CAMA RBA SHADOW BOARD – COMMENTS

NOVEMBER 2015

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PAUL BLOXHAM

The recent lower than expected underlying inflation prints as well as the lift in mortgage rates by the major banks mean that the RBA ought to consider that it may need to cut further in order to maintain inflation on target. The underlying inflation measures - the trimmed mean and the weighted median -- both rose by only 0.3% in Q3 to average 2.2% over the past year. Over the past six months the underlying inflation numbers have been below the bottom of the RBA's target band. These numbers suggest there is now greater risk of the RBA undershooting its inflation target, with very little risk of an overshoot. At the same time, the independent tightening of financial conditions by the major banks should be expected to weigh on activity, albeit only modestly. Although the economy does appear to be on an improving growth track, the momentum has, so far, been insufficient to push the unemployment rate lower. While the RBA could afford to sit still this month to assess the impact of the higher mortgage rates on the economy, it is increasingly likely that the cash rate will need to be trimmed further to keep inflation on target, so cutting this month would help the central bank to stay ahead of the curve. I recommend a 25bp cut.

MARK CROSBY

Despite recent increases in bank mortgage rates, there is little reason for the RBA to cut. The Fed have signalled that they see the global risks as dissipating, and they are looking to raise rates sooner rather than later. Underlying inflation is in the low end of the RBAs band, which gives room to cut, but the question has to be asked as to whether that is really necessary in an environment where rates are already ultra low and household credit growth is strong. If Australia's economy is weak given current monetary conditions it is surely the fault of other structural factors, rather than monetary policy. It is these structural issues that are in urgent need of repair, rather than monetary policy that is at fault for current weakness.

MARDI DUNGEY

With inflation relatively benign and lack of movement from the US for this month there is no compelling reason for rates to be moved in the very near term.

BOB GREGORY

No comment.

GUAY LIM

It seems untimely to cut the official cash rate now when rates in the US may be lifted soon. Holding our rates steady will help keep the AUD low as well as help check potential rise in house prices. There are also signs of improvements in business and consumer confidence and the stance of fiscal policy will be clearer soon. It's time for some monetary-fiscal policy coordination.

WARWICK MCKIBBIN

No comment.

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JAMES MORLEY

Headline inflation is low primarily because of a dramatic fall in energy prices in late 2014. Some of this has leaked into underlying inflation, with nontradables inflation running lower this year than it has been for a decade, currently around 2.5% vs. 4% of so over the past 12 years. But the large decline in volatile energy prices should have only a one-time effect on year-on-year inflation that will dissipate in 2016. Also, the lower Australian dollar should offset some of these disinflationary pressures by raising tradables inflation. The bottom line is that inflation expectations remain well anchored, with the 10-year break-even inflation rate at 2.2% being well within the RBA's 2-3% target range, albeit a bit below the middle of the band.

A cash rate of 2.0% is low enough given a 6.2% unemployment rate and current inflation expectations. If the neutral rate is lower than previously believed due to secular stagnation and related forces, the RBA should plan less of an increase over the medium term. But there hasn't been enough new information over the past month to justify cutting the cash rate further on the basis of a lower neutral rate. Meanwhile, the RBA should always avoid setting the cash rate to offset interest rate movements by the banks. The central bank dictates the course of monetary policy, not the banks.

JOHN ROMALIS

No comment.

JEFFREY SHEEN

The major banks have raised their mortgage rates this month by about 25 basis points in response to APRA's intervention requiring higher capital reserves. At this relatively weak stage of the Australian business cycle, these actions may have an undesirable adverse impact on household and business confidence. Therefore my recommendation is for a higher probability of a rate cut in November and in the next year.