CAMA RBA SHADOW BOARD – COMMENTS

DECEMBER 2024

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

Monetary policy should increase the cash rate. Underlying inflation measures remain strong, running at approximately 0.9 per cent per quarter, that is above target. While inflation has been gradually declining, the real interest rate has been rising (given a constant cash rate), making the policy stance tighter than before. However, the recent behaviour of inflation suggests that policy is not yet tight enough.

The pace at which inflation is projected to return to target is still too slow, posing a risk of destabilizing inflation expectations. Meanwhile, unemployment remains low, indicating a strong labour market. Given this configuration of inflation and unemployment, monetary policy must focus on promptly returning inflation to its target by raising the cash rate. Achieving a faster return of inflation to its target will also support real wage growth.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

No comment.

JOHN ROMALIS

No comment.

PETER TULIP

The current level of interest rates is about right. SMP projections are that it is consistent with inflation returning to the mid-point of the target and unemployment remaining near the NAIRU.

That said, the return of underlying inflation (abstracting from temporary fiscal subsidies) to target is slower than I would like. It means the risk of inflationary surprises requiring higher rates is greater than the risk of deflationary surprises. An increase in the cash rate of 25bp would give more balanced risks.

Several commentators have claimed that the NAIRU is lower than the Bank's estimate of 4.5%. The evidence I have seen in support of these claims is crude bivariate comparisons, to which I give zero weight relative to the RBA's multivariate analysis – especially as inflation has come in exactly as the Bank staff predicted.

Part of the confusion is the Bank's fault. I wish it were clearer about how full-employment should be estimated, clarifying which measures provide a reliable signal (ie the unemployment gap) and which are noise (many of the others).

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