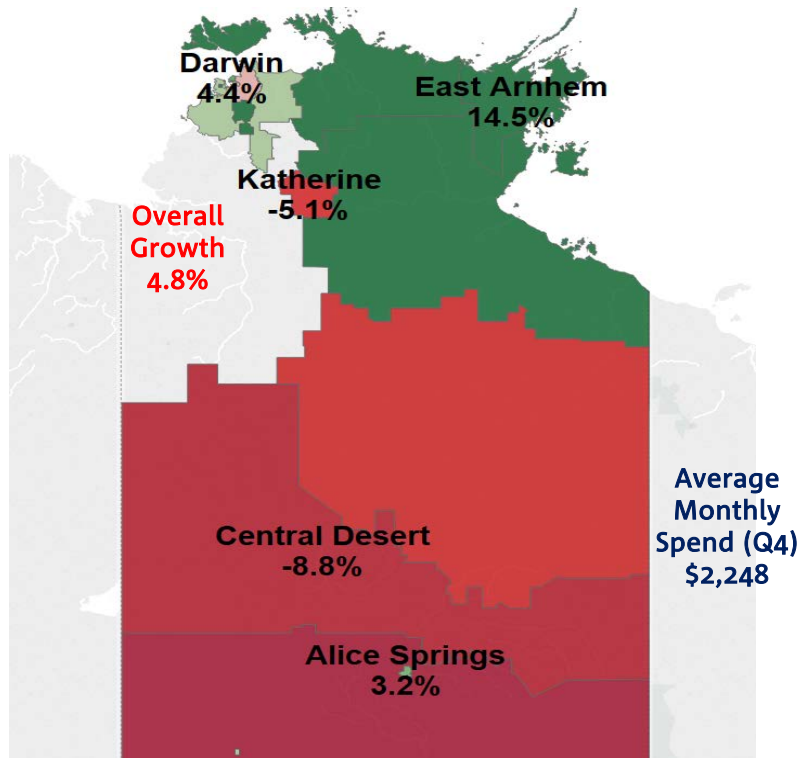
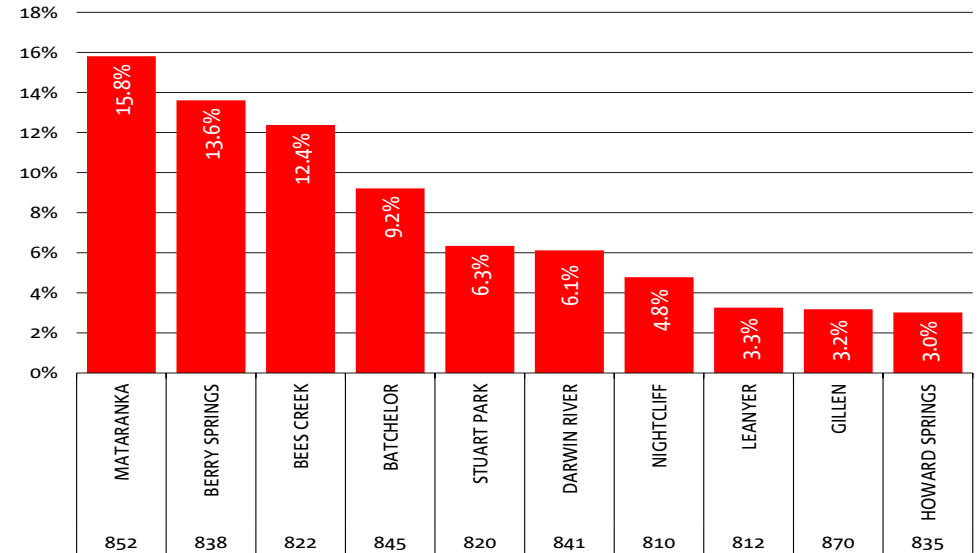


CHART 13: TOP 10 GROWING POSTCODES FOR SPENDING

Top 10 Postcodes by Spend Growth: NT
(Q4 2016 spend value on Q4 2015 spend value)



RESIDENTIAL SECTOR

Approvals down, house prices mostly lower

The volatility emanating from the Territory's mining sector is having clear effects on Darwin's housing market. After seeing dwelling prices fall nearly 8% over the year to July 2016, the market appeared to stabilise, leaving prices up a relatively modest 0.9%. There do remain significant challenges to the market, however, especially with a previous apartment supply boom contributing to very elevated vacancy rates in Darwin – reflected in very large drops in rents (apartment rents fell by a quarter over the year to December 2016; their lowest level since mid-2007).

