CAMA RBA SHADOW BOARD – COMMENTS

SEPTEMBER 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

Indicators of sentiment have continued to improve over the past month, notwithstanding an uptick in the measured unemployment rate in July. The established housing market has also shown signs of continued exuberance, particularly in Sydney and Melbourne. There have been further signs of a strong upswing in residential construction although, at the same time, mining investment has continued to fall. Overall, growth looks to have been below trend around the middle of the year, although the collection of indicators suggest that domestic conditions appear to have improved in the past month or two. Given improving momentum in local growth and the booming housing market, the case for a further cash rate cut is weak. A key source of tension for the Australian economy remains the high AUD, particularly in the face of falling iron ore and coal prices and a significant narrowing in the interest rate differential between Australia and the US (the 10-year bond spread is around an 8-year low). The combination of falling commodity prices and a high AUD is putting downward pressure on local income growth and helps to explain further weakness in the labour market. Australia's growth prospects could be noticeably improved by a lower AUD, but it remains a significant challenge to orchestrate such as move, with much dependent on international conditions. While a further cut in the cash rate could encourage the AUD to fall, lower rates could also drive excessive risk taking in an already booming housing market and eventually threaten financial stability. I recommend the cash rate is left unchanged this month. I expect that the cash rate may need to be lifted in the next 6-12 months, to prevent a housing bubble from inflating, but the scope to lift rates is somewhat conditional on the direction the AUD takes.

MARK CROSBY

With the US continuing on track towards normalisation of monetary policy, the likelihood of the RBA cutting rates is receding. It is quite possible that current rates are at the lowest level they will be in our lifetimes. However, the speed of rate rises is likely to be slow in the next 1-2 years, with weak growth in advanced ecoomies likely to be the norm.

MARDI DUNGEY

No comment.

BOB GREGORY

This is a very slow time at the moment. We just have to wait and see for a while.
Looking forward a year international forces will encourage the Australian rate upwards, but domestic considerations will probably encourage the rate downwards with the likelihood of little change being high.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

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JOHN ROMALIS

The Australian economy still seems to be slightly soft, with moderately elevated unemployment levels contributing to low wage growth and moderate inflation rates. Looking forward, rising housing construction should help offset the negative effects of declining mining investment. Faster GDP growth from rising commodity exports should be somewhat discounted because fewer workers are required to run mines than to build mines and associated infrastructure. Economic and financial conditions in our main trading partners appear to be increasingly robust, which should help restore domestic confidence and keep commodity prices at fairly high levels. So while rates should remain constant for now, there is a greater likelihood that the target cash rate should rise later in the forecast horizon.

JEFFREY SHEEN

The news about the labour market in August suggests that the current accommodative stance of monetary policy needs to continue, along with a marginally higher delay before it needs to begin reversing.