The Parliament of the Commonwealth of Australia

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

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

September 2007
Canberra

ISBN 978-0-642-79007-1 (Printed version)
978-0-642-79008-8 (HTML version)

Chairman's foreword

The August 2007 hearing was conducted in the light of a strong domestic economy but at the same time some volatility on global markets as a result of growing problems in the US sub-prime mortgage market.

The rising delinquency rates in the sub-prime mortgage market have resulted in a sharp fall in prices to mortgage backed securities and collaterised debt obligations which created problems for the holders of these products. A range of central banks acted during this period to increase liquidity in the banking system.

Notwithstanding these problems, the RBA reported that global growth remains strong. The RBA stated that 'while there has been a slowing in the United States, this has so far been largely confined to the housing sector, with the wider economy still growing at a reasonable pace.'

The June quarter CPI figures revealed an increase in inflation. The RBA raised its December 2007 underlying inflation forecast to 3.0 per cent, the top of its target band. On 8 August the RBA, based on the new inflation data and other information, raised rates by 25 basis points to 6.50 per cent.

The committee examined the RBA on the accuracy of its inflation forecasts in view of the fact that its August forecast for December 2007 inflation was 50 basis points above its May forecast. The RBA Governor explained that while there was a pick up in inflation during 2006, one quarter revealed a softer figure. It was not clear whether that was a new trend or an aberration. Notwithstanding this, Mr Stevens concluded that 'ongoing strength of demand in a fully employed economy might leave us with inflation pressure that is harder to manage than expected.'

In conclusion, I take this opportunity to say a personal farewell. The public hearing held on 17 August 2007 was my final hearing as Chair of the committee as I will not be standing for re-election at the forthcoming 2007 election. I have thoroughly enjoyed the responsibility and challenge of being Chair of the committee and appreciate the contribution of my fellow committee members.

The Hon Bruce Baird MP
Chair

Contents

APPENDICES

Membership of the Committee

Chair	The Hon Bruce Baird MP	
Deputy Chair	Ms Sharon Bird (from 1 March 2007)	
Members	Mr Steven Ciobo MP	Mr Stewart McArthur MP
	Dr Craig Emerson MP	Mr Patrick Secker MP
	Ms Sharon Grierson MP	The Hon Alex Somlyay MP
	Mr Michael Keenan MP	Mr Lindsay Tanner MP

Committee Secretariat

Secretary	Mr Stephen Boyd
Research staff	Ms Sharon Bryant
Administrative Officer	Ms Natasha Petrovic
	Mrs Frances Wilson

Terms of reference

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

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

1

Introduction

Background

1.1 The House of Representatives Standing Committee on Economics, Finance and Public Administration (the committee) is responsible for scrutinising the Reserve Bank of Australia (RBA) and for ensuring its transparency and accountability to the Parliament, the community, and the financial sector.

1.2 The RBA Governor's appearances before the committee at biannual public hearings are an important element of the Bank's accountability framework. The details of this framework are set out in the *Third Statement on the Conduct of Monetary Policy,* agreed between the Treasurer, the Hon Peter Costello, MP, and the RBA Governor, Mr Glenn Stevens. The statement formalises the biannual appearance before the committee. The statement, which is reproduced at Appendix C, states:

> The Governor has also indicated that he plans to continue to be available to report on the conduct of monetary policy twice a year to the House of Representatives Standing Committee on Economics, Finance and Public Administration. The Treasurer expresses continuing support for these arrangements, which ensure the continued transparency and accountability of the Reserve Bank's conduct of monetary policy—and therefore the credibility of policy itself.[1]

1 RBA, *Third Statement on the Conduct of Monetary Policy*, September 2006.

1.3 A second procedural mechanism for achieving this accountability is set out in the Standing Orders of the House of Representatives, which provide for the referral of annual reports within a committee's area of portfolio responsibility for any inquiry the committee may wish to make. Accordingly, the committee may inquire into aspects of the annual reports of the RBA.

1.4 The biannual hearings coincide with the release of one of the RBA's quarterly *Statements on Monetary Policy*. At the August 2007 hearing the committee scrutinised the RBA's *Statement on Monetary Policy* released on 13 August 2007.

Scope and conduct of the review

1.5 The sixth public hearing of the committee with the RBA during the 41st parliament was held on the Gold Coast, Queensland on 17 August 2007.

1.6 The proceedings of the Gold Coast hearing were audio streamed over the internet through the Parliament's website, allowing interested parties to hear the proceedings as they occurred. The Governor's opening statement was taken as a submission and the transcript of the hearing is available on the committee's website.[2]

1.7 Before the hearing, the committee received a private briefing from Mr Kieran Davies, Chief Economist, ABN-AMRO. This briefing provided valuable background information for the committee and perspectives on issues for discussion at the public hearing. The committee appreciates Mr Davies' cooperation and assistance.

1.8 The committee also appreciates the provision of additional briefing material from Mr Anthony Housego of the Parliamentary Library Research Service.

1.9 The Gold Coast hearing was well attended by members of the public and staff and students from Elanora State High School, Nerang State High School and Canterbury College.

1.10 The public hearings with the RBA continue to bring issues of monetary policy into the public arena, and also have assisted in providing a public face to parliamentary committees and the RBA. The committee welcomes the Governor's frank and open comments at the hearings. In addition, the hearings are an important means whereby financial markets can be better informed on the current thinking of the RBA.

2 See: <http://www.aph.gov.au/house/committee/efpa/index.htm>

1.11 The report focuses on matters raised at the public hearing, and also draws on issues raised in the RBA's *Statement on Monetary Policy*. The *Statement on Monetary Policy* may be viewed through the RBA's website.

2

Monetary policy and other issues

Overview

2.1 The August 2007 hearing was conducted in the light of a strong domestic economy but at the same time some volatility on global markets as a result of growing problems in the US sub-prime mortgage market.

