

STATE HANDBOOK: NORTHERN TERRITORY

OCTOBER 2017



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KEY POINTS

Northern Territory economy defies expectations, but risks remain

CHART 1: STATE GSP GROWTH FORECASTS

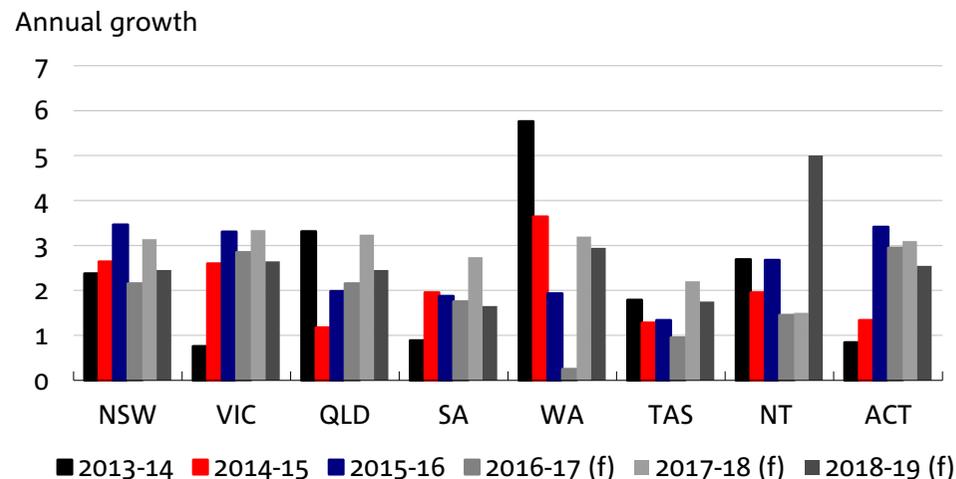
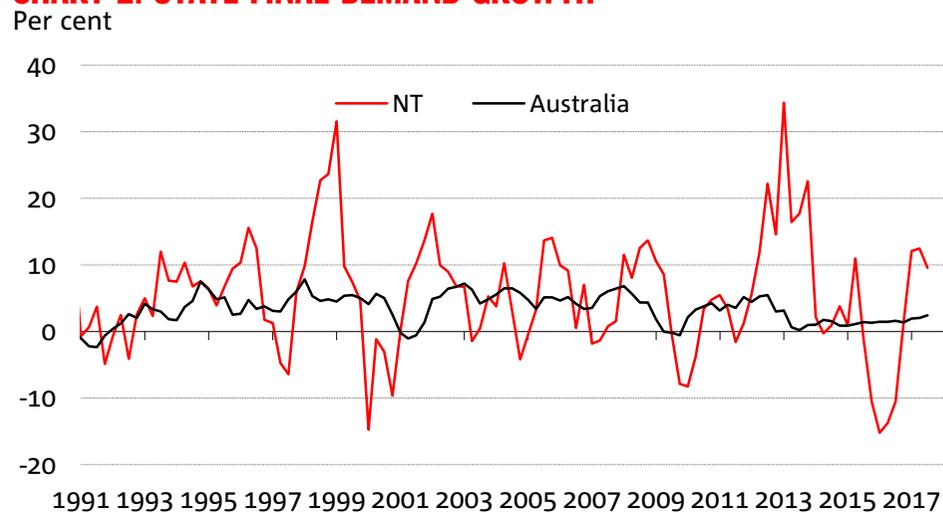


CHART 2: STATE FINAL DEMAND GROWTH



Source: ABS and NAB Group Economics

The Northern Territory has around a quarter of a million residents and its economy, especially in Darwin, has spent the last several years highly dependent on the construction of a single LNG terminal. The Territory hosts a major Australian Defence Force presence, as well as US marines. This sets it apart from most other states and territories.

With the Ichthys LNG terminal nearing completion, we had expected the Northern Territory economy to underperform this year, particularly given the limited ability of other sectors, such as public sector/defence, tourism or agriculture to offset the sheer size of the project. However, recent data point to the Territory's economy surpassing expectations in several key areas. Household spending has been resilient and unemployment remains the lowest in the country (although this is partly a function of low population growth and negative interstate migration). Business investment, while subdued post-Ichthys, has seen some signs of life with an uptick in non-residential building approvals. While residential building approvals continue to fall and house prices are back in negative territory, the Darwin market has been somewhat more resilient than we expected.

While low population growth may be supporting wages and keeping unemployment subdued in the short run, it will weigh on aggregate consumer spending and dwelling construction, and will ultimately be a substantial drag on the economy overall if it continues. This still bodes ill once Ichthys is completed as there are few major projects on the horizon. While there has been talk of onshore gas production, it is likely to be high cost and is not currently allowed by the NT government in any case.

We forecast that GSP growth will remain muted in 2017-18 before recovering to 5% in 2018-19 as Ichthys ramps up. However while net exports will be strong, domestic demand is likely to remain weak, with employment, consumer spending and dwelling construction under pressure. We see the unemployment rate at 4.0% in 2017-18 and 4.2% in 2018-19, up from an average 3.5% in 2016-17.

IN FOCUS

Will potential GST changes damage NT revenue?

Australia has an essentially unique system of fiscal equalisation, which uses GST revenue (collected by the Commonwealth and distributed to the states) to allow states to provide essentially the same level of service delivery across the country. This is determined by a complex assessment by the Commonwealth Grants Commission.

Since Western Australia's mining boom, the state has received much lower GST revenue share, causing considerable political angst in the state.

As a result, the Productivity Commission is undertaking an inquiry into the GST distribution. The Northern Territory, which receives by far the biggest GST benefit and depends on the tax for almost half its revenue (see charts 3 and 4), stands to lose greatly if the system becomes more generous to Western Australia.

The Productivity Commission's draft report includes a number of recommendations, including changes to the mining assessment. This may place further political pressure on the Territory to end its scientific moratorium on fracking for natural gas, compounded by the construction of the Northern Gas Pipeline.

