

Darwin economic outlook 2017

Final Report

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prepared by .id

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1. Economic outlook

1.1 Overview

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.

This report finds that the Darwin economy in 2017 will continue to adjust to the end of the Ichthys LNG project investment phase and start of the production phase. This has led to a softening in the economy and a sharp decline in population growth. Also, the increase in unemployment has weighed on consumption expenditure and wages, further dampening local employment growth, particularly in retail. Darwin's exposure to the tourism sector has helped, but continues to be a volatile source of growth.

1.2 Summary of findings

Economic conditions in Darwin continue to moderate following a sustained period of above average growth. Economic growth in Darwin strengthened from 3.3% in 2014/15 to 4.3% in 2015/16. This level of growth is still below the 10 year average of 5.3% and is following a similar path to the Northern Territory economy. Economic growth is expected to remain below average in the immediate term with a return to stronger growth likely once exports earnings from the Ichthys LNG project grow. Deloitte Access Economics forecast the Northern Territory economy to strengthen from 1.9% in 2016/17 to 3.2% in 2017-18 and we expect Darwin to follow a similar path.

Employment conditions in the Northern Territory and Darwin remain mixed. In the Northern Territory, the return to growth in investment during 2015/16 and jump in household consumption expenditure contributed to a rise in employment in late 2016. In Darwin, conditions appeared to soften throughout 2016 with unemployment increasing by 9% in the year ending December 2016. In saying this, Darwin's unemployment rate (3.43% in December 2016) is still well below

national levels (5.7%). But wage growth remains subdued and is likely to constrain household consumption growth, and therefore employment, in the near term.

Tourism continues to play an important role in creating new employment opportunities, although we note a large decline in international tourism visitation in the last year, highlighting the volatile nature of tourism in the Northern Territory.

With a number of projects nearing completion and recent job layoffs connected to the Ichthys LNG project, future employment growth is uncertain but likely to remain soft (circa 1%) in the immediate term (2017/18). According to the Department of Employment, employment in Darwin is projected to grow by around 1.7% per year, marginally above the Australian average. This suggests a period of more stable growth phase, albeit slower compared to the previous cyclical highs.

Non-residential building approvals in Darwin support this medium term view with non-residential building approvals increasing by 44.8% over the last year (3 year moving average). This highlights that there is a steady pipeline of non-residential projects that will support the construction sector over the short term followed by ongoing employment in the short to medium term to 2020.

The economic analysis supporting this commentary is provided in the following sections.

2. 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 2015/16 (preliminary). Therefore, to assess the outlook for 2017, 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 2017. This information is also supported by an analysis of leading indicators at the LGA level where available.

3. Economic snapshot

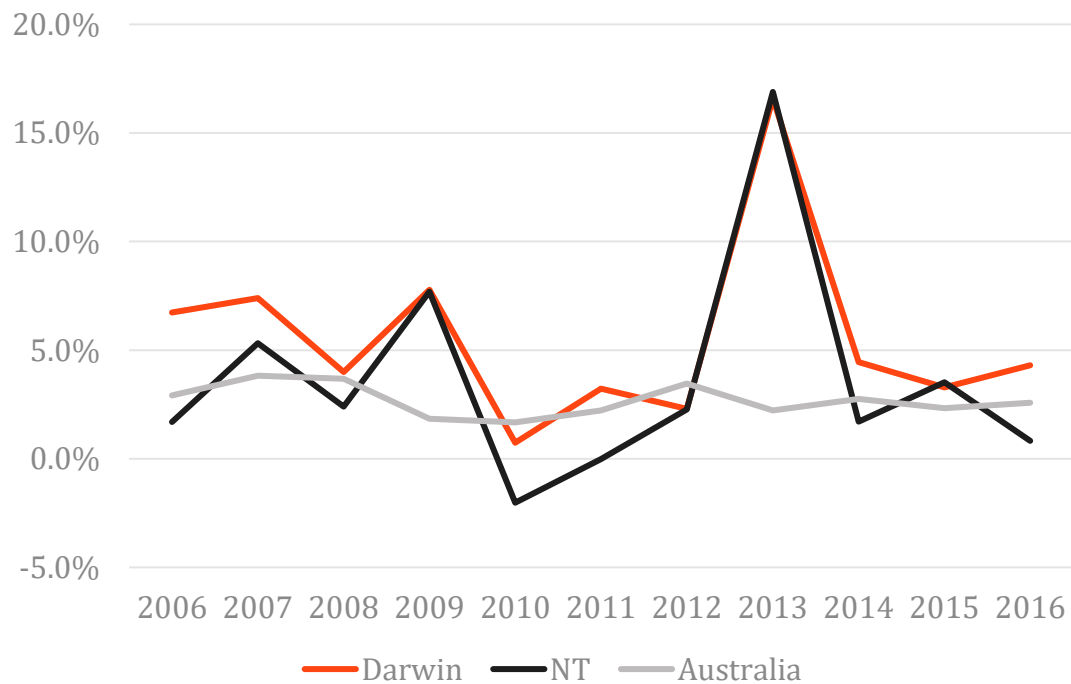
3.1 Economic growth

3.1.1 Darwin

Economic growth in Darwin strengthened from 3.3% in 2014/15 to 4.3% in 2015/16. This level of growth is still below the 10-year average of 5.3% and is following a similar path to the Northern Territory economy.

Economic growth (preliminary)

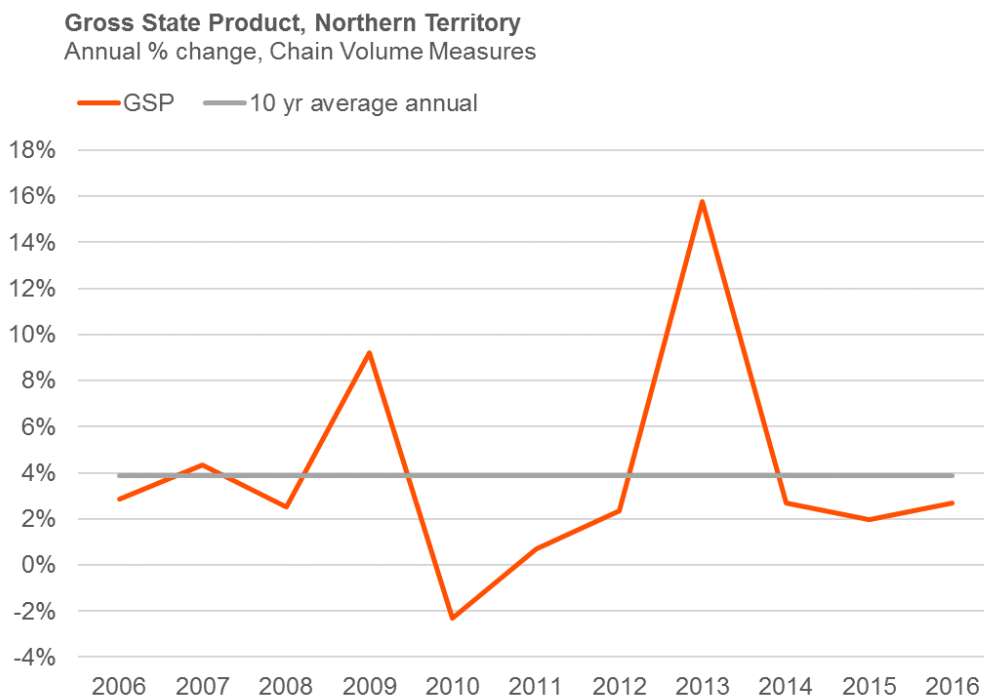
% change from previous year



Source: National Institute of Economic and Industry Research (NIEIR) ©2017. Compiled and presented in economy.id by .id , the population experts.

