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Review of the Reserve Bank of Australia Annual Report 2013 (Second Report)

House of Representatives
Standing Committee on Economics

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Chair's foreword

The RBA noted in its May 2014 Statement on Monetary Policy that 'overall economic activity picked up over the past six months with the economy looking like it grew at close to its long-run average pace over this period.' The RBA also commented that 'the outlook for Australia's trading partner growth is little changed since the February Statement' and that 'growth of Australia's trading partners in year-average terms is forecast to be around its long-run average in 2014 and 2015.'

Although the outlook for inflation appears to be a little higher than six months ago, the Governor remarked at the 7 March hearing before the committee that it remains consistent with the medium term target.

It is clear that the decline in investment by the mining companies is set to continue and that other sources of growth are needed for the Australian economy. The Governor expressed the view at the hearing that other areas of demand such as non-mining capital expenditure could partly offset this downturn.

The labour market is likely to remain soft for a while due to the current period of below trend growth but it is notable that the indicators in this regard have recently become more positive.

As noted by the RBA in its May Statement, the exchange rate remains a significant source of uncertainty for economic and inflation forecasting, although the Australian dollar is currently trading at about 10 per cent below its 2013 peak. The Governor noted that this price could not realistically be fixed in the long run but reiterated his view that the dollar was still overvalued based on costs and productivity relative to other countries.

Demand for new housing appears to have remained strong, including first home owner grants and loan approvals for new dwellings. The Governor commented that construction of new dwellings will probably rise strongly in the year ahead.

As Australia has been undersupplied in recent years in terms of new dwellings, increases in residential construction activity are to be welcomed.

In recent years, productivity growth has been somewhat sluggish in Australia. However, the Governor suggested that this is likely to improve with the ramping up of output growth in the resources sector. It is likely that other drivers of productivity growth will also be needed.

The RBA Board decided to leave the cash rate unchanged at 2.5 per cent at its most recent meeting on 3 June. The Governor stated that in the Board's judgement, monetary policy was appropriately configured to foster sustainable growth in demand and inflation outcomes and that the most prudent course is likely to be a period of stability in interest rates.

On behalf of the committee I would like to thank the Governor of the Reserve Bank, Mr Glenn Stevens, and other representatives of the RBA for appearing at the hearing on 7 March 2014.

Kelly O'Dwyer MP
Chair



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Membership of the Committee

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