NORTHERN TERRITORY

BUDGET 2020-21

NORTHERN TERRITORY ECONOMY

Contents

Overview

The 2020-21 Northern Territory Economy publication summarises the outlook for the Territory economy across a range of key economic indicators, with headline forecasts detailed in Table i. Further commentary on current and historical macroeconomic conditions can be accessed at the Territory Economy website at nteconomy.nt.gov.au.

Table i: Key economic indicator forecasts (%)

	2018-19a	2019-20a	2020-21f	2021-22f	2022-23f	2023-24f
Gross state product[1]	- 1.5	4.8e	- 0.1	1.5	2.1	- 0.8
State final demand[1]	- 16.2	- 4.5	0.0	0.5	1.0	1.4
Population[2]	- 0.4	- 0.3e	0.2	0.4	0.7	0.9
Employment[1]	- 3.4	- 0.7	- 0.7	1.3	1.6	1.8
Unemployment rate[3]	4.5	5.6	6.3	6.1	5.6	5.1
Consumer price index[1]	0.9	0.2	0.5	1.1	1.4	1.8
Wage price index[1]	2.1	2.3	1.6	1.6	1.3	1.2

a: actual; e: estimate; f: forecast
1 Year-on-year percentage change.
2 June quarter compared with June quarter the previous year.
3 Year average.
Source: Department of Treasury and Finance; ABS

COVID-19

The COVID-19 pandemic has resulted in a significant ongoing shock to global, national and regional economies as governments have implemented strict measures to slow transmission of the virus. The scale of the restrictions, the fiscal response and the impacts on economies is unprecedented. Despite massive stimulus from the Australian, state and territory governments, the Australian economy contracted by 7 per cent in the June quarter 2020, the largest quarterly fall on record, and across Australia there were sharp falls in most components of economic activity over the first half of 2020.

The extent of the contraction in most advanced economies has been mitigated by record fiscal support. Stimulus measures provided by the Territory Government include direct assistance for businesses and households, waivers and deferrals of government fees and charges, and tailored support for industry, not-for-profit entities, community organisations and the local government sector. The Territory Government's response is funded at around $383 million to date and complements the $507 billion package offered by the Commonwealth.

In Australia the major economic and social impacts of COVID-19 relate to physical distancing measures, and trading and border restrictions. In the Territory, the absence of community transmission has meant the economic impacts of physical distancing – except in the early months of the pandemic – have been minimal, though the international border closure and interstate border restrictions have had a significant impact on visitation, tourism, investor confidence and employment.

Despite small upward revisions to the global outlook, the International Monetary Fund (IMF) expects that all nations will face a difficult climb that will be long, uneven, uncertain and prone to setbacks.

Past economic trends

Over the past 20 years, the Territory economy has expanded from a succession of major projects, with the most recent contributor being the globally significant Ichthys liquefied natural gas (LNG) project, which added an average $5 billion of private investment per annum to the Territory economy during its construction and generated significant employment growth, requiring a large number of workers to be sourced from interstate and overseas. The project also increased total investment across a broad range of industries and underpinned population and residential construction growth.

As the construction phase of the project came to an end in 2018, so too did the broader economic expansion. Despite the massive increase in exports associated with production from the Ichthys LNG project contributing to economic output, the onshore domestic economy has been recalibrating following completion of construction for the project, and subsequent loss of jobs and population outflow, which is reflected in a range of economic indicators declining during 2017-18 and 2018-19. The economy was showing early signs of recovery when the COVID-19 pandemic hit in early 2020.

Before the Ichthys LNG project, between 2006 and 2011 there was strong investment associated with a range of resource projects, and this coincided with the Commonwealth's Northern Territory Emergency Response, which resulted in a large number of Commonwealth public servants relocating to the Territory.

More recently, the Territory recorded a 1.5 per cent decrease in economic output in 2018-19, falling to $26.1 billion as completion of construction for the Ichthys LNG project ended. Territory gross state product (GSP) is expected to have increased by 4.8 per cent in 2019-20 to $27.4 billion, supported by increased LNG exports, while in the domestic economy, state final demand (SFD) was weak despite fiscal measures such as the Commonwealth's JobSeeker and JobKeeper payments, and the range of business assistance initiatives implemented by the Territory Government.

Economic outlook

The GSP growth outlook in the forward estimates period is heavily influenced by three key factors. First, the Ichthys LNG project reaching full production from 2020-21 onwards, second, the impacts of COVID-19 and, third, production from Darwin LNG is not included in 2023-24 as there has been no final investment decision made at the time of publication of these forecasts on backfill gas. The outlook essentially sees a post-Ichthys recalibration of the Territory economy.

In 2020-21, GSP is forecast to decrease by 0.1 per cent as exports plateau, and domestic consumption and investment activity underpin economic conditions. New business investment is expected to be delayed due to uncertainty in domestic and overseas markets, and household confidence, income and expenditure are likely to be affected by JobSeeker and JobKeeper payments coming to an end in December 2020 and March 2021, respectively. Conversely, bringing forward income tax cuts scheduled for 2022, backdated to 1 July 2020 by the Commonwealth, will support household confidence and consumption, and the new JobMaker policy will support private sector investment and employment.

Economic activity in the outlook period will be supported by improving domestic conditions with modest population growth increasing the demand for goods and services, which contributes to consumption. Private investment is expected to contribute to growth from 2022-23 as the Territory economy slowly recovers from COVID-19. The forecast for slowing exports growth to detract from GSP in 2023-24 relates to there being no final investment decision on the Barossa project to provide backfill gas for the Darwin LNG plant at the time of preparing these forecasts.

The Barossa project will have a significant impact on SFD and GSP. The potential for stronger economic growth as a result of planned and potential projects is discussed further in Chapter 2 *Economic growth*.

Public investment will continue to support economic activity in the outlook period through projects such as the Darwin ship lift and marine industry project, City Deals projects, and significant defence and transport-related infrastructure expenditure.

After declining by 0.3 per cent in 2019-20, population growth is expected to gradually strengthen over the outlook period, with growth in 2023-24 forecast to be 0.9 per cent, influenced by economic and labour market conditions improving. In the short term, COVID-19 border restrictions imposed by the Commonwealth, state and territory governments have caused significant disruption to usual migration flows. The Commonwealth closed the national border on 20 March 2020 and is unlikely to re-open it until late 2021, apart from a gradual return of international students and permanent residents through 2021.

COVID-19 is expected to see a reduction in interstate population movements in the short term, particularly where the Territory has imposed mandatory quarantining on people arriving from hotspot locations. As net interstate migration (NIM) typically detracts from population growth, lower levels of interstate movement will reduce the overall negative impact on population growth. Weaker interstate migration is contributing to the Territory's population growth strengthening to 0.2 per cent in 2020-21.

After declining by 0.7 per cent in 2019-20, employment is expected to decline by a further 0.7 per cent in 2020-21 as uncertain economic conditions translate to reduced demand for labour, with the unemployment rate estimated to average 6.3 per cent. This outlook is influenced by the Commonwealth's JobKeeper payment ending on 28 March 2021, though the JobMaker plan will support the creation of new jobs. Employment is expected to recover over the outlook period, supported by recovery in the labour-intensive tourism sector as international travel and interstate border restrictions are lifted, and consumer and business confidence recovers from the recent lows.

Similar to population growth, inflation is expected to gradually strengthen over the outlook period, but remain below longer term rates. This reflects the modest forecasts for consumption, investment, employment and population growth over the forecast period, meaning there are limited domestic inflationary pressures. Weak wages growth is also contributing to the inflation outlook, as it flows through to weaker household demand for goods and services. This is consistent with impacts nationally as a result of COVID-19. Wages growth in both the public and private sectors is expected to be below longer term rates over the outlook period. A significant factor will be the Territory Government's next wages policy to freeze pay rates for four years, with a $1000 annual payment for employees. This is in contrast to the 2017–2020 wages policy of 2 per cent increases per annum, and will constrain public sector wages growth to rates more consistent with the private sector.

Territory Government stimulus

The fiscal response to COVID-19 from the Commonwealth and Territory governments has been unprecedented. Significant Territory Government policy initiatives and the funding available for each initiative to support immediate economic activity include:

- Home Improvement Scheme ($103 million) – contributions to home owners for physical improvements to land and or building, and repairs and maintenance services
- Business Improvement Grant ($20 million) – funding for businesses to purchase goods and services to make permanent physical improvements to their premises

- Immediate Work Grant ($15 million) – funding for not-for-profit and community organisations for repairs, renovations and upgrades to their property and facilities
- Small Business Survival Fund ($50 million) – provides Territory businesses significantly impacted by COVID-19 with immediate survival payments of between $2000 and $50 000
- Business Hardship Package ($108 million) – provides Territory enterprises significantly impacted by COVID-19 with financial relief including waivers or deferrals of payroll tax, reduced utilities charges and incentives for commercial landlords to reduce rent
- My Territory Business voucher scheme ($3 million) – includes a further $2 million to extend support for the successful local business voucher scheme
- Business Rebound and Adaptation Grant ($20 million) – a new grant program that supports the Territory's small businesses to rebound and adapt to the economic impacts of COVID-19
- Territory tourism voucher scheme ($15.2 million) – round 1 of the scheme provided 26 000 vouchers worth $200 for Territorians to put towards a tourism experience, tour, accommodation, hire car or recreational fishing charter, so long as they match the spend with their own money. A further two rounds of vouchers will be released on 1 November 2020 and 1 February 2021 to support tourism operators through the low season
- other initiatives ($49 million) – including fast-tracking school infrastructure projects and local government support.

These programs are estimated to deliver economic benefits of over $700 million.

The final report of the Territory Economic Reconstruction Commission (see *Economic growth* chapter) will also provide a series of priorities for action to expedite economic activity in the short term while also positioning the Territory for medium to longer term growth driven by private sector investment.

Risks to the outlook

The impact of COVID-19 on household and business behaviours, both domestically and internationally, poses greater than normal risks to the forecasts as the range of possible outcomes and policy interventions is significantly wider given considerable uncertainty around the pace and shape of the recovery. This is reflected in significant revisions to some economic forecasts reported in the COVID-19 Financial Report (July 2020) as new data has been released.

Key challenges include COVID-19 having significant supply and demand impacts on inputs to production and outputs. These impacts vary by region and nation, and are dynamic depending on the status of the disease in any particular region. Economic impacts are also influenced by government stimulus programs and behavioural changes in businesses and households. This creates a complex environment where each of these factors will impact the rate of recovery in the Territory and Australian economies, and economies of our international trading partners. A further unknown is the development and rollout of a vaccine which is not explicitly included in the forecasts.

Developing forecasts in this environment, requires the exercise of considerable judgement and a greater than usual number of assumptions, and there is higher than usual risk regarding the reliability of the forecasts. Key assumptions underpinning the forecasts are: the spread of the virus remains contained in the Territory; Australia's national border remains closed until late 2021 with a very gradual increase in international visitation; border restrictions with Victoria are gradually eased; and any localised outbreaks in the Territory and Australia are contained quickly as learnings from earlier outbreaks are integrated into emergency responses.

Chapter 1

Structure of the economy

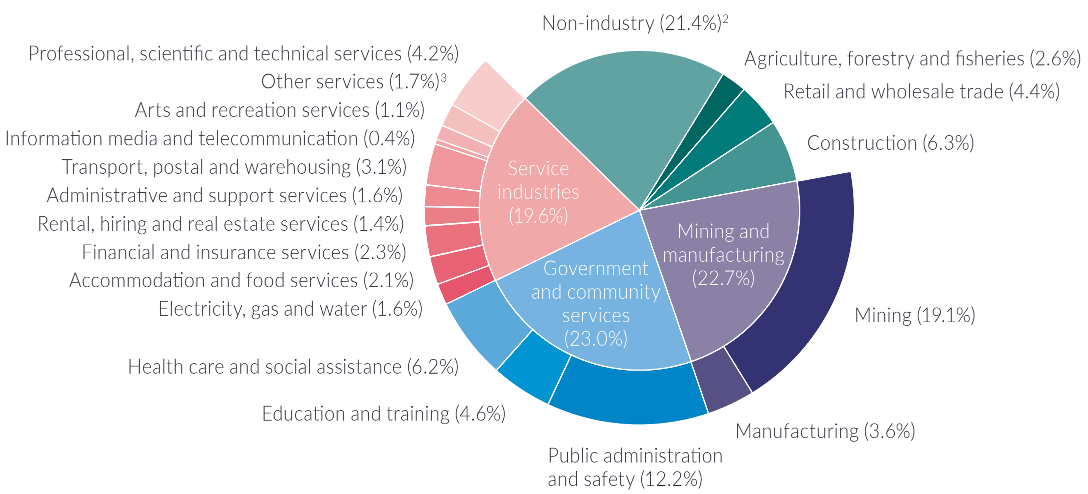
Structure

The Territory has a small open economy that is significantly influenced by external factors, such as investment associated with major projects, economic conditions in trading nations, commodity prices and exchange rates. The structure of the economy reflects the Territory's abundant natural resources, strategic defence significance, tourism attractions and relatively large government and community services sector.

The Territory economy has experienced significant growth over the past decade, largely supported by investment for the Ichthys LNG project. New data for the Territory's GSP will be released in November 2020, and the Department of Treasury and Finance estimates the Territory's GSP in 2019-20 at $27.4 billion. In 2018-19, the Territory's GSP was $26.1 billion, a 28 per cent increase from $20.4 billion in 2008-09. Over the same period, the Territory's population increased by around 20 000 to over 246 000 people, or 9 per cent, while the Territory's employment increased by around 15 800 to over 132 000 people, or 13 per cent.

Mining, manufacturing, construction and tourism are significant industries that together accounted for almost one-third of economic activity in 2018-19, while government and community services accounted for a further 23 per cent (Chart 1.1). Tourism represents around 4.2 per cent of economic output in the Territory but is not reported as an industry due to the nature of its output (Box 1.1). The share of industry contributions to Territory economic output can be volatile in the short term, while changes in the underlying structure of the economy tend to occur over longer time periods and reflect comparative economic advantages.

Chart 1.1: Contributions to gross state product, 2018-19[1]



1 Data on contributions to 2019-20 GSP not yet available.
2 Non-industry components of GSP are ownership of dwellings, taxes less subsidies and statistical discrepancy.
3 Other services components of GSP include personal services and general repair and maintenance activities.
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Industries and employment

All economies are subject to business cycles (fluctuations between growth and contraction), with the frequency, magnitude and length of cycles influenced by the structure of the economy, reliance on key industries and vulnerability to external factors such as commodity prices and exchange rates. The characteristics of the Territory economy result in economic cycles being more pronounced compared with other jurisdictions and Australia.

Box 1.1: Concept of tourism

Tourism is defined differently to standard industries, such as manufacturing or transport, as it is defined by the nature of the consumer (demand side) rather than the process by which goods and services are produced (supply side). That is, tourism activity and expenditure is defined by the status of the customer as a visitor rather than a resident.

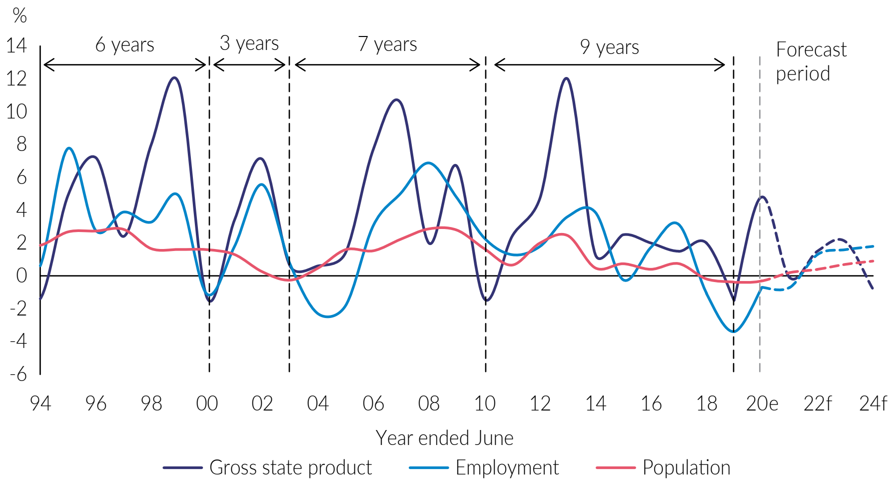
Tourism is a component of many standard industries, as tourists create demand in a range of industries including accommodation, cafés, restaurants and food outlets, cultural and recreational services, retail trade and transport.

Standard Australian Bureau of Statistics (ABS) measures of production are not available for tourism. As tourism output is included, in varying degrees, in all industries, the ABS uses a satellite account to extract the tourism contribution from all industries as a proxy measure for tourism activity.

Over the past 25 years the Territory has experienced business cycles that average six to seven years, and are driven by major projects, where domestic conditions are impacted by construction and new resource exploration and production cycles. The Territory's employment and population generally tend to move in line with GSP growth, though not to the same extent. This is due to the capital-intensive nature of investment in the Territory and higher productivity per worker that results. Therefore, employment and population growth have accompanied GSP growth but without reaching the extreme highs seen in recent cycles (Chart 1.2).

In the absence of major private investment projects in the short term, domestic economic growth is likely to be driven by more fundamental factors such as population growth, household consumption and confidence, public sector expenditure and small to medium-scale private investment that relies on domestic demand or niche interstate and international trade opportunities.

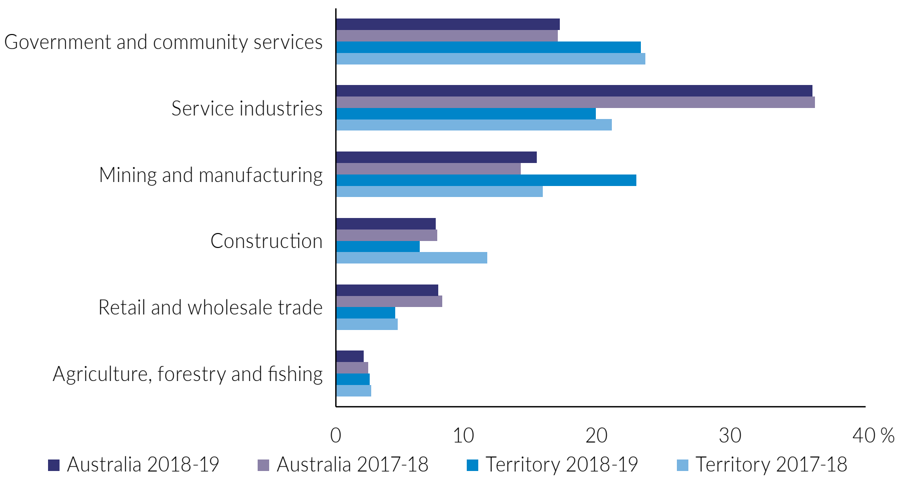
Chart 1.2: Economic cycles in the Territory



e: estimate; f: forecast
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0, *Labour Force, Australia*, Cat. No. 6202.0, *Australian Demographic Statistics*, Cat. No. 3101.0; Department of Treasury and Finance

The government and community services, and mining and manufacturing industries have traditionally contributed a far greater share to the Territory's economy than nationally. By comparison, the service industries are dominant nationally (Chart 1.3).