3.1.2 Northern Territory

The NT economy grew by 2.7% during the 2015/16 period, a slight increase on that experienced in the year prior (2.0%).¹ This growth was the fourth fastest recorded amongst all States and Territories, behind NSW, Victoria and ACT, but slightly below the long run average. Key contributors to growth were an increase in net exports and household final consumption. This was offset by an estimated large decrease in private gross fixed capital formation, especially non-dwelling construction. (note: balancing item was also a major contributor to growth).

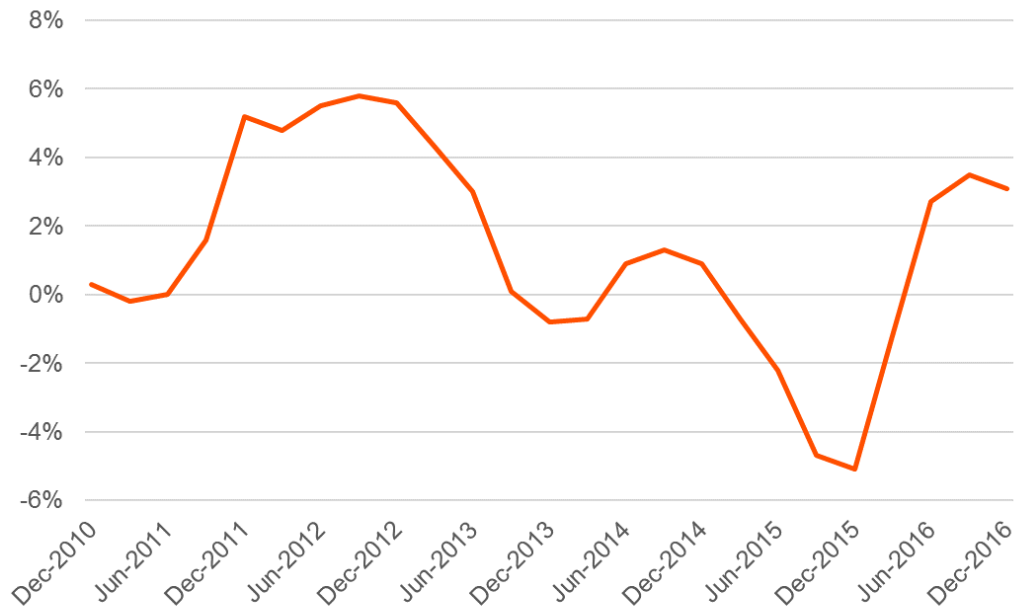


Source: ABS Cat 5220.0 Australian National Accounts: State Accounts

Recent quarterly trend economic estimates display a contrasting position to last year with a return to higher growth. Northern Territory State Final Demand (SFD) (seasonally adjusted) grew by 3.1% in the December quarter and is the third consecutive quarter of growth after experiencing declines for most of 2015.

¹ The 2015/16 data incorporates revised national estimates which impact historical and current state estimates. This partly explains the different between ABS and NIEIR estimates for NT. For more information, see [Changes in this issues](#)

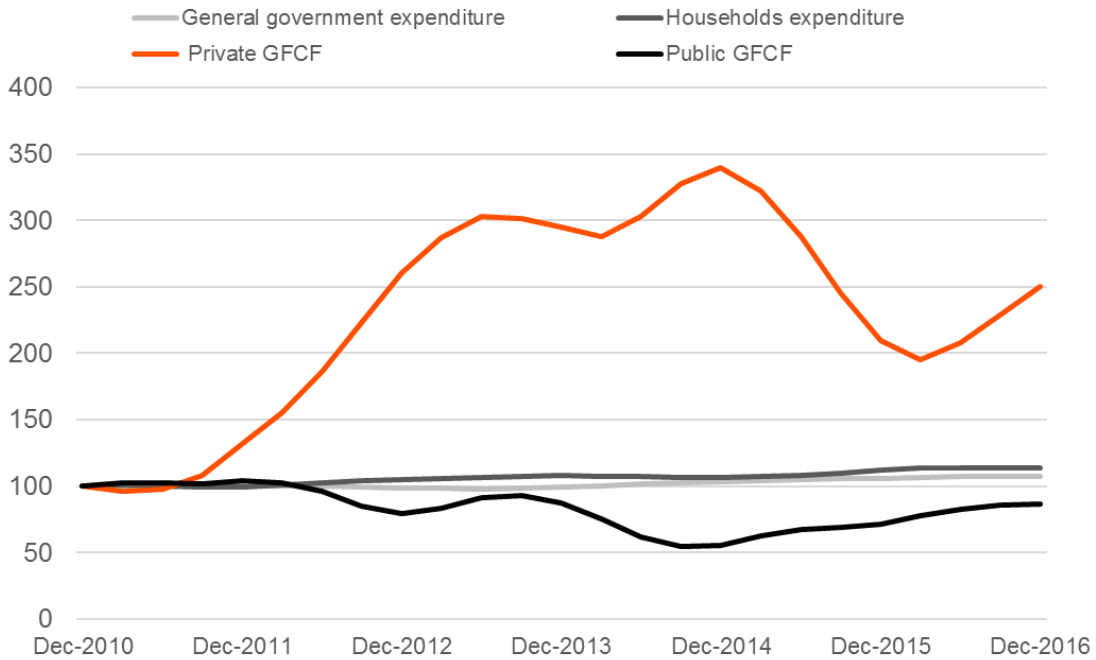
State Final demand, Northern Territory
 Quarterly % change, Trend, Chain Volume



Source: ABS Cat 5206.0 Australian National Accounts: National Income, Expenditure and Product, Dec 2016

An upswing in private gross fixed capital formation (9% in Dec qtr) was the primary driver in SFD. Government investment has also been trending upwards since 2014. The large swings experience in private investment in the NT largely dictate economic outcomes from year to year.

