CAMA RBA SHADOW BOARD – COMMENTS

MARCH 2022

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.

BEGOÑA DOMINGUEZ

Inflation is rising globally. In the U.S.A., the C.P.I. increased 7.5 per cent over the last 12 months. Wage growth is also on the rise, with an increase of over 5 per cent. On January 26th, the U.S. Federal Reserve signalled their intention to start the "lift-off", i.e. increase interest rates. The president of the Federal Reserve Bank of St. Louis, James Bullard, believes that such increase in the policy rate could happen as early as March 2022 and expects as many as three increases in the policy rate during 2022.

Inflation is also increasing in Australia. Currently, the year-ended C.P.I. inflation is at 3.5 per cent. Wages have increased by 2.3 per cent according to data just released by the A.B.S.. Should the RBA signal also a lift-off? If yes, when?

I think it is important to establish a policy strategy on monetary policy normalisation (lift off and balance sheet management) and to communicate this strategy to the public.

However, inflation data in Australia is clearly healthier than that of the U.S.A. and/or Europe. Moreover, it is also not as high for our main trading partners. Importantly, many of the drivers of this inflation are largely outside of the control of the RBA. Supply chain disruptions are still in place and resolved only slowly. Now geopolitical factors (specifically Ukraine) are further pushing up petrol prices. Uncertainty is at one of its highest in decades, with the end of the pandemic still unclear and with the real and imminent possibility of war in Europe.

Given this situation, a lift-off of the cash rate in Australia just now would be premature.

Having said this, there are clear inflation risks ahead. And the RBA has a role to anchor expectations of inflation. Then, if inflation continues rising and wage growth picks up further, a lift-off should happen.

RENÉE FRY-MCKIBBIN

No comment.

SARAH HUNTER

The latest data further confirms that the economy remains on track despite the short, sharp shock from omicron. Although hours worked fell sharply in January as a result of a sharp rise in people off sick, employment rose modestly, and the unemployment rate held steady at 4.2%. The tightness of the labour market is steadily translating into an upturn in wages growth, with the December quarter seeing a 2.3% gain on a year earlier, and price inflation is also being underpinned by global shifts in commodity prices.

Fiscal settings remain supportive and based on the high frequency data a further rebound in consumer spending (enabled by the re-opening of the economy) looks to be underway. And business investment intentions are still very buoyant, despite headwinds from rising inflation and borrowing costs.

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Moving through 2022 momentum will naturally wane, as the easy gains from re-opening are exhausted and inflationary pressures weigh on household spending (notwithstanding a pick-up in wages growth). Government spending is also likely to fall back as emergency pandemic spending comes to an end. Taking these competing trends together, it will be appropriate for the RBA to begin raising the cash rate from Q3 2022 onwards but for the normalisation to proceed at a relatively steady pace after this. Compared to other central banks globally, the RBA is likely to lag behind in this cycle – the RBA do not need to be concerned about this, indeed it can be useful if leads to a depreciation of the AUD (which will ultimately feed through to improve the trade balance).

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

No comment.

JOHN ROMALIS

No comment.