# CAMA RBA SHADOW BOARD – COMMENTS

## AUGUST 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 indicators of economic conditions have generally improved in the past month. Consumer sentiment has bounced back, after having fallen sharply in response to the May Federal budget. Activity in the housing market has picked up, after having slowed around May. Business sentiment remains positive and a recent lift in business credit growth provides an early sign that corporate sector investment may be starting to lift. China's growth has also lifted, which is providing some support for iron ore prices in the past month, following significant falls earlier in the year. The labour market remained broadly steady, with the unemployment rate around the same level as at the beginning of the year. At the same time, the Q2 CPI print showed that underlying inflation remains solidly in the upper half of the 2-3% target band. Very accommodative monetary policy appears to be working and inflation is in the upper half of the target band, which provides little scope or necessity for the board to consider cutting rates further. Indeed, in my view, the risk that low rates may start to drive excessive risk taking in the housing market is building, which could eventually threaten financial stability. I recommend the cash rate is left unchanged this month, but expect that the cash rate may need to be lifted in the next 6-12 months partly to prevent a housing bubble from inflating.

### MARK CROSBY

There is little in the current environment to suggest anything other than sitting on one’s hands for the moment. In the 6 to 12 month horizon we can hope that the US and Europe continue to edge closer to normalising monetary policy, freeing up the RBA to also move rates closer to a more usual neutral rate.

### MARDI DUNGEY

No comment.

### BOB GREGORY

No comment.

### GUAY LIM

The case for tighter monetary policy has strengthened as inflation is edging up along with a pick-up in the growth of credit. However, the case for an immediate hike in the cash rate is not strong as growth in activity and employment remain tentative.

### WARWICK MCKIBBIN

With domestic goods price inflation rising to the top of the RBA’s inflation target band and asset price inflation clearly rising to uncomfortable levels the current policy interest rate in Australia is too low. Monetary policy is too expansionary. The dilemma for the RBA is how to get back to a more neutral interest rate given global policy settings. The strong Australian dollar will continue while foreign investors search for yield and the international adjustment of monetary policies continue to drive global currencies. Clearly the policy answer lies outside the domain of monetary policy. The current problem in Australia is in the settings of fiscal policy and the lack of appropriate structural adjustment policies. In a world of significant geo political risks and economic uncertainty the blocking of policy reform by the Australian Senate is making a bad situation worse by hurting consumer confidence. There is little that monetary policy can do to negate the near term and more serious long term economic damage caused by the current political standoff.

## JAMES MORLEY

Inflation is running at the high end of the RBA's target range of 2-3%, with year-on-year headline inflation in June of 3.0% and underlying inflation (excluding volatile items) of 2.8%. Given these inflation numbers, the RBA needs to consider raising the policy rate in the medium term. However, unless inflation looks to actually fall outside the target range, ongoing weakness in the labour market suggests that the RBA can hold the policy rate steady in the immediate future.

## JEFFREY SHEEN

The pressure to raise interest rates sometime next year continues to increase given Australia's inflation rate in the second quarter reached the upper limit of the RBA's target band of 3%, that hours worked increased 0.9% despite the unemployment rate rising to 6% in June, and that output growth in the first quarter was a little above normal at 3.8%. This future recommendation is supported by the fact that the US economy growth has recovered significantly in quarter 2 to 4% following its temporary weather-related drop in the previous quarter. However, as a counter-weight, the IMF has lowered its prediction a little for China 's growth in 2015.