CHART 3: RELATIVITIES FOR GENERAL REVENUE ASSISTANCE

Commonwealth Grants Commission relativities, used to distribute GST

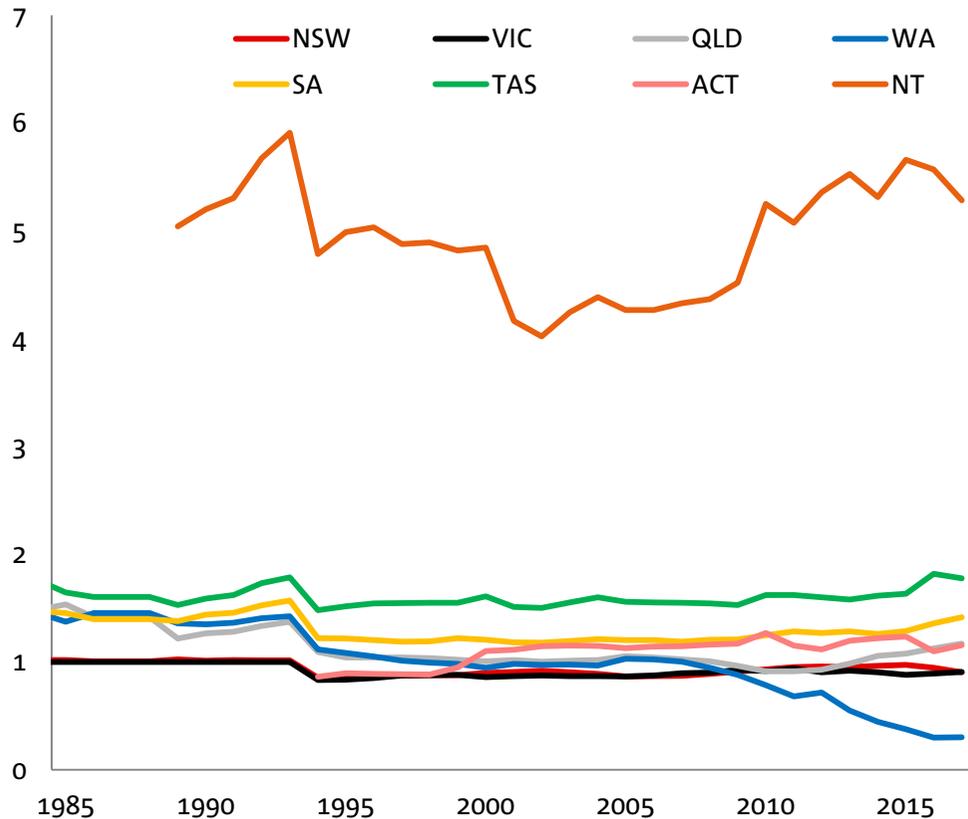


CHART 4: NT GOVERNMENT REVENUE SOURCES

\$ million

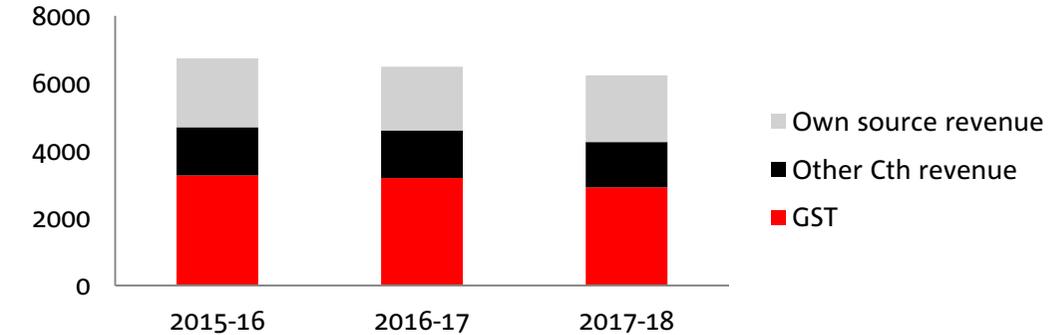
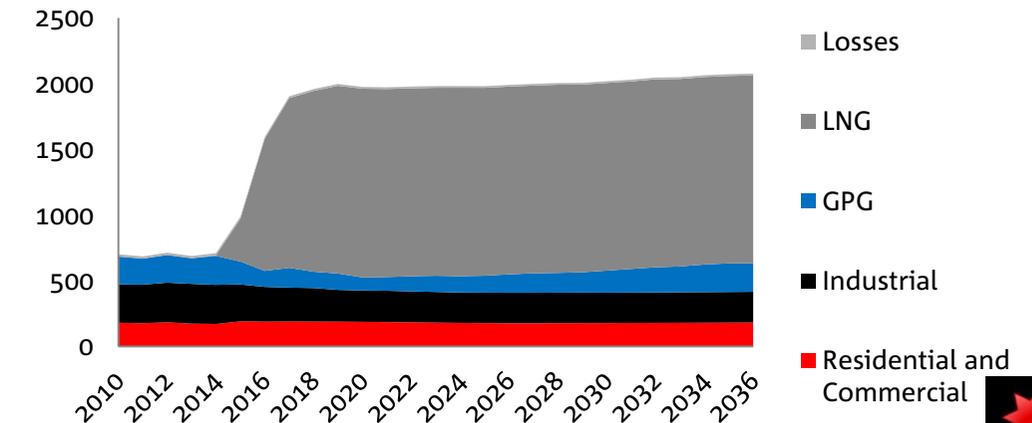


CHART 5: AEMO EASTERN AUSTRALIA GAS CONSUMPTION FORECAST

PJ annually, GPG = gas powered electricity generation



TOURISM

International tourism growth recovers in 2016-17

Tourism Research Australia estimates that tourism comprised 5.0% of territory gross value added (GVA) in 2015-16, the highest in Australia.

Tourism statistics for the NT show an improvement in the international market in 2016-17 after a very poor result in 2015-16. Total international visitors grew 8.2% in 2016-17 after falling 2.9% in 2015-16. Overall, around 300,000 international visitors reached the Northern Territory in 2016-17, of which around 245,000 were holiday visitors. Interstate tourism remains the biggest source of holiday visitors, with over

350,000 in 2016-17. Tourism Research Australia estimates around 75% of Territory tourism GVA is domestic.

BITRE airport passenger data show that Darwin domestic traffic growth looks to be slowing, albeit with a strong seasonal trend around peaks in July during the dry season. Meanwhile, international passenger traffic at Darwin airport remains stagnant to lower, although many international visitors reach the Territory via domestic flights or in campervans.

