

CAMA RBA SHADOW BOARD – COMMENTS

AUGUST 2020

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.

RENÉE FRY-MCKIBBIN

No comment.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

The ABS has just reported that Australia has recorded its first episode of year-on-year deflation in decades (CPI inflation over twelve months to the June 2020 quarter is -0.3%, while quarterly inflation was -1.9%).

As part of its forward guidance communications, the RBA Board should make it clear that they intend to offset the effects of the current deflation on the general level of prices by allowing inflation to run at the high end of the target range for longer than otherwise. Responding asymmetrically to negative price shocks (while still letting bygones be bygones for large positive price shocks) is consistent with an inflation target of 2-3%, but would lead to average inflation closer to the top end of the target range at around 2.75%. By maintaining inflation targeting but conveying a willingness to let average inflation be around 2.75%, the RBA would help ensure inflation expectations remain anchored and help avoid a debt-deflationary spiral that is a major risk to the economy as there is clear downward pressure on wages in particular given the COVID-19 crisis.

JOHN ROMALIS

No comment.

JEFFREY SHEEN

No comment.