CAMA RBA SHADOW BOARD – COMMENTS

JUNE 2019

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.

PAUL BLOXHAM

No comment.

MARK CROSBY

For 10 of the latest 12 quarters the inflation rate has been in the 1-2% range, consistent with the fact that inflation in Australia remains low and stable. But there is a problem with the inflation target being 2-3% when that target is so difficult to achieve given global factors and their influence on inflation, and structural changes in our economy. Now is not the time to cut rates, rather it is time to reset the inflation target to 1-3% to better reflect the Australian reality, and to avoid the pressure on the RBA to fruitlessly cut rates and create further distortions. I think that many economists have forgotten the pushing on a string analogy. At these levels of the cash rate further cuts in interest rates are unlikely to do much to stimulate the economy.

RENÉE FRY-MCKIBBIN

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

The recent decline in inflation to 1.3%, clearly below the RBA's 2-3% target range, looks broad-based and provides a clear impetus for the RBA to cut the policy interest rate. Even a 50 basis point cut could be justified by the magnitude of the decline in inflation and the recent uptick in the unemployment rate to 5.2%. Furthermore, the RBA should signal that it will do whatever it can to bring inflation well back into its target range and not plan to raise rates at least until inflation is at the high end of the range and forecasts suggest strong risks of it persistently rising above the target range. The re-elected government's plans for stimulative fiscal policy could help assist offsetting weaker demand in the economy. However, it is crucial that the RBA demonstrates its strong commitment to the current target range in order to keep inflation expectations stable and real interest rates low.

JOHN ROMALIS

No comment.

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JEFFREY SHEEN

With the election settled and Labor's extensive tax changes off the table, the risk of an asset-led recession has receded. Further to this, APRA (always in consultation with the RBA) has finally and belatedly responded to the macroprudential imperative and removed some of its onerous regulations on credit. Nevertheless, the economic war between the US and China is getting more intense, and looks as if it may persist into the long term and spread more widely. This is a major source of the weakening of global economic growth, which will keep real interest rates low. Australia is significantly exposed to these global headwinds. Inflation remains below the RBA target, output growth is below normal, and the underemployment gap is still high. The cash rate needs to be cut now and once again soon.