

TREASURY EXECUTIVE MINUTE

Minute No.

14 January 2011

Deputy Prime Minister and Treasurer

QUEENSLAND FLOODS

Timing: You requested this brief for a discussion today.

Recommendation/Issue:

- That you note this brief.

Noted

Signature:

...../...../2011

KEY POINTS

Damage, Economic and Fiscal Impacts

- The floods have affected a vast area of Queensland and are now spreading to northern NSW. The full extent of the damage will not be known for some time, with water yet to recede in some parts, although it is clear that there is substantial damage (Attachment A).
 - More than 2,500 homes have been inundated by flood waters (with more than 17,000 affected in some way) and more than 3,000 business have been flood affected. The majority of these are in the Brisbane area.
 - It is also likely that some public buildings such as schools, child-care centres, nursing homes and health facilities have incurred damage.
 - In addition, it is clear that there will also be substantial infrastructure damage to roads and bridges, rail and utilities (water, sewerage, power, telecommunications). For example, 360 roads are closed through Queensland and while not all of these will be damaged, at least some will need substantial repairs (and perhaps rebuilding to a more flood-resilient standard).
- Current estimates of the impact of the floods on GDP is that it will lead to a reduction in the range of $\frac{1}{2}$ to $\frac{3}{4}$ of a percentage point. Coal production is expected to be most severely impacted along with crop production, retail spending, tourism and manufacturing (Attachment B).
 - Typically, we would expect that the reconstruction activities would add a substantial amount to GDP growth. However, with the economy operating close to capacity there is expected to be less than normal scope for any net increase in GDP growth.
- The floods are also expected to have a short-term increase in inflation of 0.1 to 0.3 percentage points (primarily from a likely 15 to 20 per cent increase in fruit and vegetable prices).

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Issues for consideration

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Principal Advisor
Social Policy Division

ADDITIONAL INFORMATION – CONTENTS

State of Play (Attachment A)

Effects of the Floods on the Macroeconomic Forecasts (Attachment B)

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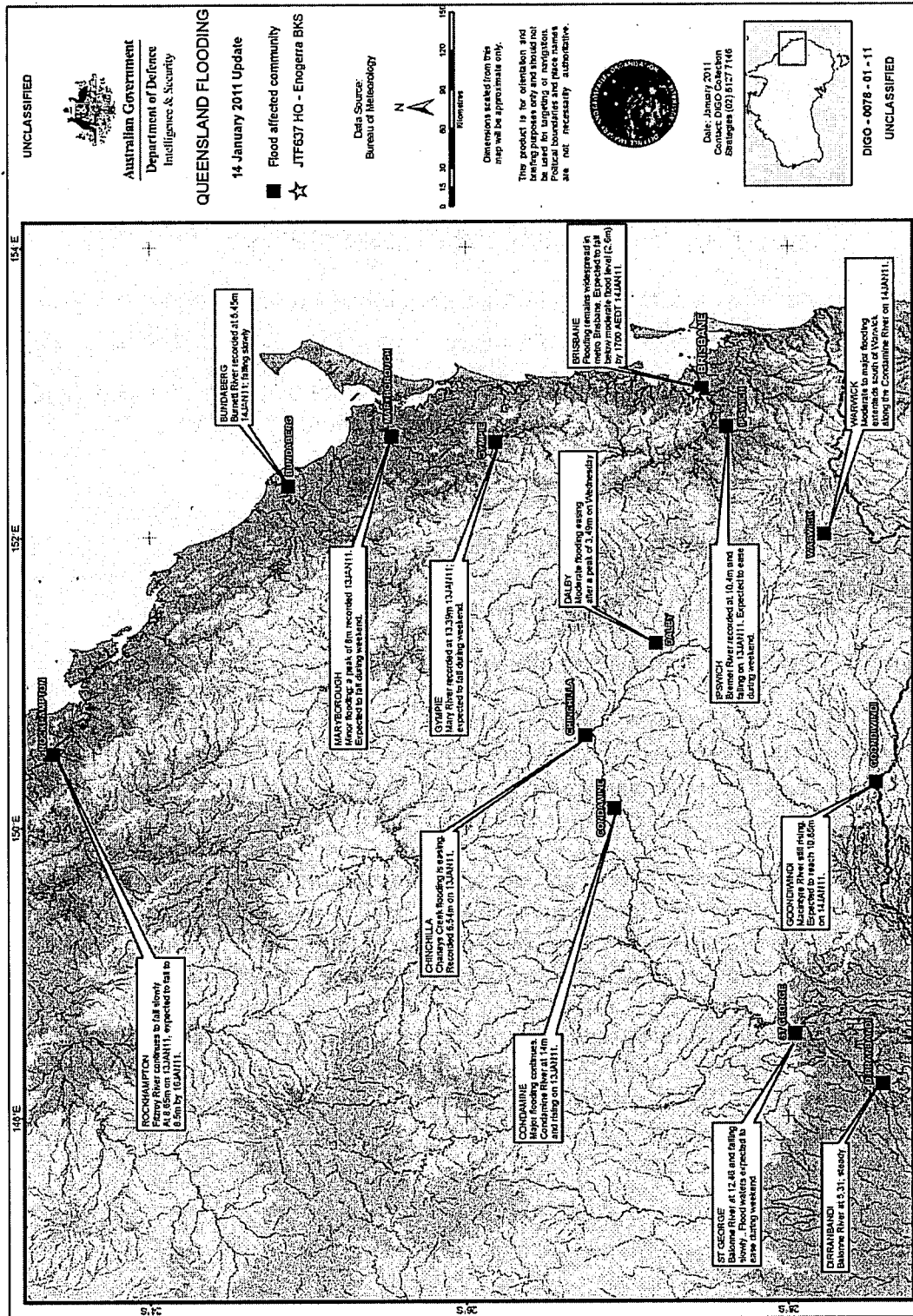
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ATTACHMENT A**STATE OF PLAY**