CHART 6: NT HOLIDAY VISITORS BY SOURCE REGION

2016-17, number

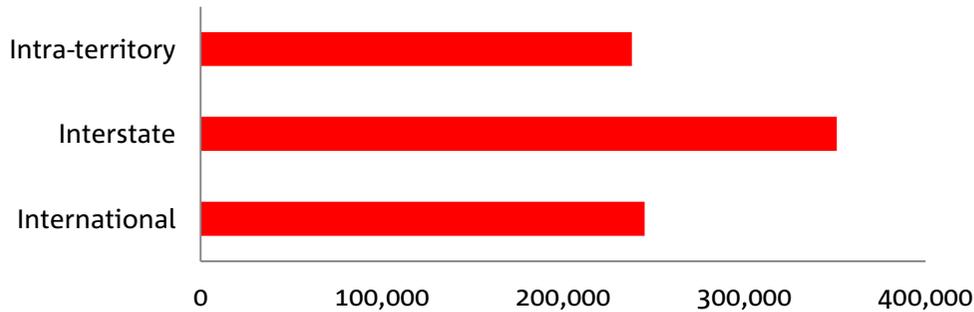


CHART 7: INTERNATIONAL VISITORS TO AUSTRALIA BY STATE

y/y % change

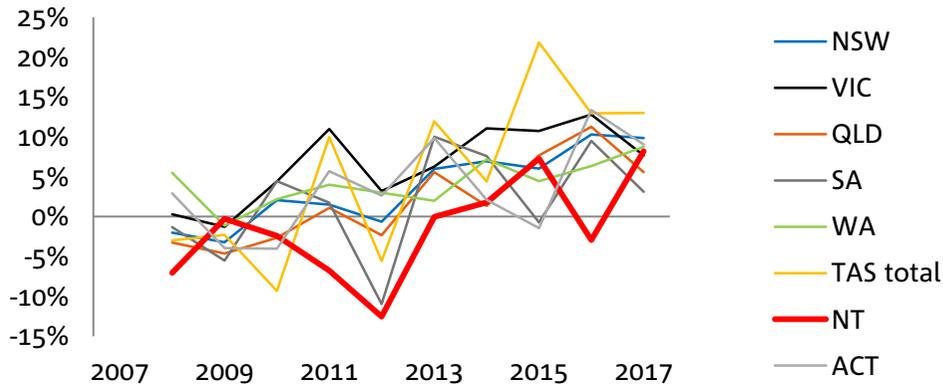
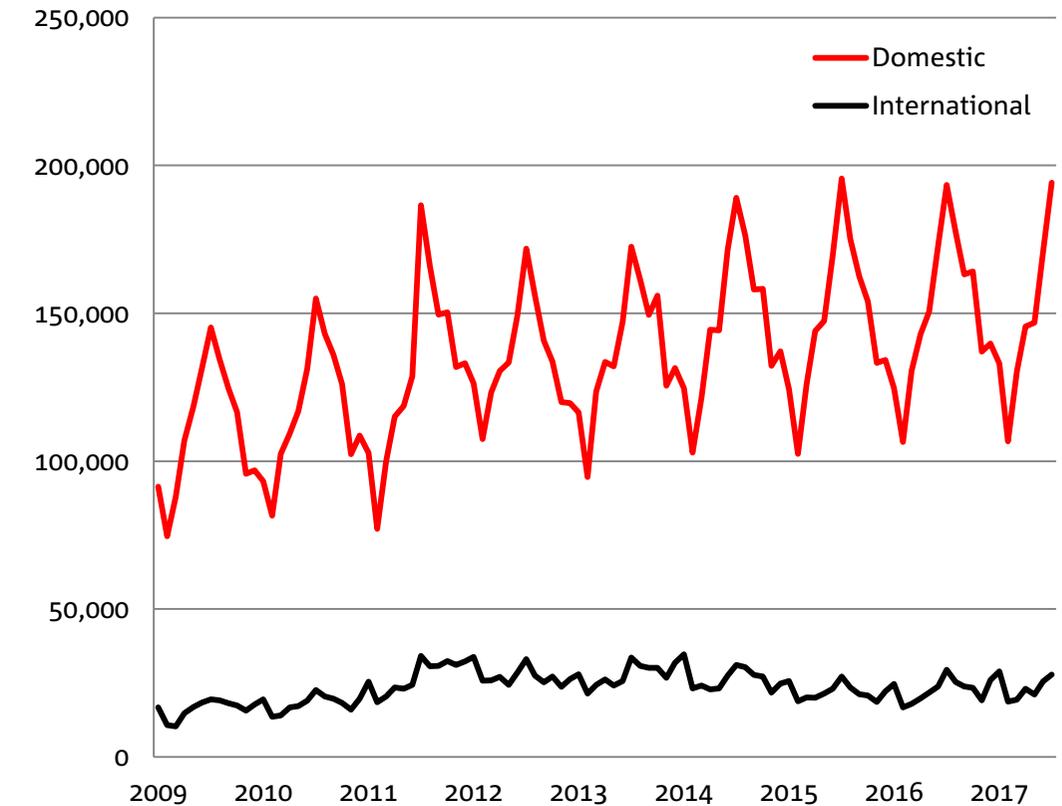


CHART 8: MONTHLY AIRPORT PASSENGERS - DARWIN

Number



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

BUSINESS INVESTMENT AND HOUSEHOLD SPENDING

Defies the odds to improve in 2017

The overall business investment and household spending picture has surprised on the upside this year, especially given the dominance of a single large project which will be fully completed in 2018. During construction, the Ichthys LNG project in Darwin boosted business investment, employment, wages and supported consumer spending. Despite the project nearing completion, household consumption has shown signs of life, compensation of employees is looking somewhat better than expected and house prices, while declining, are looking a little better than expected.

Even non-residential building approvals have shown some signs of life, although they are dwarfed by the Ichthys LNG terminal. Once LNG construction is completed next year, we expect more challenging conditions in the Territory economy and renewed pressure on consumption, business investment and house prices. Residential building approvals continue to slow.

CHART 9: COMPENSATION OF EMPLOYEES AND H-HOLD CONSUMPTION

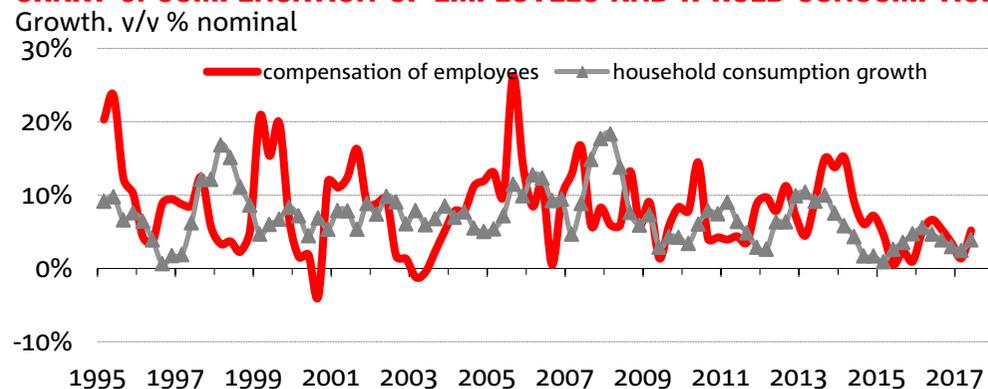
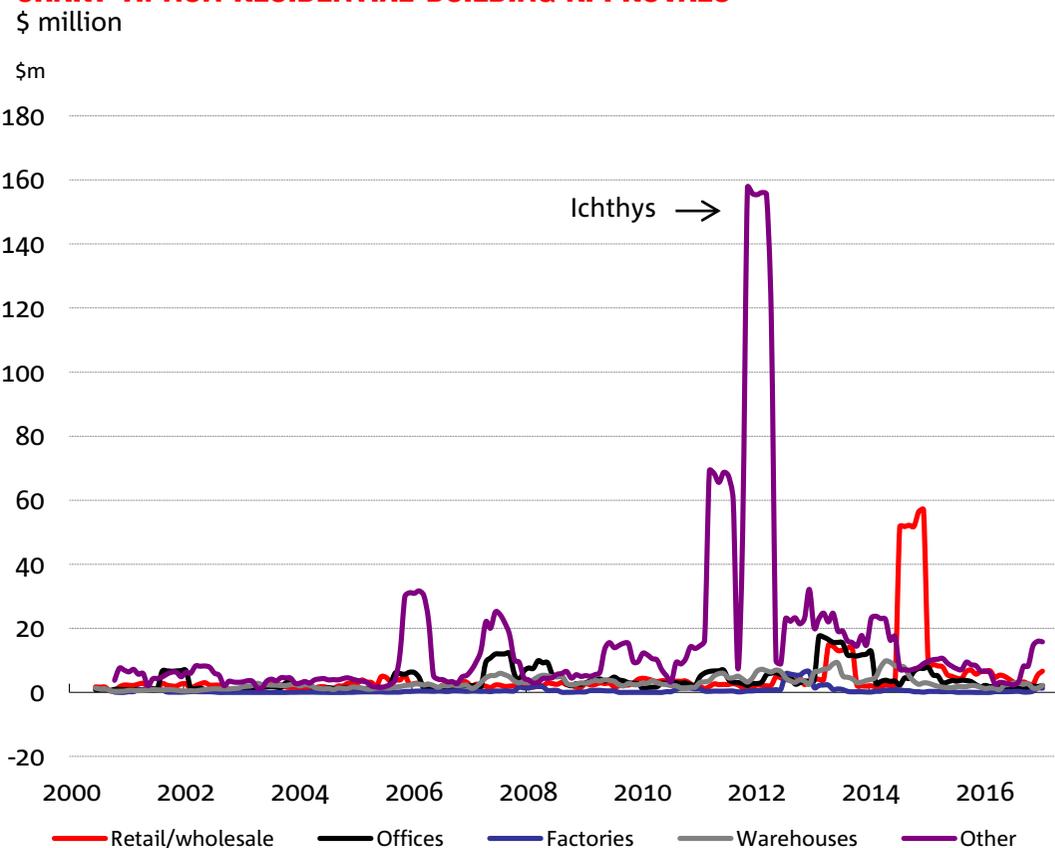


