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.

BESA DEDA

No comment.

BEGOÑA DOMINGUEZ

No comment.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

The inflation surge beginning in 2021 was caused by many economies’ excessively loose monetary and fiscal policies. On top of the disruption to production networks from the covid pandemic and shutdowns, a positive demand shock met a negative supply shock. The global excess demand led to a worldwide inflation increase with differences in inflation outcomes across economies that were either larger or smaller than the dominant worldwide inflation factor. The Russian invasion of Ukraine in February 2022 added additional energy and commodity price shocks on top of the macroeconomic imbalances in the global economy.

Inflation has persisted even though some initial factors driving inflation, such as energy and commodity price increases, have almost returned to pre-shock levels. Recent data from the Institute of International Finance (and also noted in the World Bank Global Economic Prospects report (June 2023) show that PMI delivery times have fallen below pre-pandemic levels, and the higher markups that firms have received during the inflation surge are dropping quickly. The supply shocks from Covid and The Ukraine war may have already self-corrected. There is a reasonable chance that while central banks are trying to reduce excess demand through higher interest rates, the policy will have its impact when inflation is already falling due to supply-side adjustments. The dynamic of supply and demand adjustment suggests a significant probability of an overshoot of the deflationary impulses now passing through the global economy. The latest Australian monthly inflation data is consistent with this dynamic.

JAMES MORLEY

No comment.
JOHN ROMALIS

No comment.

PETER TULIP

My assessment of monetary policy is unchanged from June.

The most important information relating to monetary policy from the past few months was the RBA’s modelling of alternative interest rate paths, released under Freedom of Information. This indicated that large front-loaded increases in the cash rate, quickly taking it to 4.8 percent, would minimise a quadratic loss function with the inflation and unemployment gaps as arguments. Foreign central banks appear to be raising their policy rates quickly for this reason.

Disagreements with this analysis are unconvincing.

The RBA leadership appears to prefer a more gradual increase in the unemployment rate. However, this runs the risk of a de-anchoring of expectations and accelerating inflation. As the RBA has argued, that will involve even higher unemployment in future.

The RBA’s preferred path seems to reflect aversion to action; it would prefer to make errors of omission than errors of commission, because it gets publicly blamed for the latter.

Others oppose higher rates because they hope that the NAIRU is well below common estimates. If there was any econometric work underpinning these hopes I would take them seriously. Instead, they seem to reflect wishful thinking and a disregard of past experience. Central banks have tried to “test” below-NAIRU unemployment rates before (for example, the RBA in 2007) and the result was rapid acceleration in prices and wages.