CAMA RBA SHADOW BOARD – COMMENTS

APRIL 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

Local activity indicators are continuing to show that growth is picking up. Retail sales are growing at their fastest rate since 2010, housing prices continue to rise at low double digit annual rates, forward-indicators suggest that residential construction activity is picking up pace and the business surveys report an improvement in conditions. This month also brought indications that the pick-up in activity is starting to feed through to a lift in employment. If coming months bring further signs of improvement in the labour market, this would start to suggest that the current very stimulatory setting of monetary policy may be unnecessary. A further pick-up in activity could also tilt the inflation risks to the upside and, with inflation already in the upper half of the target band, would suggest that rates may soon need to rise to keep inflation comfortably within the target band. I recommend that the cash rate is left unchanged this month, but looking forward, I see it as more likely than not that the cash rate will need to be higher than its current level in 12 months time.

SAUL ESLAKE

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

Given a weak labour market and stable inflation expectations, the RBA should hold the policy rate at its current accommodative level for the time being. But the next move in the medium term should be to raise the policy rate in order to return it to a more neutral level.

JEFFREY SHEEN

In the last month, any positive news appears to have been balanced by the negative, so I see no reason to change my recommendations. The Australian labour market has not improved much with unemployment constant at 6%, employment higher marginally, but hours worked down. Output growth in Australia marginally improved in 2013 quarter 4, but this was led by a marked decline in household saving overcoming the demand effects of a decline in real investment. Globally, the advanced economies are now growing more, and while this growth will be helpful for the Australian economy, it will mean the winding down (or tapering) of quantitative easing in the US (and perhaps later in Japan and Europe), which will begin to push up interest rates in the next few years. The gradual improvement in growth in the advanced countries is counterbalanced by the possible effects of realized credit risks in China for its growth, and the danger of energy price rises from an escalation of the Ukraine crisis.