CAMA RBA SHADOW BOARD – COMMENTS

OCTOBER 2015

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PAUL BLOXHAM

The fall in the Australian dollar in recent months means that financial conditions have loosened noticeably. There is increasing evidence that the lower currency is working to support growth. Services exports are picking up, which combined with the ongoing upswing in housing activity, is lifting business conditions and jobs growth. Although GDP is growing at a below trend pace, the broader collection of activity indicators suggests that economic activity is gaining momentum, supported by very loose financial conditions. I recommend that the cash rate is left unchanged this month and expect that the cash rate is more likely to need to rise from here than fall, although not for some time yet.

MARK CROSBY

Despite recent suggestions that the RBA should cut, it would appear unwise to do so in a world where the Fed is now very likely to raise at its next meeting. While Australia's economic fundamentals are weak, issues are more properly addressed through tax, competitiveness and other reforms than through further loosening already loose monetary policy. Issues with excessive debt remain significant in many economies, and Australia ought not to exacerbate potential problems on that front through cutting rates. The medium term question is still how rates become normalised as at least some other advanced economies raise rates.

MARDI DUNGEY

No comment.

BOB GREGORY

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

Despite the collapse of commodity prices and the effects of this on the stock market, the Australian economy has adjusted to the post-mining boom era reasonably well. This has been helped by the previous cuts in the policy rate and will continue to be supported by a weak Australian dollar. But the low interest rates also have risks in terms of large price swings in the housing market and excessive credit growth. Given all of this, the RBA should not lower the policy rate further. At the same time, the RBA can probably wait until US liftoff and more solid indications of inflationary pressures to start raising rates.

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JOHN ROMALIS

No comment.

JEFFREY SHEEN

The US Federal Reserve did not change the target federal funds rate in September, given the sluggish world economy and fragile financial markets. These concerns will remain probably through to 2016. With input prices falling, inflation is unlikely to be an issue anywhere in the rich world for the forseeable future, and so there is no reason to act preemptively. Many central banks have cut interest rates in the last year including Australia, Canada, China, Denmark, Euro area, India, Israel, New Zealand, Norway, Russia, South Korea, Sweden and Switzerland. The time to change course is a way off, and in particular for Australia. There are few indications of how potential GDP growth in Australia might go above the current 2%. A surge in China's imports from Australia is unlikely. The new Federal Treasurer appears likely to consolidate government expenditure. Business investment is still in retreat. While some worry about a possible bubble in property prices, Kohler and van de Merwe in the September 2015 RBA Bulletin show that there has been and remains significant structural excess demand for housing services in Australia, which is even more pronounced in NSW. The recent APRA-induced credit market tightening may have little effect on this structural excess demand, and may well dim one of the few bright lights in the economy - dwelling construction. There is a significant risk of escalating market pessimism, which would be stoked by tightening monetary policy. For all these reasons, my recommendation has an increased weight on an interest rate cut, though no change still dominates for the October meeting.