CHART 10: RETAIL TURNOVER AND HOUSE PRICE GROWTH



Source: ABS and NAB Group Economics

CHART 11: NON-RESIDENTIAL BUILDING APPROVALS



NAB CUSTOMER SPENDING BEHAVIOURS

Spending growth stronger in the top end

Customer spending grew 4.5% y/y in Darwin metro in Q2 2017 (1.6% y/y in Q1 2017), and by 7.0% y/y in regional NT (3.7% y/y in Q1 2017). Average monthly spending increased \$51 to \$1,951 in Darwin metro, but fell \$28 to \$1,804 in regional NT. By postcode, spending growth was fastest in Darwin River 0841 (30.2%), Central Desert 0872 (25.8%) and Berry Springs 0838 (14.5%).

Customer spending in the NT was fastest for Wholesale Trade (36.9%), and Arts & Recreation (33.9%). Customer spending growth fell sharply for Education & Training (-20.1%), Construction (-19.3%) and Electricity, Gas, Water & Waste Services (-11.5%), with modest falls in Healthcare & Social Assistance (-73.7%), Transport, Postal & Warehousing (-5.6%) and Rental, Hiring & Real Estate (-0.2%).

CHART 12: NT

Year-ended growth to Q2 2017

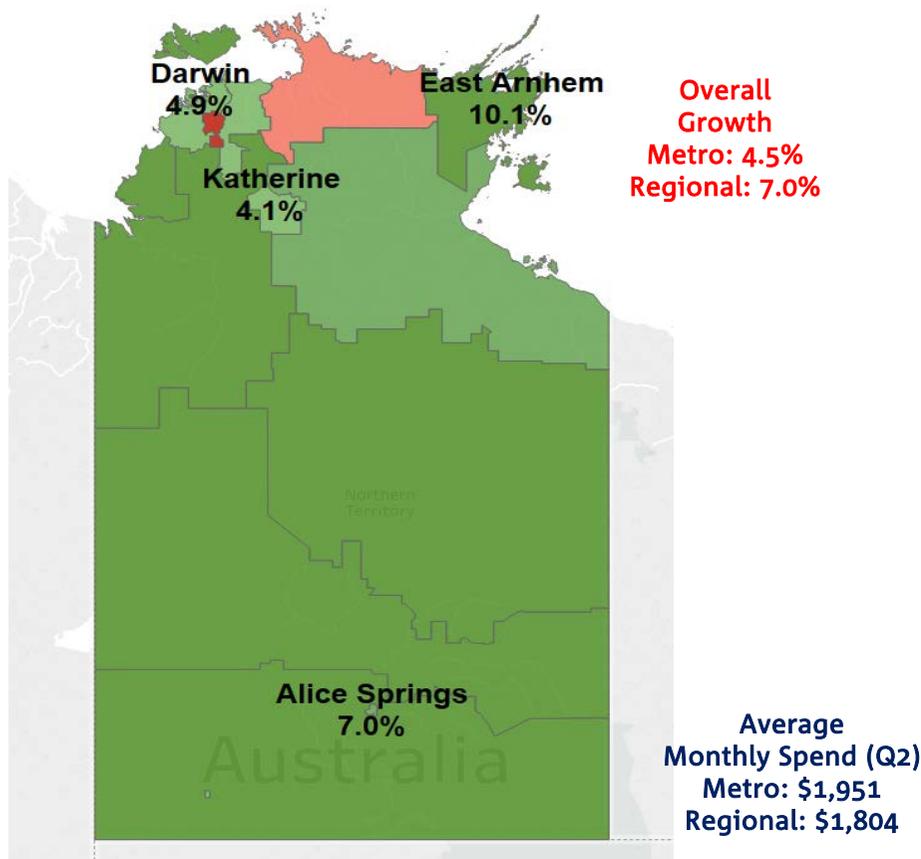
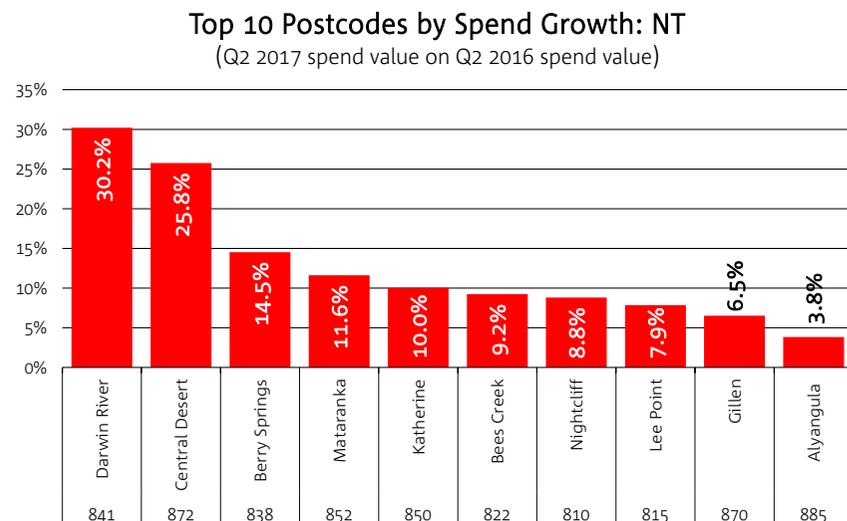


CHART 13: TOP 10 GROWING POSTCODES FOR SPENDING



RESIDENTIAL SECTOR

Approvals down, house prices mostly lower

With sluggish population growth and LNG completion around the corner, the Darwin housing market has been a poor performer. Nonetheless, detached houses did see some improvement earlier in the year, although this looks to have subsided and unit prices remain well into negative territory.

Residential approvals continue to fall, and are now at their lowest point since the early 2000s. This is a concerning sign, although may offset some of the impact of low population growth, keeping property prices higher than otherwise.