Components of State Final demand, Northern Territory
 Index Dec 2010=100, Trend, Chain Volume

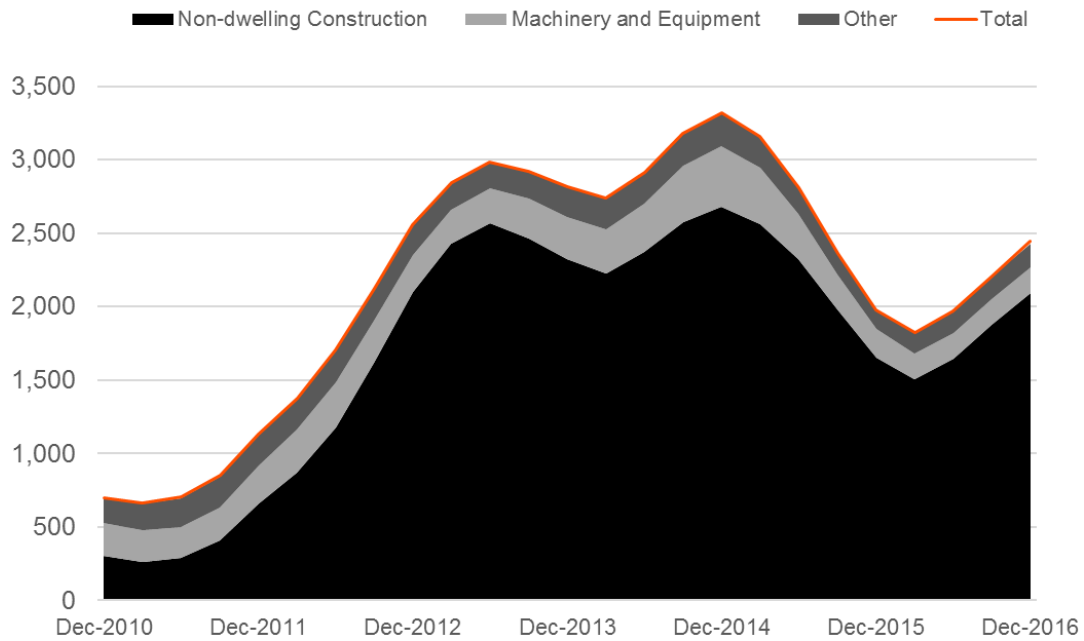


Source: ABS Cat 5206.0 Australian National Accounts: National Income, Expenditure and Product, Dec 2016

3.2 Business investment

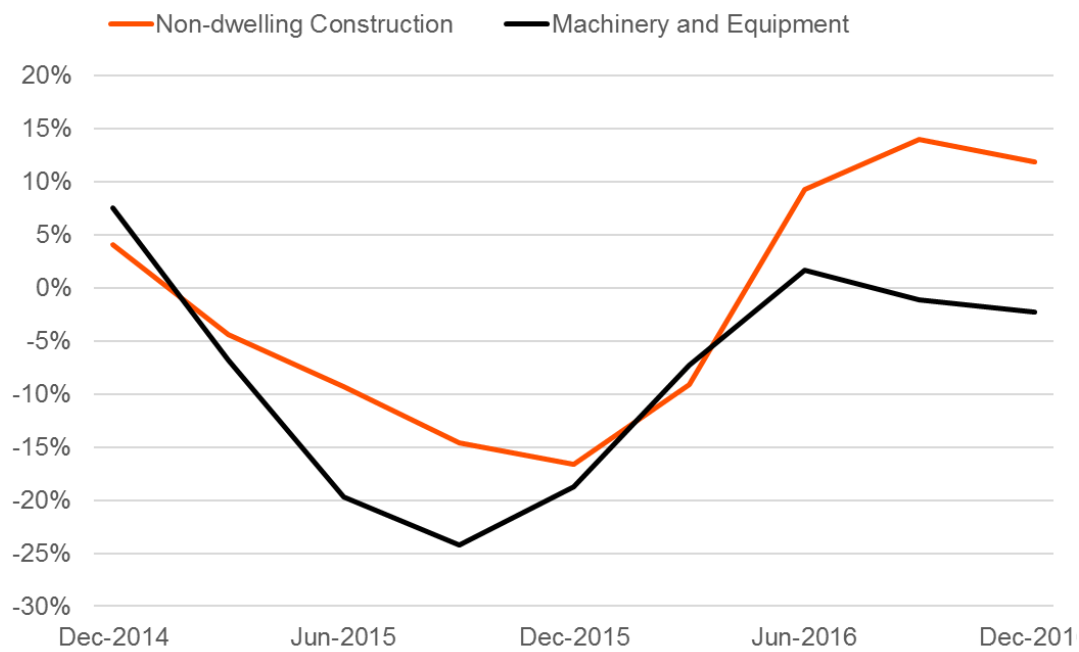
The Ichthys LNG project has driven strong business investment since 2012 and the value of business investment at Dec 2016 was almost \$2.5 Billion, three and half times the value in Dec 2010. However, as the project’s construction nears completion and transitions into production, it is expected that business investment will fall away considerably. Non-dwelling construction, which represents most investment, did experience growth last year (rising by 14 and 12% in the last two quarters of 2016). However, this is likely to be a product of construction delays in 2015, rather than an indication of a long-term trend.

Business Investment, Northern Territory
\$ millions, Trend, Chain Volume



Source: ABS Cat 5206.0 Australian National Accounts: National Income, Expenditure and Product, Dec 2016

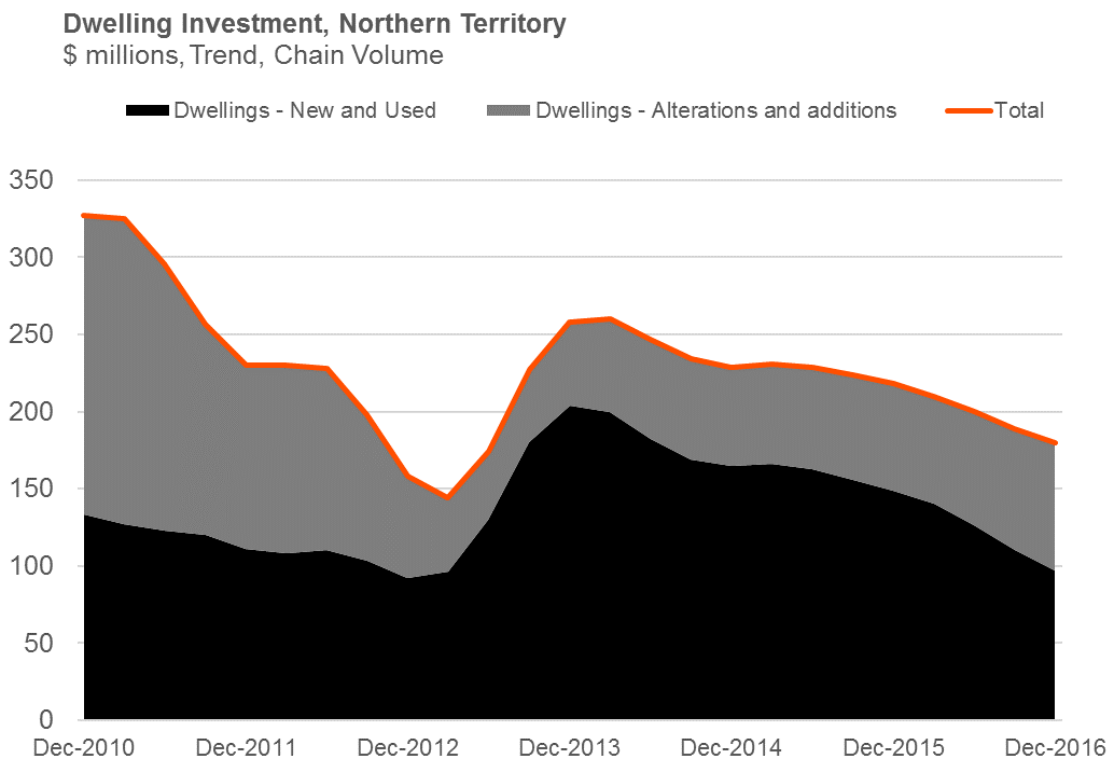
Business Investment, Northern Territory
Quarterly % change, Trend, Chain Volume



