

Australian Energy
Regulator
Northern Territory
LPI growth

Northern Territory LPI growth

This report acts as an additional component to Access Economics' 13 December 2010 report for the Australian Energy Regulator. That report focussed on LPI growth in Queensland and South Australia, while this report covers the Northern Territory.

Note that since the 13 December 2010 report the ABS has released December quarter 2010 LPI and AWE results. These results have been included in the results below.

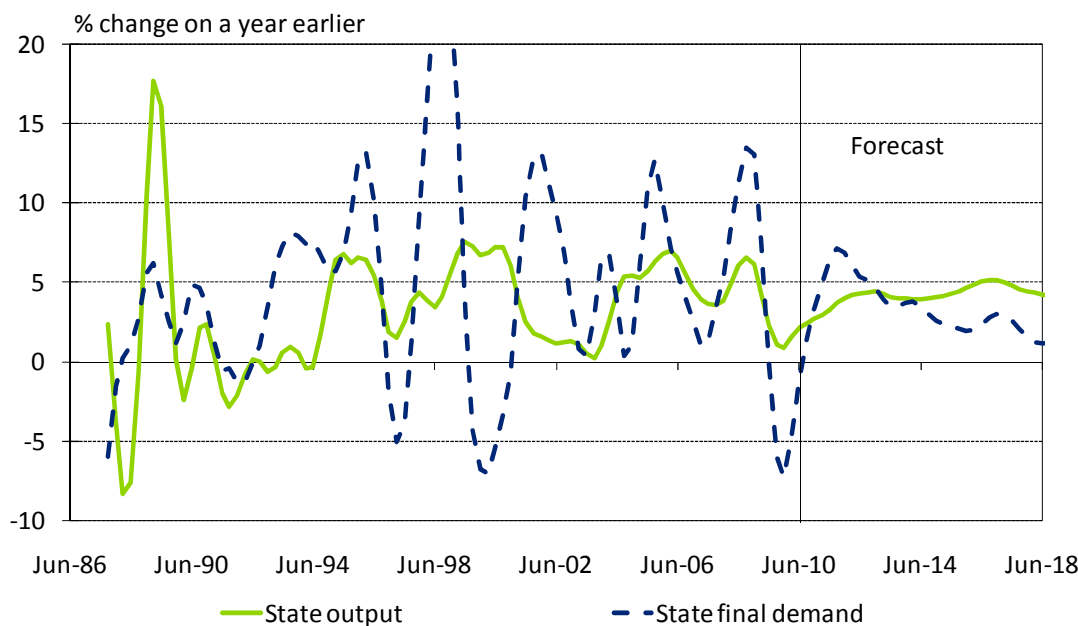
The outlook for the Northern Territory

While all the required conditions for a boom are in place – China and India are growing rapidly, and the Northern Territory is rich in the resources that these emerging economies need – the Northern Territory's economy is growing relatively slowly at the moment.

That is because Territory's economy is 'between projects' – big construction works have finished, and the new ones starting are smaller, limiting the potential for the Territory's output growth to turn upward.

The inflow of work that funded the likes of the Montara oil field, the GEMCO manganese refinery and the development in and around Darwin's waterfront is drawing to a close, whereas the mega-projects which have been on the Territory's development horizon (including the Ichthys gas field, as well as a possible tripling of output at the Wickham Point LNG plant) remain in the future rather than immediately on hand.

Chart 1: Northern Territory output and demand



Source: ABS, Access Economics' macroeconomic model

That has left business investment as a share of the Territory's economy dropping back down to 'only' be in line with the national rate (a poor outcome for a resource economy amid a resources boom), and it has left the Northern Territory's construction sector easing back.

That is important, because the construction and mining sectors can have notably competitive impacts on wage costs for the utilities sector.

Engineering activity is project-driven. Inpex's proposal for a huge LNG processing facility in Darwin has been raising hopes for some time, though it is still in the planning phase.

That project has the potential to be a game changer for the economic backdrop to wage-setting if it goes ahead, yet it also has the potential to leave the NT 'behind the curve' of what might have otherwise been expected if it does not go ahead or if it is substantially delayed beyond the period the AER is interested in here.

The economic forecasts used to estimate future wage rates do not assume that particular projects do or don't go ahead. Rather, they assume a possibility that a proportion of the possible projects (such as the Inpex project) go ahead in the Northern Territory.

That is the appropriate approach – it takes a 'best estimate'. That said, once these projects are either confirmed (or cancelled) their impact on wage rates would become fully factored in.

Projects underway in the Territory include the Montara oil field, with work winding down from here through to late 2011 amid some delays, while construction on a new condensate processing facility at the East Arm Port is now wrapping up. Projects in planning include Methanol Australia's proposed \$1.3 billion Timor Sea LNG project, while environmental approvals have been granted for the \$1.2 billion Tassie shoal methanol project. Meanwhile, Arafura Resources is planning to spend \$1.1 billion on the Nolans Bore rare earth project north of Alice Springs.

