



Darwin economic outlook 2016

Final Report

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prepared by .id

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1. Economic Summary

After a period of very strong economic growth, the Northern Territory economy appears to be moving towards a slower growth phase in 2016.

ABS statistics released in December 2015 for the financial year 2014-15 showed moderate growth in business investment, more in line with historical averages. This moderate growth comes after three years of significant business investment growth, driven largely by the construction of the Ichthys LNG project. This fall in business investment highlights the gradual transition of the Ichthys LNG project towards the operation phase.

Demand is also being weighed down by weakness in household consumption and dwelling investment. Growth in general government gross capital formation has offset this slower growth.

Slowing demand in household consumption and dwelling investment, and a winding down in construction of the Ichthys LNG project has begun to affect employment growth, and in particular full time employment. This slower growth is already having an adverse impact on population growth and house prices.

Tourism has emerged as an important support sector with strong growth in tourism visitation in 2014/15. Lower exchange rates are expected to support ongoing tourism international visitation and offset some of this slower growth in the business and household sectors.

Economic outlook 2016

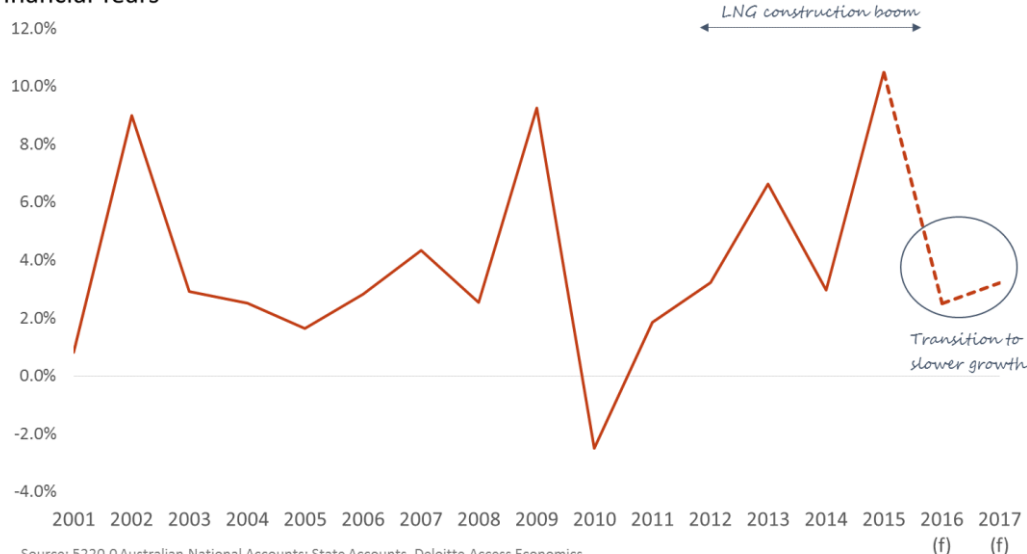
The Darwin economy is highly dependent on the government sector, mining and mining support sectors (construction and transport). This dependence makes it highly prone to volatility, particularly once large investments wind down.

In 2016, the Darwin economy is expected to continue its transition to a slower growth phase following the construction boom from the Ichthys LNG project.

This outlook is supported by Deloitte Access Economics (DAE) who expect the NT economy to grow by 2.5% in 2015-16 and then forecast stronger growth of 3.2% in 2016-17. To put this into context, DAE expect the National economy to grow by 2.2% in 2015-16 and 2.1% in 2016-17. This implies that Darwin will 'come back to the pack' after a period of strong growth.

Gross State Product - Historical and Forecast - NT

Financial Years



Source: 5220.0 Australian National Accounts: State Accounts, Deloitte Access Economics
Compiled and presented by .id the population experts. Compiled and presented by .id the population experts

Following the completion of the LNG project (assumed to be in 2016-17 FY), there is a slight, but elevated, chance of a brief recession, particularly if business investment and household consumption remain weak. However, the production impact of LNG will be a significant driver of growth partially offsetting the fall in investment meaning that any recession would be short and shallow. Growth in tourism and a lower exchange rate may reduce this risk further.

The outlook for employment in 2016 appears weak amid lower population growth, completion of the Itchys LNG construction phase and slowing demand from households and businesses. The production phase on the Itchys LNG project is also likely to have limited impact on local employment levels. This will put pressure on household spending and the housing market.

2. Economic analysis

2.1 Introduction

City of Darwin Economic Profile ([here](#)) provides economic analysis for the City of Darwin by combining 11 different datasets to build a cohesive story of a local economy, how it is changing and how it compares to other areas.

Reliable primary economic data sets exist only at the national, state and regional level at best. The only way to get a realistic measure of GRP, number of jobs and other economic indicators at the local area level is to undertake economic modelling.

The current economic profile for Darwin is based on 2013/14 (2014/15 will be available in the 3rd quarter of 2015/16). Therefore, to assess the outlook for 2016, we need to look at alternative State based data sources. These State indicators provide an indicative guide to the economic performance and outlook for the City of Darwin economy in 2016. This information is also supported by an analysis of leading indicators at the LGA level.

