

CAMA RBA SHADOW BOARD – COMMENTS

APRIL 2015

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PAUL BLOXHAM

No comment.

MARK CROSBY

Ongoing uncertainty in the global economy continues to dominate the outlook, with uncertainty around Greece and Europe, and China being the most important factors affecting monetary policy. The most likely outcome is that Greece will continue to muddle through, and China will find a way to achieve near 7% GDP growth in 2015, so that monetary policy in Australia is loose enough at present settings. Worsening in the global outlook should see further rate cuts, while ongoing stability should see the RBA looking to normalise rates early in 2016.

MARDI DUNGEY

No comment.

BOB GREGORY

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

The RBA faces a difficult choice. Cutting interest rates will likely further inject a bubble into asset markets which will lead to high economic costs when the policy unravels. Ultra low interest rates are not a substitute for dealing with the structural adjustment that the Australian economy needs to undertake. The longer that economic reform is postponed through political stalemate the more difficult the job of monetary policy will become. The ultimate questions for the RBA are: what is the objective of the current policy and what will be the most likely ultimate outcome of continually lowering interest rates in the current economic environment? Is the goal to drive the economic adjustment to the commodity price decline or is it to buy time by artificially stimulating asset values in the economy to sustain demand until the politicians that are blocking needed economic reform realize the folly of their actions? It may be possible for the RBA to drive the adjustment but it is more likely that it can only postpone a structural slowdown. Creating a significant misallocation of capital in an economy that will ultimately need major structural adjustment, while perhaps attractive in the short term, will likely create a proliferation of problems that will converge at some point in the not too distant future. My view is the RBA should hold its ground and focus attention on highlighting the fundamental economic problems that other policies need to address. Perhaps with luck, ultra-low interest rates might bridge the policy vacuum created by parliament. But the more likely outcome is that cutting interest rates further without other policy support, will ultimately create another painful economic adjustment that Australia did not need to have.

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JAMES MORLEY

No comment.

JOHN ROMALIS

Although economic activity and inflation are likely to remain subdued in the near term, we have to wonder whether the short-term benefits of any additional monetary stimulus are sufficient to offset any potential costs down the line stemming from rapid increases in property rises in some markets.

JEFFREY SHEEN

No comment.