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Review of the Reserve Bank of Australia Annual Report 2006 (First Report)

House of Representatives
Standing Committee on Economics, Finance and Public Administration

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Chairman's foreword

Strong global commodity prices continue to fuel Australia's sustained period of economic growth. In these expansionary conditions, the role of the RBA is crucial in ensuring that inflation is controlled and monetary policy facilitates the stability of the Australian currency and the maintenance of full employment.

It is widely recognised that Australia is experiencing capacity constraints – shortages of capital and labour – as a result of its strong and extended period of economic growth. The unemployment rate remains very low by historical standards, and the effects of this are further heightened by record high labour participation rates.

Job vacancies continue to increase, and strong demand for labour is confirmed by a range of business surveys and liaison reports. A high level of business investment, however, is expected to bring about expansions in capacity, particularly in the resources sector.

Favourable conditions in global commodities markets have created an expansionary environment in Western Australia, however Mr Stevens highlighted the spread of these effects throughout the country. Resources have been shifting to areas where they are most needed, and employment growth is strong in all states.

In mid 2006, the economy experienced a mild pick-up in inflation as a result of solid economic growth and the associated capacity constraints. The RBA Governor reported that he was 'considerably more comfortable' with inflation expectations now than in August or November 2006 although the inflation challenge is far from over and vigilance will be required over the short to medium term.

I would also like to take this opportunity to commend Mr Glenn Stevens on his first appearance as the new Governor of the RBA and look forward to meeting with him and other RBA representatives at the next public hearing on 17 August 2007 at the Gold Coast Convention and Exhibition Centre, Broadbeach.

The Hon Bruce Baird MP
Chair



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List of abbreviations

CAD	Current Account Deficit
CPI	Consumer Price Index
GDP	Gross Domestic Product
GST	Goods and Services Tax
OPEC	Organisation of Petroleum Exporting Countries
RBA	Reserve Bank of Australia