Given that major LNG projects are expected to have an ongoing destabilising effect on the housing market, the likely direction of property values in 2017 is difficult to predict – although NAB expects that the negative impact on the labour market once projects are completed will likely drive further price declines. That said, rental yields in Darwin are more attractive than most other capital cities, which might help to prop-up investor demand.

CHART 14: RESIDENTIAL APPROVALS AND COMMENCEMENTS

Northern Territory

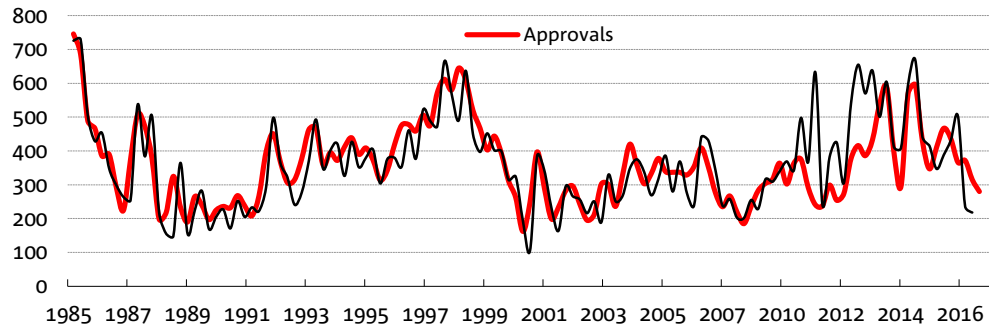


CHART 15: DARWIN RESIDENTIAL PROPERTY PRICE GROWTH

% change from previous quarter

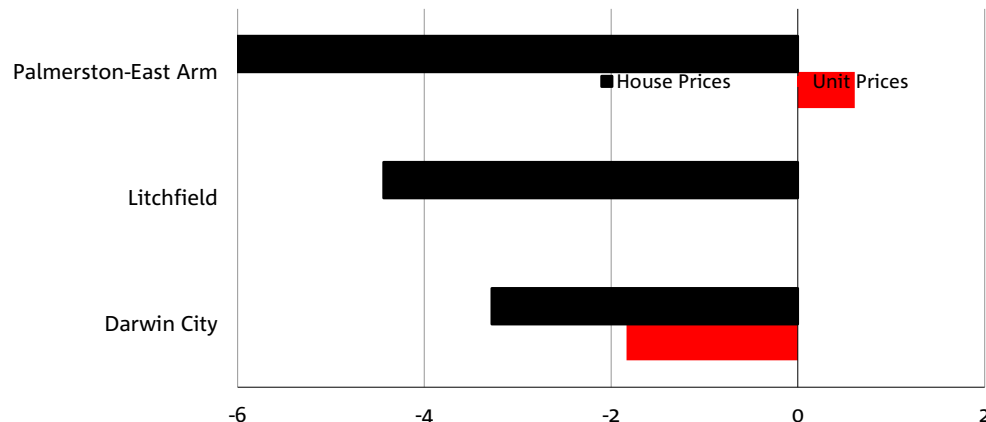


CHART 16: BUILDING APPROVALS RELATIVE TO POPULATION

Long run average = 100

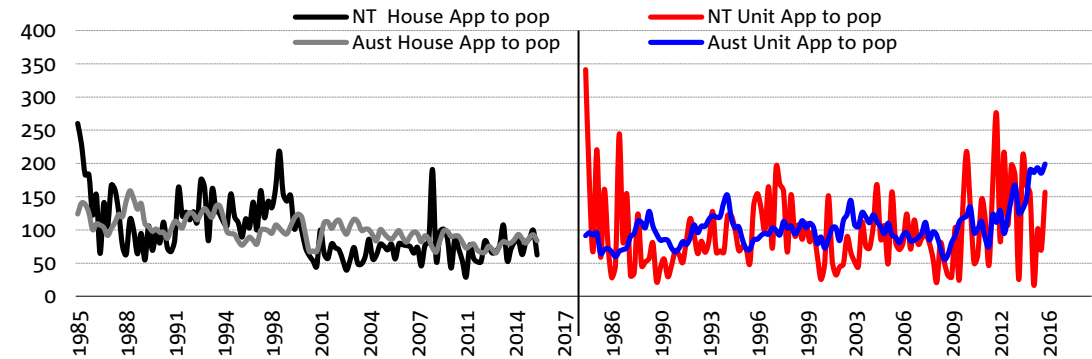
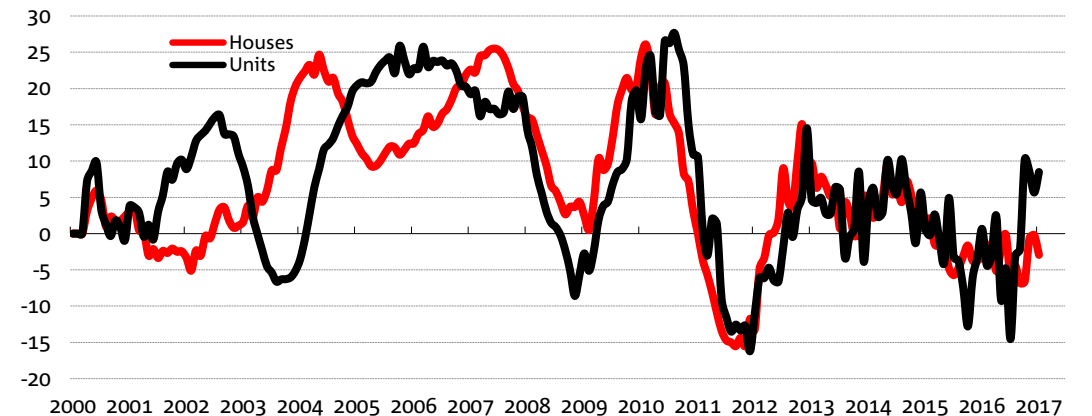


CHART 17: DARWIN PRICES BY HOUSING TYPE



Source: ABS and NAB Group Economics

UNEMPLOYMENT

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

Unemployment in the territory fell slightly in January to 3.9% (trend), the second lowest in Australia after the ACT. While the data is generally very volatile, Darwin tends to see generally lower unemployment than Outback NT.

Somewhat counter-intuitively, employment growth in the NT turned positive and by late 2016 slightly outpaced Australia. This comes as a surprise given the downturn in investment over the last year.

Over the last 12 months, mining and utilities have seen the greatest job losses in the Territory, followed by wholesale trade and business services. These job losses point to higher unemployment in the coming years as LNG construction winds down (see forecasts on page 11), although negative net interstate migration will soften this impact locally and growth in the size of the labour force is likely to remain slow. Construction recorded the biggest employment gain, followed by transport. We do not expect these gains in construction to persist.