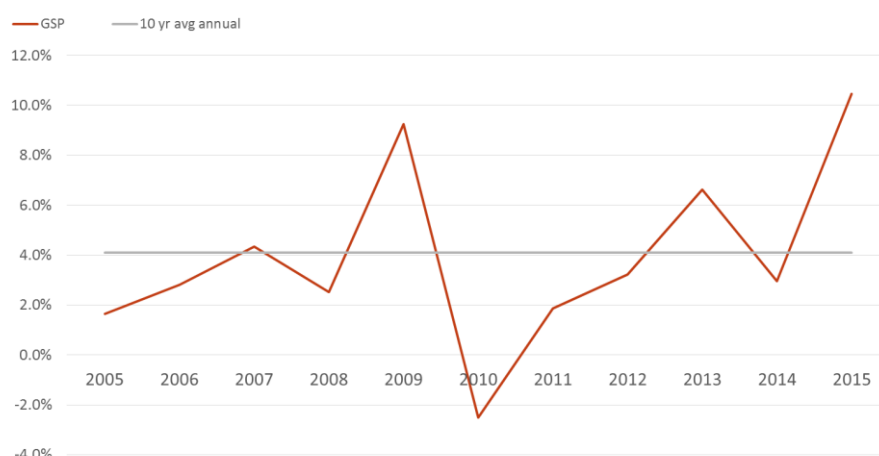
2.2 State Update – Northern Territory

2.2.1 Economic growth

The NT economy strengthened from 3.0% in 2013-14 to 10.5% in 2014-15. The key driver of this growth was business investment and general government gross fixed capital formation (note: balancing item was also a major contributor to this growth).

Gross State Product, Northern Territory

Annual % change, Volume measures

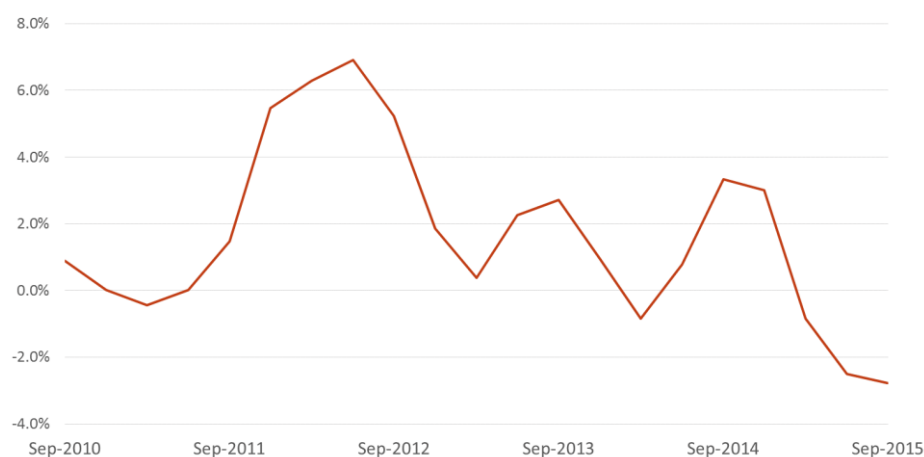


Source: 5220.0 Australian National Accounts: State Accounts. Compiled and presented by .id the population experts

Quarterly trend economic estimates however point to a slowdown in the Northern Territory economy. Northern Territory State Final Demand (SFD) (trend) fell 2.8% in the September quarter following a 2.5% fall in the June quarter. There have now been 3 consecutive quarters of negative growth in SFD, indicating a turning point in the economy towards a slower growth phase.

State final demand, Northern Territory

% quarterly change, volume measures

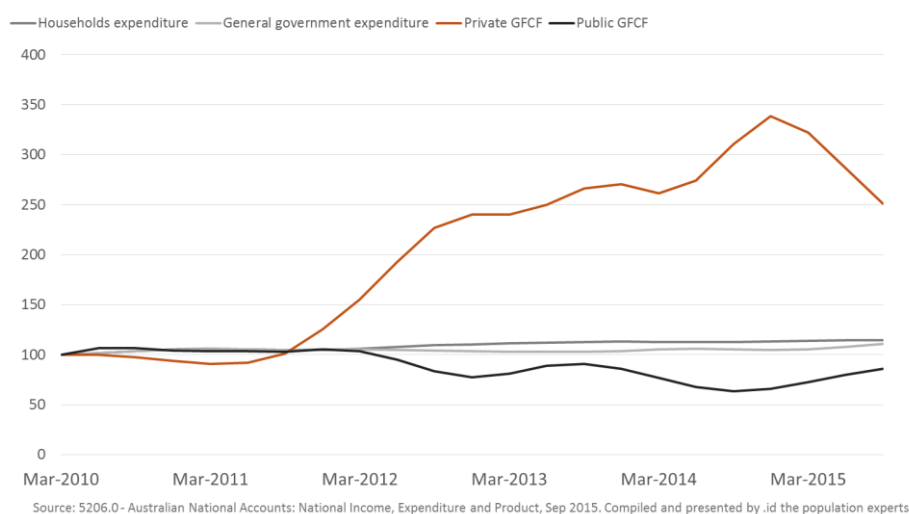


Source: 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Sep 2015. Compiled and presented by .id the population experts

A strong contraction in trend private gross fixed capital formation (-12.4%) was the primary driver of the recent decline in SFD. However, Government investment has partially offset these falls. Sustained investment by the government will assist in offsetting the expected decline in business investment over the next year.

