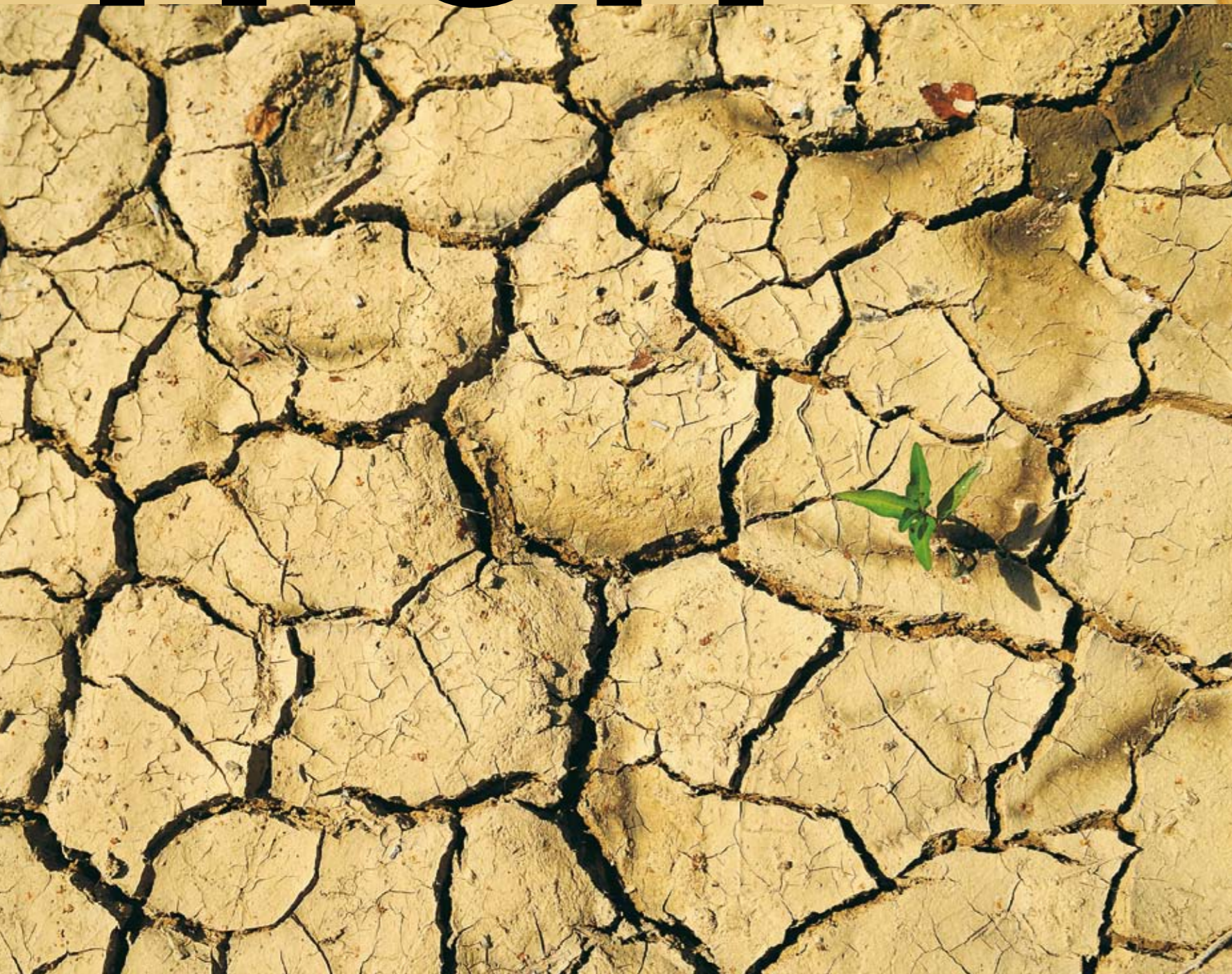


St.George's economic experts assess the impact of the drought on the economy. Compiled by **Marie Tasevski**.