Chart 1.3: Key industry proportion of gross state product and gross domestic product



Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

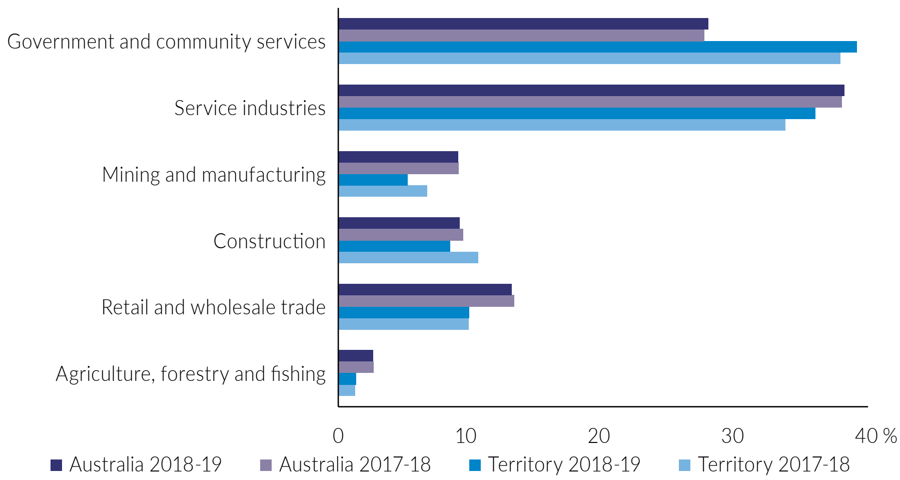
Government and community services

The government and community services sector (which is public administration and safety; education and training; and health care and social assistance workers) employed over one-third of the Territory workforce (39 per cent) in 2018-19 (Chart 1.4). The industry is dominated by Territory, Commonwealth and local government employees, but also includes non-government providers of education and training, health, aged care and community services.

The share of the Territory workforce employed in this sector is large relative to nationally, and reflects scale issues in the delivery of services and labour requirement to deliver services to a small, diverse, dispersed and relatively disadvantaged population over a large land mass.

In April 2019, the Territory Government released a plan to return the budget to balance or surplus over the medium term in response to the Fiscal Strategy Panel's final report: *A plan for budget repair*. Implementing the report's recommendations aims to constrain growth in government and community services in the outlook period. The Territory Government has confirmed the next wages policy for negotiating enterprise agreements in the Northern Territory Public Sector. From 2021 onward, the policy entails a freeze of pay rates for four years, and a $1000 annual payment for employees who have performed at least 11 months service in the preceding year. This is in contrast to the 2017–2020 wages policy of a 2 per cent increase per annum, and will constrain government and community services wages growth going forward.

Chart 1.4: Share of employment by key industries



Source: ABS, *Australian Labour Force, Australia*, Cat. No. 6291.0.55.003

Service industries

The service industries category includes a variety of industries that individually make a relatively small contribution to the Territory economy, but collectively have a significant contribution. The industries in this category are electricity, gas and water; accommodation and food; transport, postal and warehousing; information media and telecommunications; financial and insurance; rental, hiring and real estate; professional, scientific and technical; administrative and support; arts and recreation; and other services.

In 2018-19, the service industries collectively accounted for 19.6 per cent of the Territory's output and 36 per cent of total employment. Nationally, the service industries accounted for a larger share of gross domestic product at 36 per cent and 38.2 per cent of the workforce.

The outlook for the service industries is mixed, reflecting the diverse nature of industries in this category. Tourism-related industries such as accommodation, food and transport services will be impacted significantly in the short term. However, there is potential over the medium term for professional and technical services to be supported by exploration and project development activity associated with onshore gas.

Mining and manufacturing

The significance of mining and energy to the Territory's economy reflects the abundance of natural resources, including natural gas, petroleum, uranium, lead-zinc, gold and manganese. In 2018-19, the mining and manufacturing industries accounted for 22.7 per cent of the Territory's GSP, up from 15.6 per cent in 2017-18, and above the national rate of 15.2 per cent. The Ichthys LNG plant commenced exports in late 2018, contributing to the recent increase in the mining and manufacturing proportion of GSP. Mining and manufacturing's proportion of GSP is expected to increase further in 2019-20 as the facility reaches full production.

Mining and manufacturing accounts for only 5.2 per cent of the Territory's resident employment compared with 9 per cent nationally. This is largely due to the more labour-intensive manufacturing industry at the national level, as well as the prevalence of fly-in fly-out (FIFO) workforce arrangements in the Territory.

Construction

Construction accounted for 6.3 per cent of the Territory's GSP in 2018-19, down from 11.4 per cent in 2017-18, as construction for the Ichthys LNG project came to an end. Similarly, the construction industry employed 8.4 per cent of the Territory workforce in 2018-19, down from 10.6 per cent in 2017-18.

Despite the Territory Government's ongoing support of the construction industry, the public sector does not have the scale or financial capacity to offset the recent declines in private sector investment. This is a result of the dominance of private sector engineering projects in the level of construction activity over the past two decades.

Retail and wholesale trade

Retail and wholesale trade, as a proportion of GSP, is relatively stable, averaging 5 per cent over the past decade. Retail and wholesale trade is one of the largest employers in the Territory with 9.9 per cent of the workforce in 2018-19.

The outlook for retail and wholesale trade is heavily influenced by expectations of both business and consumer confidence, which is being affected by COVID-19 and the uncertain global outlook. Population growth over the medium term will support retail activity and, more broadly, household consumption.

Agriculture, forestry and fishing

The agriculture, forestry and fishing industry's share of Territory output has been below the long-run average in recent years, reflecting a number of seasonal fluctuations and biosecurity setbacks, which affected production and output. The industry's share of Territory GSP was 2.6 per cent in 2018-19, above the national share of 2.1 per cent. Despite the relatively small contribution to GSP, the industry is vital in generating economic activity and employment in regional areas.

Chapter 2

Economic growth

Recent activity

The Territory economy is estimated to have grown by 4.8 per cent in 2019-20, with exports the major contributor to growth. However, SFD (a measure of local economic activity) declined by 4.5 per cent in 2019-20.

Outlook

The Territory economy continues to recalibrate from unprecedented levels of private investment and transition to LNG exports. The economy is forecast to decrease by 0.1 per cent in 2020-21, and growth is forecast to average 0.7 per cent per annum in the four years to 2023-24.

GSP is a measure of value-adding activity and an indicator of the size and growth of the economy. Forecasts reported here are based on expenditure, which includes changes to household and public consumption, private and public investment, net exports and the balancing item. The balancing item measures interstate trade and changes in inventories. The balancing item also contains confidentialised expenditure such as the value of feedstock gas imports. Forecasts regarding public investment and consumption are not directly comparable to expenditure reported in the budget papers due to differences in statistical and accounting treatments of expenditure. Caution should be used when comparing data in this publication to previous publications as historical data is revised by the ABS. These revisions can have a significant impact on the Territory's reported growth rates.

SFD measures the value of spending in the local economy by households, government and businesses on goods and services and capital investment, and does not include the value of international exports, net interstate trade or changes in inventories.

Outlook

Table 2.1: Territory economic growth forecasts (%)

	2018-19a	2019-20e	2020-21f	2021-22f	2022-23f	2023-24f
Gross state product	- 1.5	4.8	- 0.1	1.5	2.1	- 0.8
State final demand	- 16.2	- 4.5a	0.0	0.5	1.0	1.4

a: actual; e: estimate; f: forecast
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Gross state product

The Territory recorded a 1.5 per cent decrease in economic output in 2018-19, falling to $26.1 billion. The decline followed completion of construction of the global scale Ichthys LNG project, which saw record levels of investment in the economy. Ichthys is the largest project to ever proceed in the Territory, and over the past two decades economic growth in the Territory has been heavily influenced by major project-related construction activity, notably for the mining industry (including energy), though also for economic and social infrastructure.

Territory GSP is expected to have increased by 4.8 per cent in 2019-20 to $27.4 billion, supported by increased LNG exports, while in the domestic economy SFD was weak, supported by fiscal measures such as the Commonwealth's JobSeeker and JobKeeper payments, and the significant range of business assistance initiatives implemented by the Territory Government.

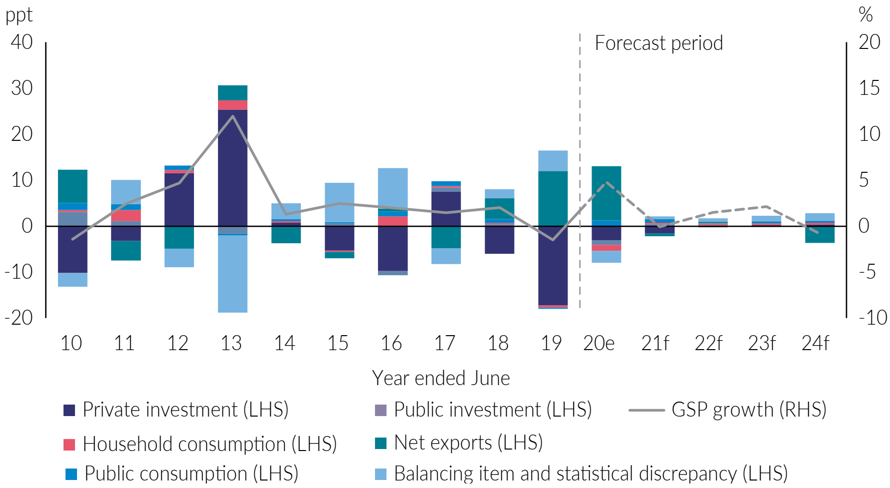
The GSP growth outlook in the forecast period is heavily influenced by three key factors: first, the Ichthys LNG project reaching full production from 2020-21 onwards; second, the impacts of COVID-19 affecting a broad range of Territory industries through consumer confidence, access to finance, business sentiment and investment; and third, production from Darwin LNG is not included in 2023-24 as there has been no final investment decision made at the time of publication of these forecasts on backfill gas. The outlook essentially sees a post-Ichthys recalibration of the Territory economy (Chart 2.1) but does not factor in potential projects that are yet to reach final investment decision (Box 2.1).

In 2020-21, GSP is forecast to decrease by 0.1 per cent as exports plateau, and domestic consumption and investment activity underpin economic conditions. New business investment is likely to be heavily impacted by uncertainty in domestic and overseas markets, and household confidence, income and expenditure will be affected by JobSeeker and JobKeeper payments coming to an end in December 2020 and March 2021, respectively. Bringing forward income tax cuts scheduled for 2022, backdated to 1 July 2020 by the Commonwealth, is expected to support household confidence and consumption, with the changes worth $1080 for people earning between $45 000 and $90 000, and $2565 for those earning more than $120 000. The Commonwealth is also retaining the low and middle income tax offset in 2020-21.

The Territory Government's Jobs First Plan and the Commonwealth's JobMaker hiring credit will also incentivise businesses to hire additional employees that were previously on JobSeeker or other unemployment benefits. Combined, the programs will provide employers with $200 per week for an additional employee aged 16 years or over for up to 12 months from the date the new position was created (see Box 5.1). The Jobs First Plan also invests in local businesses to enhance customer experience offerings, improve the ease and cost of doing business, and support the development and resilience of supply chains.

Public investment will continue to support economic activity in the outlook period, underpinned by a number of projects that are currently underway or due to commence, while private investment will be less of a detractor from growth as the Territory economy slowly recovers from COVID-19. The Territory's project pipeline includes a number of opportunities that will boost growth in the local construction, supply, and service and resource sectors (Table 2.2). These projects are not comparable to the scale of the Ichthys LNG project, but collectively they represent economic growth and employment opportunities.

Chart 2.1: Contributions to Territory gross state product growth



ppt: percentage point; e: estimate; f: forecast; LHS: left-hand side; RHS: right-hand side
Source: Department of Treasury and Finance; ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0

Economic activity in the outlook period will be supported by improving domestic conditions with modest population growth increasing the demand for goods and services. The forecast for weakening exports to detract from growth in 2023-24 (Table 2.1 and Chart 2.1) relates to no final investment decision on the Barossa project to provide backfill gas for the Darwin LNG plant at the time of preparing these forecasts. The estimated $6.5 billion Barossa project will have a significant impact on SFD and GSP.

Box 2.1: Potential for stronger economic growth

The projections made in the economic outlook are conservative and do not factor in potential or planned projects that are yet to reach final investment decision. There are many projects on the Territory's horizon that could proceed in the forecast period (Table 2.2) but are not currently reflected in the outlook.

It is likely some of these projects will reach final investment decision, contributing to stronger economic growth than is reported in Table 2.1. Projects that may reach final investment decision during the forecast horizon are estimated to require capital investment of almost $14 billion.

For example, the published economic growth forecasts for 2023-24 do not include production from Darwin LNG as there has been no final investment decision made at the time of publication of these forecasts on backfill gas. However, if the owners of Darwin LNG reach final investment decision to develop the Barossa field to supply gas feedstock to the project in 2023-24, SFD and GSP forecasts are likely to improve.

The major factor contributing to the forecast 0.8 per cent decline in GSP is the assumption that LNG production will cease and result in a significant decline in exports in 2023-24, despite other key components of domestic activity strengthening. Alternatively, if exports remained steady in 2023-24, economic growth for that period would likely be greater than 2 per cent.

The periodic updates to the economic outlook will reflect any further investment decisions that are made on planned and potential projects.

Table 2.2: Major projects

Committed projects	Planned/proposed projects
• Darwin ship lift and marine industry project • Darwin City Deal, including the CDU city campus • Jabiru and Kakadu future developments • Northern Territory Airports expansion projects • Alice Springs CBD revitalisation plan • Remote housing investment package • Jindalee Operational Radar Network upgrades • RAAF Base Tindal redevelopment • RAAF Base Tindal airfield works • Humpty Doo Barramundi expansion • John Stokes redevelopment • Larrakeyah Barracks and HMAS Coonawarra upgrades • Palmerston regional fire, rescue and emergency services complex • Katherine Logistics and Agribusiness Hub • Darwin and Alice Springs youth justice centres • Road infrastructure • Barkly Regional Deal • Northcrest housing development • Hudson Creek and Batchelor power projects	• Barossa area development offshore gas project for the Darwin LNG plant • Darwin Clean Fuels • Project Sea Dragon • Nolans rare earths project • Mount Peake vanadium mine • Verdant Minerals Ammaroo phosphate project • Chandler salt mine • Molyhil tungsten mine • Mount Isa to Tennant Creek railway • Jervois Base metal project • Rover Project • Sun Cable • Terabit Territory • Core lithium project • National Aboriginal Art Gallery in Alice Springs • National Indigenous Cultural Centre in Alice Springs • US defence projects
Estimated $5.9 billion	Estimated $36.6 billion

CBD: central business district; CDU: Charles Darwin University; HMAS: Her Majesty's Australian Ship; RAAF: Royal Australian Air Force; US: United States

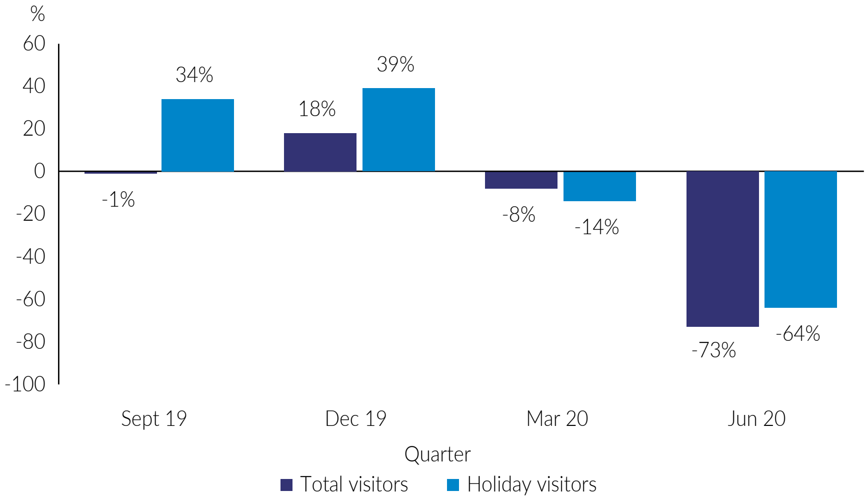
COVID-19

COVID-19 has caused significant disruption to economic activity in the Territory, though the impact is being felt differently across industries. The industries most affected are those that rely on direct consumer contact, and interstate and international visitors. Physical distancing rules had an immediate impact on domestic economic activity as retail and hospitality activities essentially ceased for a short period of time. Weekly payroll data reported that between mid-March and mid-April the number of jobs in the arts and tourism-related industries decreased by around 30 per cent at the peak of social distancing restrictions in the Territory (noting mid-March is already a low point in the seasonal cycle for these industries).

Physical distancing remains in place, but the successful health response and early and sustained easing of restrictions in the Territory, supported by the absence of community transmission, has meant Territorians have been able to return to more normal consumption patterns (with some minor impacts on confidence) and support economic activity.

However, the effect of interstate and international border closures has been significant and sustained on industries that rely on inbound visitation for customers or supply of labour, notably tourism (transport, accommodation and restaurants), recreation and those industries that rely on 'foot traffic'. These impacts have been exacerbated as border closures have occurred during the Territory's peak tourism season (Chart 2.2).

Chart 2.2: Annual change in domestic overnight trips



Source: Department of Treasury and Finance; Tourism Research Australia

With an estimated 1.1 million interstate visitors to the Territory in 2019, spending an estimated $1.6 billion, this segment of the visitor market is the most significant for the Territory. The vast majority of visitation is during the peak season from April to September, and Victoria and New South Wales are the largest source markets, typically accounting for around 50 per cent of interstate visitors. Border restrictions have resulted in significantly reduced visitor flows, with severe impacts on tourism activity, though since July the government's Territory Tourism voucher initiative has supported tourism-related activity.

Uncertainty is impacting both the household and business sectors, with employment uncertainty affecting household spending (and savings), and investment has been deferred as businesses seek more certainty and financiers tighten lending criteria. This is being felt through the professional services and construction industries as the short-term outlook for private sector investment deteriorates. Resource exploration activity is also being deferred, and this has the potential to delay any upside project-related investment.

Border restrictions are affecting industries that rely on a FIFO workforce (such as mining and exploration) or the seasonal influx of labour (such as agriculture). While demand for products from these industries has held up, it is securing labour, as a major input to the production process, that presents a key risk. International border entry exemptions for approved seasonal mango pickers will support Territory agricultural output in 2020, as will alternative quarantine arrangements for interstate FIFO workers where the employer has an approved health management plan.