CHART 14: RESIDENTIAL APPROVALS AND COMMENCEMENTS

Northern Territory

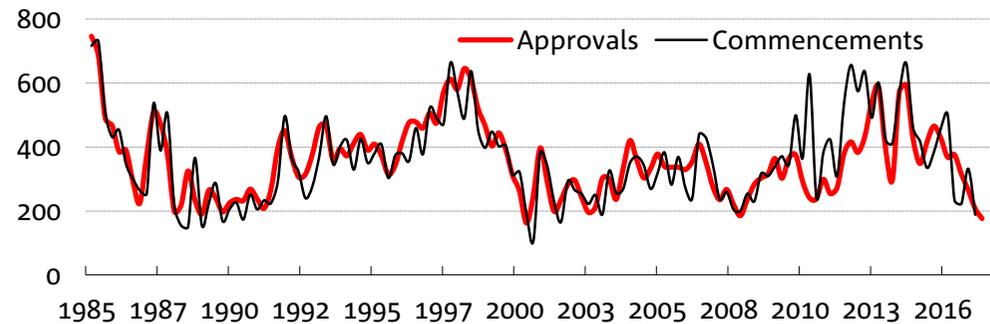
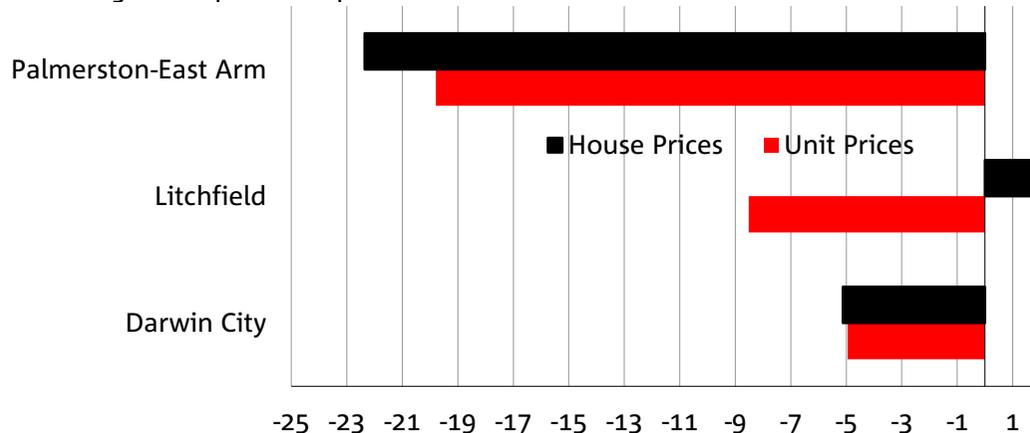


CHART 15: DARWIN RESIDENTIAL PROPERTY PRICE GROWTH

% change from previous quarter



Source: ABS and NAB Group Economics

Another saving grace for the Darwin market has been its attractive rental yields compared most other capital cities in recent years, which might help investor demand. Nonetheless, it is hard to escape the labour wind-down that is rapidly approaching and the pressure on the market is likely to remain on the downside.

CHART 16: BUILDING APPROVALS RELATIVE TO POPULATION

Long run average = 100

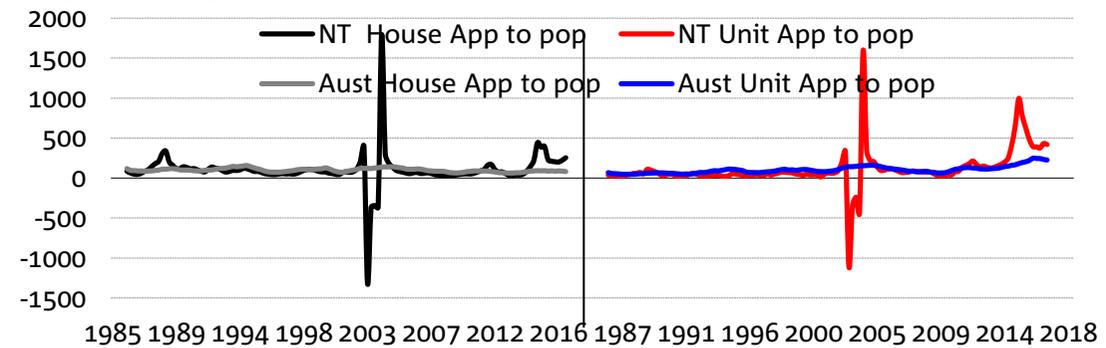
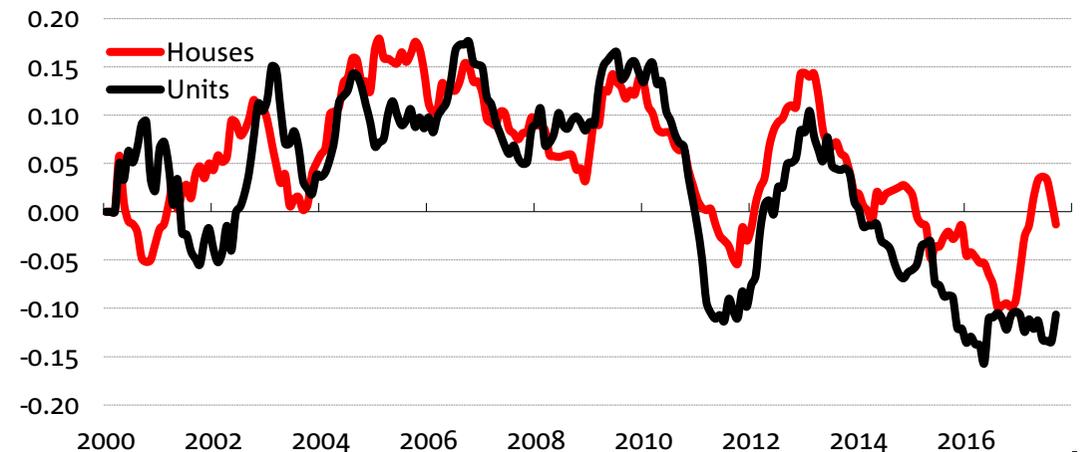


CHART 17: DARWIN PRICES BY HOUSING TYPE



UNEMPLOYMENT

Darwin beats expectations

Unemployment in the Northern Territory rose slightly in August to 3.6% (trend), although it is lower than any other state or territory in Australia. This has defied expectations, with unemployment actually falling this year. While the data is generally very volatile, Darwin tends to see generally lower unemployment than Outback NT.

Employment growth however is much more volatile than the rest of the country and looks to be underperforming.

