Philip Lowe: Remarks at Darwin Community Dinner

Remarks by Mr Philip Lowe, Governor of the Reserve Bank of Australia, at the Darwin Community Dinner, Darwin, 2 July 2019.

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Good evening.

A very warm welcome to this community dinner with the Reserve Bank Board and senior staff.

This morning the Board held its monthly meeting here in Darwin. We were very kindly hosted at the Northern Territory Parliament building. The last time the Board met in Darwin was more than 50 years ago. I am sure that we all agree that this was too long ago. I can promise that you will be seeing more of us over the years ahead. This evening I would first like to talk a little about our history in the Northern Territory and how things have changed and then talk about today's interest rate decision.

The previous Board meeting in Darwin was held on 5 June 1968. The Board met here to celebrate the opening of the RBA's new branch on Bennett Street. We operated out of this building for around 30 years, distributing banknotes and providing banking services to the Northern Territory Government. But beyond this, as many of you will know, the building on Bennett Street has played an important role in the history of Darwin. It was one of the few buildings that was virtually unscathed by the fury of Cyclone Tracy in 1974. This meant that in the aftermath of Tracy, we were able to make our banking chamber available to the police to use as their emergency coordination and communications centre.

In some ways this experience symbolises the RBA itself. We build on strong foundations, we place great weight on stability and resilience, and we seek to serve the public interest. Our presence here in Darwin did all this. I am very pleased to see that the building is still serving the public interest as the location of Tourism Top End.

In preparation for our meeting today, I looked back at our archives for details of the meeting in 1968, including the Minutes of that meeting, which I am glad to be releasing today. That meeting was the second last for Governor Nugget Coombs before he retired. Reading this archival material reminded me of how much the world has changed.

One obvious change is in the way that monetary policy works. The main decision made by the Board at that meeting back in 1968 was that Dr Coombs recommend to the Treasurer that he adjust the interest rates on trading bank fixed deposits and saving bank deposits by a quarter of a per cent. From today's perspective, this is remarkable on two levels. First, the RBA was just making a recommendation to the government – this was obviously before the days of central bank independence. Second, monetary policy was exercised partly through direct controls on bank deposit rates. So, it was a very different world. Today, the Board makes its decisions independently of government and we don't directly control bank interest rates for households and businesses.

Another difference that struck me was the way the Board worked and its approach to risk management. In 1968, the Board was made up of nine men; no women at all. This is very different from our Board today. In 1968, the Board also took advantage of the trip to Darwin to make a one-week tour of northern Australia, visiting Gladstone, Weipa, Gove, Kununurra, the Ord River, Dampier, Mt Tom Price and Alice Springs. Almost the entire Board travelled together on a private chartered plane. Today, our risk management guidelines wouldn't allow this. They don't allow us to travel all together and we certainly don't take private planes. And unfortunately, the demands of today's globalised world make such an extensive trip very difficult in 2019.

One other area where there has been much change since the Board last met here is in the relationship between the Original people of this land and the wider Australian community. In his last months as Governor of the Reserve Bank, Nugget Coombs began work as Chair of the Council for Aboriginal Affairs. The Council was established by Prime Minister Harold Holt after the 1967 referendum. Coombs worked tirelessly for almost three decades advocating for Indigenous rights and social justice. He was a strong advocate of land rights and encouraging pride in the identity of Indigenous Australians. He cared passionately about their welfare and the preservation of cultural values and traditions.

Over the years, Nugget Coombs developed a particularly strong relationship with the people of Arnhem Land, especially with the Yolngu around Yirrkala. You might recall that they were responsible for the Yirrkala bark petitions submitted to the Australian Parliament in 1963. The Yolngu wanted to be consulted as the traditional custodians of the land before the government granted mining rights. These petitions were an important step towards the native title rights that exist today. Coombs travelled to Yirrkala many times, the first time being shortly before the Board met here in 1968. He wanted the interests of the community to be recognised and was looking for ways that its members could benefit from the new bauxite mine at Gove.

Tomorrow, I will have the great honour of being able to travel to East Arnhem Land and Yirrkala just as Nugget Coombs did. I am incredibly pleased to be accompanied on this trip by Susan Moylan-Coombs. Susan was born in Darwin and is part of the group known today as the Stolen Generations and was adopted by Nugget's oldest son, John, and John's wife, Jan. Susan is continuing her Grandfather's work as a tireless advocate for the welfare and prosperity of Indigenous Australians. We will be accompanied by two members of the Reserve Bank Board: Phil Gaetjens, who is also Secretary of the Australian Treasury, and Catherine Tanna, who is also Chief Executive of Energy Australia. We are all greatly looking forward to the visit. We want to pay our respects to the traditional owners of the land and to learn from their wisdom. We will also unveil a plaque to Nugget Coombs, whose ashes are buried both at Yirrkala and the Australian National University in Canberra, which he helped found in 1946. I am hopeful that our visit will help keep alive the long relationship between the RBA and the people of East Arnhem Land.

Turning back to today's Board meeting, we had a thorough discussion of the Northern Territory economy. We discussed the difficulties that you have faced as investment has fallen following the completion of the LNG plant. The effects of this decline in investment are evident right across the economy: in the housing market; in retail spending; in the labour market; and in public sector finances. As we reviewed these indicators, though, we were struck by the fluidity of the labour market and the population here in the Northern Territory. Despite employment falling significantly over the past year, the unemployment rate remains below the national rate.

