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Review of the Reserve Bank of Australia Annual Report 2017 (Second Report)

House of Representatives
Standing Committee on Economics

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Chair's foreword

On 7 August 2018 the Reserve Bank of Australia (RBA) left official interest rates unchanged at 1.50 per cent. In making this decision, the Governor commented that accommodative monetary policy was continuing to support growth in the Australian economy and the Board did not see the need to alter the cash rate.

At the public hearing on 17 August 2018, the committee scrutinised the Board's decision to maintain the cash rate at its lowest historical level for the past two years, given that Australia's economy is now growing above three percent and the unemployment rate has dipped below 5½ per cent. The Governor noted that, 'in the broad sweep of our economic history, these are a pretty good set of numbers', and said the RBA expects further progress in reducing unemployment and having inflation return to target. However, he said this progress is likely to be gradual.

Australia's economy continues to grow strongly and the RBA expects GDP growth to average around 3¼ per cent by the end of 2018 through to the end of 2019, reflecting above trend growth in a number of major economies. This is being supported by a pick-up in non-mining investment, strong commodity prices, growth in investment in energy projects and public sector infrastructure, low interest rates and the tax cuts already in place for small and medium businesses.

While the global economy is growing strongly, the Governor reported that a number of risks have emerged that could dampen investment and growth, such as the escalation of trade tensions between Australia's biggest trading partners, the United States and China. He noted it is in everyone's interests for China and the United States to resolve their differences and that it was important Australia continued to promote free trade as a path to prosperity in international fora.

Australia's labour market has continued to strengthen with the labour force participation rate currently at around 65.5 per cent, which is close to its historical high. Strong, continued growth in employment is expected to further reduce spare capacity in labour markets and generate a gradual increase in wages and inflation.

While growth in average wages has been relatively low, we have turned the corner on wages growth. The wage price index increased by 0.6 per cent in the June quarter, which is the fastest quarterly increase since March 2014.

On behalf of the committee, I thank the Governor of the Reserve Bank, Dr Philip Lowe, and other representatives of the RBA for appearing at the hearing on 17 August 2018. I would also like to thank the former Chair of the committee, Ms Sarah Henderson MP, for her contribution.

Tim Wilson MP
Chair



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Membership of the Committee

Chair	Mr Tim Wilson MP (from 10 September 2018) Ms Sarah Henderson MP (to 28 August 2018)
Deputy Chair	The Hon Matt Thistlethwaite MP
Members	Mr Adam Bandt MP Ms Julia Banks MP Mr Scott Buchholz MP (to 28 August 2018) Mr Trevor Evans MP Mr Jason Falinski MP (from 20 June 2018) Mr Kevin Hogan MP (to 27 March 2018) Ms Ged Kearney MP (from 21 May 2018 to 10 September 2018) Mr Craig Kelly MP Mr Matt Keogh MP The Hon Craig Laundy MP (from 10 September 2018) Mr Josh Wilson MP (to 10 May 2018 and from 10 September 2018)

Committee Secretariat

Secretary	Mr Stephen Boyd
Inquiry Secretary	Dr John White
Office Manager	Ms Jazmine Rakic



Terms of reference

The House of Representatives Standing Committee on Economics is empowered to inquire into, and report on, the annual reports of government departments and authorities tabled in the House that stand referred to the committee for any inquiry the committee may wish to make. The reports stand referred in accordance with the schedule tabled by the Speaker to record the areas of responsibility of the committee.



Abbreviations

CPI	Consumer Price Index
GDP	Gross Domestic Product
RBA	Reserve Bank of Australia