PRO-POL SHADOW RBA BOARD – COMMENTS

JULY 2013

From March 2012, each Shadow Board member was 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.

MARK CROSBY

Great uncertainty about Chinese policy to tackle excessive credit growth and asset price growth has been resolved to some extent at the end of June, so that a wait and see this month would be appropriate. At the 6 and 12 month horizon there is still a great deal of uncertainty about the global outlook, and potential for weakness in Europe and the US in particular. I would expect China's growth this year and next to be near the 5 year plan target of 7.5%, and this will underpin still reasonable growth in Australia. For this reason I would see it being more likely to be requiring raising rates to more normal levels than to reduce rates over the longer horizons.

MARDI DUNGEY

No comment.

SAUL ESLAKE

The RBA seems confident that the 2pc pt decline in interest rates since November 2011 has begun to lift interest-rate sensitive components of domestic demand (in particular housing) and that the full effects of this are yet to be seen. It also appears to think that the more recent decline in the exchange rate has further to run, and will add to the stimulatory impact of the fall in interest rates, whilst also (possibly) lessening the scope afforded by the inflation outlook for further cuts in interest rates.

I'm more skeptical than the RBA about the depth and breadth of the recovery in housing, and about the prospects of a recovery in non-mining business investment, and believe that further reductions in interest rates will be required in order to increase the chances of a smooth transition from growth led by resources investment to growth led by exports and other components of domestic demand.

BOB GREGORY

No comment.

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WARWICK MCKIBBIN

Rising volatility in world markets reflects the unsustainability of policies in a number of major economies. The risks are much larger than markets are currently pricing and the opportunity for substantial reform while central banks covered over the cracks in the global economy with liquidity has not been taken sufficiently quickly. The US recovery due to the energy boom and a quickly recovering US housing market is likely to attract increasing flows of capital into the US economy. This together with the inevitable removal of Quantitative Easing in the US will put pressure on all countries with large public debts as long term interest rates rise. This is an acute problem for Europe and Japan. Australia will need to be ready with appropriate policy responses for the next crisis of confidence in the world economy. The reality is that global interest rates will eventually rise and marginal decisions made at artificially low interest rates will be exposed when liquidity drops. Fortunately Australia has been able to sensibly resist the urge for artificially low interest rates but it should be in much better shape structurally. Monetary policy is not the right policy tool for dealing with the significant structural adjustment issues facing Australia. There is a strong argument for not cutting interest rates this month but this could easily change quickly.

JAMES MORLEY

New Information, Similar Recommendation:

Since the last meeting, the Q1 numbers for real GDP have been released and the Fed has signaled that it is thinking about winding down asset purchases associated with its quantitative easing program over the next year or so.

The latest real GDP growth rate for Australia is 2.6% on a year-to-year basis, which hardly suggests an imminent recession. However, there are some concerns that the weakness in the investment component of output could presage a future slowdown in overall economic activity. Mitigating these concerns are the strength in net exports and the fact that part of the weakness in investment was due to a depletion of inventories, which should lead to stronger growth next quarter, all else equal.

The Fed's announcement about quantitative easing led to considerable volatility in global financial markets and a further weakening of the Australian dollar. But the underlying story is that the US economy finally appears to be undergoing a more robust recovery than before.

A shift to a more accommodative policy recommendation compared to last month reflects increased concerns about weaker growth in China. However, monetary policy in Australia is already quite accommodative and the recent weakness in the dollar should continue even if policy adjusts back towards a more neutral stance, especially given the clearer indication about when unconventional US monetary policies will end.

JEFFREY SHEEN

National accounts data for Q1 2013 indicate a minor slowing of the economy's growth to 2.5% for the past year. A major contributor to the decline was public investment. This suggests that future fiscal policy will play a crucial role in future growth. The return of Kevin Rudd to the Prime Ministership has increased the probability of a Labor victory, though this is unlikely at this stage. However, the probability of a future fiscal consolidation has shrunk, and so monetary policy should not have to play such a big role in stimulating private investment.

MARK THIRLWELL

No comment.