CAMA RBA SHADOW BOARD – COMMENTS

APRIL 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 DOMÍNGUEZ

After inflation reaching a 40-year high in the United States, the U.S. Federal Reserve raised interest rates in their March 2022 meeting for the first time since 2018. They increased the policy rate by a quarter percentage point from near zero (although some leading economists had argued for a half percentage point). Furthermore, while early this year economists expected three increases in the policy rate during 2022, now the Fed is expected to increase the rate six more times this year. Similarly, New Zealand and the United Kingdom are also expected to see their policy rates up. Clearly global interest rates are on the rise.

In Australia, the year-ended C.P.I. inflation (trimmed mean) remains at 3.5 (2.6) per cent as this is currently measured quarterly. Yesterday (March 30th), the Australian Bureau of Statistics released a note in which it's stated that they will produce monthly indicators of wages and salaries and that the A.B.S. will examine the feasibility of a monthly C.P.I.. This would be a great innovation. Absent those figures, we know that the Australian economy is recovering strongly from the pandemic. Unemployment is at 4 per cent and expected to hit 3.75 per cent (a 50-year low) by September 2022. Currently, the Australian economy has 200,000 more job vacancies than before the pandemic. While wage growth remains moderate, the budget released just early this week is expansionary and could add to the inflationary pressures. The war in Ukraine has led to a massive humanitarian crisis. It is a great source of uncertainty and added (petrol and food) inflation to the world economy.

Within the next 3 to 6 months, we'll see whether inflation in Australia remains within the 2 to 3 per cent target rate or whether it actually goes above target. Hopefully by then, the political and economic uncertainty is lower. Given all these, my view is that it is appropriate for the cash rate not to change in the next meeting. However, it will be also appropriate to spell out under which economic conditions the rate will increase as this may need to happen earlier than anticipated.

RENÉE FRY-MCKIBBIN

No comment.

SARAH HUNTER

The incoming data continues to show the underlying strength in the economy. While it will take a little longer for WPI wages growth to pick-up, due to the sticky nature of collective agreements and the award wage process, there are clear signs of momentum in the private sector (particularly in construction, professional services and parts of manufacturing). These trends are likely to be reinforced by the inflationary environment globally, with many local businesses now looking to pass on rising costs to final consumers.

Set against the backdrop of an upcoming election, the Federal budget included tax cuts and increased transfers for households; the strength of the economic recovery and the tailwind from elevated commodity prices means that despite these measures (and increases in funding for infrastructure, healthcare and cyber security) the deficit is not projected to worsen in FY23. While these payments will help offset the rising cost of living, given that the economy is operating close to full employment (and generating some domestic inflationary pressures as a result) there is a risk that they further fuel inflation.

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Given current conditions, it is appropriate for the RBA to begin raising the cash rate in the very near term, and to proceed with a steady pace of monetary tightening into 2023. While growth momentum will naturally ease in H2 2022 and again in 2023 as fiscal policy tightens, the RBA will need to return the cash rate to a broadly neutral stance over the medium term to ensure that inflation remains in check.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

The just-released federal budget maintains a substantial deficit, despite higher than expected revenues due to commodity prices and an unemployment at 4%. Given relatively little slack in the economy, the main effects of the budget deficit will be higher inflation (headline and underlying) rather than to stimulate real activity. This provides a change in circumstances such that the RBA should consider beginning its raising cycle earlier than previously planned. It is true the RBA is still likely to wait for some indication of stronger nominal wage growth to pull the trigger. But that is almost certainly coming and will also imply higher real wage growth in 2023 and beyond given some easing of oil price and global supply chain effects on headline inflation later this year.

A change in government in May could mean a revised budget. But it is unlikely it would be particularly more fiscally responsible in the short term. So there is now a nontrivial chance that the RBA could and should start raising rates within the next six months, although I would still put this at below 50/50 odds given the need for wage growth to really pick up, while wages are generally slower to adjust in Australia than, say, the US given the different structure of the labour market.

However, the profligate budget does mean that liftoff will almost surely happen sooner than previously expected and likely in late 2022 or early 2023.