

PRO-POL SHADOW RBA BOARD – COMMENTS

DECEMBER 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

Inflation remains contained and indicators released during the month suggest a further loosening in labour market conditions, limiting the chances that future wages growth will be excessive. The continued high level of the AUD also reduces the upside risk to inflation. At the same time, information received during the month suggests that investment intentions have been revised downwards for 2012/13. While mining investment is still expected to rise, the outlook for investment by the non-mining sectors of the economy remains weak. While the interest rate cuts that have occurred so far are providing some tentative support for the housing market, retail spending and consumer sentiment, business confidence is still below average. With upside risks to inflation diminishing, weakening investment intentions and only modest signs that monetary policy is driving rebalancing of growth as yet, I recommend the cash rate is cut by a further 25bp this week.

MARK CROSBY

The global outlook has not changed much in the past month. Europe continues to plan to plan to have a solution to the insoluble. US debt and housing markets aren't changing in any significant manner, and Asia continues to bubble along. Much focus in Australia has been on a China slowdown, but a more worrying outcome is the sluggish growth and political difficulties with further reforms in India. There would still be a risk to downside shocks during the next 12 months, but also a reasonable likelihood of muddling through. The muddling through outcome would necessitate increasing rates from currently very low levels at some point in 2013.

MARDI DUNGEY

My outlook is unchanged from last month. Given the massive uncertainties still present in the international economy and the potential need to retain flexibility for easier monetary policy in the future, it seems appropriate to retain the current short term setting for monetary policy.

SAUL ESLAKE

Monetary policy needs to provide more support to growth in the non-mining sectors of the economy in order to maximize the prospects of overall growth remaining close to trend as the mining investment boom approaches and passes its peak, especially given the 'headwinds' which the non-mining sectors continue to confront (a persistently strong A\$ - increasingly a problem for the mining sector as well), cautious consumers, low business confidence and 'fiscal consolidation'.

BOB GREGORY

No comment.

WARWICK MCKIBBIN

No comment.

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JAMES MORLEY

Current Stance of Policy Remains Appropriate: given little change in economic conditions (the unemployment rate stabilized in October after an uptick in September) and no new information on inflation or growth, the current stance of somewhat loose monetary policy remains appropriate. Inflation can be expected to remain within the target range in the near term, while developments in China, the United States, and Europe will likely continue to cancel each other out, implying ongoing moderate growth of international demand in 2013.

JEFFREY SHEEN

The current Australian cash rate is one notch above the rate that was reached in the depth of the financial crisis, and I do not think the current risks for the Australian economy are anything close to those then. Since there has been little information in the last month to change my view about the current state of the Australian economy, my recommendations remain unchanged. Investment intentions data, though not actual investment data, have weakened. However monetary policy should not be fine-tuned to such uncertainties. Obama's election in the US does not resolve the fiscal cliff risk, but it does reduce the likelihood of an inappropriately large fiscal consolidation. The prospects in China and Europe are not much different to last month.

MARK THIRLWELL

No comment.