CHART 18: UNEMPLOYMENT RATE BY REGION

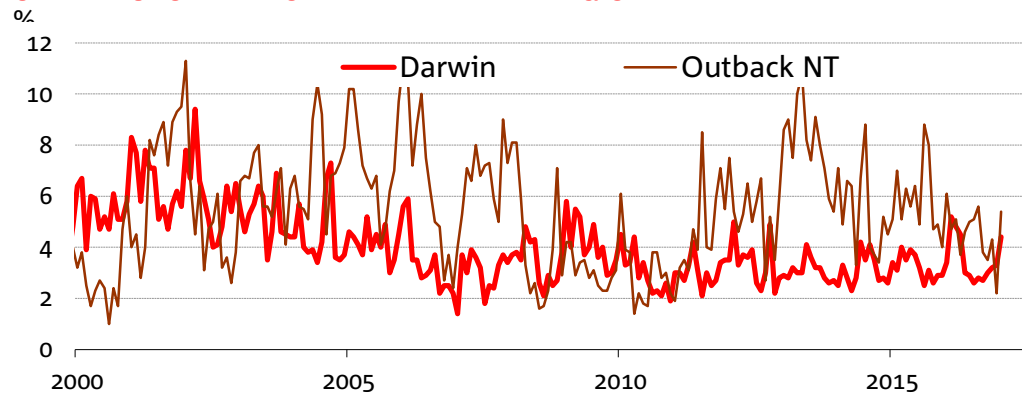
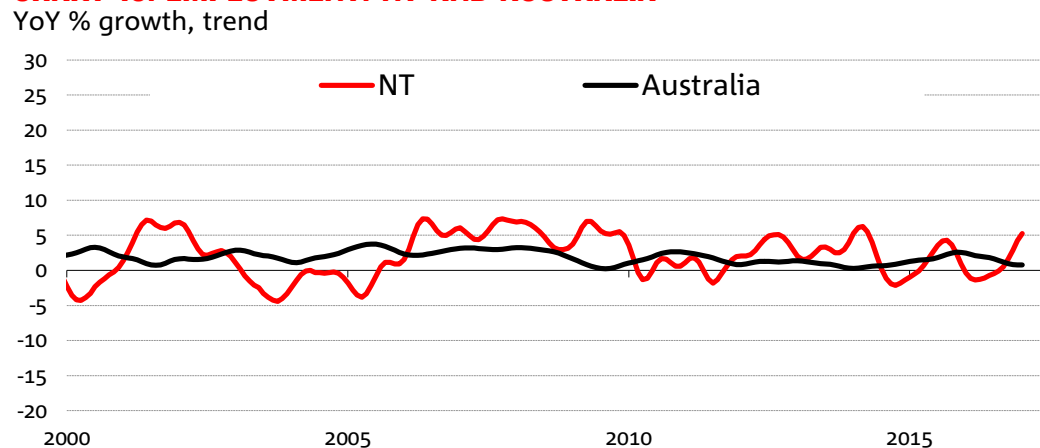


