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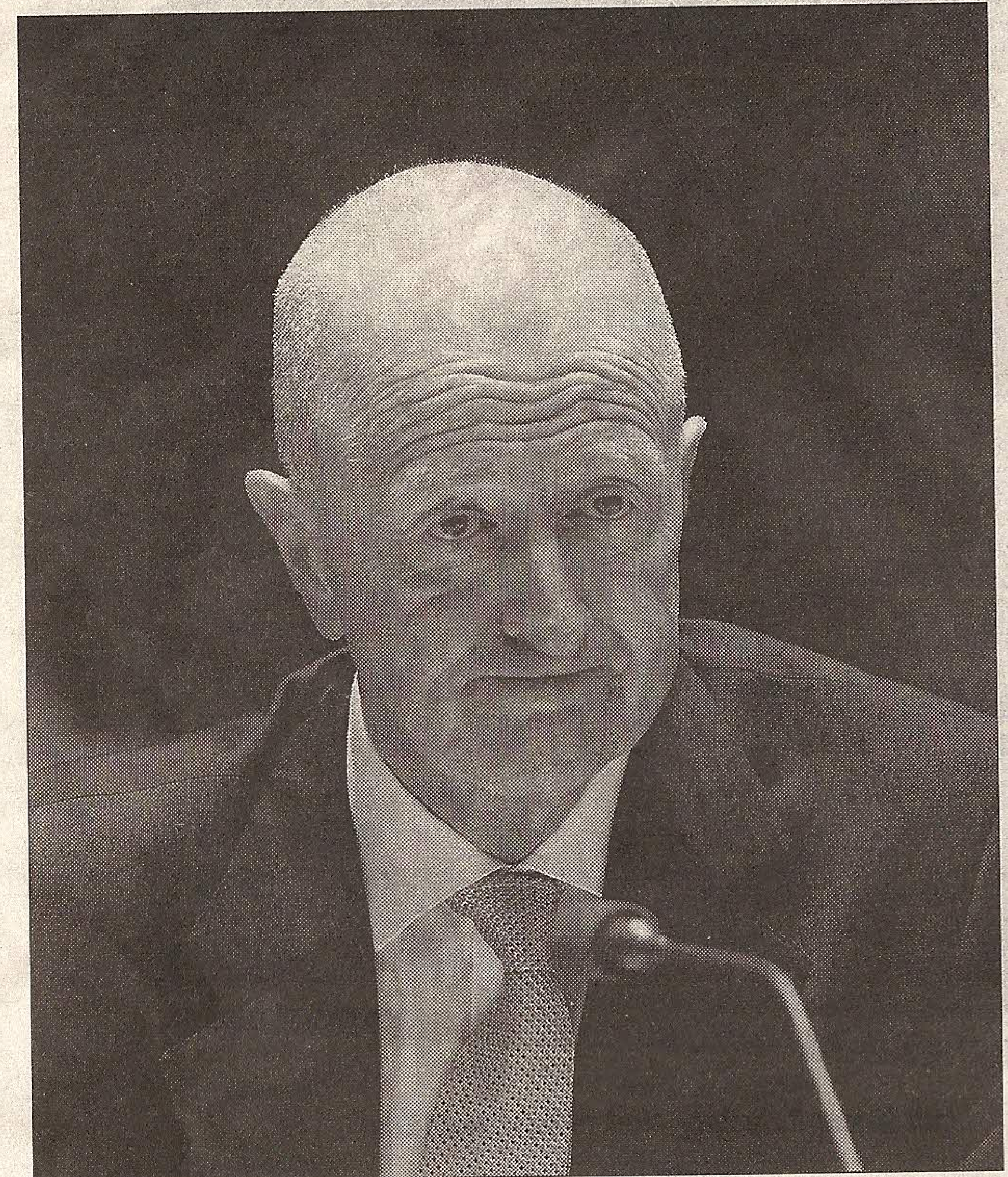
# Ahead of the game



GOOD POSITION: Reserve Bank Governor Glenn Stevens describes the Australian economy as 'on the firm side'.

**Paul Syvret**

**Current Account**

RESERVE Bank Governor Glenn Stevens yesterday gave the clearest indication yet that interest rates were likely to remain on hold for at least some months.

Speaking before Parliament's economic committee yesterday, Stevens described the economy as "on the firm side", adding the current official cash rate setting of 4.75 per cent was "sensible".

Further, he said financial markets, which were not pricing in a rate rise until late in the year, were about right at this point.

"That's not a guarantee that this happens, but I'm fairly content with where we are. I think we are in a good position," he said.

"I think we're ahead of the game, which is where you want to be, and that's the thing that affords you periods of sitting, waiting and watching.

"Sometimes, they can be reasonably lengthy periods."

He warned the short-term impact of recent flooding and Cyclone Yasi on inflation would be substantial and the RBA had now lifted its estimate for headline inflation to 3 per cent in the June quarter.

"We do not think the effects on activity of these events will derail the expansion. Nor should the price effects pose a serious threat to the achievement of the medium-term goal for inflation," he said.

In other words, there will be some nasty price rises, but they should be short-lived.

"Accordingly, the view of the board at the recent meeting was that while the impact of the floods on the short-term path of output and prices would be quite substantial, monetary policy should not respond to those effects," Stevens said.

The natural disasters have prompted the RBA to lower growth forecasts for the December and March quarters because the economy's ability to supply key commodities and services has been disrupted. In the medium term, however, the RBA said last week that it expected the rebuilding effort to boost the economy, with gross domestic product growth of 4.25 per cent now expected for this year.

The immediate impact of Stevens' testimony was on the Australian dollar, which fell below parity with the US dollar for the first time in a week.

If Queensland were for some reason to secede and float its own currency though, the Queensland dollar would be uncomfortably strong because of the strength of our commodities export sector, Stevens said.

This comment came in response to a tongue-in-cheek question from Liberal MP Scott Buchholz, who was trying to highlight the disparity between the state's flood-ravaged areas (like his electorate of Wright) and the rest of the country.

"There's a huge disproportion between areas that rely on the resources sector and those who don't," said Buchholz.

According to Stevens though, if the state had its own currency, "your exchange rate could be even higher than the one we have now. So you actually would want a different currency for regional Queensland, versus urban, and now you're getting down to pretty small areas."

**Upbeat outlook » P67**