

# TREASURY EXECUTIVE MINUTE

Minute No.

7 January 2011

Deputy Prime Minister and Treasurer

## EFFECTS OF QUEENSLAND FLOODING ON INFLATION

**Timing:** At your convenience

### Recommendation/Issue:

- The following minute discusses the likely impact of recent flooding in Queensland on headline CPI.

**Noted**

Signature: .....

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### KEY POINTS

The current floods in Queensland are likely to lead to a measurable, but temporary, increase in inflation during the March quarter. Depending on the duration of the floods, a large proportion of this can be expected to unwind in the June quarter.

- Queensland's agricultural industry produces a substantial proportion of Australia's fruit, vegetables. Fruit and vegetables account for around 2 per cent of the Consumer Price Index household consumption basket.

Historically, substantial flooding in Queensland has been associated with price increases of around 8 per cent for vegetables and 3.3 per cent for fruit.

Since the 1990s, the largest simultaneous quarterly price spike for both fruit and vegetables occurred during flooding in the March quarter of 1991 when vegetable prices increased 21.9 per cent and fruit prices increased by 9.5 per cent.

Based on the impact of the comparable 1991 Queensland floods on fruit and vegetable prices, recent flooding can be expected to see these components contribute an additional 0.1 to 0.3 percentage points to headline inflation in the March quarter.

- Historically, around two-thirds of any price increases associated with flooding have been unwound in the following quarter.

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Manager

Domestic Economy Division

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