CAMA RBA SHADOW BOARD – COMMENTS

JULY 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 DOMINGUEZ

Inflation is high and is a global phenomenon. In response to this, central banks around the world are increasing their policy rates rapidly. Just this June, the Fed increased their policy rate by 75 basis points. Yesterday (29th of June), the Wall Street Journal published that another large rate rise was possible in July and that an increase of "50 (basis points) or 75 (basis points) is clearly going to be the debate".

It's clear that global interest rates are on the rise. If the RBA does not increase interest rates, this would lead to a depreciation of the AUD dollar, which would improve the terms of trade but would further increase inflation.

The Australian economy is in a strong position, with very low unemployment and, as published recently by the ABS, a very large increase in vacancies (13.6 % from February 2022). Given the expectation of annual inflation reaching 7 % later this year, I believe it would be appropriate to further increase the policy cash rate in the July meeting.

RENÉE FRY-MCKIBBIN

No comment.

SARAH HUNTER

Households appear to be holding up well against the current headwinds, with retail spending up over 10% y/y in May. While a moderation in growth is inevitable over the coming months, as the headwinds to spending begin to bite, the combination of further scope for the savings rate to fall (it is still comfortably above pre-COVID levels) and the excess savings buffer should underpin continued positive momentum through the rest of 2022 and into 2023.

The latest data also suggests that other parts of the economy are also holding up. Capital expenditure by businesses is projected to hold up over the next twelve months. And while some parts of government spending are likely to fall back, as pandemic spending unwinds and the new government implements the now-flagged spending reductions in their October budget, other parts are set to see further increases. There is a significant amount of infrastructure construction activity still in the pipeline, expenditure on defence is set to rise sharply, and health and social care (particularly aged care) are likely to be net beneficiaries in the next budget.

Overall, the outlook remains positive, and it is appropriate for the RBA to continue with further policy rate normalisation.

Moving into 2023, it is likely to become appropriate for the RBA to slow or even pause interest rate rises. The full impact of the monetary tightening implemented in 2022 will not be known until well into 2023, and the Board will need to monitor the data carefully to ensure that they haven't gone too far, too fast. Their job will also be made easier by a fall back in headline inflation (assuming no further shocks to the global economy), as the pace of increase of food, fuel and other commodities falls back sharply from early 2023 onwards. Indeed, there is a risk that the Board have to reverse some of the rate rises they will have implemented in late 2023/early 2024, if momentum slows too much or even turns negative.

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MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

The shift in inflation globally and in Australia has led to a significant reassessment of what is required to bring inflation back to target levels. The shocks driving Australian inflation are demand increases (from fiscal and monetary stimulus internationally and in Australia) and supply contraction (supply chain disruptions from Covid and the war in Ukraine, including energy and food shocks, as well as other key supply chain inputs, plus weather events such as the Australian floods). The RBA should be responding to the demand shocks but not the supply shocks (especially if the supply disruption is expected to improve). Fiscal policy also plays an essential part in supporting monetary policy by not further stimulating demand. Current events make this a difficult period for the RBA, and clarity of the communication of the policy rule acknowledging the uncertain effects of recent shocks and uncertainty about possible future shocks is as important as how much interest rates respond in the short term.

JAMES MORLEY

The global economic outlook is mixed and there is clearly a growing possibility of recession within the next 12 months. If this happens, the RBA should immediately reverse its raising cycle. In the meantime, they should be cautious about raising the policy rate quickly unless longer-term inflation expectations start to rise towards the top end or above the 2-3% target range. It is more important for fiscal policy than monetary policy to normalise at this time.

JOHN ROMALIS

No comment.