Components of State Final Demand, Northern Territory

Index March 2010=100, Trend

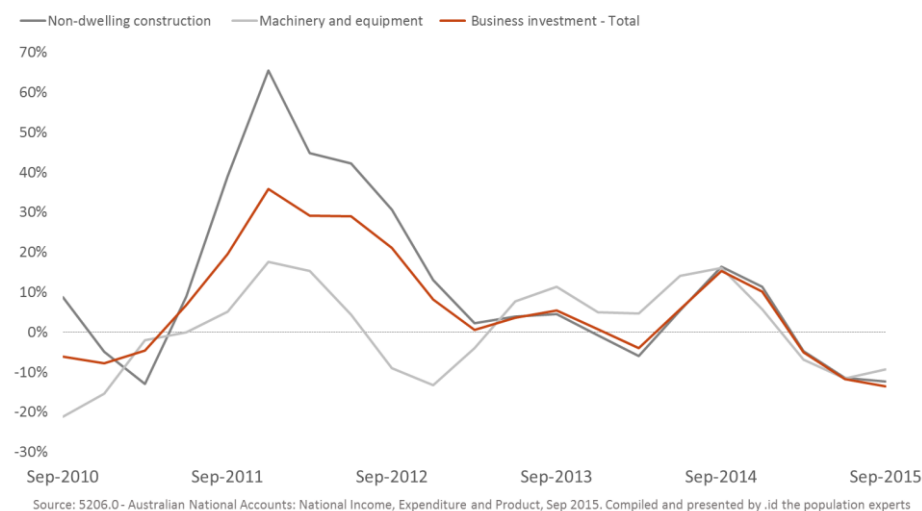


2.2.2 Business investment

The construction phase of the Ichthys LNG project has driven strong business investment over the past 4 years. The construction phase has almost finished now and we have seen business investment growth slow significantly with a 13% decline in the September quarter 2015 and a decline of 20% from the same quarter in 2104. Non-dwelling construction and machinery and equipment investment have now experienced three consecutive quarters of negative growth. Again, this reflects the transition from a high growth phase towards more subdued conditions.

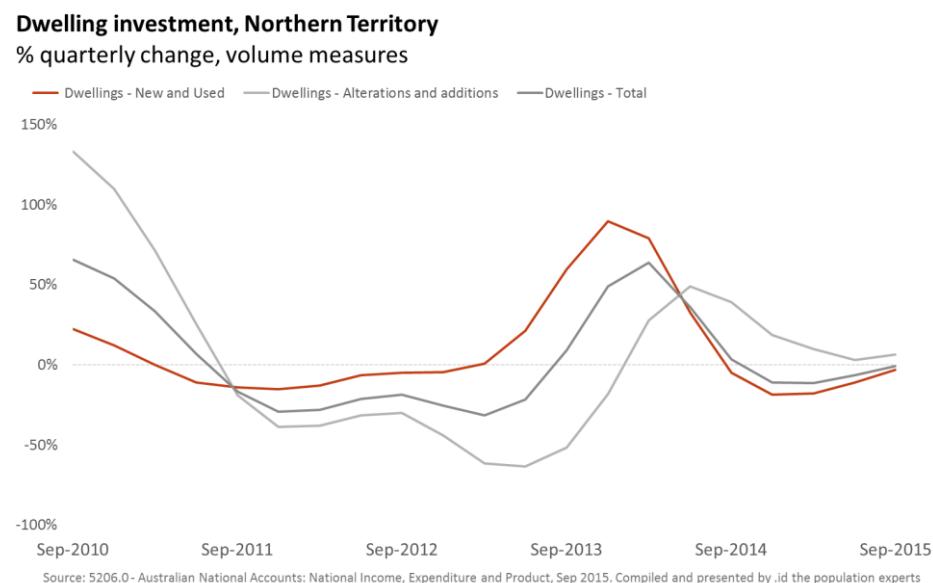
Business Investment, Northern Territory

% quarterly change, volume measures



2.2.3 Dwelling investment

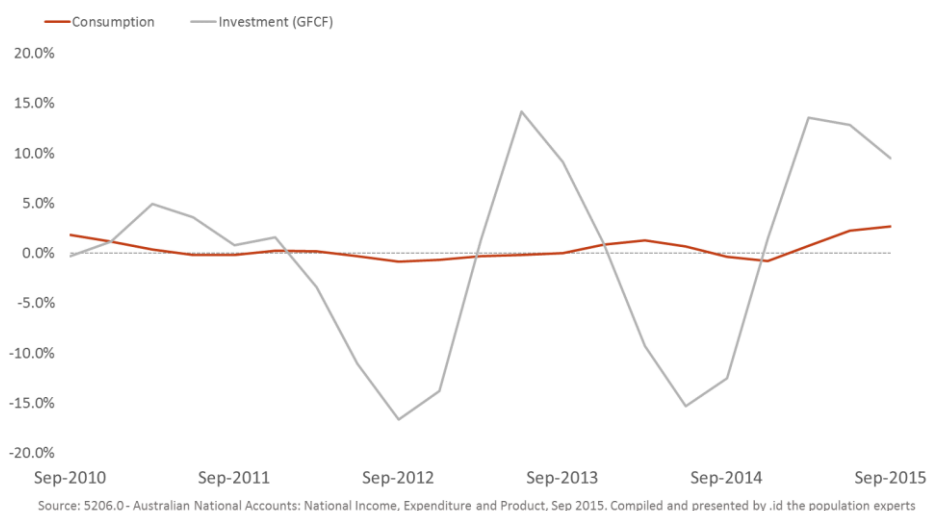
Dwelling investment growth has fallen for four consecutive quarters after a period of strong activity. This decline has been driven by negative growth in new and used dwelling investment activity.



2.2.4 General government

The General Government sector has experienced positive growth over the past few quarters. Gross fixed capital formation expenditure by general government has been considerably strong, growing by 9.5% in the September quarter 2015.