- The full extent of damage resulting from the recent flooding in Queensland, NSW and Victoria will not be known for some time. In the absence of any firm estimates of recovery cost, some early indicators of physical damage and disruption are provided below.
- To date, a total of 17,181 houses have been affected throughout Queensland, of which:
 - 2,500 houses have been inundated throughout the State, including 760 in the Ipswich district; and
 - 11,676 of the affected houses are in central Brisbane.
- Over 3,000 businesses have been affected by flooding in Queensland. 2,400 of these are in central Brisbane.
- 360 roads are closed throughout Queensland, including 166 in the Brisbane metropolitan area.
- Over 65,000 Energex customers are currently affected by power outages in South East Queensland. Over 100,000 have been affected at some point during the recent flooding.

Queensland Map of Towns Currently Affected by Flood, as at 14 January 2011



ATTACHMENT B

EFFECTS OF THE 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.

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Summary of Commonwealth assistance and estimates variations for Queensland floods^a as at 14 January 2011

Assistance	Preliminary costs	Measure / variation	Media release
Queensland - Natural Disaster Relief and Recovery Arrangements (funding counter disaster operations for infrastructure with QLD) - restoration of essential public infrastructure (such as bridges, roads, schools) - personal hardship and distress grants	Unknown, but expected to exceed \$1 billion ^b	Variation	PM - 31/12/2010
Bring forward of Financial Assistance Grants to Queensland	nil (\$77 million within year)	Variation	MRARDLG - 5/01/2011
Australian Government Disaster Recovery Payment (AGDRP) - \$1,000 per adult, \$400 per child	\$230 million ^b (approx \$26 million already paid)	Variation	PM - 31/12/2010
Disaster Income Recovery Subsidy (DIRS) (for example Newstart)	\$120 - 140 million ^c	Measure	PM - 10/01/2011
Donation to Queensland Premier's Relief Fund	\$1 million	Measure	PM - 29/12/2010

a) The summary table does not include any extra call on welfare payments such as the Crisis Payment and the Hardship Payment.

b) Does not include costs for Toowoomba, Brisbane or Ipswich. It is expected that the Attorney-General may request additional assistance to cover funeral expenses, which may be covered under Category D of the NDRRA, and treated as a measure.

c) This estimate assumes payment for a single 13-week period. An extension of the period will change the estimated cost of the measure. The estimate for DIRS is currently being revised as more information becomes available. It is expected this revision will increase the estimated cost.

ATTACHMENT D

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