

Deloitte Access Economics

AER labour cost forecasts for the Northern Territory

Australian Energy
Regulator

15 June 2011

Deloitte Access Economics Pty Ltd
ACN: 149 633 116

Kevin Fincham
Analyst
Network Regulation
Australian Energy Regulator
Level 24, 400 George Street
Brisbane QLD 4000

Level 1, 9 Sydney Ave
Barton ACT 2600
PO Box 6334
Kingston ACT 2604

Tel: +61 2 6175 2000
Fax: +61 2 6175 2001
www.deloitte.com.au

15 June 2011

Dear Kevin

Wage forecasts for the Northern Territory – June 2011 update

As requested, we have updated our earlier projections of March 2011.

Construction levels may be weak at present in the Territory, however wage strength remains evident in the NT utilities sector, partly due to previously negotiated EBAs and other wage negotiations already in place, and partly due to the competitive strength in related sectors in other States.

As in the report prepared in March 2011 for the AER, the recent strength is projected to continue over the next three years.

Yours sincerely,



Chris Richardson
Director
Deloitte Access Economics Pty Ltd

Contents

1	The Northern Territory outlook	2
	Engineering activity.....	4
2	Northern Territory LPI Growth.....	5
	Northern Territory LPI growth in the utilities sector.....	5
	Summary results.....	7
	Limitation of our work.....	8

Charts

Chart 1.1 : Northern Territory output and demand.....	3
Chart 1.2 : Northern Territory's share of national total.....	4
Chart 2.1 : LPI growth in the Northern Territory and Australia	5
Chart 2.2 : Northern Territory utilities forecast comparison	6

Tables

Table 2.2 : Territory LPI forecasts	7
Table 2.3 : Summary results – comparative utilities sector movements.....	7

Liability limited by a scheme approved under Professional Standards Legislation.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

1 The Northern Territory outlook

This report provides an update to that supplied to the Australian Energy Regulator in March 2011. The forecasting round which produces our national and State forecasts every three months is still underway following the release of new national accounts figures on 1 June. This means that macroeconomic forecasts provided here have history until December 2010, while the wage data includes information for the March quarter of 2011.

The Northern Territory has superb natural resources at a time of the largest resources boom the world has ever seen, yet right now the Territory's mining project work in particular and its engineering construction more generally is winding back rather gathering pace.

However, this lull in the Territory's growth is unlikely to last, with some very large projects looming on the horizon, including the potential Ichthys gas field and associated LNG processing facility in Darwin, as well as a possible tripling of output at the Wickham Point LNG plant.

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 (up or down) would become fully factored in.

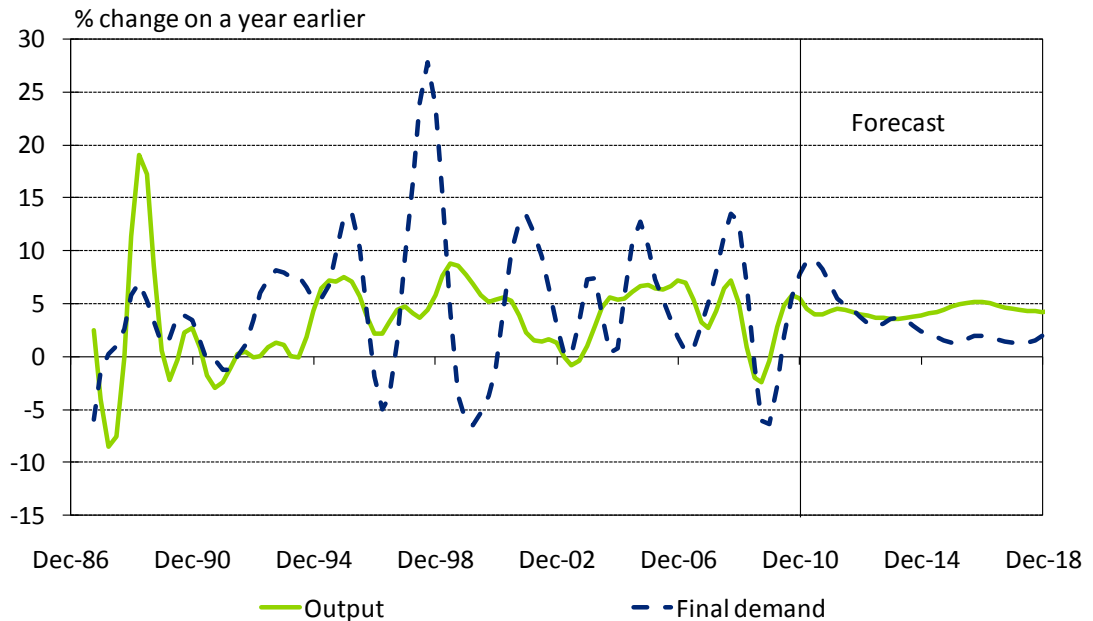
If 'more' project activity than currently assumed in these forecasts occurs, then that would tend to boost wage growth for a time. Similarly, if 'less' than assumed gets the go ahead, then related wage pressures would also be less for a time.