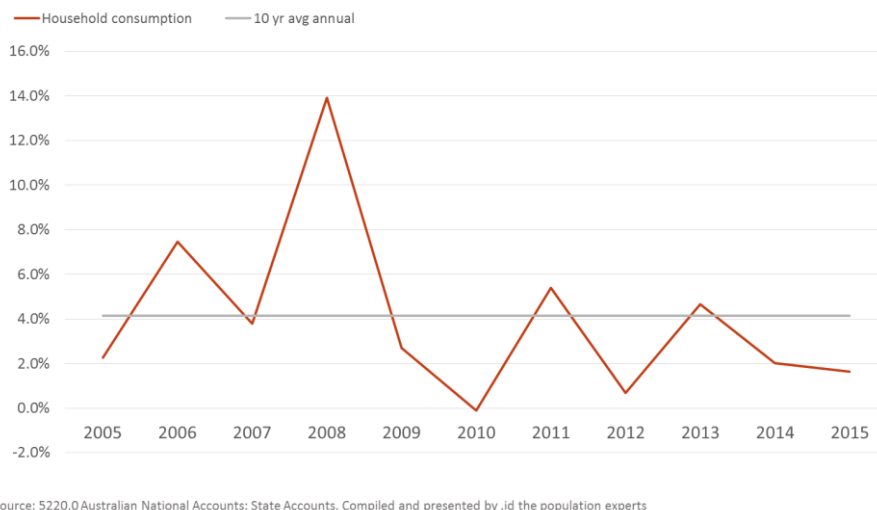
General Government, Northern Territory % quarterly change, volume measures



2.2.5 Household consumption

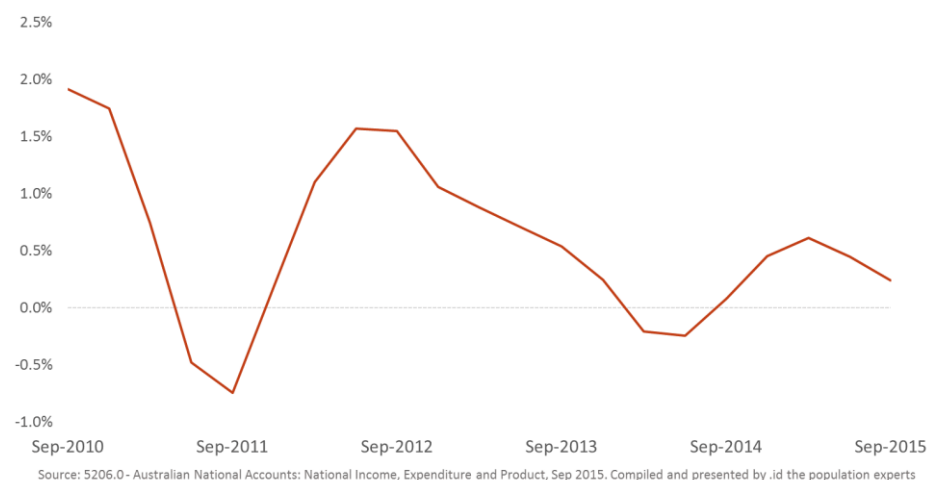
Household consumption expenditure has started to slow. Housing consumption grew by 1.6% in 2014-15, below the 10 year annual average rate.

Household consumption, Northern Territory Annual % change, Volume measures



In quarterly terms, household consumption expenditure has been relatively slow for the past two quarters.

Household expenditure, Northern Territory % quarterley change, volume measures



2.2.6 Employment

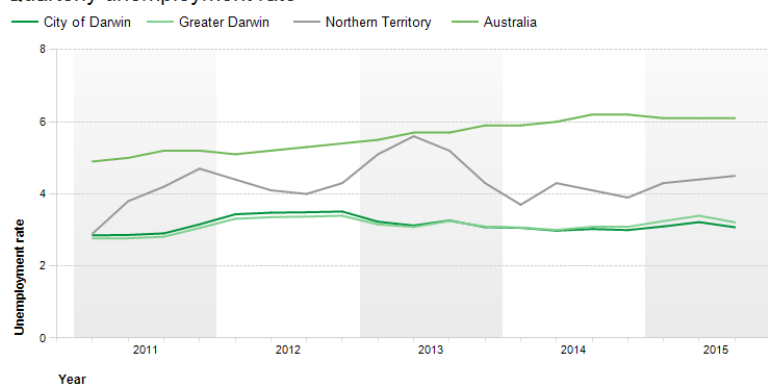
The slow growth observed in household consumption and dwelling investment, and a winding down in construction of the Ichthys LNG project has begun to affect employment growth, and in particular full time employment. Full time employment is unchanged over the year to December 2015.

Employment, Northern Territory annual % change, trend



In the 2015 September quarter, the unemployment rate in City of Darwin was 3.08%. Labour force conditions are much tighter in Darwin compared to the NT and Australia.

Quarterly unemployment rate

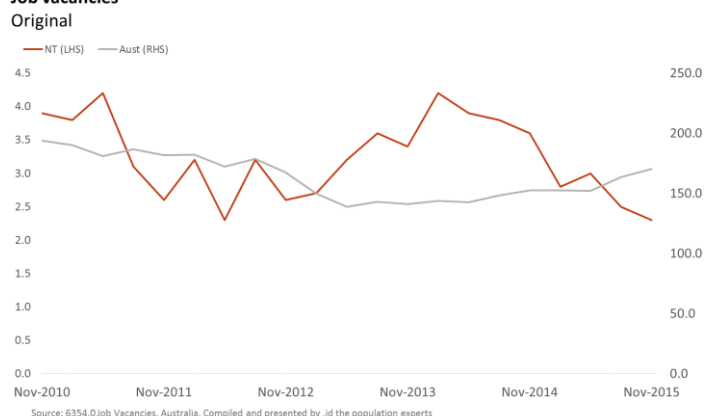


Source: Australian Bureau of Statistics, Labour force survey, catalogue number 6202.0, and Department of Employment, Small Area Labour Markets, June 2015. Compiled and presented in economy.id by .id The population experts.