Source: ABS Cat 5206.0 Australian National Accounts: National Income, Expenditure and Product, Dec 2016

3.3 Dwelling investment

Dwelling investment growth has continued its steady decline experienced over the last three years. Total Dwellings Investment was \$180 million in Dec 2016, down from \$327 in Dec 2010. Since 2012, new and used dwelling investment has largely been the main influencer of activity and is now currently half the value of that experienced in late 2013. The last three quarters of 2016 saw negative growth above 10% in new and used dwelling investment (Dec 2016: -12%).

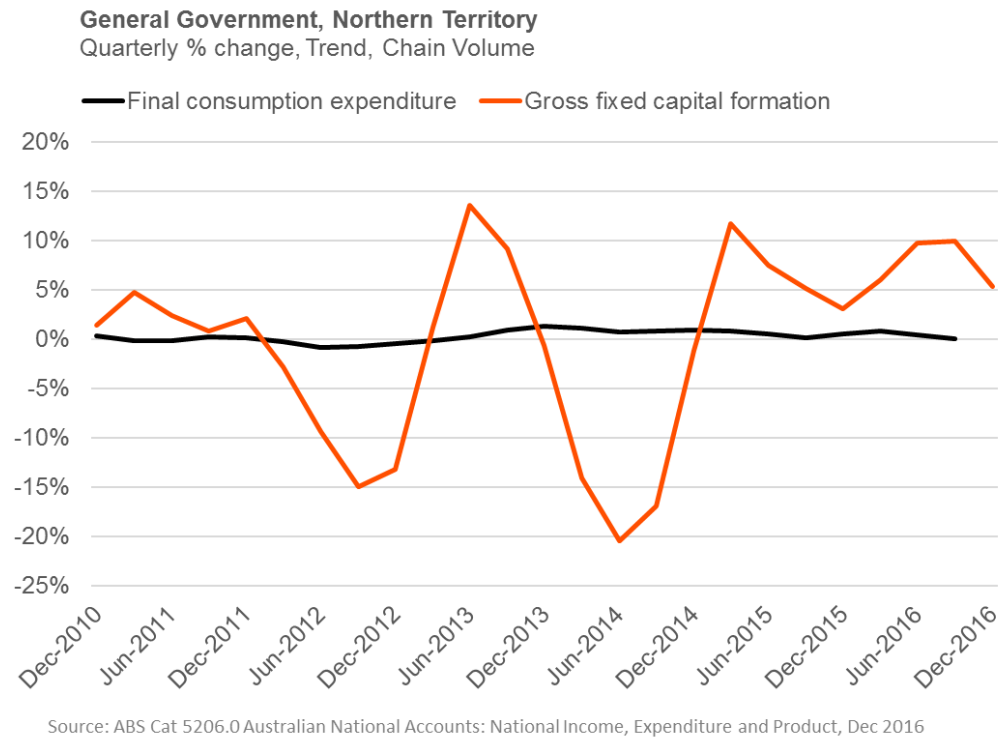


Source: ABS Cat 5206.0 Australian National Accounts: National Income, Expenditure and Product, Dec 2016

3.4 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, averaging 8% growth over the four quarters in 2016. Ongoing investments such as the Palmerston regional Hospital development are contributing to this. A number of National Defence projects

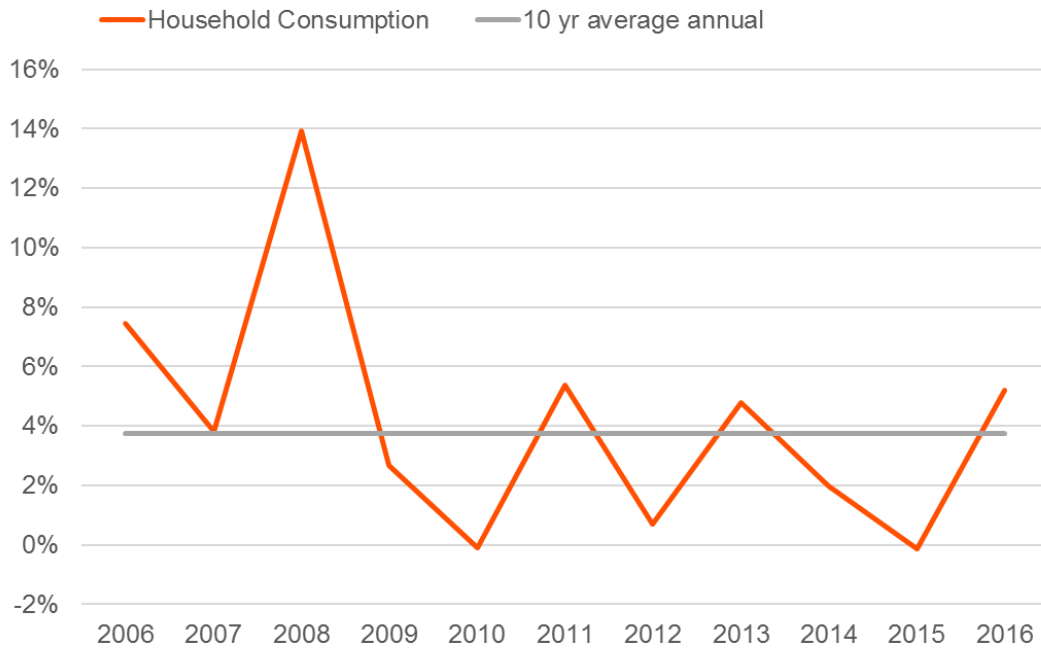
including Lend Lease’s RAAF Base Tindal upgrade and Delamere Air Weapons Range should boost government investment going forward.