2.2 The strength of the domestic market was further demonstrated on 8 August 2007 by the decision of the Reserve Bank of Australia (RBA) to raise the cash rate by 25 basis points to 6.50 per cent. In explaining the rate rise, the RBA commented that 'domestic economic data in recent months have signalled a pick-up in the pace of growth in demand and activity.' In particular, the RBA noted that 'capacity utilisation is high after a lengthy period of expansion, and unemployment over recent months has continued to decline.' The RBA concluded that 'for some months, the Board has recognised that stronger economic conditions were likely to put upward pressure on inflation, notwithstanding some dampening influence from the higher exchange rate.'[1]

2.3 The RBA noted that following the three rate adjustments in 2006 'the improving short term trend in inflation afforded us time to watch developments.'[2] However, the June 2007 quarter CPI showed a pick-up-in inflation which demanded an adjustment to monetary policy.

---

1 Reserve Bank of Australia, *Media Release*, Statement by Glenn Stevens, Governor, Monetary Policy, 8 August 2007.

2 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 3.

2.4 The RBA reported that growth picked up sharply in the December and March quarters. Real GDP is estimated to have expanded by about 3.75 per cent over the year to March.

2.5 In this growth environment the demand for labour has continued to expand. Unemployment is at its lowest rate for over 30 years and job vacancies are high.

2.6 The global economy remains strong with estimates of growth for 2007 likely to be over 5 per cent. In particular the growth and demand from China and India is significant.

Forecasts for 2007-2008

2.7 Global economic growth remains favourable. The RBA reported that 'current expectations of official and private-sector observers are that the world economy will continue to grow at an above-average pace in both 2007 and 2008.'[3] Slower growth in the US is expected to be offset by stronger growth in China and other major economies.

2.8 Problems in the US sub-prime mortgage market have resulted in some volatility on world financial markets. The RBA concluded that 'the extent to which these financial events might affect global growth remains uncertain.'[4]

2.9 Growth in the domestic economy also remains strong. Prices for commodities remain high and in some cases have strengthened. The RBA reported that 'analysts forecasts of contract prices for Australia's bulk commodity exports have generally been revised upward, reflecting further increases in expected demand from China.'[5]

2.10 The strength of commodity prices together with higher interest rates in Australia have underpinned the rise in the Australia dollar against the US dollar. Although there was some depreciation following the disturbances in credit markets.

2.11 In relation to the domestic economy, GDP over the year to the March quarter has grown by 3.8 per cent. Non-farm GDP is estimated to have grown by 4.6 per cent over the same period. The RBA stated that 'while some allowance needs to be made for the inevitable quarterly volatility in these figures, the broad picture from the national accounts accords with a

3 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 1.

4 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 1.

5 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 2.

range of other information pointing to above-average growth in the non-farm economy.'[6]

2.12 The RBA notes that prospects for the farm sector have improved following good rainfall in the eastern states. A recovery in farm output is expected to add about 0.5 percentage point to overall GDP growth in 2007-08.[7]

2.13 Domestic spending and consumer sentiment remain strong with the exception of housing construction.

2.14 With the economy growing at an above average pace, the RBA concluded that capacity pressures are likely to persist in the near term. However, 'there is little sign that these pressures are leading to any generalised pick-up in wages growth, although strong wage increases are occurring in industries facing particular labour scarcity such as construction and mining.'[8]

2.15 In particular, the RBA noted that prices data have indicated a pick-up in inflation. The CPI for the June quarter showed an increase in quarterly inflation in both headline and underlying terms. The **headline CPI** rose by 1.2 per cent in the quarter and by 2.1 per cent over the year. The RBA noted caution with the headline figure commenting that 'the CPI in recent quarters has been influenced by some sharp fluctuations in fuel and food price, and so the headline figures at present are a poor guide to the underlying trend.'[9]

2.16 The RBA's measure of **underlying inflation** seeks to remove temporary influences from the data. Underlying inflation shows 'an increase of 0.9 per cent in the quarter and 2.75 per cent over the year, higher than was incorporated in the forecasts presented in the May statement.' [10]

2.17 The RBA Board at its August meeting considered the strength of the domestic economy and the risks this posed to inflation. At the same time, the Board considered that global growth remained strong notwithstanding recent difficulties in credit markets in the US. Mr Stevens commented that 'the credit market developments add a further degree of uncertainty about the outlook.' Mr Stevens stated:

> Subject to that uncertainty, the picture is one of growth close to trend and the economy remaining close to full employment. Under

6 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 2.

7 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 2.

8 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 3.

9 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 3.

10 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 3

> such circumstances, **inflation is likely to be around 3 per cent over the coming year, and near the top of the target zone in the following year**. As far as risks to that forecast are concerned, the possibility that the world economy might end up being weaker than assumed, due to a persistence of credit difficulties, is one that everyone will have in mind at present. At the same time, there is also the possibility that ongoing strength of demand in a fully employed economy might leave us with inflation pressure that is harder to manage than expected.[11]

Inflation targeting and monetary policy

2.18 The *Third Statement on the Conduct of Monetary Policy*, agreed on 18 September 2006 between the Treasurer and the new Governor of the Reserve Bank, Mr Glenn Stevens, outlines the objective of monetary policy and provides an inflation target.

2.19 The goals of monetary policy as set out in the *Reserve Bank Act 1959* require the Reserve Bank Board to conduct monetary policy in a way that, in the Board's opinion, will best contribute to:

- the stability of the currency of Australia;
- the maintenance of full employment in Australia; and
- the economic prosperity and welfare of the people of Australia.[12]

2.20 The Third Statement on the Conduct of Monetary Policy also states that

> In pursuing the goal of medium term price stability, both the Bank and the Government agree on the objective of keeping consumer price inflation between 2 and 3 percent, on average, over the cycle. This formulation allows for the natural short run variation in inflation over the cycle while preserving a clearly identifiable benchmark performance over time.[13]

2.21 During the hearing the committee focused on the background behind the 8 August rate rise and the short to medium term outlook for monetary policy. In addition, the committee scrutinised the RBA on the accuracy of its modelling which underpins its CPI forecasts. The RBA in its May 2007 *Statement on Monetary Policy* forecast underlying inflation to the December

11 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 5.