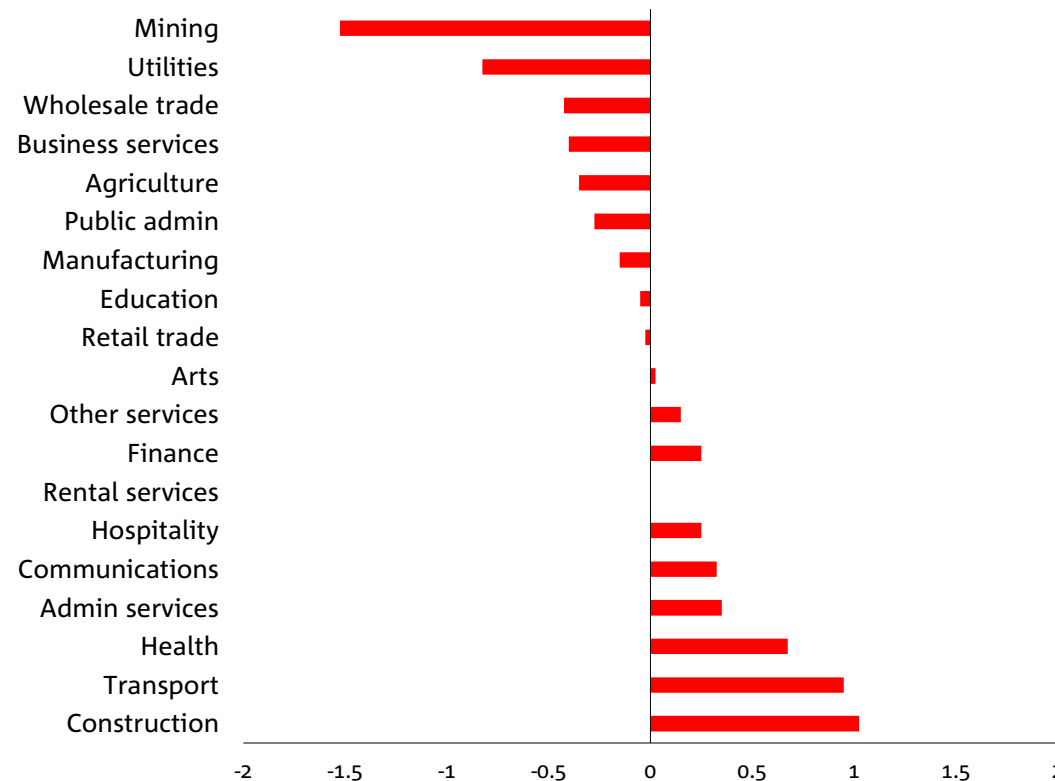
CHART 19: EMPLOYMENT: NT AND AUSTRALIA



Source: ABS and NAB Group Economics

CHART 20: CHANGE IN EMPLOYMENT BY INDUSTRY

Last 12 months, NT, '000



DEMOGRAPHIC TRENDS

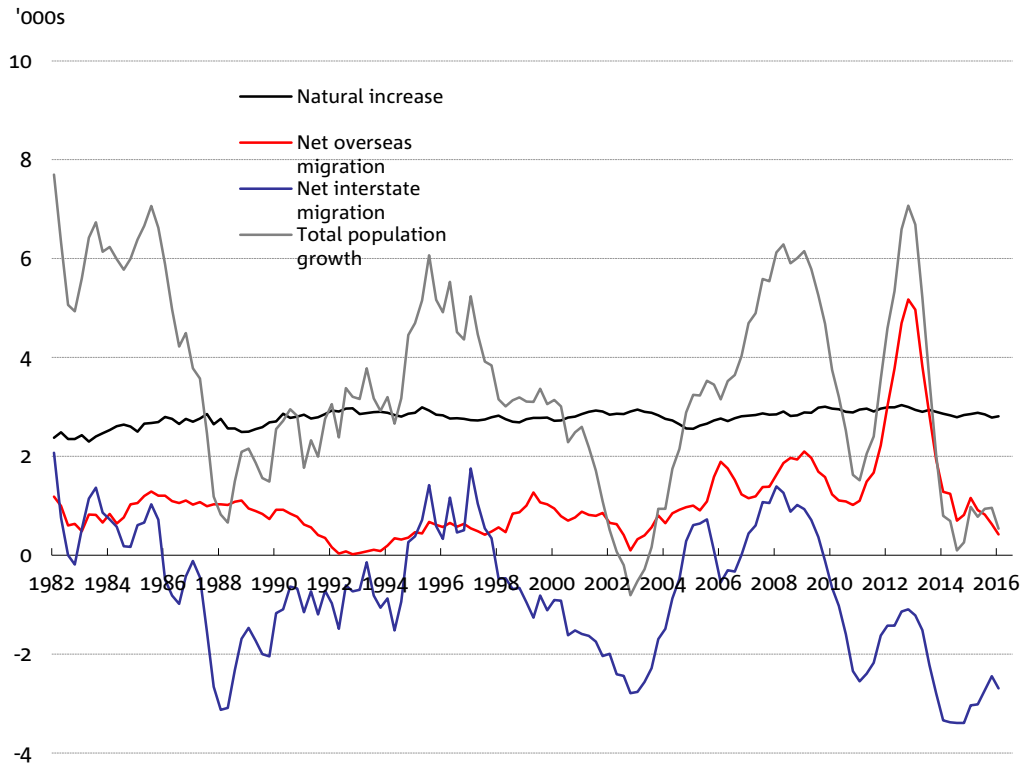
Population growth is still falling, driven by lower migration

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 looked to be recovering, but has since returned to its downward trend. This largely reflects education and employment opportunities for young people interstate.

