PRO-POL SHADOW RBA BOARD – COMMENTS

MAY 2013

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 is low enough to allow the RBA to cut rates further if needed. But rates are already very low and there are signs that monetary policy is working. Lower rates could also risk creating other problems, such as excessive growth in housing prices. While a further cut in rates could be needed to support growth at some point, I think there are enough signs that the setting of monetary policy is getting enough traction to warrant leaving the cash rate steady this month.

MARK CROSBY

Low inflation outcomes suggests little need for change to current settings at the May meeting. International factors currently seem stable, though unlikely that Europe will last another 6 months before the next country crumbles.

MARDI DUNGEY

The weakening economy has caused me to lower my expectations of future inflationary pressures and hence alter my longer term projections. However, I recommend retaining the current stance in May.

SAUL ESLAKE

No comment.

BOB GREGORY

No comment.

WARWICK MCKIBBIN

There are clearly weak patches in the Australian economy driven by a strong currency, high input costs, the end of the first stage of the resources boom and uncertainty about government policy. These factors together with a deteriorating fiscal position suggest greater future fiscal drag on the economy as the excessive spending which has driven structural fiscal deficits will have to be cut back. The economy is particularly vulnerable to an inconvenient set of conditions some of which were preventable. There are many uncertainties for monetary policy to balance. Apart from attempting to accommodate fiscal negligence and the uncertainty about the nature of policies generally after the September election, in the near term the major issue is whether foreign investors will continue to want to hold $A assets and therefore keep the exchange rate a high level. A loss of foreign investor appetite will cause a sharp exchange rate correction which, while good for some sectors of the economy, would raise imported inflation and push the inflation rate well above the target band especially given the currently high rate of non-traded goods inflation. Cutting interest rates in the face of rising inflation of goods and/or asset prices would undermine monetary credibility and risks unhinging inflationary expectations. Holding interest rates is the least bad option in this complex environment.

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JAMES MORLEY

No Tightening Bias due to Somewhat Weaker Labour Market: Inflation is slightly higher than last quarter, but is right in the middle of its target range at 2.5% (up from 2.2% in 2012Q4). Meanwhile, the unemployment rate increased from 5.4% to 5.6% in March. The weaker labour market conditions, due to less growth in employment than new participants in the labour force, remove any immediate tightening bias in monetary policy. However, the need to gradually adjust the policy rate back to its neutral level over the medium term remains in place, although any further weakening of the labour market should delay this adjustment.

JEFFREY SHEEN

There were more signs in April that the long global growth slowdown will persist longer, particularly with China growing slower than many expected. This has affected commodity prices and thus consumer confidence in Australia. The small rise in unemployment to 5.6% and the fall in the participation rate to 65.1% were further signs of the continuing weak recovery here. The Federal budget is due in 2 weeks, and this may well have a contractionary effect if the government is determined to severely limit the expected deficit. However, given the coming election, it would be surprising if that remained true. Taking all of this into account, and noting that the real cash rate is 0.5%, monetary policy is sufficiently loose now to justify the highest probability recommendation of no change. 6 months and 1 year out, the probabilities skew towards a slow improvement in conditions, and thus towards moderate increases in the interest rate towards its neutral value.

MARK THIRLWELL

No comment.