PRO-POL SHADOW RBA BOARD – COMMENTS

NOVEMBER 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

While inflation appears to have troughed, it is still low. At the same time the labour market is loosening, with the unemployment rate rising to a two and half year high of 5.4% in September. Commodity prices have fallen, which is weighing on income growth, particularly as the Aussie dollar has stayed high. While there are tentative signs that the housing market is improving, the pick up has only been modest. The Board needs to be confident that policy is loose enough to see a smooth re-balancing from mining driven growth, to consumer and housing driven growth in 2013. At this stage the risk of an unacceptably high rate of inflation seems low, while the risk that demand and the labour market weaken further has increased. The Board could wait for further evidence about the extent to which the current below neutral interest rates are supporting demand in the economy, but with little risk of high inflation it may be prudent to cut rates a bit further this month.

Looking ahead, firmer global economic conditions and signs that Australian monetary policy is providing some support for the economy suggest it is becoming likely that the RBA are nearing the end of the easing phase of this cycle.

MARK CROSBY

Recent inflation numbers should see the RBA hold on Cup day. Ongoing uncertainty over fiscal outcomes in the US and Japan, and continued weakness in Europe are still a threat in the medium term, so that at the 6 to 12 month horizon it seems equally likely that the RBA should cut as increase rates in the face of domestic inflationary pressures.

MARDI DUNGEY

In my view last month's reduction in interest rates was welcome. There appears to be more widespread concern about the future health of the economy reported in the press, however, the outlook has not changed dramatically since last month, and it seems unlikely that there is a need for rapid action. On balance I slightly favour keeping rates the same for the next month over an immediate 25 basis point cut, but believe that the overall bias is downwards in the next quarter.

SAUL ESLAKE

No comment.

BOB GREGORY

No comment.

WARWICK MCKIBBIN

Despite the problems in Europe and the looming fiscal cliff in the United States, there are still inflationary pressures in the Australian economy especially in the non-traded goods sector. Continuing strength of the $A will help to offset the overall inflationary pressures through lower traded goods prices but there is the beginnings of an inflationary impulse in the world economy from the excessively loose monetary policy in the major industrialized economies. No change in interest rates domestically would be prudent especially given ambiguous signals from various government ministers that the fiscal surplus may not be realised this financial year.
On the domestic front, inflation has moved back up to its target range, as expected. However, the unemployment rate has also started to move up. On the international front, European and U.S. conditions have stabilized somewhat in recent months, although they are far from robust. Encouragingly, the outlook for growth in China has improved slightly.

Given recent cuts in the policy rate, monetary policy is loose, with the implicit real interest rate well below its neutral level. Thus, with low inflation and an uptick in the unemployment rate, the current stance is appropriate for the short term, with a slight easing bias in case the employment situation deteriorates further.

JEFFREY SHEEN

No comment.

MARK THIRLWELL

No comment.