

Monetary Policy Recommendation Statement

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Recommended Target (X=4.75%)	
target rate	probability
X+75bp	0
X+50bp	0
X+25bp	0.15
X	0.55
X-25bp	0.25
X-50bp	0.05
X-75bp	0

International and Domestic Considerations

Although less certain than ongoing weakness in the United States or recession in parts of the Eurozone, a slowdown of economic growth in East Asia represents the biggest external threat to the Australian economy. But this remains a risk only and is far from inevitable in the near term. Thus, uncertainties about the global economy are not sufficient on their own to trigger an immediate change in the policy rate.

Instead, it is the momentum of the domestic economy that plays the main role in the near-term outlook guiding policy. On this front, it seems likely that the performance of different sectors will continue to diverge (e.g., housing/finance vs. resources). But overall economic conditions appear fairly even-keeled, if not particularly robust. The bottom line is that a recession does not appear imminent, but neither do inflationary pressures from an overheating economy.

Inflation Expectations

In the near term, inflation will almost certainly move towards appropriate levels in line with the RBA's target range of 2-3 percent. However, public concerns about a rising cost of living suggest the importance of keeping a policy focus on managing inflation expectations, rather than aggressively leaning against possible, but uncertain economic headwinds.

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