12 RBA, *Third Statement on the Conduct of Monetary Policy*, September 2006.

13 RBA, *Third Statement on the Conduct of Monetary Policy*, September 2006.

2007 quarter to be 2.5 per cent.[14] In the August statement this figure was revised up to 3.0 per cent.[15] The May forecast was based on actual data to March 2007 and the August forecast was based on actual data to June 2007. Mr Stevens explained the background behind the RBA's CPI modelling:

> We are not tied to any one particular statistical or econometric model, if that is what you are referring to. We have at least half-a-dozen models of inflation that I know of, and probably more. We run all of those. The forecast that we end up with is model informed but also heavily influenced by our judgement. Perhaps where this line of questioning takes us towards is the fact that it has been a little bit difficult to read what the current trend in inflation has been over recent quarters. As you will recall, last time we met we had had some trend towards a pick-up in inflation during 2006 and then we had one quarter of a softer figure. I said at the time that that was good news but it was not clear whether that was a new trend or just an aberration and we felt that the inflation episode was not yet complete. Subsequent to that, we got another low figure.[16]

2.22 As previously discussed, the 8 August rate rise was heavily influenced by the higher than expected June quarter CPI figures. Other factors bearing on the RBA are the continuing capacity constraints, the strength of the economy and the tight labour market. Mr Stevens commented that 'ongoing strength of demand in a fully employed economy might leave us with inflation pressure that is harder to manage than expected.'[17] On the outlook for inflation, Mr Stevens stated:

> If you face an economy in our circumstances, we are clearly very fully employed. We are getting a stimulus from the rest of the world which is quite powerful and which is, I would say, beyond in some sense the normal cyclical ups and downs of our terms of trade. So there is quite a big set of forces at work there. I think you would have to be feeling that, in that world, you have got to be on the look-out for inflationary pressures. So, if that is the world we face and that is the world we are assumingly facing in putting these forecasts together, we are at a point where we are certainly

14 RBA, *Statement on Monetary Policy*, 4 May 2007, p. 58.
15 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 63.
16 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 7.
17 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 5.

> more worried about inflation being too high than we would be about growth being too low.[18]

2.23 While unemployment is running at 4.3 per cent and the tight labour market has been emphasised repeatedly, there has not been a wages breakout leading to inflationary pressure. The flexibility in the wages system was examined. Mr Stevens stated:

> The system we have today, which we have evolved over many years of gradual changes to labour market institutions, is one where there are big gains in wages in mining or some parts of manufacturing and construction but very small wage gains are going on if you work in retailing or some parts of the hospitality industry. So a relative shift in labour costs is occurring just as the textbook says it should in a circumstance where you have had a shock to the economy which delivers big income gains via one sector. So, in the broad, qualitatively, the shift in relative wages that is occurring, I would say, makes sense from an economic point of view. The aggregate growth in labour costs—and we had a figure just a day or two ago—shows that it is still trundling along at about four in overall terms, which was quite a good outcome, given that those wage rises have not budged in aggregate for about three years, while the unemployment rate has kept falling. That is clearly, I think, a much more flexible labour market handling the shock much better than it would have 20, 30 or 40 years ago. I think that has been quite important.[19]

2.24 The committee also sought information about the extent to which current interest rates were neutral or contractionary, the 'lag effect' behind monetary policy, the setting of monetary policy during a caretaker period of an election campaign and the influence on Australian rates, if any, of monetary policy adjustments by the Federal Reserve.

The 'neutral level' of interest rates

2.25 A feature of past hearings has been to confirm with the RBA the desired impact of the current level of interest rates. In August 2006, the then Governor confirmed that the level of the cash rate which at that time was 6.00 per cent was near the top of the neutral band. In February 2007 Mr Stevens confirmed that the cash rate of 6.25 per cent was 'mildly on the restrictive side of neutral.' At the August 2007 hearing, with the cash rate

18 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 9.

19 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 7.

at 6.50 per cent, Mr Stevens stated that rates were 'slightly more on the restrictive side.'[20] Mr Stevens stated:

> Those kinds of calibrations are done by just looking at the average of history. I think that is a reasonable thing to do. It is probably also worth asking this question: how restraining are the borrowers actually finding it? The way we would probably try to answer that is to look at what the demand for credit is doing. That has actually increased somewhat over the past six months. The very short-term data have been affected by what appears to have been a large amount of borrowing to put money into superannuation in June, and we have to wait until next month's number to see how far that falls back. But prior to that there looked to be some slight firming in demand for credit by households and quite a big pick-up in business borrowing, with business credit actually growing over the past six months at the highest pace for 20 years. So I think we are exerting some mild restraint that is probably affecting the households, and now slightly more after last week. That would be my judgement.[21]

The 'lag effect' of interest rates

2.26 The impact of monetary policy adjustments are not always immediate. There is a lag between the time of a rate change and the flow on effects through the economy. As there have been three rates rises during 2006 and another in August 2007 the committee examined the RBA on its knowledge of the impact of these rate rises. Mr Stevens explained that while 'lags' can be fairly long there are some immediate effects relating to consumer confidence. Mr Stevens stated:

> It has always been thought that the lags can be fairly long. There is an initial confidence impact that is very quick, at least on some occasions. You typically see, and we did this time as well, the index of consumer confidence constructed by Westpac Bank and the Melbourne Institute going down very sharply just after a rate move. It tends to bounce back again pretty quickly. There is a confidence effect. If you think about a change in interest rates today, the time from that moment until the last worker produces the last consumer durable that is put in the last house that is built or not built because rates changed today is quite long. It is probably three years away. In the interim, the effect builds.

20 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 27.

21 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 27.

