

Monetary Policy Recommendation Statement

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Recommended Target (X=3.75%)	
target rate	probability
X+75bp	0
X+50bp	0.05
X+25bp	0.25
X	0.55
X-25bp	0.1
X-50bp	0.05
X-75bp	0

Policy should avoid being seen as targeting asset prices

After an aggressive 50-basis point cut last month, monetary policy should focus on slowly returning to neutral over the near term under the baseline scenario of unemployment remaining low and inflation remaining within the target range. There are some risks to this baseline scenario, with some caution about raising rates too quickly being warranted given uncertainty about how effective policy stimulus will be in China. However, it is also important that the RBA not be seen to be targeting housing prices on their way down, especially given that they were not targeted on the way up. The inflation-targeting mandate implies a need to focus on a broad basket of consumer goods, not on particular asset prices. Even with falling house prices, deflation remains a remote risk for the Australian economy. However, if the risk of deflation were to rise, an aggressive response would be necessary, with the current level of interest rates leaving room for such a response.

James Morley is a Professor of Economics at the University of New South Wales and a member of the Shadow RBA Board. This statement reflects the views of its author only and does not necessarily reflect the views of other Shadow RBA Board members or any institution the author is affiliated with. Current and past statements are available at <https://sites.google.com/site/jamescmorley/news/shadow-rba-archive>.