

# City of Darwin economic outlook 2019/2020

**Final Report**

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**prepared by .id**

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# 1. Economic outlook

## Overview

This report explores recent economic trends to draw conclusions about the likely outlook for the City of Darwin economy in 2018-19 and 2019-20.

The City of 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.

## Economic outlook

Economic conditions have been weak over the last two years as the City of Darwin economy transitions from a period of rapid economic expansion. This transition has been largely driven by the Ichthys LNG project shifting from construction to production. This outlook has been prepared based on the construction phase being completed by 2018-19, and then with production ramping up to full export capacity by 2020-21<sup>1</sup>.

In summary, GRP growth is expected to remain below trend in 2018-19 and employment is expected to decline further due to the fall in construction employment and flow-on multiplier effects related to the Ichthys LNG project. The outlook for 2019-20 is likely to improve marginally, then move towards trend growth from 2020-21. The timing of this upswing back to trend will depend largely on gas export revenues, public investment, recovery of household consumption and the impact these have on business confidence and private investment in the City of Darwin.

## Risks

This report also identifies several global and domestic factors pointing to downside risk to economic growth and raise the prospect that the return to trend may be delayed beyond 2019-20.

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<sup>1</sup> <https://nteconomy.nt.gov.au/outlook>

### **Limitations**

It is acknowledged that the economic output and employed associated with the Ichthys LNG Project is distributed between multiple LGAs, including Darwin, Litchfield, Palmerston and unincorporated areas of NT. This makes it difficult to forecast the LGA based impact of its wind-down. While the impacts of the completion of Ichthys LNG construction project are likely to be dispersed throughout the NT, the multiplier impacts are likely to have a significant impact on the City of Darwin given its regional service role.

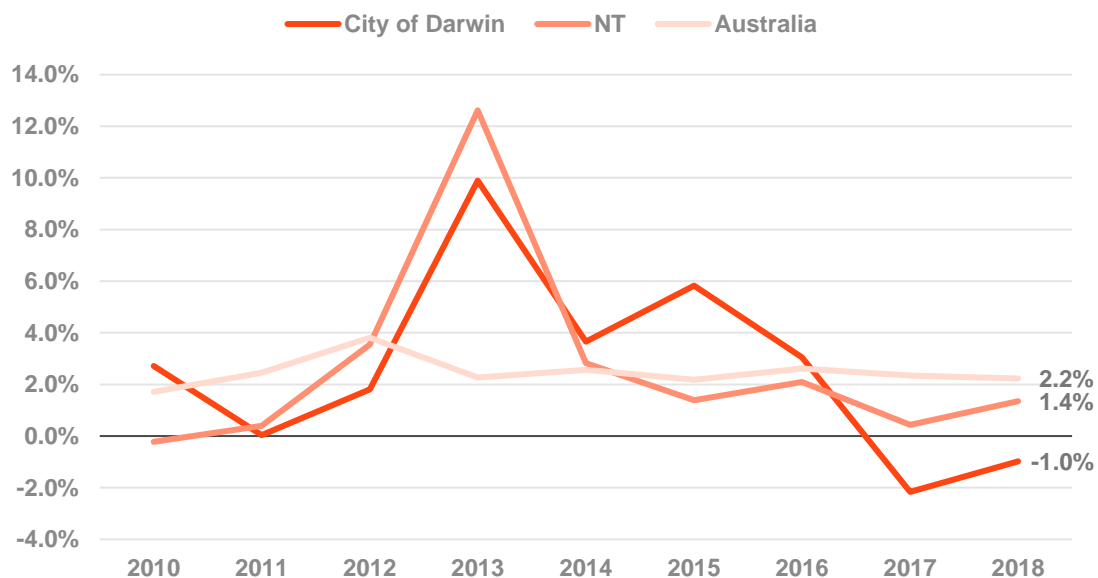
## 2. Analysis of economic trends and leading indicators

### 2.1 Gross Regional Product

City of Darwin’s economic growth continues to moderate from a period of rapid economic expansion. City of Darwin’s Gross Regional Product (GRP) contracted by 1.0% in 2017-18, the second consecutive year of negative growth.

