

Monetary Policy Recommendation Statement

30 November 2011

James Morley

Recommended Target (X=4.5%)	
target rate	probability
X+75bp	0
X+50bp	0
X+25bp	0.15
X	0.60
X-25bp	0.20
X-50bp	0.05
X-75bp	0

Growth and Inflation

Despite the cut in the policy rate at the last meeting, the Australian economy is likely to see continued weakness in the housing sector and other interest-rate sensitive sectors. However, the unemployment rate remains low at 5.2 percent in October and official forecasts for the economy still suggest robust growth overall (e.g., 4 percent for 2012 according to the OECD). A distinct risk to the near-term outlook is a weakening of the domestic retail sector.

Headline inflation at 3.5 percent remains a concern, even if underlying inflation (excluding food and energy) is well within the 2-3 percent target. Elevated tensions in the "industrial relations" sphere of the economy are likely driven in part by public perceptions of recent increases in the cost of living that are higher than measured increases. It is important, then, that monetary policy continue to focus on a commitment to keeping inflation within the target band, while allowing for flexibility to respond to any sudden worsening of economic conditions that would also lessen inflationary pressures.

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.