3.5 Household consumption

Household consumption expenditure picked up in 2015/16, growing by 5.2% above the 10-year annual average rate (3.8%).

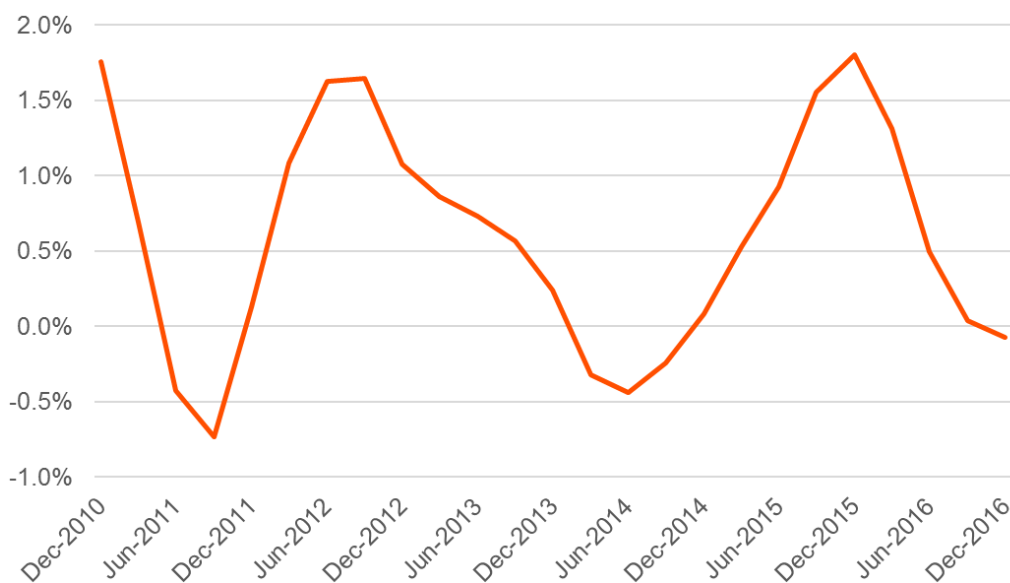
Household Consumption, Northern Territory
Annual % change, Chain Volume Measures



Source: ABS Cat 5220.0 Australian National Accounts: State Accounts

In quarterly terms, household consumption expenditure appears to be relatively cyclical and growth has weakened in the last three quarters after increasing for most of 2015/16. This highlights that conditions remain soft as the economy continues to adjust.

Household Consumption, Northern Territory
Quarterly % change, Trend, Chain Volume



Source: ABS Cat 5206.0 Australian National Accounts: National Income, Expenditure and Product, Dec 2016

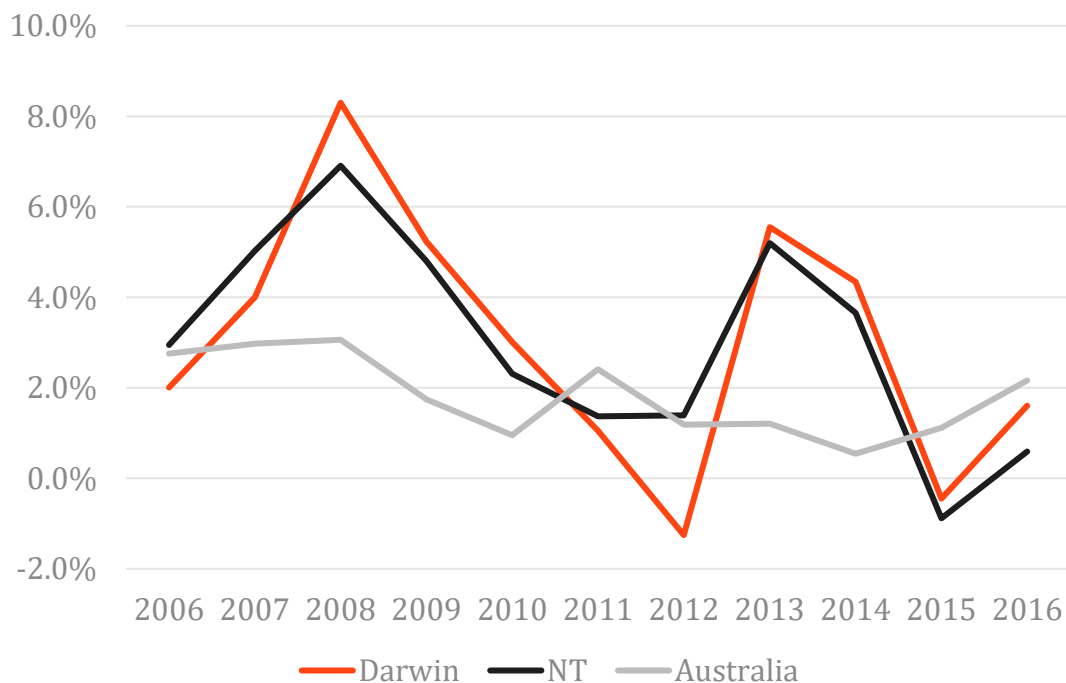
3.6 Employment

3.6.1 Darwin

Employment conditions in Darwin improved from -0.5% in 2015 to 1.6% in 2016 but still remain at low levels compared to the growth achieved over the past decade. The growth in employment was driven by growth in the Mining and Government industry but weighed down by a decline in Retail Trade jobs.

Employment growth

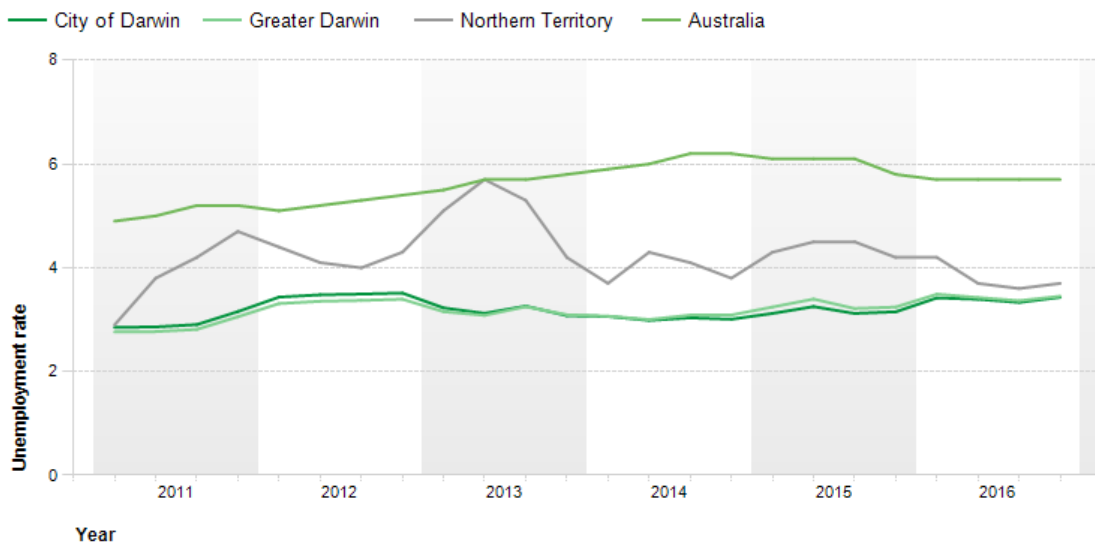
% change from previous year



Looking at more recent information about the Darwin labour force suggests that conditions continue to remain soft in this financial year with the number of unemployment increasing by 9% in the year ending December 2016.

