CAMA RBA SHADOW BOARD – COMMENTS

DECEMBER 2023

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

The RBA should continue increasing the cash rate until inflation is persistently within the target band. With underlying inflation above 5 per cent, the real cash rate is currently negative and is expected to be negative or very low for some time. The real cost of borrowing for households and businesses are close to historically low levels. The labour market continues to be tight. Policy should put more weight on the risks associated with doing too little, in particular the risk of inflation taking a long time to return to its target. It is also important that monetary policy owns the disinflation to strengthen its credibility. At the moment, giving current inflation, low productivity growth, high tradable and non-tradable inflation and historically low real rates, increasing the cash rate, in my view, continues to be necessary.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

No comment.

JOHN ROMALIS

No comment.

PETER TULIP

I interpret the RBA's statutory objectives, as clarified in the recent Review, as quickly getting underlying inflation down to 2.5%, the mid-point of the inflation target, while keeping unemployment near 4.5%, the estimate of the NAIRU.

I think these are sensible objectives, and even if that were in doubt, the RBA should aim for them.

I recognize that some opponents of higher rates prefer different objectives, such as a higher inflation target. We've just been through a lengthy debate over the framework and those views were rejected.

Other opponents of higher rates have a different interpretation of the RBA's statutory objectives. In particular, they interpret "full employment" as meaning an unemployment rate below 4.5%. That would be fine if they were talking about industrial relations or labour market policy. But monetary policy needs to take current labour market policy as given. If monetary policy were to target an unemployment rate below estimates of the NAIRU then inflation would probably accelerate, causing more unemployment in future. The forthcoming Statement on the Conduct of Monetary Policy needs to clearly specify that "full employment" as far as the RBA is concerned, is maximum sustainable employment or the NAIRU.

Other opponents of higher rates think that recent increases in nominal rates are enough to quickly get back to 2.5%. That is not what the RBA forecasts show. More optimistic forecasts seem to assume that past empirical regularities will no longer hold. I have not seen a decent argument for that assumption.