

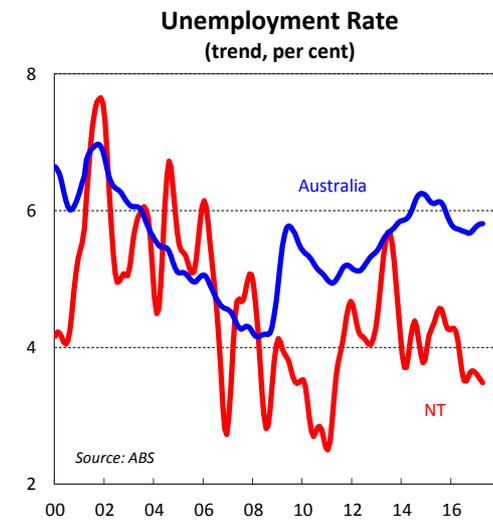
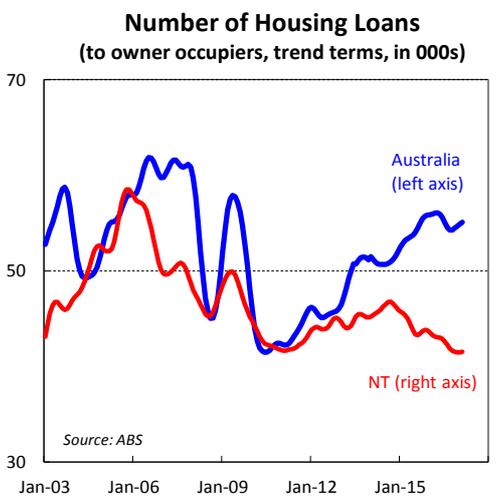
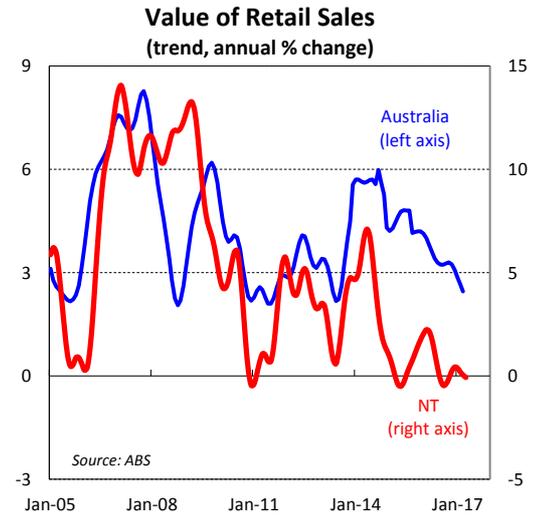
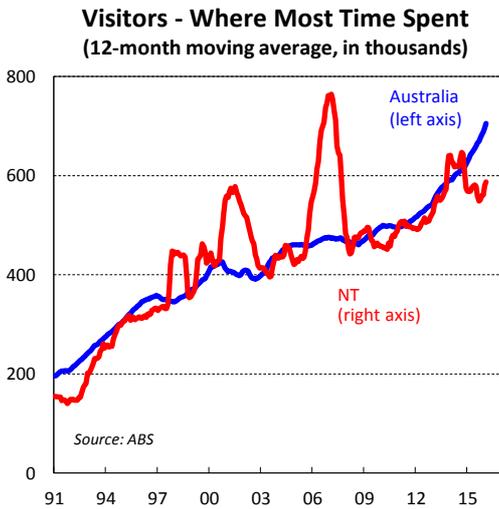
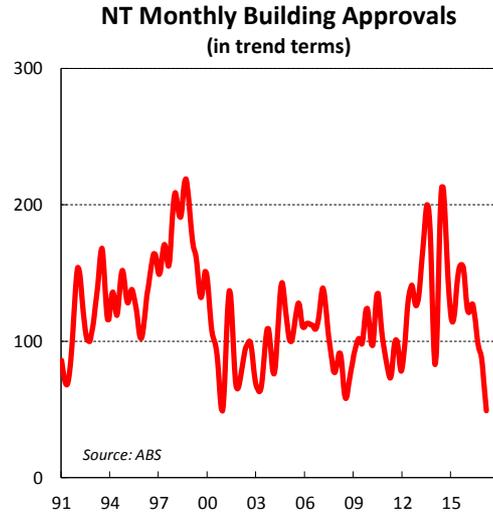
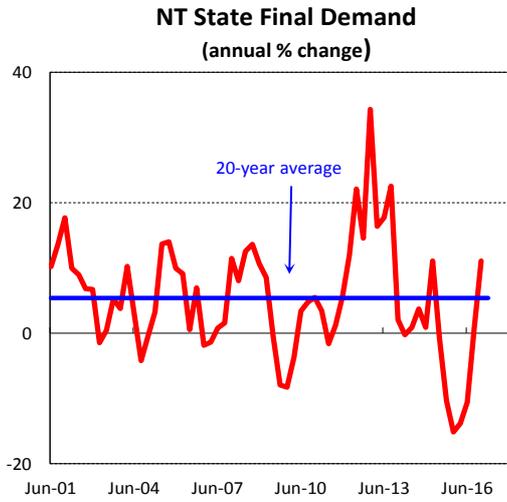
Northern Territory Economic Outlook