CHART 21: POPULATION GROWTH DRIVERS

'000 over the year



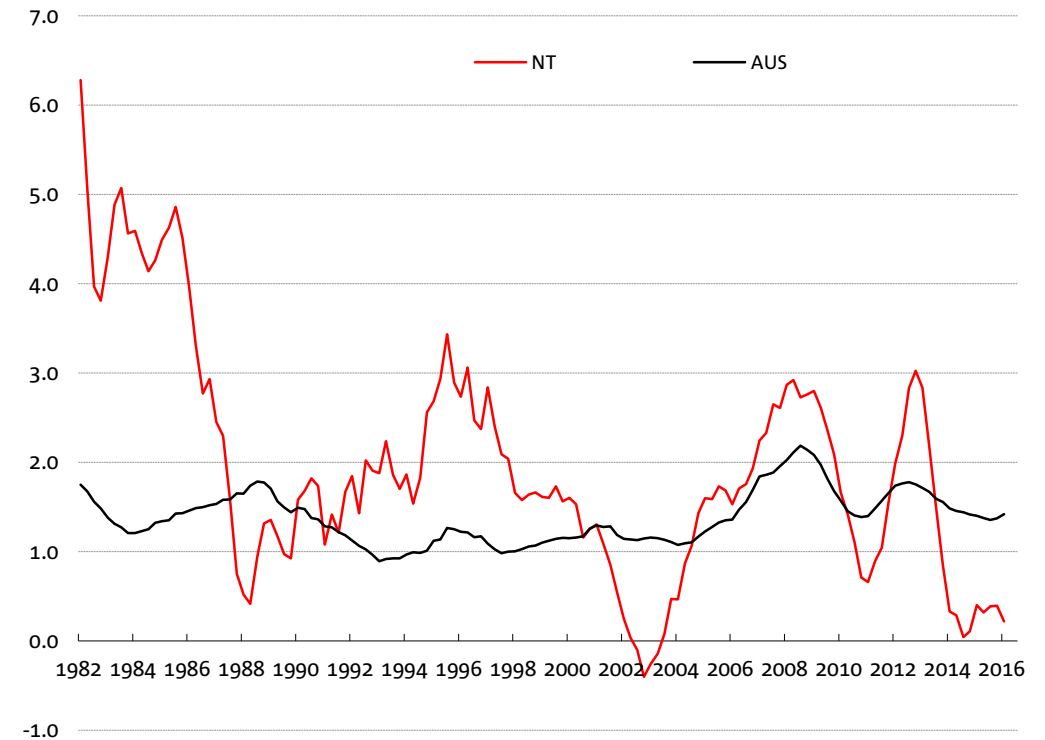
Source: ABS and NAB Group Economics

The wave of skilled workers from both overseas and interstate who migrated to the NT for to work on LNG construction has now well and truly worn off and the Northern Territory’s population growth has slowed sharply.

Population growth is barely in positive territory and may turn negative if it continues its current trend.

CHART 22: NORTHERN TERRITORY POPULATION GROWTH

Year ended growth



FISCAL OUTLOOK

The 2016-17 Mid-Year Update shows a scant \$1 million surplus in 2016-17, followed by two years of deficits and a return to surplus in 2019-20. Once Ichthys is operating, there is likely to be a downside to NT government revenue, including payroll tax and stamp duty.

The MYBR showed a small improvement in net debt for 2016-17 but some deterioration in the outer years. Net debt is now expected to peak at \$3.18bn in 2017-18.