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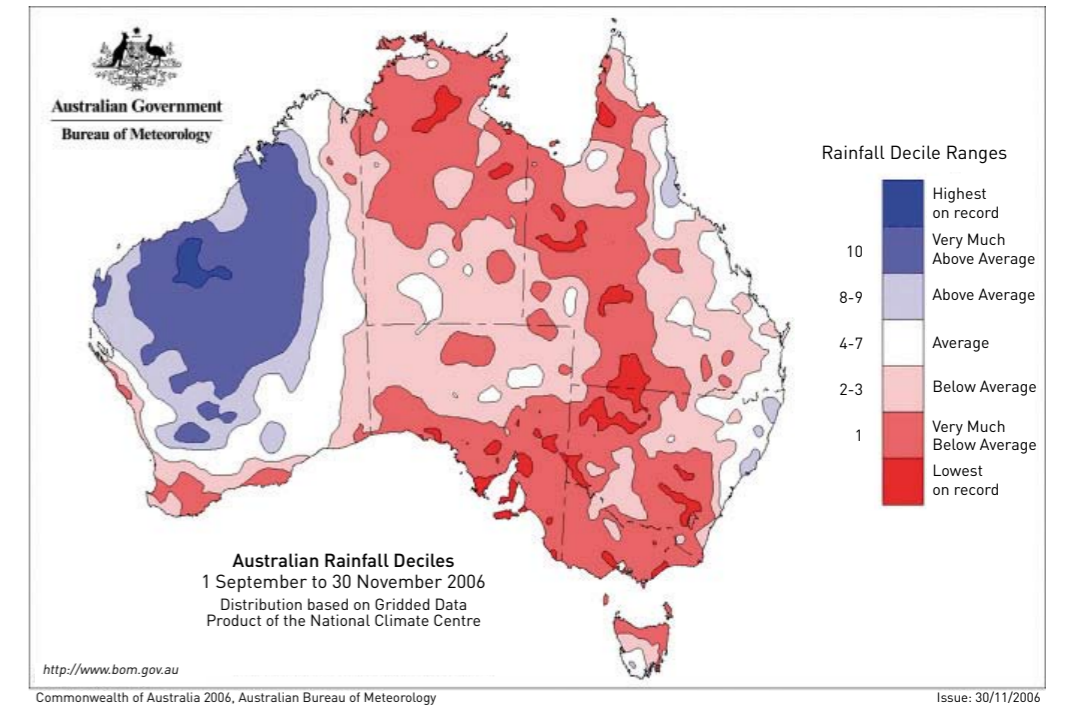


Given Australia's geographical location, drought has long been a part of life for the nation. Records dating back to 1864 show severe droughts have occurred roughly every 18 years. The effect of the drought is exacerbated when it is accompanied by the El Niño-Southern Oscillation effect, which can wreak havoc in much of Eastern and Northern Australia.

This effect can be seen this year as the country goes through one of the worst droughts in recorded history. In the three months to October 2006, most of Eastern Australia had rainfall that is very much below the average, and regional pockets in South Australia, New South Wales and Queensland received the lowest rainfall on record. With most of the winter grain-growing regions affected, the drought has been disastrous for the agricultural industry. The nation's agricultural body, ABARE (the Australian Bureau of Agricultural and Resource Economics), has forecast a 63 per cent decline in the total production of the three major winter crops (wheat, barley and canola), from 36.4 million tonnes in 2005/06 to just 13.6 million tonnes this year. A breakdown of these crops shows the national wheat crop is forecasted to fall by 62 per cent, whereas the national barley crop will decline by 64 per cent and canola production is to drop by 69 per cent.

Agriculture may only make up less than 3 per cent of national economy, however the impact of the drought on GDP will be severe and far reaching. Forecasts show that the gross value of production of the three grains is expected to fall from \$8.1 billion in 2005/06, to \$3.7 billion in 2006/07. This is a huge drop in production of rural products and will have implications on farmers incomes, exports, inflation and therefore GDP.

Firstly, farmer's incomes will reduce dramatically even when the increase in grain prices is taken into account. Also, exports are expected to drop significantly as rural exports make up 12.5 per cent of the total value of goods and services exported. The decline in agricultural exports may



reverse our improving trade balance and wipe out any hope of realising a trade surplus in the near future.

The increase in grain prices will filter through to the price of other goods such as bread, cereals and even beer. It is predicted that food price inflation will increase by as much as 1.25pp, which will push up the CPI at around 0.2pp. Indeed, the Reserve Bank has estimated that the total effect of drought will shave off around 0.75 per cent of GDP in 2006/07.

There is no doubt that the current drought is just as devastating as the previous drought in 2003. However, the major difference is that growth in non-farm output is much slower in 2006/07 than that of 2003. This means that this drought will be felt much more as the economy is starting from a weaker base.