At our Board meeting we also discussed the future opportunities facing the Northern Territory economy, including in the areas of defence infrastructure, tourism, the cattle industry, and in minerals and gas. In addition, we considered the progress that has been made in addressing the sources of disadvantage for Indigenous Australians. There are many areas where Nugget Coombs would have been pleased to see the progress that has been made. But, regrettably, there are too many areas where not enough progress has been made and where the progress has been too slow.

I would now like to turn to today's interest rate decision.

As I am sure you are aware, this morning the Board decided to reduce the cash rate by a quarter of a percentage point to 1 per cent. This follows a similar adjustment last month. This easing of monetary policy will support jobs growth across the country and provide greater confidence that inflation will be consistent with the medium-term target of 2 to 3 per cent.

Our assessment is that despite the Australian economy having performed reasonably well over recent years, there is still a fair degree of spare capacity in the economy. It is both possible and desirable to reduce that spare capacity. We should be able to achieve a lower rate of unemployment than we currently have and we should also be able to reduce underemployment. If, as a country, we can do this, we could expect a further lift in wages growth and stronger growth in household incomes. These would be good outcomes. As I hope you are aware, the Reserve Bank's monetary policy framework is centred on the inflation target, but the ultimate objective of our policies is to promote the collective economic prosperity of the people of Australia.

In the Board's judgement, the easing of monetary policy last month and this month will help promote our collective welfare. At the same time, though, we recognise that the benefits are not evenly distributed across the community and that there are some downsides to monetary easing. Partly for these reasons, over recent times I have been drawing attention to the fact that, as a nation, there are options other than monetary easing for putting us on a better path.

One option is fiscal support, including through spending on infrastructure. This spending adds to demand in the economy and – provided the right projects are selected – it also adds to the country's productive capacity. It is appropriate to be thinking about further investments in this area, especially with interest rates at a record low, the economy having spare capacity and some of our existing infrastructure struggling to cope with ongoing population growth.

Another option is structural policies that support firms expanding, investing, innovating and employing people. A strong, dynamic, competitive business sector generates jobs. It can help deliver the productivity growth that is the main source of sustainable increases in our wages and incomes. So, as a country, we need to keep focused on this.

To repeat the point, it is important that we think about the task ahead holistically. Monetary policy does have a significant role to play and our decisions are helping support the Australian economy. But, we should not rely on monetary policy alone. We will achieve better outcomes for society as a whole if the various arms of public policy are all pointing in the same direction.

The two cuts in interest rates the Board has delivered recently will make an important contribution to putting us on a better path and winding back spare capacity. It is also worth drawing your attention to a few other developments.

First, borrowing costs for almost all borrowers are now the lowest they have ever been. As an illustration, the Australian Government can borrow for 10 years at around 1.3 per cent, the lowest rate it has faced since Federation in 1901. It is also able to borrow for 30 years at an interest rate of less than 2 per cent. Private businesses and households also face low borrowing rates. This is not only because official interest rates are low, but because credit spreads are low too.

Second, Australia's terms of trade have risen again, largely due to higher iron ore prices. Investment in the resources sector is also expected to increase over the next few years, after having declined steadily for almost seven years. To be clear, we are not expecting another major mining boom, but we are expecting a solid upswing in the resources sector, which will help the overall economy. I hope that, in time, the effects of this upswing will be felt here in the Northern Territory too.

Third, the exchange rate has depreciated over the past couple of years and, on a trade-weighted basis, is at the bottom end of its range of recent times. This is helping support important parts of the economy.

And fourth, we are expecting stronger growth in household disposable income over the next couple of years, partly due to the expected implementation of the low and middle income tax offset. Stronger growth in incomes should support household spending.

Together, these various developments will help the Australian economy.

At the same time, though, we need to watch global developments very closely. Over recent times, the uncertainty generated by the trade and technology disputes between the United States and China has made businesses in many countries nervous about investing. Many are preferring to sit on their hands, rather than commit to capital spending that is difficult and costly to reverse. The result is less international trade and a weakening trend in investment globally. If this continues for too much longer, the effects on economic growth are likely to be significant. For this reason, the risks to the global economy remain tilted to the downside.

The combination of these persistent downside risks and continuing low rates of inflation has led investors around the world to expect interest rate reductions by all the world's major central banks. In Europe and Japan, official interest rates are already negative but investors are expecting the central banks to go further into negative territory. And in the United States, investors are expecting a substantial reduction in interest rates over the period ahead. This is quite a different world from the one we were facing earlier in the year.

What all this means for us here in Australia is yet to be determined.

We need to remember that the central scenario for both the global and Australian economies is still for reasonable growth, low unemployment and low and stable inflation. As I discussed a few moments ago, there are a number of developments that are providing support to the Australian economy. So we will be closely monitoring how things evolve over coming months. Given the circumstances, the Board is prepared to adjust interest rates again if needed to get us closer to full employment and achieve the inflation target in a way that supports the collective welfare of all Australians, including those who call the Northern Territory home.

Thank you once again for joining us this evening and for listening.

Related Information

- Minutes of the June 1968 Reserve Bank Board meeting
- Historical photographs of the Reserve Bank's presence in Darwin