CAMA RBA SHADOW BOARD – COMMENTS

SEPTEMBER 2013

Each CAMA RBA Shadow Board member is 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

Having cut the cash rate just last month, I recommend that the rate is kept on hold this month. The cash rate is now at a very low level relative to history and is imparting significant stimulus into the economy. The fall in the Australian dollar since April has also loosened broader financial conditions considerably. Low rates are already feeding through to the housing market, where turnover has picked up and prices are rising solidly. There has been less evidence of loose monetary policy supporting other areas of the economy as yet. Monetary policy settings are, however, not a barrier to growth, suggesting that weakness in other parts of the economy is likely to be due to factors outside of monetary policy. In short, monetary policy can't be expected to do all the heavy lifting in the economy. Cutting rates further from here may entail increased risks of asset price misalignments. While in the short run rising asset prices are likely to support growth, they may cause other problems in the medium term. For this reason I am cautious about recommending that rates fall any further from here in the coming months.

MARK CROSBY

With recent rate cuts still feeding through to the real economy there is little reason to see rates lower despite ongoing international uncertainty.

MARDI DUNGEY

No comment.

SAUL ESLAKE

Can't see much justification for the RBA to cut rates at a second consecutive meeting, and just 4 days out from the election. It's possible that there could be a 'bounce' in business confidence if the election results in a change of government (and the new government has a comfortable majority in the lower House), although whether that 'bounce' is sustained will depend importantly on the performance of that government in its early days. Otherwise I expect the economy will continue to grow at a below-trend pace, with unemployment continuing to edge higher, making a further rate cut over a six month horizon desirable.

BOB GREGORY

No comment.

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WARWICK MCKIBBIN

There is continuing evidence that loose monetary policy in Australia is driving the demand for assets rather than supply (especially housing) suggesting that that asset prices are inflating relative to fundamentals. Political uncertainty that is hurting confidence is likely to be resolved soon although the first hundred days of the new government will be decisive in setting a clear growth agenda for the next few years. Structural reforms are critical to take the pressure of monetary policy so it can respond to external macroeconomic forces rather than structural problems in Australia.

Globally emerging markets are being stressed through a reallocation of global capital flows as the Fed edges closer to the end of quantitative easing. As capital flows into the strengthening US economy, the falling bond prices globally will continue and global long term interest rates will rise. This will be a dangerous period for some economies who have not wisely used the cheap global capital to undertake growth stimulating reforms or to solve debt problems that make them vulnerable to shocks. There is a high likelihood of some countries entering a crisis during the adjustment in the next year and policy in Australia may need to respond to this external shock.

JAMES MORLEY

Hold Steady for the Election:

I don't expect the RBA to adjust the policy rate right before a national election, nor should they under most circumstances. Only if there were a big development prior to the meeting that suggests quickly rising inflation or rapidly deteriorating economic activity, should they adjust the policy rate. I do not think this will happen. So, the RBA should hold steady this month and re-evaluate their policy stance in October.

JEFFREY SHEEN

Business investment, particularly in buildings and structures, was remarkably strong in the 3rd quarter of 2013. Mining continues to make a significant contribution, suggesting that the mining investment boom is far from over. The continuing decline in manufacturing investment (which is only about 6% of total investment now, down from 10% in 2010) should not be addressed by monetary policy, The expected real depreciation of the Australian dollar is likely to encourage future export demand and also further foreign investment. Future monetary policy decisions will depend on the outcome of the election, but, whichever party wins, the fiscal implications remain somewhat uncertain. Therefore I recommend no change in the cash rate in September.

MARK THIRLWELL

No comment.