Opportunities

Territory Economic Reconstruction Commission

On 22 May 2020, the Territory Government established the Territory Economic Reconstruction Commission to provide recommendations to accelerate the economic rebound post-COVID-19 and position the Territory for growth. Former Chairman and CEO of the Dow Chemical Company, Andrew Liveris, and former Chief Minister, Hon. Paul Henderson AO, are co-chairs of the commission, with other members being prominent Australians with a broad range of expertise.

The commission is tasked with providing advice on:

- creating jobs in the near term
- options to attract investment, including in regions and remote communities
- priorities for regulatory reform and streamlining approvals to support industry and investment
- how to build on the Territory's competitive advantage and strategic location
- engagement with the Commonwealth, investors and trade partners.

The commission delivered its first report on 20 July 2020 and will deliver its final report in November 2020. In its first report, the commission recommended the Territory Government focus on growing five key sectors: energy (renewables and gas); manufacturing (gas and non-gas); agribusiness; resources; and tourism, and improve government regulatory processes to reduce compliance costs and timeframes to support business investment.

The commission has also recognised the need to expedite private sector investment to support economic activity in the short term, and recommended the government focus on projects that could start in the next three to 18 months.

Major projects

The Territory Government is committed to supporting economic activity and attracting private investment opportunities to broaden and deepen the economy and to develop local industry capacity. There are a number of major projects identified that have the potential to sustain growth over the medium and long term (Map 2.1). Several of these projects have Territory Government major project status. This assists project proponents by facilitating progress through regulatory approvals processes. The Territory Government has also partnered with the private sector to deliver government-facilitated projects. As these projects remain subject to the usual regulatory approval processes or final investment decisions, the economic contributions arising from these projects are not included in the economic forecasts. If any of these projects commence over the forward estimates, it will have a positive impact on the economic outlook.

The delivery of new major projects will be a key element in the Territory Government achieving its ambition of $40 billion in economic output by 2030.

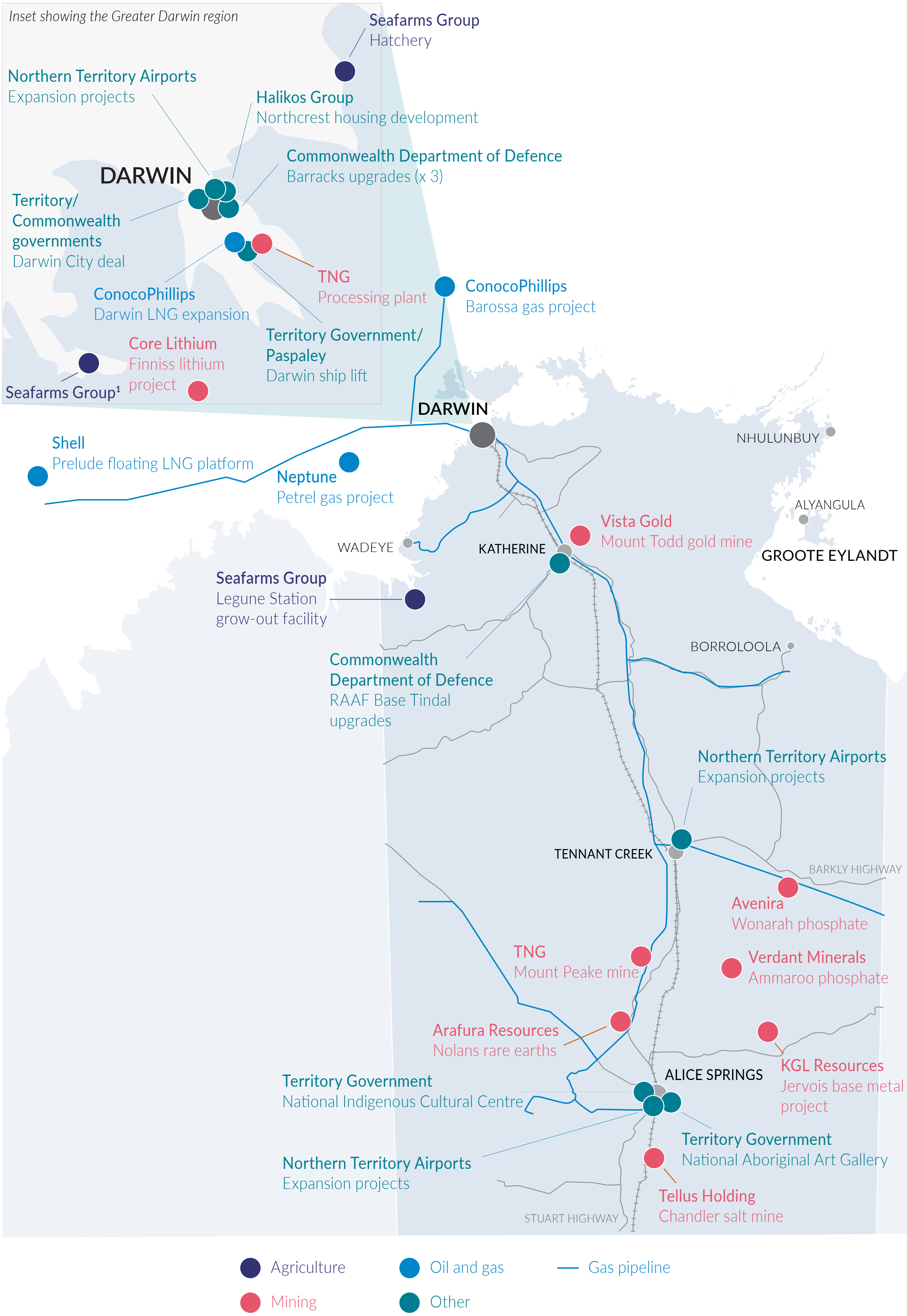
Resources

The Territory has significant reserves of gas, manganese, gold, uranium, phosphate, base metals, vanadium and rare earths, and large areas of land yet to be fully explored for potential resource development. In April 2018, the Territory Government accepted all 135 recommendations from the Final Report of the Scientific Inquiry into Hydraulic Fracturing in the Northern Territory and lifted the moratorium on hydraulic fracturing of onshore unconventional gas reservoirs. Significant investment continues to ascertain commercial gas reserves, and development of onshore gas reserves has the potential to deliver significant economic and employment growth opportunities.

The Territory holds sufficient gas resources to contribute to Australia's energy security, and to sustain local value-adding projects. The Northern Territory Gas Strategy aims to establish Darwin as a world class production, manufacturing and services hub, and this is consistent with objectives of the Commonwealth's Manufacturing Taskforce. Significant investment opportunities exist in the Territory for methane and ethane-based products, energy-intensive industries, condensate refining and fuel storage. Land is identified for gas-based industry development near existing LNG facilities at the Middle Arm Industrial Precinct.

Territory iron ore production and export is scheduled to re-commence in 2020-21.

Map 2.1: Major planned and proposed projects in the Territory



RAAF: Royal Australian Air Force

1 Core breeding centre and brood stock maturation centre

Free trade agreements

Free trade agreements (FTAs) reduce or eliminate barriers to trade and investment, and facilitate stronger trade and commercial ties. Existing FTAs between Australia and Japan, Singapore, Republic of Korea, China, Indonesia and Hong Kong support existing trade with Territory-based businesses, and provide a framework to expand further trade opportunities. The Commonwealth is currently negotiating FTAs with India, the United Kingdom, European Union, Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) and the Regional Comprehensive Economic Partnership with Brunei, Cambodia, China, India, Indonesia, Japan, Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand and Vietnam. As an export-focused economy, reducing trade barriers has the potential to increase the flow and diversity of economic activity between the Territory and key existing and new trade partners.

Defence

With a significant army, navy and air force presence in the Territory, defence continues to be a consistent contributor to economic activity, providing stimulus to local businesses and supporting regional employment. Local industry participation in major defence projects has increased in recent years and is now over 80 per cent. The *2020 Defence strategic update* and the *2020 Force structure plan* reinforces the importance of the Territory to Australia's national security, with over $8 billion to be invested in the Territory over the next decade. Major projects commencing over the budget forward estimates include $1.1 billion for development works at RAAF Base Tindal and $221 million for the Larrakeyah Precinct, and completion of the $472 million Larrakeyah barracks and HMAS Coonawarra upgrades. The annual rotation of US Marines to the Territory is now well established and, looking forward, significant infrastructure investment is expected to occur to support these rotations.

Infrastructure plan

Government investment in economic infrastructure is critical to facilitating economic activity, creating jobs, and developing skills and expertise in the local workforce. The Northern Territory 10-year Infrastructure Plan, updated for 2019–2028, sets the Territory's long-term infrastructure agenda, and provides guidance and confidence to businesses and individuals to invest, establish new industries and develop skills to support the economy.

Northern Australia Infrastructure Facility

The $5 billion Northern Australia Infrastructure Facility (NAIF) is a lending facility established by the Commonwealth to provide loans for infrastructure projects in northern Australia, and has provided funding to several projects in the Territory, including for the Darwin ship lift and marine industry project, the CDU CBD campus, Northern Territory Airports expansion projects, runway upgrade at Yulara and investment at Humpty Doo Barramundi farm.

The NAIF has been extended until 2026, and its eligibility criteria and processes are being amended to be more aligned with its policy objectives and to reduce administrative burden, including the option to lend directly to project proponents. These amendments will make it easier for project proponents to access development capital.

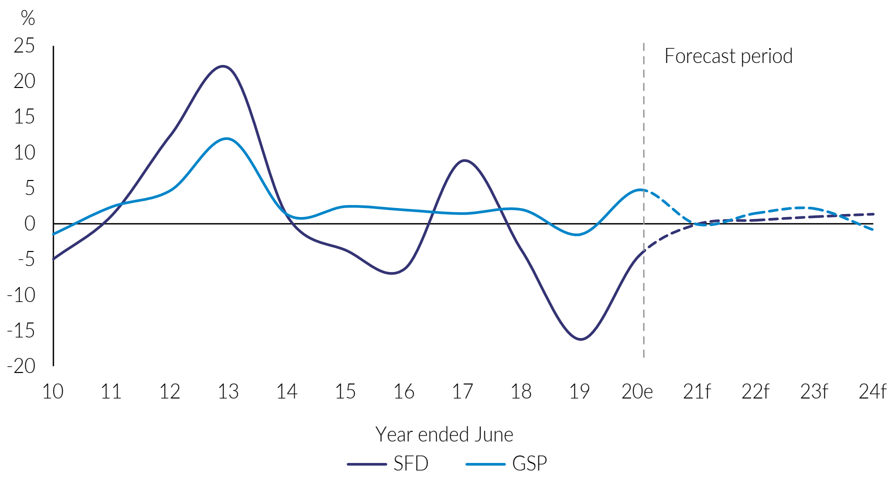
State final demand

SFD is forecast to stabilise in 2020-21, as the economy continues to adjust from unprecedented levels of private investment and the transition to LNG exports.

SFD was showing early signs of recovery prior to COVID-19 (Chart 2.3) but declined by 4.5 per cent to $23.4 billion in 2019-20, as restrictions in the last four months of the year impacted household consumption (which decreased by 7.6 per cent in the June quarter and by 3.3 per cent in 2019-20). Private investment continued to be a major drag on growth, falling by 20.4 per cent, as the Ichthys LNG project was completed and COVID-19-related uncertainty weighed on business investment decisions.

SFD is expected to return to modest growth in 2021-22, as investment for major projects supports employment and population growth. There is some significant potential in the outlook as only projects that have received final investment decision are included in the forecasts and, as detailed in Table 2.2, there is a substantial pipeline of private and public investment projects that are not included in forecasts.

Chart 2.3: Changes to Territory gross state product and state final demand



e: estimate; f: forecast
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; Department of Treasury and Finance

Private investment

Major private sector projects and government-facilitated developments contribute significantly to the Territory economy through the creation of local jobs and business opportunities.

Private investment has been in decline in recent years as the Ichthys LNG project-related construction has come to an end, falling by 15.5 per cent in 2017-18, 53.5 per cent in 2018-19 and, most recently by 20.4 per cent in 2019-20. In 2019-20 business investment decreased by 24 per cent and dwelling investment decreased by 6.1 per cent. The main contributor to the decline in business investment was non-dwelling construction, which was down 42.2 per cent in the year.

Private investment is forecast to decline by 13.5 per cent in 2020-21 as the economy continues to transition from the Ichthys LNG project. In the absence of any immediate stimulus from major, export-focused investment in the short term, private sector investment is expected to be modest, driven by underlying demand in the local economy (Chart 2.4). Over the medium term the level of private investment will be heavily influenced by global demand for Territory resources, the Territory's cost competitiveness in producing resources and the risk appetite of investors.

Medium to longer term investment opportunities will also be influenced by the amount of exploration activity for resources. Exploration is critical for project development and, despite the deferral of activity as a result of COVID-19, it is anticipated exploration activity will resume to more normal levels in the 2021 dry season, notably for gas exploration in the Beetaloo region, but also elsewhere.

The NAIF is also providing capital to support new projects in the Territory and in September 2020 approved the private sector-led Hudson Creek power station and Batchelor solar farm projects. This is the seventh loan the NAIF has approved or pending in the Territory, for projects with capital expenditure of $697 million. Projects to date are: the CDU city and Casuarina campuses project, Darwin ship lift and marine industry project, Northern Territory Airports expansion, Voyages Indigenous Tourism Pty Ltd, Humpty Doo Barramundi farm expansion and the Hudson Creek power station and Batchelor solar farm.

Although there is significant uncertainty regarding the local, national and international economic outlooks, the Commonwealth and Territory governments have implemented substantial policies and funding to encourage business investment. Commonwealth incentives include increasing the instant asset write-off threshold and accelerating depreciation deductions for businesses with a turnover of less than $5 billion. The confidence of individual businesses to survive in the short and medium term will influence the take up of these incentives, and the impact on private investment in the Territory is expected to be modest.

In response to COVID-19, the Territory Government approved funding of $383 million in 2020 for a range of assistance measures aimed at supporting businesses and individuals, and stimulating economic activity including the Business Hardship Package, Home Improvement Scheme, Small Business Survival Fund and Immediate Work grants. These packages provided immediate stimulus to the economy by supporting business investment, and the impacts will be felt through 2020-21.

Chart 2.4: Territory private investment

f: forecast
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; Department of Treasury and Finance

Prior to COVID-19, the Territory Government's $89 million Local Jobs Fund was supporting investment in economic transformation projects to grow local businesses, and increase exports interstate and internationally. Projects supported to date include the Alice Springs Asia Pacific airport storage and maintenance facility, commercialisation of 3D metal printing and wearable personal safety monitoring devices, and the 'Terabit Territory' project to upgrade the fibre-optic cable network.

Dwelling investment in 2020-21 is being supported by a range of government programs, including the Territory Government's Home Improvement Scheme and the Commonwealth HomeBuilder grant, but is forecast to remain subdued over the outlook period as excess capacity is slowly absorbed by population growth. Dwelling approvals have declined from the peak of 2294 in 2013 to 583 in 2019-20 and new housing finance commitments for owner-occupiers and investors indicate 2020-21 will remain subdued. Low interest rates, the range of affordable housing options, and government incentives will support activity but underlying demand is expected to remain weak in the outlook period.

Public investment

Public investment is forecast to increase by 8.5 per cent in 2020-21 (Chart 2.5). With economic uncertainty impacting business investment in the short to medium term, there will be a greater reliance on publicly funded and facilitated projects in the outlook period. In 2019-20, public investment decreased by 14.7 per cent, to $1.5 billion, with declines across all levels of government in the June quarter, and work being delayed due to COVID-19 restrictions.

Major government-funded projects scheduled include the $1.1 billion remote housing investment package (Commonwealth and Territory governments' co-contribution), the $400 million Darwin ship lift and marine industry project, City Deals-related investments in Darwin and Alice Springs, $59.2 million Darwin youth justice centre, $51.3 million for the John Stokes redevelopment and the $25 million Palmerston regional fire rescue and emergency services complex. When completed, the Darwin ship lift will be the largest in northern Australia, and will be the centrepiece in development of a marine maintenance and servicing industry with capacity to service Australian Defence and Border Force, as well as commercial and private vessels, including from the oil, gas and marine industries. Construction of the ship lift is anticipated to take two years, with the facility to be operating in 2024.

The Territory and Commonwealth governments are also progressing City Deals for Darwin and Alice Springs, and the Barkly Regional Deal (see *Job creation* section in Chapter 5). The excavation tender for the new CDU city campus (which is part of the Darwin City Deal) was awarded in October 2020 and the campus is expected to be operational in 2024. The Territory Government has also committed $131.5 million for the Jabiru Masterplan.

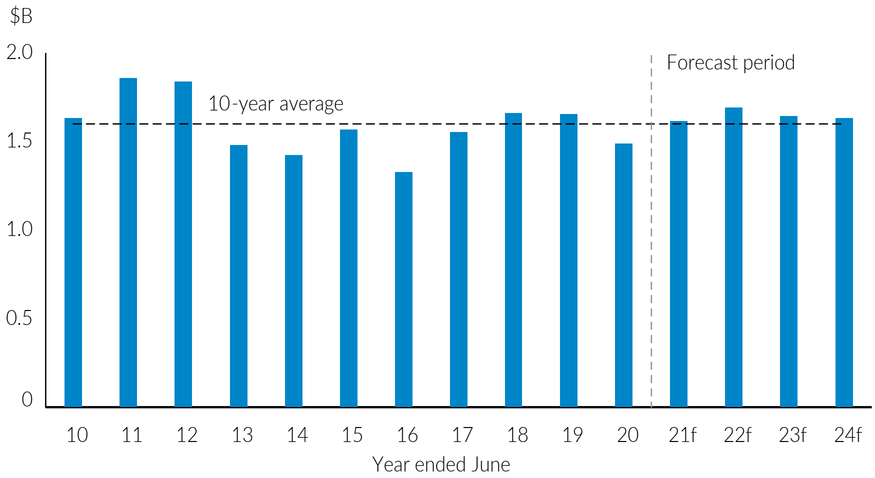
In its 2020-21 Budget, the Commonwealth has committed $189.5 million from 2020-21 for priority road projects in the Territory, including $120 million for the Carpentaria Highway upgrade, $47 million for National Network highway upgrades and $23 million for the Stuart Highway upgrade at Coolalinga. This is in addition to funding for road upgrades for Adelaide River to Wadeye, Alice Springs to Halls Creek, Central Arnhem Road, Outback Way and Kakadu roads, and $40 million for priority regional and urban infrastructure as part of its COVID-19 response, including $27 million for Targeted Safety Works. The Commonwealth is also contributing up to $276 million to upgrade Kakadu National Park.

Defence projects committed include upgrades at HMAS Coonawarra and Robertson and Larrakeyah barracks. Both RAAF Base Darwin and Tindal have significant works including extending runways, new fuel storage facilities, Jindalee operational radar network facility upgrades and air traffic control upgrades. The Commonwealth has also brought forward around $190 million of investment in approved infrastructure projects in the Territory.

Other public sector projects include the National Indigenous Cultural Centre and Art Gallery, and Katherine Logistics and Agribusiness Hub. The Territory is also well positioned to benefit from the Commonwealth's $52.9 million package to develop a competitive domestic gas market and the $1.5 billion Modern Manufacturing Strategy. The Territory has sufficient gas reserves to meet domestic demand and export-focused manufacturing opportunities.