> Typically, the econometrics used to be that the mean lag—that is, when you get half the total effect—was about a year and a half, and the rest of it keeps coming more gradually after that. It does take time. Of course, that is important because in evaluating whether we have the level correct we have to keep in mind what we have already done and that what we are doing now has effects that last some time into the future. Lags can be long and most of the time they are long.[22]

Monetary policy and the election timetable

2.27 As part of the February 2007 hearing, the Governor responded to a question regarding the conduct of monetary policy and the fact that 2007 is an election year. Mr Stevens stated:

> There seems to be a view abroad that there is some almost unspoken tradition that we do not adjust rates in an election year. I have seen a number of references to my predecessor supposedly having said that. I do not recall that he did say that. What I can recall is that he said we would not be all that keen to be changing them in the election campaign. I know that the political process often talks about being in permanent campaign mode, but what I think he meant by that was the formal campaign in the month prior. He also said that if it had to be done it would be.[23]

2.28 As part of the current hearing, further clarification was sought as to whether the RBA Board would adjust interest rates during the caretaker period of an election campaign. Mr Stevens stated:

> …if it is clear that something needs to be done, I do not know what explanation we could offer the Australian public for not doing it, regardless of when the election might be due. I do not think that there is any case for the Reserve Bank board to cease doing its work for a month, in the month that the election is going to be. I doubt very much that members of the public would regard that as appropriate. So, should that data, or other data for that matter, make a clear case, I feel we have no choice; nor should we have any choice.[24]

2.29 The RBA Governor's position is noted. In recent times there has not been a conjunction of events in which a possible election date is coinciding with possible monetary policy adjustments. The RBA Board meets on the first

22 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 21.

23 Mr G Stevens, Governor of the RBA, *Transcript*, 21 February 2007 p. 24.

24 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 8.

Tuesday of each month and the outcome of Board meetings are announced the following day at 9.30am. Based on the 2006-2007 calendar of meetings, the Board did not meet in the eight week period between the December 2006 meeting and the February 2007 meeting.

2.30 As a comparison, the Federal Open Market Committee of the US Federal Reserve holds eight regularly scheduled meetings a year, and other meetings as needed. During 2008 no meetings of the FOMC are scheduled for February, May, July or November.

Federal Reserve rate adjustments

2.31 During the hearing, the Governor was asked if any possible rate reductions by the US Federal Reserve would lead to a rate reduction in Australia. The Governor responded that domestic inflationary factors would remain significant. Mr Stevens stated:

> I doubt that we would be contemplating a rate cut any time soon. We would have to have quite a different view on the outlook for inflation than we presently do. I am not saying that could not happen, but a fair few more developments would need to occur before we do. The markets are pricing cuts by the Fed, which does not mean the Fed will do it. They are pricing that, but I think they are still pricing an increase by us within the next year. That does not mean we have to do that either, but current expectations are quite different between the two countries—and not without reason, I would say.[25]

2.32 On 17 August 2007 the Federal Reserve announced a 50 basis points reduction in the discount rate in order to assist market liquidity and promote the restoration of orderly conditions in financial markets following liquidity problems caused by the sub-prime mortgage market. The discount rate is the interest rate charged to commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank's lending facility. In contrast, the federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.[26] The next meeting of the FOMC is scheduled for 18 September 2007.

25 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 32.

26 The Federal Reserve Board: [http://www.federalreserve.gov/policy.htm]

Exchange rates and external trade

2.33 The Australian dollar rose to 88.5 US cents during July before falling to 78 US cents on 17 August following problems relating to the US sub-prime mortgage market. The figure of 88.5 US cents was the highest since February 1989. By 20 August the dollar had climbed back to be just over 80 US cents.

2.34 The RBA attributes the broad-based strength of the Australian dollar to the terms of trade which have risen to their highest level in 50 years, and the general strength of the economy.[27]

2.35 The RBA reported that 'Australia's terms of trade are estimated to have been broadly flat in the June quarter, having risen by around 40 per cent over the past four years.'[28]

2.36 The RBA's index of commodity prices rose by 4.4 per cent over the year to July, which is the slowest rate of growth since late 2003.[29] During the hearing, the RBA was asked about projections for commodity prices. The RBA stated:

> For some time the conventional view has been that commodity prices are close to a peak and that what we would see is gradual declines from here on. If you trace back forecasts that have been made over the last three years, we always think we are close to a peak and that we are going to get that profile, and what has happened is they go up further and then we push out the expected falls. I think probably for base metals now we are seeing a bit more weakness, but that follows a period, particularly with nickel, where prices shot up very dramatically earlier this year.[30]

2.37 Rural commodity prices rose by 9 per cent over the three months to July with wheat prices rising by about 15 per cent. The RBA noted that the 'recent increases in rural export prices have been in line with rising food prices both in Australia and globally.'[31]

2.38 The coal market has tightened as China has become a net importer after historically being a net exporter. The RBA noted that as supply constraints persist, thermal coal prices have risen sharply in 2007.[32]

---

27 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 29.

28 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 12.

29 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 12.

30 Dr M Edey, Assistant Governor, *Transcript*, 17 August 2007 p. 27.

31 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 12.

32 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 13.

2.39 The RBA reported that oil prices have risen since the start of the year to be currently trading at US$75 per barrel.

United States, China and the global economy

2.40 The world economy continues to remain strong. Mr Stevens commented that 'the most recent forecasts for global growth made by the IMF were revised upwards only a few weeks ago, with growth now thought likely to be over 5 per cent in 2007, close to the 2006 result.'[33]

2.41 The RBA reported that 'growth has been fairly broad-based across countries, with rapid growth in China and other emerging economies, and firm growth in Europe and Japan.'[34] China and India are expected to continue growing strongly accounting for two fifths of projected global growth. The RBA commented that 'as yet, there are no indications that the recent turmoil in financial markets is having a significant effect on expectations for global growth.'[35]

2.42 Growth in the US, however, has been below trend for the past year. GDP increased by 0.8 per cent in the June quarter to be 1.8 per cent higher over the year, down from year-ended rates of 3 per cent in the previous couple of years.[36] In particular, the economy is being held back by the housing slump and the increasing mortgage foreclosures and growing arrears in the sub-prime mortgage market. The effects of this are not just limited to the US economy.

