PRO-POL SHADOW RBA BOARD – COMMENTS

APRIL 2012

From March 2012, each Shadow Board member was invited (but not obliged) to provide a personal comment on monetary conditions. Neither the comments nor the probabilities constitute financial advice. The views of the Shadow Board members are not those of CAMA. Any individuals utilizing these comments, or the probabilities, do so at their own risk.

PAUL BLOXHAM

With the global economy steady for the moment and the local economy tracking at a little below its trend pace, I would leave rates unchanged this month, though countenance the idea that rates could be a touch lower as growth in the non-mining economy is slow and the risks of high inflation seem low in the short run. In the medium term, the distribution of possibilities is bifurcated. Global risks are to the downside, with a positive likelihood of either further financial turmoil in Europe or a sharper slowdown in China resulting in the RBA needing to cut rates further. On the other hand, if these events were not to occur, I see purely domestic conditions as requiring further medium term tightening by the RBA, as weak productivity growth means the medium term risks to inflation are to the upside.

MARK CROSBY

No comment.

MARDI DUNGEY

No comment.

SAUL ESLAKE

As a general comment, I think the RBA is underestimating the impact that the productivity gains it assumes will occur over the coming year will have on unemployment and hence on demand ... and possibly also underestimating the impact that the likely extent of fiscal tightening required to meet the Government's objective of returning the budget to surplus in 2012-13 will have on unemployment and demand. That said, the RBA isn't likely to have been persuaded to that viewpoint by Tuesday.

BOB GREGORY

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

Conditions remain largely unchanged from last month. The overall balance of risks still points to raising rates back to their neutral level over the next six to twelve months. However, there is a small, but nontrivial risk that rates would have to be cut further if aggregate economic conditions were to show clear signs of deteriorating. The inflation outlook remains balanced and within the target range.

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JEFF SHEEN

Since the March 2012 meeting, 4th quarter national accounts figures have come out showing that the recovery of the Australian economy is happening, but at a mildly slower pace. This is making it harder for the economy to achieve its required structural change in response to the persistently high terms of trade.

The risk of a major Euro financial crisis continues to abate (slowly) with the ECB now providing significant 3 year funding to banks, and the agreed fiscal accord amongst European countries. The US economy's recovery is proving to be gentle but resilient, with the latest employment data looking positive.

Therefore my recommendation has most weight on no change.

In the longer term, the strongest likelihood is that the cash rate will have to slowly rise towards a higher neutral rate, though there remains as always some risk of negative events globally and nationally, which deliver some probability weight on a future cut.

MARK THIRLWELL

No comment.