

CAMA RBA SHADOW BOARD – COMMENTS

APRIL 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 recovery in the labour market continues to be strong, and the forward looking indicators for employment remain very healthy, suggesting that the current policy stimulus measures (fiscal and monetary) have been very effective at driving the recovery. Given this, an expansion of the monetary supports is not warranted at this time.

There are still hurdles for the economy to jump though. The end of JobKeeper will naturally lead to some people being made redundant. The key question will be whether these people are able to transition into the sectors/regions where there are job vacancies. The fact that job vacancies have risen in recent months but the number of people unemployed remains elevated compared to pre-COVID (notwithstanding a sharp fall in February) suggests that for some workers at least this transition isn't seamless. Given this, it will likely be some time before full employment is reached.

Furthermore, although it is recovering domestic demand is still relatively subdued. Household spending on services has not fully recovered, and business investment intentions (particularly with respect to building construction) are still depressed.

It would be premature to remove monetary supports from the economy right now, and non-traditional policies (such as QE and the 3 year government bond yield target) should be unwound first. As such, I would not change the cash rate over the next 12 months. Beyond this, the better than anticipated recent data potentially warrants bringing forward the first rate rise if the upside outcomes are maintained. But there is still considerable uncertainty about how the recovery will play out from here, what the Federal government will do to the fiscal policy stance and when some certainty about domestic and international restrictions can be removed.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

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JAMES MORLEY

The improvement in various economic conditions suggests that the RBA will be able to begin liftoff from the effective lower bound in early 2024. The exact timing and speed of liftoff will depend on whether they have achieved a sustainable return of inflation to their 2-3% target range and where inflation is in the target range. If the RBA has not achieved the return of inflation to the target range by early 2024, they should extend keeping the cash rate at the effective lower bound until inflation does return to the target range. If inflation exceeds the target range well before 2024, they should start liftoff earlier. My forecast is that inflation and measures of inflation expectations are most likely to be within the lower half of the target range by the beginning of 2024, which would call for a gradual liftoff back to neutral that allows inflation to run at the higher end of the target range. This gradual liftoff would let the price level return back up to a general path for it based on 2-3% inflation per year from when the cash rate hit the effective lower bound in response to the COVID-19 crisis.

JOHN ROMALIS

No comment.

JEFFREY SHEEN

No comment.