In the 2016 December quarter, the unemployment rate in City of Darwin was 3.34%. Unemployment has been tracking upwards slightly but still consistently lower than that experienced by the rest of the NT and Australia more broadly.

Quarterly unemployment rate



Source: Australian Bureau of Statistics, Labour force survey, catalogue number 6202.0, and Department of Employment, Small Area Labour Markets, March 2016. Compiled and presented in economy.id by .id the population experts.



3.6.2 Northern Territory

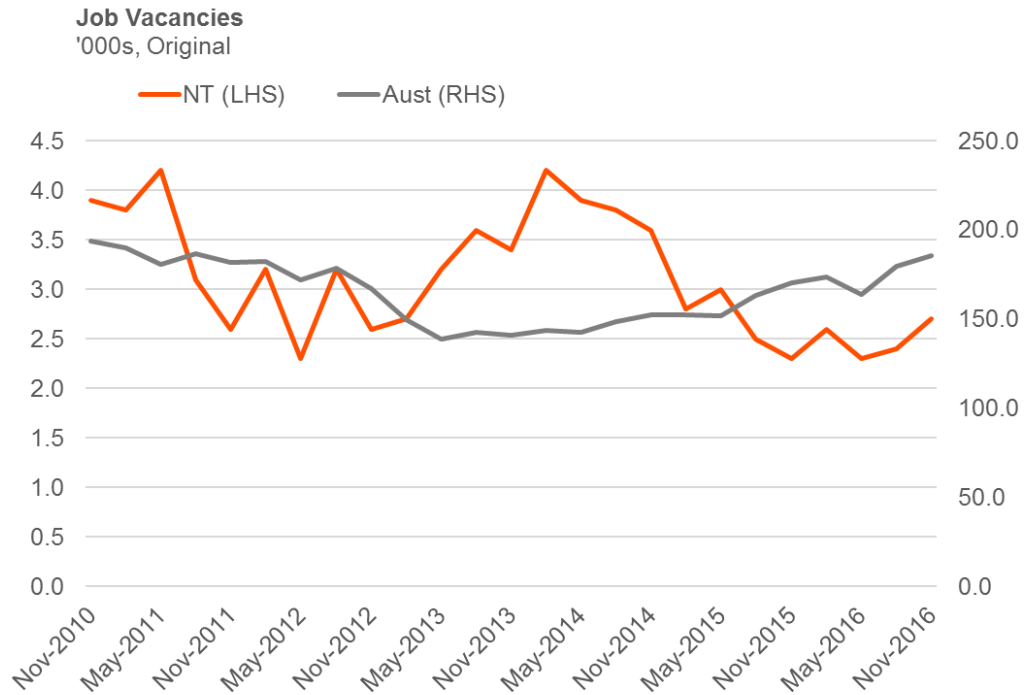
The return to growth in investment during 2015/16 and upshift in consumption contributed to a rise in employment in late 2016. However, with a number of projects nearing completion and recent job layoffs connected to the Ichthys LNG project, future growth is uncertain but likely to be weaker.

Employment, Northern Territory
% change on previous year's month, Trend



Source: ABS Cat 6202.0 Labour Force, Australia, Feb 2017

There were 2,700 vacant jobs in November 2016, up from 2,300 the year before. The level of vacancies suggests that employment sentiment is trending slightly upwards in the Northern Territory.



Source: ABS Cat 6354.0 Job Vacancies, Australia, Feb 2017

5. City of Darwin – Leading indicators

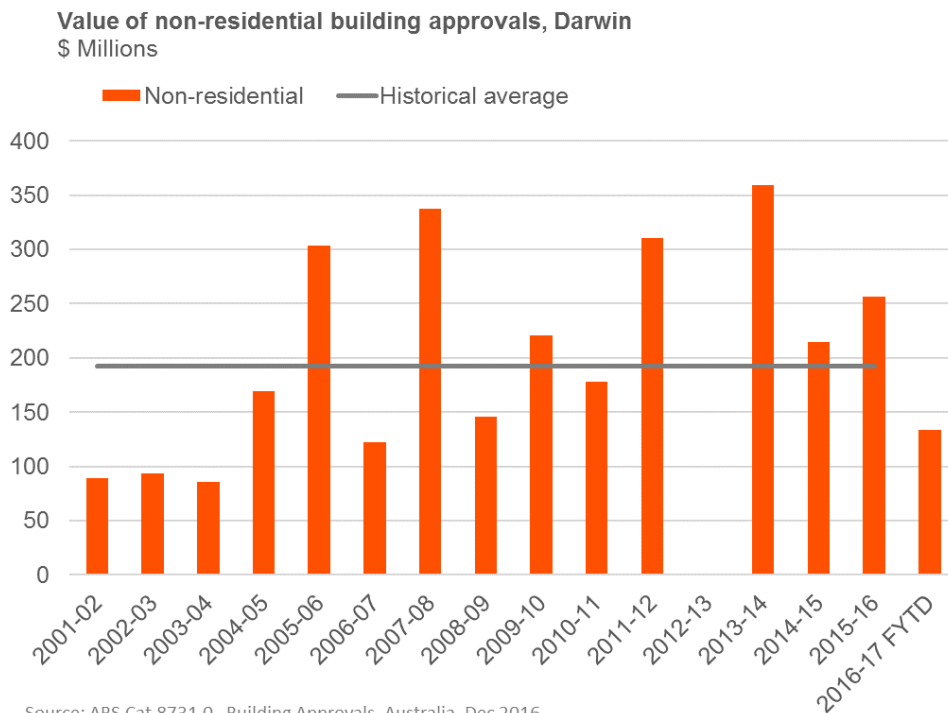
The table below summarises the most recent annual movement for leading indicators available for Darwin. These indicators have helped informed our view about the outlook for the Darwin economy in 2017.

