

PRO-POL SHADOW RBA BOARD – COMMENTS

JUNE 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

The significant depreciation of the AUD over the past month should be both supportive of growth and shifts the balance of inflation risk to the upside. The looser financial conditions implied by the lower currency means that a further cash rate cut should be unnecessary at this stage. I recommend the cash rate is left unchanged at 2.75% this month.

MARK CROSBY

Recent weakness in the AUD would suggest a pause in rate cuts. International data signals are mixed and market reactions complicating policymaking. Weakness in US GDP interpreted as reducing the likelihood of an earlier end to QE and thus strengthening asset markets being a case in point. One would suggest that in some QE countries asset price bubbles are becoming a serious issue - though the Fed has of course ignored these dangers in the past.

MARDI DUNGEY

No comment.

SAUL ESLAKE

The decline in the exchange rate since the last Board meeting reduces the pressure on the RBA to implement a second successive rate cut, while the data flow over the past month hasn't presented any compelling rationale for a further rate cut.

The currency may not fall a lot further, while the economy is likely to remain sluggish and the incoming government will probably seek to tighten fiscal policy more than is currently planned.

BOB GREGORY

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

Monetary Policy Too Loose: With inflation at 2.5% and expected to remain within the target range of 2-3%, the real cost of borrowing is far below its neutral level. This risks propping up a housing-market bubble, a collapse in which will become more difficult to address with monetary policy alone the longer it persists. Policy should focus on aggregate conditions and adjust back towards a more neutral stance over the medium term.

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JEFFREY SHEEN

The recent weakening in private sector investment (across all sectors) in Australia is not matched yet by demand increases elsewhere in the economy including the government sector. The trade-weighted exchange rate has depreciated 8% since mid-April, and alongside the positive outlook in Japan plus the gradually recovering global economy, Australian net exports should eventually improve. However there is a fair risk that the likely change in the Australian government will lead to even tighter fiscal policy. Thus I consider the current accommodative stance appropriate, and expect minor tightening to be required in 6 to 12 months, depending on the election outcome.

MARK THIRLWELL

No comment.