CAMA RBA SHADOW BOARD – COMMENTS

JULY 2018

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

No comment.

MARK CROSBY

Little has changed in the past month or so to suggest that the RBA should continue to delay normalising rates. While inflation and wages growth remain subdued, the longer rates remain well below any reasonable definition of a neutral rate the greater the imbalances and potential pain later on.

MARDI DUNGEY

No comment.

RENÉE FRY-MCKIBBIN

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

Headline inflation has been running just shy of the RBA's 2-3% target range at 1.9% for the last two quarters, while underlying inflation is 2.0% with the latest reading. The unemployment rate is 5.4% and real GDP growth is 3.1% on a year-on-year basis. These conditions are all consistent with an economy at or very close to potential. Wage growth has been weak. But it can be expected to pick up as previous downward pressure from increases in labour force participation cannot be sustained.

Given solid domestic conditions and a rise in global interest rates that will keep downward pressure on the exchange rate, the RBA can start to return its policy rate to a more neutral level over the next two years or so. It is possible that the neutral rate is lower than previously thought due to lower long-run productivity growth. However, it is likely to be consistent with a policy rate at least 2-3 percentage points higher than its current level.

JOHN ROMALIS

No comment.

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JEFFREY SHEEN

Despite a good outcome in the first quarter 2018 national accounts with exports and non-mining investment performing well, there is a growing risk that the global economy, and in turn the Australian economy, will peak soon in its current cycle. This is partly because of the escalating global trade war which will have a significant effect on Australia's major trading partners. Further credit markets are likely to continue to tighten even though macro-prudential imperatives may suggest the reverse. For these reasons, my recommendations for future domestic monetary policy have eased.