The main factor driving this contraction is the wind down of the construction phase of the Ichthys LNG project. This is reflected by a strong decline in construction investment (NIEIR unpublished). The export phase of the Ichthys LNG project should support stronger GRP growth in City of Darwin as it approaches full production.

Chart 1 Economic growth

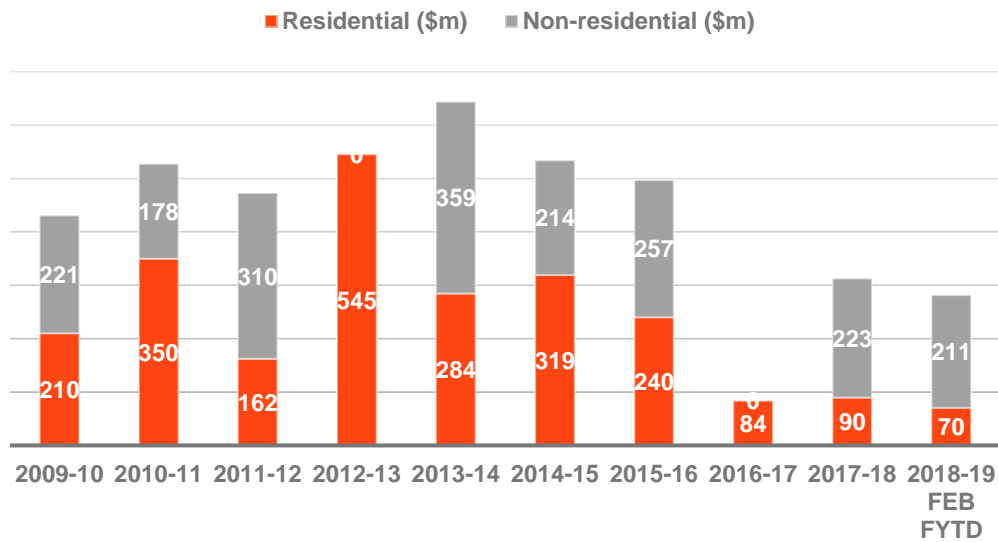


Source: NIEIR (2018)

## 2.2 Project pipeline

In recent years, City of Darwin has experienced a moderate increase in non-residential building activity. In 2017-18, the value of non-residential building approvals was \$223 million, like that achieved in 2014-15 and 2015-16. In the year to date in 2018-19, the value is already at \$211 million. A key contributor to this is Office, Education, Entertainment and Health buildings. These projects have the potential to provide improvements to City of Darwin’s economic and employment growth over the next few years.

Chart 2 Value of building approvals, City of Darwin



Source: Building Approvals, Australia (8731.0.)

Chart 3 Value of Non-Residential Building Approvals, City of Darwin \$m, 2017-18, and 2018-19 YTD



Source: Building Approvals, Australia (8731.0.)

