CAMA RBA SHADOW BOARD – COMMENTS

OCTOBER 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

The major development this month has been a substantial decline in the Australian dollar. Last month this was the key tension for the monetary policy outlook. The combination of a high currency and falling commodity prices was squeezing local incomes and the high Australia dollar was also constraining local competitiveness. The Australian dollar has fallen due to both US dollar strength and further declines in commodity prices. Assuming the lower level of the currency is sustained, it should be expected to support a further lift in local demand over time, as it helps to improve competitiveness and supports local incomes. At the same time, the lower currency will add upside risk to the inflation outlook, which supports the case for lifting interest rates, at some point, particularly given that the housing market is continuing to show signs of exuberance. However, given the current looseness of the labour market and the likely dampening impact that this will continue to have on wages growth, I expect that the upside risks to near-term inflation are still only modest. I recommend the cash rate is left unchanged this month. Looking further forward, I continue to expect that the cash rate may need to be lifted in the next 6-12 months, partly to prevent a housing bubble from inflating.

MARDI DUNGEY

No comment.

BOB GREGORY

I am still not moving much on interest rates.
Six months ahead I am changing slightly I think but the housing market is confusing me a lot. I favour some short run intervention of some sort but very unlikely that RBA will be able to put something together quickly.

GUAY LIM

Getting the stance of monetary policy right is difficult at the moment. Keeping interest rates low may encourage further rises in house prices but hiking the cash rate may dampen further falls in the Australian dollar. On balance, it might be better to leave the cash rate unchanged this month as the outlook for growth and employment remains weak.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

The forecast for the Australian economy is mixed. The collapse of the iron ore price and a generally weaker outlook for China will be a clear drag on the Australian economy going forward. However, the lower Australian dollar and a more robust recover in the United States could help offset weakness in the export sector.
Domestically, it seems clear now that negative short-term real interest rates have fuelled excessive growth in residential and commercial real estate prices. Combined with inflation running at the top end of the RBA's target range, there is a strong impetus for the RBA to begin a tightening cycle soon, especially since the large increase in the unemployment rate in July has

been reversed. The main risk to the domestic outlook remains over exactly how contractionary an implemented budget will turn out to be.

On balance, then, the RBA should consider starting a tightening cycle before the end of the year, especially if the housing market continues to overheat and in the absence of a more sustained large upward movement in the unemployment rate.

JOHN ROMALIS

Little has changed since last month, with the most notable change being a slightly weaker dollar and lower prices of some key commodities. The Australian economy still seems to be slightly soft, with some slack in labour markets contributing to low wage growth. Looking forward, rising housing construction should help offset the negative effects of declining mining investment. While a slightly weaker dollar will contribute to a modest increase in inflation, weaker commodity prices will crimp the domestic economy somewhat. 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 reasonable 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

No comment.