CHART 18: UNEMPLOYMENT RATE BY REGION

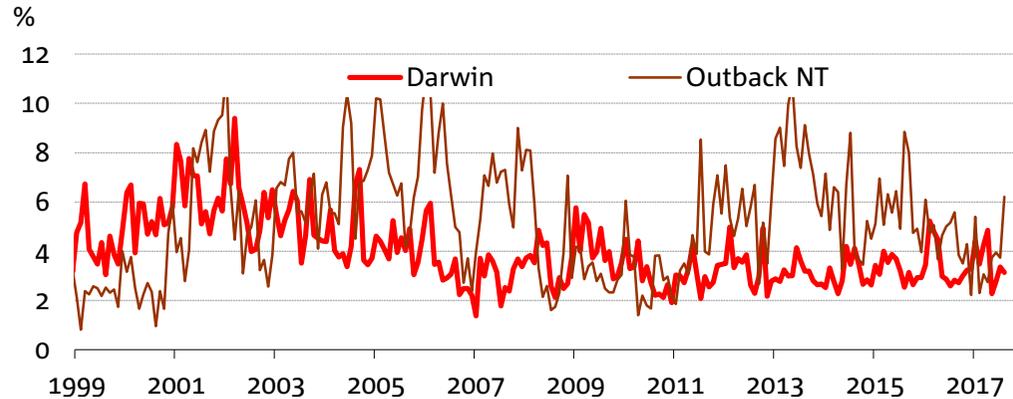
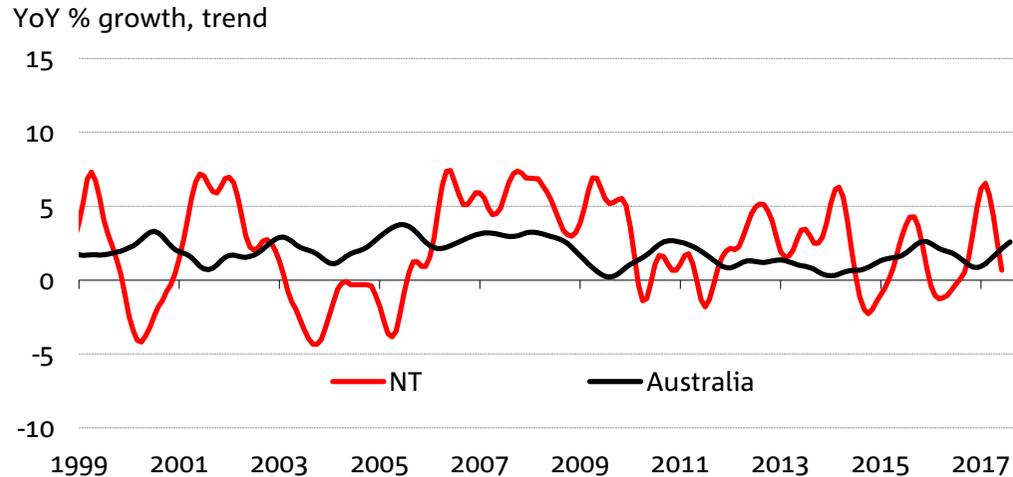


CHART 19: EMPLOYMENT: NT AND AUSTRALIA



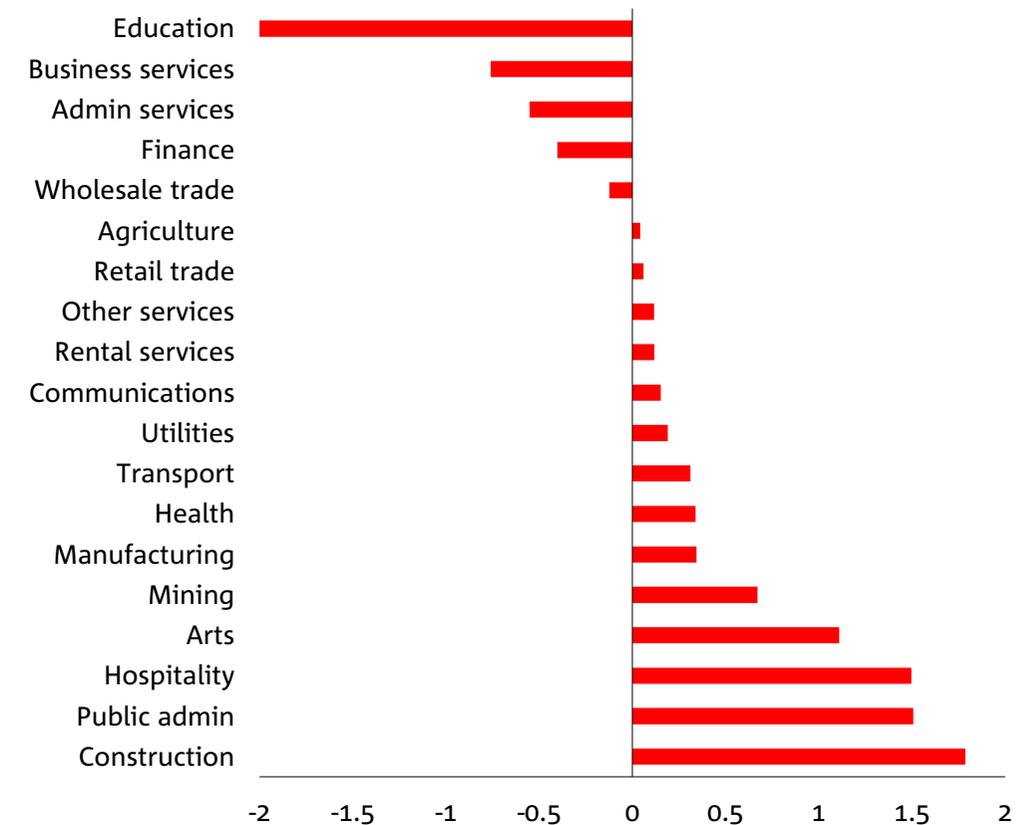
Source: ABS and NAB Group Economics

Over the last 12 months, construction, public administration, hospitality and the arts have seen the biggest job gains, while education, business services and admin services have seen the biggest losses. This has reflected labour demand for LNG construction, ongoing dependence on the public sector but also on a boost to the Territory's tourism prospects seeing gains in hospitality and the arts.

Looking to 2018, it is hard to see how these gains in construction employment can continue with residential approvals falling and LNG nearing completion.

CHART 20: CHANGE IN EMPLOYMENT BY INDUSTRY

Last 12 months, NT, '000



DEMOGRAPHIC TRENDS

Net interstate migration continues to plummet

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. While the natural increase in population is steady, net overseas migration looks to have settled at much lower levels.

Net interstate migration continues to plumb new depths, now recording the lowest level on record since the early 1980s.

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 in the Territory is close to zero. The population hasn’t fallen since the early 2000s, although if current trends continue it may turn negative again.