CHART 23: NET OPERATING BALANCE

General government sector, \$ million

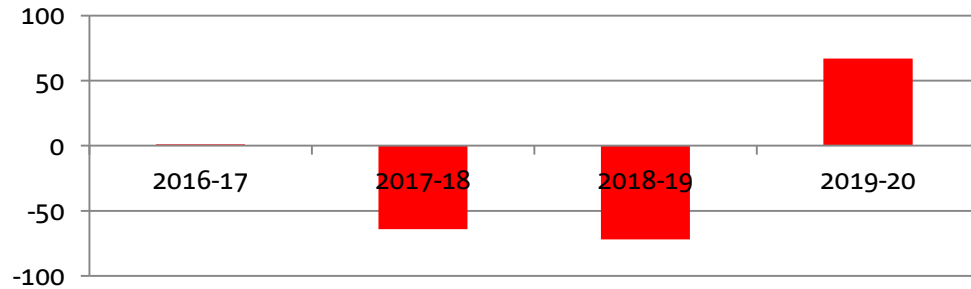
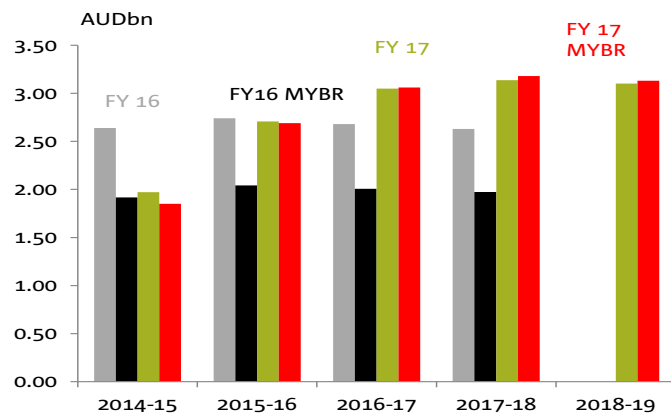


CHART 24: NORTHERN TERRITORY NON-FINANCIAL PUBLIC SECTOR DEBT

\$ billion

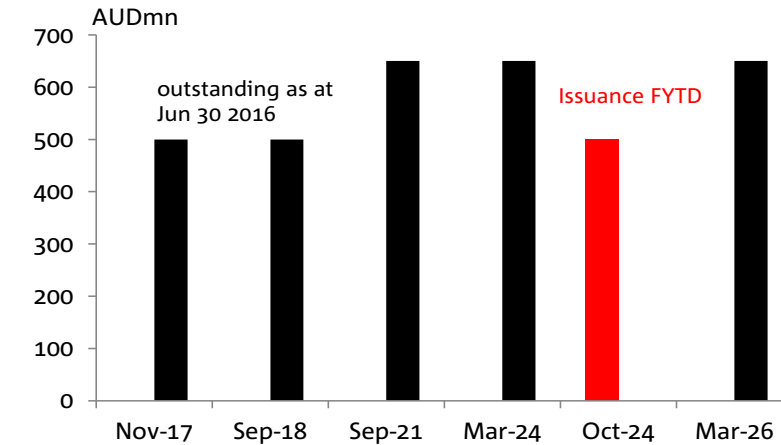


Source: ABS and NAB Group Economics

Northern Territory Treasury Corporation (NTCC) issuance plans of \$621m for 2016-17 were unchanged post the MYBR. NTCC has issued \$500mn into a new Oct 24 bond.

