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Review of the Reserve Bank of Australia Annual Report 2010 (Second Report)

House of Representatives Standing Committee on Economics

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Chair's foreword

The latest hearing took place shortly after the flooding of much of eastern Australia, especially Queensland, and after Cyclone Yasi. Australians will never forget the images of city centres, suburbs and whole towns under water, still less loved ones, neighbours or colleagues lost to flash foods and related incidents.

These disasters were mitigated to a degree by the combined efforts of the armed and emergency services, governments at all levels, police and the general public. The generosity with which so many Australians donated time and effort to assist neighbours and strangers alike revealed a reservoir of civic resilience which has been reassuring to witness.

While the ultimate cost of the floods and Cylone Yasi is yet to be fully quantified, it is clear that the expenses involved with replacing or renovating housing, industry and infrastructure alone will have a macro-economic effect, to say nothing of the impact on household expenditures of all sorts, the nation-wide market from fruit and vegetables or the export of coal.

It is clear that Australia's economic situation is almost ideally placed to support the massive task ahead. While the extreme weather conditions is expected to reduce real GDP growth considerably in the last quarter of 2010 and the first quarter of 2011, perhaps by as much a full percentage point, growth should pick up after this. The stimulus from the rebuilding effort is expected to bring about a temporary rise in CPI inflation, most likely to 3 per cent, for the June quarter of 2011. After this, inflationary pressure should ease off. Monetary policy is on target to meet the goals of its long-standing policy on maintaining inflation within the 2 to 3 per cent band over the medium-term.

The drivers for growth are diverse, but the principal one is our exceptional terms of trade. Several times the Governor of the RBA advised the committee that our current terms of trade constitute a once or twice in a century event.

These terms of trade are made possible by the surge in growth in the industrialising countries, especially China and increasingly India as well. This in turn augments global growth, which according to the IMF is now growing at above average rates. This growth has fuelled global demand for Australian coal and iron ore, which led to a strong surge in private sector investment, in particular in the resources industry.

The strength of our current growth has ensured that the economy is increasingly close to full capacity. Despite the need for caution, it is clear that we are not experiencing either a wages-break-out or a systemic supply-side crisis in the labour market. It would appear that Australian households are using the growth in income to retire household debt and increase savings, thereby adding to the future resilience of our economy.

In conclusion, 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 11 February 2011. The next public hearing will be held on 26 August 2011 in Melbourne.

Craig Thomson MP

Chair



Contents

Chair's foreword	iii
Membership of the Committee	vii
Terms of reference.....	viii
List of abbreviations	ix

THE REPORT

1	Introduction	1
	Background	1
	Scope and conduct of the review	2
	Next public hearing with the Reserve Bank of Australia	2
2	Monetary policy and other issues	3
	Overview	3
	Forecasts for the economy	4
	Inflation	8
	Queensland and capacity constraints	10
	Global economy	10
	Exchange rate	11
	Multispeed economy	12
	Capex and other stimuli	13
	Household debt	14

Cash rate	16
Labour market and wages.....	17
Bank competition.....	18
Conclusions	19

APPENDICES

Appendix A — Hearing, briefing, and witnesses	21
Appendix B — <i>Fourth statement on the conduct of monetary policy</i>	23
Appendix C — Glossary of terms	27



Membership of the Committee

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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.



List of abbreviations

CPI	Consumer Price Index
GDP	Gross Domestic Product
IMF	International Monetary Fund
RBA	Reserve Bank of Australia