CHART 21: POPULATION GROWTH DRIVERS

'000 over the year

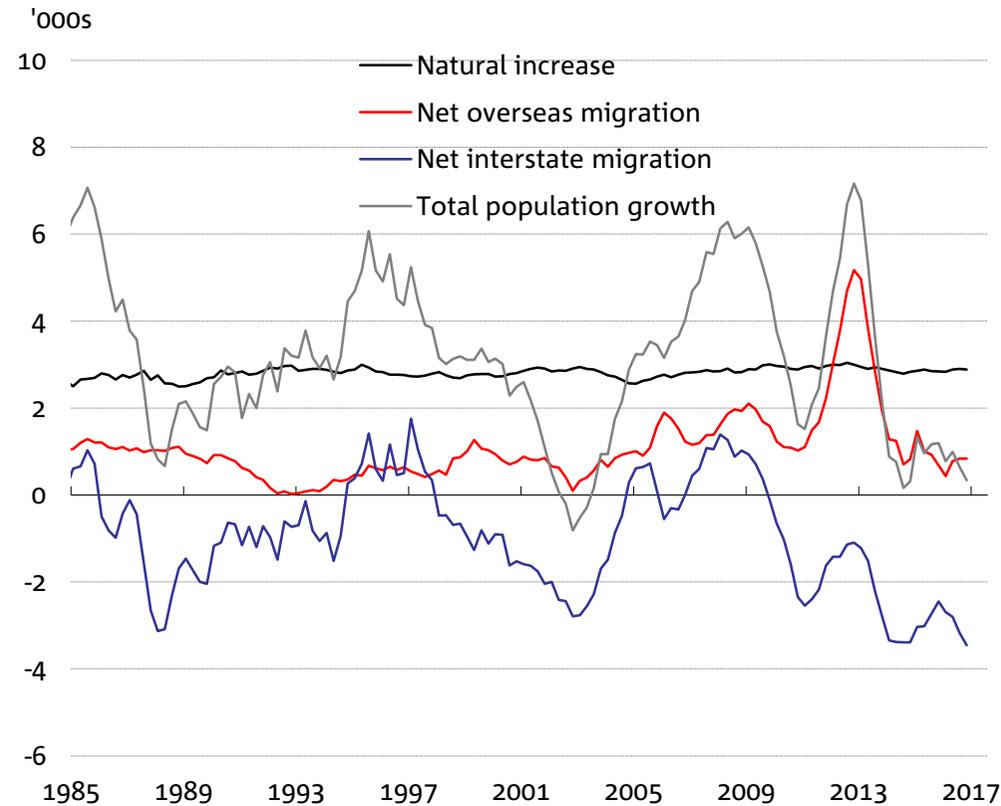
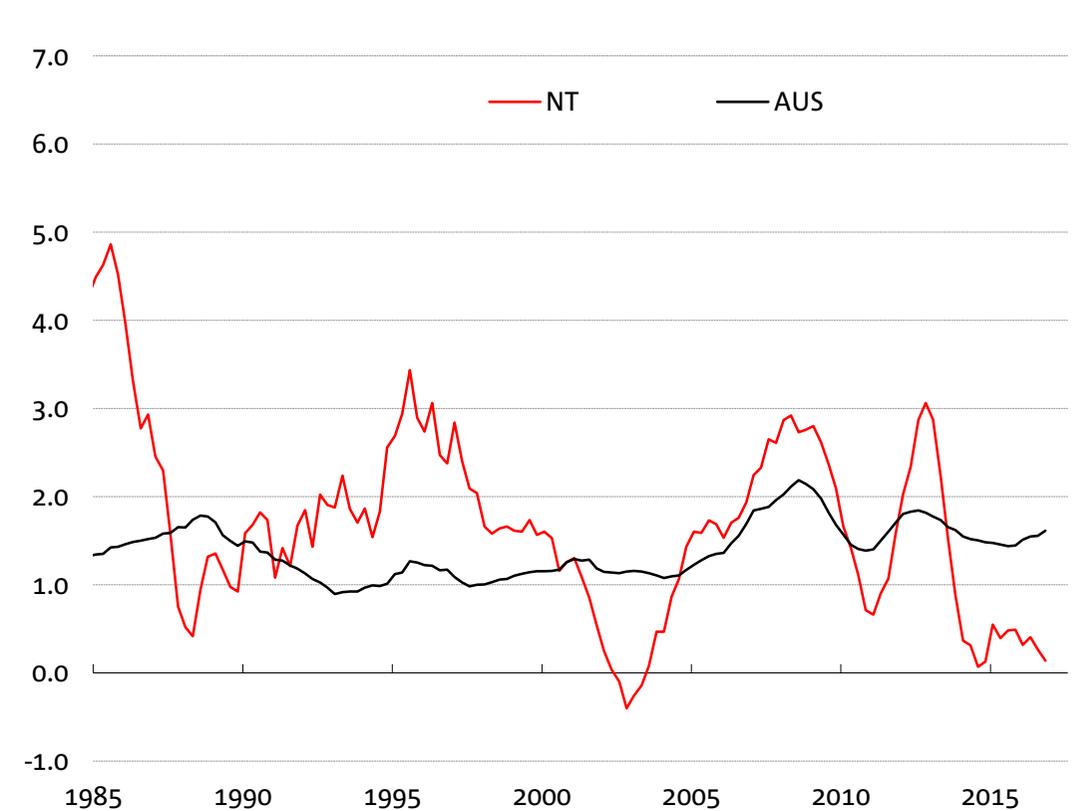


CHART 22: NORTHERN TERRITORY POPULATION GROWTH

Year ended growth



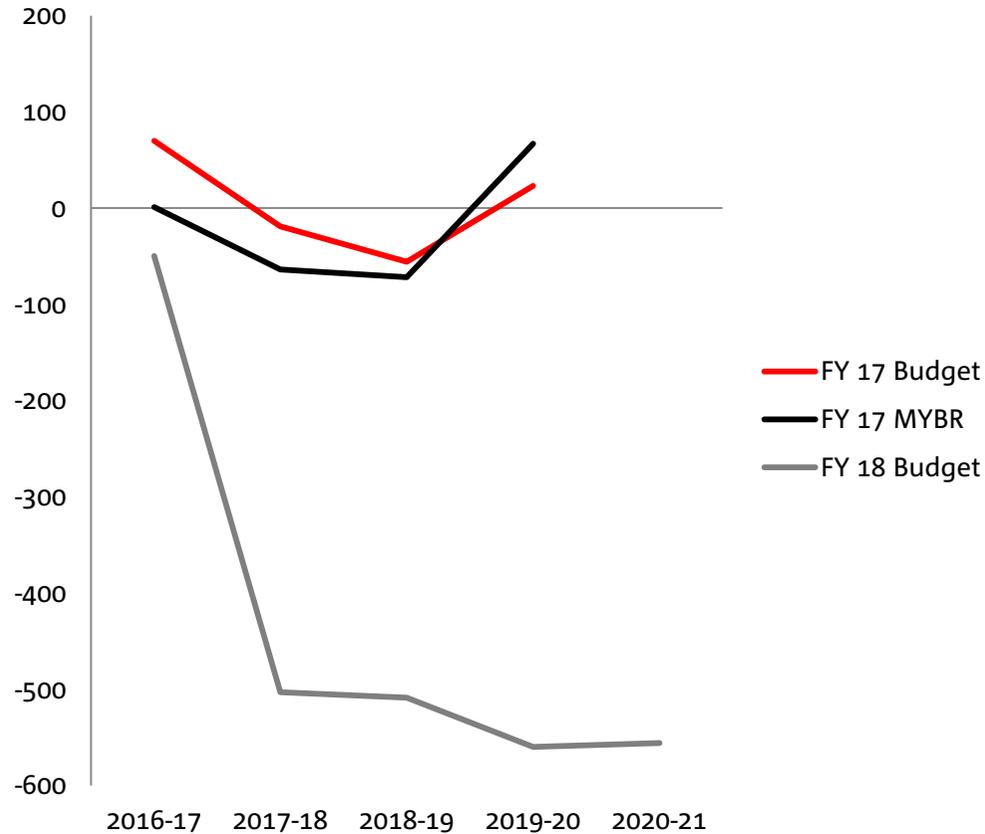
Source: ABS and NAB Group Economics

FISCAL OUTLOOK

NT significantly revised down operating balance projections in the 2017-18 Budget. The downward revisions are largely the result of a significant reduction in GST revenue of around \$2bn across the forward estimates. There has been an additional \$67m of spending decisions on government services, although these are largely offset by savings measures. The NFPS fiscal balance is forecast to remain in deficit across the forward estimates at -\$1.3bn in 2017-18, before improving to -\$572m by 2020-21. In addition to a weaker operating outlook, the deficit has also increased due to infrastructure spending.

