CAMA RBA SHADOW BOARD – COMMENTS

MARCH 2021

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.

SALLY AULD

No comment.

RENÉE FRY-MCKIBBIN

No comment.

SARAH HUNTER

Monetary policy should remain very accommodative for the foreseeable future. Notwithstanding the strength of the recovery in the labour market thus far, there are now signs that the initial rebound is coming to an end and the economy is still some way from full employment (employment growth in NSW has stagnated in recent months, for example). Given the likely need for the unemployment rate to fall to 4.5% (or lower) before a sustained, broad-based acceleration in wages growth is seen, the RBA should continue to provide support in order to stimulate activity levels.

MARIANO KULISH

Measures of underlying inflation remain below the RBA's target band of 2 - 3 per cent. Although monetary policy settings in Australia are expansionary, the recent increase in commodity prices together with expansionary monetary policy in the United States have contributed to a significant appreciation of the Australian dollar in recent months. A stronger Australian dollar will reduce inflation further through a reduction in non-tradable inflation. With inflation persistently below target and slack in the labour market there is a risk that long-run inflation expectations become anchored at a permanently lower level. Monetary policy must therefore increase the degree of policy accommodation by extending the duration of its zero interest rate policy.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

The current forward guidance by the RBA is clear in terms of expecting to maintain the cash rate at the effective lower bound for at least three years and emphasising a link to inflation being higher than currently and sustainably within the 2-3% target range. Given some recent signs of improving global economic conditions and continued fiscal support for economies such as the United States, it is possible that "liftoff" for the main policy rate (the overnight cash rate) could commence in early 2024. Thus, it may be helpful to modify the guidance language to be even more "calendar-based" in the sense of specifying the overnight cash rate is expected to remain at the effective lower bound until at least the end of 2023. It would also be helpful in managing expectations to allow that inflation may temporarily exceed the target range before liftoff away from the effective lower bound would occur.

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JOHN ROMALIS

No comment.

JEFFREY SHEEN

No comment.