

EFFECTS OF THE RECENT FLOODS ON THE MACROECONOMIC FORECASTS

- The first preliminary estimate of the effects of the floods on GDP (based largely on the effects of the floods in the Darling Downs, Bundaberg and Fitzroy areas) was that GDP growth would be between $\frac{1}{4}$ and $\frac{1}{2}$ of a percentage point lower in 2010-11.
- The extension of the floods to southeast Queensland (and northern NSW) and the upward revision to the expected falls in coal exports is likely to push that estimate further to between a range of $\frac{1}{2}$ and $\frac{3}{4}$ of a percentage point, with the bulk of the negative impact occurring in the March 2011 quarter.
- The estimates for the key areas of economic activity that are likely to be affected are:
 - coal production – lower by about \$4 billion to \$5 billion;
 - crop production, particularly horticultural, broadacre, sugar and cotton – lower by about \$1 billion;
 - retail trade, including related activity such as wholesale trade, transport and storage and financial and other service sectors – lower by about \$2 billion;
 - manufacturing – down by around \$500 million;
 - construction – lower by around \$300 million; and
 - tourism – down by about \$300 million to \$400 million.
- These estimates will continue to evolve as more information comes to hand.
- Typically, we would expect that the reconstruction activities would add a substantial amount to GDP growth. However, with the economy operating close to capacity (the unemployment rate is only 5 per cent nationally and 6 per cent in Queensland) there is expected to be less than normal scope for any net increase in GDP growth.
- The floods are expected to have a short-term effect on inflation. Fruit and vegetable prices, which account for around 2 per cent of the CPI basket, are likely to spike by around 15 to 20 per cent, leading to a temporary 0.1 to 0.3 percentage points increase in inflation in the March quarter which is expected to be largely unwound in the June quarter.
- There are risks in both directions in the estimates of the economic effects. In particular, it is possible that the loss in coal production could be even greater than in the current estimates. On the other hand, the near-term boost from rebuilding could be greater than expected, if there is enough spare capacity to handle it.
- Nominal GDP growth is also expected to be lower, but the fall is likely to be partly moderated by higher coal and agricultural prices. We expect that nominal GDP growth will be around $\frac{1}{2}$ of a percentage point lower in 2010-11, with a corresponding increase of $\frac{1}{2}$ of a percentage point in 2011-12 growth.