CAMA RBA SHADOW BOARD – COMMENTS

NOVEMBER 2021

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.

RENÉE FRY-MCKIBBIN

No comment.

SARAH HUNTER

The September quarter inflation data highlighted both global inflationary pressures (from commodity prices and supply/demand imbalances in goods markets) and the two speed recovery of the domestic economy, with NSW and Victoria lagging behind the rest of the country. With the RBA unable to influence global price moves (and much of these shifts likely to be transitory in inflation terms, as constraints ease and price momentum moderates), the speed of recovery in the largest two states (and further gains elsewhere) will dictate when monetary policy needs to tighten.

The high frequency data suggests that the recovery in the east coast states will be robust, but it is still likely to be mid-2022 before all restrictions (particularly the international border) are fully eased – this will be vital for NSW and Victoria, who are most reliant on services exports. In line with this, moving through H2 2022 and into 2023 the labour market should tighten further, to underpin a pick-up in wages growth, domestic price inflation and ultimately the beginning of a tightening cycle.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

The latest year-on-year CPI inflation for Australia is 3.0% and underlying measures are all within the RBA's 2-3% target range. Combined with a sustained increase in 10-year break-even inflation expectations closer to the target range at around 2%, these inflation developments are welcome news because they mean that real interest rates are lower than they had been earlier in the Covid crisis. Put simply, forward guidance is working and the monetary policy stance is supportive of economic recovery and inflation being in the target range over longer horizons.

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However, it is important that the RBA continues its forward guidance and communicates the importance of maintaining the policy rate 0.10% until early/mid 2024 in order to achieve a sustained return of inflation to the target range. Financial markets are likely to continue testing the RBA's resolve and these tests (in the form of higher medium-term interest rates) will be counterproductive to the RBA achieving its objectives. Questions about the policy can be expected to arise every time other central banks signal or enact policy interest rates. The only way to answer these questions is with clear communication of a strong commitment by the RBA to follow through on its forward guidance.

Any worries about "out-of-control" inflation are misguided and lack perspective. Underlying measures of inflation are back in the target range, but weighted median and trimmed mean inflation are at the low end of the target range, both at 2.1%. Also, there are still base effects from the dip in the CPI with Covid, which are temporarily driving the inflation numbers up. To see this, note that the annualised inflation rate over the two-year period since September 2019 is only 1.8%.

Furthermore, real GDP growth for 2021Q3 is likely to be negative due Covid. While a recovery as a highly-vaccinated Australia opens up is to be expected, it should not be hindered in any way by tighter monetary policy.

JEFFREY SHEEN

No comment.