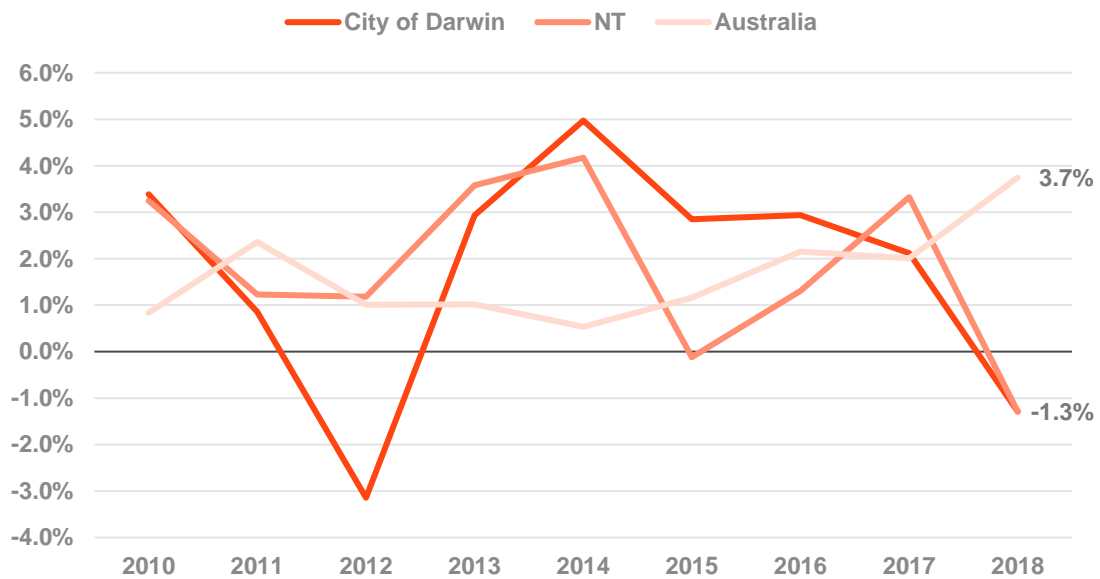


## 2.3 Local jobs

Local job growth declined sharply in 2017-18, falling by 1.3% to 62,766 jobs. This was the first year of negative growth since 2011-12. The transition of the Ichthys LNG project from construction to production has led to a fall in Construction jobs (-333 jobs). The smaller operational workforce required by the Ichthys LNG project has also led to an outflow of interstate migration. This outflow has led to a decline in aggregate demand with employment losses in Retail Trade (-209), Education and Training (-207). The fall in employment was partially offset by growth in Health Care and Social Assistance (+332 jobs).

Employment conditions are expected to remain weak in 2018-19 as the construction phase of the Ichthys LNG project winds up.

Chart 4 Annual job growth



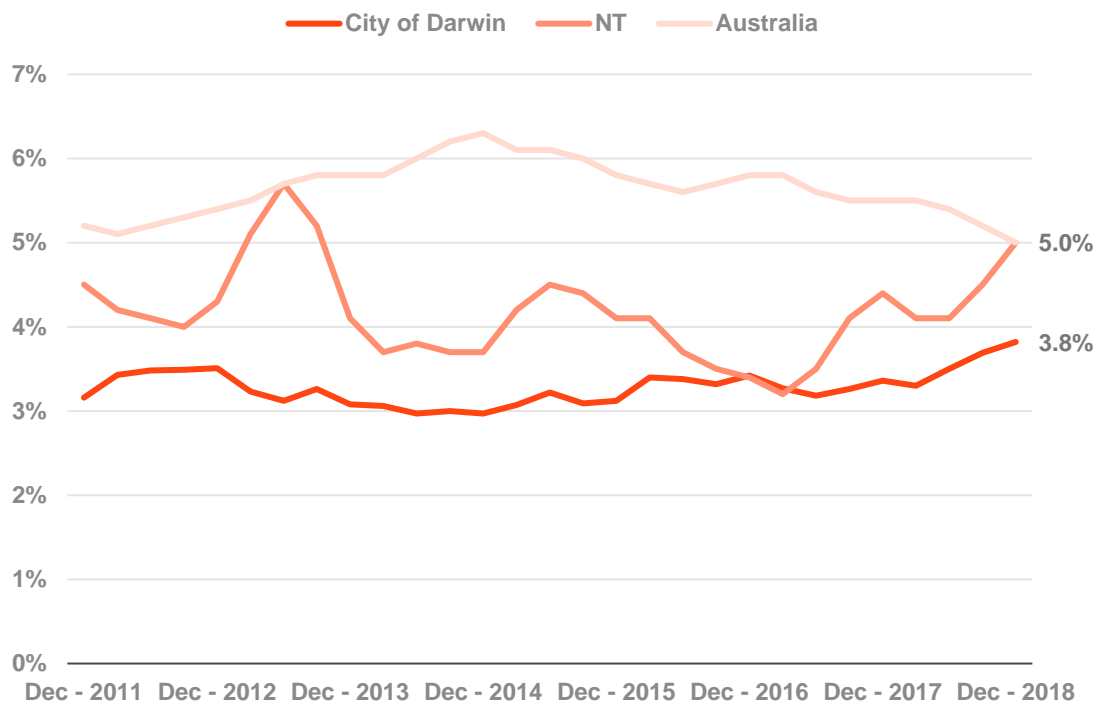
Source: NIEIR (2018)

## 2.4 Unemployment

The unemployment rate in City of Darwin has started to trend upwards following a period of job losses, again largely due to the wide down of the Ichthys LNG project. City of Darwin’s unemployment rate was 3.8% December Quarter 2018, up from 3.4% in the same quarter last year. While lower than the NT and Australia, this is the highest unemployment rate in the past 7 years.

