CAMA RBA SHADOW BOARD – COMMENTS

JULY 2015

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

Having delivered 50bp of cuts in the first half there is no need to consider cutting rates again this month, particularly given recent signs that the labour market is improving. At the same time, activity in the Sydney and Melbourne housing markets continues apace, with the Sydney market, in particular, showing signs of worrisome exuberance. Although a lower AUD could help to speed up the re-balancing of growth, it is not clear that the domestic cash rate setting is having much influence on the currency. What is clear, is that further rate cuts risk over-inflating the housing market. In my view, the costs associated with cutting the cash rate further outweigh the benefits that lower rates could deliver in terms of supporting sustainable growth.

MARK CROSBY

In this case more than ever events in the rest of the world right up until the Board makes its decision are likely to influence the outcome. If there is Grexit then the likely ramifications for European and global economies are small, but we really can't know. If that were to occur then the RBA might reasonably cut to calm nerves. However in the more likely event that the Europeans kick the can down the road again, sitting on their hands seems the optimal decision to make.

MARDI DUNGEY

No comment.

BOB GREGORY

I am really of the view that what we gain from lower interest rates is not worth the loss in increasing house prices.

GUAY LIM

There are signs that the economy is doing 'alright' – GDP growth was a strong 0.9 per cent in the March quarter of 2015, the trimmed mean measure of inflation was 2.3 per cent (2014:Q1-2015:Q1) and the unemployment rate dropped to 6.0 per cent in May 2015 (from a revised 6.1 percent in April). Unfortunately, there is no convincing evidence of momentum from forward-looking indicators. Neither the Westpac-MI Leading Index of Activity nor the Index of Unemployment Expectations are signaling steady improvements in activity. Consumers remain worried about future conditions; specifically, the Expectations component of the consumer sentiment index has been below the neutral mark of 100 since December 2013. On balance, it seems prudent to keep the cash rate steady for a while. This is especially important, considering the possibility of global "uncertainty" impacting negatively on the Australian economy. In the absence of action from the fiscal arm of policy, we may need the monetary arm to act quickly and decisively.

WARWICK MCKIBBIN

No comment.

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JAMES MORLEY

With underlying inflation well within the RBA's target range at 2.3 percent and the latest unemployment rate easing slightly down to 6.0 percent, the RBA should hold its policy rate steady, with a bias towards raising it in the future to return interest rates back to more neutral levels.

Given the economic turmoil in Europe, this is definitely not the moment to start raising rates. It is true that Greece has little direct effect on Australia. But there are many implications for the position of other larger economies within the Eurozone if Greece were to exit. In any event, this turmoil could delay liftoff for the US interest rates, which will put upward pressure on the Australian dollar. Therefore, in the absence of domestic inflation pressures, the RBA should not raise rates until the European turmoil and the timing of liftoff for US interest rates is resolved.

JOHN ROMALIS

No comment.

JEFFREY SHEEN

No comment.