2.43 The RBA noted that trends in lending practices have provided greater opportunity for risky borrowers to access finance. Mr Stevens stated:

> Somewhere or other in this world, returns were eventually bound to disappoint someone. As it turns out, the problems emerged in the US housing sector. Lenders into the so called sub prime market attempted to keep the pace of business up as the US housing sector slowed during last year, but they could do this only by lowering lending standards. Before long, arrears began to rise as some borrowers struggled to meet their commitments.
>
> Once this deterioration in underlying asset returns had occurred, those with exposures inevitably began to see losses. Because this

33 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 2.

34 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 5.

35 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 5.

36 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 6.

> type of lending was via securitised structures sold into global capital markets, losses have been coming to light right around the world. In most cases, the losses are embarrassing rather than fatal for the institutions concerned.[37]

2.44 The RBA noted, however, that 'despite the weakness in the housing market, household consumption has remained relatively resilient in the face of the housing downturn.'[38] In addition, business investment rose solidly in the June quarter to be 3.4 per cent higher over the year.

2.45 In June, the core inflation (which excludes food and energy) was 2.2 per cent for the year, down from around 2.75 per cent late last year. The RBA noted that 'core inflation is generally expected to moderate further as growth in housing costs continues to slow, although there is some upside risk to this outlook from the high levels of resource utilisation and rising import prices.'[39]

2.46 The Chinese economy continues to grow strongly with GDP increasing by almost 12 per cent over the year to the June quarter. The RBA noted that inflation 'has picked up to be 4.4 per cent over the year to June, although excluding food, core consumer price inflation is estimated to have held steady at around 1.25 per cent.'[40] In response to rising inflation, the 'People's Bank of China has continued to tighten policy, increasing its reserve requirement ratio and benchmark lending and deposit interest rates.'[41]

2.47 The Indian economy continues to grow strongly 'with real GDP increasing by 2.7 per cent in the March quarter, to be 9 per cent higher over the year.'[42] The RBA noted that 'inflationary pressures have moderated, with wholesale price inflation slowing to below the Reserve Bank of India's 5 per cent target range.'[43]

Housing and household debt

2.48 The financial position of the household sector strengthened during the first half of 2007. The RBA reported that 'real household disposable

37 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 3.

38 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 7.

39 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 8.

40 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 10.

41 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 10.

42 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 11.

43 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 11.

income grew by 2.1 per cent in the March quarter, and by 6.4 per cent over the year, mainly reflecting the firm growth in labour income.'[44] In particular, 'household's net worth has continued to rise as the increase in the value of household assets has exceeded the increase in their debts'.[45]

2.49 On 10 August 2007 the committee conducted a round table public hearing into home loan lending practices. In relation to household finances an alternative perspective was raised that the high level of household debt could bring on a recession. This view was not entertained by the RBA. The RBA suggested that any analysis of debt could not be done in isolation from assets. At the hearing on 17 August, the RBA Governor was asked about the status of household balance sheets and the response was favourable:

> Household assets are still rising. Debts are rising too but I think that is manageable for most people. By all indications, confidence is high, incomes are growing well and, contrary to what we sometimes read in the papers about servicing debt and so on, the evidence from the lenders—and they are the people with an interest to know—is that the proportion of loans where there is a real struggle going on has gone up a bit but remains very low. I think that, on the whole, households are in good shape. That is not to deny that there are pockets where there is genuine distress. There are; but, at present at least, as distressing as those pockets are, I do not think that they are macroeconomically significant.[46]

2.50 The RBA reported that dwelling investment has been broadly stable as a share of GDP over the past year. The RBA noted that 'while construction activity picked up in the March quarter, building approvals fell moderately in the first half of the year, which points to some weakness in dwelling investment over the next couple of quarters.'[47]

2.51 In relation to house prices, the RBA reported that 'average nationwide housing prices continued to grow at a firm pace in recent months, with stronger growth in house prices than in unit prices.'[48] House prices increased in all state capitals with the exception of Perth.

---

44 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 34.

45 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 34.

46 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 31.

47 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 35.

48 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 35.

'Two speed' economy

2.52 As part of previous hearings, the committee has sought information on the variation in growth and employment between the states. In particular, attention has focused on the rate of growth between the resource rich states of Western Australia and Queensland and the other states. In the August statement, the RBA commented that 'labour markets conditions continue to be robust across all the states.'[49] Mr Stevens stated:

> One feature of the state-by-state divergences which has changed a bit since we talked about this before is that New South Wales has tended to pick up some momentum over the past little while. Possibly due to the fact that there was an election in New South Wales earlier in the year, there was quite a lot of talk about it being in recession. It never was. It was weak—weaker than the other parts of the country—but it has picked up a bit of speed in recent times. So that degree of divergence has diminished a bit.[50]

2.53 It was also noted that not only was there variation between states but also variation within states. For example, house prices in Western Sydney have fallen while house prices in the eastern suburbs are firming.

Capacity constraints

2.54 In previous hearings, the committee has been briefed on increasing capacity constraints. The economy has been growing for 16 years and capacity utilisation is close to full. At the February 2007 hearing, the RBA reported that 'the factor most constraining further expansion is not insufficient demand but insufficient capacity, either of labour or capital or both.'[51]

2.55 During the current hearing, the RBA was asked about the problem of skills shortages and the contribution made by increased levels of immigration. Mr Stevens noted that labour shortages continues to be the single most important factor constraining further expansion. In relation to immigration, Mr Stevens commented that 'immigration probably has been helpful in recent times in, at least to some extent, making these problems of shortages less than they would have been.' On the other side of the

---

49 RBA, *Statement on Monetary Policy*, 8 August 2007, p. 43.

50 Mr G Stevens, Governor of the RBA, *Transcript*, 17 August 2007 p. 21.

51 Mr G Stevens, Governor of the RBA, *Transcript*, 21 February 2007 p. 2.

ledger, Mr Stevens noted that while immigrants add to supply, they also add to demand.