Unemployment is likely to fall further through 2018-19 before moderating as many unemployed workers move to other areas of Australia for employment opportunities.

Chart 5 Unemployment rate



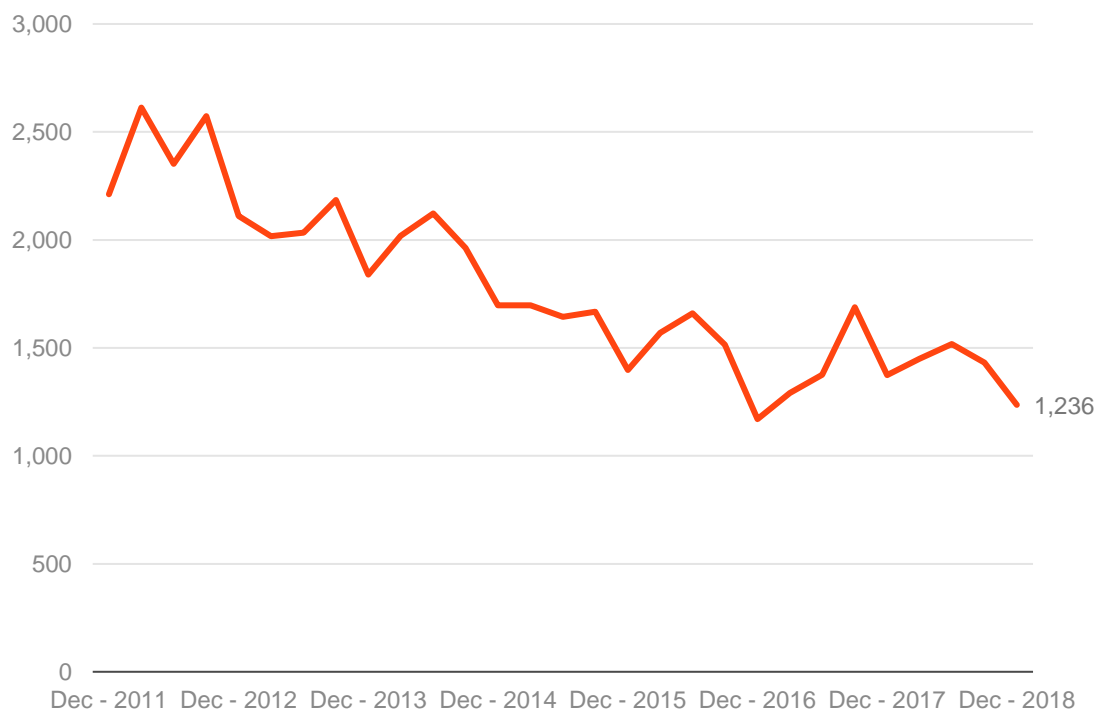
Source: ABS Labour force survey (6202.0); Department of Employment, SALM, 2018

## 2.5 Job advertisements

The unemployment rate has a strong relationship with Internet Vacancies. Increases in the level of vacancies are typically associated with a fall in the unemployment rate.

Over the year to December 2018, job advertisements as recorded by the IVI fell by 10% to stand at 1,236. This suggests that the unemployment rate is likely to increase in 2018-19 and possibly into 2019-20. The extent of the fall will depend largely on the level of outmigration.