Public investment is forecast to average $1.6 billion per annum over 2021-22 to 2023-24.

Chart 2.5: Public investment in the Territory



f: forecast
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; Department of Treasury and Finance

Household consumption

Household consumption is forecast to increase by 0.8 per cent in 2020-21 and by an average of 0.9 per cent per annum in the four years to 2023-24, reflecting modest economic, employment and population growth in the Territory.

Consumption in 2020-21 is supported by JobSeeker and JobKeeper payments, the one-off impact from the early access to superannuation and the bringing forward of scheduled income tax cuts. The Territory Government's Jobs First Plan and the Commonwealth's JobMaker hiring credit will also incentivise businesses hiring additional employees aged 16 years or over, which will support employment and consumption. From 2021-22, household consumption is supported by an improving employment outlook.

COVID-19 is impacting household consumption patterns even though, to date, consumption in the Territory has been relatively resilient. To some extent, this reflects the Territory's early easing of physical distancing and other restrictions, support packages and relatively large proportion of Territorians who have applied for early release of superannuation. Yet household confidence is undoubtedly being impacted by the uncertain employment outlook, with consumption declining by 3.3 per cent in 2019-20 and 7.5 per cent in the June quarter 2020. National household consumption fell by 12.1 per cent in the June quarter as the savings ratio increased to 19.8 per cent (the highest saving ratio since June quarter 1974).

Public consumption

Public consumption is forecast to increase by 2.5 per cent in 2020-21, following strong growth of 3.9 per cent in 2019-20 as health and defence-related spending increased in response to COVID-19.

Beyond 2020-21, public consumption is expected to provide a modest contribution in each of the outlook years compared with the recent past. This reflects the Territory Government's commitment to fiscal repair measures detailed in the Fiscal Strategy Panel's 2019 final report, *A plan for budget repair*.

Net exports

Net exports are forecast to decrease by 2 per cent in 2020-21, primarily due to closed international borders impacting tourism and defence-related service exports, with goods exports expected to stabilise as LNG production plateaus, live cattle exports moderate and iron ore exports recommence.

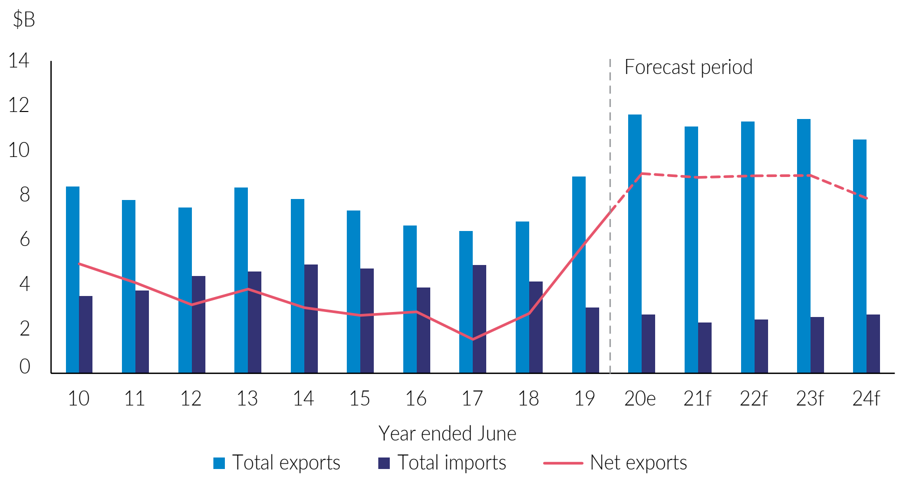
Net exports increased by 52.7 per cent in 2019-20 as the Ichthys LNG project reached a steady state of production of LNG, liquefied petroleum gas and condensate. The forecast period has exports falling by 11.5 per cent in 2023-24, as a final investment decision regarding the Barossa project (which is a potential source of backfill gas for Darwin LNG) had not yet been announced at publication of these forecasts. The value of imports is expected to remain relatively steady over the forecast period.

After averaging $3.4 billion per annum over the past decade, net exports are expected to average $8.7 billion per annum over the forecast period (Chart 2.6).

Service exports are being severely impacted by COVID-19, with the international border closure effectively ceasing all international visitation since 20 March 2020. International borders are not expected to reopen until late 2021. However, allowances have been made for international students to arrive in 2021 with a pilot program for up to 70 students to fly from Singapore to Darwin. In addition to allowances for international students, from October 2020 New Zealanders are allowed to travel to the Territory, New South Wales, South Australia and the Australian Capital Territory without compulsory quarantine.

Recovery in international tourism is expected to be gradual over the forecast period. This reflects travel being influenced by more cautious attitudes due to fear of being infected by COVID-19. Full recovery of international tourism markets will also depend on rebuilding global aviation networks, which have been severely impacted by COVID-19. Airlines are expected to shift from a focus on volume to yield and, combined with the collapse of several international low-cost carriers, this is likely to result in reduced supply of discount long-haul air tickets. This will significantly impact visitation to long-haul destinations such as Australia.

Chart 2.6: Territory net exports



e: estimate; f: forecast
Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; Department of Treasury and Finance

Table 2.3: Components of Territory gross state product (expenditure)[1, 2]

	Value ($M)[1]									
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20e[3]	2020-21f	2021-22f	2022-23f	2023-24f
Total consumption	17 705	18 503	18 858	19 164	18 973	18 817	19 102	19 217	19 431	19 675
Household consumption	10 391	10 934	11 034	11 100	10 973	10 462	10 541	10 623	10 715	10 828
Public consumption	7 312	7 563	7 822	8 064	8 000	8 355	8 561	8 594	8 716	8 847
Total investment	12 179	9 497	11 642	10 183	5 619	4 597	4 305	4 312	4 334	4 416
Private investment	10 612	8 167	10 087	8 521	3 964	3 107	2 688	2 619	2 689	2 782
Dwelling investment	974	867	659	621	590	565	648	525	530	538
Ownership transfer costs	272	188	172	163	138	140	130	132	133	135
Business Investment	9 337	7 095	9 260	7 736	3 236	2 404	1 910	1 962	2 026	2 108
Public investment	1 567	1 329	1 553	1 662	1 655	1 490	1 617	1 693	1 645	1 634
State final demand	29 878	28 001	30 492	29 347	24 592	23 416	23 407	23 529	23 764	24 091
Net exports	2 597	2 759	1 530	2 693	5 868	8 958	8 775	8 850	8 874	7 854
Total exports	7 300	6 611	6 376	6 803	8 824	11 587	11 064	11 272	11 404	10 491
Total imports	4 703	3 852	4 846	4 110	2 956	2 629	2 289	2 422	2 530	2 637
Balancing item[2]	- 7 370	- 5 159	- 6 044	- 5 538	- 4 351	- 5 013	- 4 845	- 4 635	- 4 304	- 3 847
Gross state product	**25 105**	**25 601**	**25 977**	**26 501**	**26 109**	**27 359**	**27 337**	**27 743**	**28 334**	**28 098**
	Year-on-year change (%)[1]									
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20e[3]	2020-21f	2021-22f	2022-23f	2023-24f
Total consumption	0.0	4.5	1.9	1.6	- 1.0	- 0.2	1.5	0.6	1.1	1.3
Household consumption	- 0.7	5.2	0.9	0.6	- 1.1	- 3.3	0.8	0.8	0.9	1.1
Public consumption	1.0	3.4	3.4	3.1	- 0.8	3.9	2.5	0.4	1.4	1.5
Total investment	- 8.7	- 22.0	22.6	- 12.5	- 44.8	- 18.2	- 6.4	0.2	0.5	1.9
Private investment	- 10.9	- 23.0	23.5	- 15.5	- 53.5	- 20.4	- 13.5	- 2.6	2.7	3.5
Dwelling investment	- 7.2	- 11.0	- 24.0	- 5.8	- 5.0	- 6.1	14.6	- 18.9	1.0	1.5
Ownership transfer costs	- 2.5	- 30.9	- 8.5	- 5.2	- 15.3	0.7	- 6.8	1.4	0.4	1.8
Business Investment	- 11.5	- 24.0	30.5	- 16.5	- 58.2	- 24.0	- 20.5	2.7	3.3	4.1
Public investment	10.0	- 15.2	16.9	7.0	- 0.4	- 14.7	8.5	4.7	- 2.8	- 0.7
State final demand	- 3.7	- 6.3	8.9	- 3.8	- 16.2	- 4.5	0.0	0.5	1.0	1.4
Net exports	- 11.7	6.2	- 44.5	76.0	117.9	52.7	- 2.0	0.8	0.3	- 11.5
Total exports	- 6.7	- 9.4	- 3.6	6.7	29.7	31.3	- 4.5	1.9	1.2	- 8.0
Total imports	- 3.7	- 18.1	25.8	- 15.2	- 28.1	- 11.1	- 12.9	5.8	4.4	4.2
Balancing item[2]	- 22.1	- 30.0	17.2	- 8.4	- 21.4	15.2	- 3.3	- 4.3	- 7.1	- 10.6
Gross state product	**2.5**	**2.0**	**1.5**	**2.0**	**- 1.5**	**4.8**	**- 0.1**	**1.5**	**2.1**	**- 0.8**
	Percentage point contribution to year-on-year GSP change (ppt)[1]									
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20e[3]	2020-21f	2021-22f	2022-23f	2023-24f
Total consumption	0.0	3.2	1.4	1.2	- 0.7	- 0.2	1.0	0.4	0.8	0.9
Household consumption	- 0.3	2.2	0.4	0.3	- 0.5	- 1.4	0.3	0.3	0.3	0.4
Public consumption	0.3	1.0	1.0	0.9	- 0.2	1.2	0.8	0.1	0.4	0.5
Total investment	- 4.7	- 10.7	8.4	- 5.6	- 17.2	- 4.0	- 1.1	0.0	0.1	0.3
Private investment	- 5.3	- 9.7	7.5	- 6.0	- 17.2	- 3.1	- 1.5	- 0.3	0.3	0.3
Dwelling investment	- 0.3	- 0.4	- 0.8	- 0.1	- 0.1	- 0.1	0.3	- 0.4	0.0	0.0
Ownership transfer costs	0.0	- 0.3	- 0.1	0.0	- 0.1	0.0	0.0	0.0	0.0	0.0
Business Investment	- 4.9	- 8.9	8.5	- 5.9	- 17.0	- 2.9	- 1.8	0.2	0.2	0.3
Public investment	0.6	- 0.9	0.9	0.4	0.0	- 1.0	0.5	0.3	- 0.2	0.0
State final demand	- 4.7	- 7.5	9.7	- 4.4	- 17.9	- 4.2	0.0	0.4	0.8	1.2
Net exports	- 1.4	0.6	- 4.8	4.5	12.0	11.8	- 0.7	0.3	0.1	- 3.6
Total exports	- 2.1	- 2.7	- 0.9	1.6	7.6	10.6	- 1.9	0.8	0.5	- 3.2
Total imports	0.7	3.4	- 3.9	2.8	4.4	1.3	1.2	- 0.5	- 0.4	- 0.4
Balancing item[2]	8.6	8.8	- 3.5	1.9	4.5	- 2.5	0.6	0.8	1.2	1.6
Gross state product	**2.5**	**2.0**	**1.5**	**2.0**	**- 1.5**	**4.8**	**- 0.1**	**1.5**	**2.1**	**- 0.8**

e: estimate; f: forecast; ppt: percentage point

1 Inflation adjusted, components may not add to totals due to rounding and ABS chain volume estimation.

2 Balancing item includes statistical discrepancy.

3 Percentage change movements may not align with percentage changes calculated using this data as the 2018-19 values are sourced from the ABS Cat. No. 5220.0 (released in November 2019), while the percentage changes are derived using latest available data for 2018-19 and 2019-20 reported in September 2020, ABS Cat. No. 5206.0.

Source: ABS, *Australian National Accounts: State Accounts*, Cat. No. 5220.0; Department of Treasury and Finance

Chapter 3

External economic environment and trade

Recent activity

In 2019-20, the Territory's net exports increased by 52.7 per cent to $9 billion, reflecting a 31.3 per cent increase in exports and an 11.1 per cent decline in imports.

Outlook

With the Ichthys LNG project now operational and approaching full production, Territory exports are expected to stabilise from 2020-21 to 2022-23.

The Territory consistently maintains a trade surplus due to its significant export-oriented resources sector, and its small domestic economy that, in the absence of major projects, has limited demand for goods and services sourced directly from international markets. Major Asian economies, including Japan, China, Taiwan, Singapore, Republic of Korea and Indonesia, are in close proximity to the Territory and have significant trade ties that make them some of the Territory's major export destinations.

In 2019-20, the Territory's major goods exports were gas and petroleum-based products (LNG, liquefied petroleum gas and condensate) while major goods imports included refined petroleum products, and machinery and equipment (including vehicles). The Territory's major services exports relate to defence and tourism services.

Outlook

International trade

The Territory's international goods trade surplus increased by 52.7 per cent to $9 billion in 2019-20 and is expected to decline by 2 per cent to $8.8 billion in 2020-21. This reflects exports of petroleum products such as LNG, liquefied petroleum gas and condensate peaking in 2019-20, and subsequently plateauing from 2020-21. In the absence of a final investment decision for backfill gas to supply the Darwin LNG plant, petroleum and gas exports are forecast to decline significantly in 2023-24. Over the forecast period the Territory's trade surplus is expected to average $8.7 billion, significantly higher than the 10-year average trade surplus of $3.4 billion.

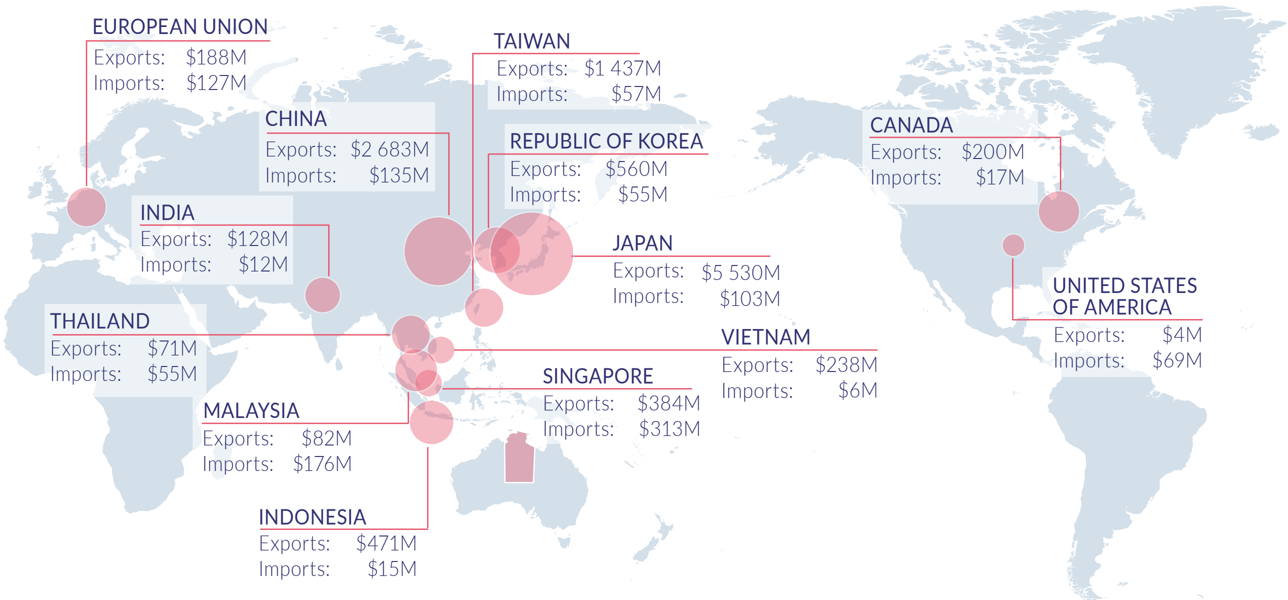
Table 3.1: Territory trade ($M, chain volume measure)

	2018-19a	2019-20a	2020-21f	2021-22f	2022-23f	2023-24f
Total exports	8 824	11 587	11 064	11 272	11 404	10 491
Total imports	2 956	2 629	2 289	2 422	2 530	2 637
Net exports	5 868	8 958	8 775	8 850	8 874	7 854

a: actual; f: forecast
Source: ABS, *Australian National State Accounts*, Cat. No. 5220.0, *Balance of Payments and International Investment Position, Australia*, Cat. No. 5302.0; Department of Treasury and Finance

The Territory's international trade performance is affected by economic conditions, exchange rates and trade policies in major destination markets. Map 3.1 provides a visual representation of the Territory's trade activity with major trading partners for 2019-20.

Map 3.1: Territory's major goods trading partners, 2019-20



Source: ABS, *International Trade in Goods and Services*, Cat. No. 5368.0; Department of Treasury and Finance

Commodity prices

Manganese, gold, bauxite and zinc are major commodities produced in the Territory. Manganese is a key component in steel production and is used in the production of lithium-ion batteries. Global demand for steel and batteries has been impacted by COVID-19 in 2020 but is expected to recover from 2021, supporting demand for manganese. Economic uncertainty contributed to gold reaching record prices in mid-2020 as the number of global COVID-19 cases increased rapidly. Prices drifted down as the number of daily cases stabilised, but there is considerable uncertainty as to the impact of government containment policies on any resurgence, and this will impact any economic recovery, as well as the supply and demand for gold given its status as a financial safe haven.

The recovery in global demand for alumina and aluminium is not expected to gather pace until 2022, and will be impacted by inventory levels increasing over the past year. After falling through 2020, global zinc prices are expected to recover in 2021, before being impacted by new supply entering the market as global production increases.

Global economic outlook

Following growth of 2.8 per cent in 2019, the IMF expects world economic growth to decline by 4.4 per cent in 2020, before recovering to 5.2 per cent in 2021 (Table 3.2). The 2020 estimate has been revised down by 1.4 percentage points from the April outlook as global economic activity has been more negatively impacted by COVID-19 than anticipated, with a more gradual recovery than previously forecast.

Advanced economies grew by 1.7 per cent in 2019 and are expected to contract by 5.8 per cent in 2020, a 0.3 percentage point upward revision from the IMF April 2020 outlook. Fears of infection persist in the second half of 2020 and any recovery is expected to be gradual. Growth is forecast to strengthen to 3.9 per cent in 2021.

Economic activity in emerging and developing economies is expected to fall by 3.3 per cent in 2020 before recovering to 6 per cent growth in 2021, supported by strong growth in China. In the first half of 2020, global trade contracted by over 15 per cent due to suspended international travel and disruptions to global value chains caused by COVID-19. The collapse of passenger and goods air travel has significantly affected tourism and industries that depend on just-in-time delivery of intermediate goods. Additionally, in the first half of 2020 a sharp fall in global demand caused most commodity prices to decline, notably crude oil, which fell by almost 70 per cent between January and April. The IMF expects global trade will contract by 11.9 per cent in 2020 before rebounding by 8 per cent in 2021 as demand and confidence recovers.