Indicator	Period	Change
Employment	2014/15 to 2015/16	+1.6%
Number unemployed	Dec 15 to Dec 16	+9%
Residential building approvals	2014/15 to 2015/16 (3 yr moving average)	-26.5%
Non-residential building approvals	2014/15 to 2015/16 (3 yr moving average)	44.8%
Total building approvals	2014/15 to 2015/16 (3 yr moving average)	-2.8%
Population growth	2014/15 to 2015/16	0.51%
Median housing value	2014/15 to 2015/16	-7.9%
International tourism visitation	2014/15 to 2015/16	-25%
Vacancy rates	Year ending Jan 2017	+1.8%

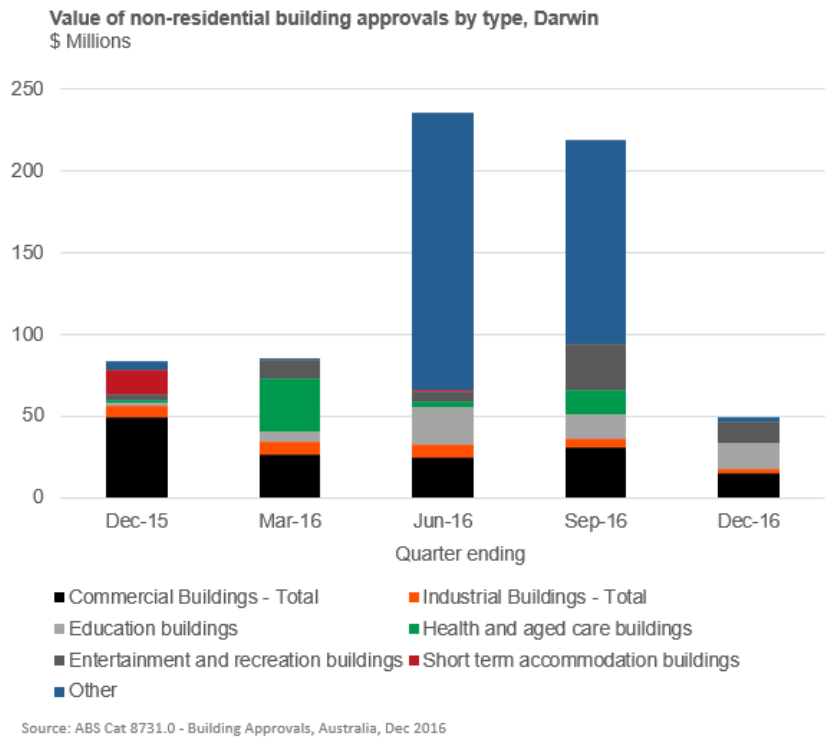
Commentary is provided below for selected indicators.

5.1 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 \$257m in 2015/16, above the historical average (\$192m) and \$43m larger than the year before. For the half year to Dec 2016, approvals were at \$134m.



Over the 18 months to Dec 2016, there has been around \$147m worth of commercial building approved, \$64m in entertainment and recreation, \$61m of education buildings, and \$53m of health buildings. There was substantial approvals in the June and September Quarters last year. This highlights that there is a steady pipeline of non-residential projects that will support the construction sector over the short term.

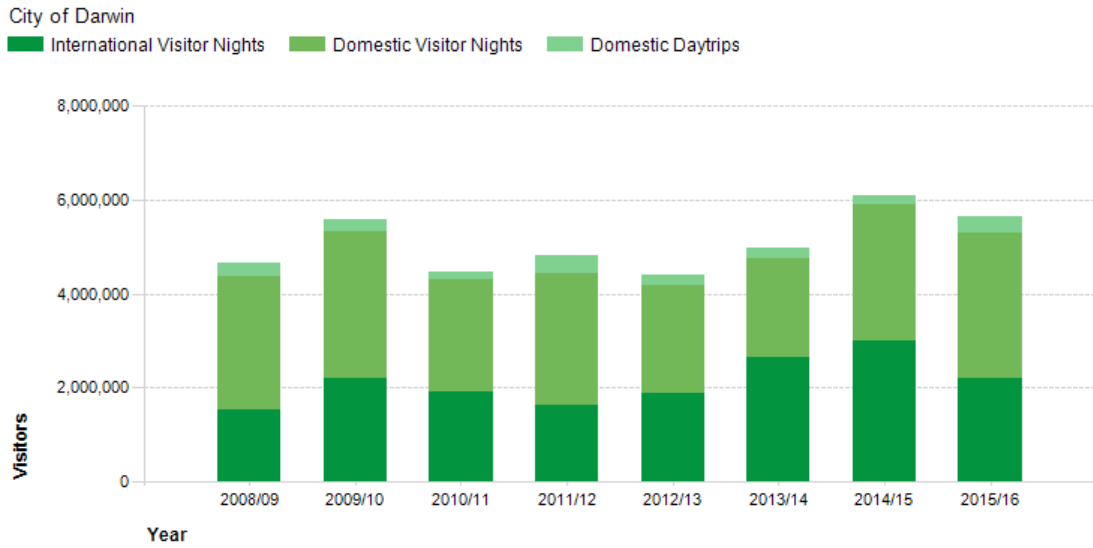


5.2 Tourism

In 2014/15, the total tourism and hospitality sales in City of Darwin was \$1,060m, the total value added was \$374.6m and accounted for 7.6% of total jobs in Darwin.

Recent tourism data highlights strong growth in domestic visitation in the last few years. However, international visitor nights is estimated to have decreased by 25% in 2015/16.

Time series - Tourism nights



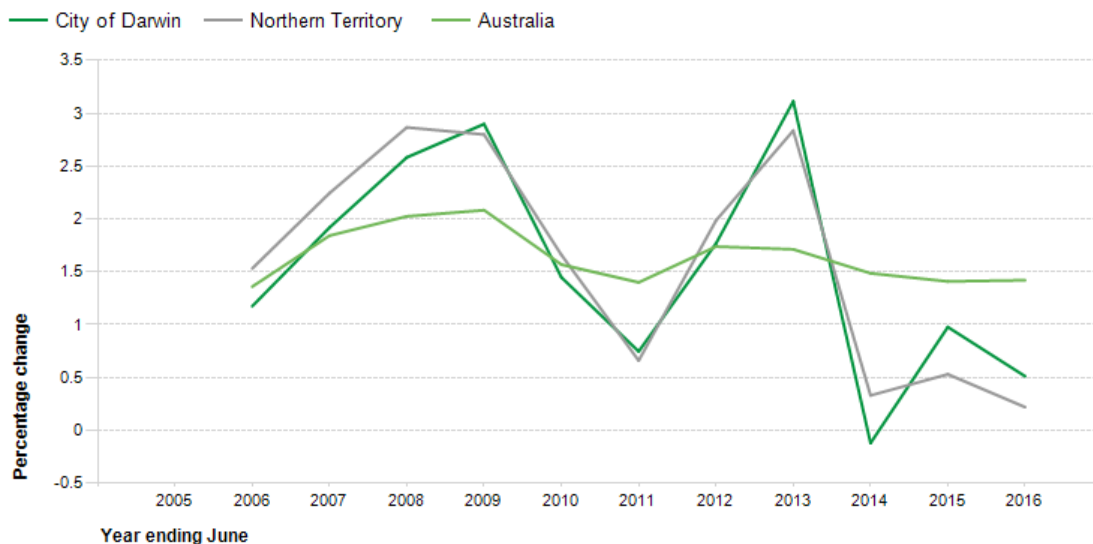
Source: Tourism Research Australia, Unpublished data from the National Visitor Survey and International Visitor Survey 2016.



