

CAMA RBA SHADOW BOARD – COMMENTS

JUNE 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

The data released this month has broadly confirmed my view of the recovery. The easy wins from re-opening have largely been exhausted, and so growth momentum is now slowing to a more normal, sustainable pace. It looks as though the end of JobKeeper has not had a significant impact at the macro level and the outlook is still generally positive – I expect the economy will expand by over 4% this calendar year.

But challenges and risks remain. The latest Melbourne lockdown and spike in cases in other Asian economies that were previously successfully controlling COVID-19 highlights that until the majority of the population are vaccinated the risk of an outbreak and tighter restrictions remain. And it will not be possible for the economy to fully recover until all restrictions are removed. The labour market data is now starting to confirm the expected patchy nature of the recovery; NSW and VIC, who are most exposed to international tourism and higher education, are yet to return to pre-COVID employment levels while QLD and WA have moved significantly beyond this.

This macro observation aligns with survey data and other micro indicators that are flagging labour shortages in specific regions and sectors. How well the economy is able to shift resources to the states where demand is strongest, and away from the regions where it is relatively weak, will be a key determinant of the economy's performance going forward.

Given this remaining risks and challenges, and the need for a broad-based recovery to be well-entrenched to anchor inflation expectations and outcomes within the 2-3% target band, it is right for the RBA to hold its current settings through the rest of this year.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

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JAMES MORLEY

The RBA Board’s agreement at the May meeting to consider in the July meeting whether or not to retain the April 2024 bond as the target bond for 3-year yield-control target (hence suggesting when liftoff of the OCR might occur) or shift to the next maturity (the November 2024 bond, which would imply a six-month delay in liftoff for the OCR) is a welcome development. This provides a clear communication of how the yield-curve control measure could be adjusted in reaction to changes in expectations about future economic conditions. If the forecasts for inflation and inflation expectations move comfortably into the 2-3% target range by the July meeting, the RBA can signal liftoff could occur around April 2024. If they remain below, the RBA should move to the next bond issue and leave open the possibility of a further shift to a later maturity.

I suspect the forecasts for inflation will still not be strong enough by the July meeting and the discussion about which maturity to target will shift six months later. This is especially the case as “comfortably with the 2-3% target range” should be in the top half of the range to help partially offset the effects of the Covid crisis (and past misses of the target range) on the price level.

JOHN ROMALIS

No comment.

JEFFREY SHEEN

No comment.