Table 3.2: Economic growth outlook[1]

	2019a	2020e	2021f
Australia	1.8	- 4.2	3.0
Canada	1.7	- 7.1	5.2
China	6.1	1.9	8.2
India	4.2	- 10.3	8.8
Indonesia	5.0	- 1.5	6.1
Japan	0.7	- 5.3	2.3
Korea, Republic of	2.0	- 1.9	2.9
Malaysia	4.3	- 6.0	7.8
Papua New Guinea	4.9	- 3.3	1.2
Singapore	0.7	- 6.0	5.0
Taiwan	2.7	0.0	3.2
United States	2.2	- 4.3	3.1
Vietnam	7.0	1.6	6.7
Euro area	1.3	- 8.3	5.2
Emerging market and developing economies	3.7	- 3.3	6.0
Advanced economies	1.7	- 5.8	3.9
World	**2.8**	**- 4.4**	**5.2**

a: actual; e: estimate; f: forecast
1 IMF World Economic Outlook Update, October 2020.
Source: IMF

Japan

Japan is the Territory's largest export market, making up 44.4 per cent of goods exports in 2019-20, largely LNG. Japan entered the COVID-19 crisis in a fragile economic position, with weak domestic consumption and exports growth. This was exacerbated by the delay of the Tokyo 2020 Summer Olympics and its impact on confidence. Despite successful containment of the virus and considerable monetary and fiscal stimulus, recovery in Japan is anticipated to be relatively slow as consumers remain cautious and weak external demand, particularly from the US, impacts industrial production and exports. Japan's economy is forecast to contract by 5.3 per cent in 2020, with 2.3 per cent growth in 2021.

China

China is the Territory's second largest export market, accounting for 21.6 per cent of goods exports in 2019-20, largely composed of resource commodities, including manganese used in the production of steel. China's economy was facing challenges before COVID-19, growing at its lowest rate in 29 years with 6.1 per cent in 2019 due to reduced domestic and external demand, impacted by heightened trade tensions with the US. Trade tensions persist despite the signing of the 'Phase One' trade deal in early 2020, which will see some US tariffs rolled back in exchange for increased Chinese purchases of US goods and services.

China's success in suppressing further COVID-19 waves has enabled a faster reopening of the economy. Industrial production has recovered to around or above pre-COVID-19 levels, which is assisting Australia and other commodity exporters reliant on the China market. China is the only major economy expected to grow in 2020 (by 1.9 per cent), with 8.2 per cent growth expected in 2021.

Taiwan

Taiwan has rapidly become a major trading partner for the Territory, as it transitions from nuclear and coal to gas-based energy sources, and repatriates manufacturing activity from China. In 2019-20, Taiwan accounted for 11.5 per cent of the Territory's goods exports in 2019-20, mainly LNG. The IMF expects economic growth in Taiwan to stabilise in 2020, before increasing by 3.2 per cent in 2021.

Korea

Korea is a well-established trade partner of the Territory, accounting for 4.5 per cent of goods exports in 2019-20. Korea's economic performance will continue to be impacted by export trade conditions, its rapidly ageing population and rigid labour market. Looking forward, Korea has committed to address climate change and create jobs through renewable and other clean technologies but is expected to continue to rely on non–renewable fuels in the short to medium term. The outlook for Korea is for economic output to decline by 1.9 per cent in 2020, with 2.9 per cent growth in 2021.

Indonesia

Indonesia is the Territory's primary export market for live cattle and accounted for 3.8 per cent of the Territory's international goods exports in 2019-20. Indonesia has maintained Territory live cattle imports during COVID-19, despite the Indonesian rupiah falling to its lowest level in over 20 years, severely reducing the buying power of Indonesian importers and households. Expansionary monetary and fiscal policy will support Indonesia's economic recovery though it is expected to be gradual. The IMF forecasts Indonesia's output to contract by 1.5 per cent in 2020 before recovering to 6.1 per cent growth in 2021.

National economy

For the first time in almost 30 years the Australian economy is in recession, as weakening growth since mid-2018 was exacerbated by the onset of COVID-19 in early 2020. Output decreased by 7 per cent in the June quarter 2020, the largest quarterly fall on record, reflecting travel restrictions and containment measures, as well as record declines in consumer and business confidence. This followed a 0.3 per cent fall in output in the March quarter as a result of bushfires and COVID-19-related international travel and domestic physical distancing restrictions. A significant risk factor for Australia's economic outlook is the Australia-China political and trade relationship, which has deteriorated significantly in 2020. The Commonwealth expects output to decline by a further 1.5 per cent in 2020-21 before recovering with growth of 4.75 per cent in 2021-22, as the easing of restrictions and support through significant fiscal stimulus contributes to improved consumer confidence, business sentiment and investment.

Exchange rates

Movements in the Australian dollar (AUD) are influenced by domestic and international interest rates and world commodity prices that impact demand for the currency. Given the size of the Territory's small open economy, fluctuations in exchange rates can have a significant impact on activities that rely on trade. Initial fears of Australia entering a COVID-19-induced recession in early 2020 and exports being impacted by weaker international trade saw the AUD fall to its lowest level since 2002. The AUD has recovered since, mostly due to Australia's largely successful containment of the virus and commodity prices (particularly iron ore) holding up better than expected.

Interest rates

The Reserve Bank of Australia (RBA) has held the cash rate at a record low of 0.25 per cent since March 2020, after cutting it from 0.5 per cent due to COVID-19. The Territory economy should benefit from low cash rates as it supports household confidence, as well as business sentiment and investment. The RBA has advised it will not increase the cash rate until progress is being made towards full employment, and it is confident inflation will be sustainably within its 2 to 3 per cent target band.

Chapter 4

Population

Recent activity

The Territory's population is estimated to have declined by 0.3 per cent in 2019-20 as interstate migration outflows continued and overseas migration declined, partly due to closure of Australia's border.

Outlook

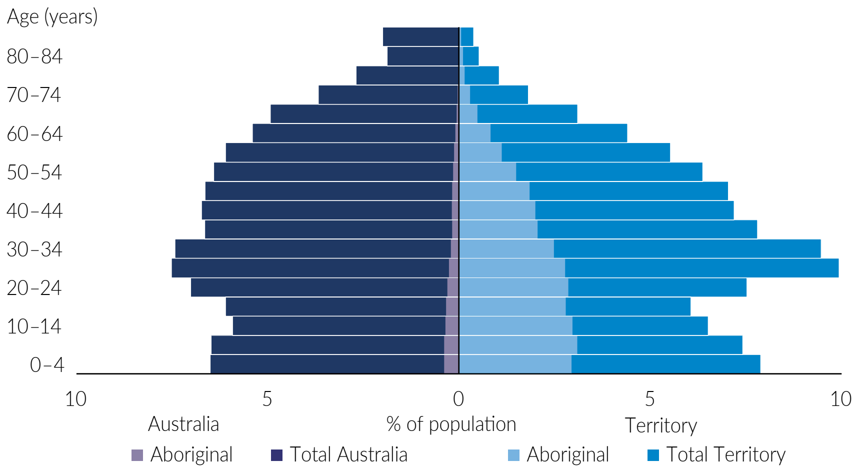
A return to growth is expected in 2020-21 as COVID-19 border restrictions are significantly reducing usual migration flows. Net overseas migration will detract from population growth, while lower levels of interstate migration will reduce its typically negative impact on Territory population growth.

The estimated resident population (ERP) is the official ABS measure of Australia's population, and includes all people who usually live in Australia regardless of nationality, citizenship or visa status, with the exception of people present for foreign military, consular or diplomatic reasons. Population data provides an overall picture of social trends and societal wellbeing, and its characteristics such as size, age, gender and migration patterns. These characteristics of population change are critical for service delivery and infrastructure planning. Understanding the drivers of population change is of great importance to the Territory as it is a key factor determining the distribution of GST revenue and some Commonwealth-tied funding.

In the March quarter 2020, the Territory's population of 245 000 persons accounted for about 1 per cent of the Australian population. The majority (around 60 per cent) of the Territory's population resides in the greater Darwin area, with the remainder dispersed over remote and very remote areas. At 30 June 2016 (ABS Census 2016), the Aboriginal population was estimated at 74 546, which represents about 30 per cent of the Territory's population, many of whom reside in remote and very remote areas.

The Territory's population is characterised by its young age profile, with a median age of 33.1 years compared with 37.4 years nationally. This reflects a large number of persons aged 25 to 34 years in the Territory, as well as the Territory's large Aboriginal population, which has a median age of 26 years compared with 34.9 years for the non-Aboriginal population (Chart 4.1).

Chart 4.1: Population age profile – Australia and Territory by Aboriginal status, as at June 2016



Source: ABS Census 2016

A further characteristic of the Territory's population is males outnumber females 106.7 to 100, compared with 98.4 males for every 100 females nationally. This is partly due to the prevalence of male-dominated industries such as mining, construction and defence, as well as the workforce demands of major projects.

Population growth in the Territory is significantly more volatile than growth in the Australian population. Over the long term, the Territory's population growth has been predominantly driven by natural increase (births minus deaths) and net overseas migration. Fluctuations in the Territory's annual population growth rate are largely due to variations in interstate migration, which typically fluctuates with employment opportunities.

Outlook

Table 4.1: Territory population forecasts (%)

Financial year	2018-19a	2019-20e	2020-21f	2021-22f	2022-23f	2023-24f
Annual change	- 0.4	- 0.3	0.2	0.4	0.7	0.9

Calendar year	2018a	2019a	2020e	2021f	2022f	2023f
Annual change	- 0.4	- 0.3	0.2	0.3	0.5	0.8

a: actual; e: estimate; f: forecast
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0; Department of Treasury and Finance

Traditionally, population movements into and out of the Territory are heavily influenced by economic and labour market conditions relative to elsewhere in Australia and around the world. Population growth in the Territory has declined over the past three years, most recently by an estimated 0.3 per cent in 2019-20, mainly due to large net outflows of interstate migrants and weaker overseas migration.

The impact of COVID-19 border restrictions imposed by the Commonwealth, state and territory governments, as well as uncertainty arising from the pandemic, has caused significant disruption to usual migration flows. Overseas migration has ceased since the Australian border was closed on 20 March 2020, with national data reporting a 99 per cent fall in arrivals across all visa categories.

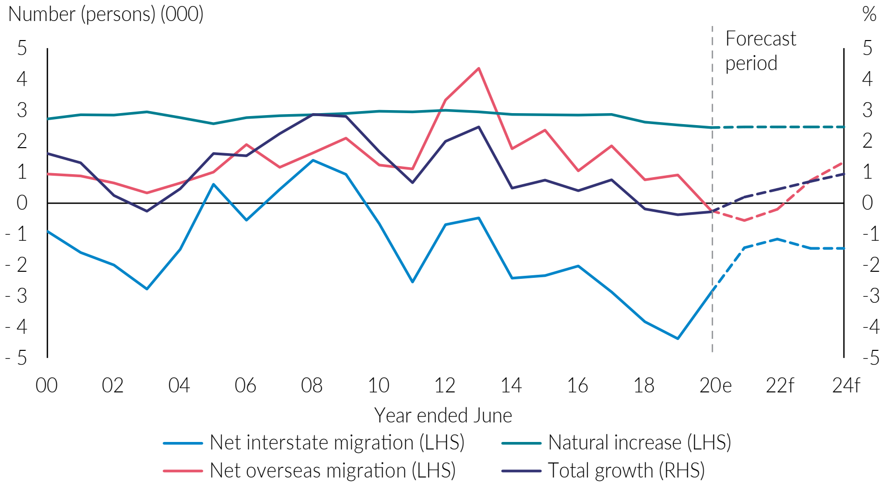
Interstate migration is expected to reduce in the short term, particularly where the Territory has imposed mandatory quarantining on persons arriving from hotspot locations. As NIM typically detracts from population growth, lower levels of interstate movement will reduce the overall negative impact on population growth. Weaker interstate migration is contributing to the Territory's population growth strengthening to 0.2 per cent in 2020-21.

Looking forward from 2020-21, the outlook for overseas migration is highly uncertain and dependent on international borders reopening, and any nation-specific restrictions. The forecast assumes Australia's borders will reopen from late 2021, with a gradual resumption of migration and overseas travel. Interstate migration flows are more difficult to quantify, with key risks to forecasts including the complex and volatile interstate border arrangements, employment opportunities in the Territory and interstate, and emergence of the Territory as a potential safe destination from COVID-19. Although the total level of interstate migration is expected to decline, the quantum is highly uncertain.

As the economy recovers from the negative impacts of COVID-19 and new projects commence, population growth is expected to strengthen. The improved growth outlook is supported by a number of significant construction and resource projects commencing, including the Darwin ship lift, major defence projects, such as upgrade works at Larrakeyah, HMAS Coonawarra and Robertson Barracks, and the CDU city campus as part of the City Deals project. These projects will provide upside for population growth in the forward estimates.

Growth in the Territory's population over the five years to 2023-24 is estimated to be around 5000 people, increasing on average by 0.4 per cent per annum (Chart 4.2).

Chart 4.2: Components of Territory population growth



LHS: left-hand side; RHS: right-hand side; e: estimate; f: forecast
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0; Department of Treasury and Finance

Components of population growth

Natural increase

Natural increase is the difference between the number of births and deaths, illustrating population change in the absence of migration. Natural increase is positive and relatively stable in the Territory, contributing on average 1.1 percentage points to annual population growth over the past five years, nearly double the national contribution of 0.6 per cent. The greater contribution of natural increase to the Territory's population reflects a younger age profile and higher fertility (the average number of births per woman) in both the Aboriginal and non-Aboriginal population. However, fertility is declining at a similar rate to the national trend as fewer women are having fewer babies. As a result, the contribution of natural increase to population growth in the Territory has declined from an average of 1.4 percentage points per annum in the past two decades.

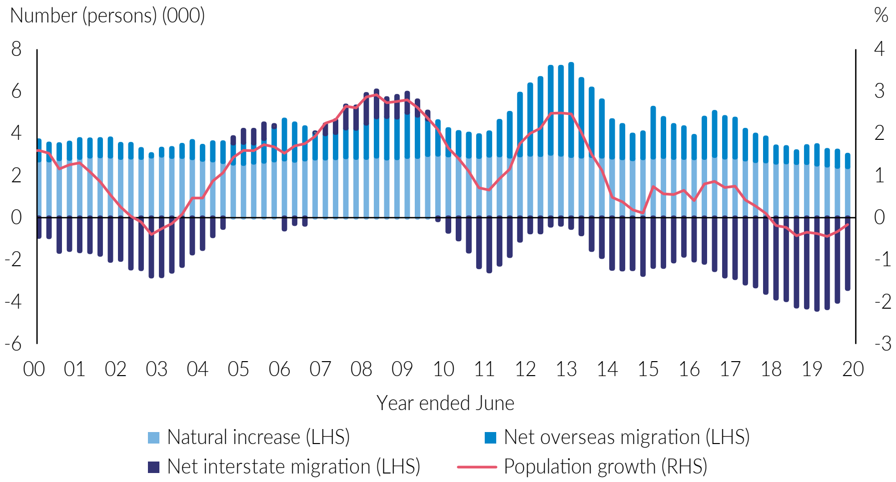
Interstate migration

The Territory's population has greater interstate mobility than any other jurisdiction, with an interstate migration rate of about 13 per cent per annum (32 000 persons), compared with about 3 to 5 per cent across the states. Queensland is the Territory's largest source market for both arrivals and departures, accounting for 30.3 per cent (9668 persons) of all movers in 2019.

In net terms, strong outflows to Queensland (1324), Victoria (900) and South Australia (598) were recorded in 2019. Following Queensland, the strongest inflows were from New South Wales and Victoria. Interstate migration flows are influenced by a range of factors but local economic and labour market conditions are significant, as are lifestyle, housing prices and location of family. NIM is highly volatile and tends to detract from Territory population growth (Chart 4.3).

Over the past five years, quarterly NIM ranged from a loss of 261 persons in the June quarter 2015 to a loss of 1414 persons in the December quarter 2018. On average, NIM has detracted 1.3 percentage points from annual growth over the five years to December 2019. Recent large outflows reflect the impact of workers and dependants leaving the Territory following completion of construction for the Ichthys LNG project, which generated significant economic and employment growth. Historically, NIM fluctuates with the delivery of major projects in the Territory, with high rates of in and out migration associated with the construction phase of major projects. Nevertheless, even during periods of strong employment growth net outflows can still occur due to lagged factors in household decision-making.

Chart 4.3: Net interstate migration[1]



1 Moving annual total
Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

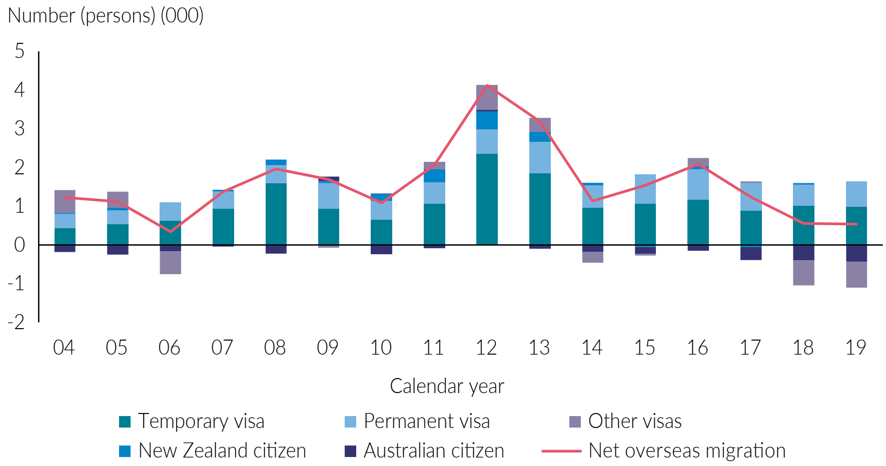
Overseas migration

The Commonwealth's permanent and temporary migration programs are fundamental to national population growth. Overseas migration has generally contributed to the Territory's population, although at a lower rate relative to the eastern seaboard states, contributing on average 0.5 percentage points to growth per annum over the past five years. Permanent and temporary visa migration streams have remained relatively stable over this period, but overseas migration has moderated, falling from a peak of contributing 0.8 percentage points to growth in 2016 to 0.3 percentage points in 2019. This mainly reflects large outflows in 'other' visa categories, comprising New Zealand citizens, Australian citizens and other visas (Chart 4.4).

Prior to COVID-19, the Commonwealth changed immigration policy settings, broadening the definition of regions, which may be contributing to recent weakness in overseas migration, and is likely to reduce the attractiveness of the Territory relative to other regions. The definition of 'region' has been broadened to encompass all of Australia excluding Sydney, Melbourne and Brisbane, whereas previously Perth, Gold Coast, Newscastle, Wollongong and the Central Coast were not classified as regional areas for migration purposes. Regional status provides access to the 25 000 dedicated regional places, regional occupations list, and priority processing of regional visas. Another key policy change is reducing the permanent migration cap from 190 000 to 160 000 places for four years from 2019-20.