The Hon Bruce Baird, MP
Chair
4 September 2007

A

Appendix A — Submission

Number	Provided by
1	Reserve Bank of Australia (*Opening Statement to House of Representatives Standing Committee on Economics, Finance and Public Administration, public hearing Gold Coast, Queensland, 17 August 2007)*

B

Appendix B — Hearing, briefing, and witnesses

Public hearing

Friday, 17 August 2007 – Gold Coast, Queensland

Reserve Bank of Australia

Mr Glenn Stevens, Governor
Mr Ric Battellino, Deputy Governor
Dr Malcolm Edey, Assistant Governor (Economic)
Dr Philip Lowe, Assistant Governor (Financial System)

Private briefing

Thursday, 16 August 2007– Canberra

Mr Kieran Davies, Chief Economist, ABN-AMRO

C

Appendix C — *Third statement on the conduct of monetary policy*

The Treasurer and the Governor of the Reserve Bank

18 September 2006

This statement records the common understanding of the Governor, as Chairman of the Reserve Bank Board and the Government on key aspects of Australia's monetary policy framework. It builds on the 1996 and 2003 Statements between the Treasurer and the former Governor on the respective roles and responsibilities in the operation of monetary policy in Australia.

Monetary policy is a key element of macroeconomic policy and its effective conduct is critical to Australia's economic performance and prospects. For this reason, and given the appointment of a new Governor of the Reserve Bank, it is appropriate and timely for the Governor and the Treasurer on behalf of the Government to affirm their mutual understanding of the operation of monetary policy in Australia.

This statement should continue to foster a clear understanding, both in Australia and overseas, of the nature of the relationship between the Reserve Bank and the Government, the objectives of monetary policy, the mechanisms for ensuring transparency and accountability in the way policy is conducted, and the independence of the Bank.

Relationship Between the Reserve Bank and the Government

The *Reserve Bank Act 1959* (the Act) gives the Reserve Bank Board the power to determine the Bank's monetary policy and take the necessary action to implement policy changes. The Act nominates the Governor as Chairman of the Board.

The Government recognises the independence of the Bank and its responsibility for monetary policy matters and respects the Bank's independence as provided by statute.

Section 11 of the Act prescribes procedures for the resolution of policy differences between the Reserve Bank Board and the Government. The procedures, in effect, allow the Government to determine policy in the event of a material difference; but the procedures are politically demanding and their nature reinforces the Bank's independence in the conduct of monetary policy. Safeguards like this ensure that monetary policy is subject to the checks and balances inherent and necessary in a democratic system.

The Act also provides that the Board shall, from time to time, inform the Government of the Bank's policy. Such arrangements are a common and valuable feature of institutional systems in other countries with independent central banks and recognise the importance of macroeconomic policy co-ordination.

Consistent with its responsibilities for economic policy as a whole the Government reserves the right to comment on monetary policy from time to time.

Objectives of Monetary Policy

The goals of monetary policy are set out in the Act which requires the Board to conduct monetary policy in a way that, in the Board's opinion, will best contribute to:

a. the stability of the currency of Australia;

b. the maintenance of full employment in Australia; and

c. the economic prosperity and welfare of the people of Australia.

The first two objectives lead to the third, and ultimate, objective of monetary policy and indeed economic policy as a whole. These objectives allow the Board to focus on price (currency) stability while taking account of the implications of monetary policy for activity and, therefore, employment in the short term. Price stability is a crucial precondition for sustained growth in economic activity and employment.

Both the Bank and the Government agree on the importance of low inflation and low inflation expectations. These assist businesses in making sound investment decisions, underpin the creation of new and secure jobs, protect the savings of Australians and preserve the value of the currency.

In pursuing the goal of medium term price stability, both the Bank and the Government agree on the objective of keeping consumer price inflation between 2 and 3 per cent, on average, over the cycle. This formulation allows for the natural short run variation in inflation over the business cycle while preserving a clearly identifiable performance benchmark over time.

Since the first Statement on the Conduct of Monetary Policy in 1996 inflation has averaged around the midpoint of the inflation target band. The Governor expresses his commitment to the inflation objective, consistent with his duties under the Act. For its part the Government indicates again that it endorses the inflation objective and emphasises the role that disciplined fiscal policy must play in achieving such an outcome.

Transparency and Accountability

Monetary policy needs to be conducted in an open and forward looking way. A forward looking focus is essential as policy adjustments affect activity and inflation with a lag and because of the crucial role of inflation expectations in shaping actual inflation outcomes. In addition, with a clearly defined inflation objective, it is important that the Bank continues to report on how it sees developments in the economy, currently and in prospect, affecting expected inflation outcomes. These considerations point to the need for effective transparency and accountability arrangements.

The Reserve Bank takes a number of steps to ensure that the conduct of monetary policy is transparent. Changes in monetary policy and related reasons are clearly announced and explained. The Bank's public commentary on the economic outlook and issues bearing on monetary policy settings, through public addresses, its quarterly statements on monetary policy and monthly statistical bulletins, promote increased understanding of the conduct of monetary policy. The Bank will continue to promote public understanding in this way.

The Governor has also indicated that he plans to continue the practice of being available to report on the conduct of monetary policy twice a year to the House of Representatives Standing Committee on Economics, Finance and Public Administration.

The Treasurer expresses continuing support for these arrangements, which ensure the continued transparency and accountability of the Reserve Bank's conduct of monetary policy — and therefore the credibility of policy itself.

The Government and Bank continue to recognise that outcomes, and not the arrangements underpinning them, will ultimately measure the quality of the conduct of monetary policy.