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There were 2,300 vacant jobs in November 2015, down from 3,600 the year before. The level of vacancies suggests that employment sentiment is trending downwards in the Northern Territory.

Job vacancies

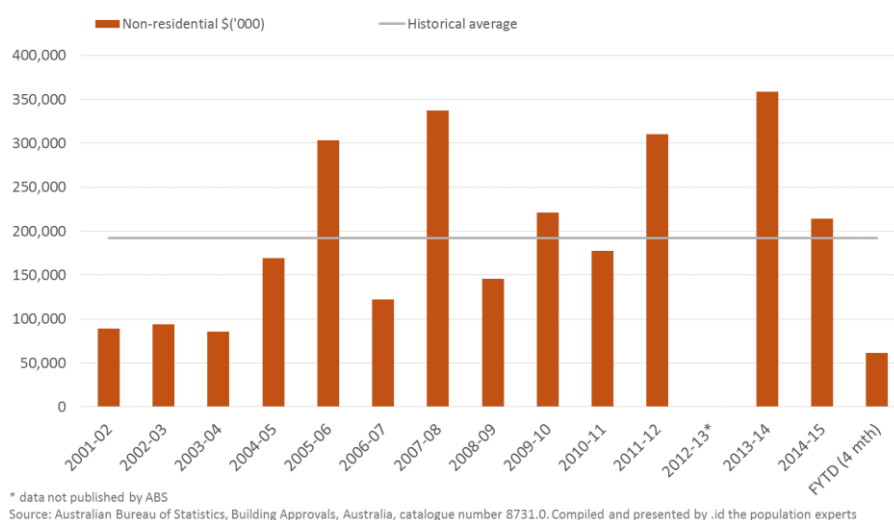


2.3 City of Darwin – Leading indicators

2.3.1 Building approvals

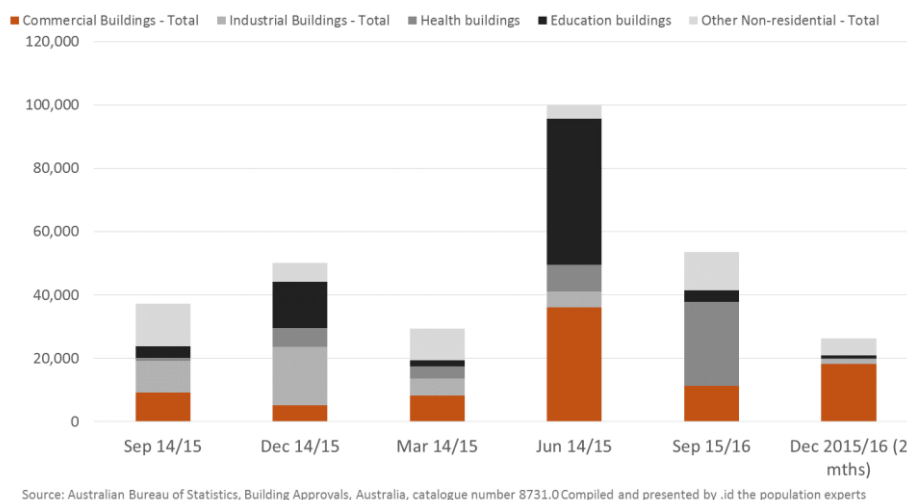
Non-residential building approvals, a key forward-looking indicator, points to above average levels of building activity in coming quarters. The value of non-residential building approvals in City of Darwin was \$214m in 2014-15, slightly above the historical average (\$192m). This follows \$359m in 2013-14.

Value of non-residential building approvals, Darwin \$'000



Over the past 17 months, there has been around \$88m worth of commercial building approval, \$45m of health buildings and \$71m of education buildings. This highlights that there is a steady pipeline of non-residential projects that will support the construction sector over the short term.

Value of non-residential building approvals, Darwin \$'000

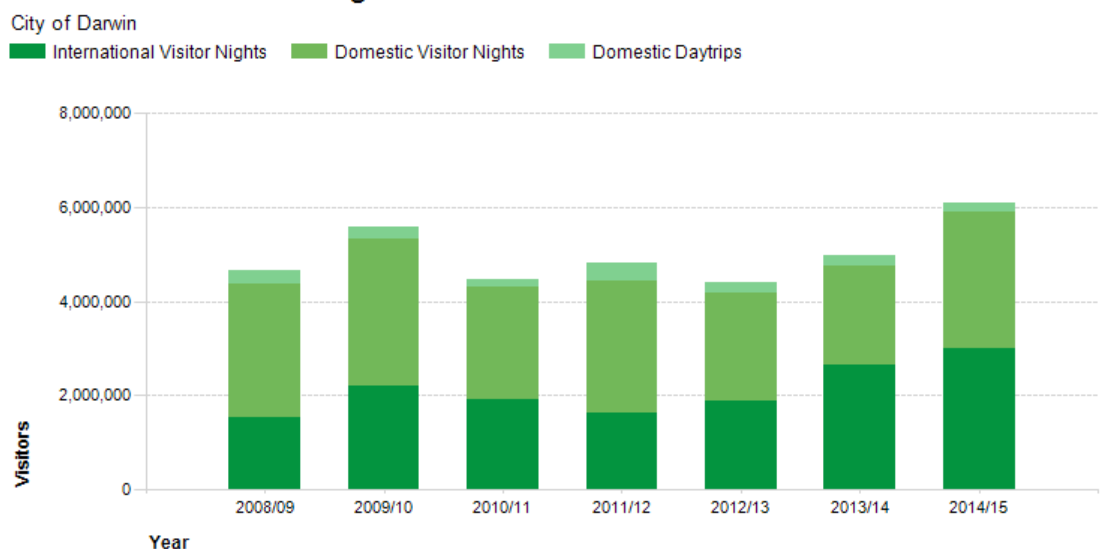


2.3.2 Tourism

In 2013/14, the total tourism and hospitality sales in City of Darwin was \$924.3m, the total value added was \$387.0m and accounted for 10.2% of total jobs in Darwin.

