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**

I favour holding rates steady this month, although I would be willing to consider cutting rates by 25bps. Conditions in the local and China look fairly similar to last month. Western growth is still slowing, but it is not clear how much further downward pressure that will put on growth in Asia. Commodity markets have generally stabilised. The local unemployment rate remains low. While there are some signs that employment is easing, timely indicators do not decisively point to weaker conditions. Monetary policy is starting to lift the housing market. Inflation was low in Q2, but there is no new prices data this month to confirm that this has continued to be the case in Q3. Given limited urgency to cut rates further, and signs that lower rates are providing some support for the economy, I would prefer to wait for the Q3 CPI for confirmation that inflation remains low before cutting rates further if needed.

**MARK CROSBY**

No comment.

**MARDI DUNGEY**

The evidence for weaker international demand continues to grow, and is becoming more evident in domestic conditions. The pressure to balance budgets is not allowing the more usual cushioning of regional weaknesses through fiscal policy actions, and is likely to contribute to further weakness if the current approach is continued. A lowering of interest rates should reduce the value of the Australian dollar somewhat, and ease some of the pressure in the export sector.

The outlook for longer term conditions is more confused than previously, split between concerns over increased international pressures via increased liquidity and reduction due to continued economic weakness.

**SAUL ESLAKE**

The argument for a rate cut is getting stronger - given the ongoing slowdown in China, and the impact that’s having on commodity prices - but not, so far, on the A$. However it's not yet clear to me that, overall, the negative effects of persistent A$ strength have started to overwhelm the other factors that have kept the unemployment rate steady in a 5-5-1/4% range and growth close to or even slightly above its trend pace so far this year. I expect rates eventually will need to fall – but I’m not “over the line” for October.

**BOB GREGORY**

No comment.

**WARWICK MCKIBBIN**

No comment.
Slight Loosening Bias:

Recent announcements by the Federal Reserve and the ECB have somewhat improved the outlook for foreign demand and financial conditions. However, weakness in China remains the main downside risk for the Australian economy. Domestically, the residential sector is likely to remain weak and a high dollar will continue to put pressure on many other sectors. Although the focus of monetary policy should be on overall aggregate conditions, which remain robust, the potential weakness in China and some domestic challenges related to the high dollar lead to a slight loosening bias in near-term policy.

On the inflation front, it is likely that headline numbers will move back towards the target range and to the extent the Australian dollar is likely to revert to its long-run level over the medium term, inflation can be expected to be within the target range, rather than below. However, any indication that inflation could remain persistently below the target range should be responded to with a loosening of policy.

Australian - foreign interest rate differentials are probably appropriate to this stage of the mining boom, delivering expected future depreciation. The expected weakening in the terms of trade (down a little from a 50 year high) will assist this depreciation in due course. The unemployment rate fell to 5.1% in August, though employment has hardly changed in the last quarter, despite 3.7% output growth. There have been no significant changes to global macro risks in the last month. For all these reasons, my recommendations from last month are repeated.

No comment.