Chart 6 Internet Vacancies (number), Greater Darwin

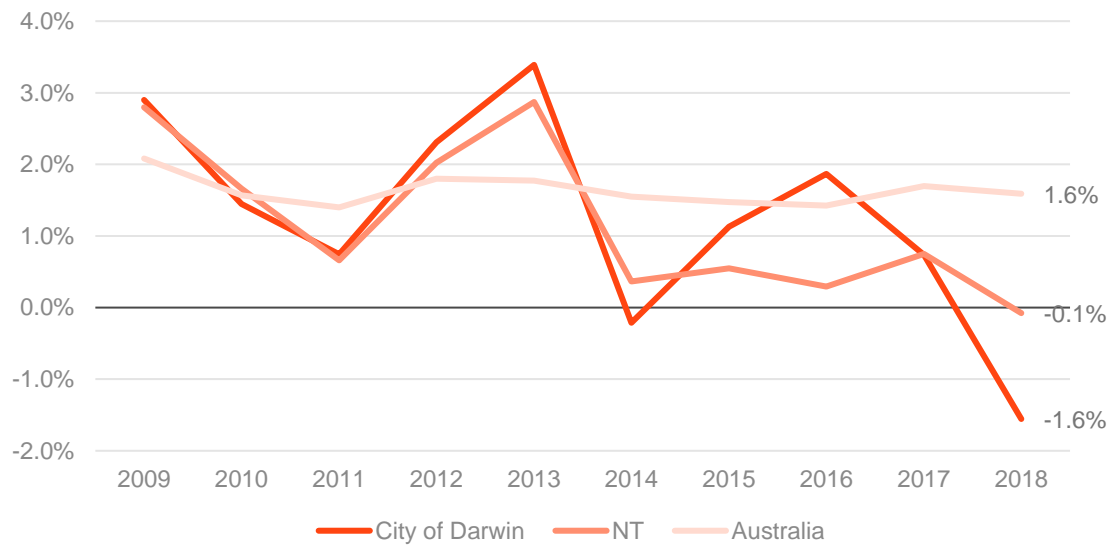


Source: Department of Jobs and Small Business, Internet Vacancy Index

## 2.6 Population growth

Weak employment conditions are having a major impact on population growth rates in City of Darwin. In 2018, the City of Darwin population fell by 1.6%, in line with lower overseas net migration and outflow of interstate migration.

Chart 7 Annual population growth



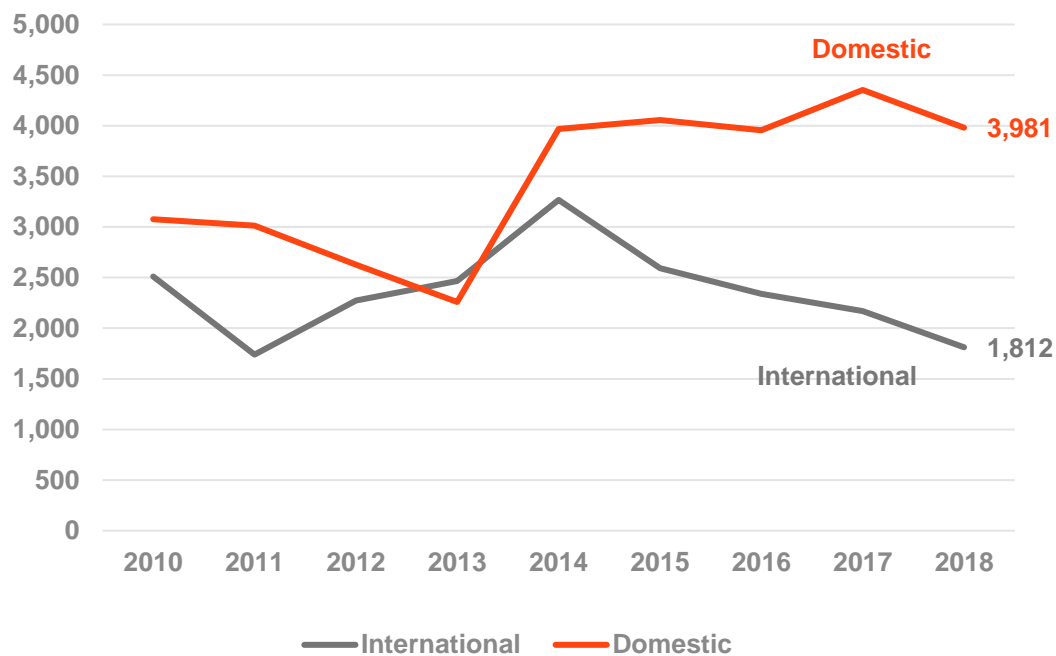
Source: ABS Regional Population Growth, Australia (3218.0).