Recent tourism data highlights strong growth in visitor nights over the past few years. Visitor nights (domestic and international) increased by 24% in 2014/15.

Time series - Tourism nights



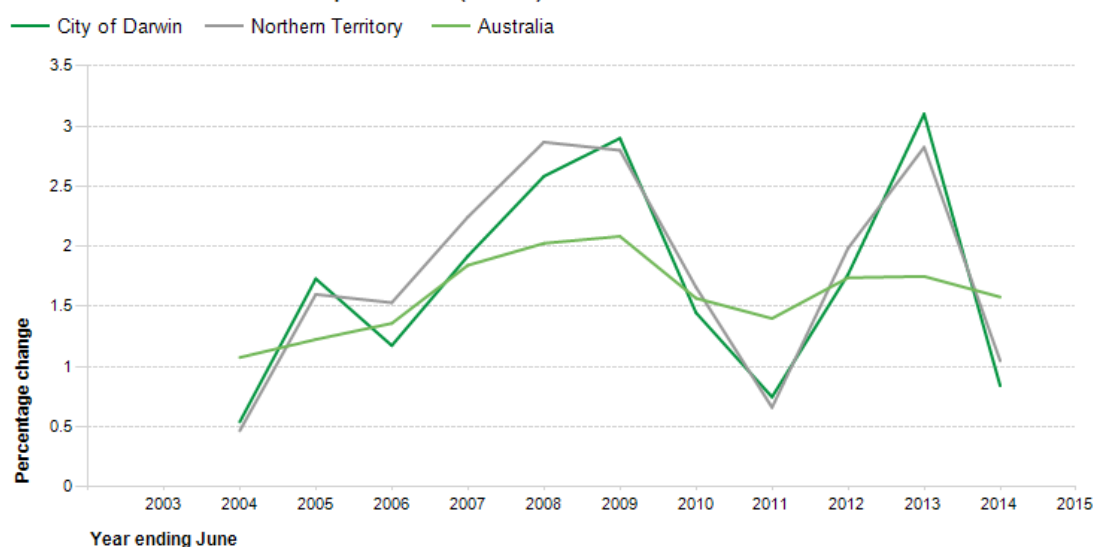
Source: Tourism Research Australia, Unpublished data from the National Visitor Survey and International Visitor Survey 2015.

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2.3.3 Population growth

Population growth slowed in 2014, growing by 0.84%. This is well below the decade growth rate of 1.8% (annual average growth). This slower growth could have implications for the household service sector (e.g. retail) and house prices.

Estimated Resident Population (ERP)



Source: Australian Bureau of Statistics, Regional Population Growth, Australia (3218.0). Compiled and presented in economy.id by .id, the population experts

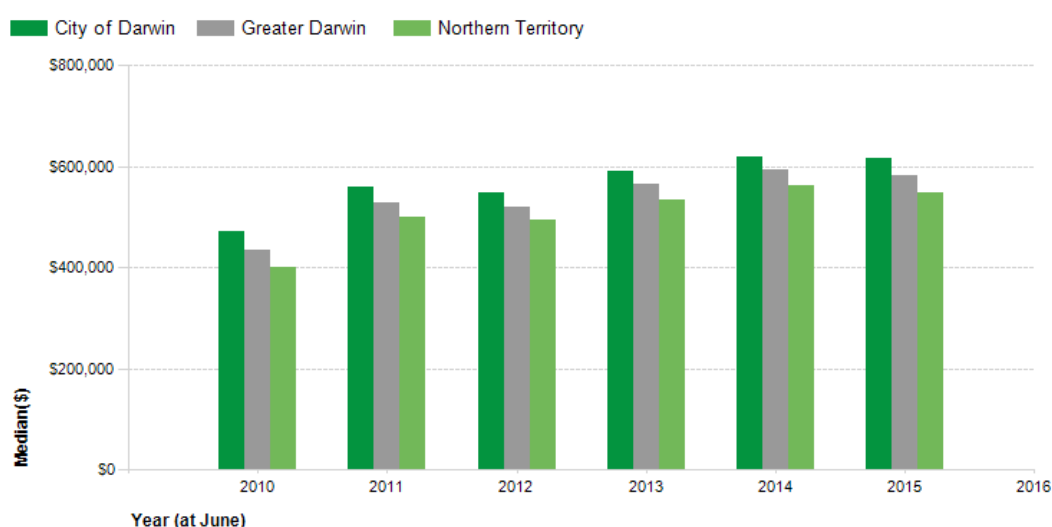
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2.3.4 House prices

The fall in business investment, lower population growth and weak employment growth have combined with a house price correction in Darwin.

There has been a slowdown in house price growth after a period of strong growth. At June 2015, the median house valuation in City of Darwin was \$614,892, marginally lower than in 2014.

Value of houses



Source: Hometrack 2010-2015, Housing Valuation System

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The Darwin residential property price index fell by 0.4% in the September quarter 2015. This is in contrast to the weighted average of the eight capital cities which rose by 2.0% in the same quarter.