D

Appendix D — Glossary of terms

Australian Competition and Consumer Commission (ACCC). A Commonwealth statutory authority responsible for ensuring compliance with the *Trade Practices Act 1974* and the provisions of the Conduct Code and for administering the *Prices Surveillance Act 1983*. The Commission's consumer protection work complements that of State and Territory consumer affairs agencies.

Australian Payments Clearing Association Limited (APCA). A public company owned by banks, building societies and credit unions which has specific accountability for key parts of the Australian payments system, particularly payments clearing operations

Australian Prudential Regulation Authority (APRA). APRA is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most members of the superannuation industry

Australian Securities and Investments Commission (ASIC). One of three Australian Government bodies (the others being the Australian Prudential Regulation Authority and the Reserve Bank of Australia) that regulates financial services. ASIC is the national regulator of Australia's companies. ASIC has responsibility for market protection and consumer integrity issues across the financial system.

accrual accounting. Revenues and expenses are recorded as they are earned or incurred, regardless of whether cash has been received or disbursed. For example, sales on credit would be recognised as revenue, even though the debt may not be settled for some time.

acquirer. An institution that provides a merchant with facilities to accept card payments, accounts to the merchant for the proceeds and clears and settles the resulting obligations with card issuers.

average weekly earnings*.* Average gross (before tax) earnings of employees.

average weekly ordinary time earnings (AWOTE)*.* Weekly earnings attributed to award, standard or agreed hours of work.

average weekly total earnings*.* Weekly ordinary time earnings plus weekly overtime earnings.

balance on current account. The difference between receipts and payments as the result of transactions in goods, services, income and current transfers between Australia and the rest of the world. A current account deficit means that total payments exceed total receipts, while a current account surplus means the reverse.

bankruptcies. Bankruptcies and Administration Orders under Parts IV and XI of the Bankruptcy Act.

basis point. A basis point is 1/100th of 1 percent or 0.01 per cent. The term is used in money and securities markets to define differences in interest or yield.

BPAY. BPAY is a payments clearing organisation owned by a group of retail banks. Individuals who hold accounts with a BPAY participating financial institution can pay billing organisations which participate in BPAY, using account transfers initiated by phone or internet. The transfers may be from savings, cheque or credit card accounts.

business investment. Private gross fixed capital formation for machinery and equipment; non-dwelling construction; livestock; and intangible fixed assets.

card issuer. An institution that provides its customers with debit or credit cards.

cash rate (interbank overnight). Broadly defined, the term cash rate is used to denote the interest rate which financial institutions pay to borrow or charge to lend funds in the money market on an overnight basis. The Reserve Bank of Australia uses a narrower definition of the cash rate as an operational target for the implementation of monetary policy. The Reserve Bank of Australia's measure of the cash rate is the interest rate which banks pay or charge to borrow funds from or lend funds to other banks on an overnight unsecured basis. This measure is also known as the interbank overnight rate. The Reserve Bank of Australia calculates and publishes this cash rate each day on the basis of data collected directly from banks. This measure of the cash rate has been published by the Reserve Bank of Australia since June 1998.

cash rate target. As in most developed countries, the stance of monetary policy in Australia is expressed in terms of a target for an overnight interest rate. The rate used by the Reserve Bank of Australia is the cash rate (also known as the interbank overnight rate). When the Reserve Bank Board decides that a change in monetary policy should occur, it specifies a new target for the cash rate. A decision to ease policy is reflected in a new lower target for the cash rate, while a decision to tighten policy is reflected in a higher target.

charge card. A charge card is a card whose holder has been granted a non-revolving credit line enabling the holder to make purchases and possibly make cash advances. A charge card does not offer extended credit; the full amount of any debt incurred must be settled at the end of a specified period.

consumer price index. A measure of change in the price of a basket of goods and services from a base period. Changes in the Consumer Price Index are the most commonly used measure of inflation.

collateralised debt obligations. Collateralised debt obligations (CDOs) are securities that are exposed to the credit risk of a number of corporate borrowers. In the simplest form of a CDO, this credit risk exposure is generated in the same way as for any asset-backed security (ABS): the CDO is backed by outright holdings of corporate debt, such as corporate bonds and corporate loans. Increasingly, however, the exposure to corporate credit risk is synthesised through the use of credit derivatives. Unlike other forms of ABS, where the collateral pools usually consist of loans with broadly similar characteristics, CDO reference pools are typically quite heterogeneous, with exposures to a variety of borrower types and credit ratings and across a number of countries. A CDO will usually have exposures to between 50 and 200 bonds or large corporate loans, or up to 2,000 loans to small and medium-sized businesses.

The simplest forms of CDOs are known as ‘cash' or ‘vanilla' CDOs, and are similar to other forms of ABS. A special purpose vehicle buys loans and securities from financial institutions and other market participants, and funds these acquisitions by selling securities to investors. The manager of the CDO vehicle will usually deduct fees and expenses from the interest income received from the assets in the collateral pool, with the remainder used to make regular coupon payments to investors. The term to maturity of the loans and bonds in the collateral pool will determine the maturity of the CDO securities sold to investors..

credit card. A credit card is a card whose holder has been granted a revolving credit line. The card enables the holder to make purchases and/or cash advances up to a pre-arranged limit.

The credit granted can be settled in full by the end of a specified period or in part, with the balance taken as extended credit. Interest may be charged on the transaction amounts from the date of each transaction or only on the extended credit where the credit granted has not been settled in full.

debit card. A debit card is a card that enables the holder to access funds in a deposit account at an authorised deposit-taking institution.

derivative. A financial contract whose value is based on, or derived from, another financial instrument (such as a bond or share) or a market index (such as the Share Price Index). Examples of derivatives include futures, forwards, swaps and options

employed persons. Persons aged 15 and over who, during a period of one week, worked for one hour or more for pay or worked for one hour or more without pay in a family business or on a family farm.

G-10. Group of Ten countries: Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and USA; plus Bank for International Settlements (BIS), European Commission, International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD). It was formed in conjunction with the establishment of the General Arrangements to Borrow, under which members agreed to make resources available to the IMF.

