CAMA RBA SHADOW BOARD – COMMENTS

MAY 2014

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PAUL BLOXHAM

The Q1 CPI numbers showed that underlying inflation is just a touch above the middle of the RBA's target band. To a large degree, this vindicates previous interest rate settings, given the lags involved in the transmission of monetary policy to the economy. It also helps to support the case for the RBA to leave its interest rate setting unchanged for the moment. However, monetary policy needs to be forward looking, and recent timely indicators continue to suggest that economic activity is lifting, led by the housing sector and largely in response to the current very stimulatory setting of the cash rate. This month also saw further evidence that the lift in activity is beginning to translate into job creation, with the unemployment rate ticking down to a four-month low. As yet, there are limited tangible signs that businesses are considering an increase in their capital expenditure, although this tends to occur in tandem with an increase in hiring. Should the current improving trends in activity and the labour market persist, the risks to inflation should be expected to shift to the upside, at which point, the RBA would need to consider starting to move its cash rate back towards a neutral setting. A very tight budget is a downside risk to this outlook and could be a consideration for monetary policy in coming months. I recommend that the cash rate is left unchanged this month at 2.50%, but still 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

While indicators for both the domestic economy and the international economy continue to be mixed, ongoing asset price increases should lead to a tightening bias in coming months. My expectation is that China will achieve growth around the 7% range in 2014, underpinning net exports and near trend GDP growth in Australia for the calendar year.

SAUL ESLAKE

No comment.

BOB GREGORY

No comment.

GUAY LIM

It is difficult to argue for a change in the current stance of monetary policy. Yes, leading indicators are signalling improvements, but they are not strong enough to warrant an increase in the cash rate now. On balance, I still think it would be prudent to keep the cash rate at 2.5 per cent, for now.

WARWICK MCKIBBIN

No comment.

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JAMES MORLEY

Inflation remains stable. But the economy is fragile, especially given a likely fiscal contraction. In light of this, the RBA should keep the policy rate low for longer than previously planned, despite the risks of financial imbalances arising from interest rates remaining below more neutral levels.

JEFFREY SHEEN

My recommendations for monetary policy in May 2014 have become marginally more accommodative. The government has been revealing that the federal budget on 13 May is likely to significantly consolidate current and future government expenditure and tax revenues. Many of the measures will aim to address important longer run issues, but they will all have the shorter term consequence of delaying the slow recovery of the Australian economy. The global recovery, which is becoming broader and stronger, is unlikely to be enough to counteract the fiscal consolidation. Therefore, monetary policy will need to remain accommodative for somewhat longer, thus postponing its normalization.