Annually, residential property prices fell in Darwin by 2%.

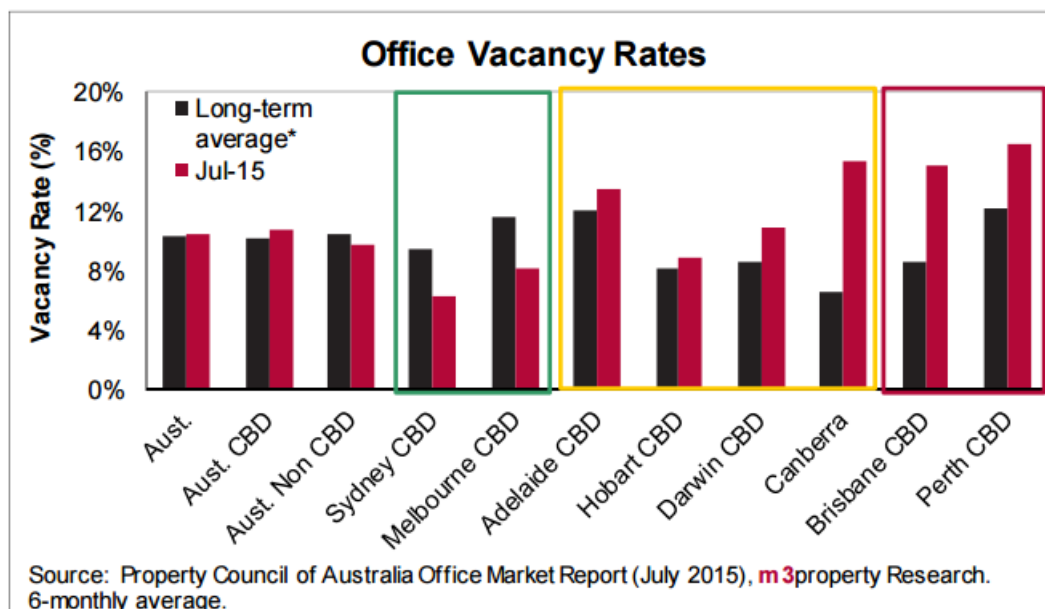
Residential Property Price Index

Index 2011-12 = 100

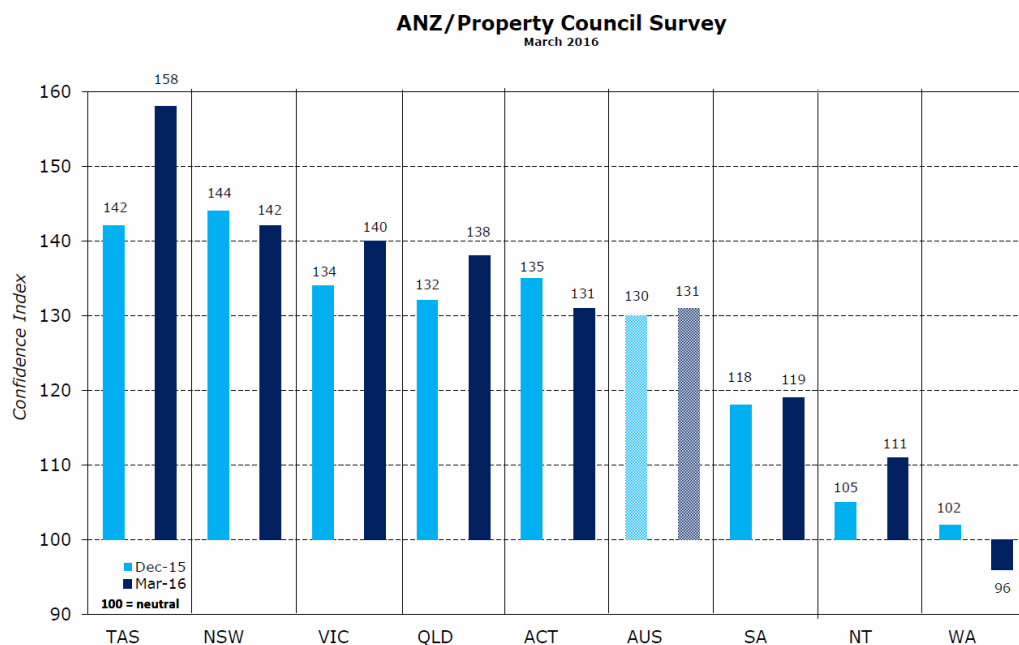


2.3.5 Office vacancies

Over the past year, there have been signs of weakness in the Darwin's CBD office market with office vacancy rates increasing. Property markets will continue to be affected by the weakness in economic activity and employment growth (i.e. commercial growth, vacancy rates). However the vacancy rates in Darwin are also sensitive to relocation of government departments and conversion of ageing office stock.



While uncertainty remains in the property sector, the ANZ/Property Council Survey highlights that there has been a recent improvement in confidence levels and an increase in sales activity.