Temporary migration is uncapped and generally fluctuates in response to economic conditions, however levers such as entry eligibility are often used to reflect Commonwealth policy priorities. This is likely to have a significant impact for the Territory as regional visas now allow overseas migrants and students to live and study in major urban cities outside the Territory.

Chart 4.4: Contribution of net overseas migration to estimated resident population by visa category stream



Source: ABS, *Australian Demographic Statistics*, Cat. No. 3101.0

Regional growth

Growth patterns across the Territory can be broadly split between greater Darwin and the rest of the Territory, with the former generally outperforming the latter. This is consistent with global trends toward greater urbanisation. Nonetheless, in 2018-19, greater Darwin's population declined by 0.8 per cent, the second consecutive annual decline, while population growth in the rest of the Territory was relatively stable. Katherine and East Arnhem were the only regions to report population growth, up 0.2 per cent and 0.1 per cent, respectively, with East Arnhem returning to positive growth following five consecutive years of decline following the closure of the Gove alumina refinery. Populations in Barkly and Daly-Tiwi-West Arnhem continued to decline in 2018-19, although at a slower rate than the five-year annual average (Table 4.2).

Table 4.2: Territory ERP by region, 30 June 2019

	Population	Proportion	Annual change	5-year average annual change
	No.	%	%	%
Greater Darwin	147 255	59.9	- 0.8	0.9
Alice Springs	39 317	16.0	- 0.1	- 0.6
Katherine	20 869	8.5	0.2	0.0
Daly-Tiwi-West Arnhem	17 872	7.3	- 0.1	- 0.4
East Arnhem	14 525	5.9	0.1	- 1.6
Barkly	6 091	2.5	- 0.3	- 0.8
Total	**245 929**	**100.0**	**- 0.5**	**0.2**

Source: ABS, *Regional Population Growth, Australia*, Cat. No. 3218.0

National Population and Planning Framework

In early 2020, the National Population and Planning Framework was endorsed by the Council of Australian Governments (now National Cabinet) to improve population management in Australia. The framework aims to improve all levels of governments' understanding of populations, population change and its implications, and to improve collaboration between governments.

The framework marks a turning point in the way population planning is treated across governments and underpins the Commonwealth's Population Plan to maintain the liveability of big cities while supporting the growth of smaller cities and regions.

The Commonwealth has also established the Centre for Population in the Commonwealth Treasury to assist with knowledge building and sharing, government and stakeholder engagement, and research for policy development with respect to infrastructure planning and settlement integration. The centre will report on the national population composition, distribution and broader demographic trends in an annual National Population Statement, with the first due to be released in late 2020.

Chapter 5

Labour market

Recent activity

The Territory's labour market was slowly recovering through 2019-20 before the severe impact of COVID-19 in the June quarter contributed to employment declining by 0.7 per cent even with JobKeeper, and the unemployment rate increasing from 4.5 to 5.6 per cent. National employment increased by 0.4 per cent in 2019-20, and the unemployment rate was 5.6 per cent.

Outlook

Employment is expected to contract by 0.7 per cent in 2020-21 as domestic conditions remain flat, and JobKeeper ends in the March quarter 2021. Economic conditions and associated employment are expected to pick up, supported by construction for major projects in the forward years. The unemployment rate is expected to increase before labour market conditions begin to improve in the outer years of the forward estimates.

Territory employment growth is highly cyclical, and heavily influenced by investment and construction activity for large, typically resource-based projects, such as the Ichthys LNG project. Significant project-related employment growth is usually followed by a period of declining employment as the economy adjusts to the post-project construction environment. The Territory is currently in this adjustment phase. The Territory labour market is also characterised by a substantial public sector, with government and community services accounting for 42 per cent of employment in 2019-20, and a relatively large defence and FIFO workforce, which is not captured in Territory data reported by the ABS. According to the 2016 Census and latest Australian Defence Force data, there were about 8700 FIFO workers (at June 2016) and 4393 permanent defence force members (at June 2020) in the Territory, demonstrating the significant under-reporting of on-the-ground employment in the Territory in official statistics.

ABS labour market statistics use data collected in the monthly labour force survey. The monthly labour force survey measures the labour market status of civilians aged 15 years and over who are residents in the Territory, excluding those in the defence force. People are considered employed in the Territory if they work for one hour or more in a week, and unemployed if they are not working but are actively looking for work and are available to start work.

Outlook

Table 5.1: Territory labour market (%)

	2019-20a	2020-21e	2021-22f	2022-23f	2023-24f
Employment[1]	- 0.7	- 0.7	1.3	1.6	1.8
Unemployment rate[2]	5.6	6.3	6.1	5.6	5.1

a: actual; e: estimate; f: forecast
1 Year-on-year change in resident civilian employment.
2 Annual average.
Source: ABS, *Labour Force, Australia*, Cat. No. 6202.0; Department of Treasury and Finance

Territory employment is expected to decline by 0.7 per cent in 2020-21 as uncertain economic conditions translate to reduced demand for labour, with the unemployment rate estimated to average 6.3 per cent (Chart 5.1). This outlook is influenced by the Commonwealth's JobKeeper Payment ending on 28 March 2021. Employment is expected to recover over the outlook period, supported by recovery in the labour-intensive tourism sector as international travel and interstate border restrictions are lifted, and consumer and business confidence recovers from the recent lows.

Historically, there is a tendency for unemployed workers who are unsuccessful in securing employment in the Territory to move interstate for employment opportunities or return to their usual place of residence. This propensity reflects the comparatively young age profile of the Territory's workforce, which is more willing to relocate for job or lifestyle reasons.

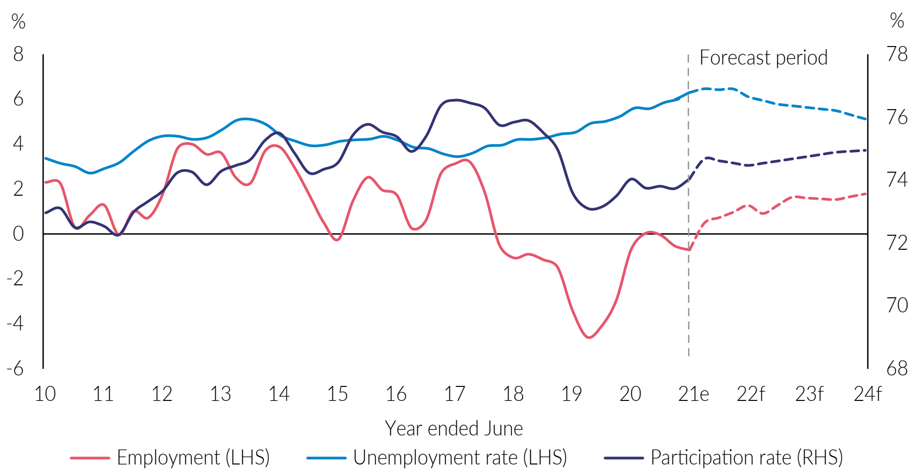
However, over the past year there has been a greater propensity for the recently unemployed to remain in the Territory, resulting in a higher number of unemployed people. This has been compounded by border restrictions and weak employment opportunities interstate. The shift in labour mobility is also reflected in the Territory's year average participation rate, which increased in the 12 months to August 2020. The participation rate is expected to increase over the outlook period, reflecting lower net outflows of population to other jurisdictions and will remain the highest of the states and territories.

Despite the easing of restrictions in the Territory, the recovery in employment is expected to be gradual, rather than a sharp rebound, as private sector investment is expected to remain subdued in the short term as COVID-19-related uncertainty flows through to access to capital as financiers focus on low-risk projects. Nonetheless, there are several large-scale public and private developments over the forecast period that will contribute to the Territory's recovery and employment growth (see *Economic growth* chapter).

The Commonwealth Budget 2020-21 included the $74 billion JobMaker plan as part of its Economic Recovery Plan for Australia. A key element of the JobMaker plan is the JobMaker hiring credit, a payment to employers for up to 12 months to create employment opportunities for job seekers aged 16 to 35 years. This age group represents around 60 per cent of all unemployed persons in the Territory, consistent with the national level. The hiring credit reduces the risk of young job seekers becoming long-term unemployed and aims to minimise the risk of any lasting impact of COVID-19 on unemployment for this at-risk cohort.

In recognition of the risks of longer term unemployment to all age groups, the Territory Government's Jobs First Plan will provide funding to extend eligibility of the Commonwealth's JobMaker hiring credit (Box 5.1).

Chart 5.1: Territory labour market conditions



LHS: left-hand side; RHS: right-hand side; e: estimate; f: forecast
Source: ABS, *Labour Force, Australia*, Cat. No. 6202.0; Department of Treasury and Finance

Box 5.1: Initiatives to support new employment

From 7 October 2020, the Commonwealth's JobMaker hiring credit will allow eligible employers to claim a weekly payment for each additional eligible employee hired over the duration of the scheme. Employers will receive up to $200 per week for each employee aged 16 to 29 and $100 per week for each employee aged 30 to 35 for up to 12 months from the date the new position was created.

Eligible employers must:

- not be claiming JobKeeper
- report an increase in the employee headcount from the reference date of 30 September 2020
- report an increase in payroll for the reporting period, compared with the September quarter. The amount received from the claim cannot exceed the increase in payroll for the reporting period.

Eligible employees must:

- have commenced employment between 7 October 2020 and 6 October 2021
- be employed for the period that the employer is claiming
- have worked at least 20 paid hours per week over the reporting period, as a permanent employee, casual worker or employee on a fixed-term contract
- have received JobSeeker, Youth Allowance or parental payments for at least one month within the past three months before employment
- be in their first year of employment with the eligible employer.

The Territory Government's Jobs First Plan will allow eligible employers to receive a payment of up to a $200 per week for eligible employees aged over 35 years, and provide a $100 top-up to the weekly payment for eligible employees aged 30 to 35.

Job creation

Major private sector projects and government-facilitated developments contribute significantly to the Territory economy through the creation of jobs and business opportunities. The Territory's project pipeline includes a number of investment opportunities that will boost growth in the local construction and resources sectors. These opportunities include the Darwin ship lift and marine industry project, the new CDU campus as part of the Darwin City Deal, public infrastructure projects, and various private and defence projects. These projects are not comparable to the scale of the Ichthys LNG project but collectively they represent economic and employment growth opportunities.

Government infrastructure programs also support employment across the Territory's regions. The $1.1 billion remote housing investment package will continue to support employment in remote communities to 2026-27, and the Commonwealth is investing up to $500 million to upgrade priority Territory freight routes over 10 years as part of its $4.6 billion Roads of Strategic Importance initiative. Under the Commonwealth's JobMaker plan, an additional $189.5 million will also be provided from 2020-21 for priority roads in the Territory. Other infrastructure projects include a new Palmerston regional fire rescue and emergency services complex and Darwin youth justice centre.

The Territory Government's $89 million Local Jobs Fund will also accelerate investment in the Territory. The fund supports economic transformation projects to grow local businesses and increase interstate and international exports. Projects supported to date include the Alice Springs Asia Pacific airport storage and maintenance facility, commercialisation of 3D metal printing and wearable personal safety monitoring devices. Up to $7.9 million will also be invested in the 'Terabit Territory', a joint project with Vocus to upgrade the Territory's fibre-optic cable network.

The 10-year implementation plan for the Darwin City Deal to revitalise the CBD was released in November 2019. Tenders for excavation work for the new CDU campus were awarded in October 2020, with construction of the campus to be completed in 2024. The Darwin City Deal will further support construction jobs through new developments and upgrades. Key infrastructure commitments include:

- a new $250 million CDU CBD campus and civic precinct to support the growth of international student numbers, with 730 jobs to be created throughout the construction period
- the $44 million redevelopment of the State Square precinct
- a $50 million art gallery to be built within the State Square precinct.

The $15 million Alice Springs CBD revitalisation plan and $78 million 10-year Barkly Regional Deal will also support regional employment and economic activity outside Darwin.

Over the outlook, the Commonwealth's NAIF is also expected to provide support to the local workforce through new private sector infrastructure investment. In 2019-20, the NAIF approved $300 million of financing for the Darwin ship lift project, with 100 jobs expected to be supported during construction, and $151.5 million to CDU for its Darwin CBD campus project. The NAIF also approved a $37 million loan to Merricks Capital Pty Ltd in September 2020 to fund new gas and solar projects, creating 162 jobs during construction. These projects will continue to support jobs, both in construction and operation, and diversify the Territory economy. More financing is expected for Territory projects following a five-year extension to NAIF, in addition to several reforms to the financing process (see Chapter 2 *Economic growth*).

Resource-based projects have the potential to boost employment for the Territory's construction, resources, and operational workforce over the forward estimates. The Beetaloo sub-basin has vast untapped gas reserves that could lead to significant private investment. However, the commercial viability of Beetaloo is yet to be proven and will depend on exploration results. There are also several potential projects at advanced stages of securing necessary regulatory approvals likely to proceed in the short-term, such as the Nolans rare earths, Finniss lithium and Jervois base metal projects. Iron ore exports are also set to resume in 2020-21 with the reopening of the Frances Creek and Roper Bar mines.

Defence will continue to play a significant role in terms of investment and job creation in the Territory, with $8 billion in infrastructure investment planned over 10 years as outlined in the *2020 Defence strategic update*. Major defence projects over the outlook period include redevelopment works worth $1.1 billion to 2027 at RAAF Base Tindal and $221 million to 2026 at the Larrakeyah Defence Precinct. The upgrades to RAAF Base Tindal alone are expected to create more than 300 construction jobs. There are also several ongoing defence projects due to be completed in the forecast period, such as $472 million of redevelopment works for Larrakeyah barracks and HMAS Coonawarra.

The residential construction market is expected to be flat over the outlook period. Strengthening population growth will assist to absorb the current excess housing stock, though below trend growth in the outlook period means demand for new construction will be weak.

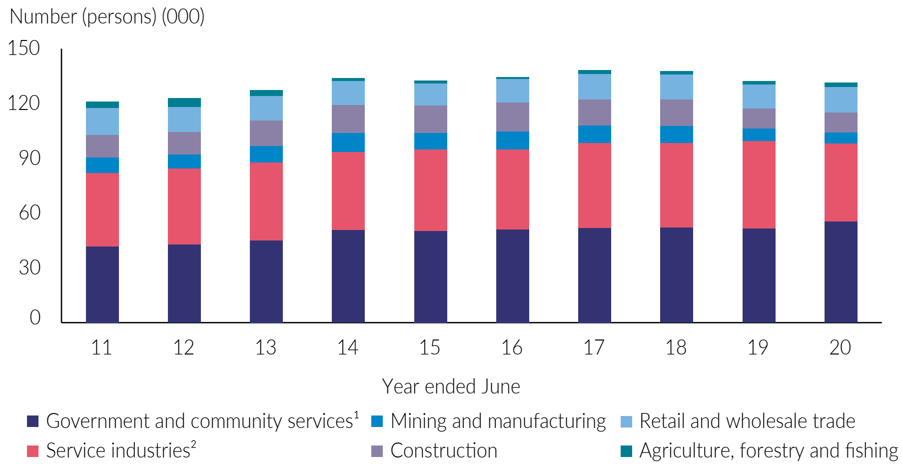
Recent activity

In response to COVID-19, the Commonwealth and state and territory governments implemented strict health measures that resulted in a series of supply and demand shocks to the economy. In the Territory, these measures included the temporary closure or limitation of business activities that rely on direct consumer contact, and restrictions on international, interstate and intrastate travel.

Restrictions were a major factor in the Territory's employment, declining by 0.7 per cent in 2019-20. The industries most affected were those that relied on direct consumer contact and interstate and international visitors. Physical distancing rules had an immediate impact on domestic employment as retail and hospitality services effectively ceased for a short period of time. ABS weekly payroll jobs data reported that between mid-March and mid-April the number of jobs in the arts and tourism-related industries decreased by around 30 per cent when health-related restrictions were at their strongest (Box 5.2). Over the May quarter, employment in the accommodation and food services sector declined by 3.3 per cent from the previous quarter, whereas in a typical year the sector would expect to report 20 per cent growth in the lead up to the Territory's peak tourism period. Overall, service industries were the largest detractor from employment in 2019-20, down by 10.6 per cent (Chart 5.2).

Despite the restrictions, the 2019-20 outcome is a significant improvement on the 3.4 per cent decline in employment reported in 2018-19, following completion of construction of the Ichthys LNG project. The ABS reports that between March and June 2020 almost 9000 people (7 per cent of employed people) ceased work. The loss of jobs resulted in a rise in unemployment and the unemployment rate. In the June quarter 2020, the unemployment rate averaged 6.1 per cent, compared with 5.4 per cent in the preceding three quarters of the financial year. Over 2019-20 the unemployment rate averaged 5.6 per cent, up from 4.5 per cent in 2018-19.

Chart 5.2: Territory employment by industry



1 Government and community services are public administration and safety; education and training; and health care and social assistance.

2 Service industries are electricity, gas and water; accommodation and food; transport, postal and warehousing; information, media and telecommunications; financial and insurance; rental, hiring and real estate; professional, scientific and technical; administrative and support; arts and recreation; and other services

Source: ABS, Labour *Force, Australia, Detailed, Quarterly*, Cat. No. 6291.0.55.003

Box 5.2: Weekly payroll jobs and wages

From March 2020, the ABS has released experimental estimates of jobs and wages in the economy. Estimates are derived from single touch payroll (STP) data provided to the Australian Taxation Office by businesses with STP-enabled payroll or accounting software. The estimates use indexed values to indicate movements in payroll jobs and total wages, using the week ending 14 March 2020 as its reference point. The data is compiled near real time and published fortnightly, providing a more contemporary measure than the ABS monthly labour force survey and quarterly industry employment data. The key difference between STP data and the labour force survey is the former reports payroll job positions whereas the latter reports employed persons. A person can hold multiple jobs, and not all employers report using STP.

The estimates allow a historical profile to monitor the impact of COVID-19. Social distancing restrictions in the Territory were at their peak in the week ending 18 April, with 'accommodation and food services' and 'arts and recreation services' reporting the largest loss of payroll jobs (down by 29.5 per cent and 28.6 per cent, respectively). Payroll jobs rebounded in both industries in the week ending 18 July (down 8.8 per cent and 5.8 per cent from 14 March), which coincides with the staged easing of the Territory's internal restrictions and leading up to the peak tourism period. As of the week ending 3 October 2020, the Territory has lifted most interstate travel restrictions and reported the second smallest decline of payroll jobs of the jurisdictions (down by 2.2 per cent), behind Western Australia.

The impact of restrictions on labour market outcomes has been cushioned by direct government assistance measures such as the Commonwealth's JobKeeper payment and indirect measures such as the Territory Government's initiatives to support economic and business viability. About one-third of Territory businesses have applied for the JobKeeper payment, which has provided financial support for a significant number of workers that remain attached to their employers. In the absence of JobKeeper many of these workers would be unemployed.