5.3 Population growth

Population growth slowed in 2015/16, growing by only 0.51%. This is well below the decade growth rate of 1.6% (annual average growth). It represents the third consecutive year of growth of 1% or lower and 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

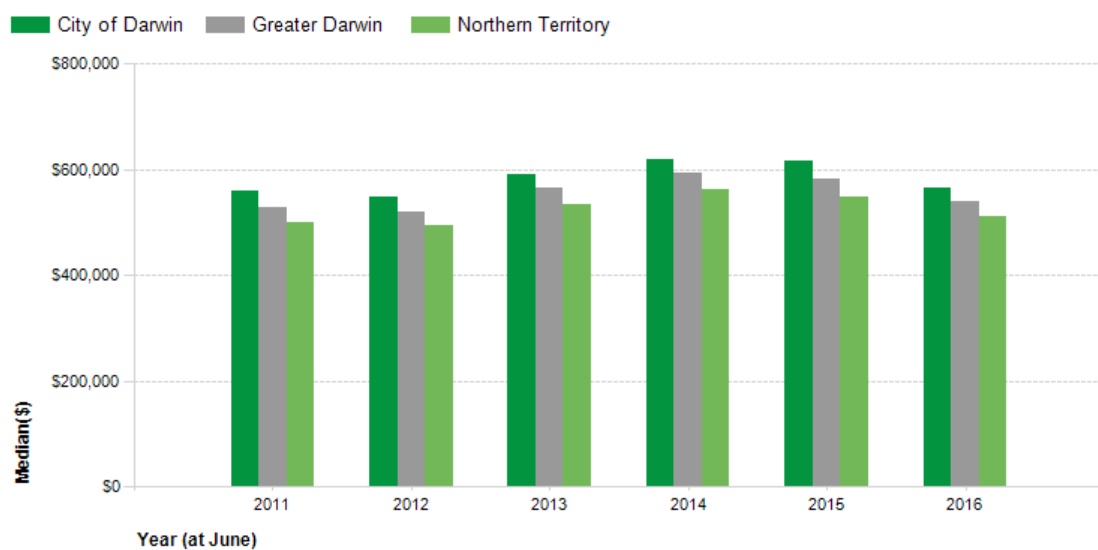


5.4 House prices

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

House prices fell for a second consecutive year and this time by a large margin. At June 2016, the median house valuation in City of Darwin was \$566,509, almost \$50,000 less than 2015.

Value of houses

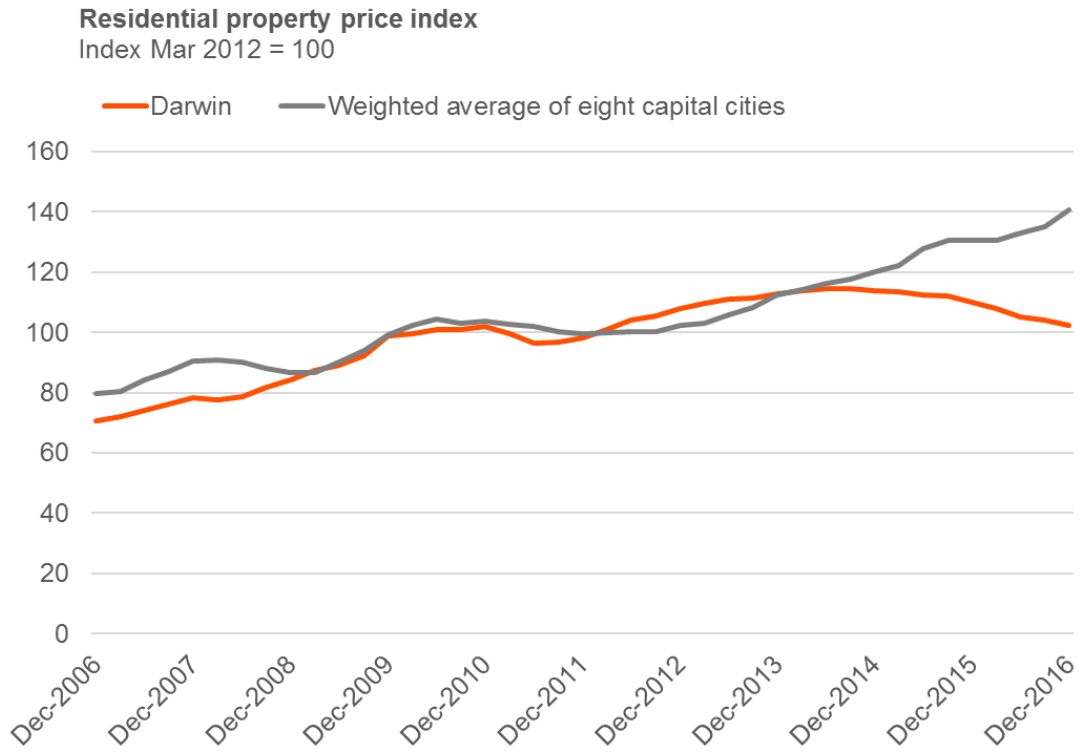


Source: Hometrack 2011-2016, Housing Valuation System

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The Darwin residential property price index continued to fall in 2016 and in Dec 2016 was 11.6 points below the peak of March 2014. It continues to diverge from the weighted average of eight capital cities. Perth is the only other capital city to experience similar falls in property prices.

Annually, residential property prices fell in Darwin by 7.7 points in 2016.



Source: ABS Cat 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Dec 2016

5.5 Office vacancies

Over the past year, Darwin’s CBD office market has continued to weaken with office vacancy rates increasing by 1.8 percent in the year to Jan 2017. According to the Property Council of Australia, Darwin recorded the lowest demand growth in the nation for a second year.² Property markets will continue to be affected by the weakness in economic activity and employment growth (i.e. commercial growth, vacancy rates). Vacancy rates in Darwin are also sensitive to relocation of government departments and it is unclear at this stage how the consolidation of the NT Government’s Health Department will impact.

²http://www.propertycouncil.com.au/Web/Content/Media_Release/NT/2017/Darwin_s_office_vacancy_highest_in_Australia.aspx

