

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 14 – 15 February 2007

Question: aet 96

Topic: Impact of Drought

Hansard Page: E34-35

Senator SHERRY asked:

What about the impact of drought on, for example, short-term fruit and vegetable prices, bread and dairy commodities—milk and cheese? Every time I have been into the supermarket in the last year, prices in the food sector seem to be increasing in comparison to other areas

Dr Kennedy—Certainly food prices have been growing more rapidly than other prices, but that has not all been drought related. There has been frost related activity and other climate events that have driven some of those food price increases.

Senator SHERRY—But the principal climatic impact would be drought, would it not?

Dr Kennedy—The most recent movements around fruit and vegetables—and I will confirm this for you later—I think were more due to frost related activity, and obviously there were the cyclones around the wellknown banana effect. But certainly there will be drought effects.

Senator SHERRY—So you have that issue under close examination? There are significant parts of Australia that are drought stricken and I would have thought it reasonable—

Dr Kennedy—It is the major reason for us revising our growth down from 3¼ per cent to 2½ per cent in 2006-07.

Answer:

Food prices increased by 0.5 per cent in the December quarter 2006, reflecting a strong increase in the price of vegetables (which increased by 4.1 per cent in the quarter). Adverse weather conditions, including hail storms and late spring frosts, led to shortages of vegetables.

Overall, the net effect of the drought on inflation is expected to be relatively small.