Source: ANZ/Property Council

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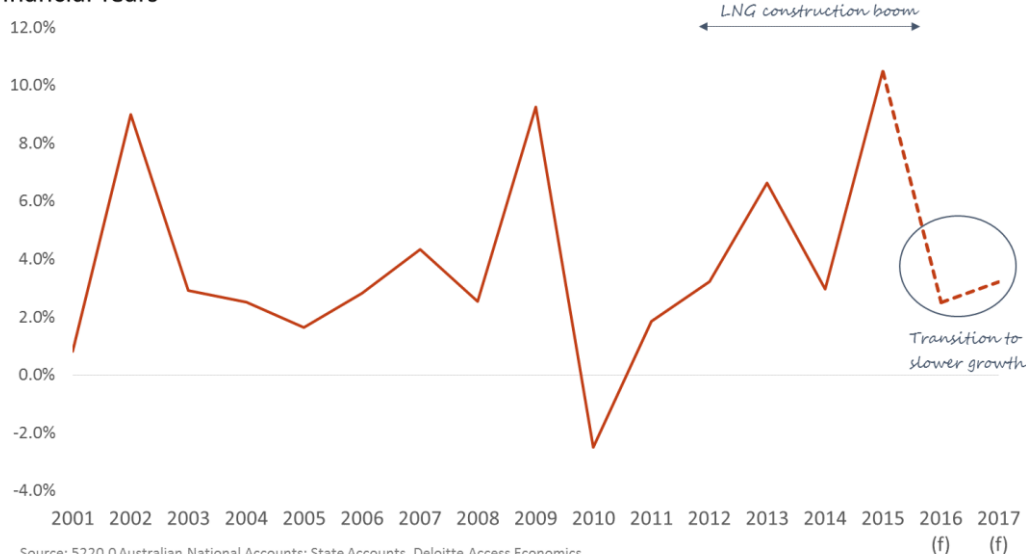


3. Economic outlook

In 2016, the Darwin economy is expected to continue its transition to a slower growth phase following the construction boom from the Ichthys LNG project. Many of the recent indicators, have been softer than in previous years and highlights that Darwin is beginning to 'come back to the pack' after a period of peak growth conditions.

Deloitte Access Economics (DAE) produce forecasts of the economy in its Business Outlook December quarter 2015 report. DAE expect the NT economy to grow by 2.5% in 2015-16 and then forecast stronger growth of 3.2% in 2016-17. DAE estimate employment to increase by 1.4% in 2015-16 and then forecast growth of 1.3% in 2016-17.

Gross State Product - Historical and Forecast - NT
Financial Years

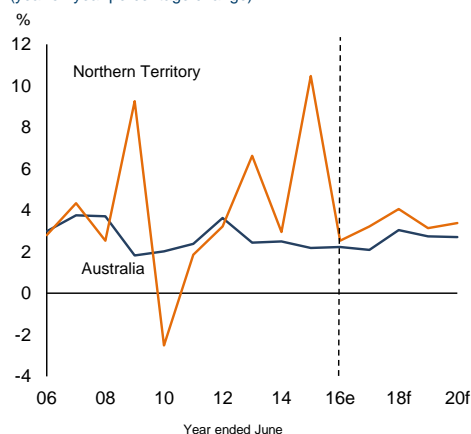


DAE notes that exports are expected to replace the construction phase of resource development as the key driver of Territory economic growth over the medium term. NT Treasury also point out:

“SFD in the Territory is expected to be highly volatile over the coming years, as the impact of progress payments for components of the Ichthys liquefied natural

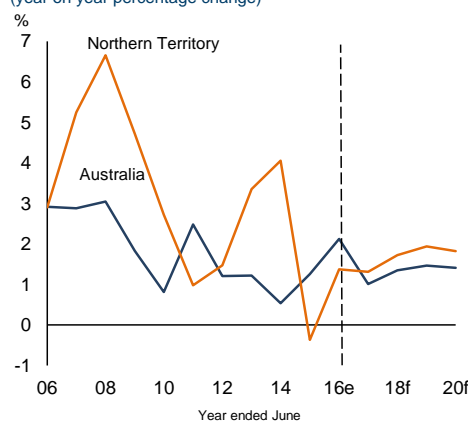
gas (LNG) project means that SFD will not be an accurate measure of onshore economic activity in the Territory”.

Chart 1: Economic Growth
(year on year percentage change)



Source: Australian Bureau of Statistics and Deloitte Access Economics Business Outlook

Chart 4: Employment Growth
(year on year percentage change)



Source: Australian Bureau of Statistics and Deloitte Access Economics Business Outlook

Based on our analysis we believe these short-term forecasts carry a level of risk, largely due to the assumption about the timing of when exports replace the construction phase of the Itcthys LNG project.

Following the completion of the LNG project (assumed to be in 2016-17 FY), there is a slight, but elevated, chance of a brief recession if business investment and household consumption remain weak. However, the production impact of LNG will be a significant driver of growth partially offsetting the fall in investment meaning that any recession would be short and shallow. Growth in tourism and a lower exchange rate may reduce this risk further.

The outlook for employment in 2016 appears weak amid lower population growth, completion of the Itchys LNG construction phase and slowing demand from households and businesses. The production phase on the Itcthys LNG project is also likely to have limited impact on local employment levels. This will put pressure on consumer spending and the housing market.

Risk	Potential impact

Ichthys LNG project - transition of the project to the less labour-intensive production phase.	This is expected to lead to lower economic and employment growth (but largely in the 2016/17 financial year – but need further project details to understand likely impact). Once operational, export volumes will boost measures of gross regional product.
Slower population growth (translating into a decline in house prices)	Starting to be reflected in house prices. May have some impact on retail / service sector employment growth in the coming year.
Volatility	The Darwin economic can be highly volatile due to the size of the economy, its highly specialization and can be significantly influenced by major projects and international trade.
Slowdown in project pipeline	Recent slow down in non-res building approvals likely to result in a slow down in construction job growth (which has been a major driver in recent times). This may have flow on impacts to other sectors unless other projects can come on.
Commodity prices	Further falls in commodity prices may influence the export values and feasibility of gas projects.