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

\$ million

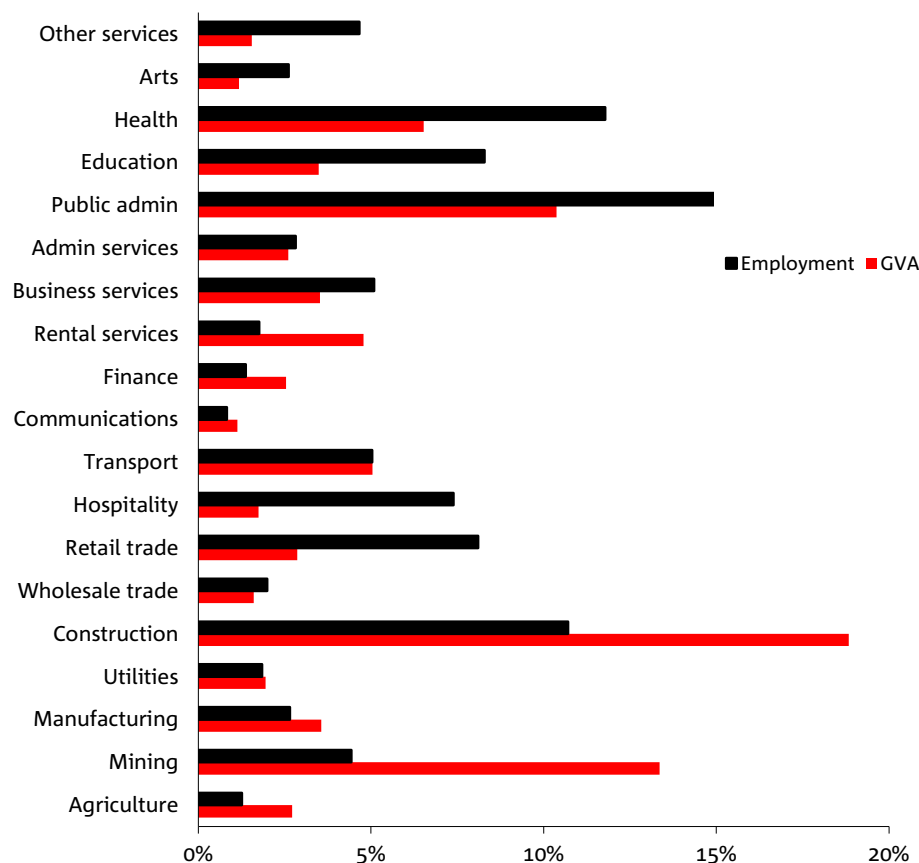


ECONOMIC STRUCTURE AND TRADE

Construction has far and away the largest share of gross value added for any industry, reflecting The Northern Territory's dependence on LNG construction. This dependence makes it highly prone to the cyclical movements in the economy however these impacts are mitigated by the NT's large and generally stable public administration and defence presence. Public administration is the Territory's biggest employment sector and healthcare, followed by healthcare.

CHART 26: COMPOSITION OF EMPLOYMENT & GVA

2015-16



Source: ABS and NAB Group Economics

Japan is currently the top export destination for the NT. Once Ichthys is operational, much of the LNG will be sent under long term contracts in Japan, cementing Japan's number one spot on the table. Other east and south east Asian countries feature prominently as trading partners for the NT.

CHART 27: TOP EXPORT DESTINATIONS AND IMPORT SOURCE COUNTRIES

12 month average

Value of exports (\$m)		Value of imports (\$m)			
1	Japan	1638	1	ASEAN	1143
2	China	1178	2	Singapore	243
3	ASEAN	834	3	EU	221
4	US	170	4	China	123
5	Korea	101	5	US	120
6	India	87	6	Japan	115
7	EU	70	7	Korea	56
8	Singapore	24	8	UK	42
9	Germany	16	9	Germany	31
10	Taiwan	8	10	Taiwan	12
11	HK	2	11	New Zealand	2
12	UK	1	12	HK	0

FORECASTS BY STATE AND TERRITORY:

NT real gross state product to surge in 2017-18 thanks to LNG, despite soft domestic demand

NAB's economic forecasts by state and territory are below. For a summary of the outlook by state, please see the [States Handbook – Overview](#) which contains links to the detailed handbook for each state and territory.

REAL GROSS STATE PRODUCT AND UNEMPLOYMENT RATE FORECASTS

Annual average

NAB growth and unemployment rate forecasts for the states								
	Gross State Product YoY				Unemployment Rate			
	14-15	15-16	16-17f	17-18f	14-15	15-16	16-17f	17-18f
NSW	2.6	3.5	2.7	2.9	5.9	5.4	5.1	5.3
VIC	2.6	3.3	2.7	2.9	6.4	5.9	5.7	5.7
QLD	1.2	2.0	3.5	3.5	6.5	6.2	6.2	5.8
SA	2.0	1.9	0.8	2.0	6.9	7.3	7.0	7.0
WA	3.6	1.9	0.5	2.8	5.4	6.0	6.5	6.3
TAS	1.3	1.3	1.0	2.0	6.9	6.5	6.5	6.5
NT	2.0	2.7	1.5	5.0	4.2	4.2	4.0	4.8
ACT	1.3	3.4	2.3	2.5	4.5	4.5	4.3	4.3
Australia	2.4	2.7	2.1	3.0	6.2	5.9	5.7	5.7