

CAMA RBA SHADOW BOARD – COMMENTS

MARCH 2015

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PAUL BLOXHAM

No comment.

MARK CROSBY

Having unexpectedly cut last month, it would seem to make sense to hold and wait before moving again. International developments remain uncertain but are stable, and I have a concern that the RBA is using up all of its ammunition before it becomes absolutely necessary.

At longer horizons it still seems likely that raising to more neutral levels rather than cutting rates would seem desirable.

BOB GREGORY

I did not support the interest rate change last month. Still worried about housing and think we gain very little else from a cut.

GUAY LIM

It would be difficult to make the case for another cut in the cash rate following so soon after the cut last month. This is not to detract from real concerns that growth remains below trend, but one reason for pause is that it is unclear that further cuts would stimulate real spending.

This is not the appropriate forum to discuss economic research, but it is apposite to note that the relationship between spending (in real terms) and the cash rate appeared to have changed post GFC. From 1993-2007, lowering the cash rate appeared to have had the desired effect of stimulating growth in real GNE, but post GFC, the evidence is not so apparent.

Unless there are clear signals of worsening economic conditions, it seems prudent to keep rates steady rather than risk fuelling asset-price inflation. And there are signs of improvement! The US economy is recovering steadily and growth in China, though slower, is still robust. Meanwhile, the exchange rate has depreciated and consumer confidence has picked up.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

No comment.

JOHN ROMALIS

No comment.

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JEFFREY SHEEN

The Australian economy continues with below-normal activity. There is little on the horizon that might restore normality: the labour market weakened in January with the unemployment rate reaching 6.4% and wage rises showing moderation at 2.7%; planned capital expenditures are showing significant declines, particularly in mining and manufacturing; the TWI appreciated by 3% in February despite continued weakening in commodity prices; and the weighted growth of Australia's major trading partners remained modest. The main downside risk to a further easing of monetary policy is asset price inflation, but this is not an obvious problem at this stage - for example only Sydney and Melbourne housing prices are growing much faster than Australia's 5%.

The RBA Board judged the evident weaknesses last month to merit a relaxation of monetary policy, and the data releases this month give further support to that judgment. In the apparent absence of a cogent fiscal response, monetary policy needs to carry an even bigger burden for the time being.