

From:
Sent: Tuesday, 4 January 2011 4:01 PM
To:
Cc:
Subject: RE: Dwelling Investment & Flooding

In the wake of cyclone Larry (Mar Q 2006) we saw above average total dwelling investment for about the following 4 quarters, both in Queensland and Australia (and Queensland was the largest contributor to growth in these quarters except the Sep Q). ACT also saw some pretty large increases after bushfires in the Mar Q '03, but this contributed very little to the national total. The Vic bushfires saw a subsequent rise in new dwelling investment in Victoria, but not Australia. It would appear that natural disasters can have an impact on state numbers, but the evidence is somewhat mixed as to whether it is passed on to the national total.

From:
Sent: Tuesday, 4 January 2011 3:20 PM
To:
Cc:
Subject: RE: Dwelling Investment & Flooding

Alex

As discussed, reconstruction would mean resources pulled from other parts of the state/other states with an offsetting reduction in dwelling investment, plus there is the potential for permanent relocation away from the flood-affected areas. You could have a look at what happened with the Vic bushfires/Cyclone Larry.
Leonie

From:
Sent: Tuesday, 4 January 2011 3:03 PM
To:
Cc:
Subject: Dwelling Investment & Flooding

Hi,

Given that I just got back from xmas in Queensland, I thought I would look at floods and total dwelling investment.

The following table shows the effect on the growth rate of total dwelling investment of different levels of reconstruction spending (a one-off expenditure in Sep 2010 only). The basecase is no spending on reconstruction, in which case the growth rate in September 2010 is equal to the actual, observed growth rate. If for example, only \$200 million was spent then IDW would only have fallen by 0.7 per cent, a rise of 1.1 percentage points. If \$1 billion was spent then IDW would have grown by 3.6 per cent, or 5.3 percentage points greater than the basecase in Sep 2010. Basically, for every \$100 million spent, growth rises by about ½ percent.

Amount spent on reconstruction (\$millions)	Sep Q 2010 implied growth rate	p.p difference from basecase
0	-1.8	-
200	-0.7	1.1
400	0.4	2.1
600	1.4	3.2
800	2.5	4.3
1000	3.6	5.3

So even relatively small changes could lead to quite substantial changes to our forecasts. Given that the floods have only just occurred, I can't see how they would impact on Dec Q numbers, but it might be something for us to think about for March. For example, the current NAFF has a rise of 0.5 per cent in both Mar Q and Jun Q 2011. A one-off extra \$200 million in the March quarter would lead to an increase of 1.6 per cent in the Mar Q and an offsetting fall of 0.6 in the Jun Q.

Thanks,

Alex

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