## 2.7 Tourism

In the year to December 2019, international visitor nights to Darwin Tourism Region decreased by 16.4% to 1.8 million international visitor nights. This is well below the peak of 3.3m visitor nights in 2014. Domestic visitor nights have remained largely stable at around 4.0 million since 2014.

Lower visitation to Darwin Tourism Region is putting downward pressure on demand for accommodation, food services, retail trade, and transport.

Chart 8 Visitor nights ('000), Darwin Tourism Region



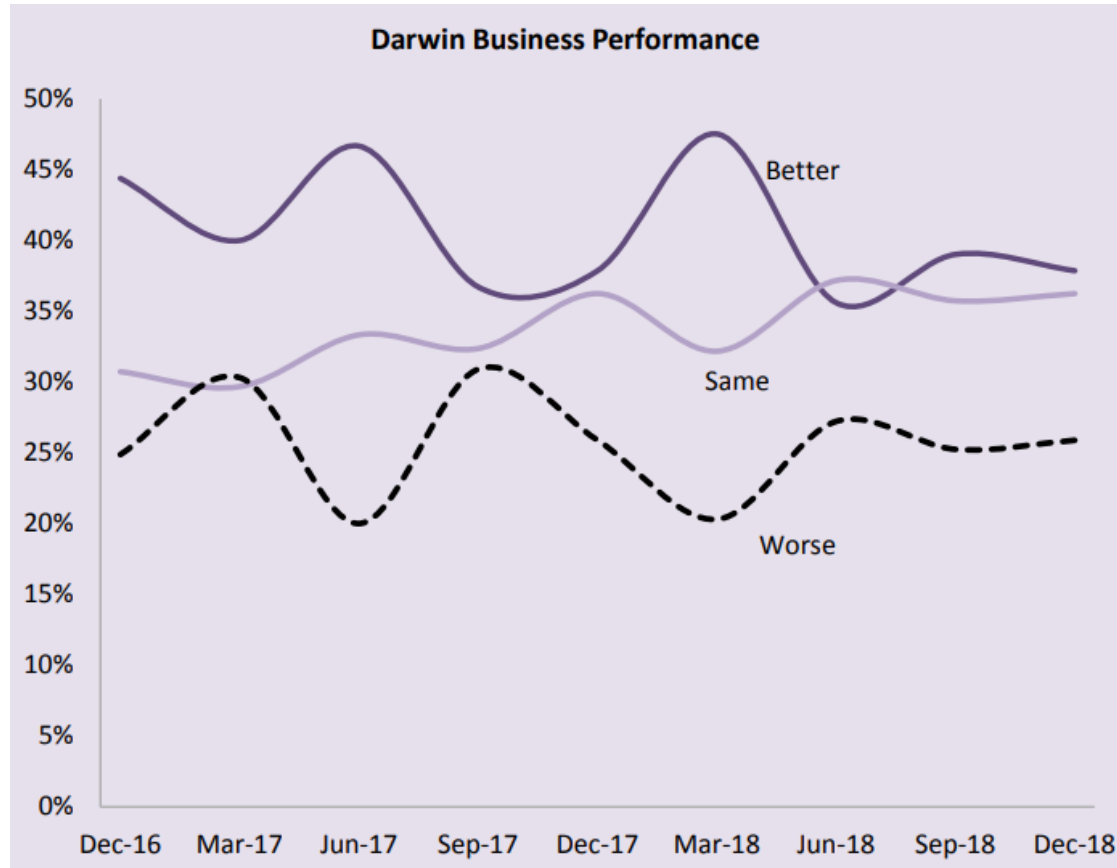
Source: Tourism Research Australia

## 2.8 Business confidence

Results from the latest NT Business Confidence Survey shows that business confidence in Greater Darwin has improved over the last year. The December Quarter 2018 business confidence in Darwin increased 10 percentage points to 50% from the previous quarter and is 4 percentage points higher than the December Quarter 2017.

