CAMA RBA SHADOW BOARD – COMMENTS

MARCH 2020

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.

PAUL BLOXHAM

No comment.

RENÉE FRY-MCKIBBIN

No comment.

MARIANO KULISH

I would recommend that at this meeting the cash rate be reduced to 0.5%. Underlying measures of inflation have been persistently below 2 per cent increasing the risk that inflation expectations will anchor outside the inflation target over time. Indeed, over 2019 measures of long-run inflation expectations have been gradually falling and currently sit below target. The Bank should start responding more aggressively to inflation developments than it has in the recent past. In addition, the increasingly negative outlook surrounding the coronavirus virus means a rate cut is likely to be necessary now.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

The RBA has recently signalled that the policy rate is expected to remain close to the effective lower bound for a considerable period of time. It would be helpful to provide more explicit guidance about exactly how long by explaining what conditions would lead to a more neutral position. An example would be to formally link the period of low rates to as long as it takes to bring measures of inflation expectations, such as the break-even 10-year inflation rate (which was at 1.5% annual rate at the end of 2019), back to the *high end* of the target range of 2-3%. This should lead to further depreciation of the exchange rate and even lower current and future real interest rates. By doing so, it should help offset the unanticipated effects of the recent undershooting of the target range for inflation in terms on future levels of prices and wages in the Australian economy. The urgency of a strong signal about keeping rates low has increased in recent weeks given the particularly likely negative impacts of a weaker global economy due to the Covid-19 crisis on Australian exports (e.g., iron ore, higher education, tourism). The maintenance of such low rates could be expected to last at least 6-8 quarters.

JOHN ROMALIS

The combined weight of several negative demand shocks and negative supply shocks from domestic sources (drought, fires) and international sources (contagion) will likely take its toll on the Australian economy, making it much more likely that further easing of monetary policy is desirable. GDP growth will likely remain slow, and medium-term inflationary pressure will likely be modest despite the supply shocks.

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JEFFREY SHEEN

There will be noticeable negative macroeconomic effects from the over-reaction by governments to the latest flu variant. Temporary fiscal support is required and being applied. Until more macroeconomic information becomes available, the historically low cash rate should not be adjusted.