- **Economic growth** in the NT is more closely tied to global economic growth than domestic economic growth. The signs on this front are encouraging. Indeed, the outlook for global economic growth looking the healthiest it has for several years. Economic growth in the NT is expected to receive a boost from increasing exports. State final demand, which excludes international trade but is the broadest measure of economic activity available in a timely manner, rose by 11.1% in the year to the December quarter 2016.
- However, the **transition of the mining boom** from the investment phase to the production phase has been particularly pronounced in the NT. The giant \$37.4 billion Inpex Ichthys LNG construction project is moving from the construction to the production phase in stages and this is having a discernible impact on most areas of the NT economy. It is fast approaching the complete end of the construction phase and the impact is being felt in employment, construction, house prices and in retail spending to name just a few. Business confidence has also faltered as a result.
- The production phase of a mining investment boom is less labour intensive than the construction phase. **Employment growth** in the NT has remained resilient, despite pressures in the mining sector. Jobs grew by 9.1k in the year to April in trend terms. It matches the annual employment growth in the previous month, which was the highest pace of annual jobs growth since April 1995. The unemployment rate has declined from 4.2% in March 2016 to 3.5% in March 2017 and remained steady at 3.5% in April. This is lower than the unemployment rate of over 4% recorded a year earlier. It is also well below the national trend average of 5.8%.
- Strong **population growth** is usually a plus for the States and territories. Northern Territory's population growth has slowed to an annual pace of just 0.3% in the year to the September quarter (the latest available data), from a recent high of 3.0% in the year to the March quarter 2013. In the last decade, the population has averaged annual growth of 1.6%. So the current pace of population growth is weak. It compares to the current national population growth rate of 1.5%. Between September 2015 and September 2016, the NT's population rose by just 812 people. In the year to March 2013, the population rose by over 7,000.
- Slower population growth has weighed on housing activity in the NT. **Home construction commencements** have fallen from a cyclical peak of 663 in the September quarter 2014 to 313 in the December quarter of 2016. Monthly **building approvals** have moved by the same magnitudes from 124 per month in the first half of 2016 to an average of 74 per month in the six months to March 2017.
- The fall in housing activity is reflected in the figures for **housing lending**. In the most recent cyclical peak in 2014, the number of **new loans to owner occupiers** was running at an average of around 410 per month (in trend terms). In the year to February 2017, this had

fallen to 305 new loans per month. In the year to February 2017, loans to owner occupiers declined by 13.3%, the 24th consecutive month lending to owner occupiers has shrunk.

- **Investor housing loans** showed a similar pattern. The value of investor loans declined by 21.3% in the year to February 2017. This was the 23rd consecutive month of declines in the value of new investor loans. The share of investor home lending (by value) has fallen from a peak of 52.7% in June 2014 to 38% in February 2017.
- Home lending is not the only sector to record a slowdown. **Retail spending** in the NT is flailing. Australian-wide retailing is also struggling, but Northern Territory appears to have been hit harder. National retail sales were up 2.8% over the year to March 2017 in trend terms, but retail sales in the NT shrunk 0.1%. On a more positive note, with the exception of March data, retail spending had improved over the past few months.
- **Darwin house and unit prices are patchy.** Over the year to April 2017, Darwin house prices were down 2.8% while unit prices edged up 0.3%. Rents for three-bedroom houses in Darwin are the highest of all the capital cities at \$509.50 per week in the December quarter 2016. The rent on an average 2-bedroom unit is at \$383.00. Rents are likely to come under downward pressure in Darwin. The rental vacancy rate sits at 7.8%. The line in the sand is 3.0%, suggesting there is an excess supply of housing to rent in Darwin.
- While the upcoming completion of the Inpex Ichthys construction will leave a large hole in commercial construction work, the \$13 billion Greater Sunrise floating LNG project, led by Woodside, is still on the cards. It has the potential to stimulate activity in the NT. The project currently remains on hold, as discussions between the Australian and East Timorese governments continue. There are also another two gas projects worth close to \$3.5 billion, potentially waiting in the wings also.
- Non-residential construction work is at a fairly robust level. **Commercial construction** projects currently underway include the Darwin City Waterfront development (worth \$0.9 billion and by far the largest) and a \$0.5 billion upgrade of the HMAS Coonawarra and Larrakeyah Barracks. Work is due to start later this year on the \$0.25 billion Westin hotel at the Darwin Waterfront.
- Softer economic activity and lower GST receipts has resulted in a deterioration in the fiscal position of the Northern Territory government. In the **2017-18 Budget**, the NT government is expecting operating deficits out to 2020-21. Spending on infrastructure worth \$1.75 billion should assist in supporting economic growth, but this is a drop in the ocean in comparison to the Inpex Ichthys project. So there is virtually no capacity for other sectors – public or private – to step up and fill the hole left by LNG investment moving out of its construction phase and into its production phase.
- **Tourism** should also get a boost from the relatively low level of the Australian dollar. Inbound tourism is improving after undergoing some weakness from late 2015 to mid 2016.

Selected Economic Charts



Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 8322

Senior Economist

Janu Chan
chanj@stgeorge.com.au
(02) 8253 0898

Senior Economist

Josephine Horton
hortonj@stgeorge.com.au
(02) 8253 6696

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