However these projects are still some way off, and the short term looks to remain weak (see Chart 1.1 below). Demand (spending in the economy) in particular remains stagnant, as the dominant feature of the NT's business landscape has been projects wrapping up rather than new ones commencing. For example Eni's offshore Blacktip gas field is now up and running (and is set to deliver gas to the Territory for a quarter of a century), the GEMCO manganese refinery expansion on Groote Eylandt is complete, while work at the Montara oil field is currently on hold after a platform fire a year and a half ago.

The net impact on the Territory of large projects coming to completion has been notable. Given that the dollars spent on engineering work have typically averaged almost double the combined dollars spent on commercial and housing construction, the recent falls in work have had a notable impact on the construction sector and the wider NT economy even after allowing for the stepped up pace of Territory Government capital works and the solid

spending of the Defence forces. (Moreover, even public spending on capital works is peaking. The Tiger Brennan Drive extension opened in late 2010, Federal stimulus spending on schools is winding down, and although the spending on indigenous housing has further to go, it too is close to peaking.)

Chart 1.1: Northern Territory output and demand



Source: ABS, Access Economics' macroeconomic model

Weaker business investment remains an important consideration for the AER, because the construction and mining sectors can have notable competitive impacts on wage costs for the utilities sector.

Weaker demand from the NT's construction sector will mean less competition for workers, and slower wages growth. However, should 'more' of the very large projects in the offing go ahead than already assumed in these forecasts, then the competition for skilled workers will increase by more than factored into these forecasts (as discussed in more detail later in this chapter).

Weaker spending is not the only negative for the NT economy at present. The Territory's population has always been mobile, willing to travel to the Territory for work, and then move south again when the opportunities are better elsewhere.

The latter process is underway now: with opportunities in project work drying up, so too is the NT's population growth. The latter had been well above its national equivalent, but fell below national growth rates (which are themselves falling) in early 2010, and the NT's population growth appears to be headed lower still.

The good news is that the fruit of past investment spending is increasingly showing up as export earnings, with exports of alumina, manganese and LNG looking very healthy. That is why the output growth seen in Chart 1.2 is still relatively healthy.

The other good news is that the current quiet spell on engineering work won't last: the development potential of the Territory is excellent. Much of the timing of the economic turnaround for the Territory demands on the timing for some of the very large projects such as Inpex: they will affect the timing of both the cyclical swings in Chart 1.1 and the longer term optimism seen in the trends in Chart 1.2.