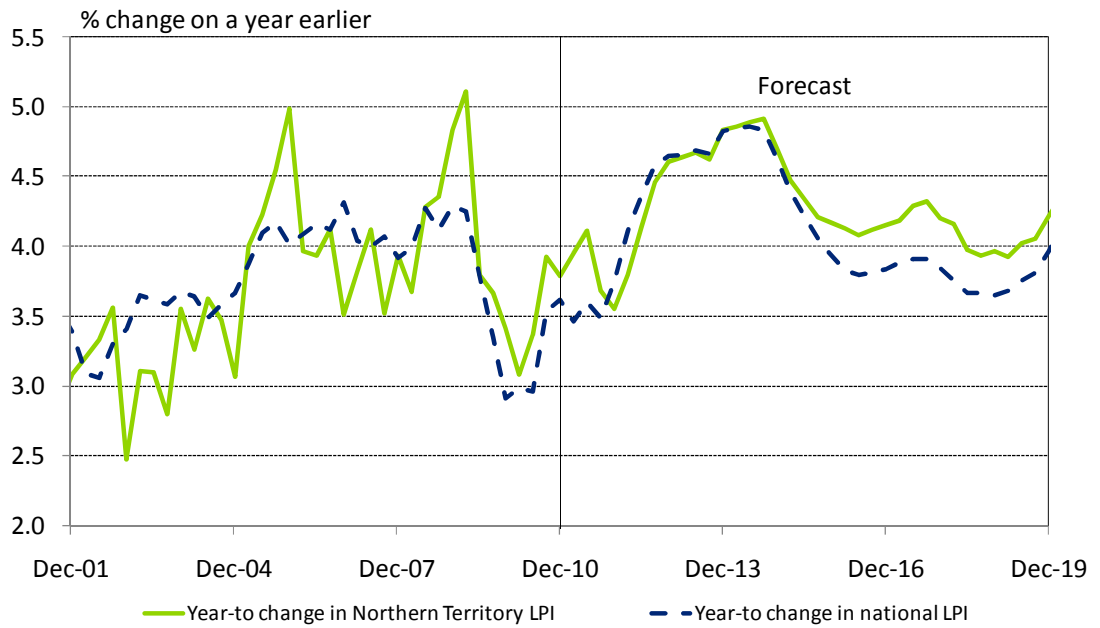
Commercial construction activity got a boost from Federal Government stimulus spending, but that is now winding back. Other projects underway include the Darwin waterfront development which remains under construction, while infrastructure upgrades to the Alice Springs and Royal Darwin hospitals worth \$72 million and \$53 million respectively are due to be completed in 2012. Meanwhile, work on four new sports facilities in Palmerston will begin shortly at a cost of \$33 million.

Overall LPI growth in the Northern Territory

While the Territory's economy is yet to take off in response to the second resources boom, local LPI trends have continue to outpace the national rate – reflecting the lingering impact in EBAs and other wage outcomes from the work underway from the previous round of projects.

Chart 2 shows how the recent strength in wage outcomes is projected to help keep LPI growth rates above the national average for the short term, before the current 'hole' in construction sees some moderation in growth. The longer term foresees a stronger rate of LPI growth in the Territory due to what is expected to be its economic strength over time.

Chart 2: LPI growth in the Northern Territory and Australia



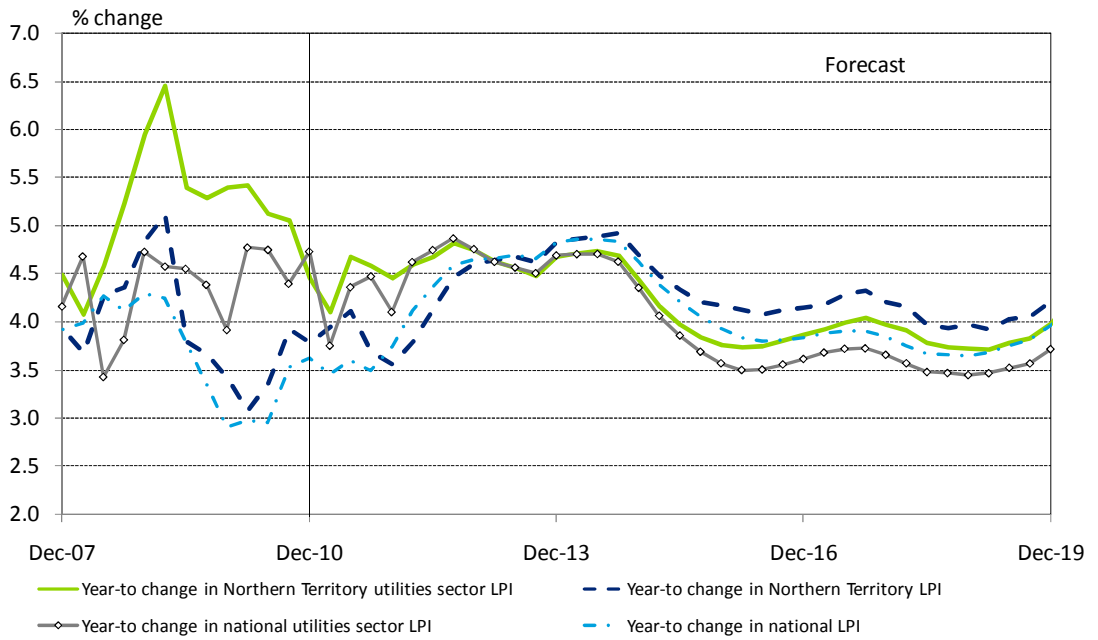
Source: ABS, Access Economics' macroeconomic model

