

1st March 2011

Statement by Glenn Stevens, Governor: Monetary Policy Decision

At its meeting today, the Board decided to leave the cash rate unchanged at 4.75 per cent.

The global economy is continuing its expansion, led by very strong growth in the Asian region. Commodity prices have risen further over recent months, pushing up measures of consumer price inflation in many countries. A number of countries have been moving to tighten their monetary policy settings. Overall, though, financial conditions for the global economy remain accommodative.

Australia's terms of trade are at their highest level since the early 1950s and national income is growing strongly. Private investment is picking up, mainly in the resources sector, in response to high levels of commodity prices. In the household sector thus far, in contrast, there continues to be caution in spending and borrowing, and a higher rate of saving out of current income. The effects of the natural disasters over the summer have reduced output, but production levels should recover over the months ahead, and there will be a mild boost to demand from the rebuilding efforts as they get under way.

Asset values have generally been little changed over recent months and overall credit growth remains quite subdued, notwithstanding evidence of some greater willingness to lend. Business balance sheets generally are being strengthened, and the run-up in household leverage has abated.

The labour market firmed in 2010, with unusually strong growth in employment and a decline in the rate of unemployment. Most leading indicators suggest further growth in employment, though most likely at a slower pace. Reports of skills shortages remain confined, at this point, to the resources and related sectors. After the significant decline in 2009, growth in wages has returned to rates seen prior to the downturn.

Inflation is consistent with the medium-term objective of monetary policy, having declined significantly from its peak in 2008. These moderate outcomes are being assisted by the high level of the exchange rate, the earlier decline in wages growth and strong competition in some key markets, which have worked to offset large rises in utilities prices. Production losses due to

weather are temporarily raising prices for some agricultural produce, but these should fall back later in the year. Overall, looking through these temporary effects, the Bank expects that inflation over the year ahead will continue to be consistent with the 2–3 per cent target.

At today's meeting, the Board judged that the current mildly restrictive stance of monetary policy remained appropriate in view of the general macroeconomic outlook.