

# CAMA RBA SHADOW BOARD – COMMENTS

MAY 2022

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SALLY AULD

No comment.

BEGOÑA DOMINGUEZ

With 8.5 (7.5) per cent inflation in the U.S.A. (Euro area), the release of the Consumer Price Index for Australia on April 27th was long-awaited. And I believe it is higher than expected. The year-ended C.P.I. inflation (trimmed mean) is now at 5.1 (3.7) per cent. These are clearly above the 2-3 per cent target and the highest we have experienced in a decade.

Two items that have contributed greatly to this are fuel (due to the war in Ukraine) and construction costs (due to supply chain disruptions). None of the underlying conditions are resolved and I believe we should expect further price increases through those channels. Australian households have also been hit hard by the increasing food prices. Inflation is not only affecting families negatively, but also businesses. According to today's (28th of April) release on Business Conditions and sentiments, 57 per cent of all businesses experienced increases in their operating costs in 2022 and 48 per cent have passed such increases in costs (either partially or fully) through increasing prices to the customers.

Given this economic situation, I believe it is now appropriate that in the May meeting, the policy target cash rate finally lifts off.

RENÉE FRY-MCKIBBIN

No comment.

SARAH HUNTER

The latest CPI data has confirmed that price pressures are broadening across the economy. While rises in fuel, food and building commodities accounted for a significant proportion of the rise in headline inflation, accelerating wages growth (particularly in construction) and continued robust rises in rents outside of Sydney and Melbourne are signs that price pressures are building domestically. Together with the latest labour force survey, the data continues to indicate that the economy is operating close to full employment.

Given this, the emergency monetary policy settings are no longer required and the cash rate should be raised from its current level; and with the RBA appearing to agree, it's likely that the RBA Board will begin policy tightening at its May or June meeting.

Moving through the rest of 2022, growth momentum should remain positive but is likely to slow. The easy wins from re-opening have been largely exhausted, and households are now being squeezed by higher costs of living (though the latest Federal budget will help offset some of this) and rising mortgage interest rates. Momentum in government spending and business investment is also likely to moderate, although spending in both categories is set to remain elevated compared to the recent past, and while the re-opening of the international border will allow international students and tourists to return it will also enable Australians to travel overseas (and so increase import leakages).

Against this backdrop, a steady but not necessarily aggressive pace of hikes should hopefully result in a soft landing for the economy, where inflationary pressures ease (helped by the sharp increases in commodity prices dropping out) but the labour

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market remains relatively tight – compared to other developed economies (most notably the US, where rates are set to rise very sharply), the RBA has more room to manage the slowdown in growth momentum.

## MARIANO KULISH

No comment.

## GUAY LIM

No comment.

## WARWICK MCKIBBIN

No comment.

## JAMES MORLEY

The RBA should consider starting a raising cycle soon, especially given high headline inflation and expansive fiscal policy. But it makes sense for the RBA to stick to its plan of waiting to see more of an effect on wage growth before commencing raising rates to justify doing so even if future headline inflation falls back into the target range when one-off price shocks stop or reverse. Raising rates with higher inflation is ultimately about higher inflation expectations and stronger wage growth will be an important indicator of higher inflation expectations being entrenched within the target range.