Chapter 6
Prices and wages

Recent activity

Darwin's inflation rate (as measured by the consumer price index (CPI)) remains well below the long-term trend, with upwards pressure from alcohol and tobacco being offset by lower rents and fuel prices, and government initiatives to support economic activity as a result of COVID-19. Wages growth is modest and slightly below the long-term trend.

Outlook

Both inflation and wages growth are expected to remain subdued in the short to medium term. A general lack of inflationary pressures and the uncertain global outlook are expected to suppress prices while private sector wage growth will be influenced by modest economic and labour market conditions.

Inflation is a key economic indicator that measures the change in the general level of consumer prices over a given period of time. The CPI measures inflation through changes in the price of a representative basket of goods and services for each Australian capital city. The basket has 11 categories of goods and services, which are weighted to reflect household consumption patterns in each city (Table 6.1).

Table 6.1: Darwin consumer price index basket groups and weights

CPI basket group	Examples of basket items	Darwin CPI weightings December 2019	Darwin CPI weightings December 2018
Housing	Rents, new dwelling purchase, maintenance and repair of dwellings, and utilities	19.47	22.42
Food and non-alcoholic beverages	Bread and cereal products, meat, seafood, dairy, fruit and vegetables, tea, coffee, juice, soft drinks, restaurant meals and takeaway	17.09	16.46
Recreation and culture	Audio, visual and computing equipment, newspapers, books, stationery, holiday travel and accommodation, sports and camping equipment, gaming and hobby materials, and services for animals	13.46	13.16
Alcohol and tobacco	Spirits, wine, beer, cigarettes, cigars and tobacco	11.63	10.35
Transport	Vehicle purchase and hire, fuel, repairs, maintenance, public transport, taxi and ridesharing services	10.59	10.16
Furnishings, household equipment and services	Furniture, linen, household appliances and utensils, cleaning products, child care and hairdressing	9.20	9.19
Insurance and financial services	Insurance fees, deposit and loan facilities (direct charges), and other financial services	5.16	5.30
Health	Medications, treatments, therapeutic equipment, and medical, dental and hospital services	5.03	4.75
Education	Fees for preschool, primary, secondary and tertiary education	2.92	2.67
Communication	Delivery of mail and parcels, and purchases, repair of telephones and internet connections	2.79	2.87
Clothing and footwear	Garments for adults and children, shoes, accessories, dry cleaning, shoe repairs and tailoring	2.66	2.63

Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0

The ABS uses household final consumption expenditure data to assist with revising the weightings annually. The largest categories are housing, food and non-alcoholic beverages, recreation and culture, alcohol and tobacco, and transport, which account for 72 per cent of the Darwin 'basket' (and 70 per cent nationally).

The wage price index (WPI) measures the price employers pay for a standard unit of labour. In a similar manner to the CPI, the WPI follows price changes in a fixed range of jobs. The ABS measures WPI at the state and territory level (as well as nationally) and for both the public and private sector.

Table 6.2: Darwin consumer price index and Territory wage price index[1] (%)

Financial year	2018-19a	2019-20a	2020-21f	2021-22f	2022-23f	2023-24f
Consumer price index	0.9	0.2	0.5	1.1	1.4	1.8
Wage price index	2.1	2.3	1.6	1.6	1.3	1.2

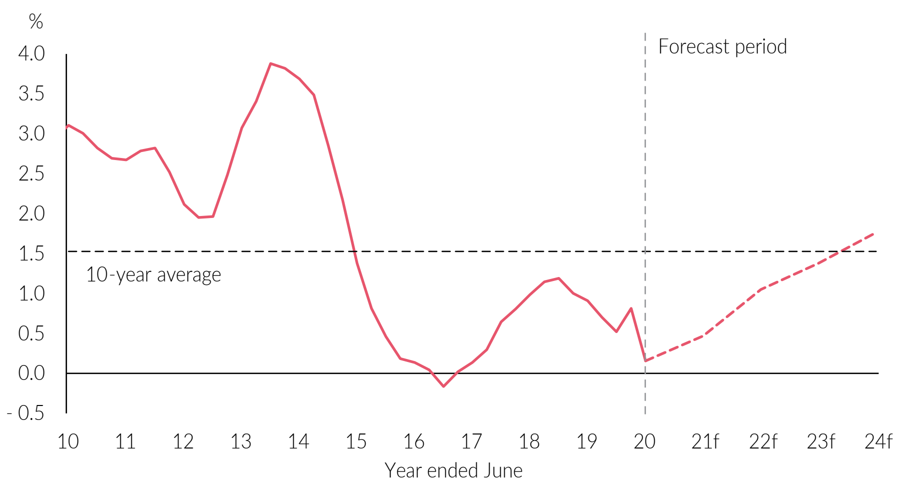
a: actual; f: forecast
1 Year-on-year change.
Source: *ABS, Consumer Price Index, Australia*, Cat. No. 6401.0, *Wage Price Index, Australia*, Cat. No. 6345.0; Department of Treasury and Finance

Consumer price index

Outlook

Darwin's inflation rate is expected to increase to 0.5 per cent in 2020-21. This is well below the long-term trend, and reflects both domestic and international factors (Chart 6.1).

Chart 6.1: Consumer price index[1]



f: forecast
1 Year-on-year change.
Source: ABS, *Consumer Price Index, Australia*, Cat. No. 6401.0; Department of Treasury and Finance

In recent months, the Darwin rental market has seen signs of excess housing supply being absorbed, which is resulting in some upward pressure on prices. The 2020-21 estimate assumes rental and residential property market price movements will stabilise over the year, but detract slightly from inflation when compared with 2019-20. The housing category includes a subcategory for maintenance and repair of dwellings (2 per cent of the total basket). This category declined by 50 per cent in the June quarter 2020 following the introduction of the Territory Government's Home Improvement Scheme. As the scheme is significantly reducing household out-of-pocket expenses for projects, the ABS is treating this as having downward pressure on prices paid by households to undertake projects and, therefore, inflation. The impact of the Home Improvement Scheme on inflation is expected to continue through 2020-21.

Alcohol and tobacco are expected to be the strongest contributors to inflation in 2020-21, consistent with recent years and largely due to the biannual indexation of Commonwealth excises. Other areas expected to exert some upwards pressure on inflation in 2020-21 are health, education and child care, as the Commonwealth subsidy ceased on 12 July 2020. Fuel prices are influenced by local market forces, exchange rates and world oil prices. Global demand and prices for oil are not expected to increase significantly in the outlook period, and fuel prices are not expected to contribute significantly to CPI growth in the medium term.

Over the forecast period, inflation is anticipated to be modest in the absence of strong domestic demand pressure, though is expected to gradually trend upwards as employment and population record moderate growth. Going forward, it is likely inflation growth will be more influenced by price changes in categories that are set nationally, such as health, communication, insurance, alcohol and tobacco.

The RBA expects inflation to be anchored around existing levels in its baseline scenario, though there may be a brief rebound in the second half of 2020 coming off a sharp June quarter decline. Headline inflation is expected to remain subdued and below 2 per cent for the next couple of years given the disinflationary effects from spare capacity in the labour market and economy more generally.

Recent activity

CPI growth has been subdued over the past five years, averaging a modest 0.5 per cent growth per annum, including record lows of 0.1 per cent per annum in 2015-16 and 2016-17. Nationally the inflation rate has averaged 1.6 per cent over the past five years.

Darwin's inflation rate was 0.2 per cent in 2019-20, comprising three-quarters of low growth, followed by a June quarter decline of 2.5 per cent, the largest quarterly decline on record. Nationally the inflation rate was 1.3 per cent in 2019-20 and the June quarter decline was 1.9 per cent.

In 2019-20, the main detractor from inflation was housing, which declined by 3 per cent (housing represents 19 per cent of the basket). Housing has put downward pressure on inflation since 2014-15, aligning with declining house prices and demand. Transport, which is 11 per cent of the basket, was the other major deflationary category in 2019-20, mainly reflecting lower fuel prices (down by 7.4 per cent) as excess global supply contributed to weaker crude oil prices, exacerbated by the onset of COVID-19 and weaker global economic outlook. These factors have contributed to lower transport costs nationally, and notably in Darwin where the monthly average unleaded petrol price was the cheapest of all capital cities for 21 out of 52 weeks in 2019-20.

The Territory and Commonwealth governments' policy responses to COVID-19 are also having downward impacts on reported inflation. In addition to the Territory's Government's Home Improvement Scheme, the Commonwealth's child care subsidy effectively reduced out-of-pocket expenses for child care to zero for most of the June quarter.

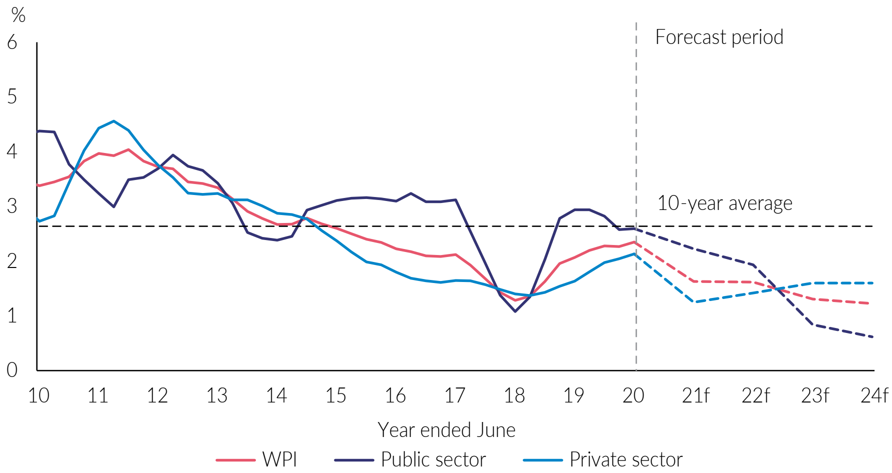
In 2019-20, prices for alcohol and tobacco, 12 per cent of the basket, increased by 8.4 per cent and were the main contributors to Darwin CPI growth.

Wage price index

Outlook

In 2020-21, Territory wages are expected to grow by 1.6 per cent (Chart 6.2), reflecting public sector wage growth in line with the 2017–2021 Northern Territory Public Sector Enterprise Agreement, offset by subdued private sector wage growth.

Chart 6.2: Territory wage price index[1]



f: forecast
1 Year-on-year change.
Source: ABS, *Wage Price Index, Australia*, Cat. No. 6345.0; Department of Treasury and Finance

The outlook for wage growth across the forecast period is modest. Economic conditions, low employment growth and business sentiment in the context of an uncertain global outlook, will continue to constrain private sector wage growth in the medium term. Any upward trend will be tied to the economic recovery more broadly, at both the Territory and national levels.

Public sector wage growth in the Territory is expected to remain stable through 2020-21 under current enterprise agreement arrangements, before new enterprise agreements are negotiated. The forecasting incorporates the wages policy from 2021 that entails a freeze of pay rates for four years, and a $1000 annual payment for employees.

In its August 2020 statement, the RBA noted in its baseline scenario that growth in the national WPI is expected to remain below 2 per cent over the next few years, and the pace of any pickup in wages growth will depend on spare capacity in the labour market and how this affects the bargaining position of workers in wage determinations.

The RBA notes that prolonged periods of low inflation and wage growth may have led firms and workers to recalibrate wage expectations to lower levels, which is consistent with wage policies across the public sector in other jurisdictions. The RBA also notes an increasing number of private sector jobs include bonuses and commissions, which may indicate firms are looking to reward workers but are hesitant to commit to larger changes in base pay.

Recent activity

In 2019-20, the Territory recorded a 2.3 per cent increase in the WPI, below the 10-year average of 2.6 per cent but a slight increase from the 2.1 per cent growth reported in 2018-19. Public sector wages increased by 2.6 per cent in 2019-20, following growth of 2.9 per cent in 2018-19, coming off the low growth in 2017-18 related to enterprise bargaining delays. Private sector wage growth was 2.1 per cent in 2019-20, following 1.6 per cent growth in 2018-19. The 2019-20 Territory results were largely consistent with the national WPI growth of 2.1 per cent, comprising public sector wage growth of 2.3 per cent and private sector wage growth of 2 per cent.

Chapter 7

Residential property market

Recent activity

Darwin's residential property market has stabilised in the past year and remained resilient during COVID-19, supported by historically low interest rates, mortgage deferrals, rental relief and government incentives.

Outlook

Any recovery in property and rental markets is expected to be modest and will be influenced by population growth, and economic and labour market conditions in the Territory relative to other jurisdictions.

Outlook

Residential property is a significant source of wealth for both owner-occupiers and investors, and the status of property and rental markets can have a significant impact on consumer confidence. After several years of decline, Darwin's residential property market has stabilised and is showing signs of recovery. Although COVID-19 restrictions had a direct impact on open house inspections and auctions, all the Territory's property markets have demonstrated resilience through the pandemic, reporting two consecutive quarters of median house price growth in the first half of 2020. Recent market sentiment across the Territory's residential sector has been positive, with strong interest from interstate buyers and renters, as the Territory emerges as a potential safe haven from COVID-19. This is supported by improvements in Darwin's property market, with vacancy rates falling through 2020.

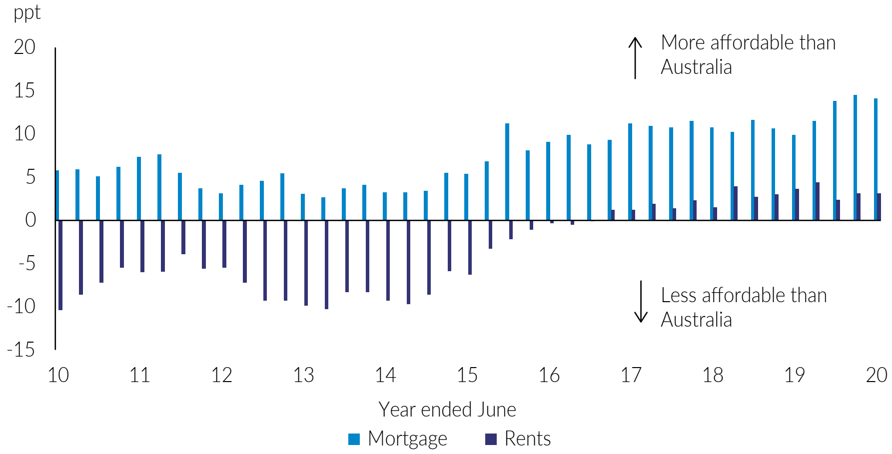
Looking forward, the recovery in the Territory's property markets is expected to be modest, influenced by economic and labour market conditions and population growth. This is in an environment where some degree of excess housing stock persists, and residential building approvals and construction activity are at historically low levels. Territory and Commonwealth government policies, such as the BuildBonus grant, home buyer incentives and the HomeBuilder scheme, together with low interest rates, are supporting demand but excess supply will need to be absorbed before there is any sustained recovery in the construction of new dwellings.

Across the other jurisdictions, vacancy rates have increased and rents are falling as COVID-19 border restrictions reduce housing demand, particularly in inner Sydney and Melbourne. It is likely rents in these areas will remain subdued in the medium term, given weaker population growth and new supply coming on in these markets. Nationally, property markets are expected to face renewed pressure as household finances come under continued strain and temporary support measures, such as home loan deferrals and support for renters start to be withdrawn.

Recent activity

The Territory's housing market has continued to see improvements in affordability over the years. The Real Estate Institute of Australia and Adelaide Bank's Home Loan Affordability Indicator reports the proportion of income required to meet loan repayments on a standard three-bedroom house has decreased to 20.4 per cent, down 2.9 percentage points over the past year. Average monthly loan repayments have also fallen by $226 over the same period. Affordability for those in the rental market continued to improve, with renters paying on average 20.3 per cent of their median weekly income in the 2019-20 period, down 0.3 percentage points from the previous year.

Chart 7.1: The Territory compared with Australia in percentage of median income to meet mortgage repayments and rents



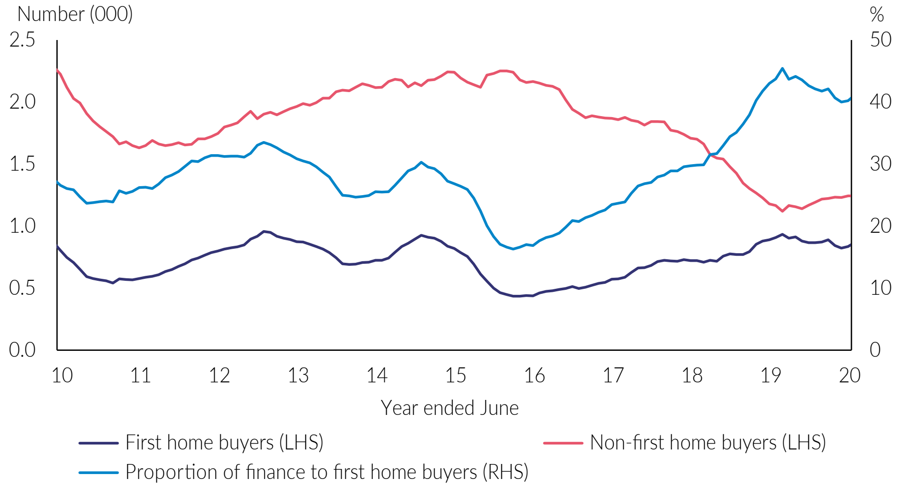
ppt: percentage point
Source: Real Estate Institute of Australia and Adelaide Bank

The Territory remains more affordable than the rest of Australia in both monthly loan repayments and rents (Chart 7.1).

The number of housing finance commitments (excluding refinancing) for all owner-occupiers was relatively steady in 2019-20, increasing by 0.5 per cent to 2080. New loan commitments for non-first home buyers increased by 5.4 per cent and loan commitments for first home buyers decreased by 6.1 per cent to 836 (Chart 7.2). Subdued growth in housing finance commitments, particularly for first home buyers, partly reflects weak economic conditions and negative population growth, as well as the uncertainty COVID-19 has brought to many families' personal finances. Nonetheless, low interest rates will continue to support home ownership and investment, as will Territory government incentives, such as the BuildBonus grant, the first home owner grant and the Territory home owner discount, and Commonwealth government incentives such as the first home loan deposit scheme (see box 7.1) and HomeBuilder scheme.

Investors typically represent a significant proportion of housing finance commitments in the Territory given the high proportion of renters in the housing market (Chart 7.3). These investor commitments are highly cyclical as investors seek capital gains and rental yield, and contribute to volatility in dwelling construction and property markets. The value of housing finance for investors remains subdued, and was 17.2 per cent of the value of all housing commitments (excluding refinancing) in 2019-20, compared with 40.3 per cent in 2014-15.