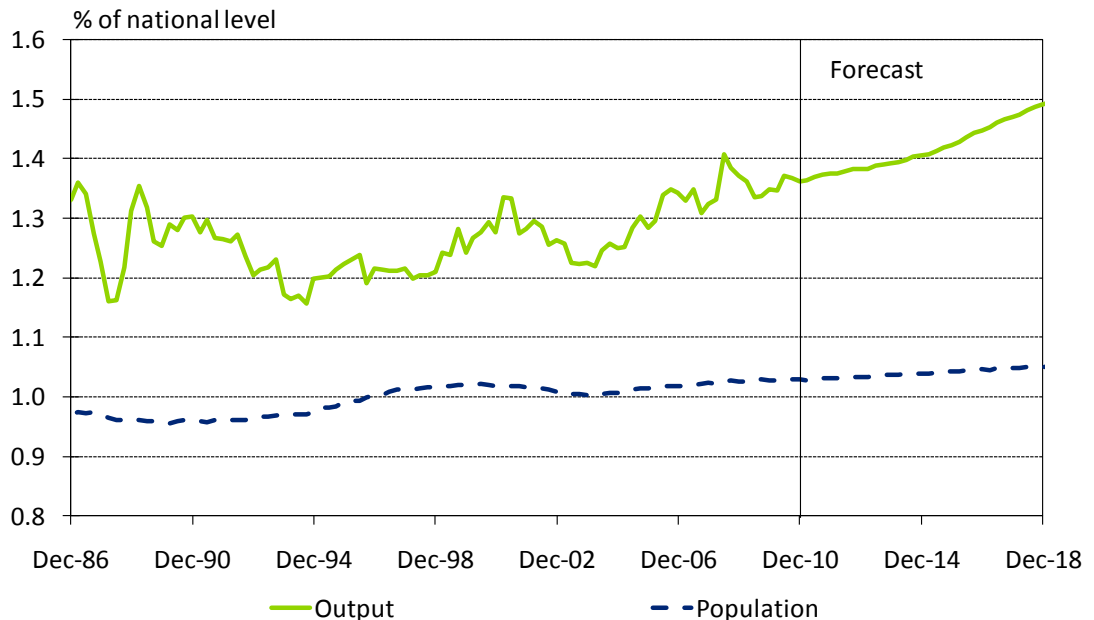
Engineering activity

Engineering activity is project-driven in the NT, and at the moment those projects are few and far between. The key to the outlook is Inpex. They are proposing to construct a massive LNG facility in Darwin as part of their \$25 billion Ichthys gas field development in the Browse Basin.

That will provide a considerable boost to work underway if it goes ahead, and would also have a large impact on wages in the construction and mining sectors in the Northern Territory.

Other large projects in planning which would put pressure on wages are Methanol Australia's proposed \$1.3 billion Timor Sea LNG project and the Nolans Bore rare earth project, which is estimated to cost \$1.1 billion.

