CAMA RBA SHADOW BOARD – COMMENTS

DECEMBER 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

Australia's economic growth is continuing to re-balance from being mining to non-mining led, largely as a result of very accommodative monetary policy. There continue to be clear signs that low interest rates are working to support growth. Housing market activity is still strong and non-mining business conditions are gradually improving. As yet, this improvement is yet to appear in the official labour market indicators, although other labour market measures suggest some stabilisation of conditions. At the same time, the mining sector has weakened further in recent months. Iron ore prices have fallen to new five-year lows, which will be a drag on national income growth. The appropriate policy response, however, is to allow fiscal policy to be looser in the face of weaker national income growth. Monetary policy is already doing its job and demanding more of it, by cutting rates further, increases the risk of asset price misalignments. Given that growth remains below trend and inflation is well contained, I recommend that the cash rate is left unchanged this month. I still expect that the cash rate may need to be lifted in the next 6-12 months, given the growing risks that could stem from leaving interest rates too low for too long.

MARK CROSBY

Little data to change the outlook from the previous month, so the RBA will sit on their hands again in December. Chinese data is still mixed, though recent rate cuts may improve the medium term outlook and so lead to improving growth and higher rates in the medium to longer term. However, these rate cuts also reflect concern over the outlook, so the more likely outcome will have the RBA waiting for clearer positive signals on the global outlook before raising rates.

MARDI DUNGEY

No comment.

BOB GREGORY

No comment.

GUAY LIM

There are signs that growth in the economy is picking up, with contributions from non-mining investment and net exports. Although the unemployment rate is likely to stay around 6 per cent for a few more months, it is expected to fall next year. It would be prudent to keep the cash rate at 2.5 per cent, for now, but the time for a rate change is approaching.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

Inflation could pick up slightly in the near term as the one-time impact of removing the carbon tax wears off. But it should remain within the 2-3% target range. Meanwhile, a lower dollar and stable unemployment continue to provide scope for an increase in the policy rate to help cool the housing market. But, similar to last month, I anticipate that the RBA will not start raising rates until early to mid 2015 after they have signalled a change in their plans for "a period of stability in interest rates". Instead, there may be an imminent announcement on loan-to-value restrictions for mortgages similar to what was implemented by the RBNZ in New Zealand last year.

JOHN ROMALIS

Moderate domestic growth, stable inflation, weakening commodity prices, slightly slower growth in China and fragility in Europe suggest that the target cash rate should not be rising anytime soon.

JEFFREY SHEEN

The modest trade-weighted growth of Australia's major trading partners is likely to change little into 2015. Weakness in Japan and Europe should mean low global interest rates and ample liquidity through 2015, though the major unknown is when the FED will choose to make its next move, given the growing strength in the US economy. The RBA should remain cautious about raising the cash rate because the Australian dollar is likely to remain too strong into 2015. Australia needs further real depreciation to assist in the gradual rebalancing of its growth from the mining to the non-mining sectors. Though waiting for this rebalancing to occur risks asset price inflation, this is not yet a problem that should influence monetary policy.