PRO-POL SHADOW RBA BOARD – COMMENTS

AUGUST 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

I recommend the RBA stays on hold this month. Evidence from the past month shows that previous cash rate cuts appear to be providing some support for the housing and retail sectors, although some part of this also reflects government payments to compensate for the carbon tax. Trade data also suggest a solid contribution to growth in the past quarter. Overall, the economy appears to be tracking at close to trend. While inflation is low, which allows scope for further cuts, signs of solid demand suggest there is no urgency to provide further stimulus at this stage. While the AUD has been higher than might have been expected, given falling commodity prices, I would not recommend any direct intervention. This should be monitored though, and clearly needs to be incorporated into the inflation outlook. Should the exchange rate appreciate further, without a rise in commodity prices it would not be unreasonable to consider action, though I would recommend this to involve further cash rate adjustments, consistent with the inflation target, rather than direct exchange rate intervention.

Over a longer horizon recent local improvements in activity mean I now view the probability of further rate cuts as equal to the probability that the cash rate will be unchanged or increase. A further modest cut could be made over coming months as inflation is low. The risk of a sharp financial shock from abroad, most likely from Europe, means there is still some risk that rates need to be cut more sharply. But equally, looking 12 months ahead there is a reasonable chance that rates will need to rise.

MARK CROSBY

Issues in Europe are still very far from resolved, and most likely will end with severe international disruption within the next 12 months. This would result in loosening by the RBA. However given European authorities incredible powers of procrastination it is quite possible that the next 12 months will remain a period of “muddling through.”

MARDI DUNGEY

The risks from the international situation have not noticeably decreased in the past month, nor have domestic conditions shown significant improvements. Consequently I maintain my stance from July outlook to the August outlook at all horizons.

SAUL ESLAKE

No comment.

BOB GREGORY

No comment.

WARWICK MCKIBBIN

No comment.

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JAMES MORLEY

Focus on keeping inflation in target range: Monetary policy remains in a somewhat accommodative stance, but with little immediate cause for concern about inflationary pressures. Headline inflation is low, although the less volatile measure of underlying inflation is on target, albeit at the bottom end of the 2-3 target range. This allows an increased weight on keeping the policy rate steady in the near term and slightly increases the possible need for further easing in the event that underlying inflation falls below the target range.

JEFF SHEEN

Data announcements since the July 2012 decision revealed little. Labour market flows in June indicated minor but statistically insignificant weakening. The trimmed mean for the Australian June CPI inflation was 2%, at the bottom of the RBA's target range, which leads me to make small adjustments to my distributions for the recommended cash rate.

MARK THIRLWELL

No comment.