Chart 1.2: Northern Territory's share of national total



Source: ABS, Access Economics' macroeconomic model

2 Northern Territory LPI Growth

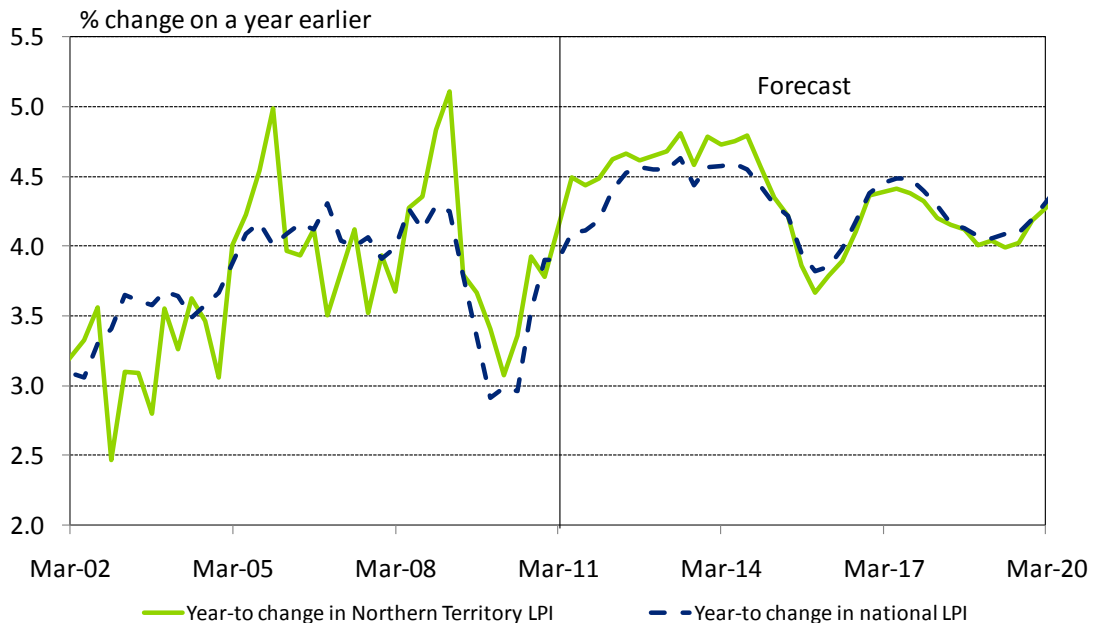
Construction levels may be weak at present in the Territory, however wage strength remains evident in the NT utilities sector.

That is partly due to previously negotiated EBAs and other wage negotiations already in place, and partly due to the competitive strength in related sectors in other States.

As in the report prepared in March 2011 for the AER, the recent strength is projected to continue over the next three years (see Chart 2.1). The longer term foresees a rate of LPI growth in the Territory roughly in line with the national average.

However, should enough of the previously mentioned ‘very large projects’ eventuate, this would change the forecasts shown here, and in particular the longer term forecasts given the timeframe of these projects. (That is, should ‘more’ of the very large projects in the offing go ahead than already assumed in these forecasts, then the impact on projected wage growth would be upwards.)

Chart 2.1: LPI growth in the Northern Territory and Australia



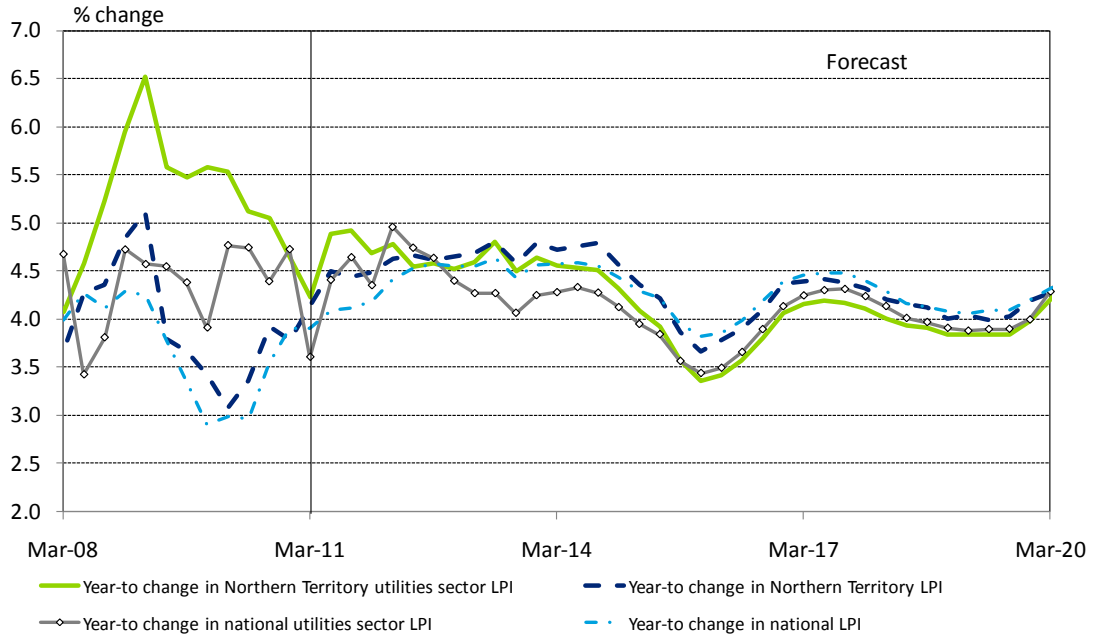
Source: ABS, Access Economics’ macroeconomic model