CHART 23: NET OPERATING BALANCE

General government sector, \$ million



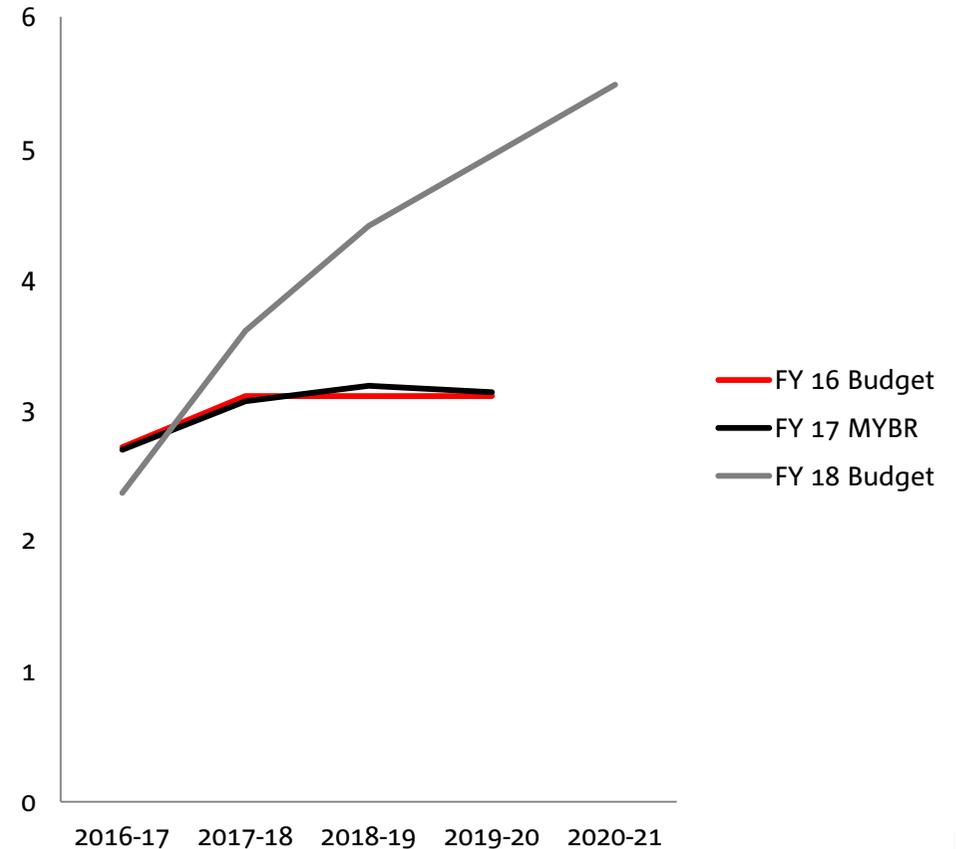
Source: NT Government and NAB Group Economics

NT net debt at the total state level is forecast to rise from \$2.4bn in 2016-17 to \$5.5bn by 2020-21.

Northern Territory Treasury Corporation (NTCC) announced after the Budget that its total funding program for 2016-17 will be \$621mn comprising \$528mn of maturities and \$93mn of new money. NTCC's call on markets will remain modest.

CHART 24: NT NON-FINANCIAL PUBLIC SECTOR DEBT

\$ billion

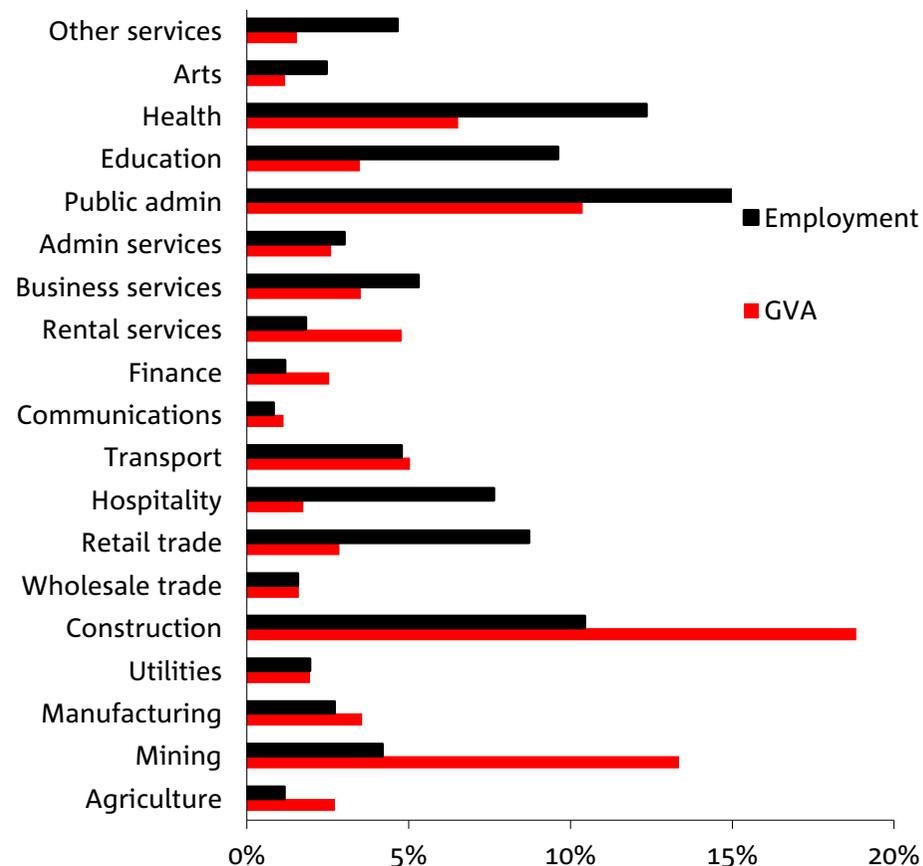


ECONOMIC STRUCTURE AND TRADE

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, followed by healthcare.

CHART 25: COMPOSITION OF EMPLOYMENT & GVA

2015-16



Source: ABS and NAB Group Economics

East and South East Asia dominate the Northern Territory's export markets. Once Ichthys is operational, much of the LNG will be sent under long term contracts in Japan, likely cementing Japan's number one spot on the table. The United States also ranks highly in both export and import data.

CHART 26: TOP EXPORT DESTINATIONS AND IMPORT SOURCE COUNTRIES

12 month average

Value of exports (\$m)		Value of imports (\$m)			
1	China	1745	1	ASEAN	799
2	Japan	1721	2	EU	201
3	ASEAN	740	3	Singapore	195
4	Korea	213	4	US	180
5	US	133	5	China	138
6	India	120	6	Japan	124
7	EU	93	7	Korea	59
8	Singapore	20	8	Germany	34
9	Germany	17	9	UK	22
10	HK	11	10	Taiwan	8
11	Taiwan	7	11	New Zealand	1
12	UK	1	12	HK	0

FORECASTS BY STATE AND TERRITORY:

NT to see a pick-up in GSP growth, but only from LNG exports. Domestic economy will struggle

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			
	15-16	16-17f	17-18f	18-19f	15-16	16-17	17-18f	18-19f
NSW	3.5	2.2	3.1	2.5	5.4	5.0	4.7	4.7
VIC	3.3	2.9	3.3	2.7	6.0	5.9	5.8	5.4
QLD	2.0	2.2	3.2	2.5	6.2	6.2	6.0	5.9
SA	1.9	1.8	2.7	1.7	7.3	6.7	6.5	6.5
WA	1.9	0.3	3.2	3.0	6.0	6.2	6.2	5.9
TAS	1.3	1.0	2.2	1.8	6.5	6.1	6.0	6.0
NT	2.7	1.5	1.5	5.0	4.2	3.5	4.0	4.2
ACT	3.4	3.0	3.1	2.6	4.5	3.8	4.8	4.8
Australia	2.7	2.0	3.2	2.5	5.9	5.7	5.4	5.3