CAMA RBA SHADOW BOARD – COMMENTS

JUNE 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

Early this May, the U.S. Federal Reserve increased the target policy rate by half a percentage point. This is the largest increase in over 22 years. In a recent interview, Fed Governor Chris Waller supported a further and continuous tightening of monetary policy "by another 50 basis points for several meetings" until inflation comes down to the 2 percent target.

The Australian economy is doing well both in terms of GDP as well as unemployment (3.9 per cent). In Australia, the CPI inflation is lower than in the U.S.A. but still above the 2-3 per cent target. Year-ended C.P.I. trimmed inflation is at 3.7 per cent. Given this, I believe it would be appropriate to further increase the policy cash rate in the June meeting.

RENÉE FRY-MCKIBBIN

No comment.

SARAH HUNTER

The economic data continue to confirm that demand in the economy is running hot relative to supply. Furthermore, developments globally over the last month have confirmed that this year's shocks to commodity markets and supply chains have become at least semi-permanent (and in some cases have worsened) – further policy tightening is needed to realign supply side capacity with demand.

Against a more inflationary global backdrop, there is further evidence of broadening inflation pressures domestically, with the domestic final demand price deflator rising 1.4% q/q in March quarter. It is also looking increasingly likely that this year's award wage setting process and collective bargaining agreements will result in significant pay rises for those covered by these agreements, while momentum in private sector wage setting looks likely to deliver wage increases of c.3.5% on average.

To ensure that inflation expectations remain anchored and mitigate the need for a much sharper slowdown in growth momentum in the future, the RBA Board should raise the cash rate again at its June meeting, and follow this with further rate rises through 2022 and H1 2023.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

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WARWICK MCKIBBIN

No comment.

JAMES MORLEY

Now that the RBA is in a raising cycle, I don't think they should immediately reverse themselves by moving back to the ZLB unless there is a quick deterioration in economic conditions globally (possible) or domestically (unlikely in the near term). However, given that wage growth came in weaker than anticipated by the RBA in making their decision to start raising the cash rate last month, they could pause the raising cycle or just raise 15bps to bring the cash rate to 50bps, a more conventional level than, say, 35bps or 60bps. Raising to 75bps is possibly justified by the very high year-ended GDP deflator inflation for 2022Q1. But if inflationary pressures do ease, the RBA risks raising too quickly and needing to correct with long and variable lags. Generally, it is more important for fiscal policy than monetary policy to return quickly to neutral at this point, at least as long as long-term inflation expectations measures such as the 10-year breakeven rate remain anchored within the 2-3% target range.

JOHN ROMALIS

n/a