G-20. Group of Twenty Forum: Members are finance ministers or central bankers from - Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, UK and US; plus representatives of the IMF, European Union and World Bank. The G-20 aims to broaden the dialogue on key economic and financial policy issues among systemically significant economies, and promote co-operation to achieve stable and sustainable world economic growth.

G-22. Group of Twenty-two. The G-22's aim was to advance issues related to the global financial architecture. It operated through three Working Parties - on Transparency and Accountability, International Financial Crises, and Strengthening Financial Systems. The group made its recommendations in 1998, and its work has since been taken up in other forums.

G-7. Group of Seven countries: Canada, France, Germany, Italy, Japan, UK and USA. The G-7 Summit deals with issues covering macroeconomic management, international trade, international financial architecture, relations with developing countries, and other global issues.

G-8. Group of Eight countries: G-7 countries and Russia.

gross domestic product*.* The total market value of goods and services produced after deducting the cost of goods and services used up in the process of production but before deducting for depreciation.

gross domestic product—chain volume measure. Also known as *real GDP*, this is a measure used to indicate change in the actual quantity of goods and services produced. Economic growth is defined as a situation in which real GDP is rising.

gross domestic product at factor cost**.** Gross domestic product less the excess of indirect taxes over subsidies.

gross foreign debt*.* All non-equity financial claims by non-residents on residents of Australia. The major component of gross foreign debt is the amount of borrowings from non-residents by residents of Australia.

household debt ratio. The amount of household debt at the end of a quarter expressed as a proportion of annual household gross disposable income.

household gross disposable income*.* The amount of income that households have available for spending after deducting any taxes paid, interest payments and transfers overseas.

household net disposable income. Household gross disposable income less depreciation of household capital assets.

household saving ratio. The ratio of household income saved to household net disposable income.

housing loan interest rate. The variable rate quoted by banks for loans to owner-occupiers.

implicit price deflator for non-farm gross domestic product. A measure of price change that is derived (hence the term implicit) by dividing gross non-farm product at current prices by gross non-farm product at constant prices.

index of commodity prices. A Reserve Bank of Australia-compiled index (based 2001/02=100) which provides a measure of price movements in rural and non-rural (including base metals) commodities in Australian Dollars (AUD), Special Drawing Rights (SDR) and United States Dollars (USD).

inflation. A measure of the change (increase) in the general level of prices.

inflation target. A tool to guide monetary policy expressed as a preferred range or figure for the rate of increase in prices over a period. In Australia, the inflation target is between 2 and 3 per cent per annum on average over the course of the business cycle.

interchange fee. A fee paid between card issuers and acquirers when cardholders make transactions

interest rate. The term used to describe the cost of borrowing money or the return to the owner of the funds which are invested or lent out. It is usually expressed as a percent per annum of the amount of money borrowed, lent or invested.

labour force. The employed plus the unemployed.

labour force participation rate. The number of persons in the labour force expressed as a percentage of the civilian population aged 15 years and over.

labour productivity. Gross domestic product (chain volume measure) per hour worked in the market sector.

long-term unemployed. Persons unemployed for a period of 52 weeks or more.

macroeconomy. The economy looked at as a whole or in terms of major components measured by aggregates such as gross domestic product, the balance of payments and related links, in the context of the national economy. This contrasts with microeconomics which focuses upon specific firms or industries.

market sector. Five industries are excluded from the market sector because their outputs are not marketed. These industries are: property and business services; government administration and defence; education; health and community services; and personal and other services.

monetary policy. The setting of an appropriate level of the cash rate target by the Reserve Bank of Australia to maintain the rate of inflation in Australia between 2 and 3 per cent per annum on average over the business cycle.

natural increase. Excess of live births over deaths.

net foreign debt. Gross foreign debt less non-equity assets such as foreign reserves held by the Reserve Bank and lending by residents of Australia to non-residents.

net overseas migration. Net permanent and long-term overseas migration plus an adjustment for the net effect of 'category jumping'.

non-farm gross domestic product. Gross domestic product less that part which derives from agricultural production and services to agriculture.

overseas visitors. Visitors from overseas who intend to stay in Australia for less than 12 months.

prime interest rate. The average rate charged by the banks to large businesses for term and overdraft facilities.

profits share*.* Gross operating surplus (the excess of gross output over costs incurred in producing that output) of all financial and non-financial corporate trading enterprises as a percentage of gross domestic product at factor cost.

real average weekly earnings. Average weekly earnings adjusted for inflation as measured by the Consumer Price Index.

real prime interest rate. The prime interest rate discounted for inflation as measured by the Consumer Price Index.

seasonally adjusted estimates*.* Estimates in which the element of variability due to seasonal influences has been removed. Seasonal influences are those which recur regularly once or more a year.

terms of trade*.* The relationship between the prices of exports and the prices of imports. The usual method of calculating the terms of trade is to divide the implicit price deflator for exports by the implicit price deflator for imports.

trade weighted index*.* A measure of the value of the Australian dollar against a basket of foreign currencies of major trading partners.

turnover. Includes retail sales; wholesale sales; takings from repairs, meals and hiring of goods; commissions from agency activity; and net takings from gaming machines. From July 2000, turnover includes the Goods and Services Tax.

unemployed persons*.* Persons aged 15 and over who, during a period of one week, were not employed but had actively looked for work in the previous four weeks and were available to start work.

unemployment rate. The number of unemployed persons expressed as a percentage of the labour force.

wage price index. A measure of change in the price of labour (i.e. wages, salaries and overtime) unaffected by changes in the quality or quantity of work performed.

wages share*.* Wages, salaries and supplements (the total value of income from labour) as a percentage of gross domestic product at factor cost.

youth unemployment. Number of 15–19 year olds looking for full-time work.

youth unemployment rate. Number of 15–19 year olds looking for full-time work expressed as a percentage of the full-time labour force in the same age group.

Source: Parliamentary Library and Reserve Bank of Australia