Northern Territory LPI growth in the utilities sector

Note that the ABS numbers for the Territory are subject to lack of availability and considerable volatility. No LPI series are produced for NT industries (some were previously released – but none of the ones of interest here), and utilities AWE/AWOTE is not produced for the NT either.

As a result, Deloitte Access Economics' NT LPI figures for utilities are imputed rates based on national and wider State trends. NT figures for the other industries are based on recorded relative AWOTE/AWE trends.

Chart 3: Northern Territory utilities forecast comparison



Source: ABS, Access Economics' Labour Price Model

Chart 3 shows that, as with the national forecast for the utilities sector, Northern Territory utilities LPI growth is anticipated to remain broadly ahead of general growth for the next three years. Beyond that period Northern Territory utilities LPI growth may tend to lag behind broader measures as the current round of the mining boom begins to ease, reducing its impact on the construction sector at much the same time.

Summary results

Summary results for Territory LPI growth rates are shown in the tables below.

Table 1: Territory LPI forecasts

Financial year changes in Northern Territory nominal Labour Price aggregates

Annual % change	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
All industries	4.5	3.4	3.9	3.8	4.6	4.8	4.6	4.1	4.2	4.2
Utilities	5.8	5.3	4.6	4.6	4.7	4.6	4.3	3.8	3.9	3.9
Mining	5.9	4.0	4.4	4.4	4.7	5.1	4.9	4.2	4.1	4.3
Construction	5.4	1.9	3.3	4.7	5.1	4.9	4.9	4.1	3.7	3.9
Administration services	4.4	2.8	4.1	3.1	3.7	4.0	3.8	3.5	3.8	3.8

Financial year changes in Northern Territory real Labour Price aggregates

Annual % change	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
All industries	1.4	0.4	1.1	0.9	1.8	2.1	1.8	1.3	1.8	1.8
Utilities	2.6	2.3	1.7	1.6	1.9	2.0	1.5	0.9	1.6	1.5
Mining	2.7	1.1	1.6	1.4	1.9	2.4	2.1	1.4	1.8	1.9
Construction	2.2	-1.0	0.5	1.8	2.3	2.3	2.0	1.3	1.4	1.5
Administration services	1.3	-0.1	1.3	0.2	0.9	1.4	1.0	0.7	1.4	1.4

Financial year changes in Northern Territory nominal productivity adjusted Labour Price aggregates

Annual % change	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
All industries	7.3	4.4	2.5	1.7	2.3	2.7	1.7	0.8	1.0	1.3
Utilities	7.2	3.9	4.6	2.7	2.6	2.7	2.0	1.4	1.9	2.4
Mining	8.5	3.2	4.6	2.5	2.6	3.1	2.8	2.1	2.4	2.8
Construction	6.1	1.0	2.2	3.7	3.4	3.2	2.3	1.9	2.4	2.5
Administration services	5.6	3.4	3.4	1.6	1.6	2.0	1.5	1.1	1.7	2.1

Financial year changes in Northern Territory real productivity adjusted Labour Price aggregates

Annual % change	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
All industries	4.0	1.4	-0.3	-1.2	-0.5	0.1	-1.1	-1.9	-1.3	-1.0
Utilities	4.0	1.0	1.7	-0.2	-0.1	0.1	-0.8	-1.4	-0.4	0.0
Mining	5.3	0.3	1.8	-0.4	-0.1	0.5	0.0	-0.7	0.1	0.5
Construction	2.9	-1.9	-0.6	0.8	0.6	0.6	-0.4	-0.9	0.1	0.2
Administration services	2.5	0.5	0.6	-1.2	-1.2	-0.6	-1.3	-1.7	-0.6	-0.2

Table 2: Summary results – comparative utilities sector movements

Financial year changes in nominal utilities sector LPI

Annual % change	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
National	4.4	4.5	4.3	4.5	4.7	4.6	4.2	3.6	3.6	3.6
Northern Territory	5.8	5.3	4.6	4.6	4.7	4.6	4.3	3.8	3.9	3.9

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