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, and AWE/AWOTE for the utilities sector 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 2.2: Northern Territory utilities forecast comparison



Source: ABS, Access Economics' Labour Price Model

Chart 2.2 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 national 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 2.2: 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	4.1	4.6	4.7	4.7	4.5	3.8	4.3	4.3
Utilities	5.8	5.4	4.7	4.7	4.6	4.6	4.2	3.5	4.1	4.1
Mining	5.8	4.1	4.6	4.7	4.7	5.1	5.2	4.3	4.6	4.7
Construction	5.4	1.8	2.1	5.8	6.0	5.3	5.0	4.0	4.0	4.1
Administration services	4.3	2.7	4.4	3.9	3.7	4.0	3.8	3.4	4.0	4.0

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	0.7	1.7	1.9	1.8	2.0	1.6	1.0	1.8	1.9
Utilities	2.6	2.7	2.3	2.1	1.8	1.9	1.4	0.7	1.6	1.7
Mining	2.6	1.4	2.2	2.1	1.8	2.4	2.3	1.5	2.1	2.3
Construction	2.2	-0.8	-0.2	3.1	3.1	2.6	2.1	1.2	1.6	1.7
Administration services	1.2	0.1	2.0	1.3	0.9	1.3	1.0	0.6	1.6	1.6

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	4.7	4.5	3.7	2.1	3.9	3.4	2.4	1.7	2.0	2.1
Utilities	7.2	4.1	6.4	3.9	3.7	3.2	2.3	1.4	2.0	2.0
Mining	8.3	2.7	7.9	4.1	3.9	3.8	3.4	2.3	2.6	2.6
Construction	5.6	1.1	2.2	4.5	4.7	4.3	2.9	2.0	2.6	2.3
Administration services	5.2	3.1	5.1	3.4	2.8	2.6	2.0	1.2	1.9	1.9

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	1.5	1.8	1.4	-0.4	1.1	0.7	-0.4	-1.0	-0.4	-0.2
Utilities	4.0	1.5	4.0	1.3	0.9	0.6	-0.4	-1.3	-0.4	-0.3
Mining	5.0	0.1	5.5	1.5	1.0	1.1	0.6	-0.5	0.2	0.3
Construction	2.4	-1.5	-0.1	1.9	1.8	1.6	0.1	-0.7	0.2	0.0
Administration services	2.1	0.5	2.7	0.8	0.0	0.0	-0.8	-1.5	-0.5	-0.4

Table 2.3: 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	4.7	4.4	4.2	4.0	3.5	4.1	4.2
Northern Territory	5.8	5.4	4.7	4.7	4.6	4.6	4.2	3.5	4.1	4.1

Limitation of our work

General use restriction

This report is prepared solely for the internal use of the Australian Energy Regulator. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose set out in your contract variation F11060 dated 8 June 2011. You should not refer to or use our name or the advice for any other purpose.

Contact us

Deloitte Access Economics
ACN: 49 633 116

Level 1
9 Sydney Avenue
Barton ACT 2600
PO Box 6334
Kingston ACT 2604 Australia

Tel: +61 2 6175 2000
Fax: +61 2 6175 2001

www.deloitte.com/au/economics

Deloitte Access Economics is Australia's pre-eminent economics advisory practice and a member of Deloitte's global economics group. The Directors and staff of Access Economics joined Deloitte in early 2011.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

About Deloitte

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 170,000 professionals are committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 5,400 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2011 Deloitte Access Economics Pty Ltd