Expectations of business performance have remained largely stable over the year ending 2018.

Chart 9 Greater Darwin Business Performance



Source: Northern Territory Government - Northern Territory Business Confidence Survey, December Quarter 2018

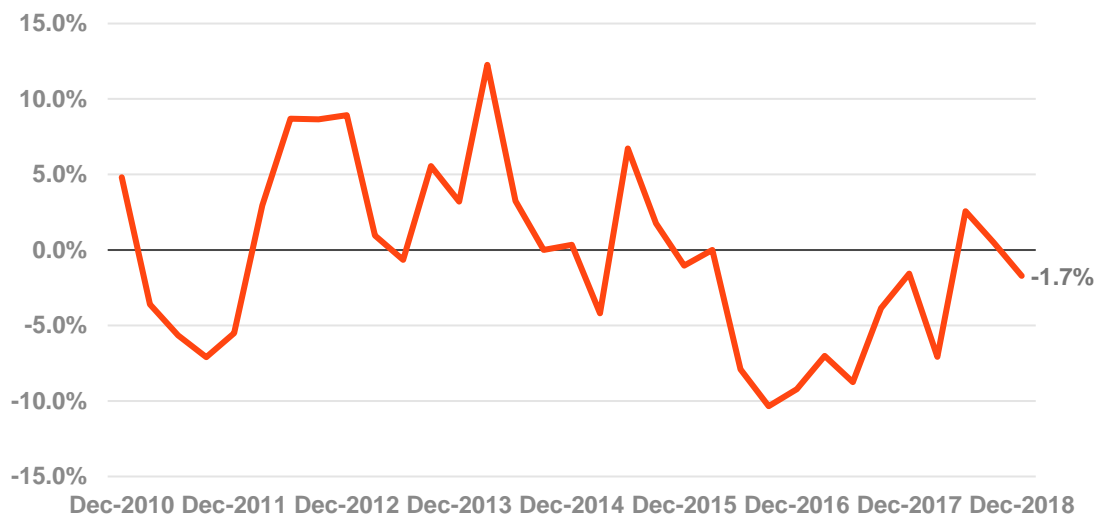
## 2.9 Office vacancy

Office vacancy rates in Darwin CBD fell by 4.4 percentage points over the last year to 17.2% in January 2019. It is important to note that this fall is largely due to the demolition of Cavenagh House, and not from improved demand for office space. According to the Property Council of Australia, net absorption of office space fell to 4,533sqm in the year ending January 2019 from 5,150sqm in the year ending January 2018.

## 2.10 House prices

Housing market conditions remain weak with the median established house price falling by 1.7% in the year to December 2018. The rate of decline, however, has gradually improved since December 2016. House prices are expected to continue to be weak as demand for housing continues to fall.

*Chart 10 Annual change in the median established house price, Greater Darwin*



Source: ABS Residential Property Price Indexes: Eight Capital Cities, Dec 2018 (6416.0)

City of Darwin’s property market will continue to be affected by the weakness in economic activity and employment growth (i.e. commercial growth, vacancy rates).

### 3. Risks to the economic outlook

There are indications that Australia and the Global economy is heading towards a more weakened economic environment than what we have experienced over the last decade. Some of these include:

- ▣ The potential for higher interest rates in the US to address excess liquidity created by quantitative easing
- ▣ Likely changes in US fiscal policy at some point to address rising government deficits.
- ▣ Ongoing US-China trade wars impacting world economic growth
- ▣ The likelihood of higher US interest rates triggering an outflow of funds from emerging markets leading to potential exchange rate/banking crises in these countries
- ▣ A credit squeeze on local banks is leading to constrained lending growth and in turn, lower residential development commencements going forward.
- ▣ Excess supply in the housing market leading to falling prices and a weaker market over the next five years before the cycle flips again
- ▣ A reverse wealth effect, where declining house values lead to increases in the household savings ratio and less consumption
- ▣ Lower AUD exchange rate vs major currencies due to connection to emerging markets and changing interest rate levels between Australia and other economies, particularly the United States.

These global and domestic factors pose a substantial downside risk to City of Darwin's GRP and employment growth in returning to trend beyond 2019-20.