Chart 7.2: Housing finance commitments for owner-occupiers in the Territory



LHS: left-hand side; RHS: right-hand side
Source: ABS, *Lending Indicators,* Cat. No. 5601.0

Box 7.1: Home ownership assistance

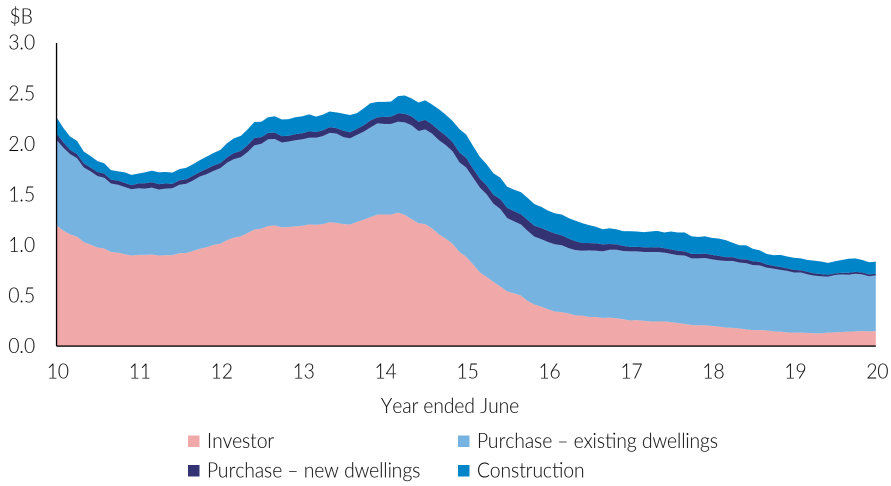
The Commonwealth's First Home Loan Deposit Scheme commenced on 1 January 2020 and provides a guarantee for 10 000 eligible first home buyers per financial year to purchase a home with a deposit of 5 per cent of the property's value. Despite attracting strong interest nationally, with all 10 000 guarantees for 2019-20 allocated, demand has been subdued in the Territory, Western Australia and South Australia, all of which have longstanding first home buyer support initiatives. The Territory also has a low property price cap of $375 000 for the purchase of a new or existing property (compared with $700 000 in Sydney), which may be limiting take up.

The Commonwealth has expanded the scheme to include a further 10 000 places in 2020-21 for first home buyers to build or purchase a new home. The property price cap for new builds has been lifted across jurisdictions, allowing buyers in the Territory to purchase a home valued at $550 000 with a deposit of only $27 500.

Other Territory government incentives to support home ownership and construction include the $10 000 first owner grant, $20 000 BuildBonus grant and the home owner discount that provides up to $18 601 off stamp duty.

The number of residential building approvals remains weak and this is flowing through to dwelling construction activity. The value of residential building work done was $315.2 million in 2019-20, down from $370.7 million the previous year. The value of work yet to be done for new residential buildings fell to a 15-year low in the March quarter 2020, before increasing by 3.8 per cent to $144.9 million in the June quarter 2020. There were 517 residential building commencements in 2019-20, down from 650 the year earlier. Alterations and additions have shown steady growth in recent years, with an all-time high of $46.4 million of work yet to be done in the June quarter 2020, supported by the Territory government's public housing stimulus programs, home renovation grant program and the home improvement scheme.

Chart 7.3: Value of housing finance commitments in the Territory



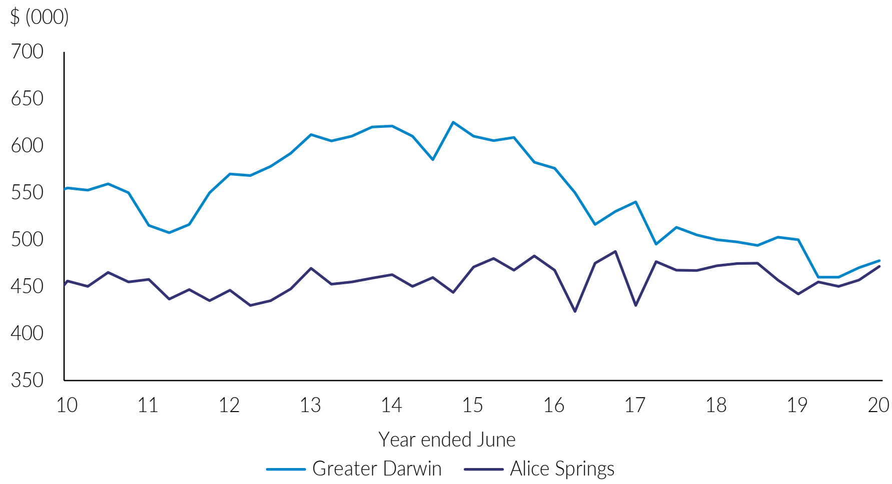
Source: ABS, *Lending Indicators*, Cat. No. 5601.0

Greater Darwin

Property and rental markets are highly cyclical, and very sensitive to local demand and supply conditions and, typically, interest rates. Greater Darwin's median house price peaked in 2015 at $625 000 and has been trending down since then, with Greater Darwin's median house price at $477 500 in the June quarter 2020. Since the peak, subdued domestic economic conditions, and declining employment and population have resulted in property demand and prices falling significantly, with a subsequent build-up of excess dwelling stock. There are now signs that Greater Darwin's property market is starting to recover, with median house prices reporting modest growth over the past three quarters of 2019-20 (Chart 7.4).

Despite growth in median house prices, unit prices in Greater Darwin continue to decline since the peak in 2015-16, falling by 13.8 per cent in annual terms to $280 000 in the June quarter 2020.

Chart 7.4: Median house prices in Greater Darwin[1] and Alice Springs

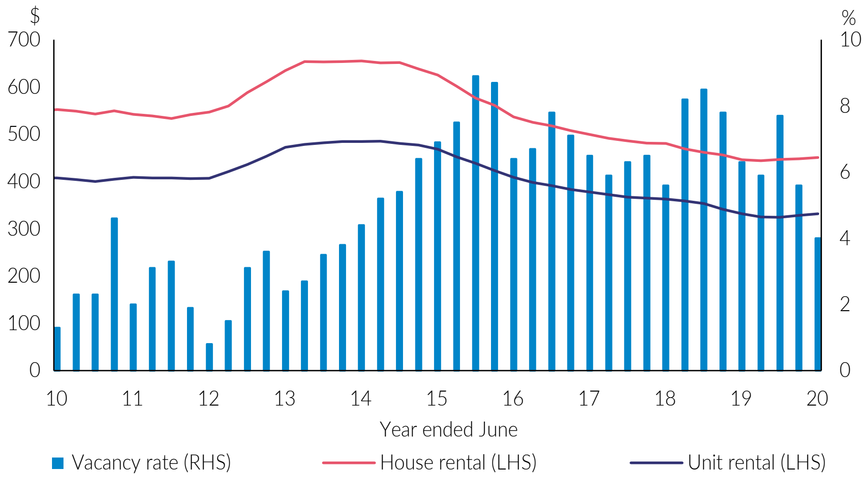


1 Greater Darwin includes inner Darwin, Darwin northeast, Darwin north coastal, Darwin north and Palmerston.
Source: Real Estate Institute of the Northern Territory

The rental market in Greater Darwin has also shown signs of improvement, with average weekly house rents increasing by 2.4 per cent in annual terms, to $452 per week in the June quarter 2020. Average weekly rent for units also improved, up by 4.9 per cent to $336 per week over the same period. Inner Darwin, which has seen the largest increase in supply in recent years, recorded the strongest annual growth in average weekly rents, up by 14.3 per cent in annual terms to $400 per week in the June quarter 2020.

Higher rents in the Greater Darwin region have also been associated with lower vacancy rates, which decreased from an average of 7.3 per cent in 2018-19 to 5.5 per cent in 2019-20 (Chart 7.5). Anecdotal information suggests a significant tightening in Greater Darwin's rental market with preliminary data indicating the vacancy rate has fallen below 2 per cent in the September quarter, as the Territory emerges as a safe haven from COVID-19. Vacancy rates are expected to remain low in the near term, supported by population growth.

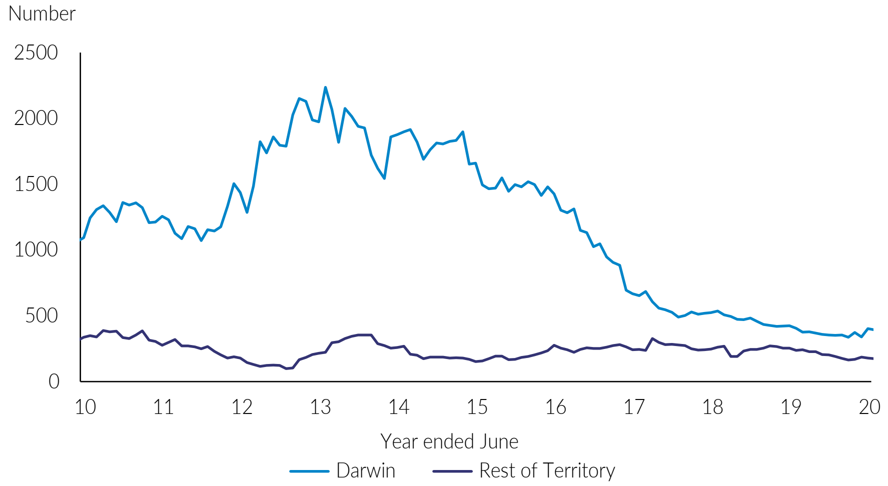
Chart 7.5: Median rents and vacancy rates in Darwin



LHS: left-hand side; RHS: right-hand side
Source: Real Estate Institute of the Northern Territory

A large proportion of the increased supply in dwelling stock in recent years is concentrated in the Greater Darwin region, which is in the process of re-balancing supply and demand. This is reflected in the continued decline in approvals for dwelling construction, down 75.2 per cent, from 1660 in 2014-15 to 411 in 2019-20 (Chart 7.6). Building approvals in most other Territory regions have increased over the same period. As affordability of established dwelling stock continues to improve in Greater Darwin, it is anticipated demand for new dwelling stock will remain subdued in the near future.

Chart 7.6: Residential building approvals in the Territory



Source: ABS, *Building Approvals*, Cat. No. 8731.0

Land release in Greater Darwin has continued to slow over the past year and is expected to remain at low rates in the near future, with 10 years of land supply currently with developers. New land is expected to be available for buyers at a steady rate as construction continues in Zuccoli and Northcrest over the next few years. In Alice Springs, Kilgariff stage 2 is expected to support supply for new houses, with construction expected to begin in 2021.

Palmerston

Palmerston forms part of the Greater Darwin region and has seen a marked increase in population over recent years. This has resulted in varied levels of residential building activity compared with inner Darwin and Darwin's northern and coastal suburbs, mainly due to the development of new suburbs in Palmerston. Palmerston continues to expand, albeit at lower rates compared with recent years, with continued land release in Zuccoli and Durack. About half of building approvals in Greater Darwin tend to be in Palmerston and Litchfield.

Median house prices decreased by 1.8 per cent in 2019-20 to $442 000 and unit prices decreased by 24.8 per cent to $230 000 over the same period. In annual terms, median house rents have decreased by 2.5 per cent to $390 per week while unit rents increased by 2.8 per cent to $350 per week.

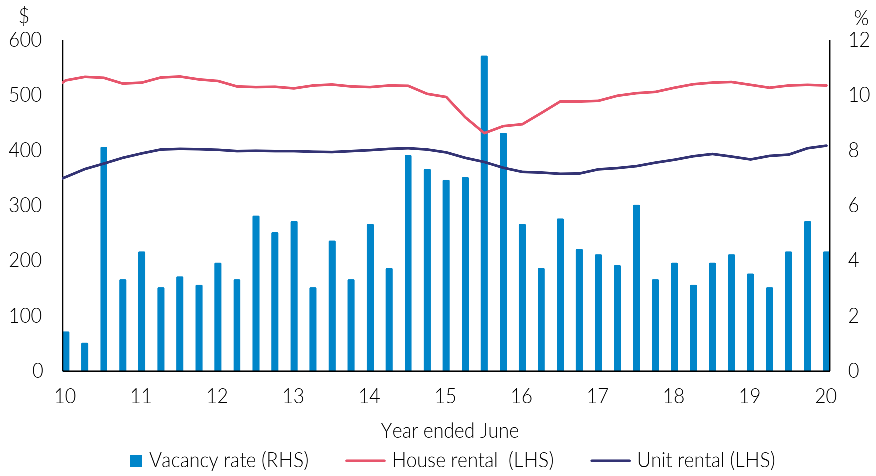
Alice Springs

Median house prices in Alice Springs increased by 6.7 per cent in 2019-20, to $471 500 (Chart 7.4). Unit prices, which are more volatile than in Darwin and Palmerston due to smaller stock levels, increased by 3.7 per cent to $337 500 over the same period. Sales volumes decreased for houses (down by 36.5 per cent to 40 sales), but increased for units (up by 20 per cent to 30 sales) in annual terms.

The Alice Springs house rental market weakened in 2019-20, with median house rentals decreasing by 1 per cent in annual terms, to $505 per week. This is partly reflective of higher vacancy rates, which increased by 1.7 percentage points in annual terms. Despite a rise in vacancy rates for units in 2019-20, unit rentals increased by 5.3 per cent to $400 per week (Chart 7.7).

The outlook for the housing market in Alice Springs continues to be positive. Continued land release in Kilgariff is expected to support supply for new houses, with construction in Kilgariff stage 2 expected to commence in 2021.

Chart 7.7: Median weekly rents and vacancy rates in Alice Springs



LHS: left-hand side; RHS: right-hand side
Source: Real Estate Institute of the Northern Territory

Katherine

Caution needs to be used when interpreting regional results as the low number of sales and rental properties can lead to volatile results. Median house prices in Katherine have declined in recent years, however not to the same extent as elsewhere in the Territory. In annual terms, the median house price in Katherine fell by 0.3 per cent to $349 000 in the June quarter 2020. House rentals decreased by $25 per week (5.9 per cent) to an average of $400 in annual terms. Unit rents increased by 16.7 per cent to $350 over the same period. Overall vacancy rates significantly decreased, down 2.5 percentage points to 3.4 per cent. Complete data on unit prices is not currently available for Katherine.

The outlook for the residential property market in Katherine appears to be quite positive, with ongoing demand for housing, particularly in the Katherine East subdivision. This is supported by the commencement of large projects in the region, including defence upgrades at RAAF base Tindal.

Tennant Creek and elsewhere

Due to lower housing stock and sales volumes, the Tennant Creek property market experiences greater volatility compared with Alice Springs and Katherine. The median house price in Tennant Creek increased by 59 per cent to $310 000 in the June quarter 2020, increasing by 10.7 per cent in annual terms. New land releases, particularly around Peko Road, have helped increase supply.

The outlook for the Tennant Creek market appears to be positive in the near term. The development of the region as a mining, minerals and gas services and supply centre is expected to stimulate demand, providing support to resource-based activity in the region. This is reinforced by an increase in building approvals in Tennant Creek, which were up from 23 in 2018-19 to 36 in 2019-20, the highest number of approvals since 2013.

Public housing makes up a considerable portion of the housing stock in many remote communities. In recent years, there has been a strong increase in the value of public sector residential construction work done, reflecting ongoing work to improve the quality and quantity of public housing stock in the Territory. Part of this increase reflects the Territory and Commonwealth governments' 10-year $1.1 billion investment in improving housing in remote communities.

Glossary

Consumer price index

A general indicator of the prices paid by household consumers for a specific basket of goods and services in one period, relative to the cost of the same basket in a base period.

Current prices

The value in nominal terms, not adjusted for inflation or changes in the purchasing power of money. It is the market value for the good or service at the time it was being sold.

Employed

Persons 15 years and older who worked for one hour or more in the week as measured by the Labour Force Survey. Persons are measured as being employed in the jurisdiction in which they reside, regardless of the location of their employment.

Estimated resident population

The official Australian Bureau of Statistics population measure that represents the number of persons who reside in a defined locality for more than six months of the year and for a period of at least 12 out of 16 consecutive months.

Gross domestic product

The total value of goods and services produced in Australia over the period for final consumption. Intermediate goods, or those used in the production of other goods, are excluded. Gross domestic product can be calculated by summing total output, total income or total expenditure.

Gross state product

Similar to gross domestic product, except it measures the total value of goods and services produced in a state or territory. It is the sum of all income, namely, wages, salaries and profits, plus indirect taxes less subsidies. It can also be calculated by measuring expenditure, where it is the sum of state final demand and international and interstate trade, changes in the level of stocks, and a balancing item.

Inflation adjusted (also known as chain volume)

Inflation-adjusted measures provide estimates of real changes by factoring in general changes in prices from year to year.

Labour force

All persons 15 years and over who are available for work, that is, employed plus unemployed persons actively seeking work. Excludes Australian Defence Force personnel and non-residents.

Moving annual total

A method used to smooth data and remove the short-term fluctuations in data by averaging observations collected over a 12-month period.

Net interstate migration

The net difference between arrivals to a state or territory from the rest of Australia and departures from that state or territory to the rest of Australia. This is measured based on change of address information from Medicare.

Net overseas migration

The difference between the number of incoming travellers who stay in Australia for 12 months or more and are added to the population and the number of outgoing travellers who leave Australia for 12 months or more and are subtracted from the population.

Participation rate

The proportion of the population over 15 years of age who are working or looking for work.

Public consumption

Public consumption includes government expenditure on goods and services (including wages and rents). National consumption is a combination of Commonwealth consumption, defence consumption and consumption by universities. State and local consumption includes all other public consumption.

Public investment

Most data for public investment is sourced from state and territory government finance reporting. Adjustments are made to deduct expenditure that is classified as consumption, rather than investment. Statistical treatment of public investment does not always reconcile with the Territory Government's reporting of investment expenditure and as a result is not directly comparable.

State final demand

State final demand is a major component of gross state product and is a measure of the demand for goods and services in an economy. While state final demand includes consumption and investment expenditure, it does not include the contribution of trade or changes in inventories to economic growth and as such is not a comprehensive measure of economic growth.

Unemployed

Persons 15 years and older who were not employed during the week of the labour force survey and were actively looking for work in the last four weeks.

Unemployment rate

The number of unemployed persons expressed as a percentage of the labour force.

Wage price index

A measure of the change in the price of wage costs over time, unaffected by the change in the quality or quantity of work performed. It excludes non-wage costs such as superannuation, payroll tax and workers compensation.

Abbreviations and acronyms

a	actual
ABS	Australian Bureau of Statistics
B	billion
Cat. No.	catalogue number
CBD	central business district
CDU	Charles Darwin University
CPI	consumer price index
e	estimate
ERP	estimated resident population
f	forecast
FIFO	fly-in fly-out
FTA	Free trade agreements
GSP	gross state product
HMAS	Her Majesty's Australian Ship
IMF	International Monetary Fund
LHS	left-hand side
LNG	liquefied natural gas
M	million
NAIF	Northern Australia Infrastructure Facility
NIM	net interstate migration
ppt	percentage point
RAAF	Royal Australian Air Force
RBA	Reserve Bank of Australia
RHS	right-hand side
SFD	state final demand
STP	single touch payroll
US	United States (of America)
WPI	wage price index