CAMA RBA SHADOW BOARD – COMMENTS

FEBRUARY 2014

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

Timely demand indicators for the local economy have generally lifted since the last board meeting. Retail sales, building approvals and measures of local business conditions have all shown improvement over the past couple of months. The housing market has also continued to pick up strongly. Together, these indicators suggest that monetary policy is continuing to get traction in the economy. The recent fall in the Australian dollar has also helped to loosen financial conditions further. The recent lift in inflation suggests that there is unlikely to be much scope to cut interest rates any further during this easing phase, barring an unforeseen negative shock. I recommend that the cash rate is left unchanged at 2.50% and see it as more likely than not that the cash rate will need to be higher than its current level in 12 months time.

MARK CROSBY

Current: Continuing uncertainty about the speed and impact of tapering suggest adjustments to monetary policy in the short term ought to be made with caution.

6-12 month: At the 6 to 12 month horizon the RBA will have to juggle continued weakness in advanced economies, and some important emerging markets against the problems of inflation and asset price growth caused by continued low interest rates.

MARDI DUNGEY

No comment.

SAUL ESLAKE

No comment.

BOB GREGORY

I am becoming more uncertain, not about the range of possibilities, but what probability to attach to each one. Have a clear view on the economy - it is sliding down slowly. But interest rates have a high relative content - that is relative to overseas and I think overseas interest rates will begin to go up. So if we stand still it is like a cut, from the RBA view.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

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JAMES MORLEY

Current: Inflation for 2013 was 2.7%, which is slightly above the mid-point of the 2-3% target range. However, this is likely due to one-time effects of the depreciation in the Australian dollar from its record highs against the US dollar. As a result, inflation can be expected to run at the lower end of the target range in 2014 unless the dollar depreciates a lot further.

12 month: The policy rate should be returned to its neutral level over the medium term (1-2 year horizon). However, the RBA can continue to monitor the effects of low real interest rates on asset and housing prices before embarking on a tightening cycle.

JEFFREY SHEEN

Since the last Board meeting, the Australian economy has continued to flatline. Its major trading partners improved their growth only modestly, and it seems now that this trend will persist for some time. The trade weighted index has depreciated only a little. On the other hand, housing and share prices in Australia have continued to rise significantly, in part reflecting investor confidence about the future. However, in the present, economic activity appears restrained and capacity utilization is falling slowly. While the impact of changes to fiscal policy settings by the new Abbott government remain unclear, consolidation in 2014 is quite likely. Therefore a zero real value for the cash rate seems appropriate for now.