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Michele Bullock

Governor

Transcript

Michele Bullock

Good afternoon, everyone. So as you know, today the Board decided to leave the cash rate unchanged at 4.35%. It's been at that level since November last year. But because monetary policy operates with a lag we think we need to be careful - think carefully about where we're going. With inflation coming down and employment growing we think we remain on the narrow path. The Board's been trying to bring inflation back to target in a reasonable timeframe while preserving the gains in the labour market. But underlying inflation currently remains too high and for some time now we've pointed out the risks on both sides. Because persistent inflation is so bad for the economy we've been alert to the upside risks on inflation but we've also been conscious of the downside risks. Economic data had been mixed and some indicators softening in line with our forecasts. That said on balance, some data are a little softer than expected. This had given the Board some confidence that inflationary pressures are declining but risks remain. The Board judges that monetary policy remains restrictive and is working as anticipated. We discussed today that perhaps some of those up side risks to inflation appear to have eased but they haven't gone away. The Board still assesses that the level of aggregate demand is above the economy supply capacity even though that gap is closing. The Board will be looking to the data over the next month or so to see if the economy and inflation continue to evolve as expected. The Board needs to be confident that inflation is moving sustainably towards the target, and for this to occur we need to see more progress on underlying inflation coming down. Today, the Board discussed where we think the economy is going in 2025, what's next and how to keep inflation coming down and employment growing. We discussed whether there's something we might be missing or misunderstanding and the risks to our forecasts on both sides. What might we see in the coming months? Could unemployment start to climb sharply? We're not anticipating that but it's something we need to be alert to. How will consumption respond now that real disposable incomes are starting to rise again? And how will that impact underlying inflation? Could we see a smaller than expected outcome for underlying inflation in December quarter or might we get a surprise in the other direction? None of these things by themselves would necessarily lead us to the conclusion we need to change monetary policy settings but they may tell us something about the level of demand and supply in the economy, and where inflation and employment might be headed and how we might need to respond. The truth is that some inflation pressures remain and cost of living pressures remain a burden on all



Australians. It is also important to note that prices are not going back to where they were before this high inflation. The high inflation over the past couple of years has permanently increased the price level. In fact, prices in September quarter '24 were 16% higher than they were three years earlier. That's the extent of the inflation. And that's hurt everyone, but particularly those on lower incomes and the more vulnerable. We haven't had a sustained period of high inflation in Australia for more than 30 years. It's not familiar to people. But it's one of the key reasons why people are doing it tough and finding it harder to make ends meet. The RBA's job, our mandate is to keep inflation between 2 and 3%, and to aim at the midpoint, 2.5%. And we use the cash rate which influences interest rates that households and businesses face, to achieve this by curbing the growth of demand across the economy. That's because inflation is the result of demand for goods and services being higher than the ability of the economy to supply those goods and services. And we want to bring inflation down in a way that doesn't cause a spike in unemployment. That's the balancing act we are trying to get right, and it is a challenge. So thank you and I'm happy to take your questions.

David Chau

David Chau from ABC News. Some of Australia's leading economists have said the RBA should already have started cutting interest rates given the weakness in our economy. Do you think there is the risk the RBA might repeat mistakes of the past by moving too slowly?

Michele Bullock

So if we really thought we had things wrong we would have moved, David, I think is the answer to that. There's difference of opinions on how to weight various signals that are coming from the economy. It's true that some of the economic data has been a bit softer. And it is also true that some of the nominal side, in particular inflation, is remaining quite elevated. So you've got two sets of data which are telling you possibly different things. What I would suggest is that - and I've said this before - there is a difference between the rate of growth of the economy - and we all know it's slowing, and the private sector in particular is slowing - and the level of demand. And we've been making this point for some time that growth exploded so strongly coming out of the pandemic that it got to very strong and very high level and the economy couldn't supply the goods and services that people were demanding coming out of the pandemic. We're still experiencing that. So we have to have a period of slower growth. But our forecast suggests that growth will start to pick up as real disposable incomes start to pick up over the coming year and that inflation will continue to come down. So we still think we're on that path.

David Chau

Thanks, Governor.

Glenda Korporaal

It's been noted that - that the word vigilant has been removed and there is no statement about you are not ruling anything in, not ruling anything out. So some people are saying



maybe the statement is a bit more dovish. Will we see the words in the minutes or is this quite a deliberate change in the comments and rhetoric that you've made.

Michele Bullock

Thanks, Glenda. It is deliberate and we wanted - the Board wanted to give the message that they have not - they have noticed some of the data that is a bit softer. Some of it is not. It is a bit mixed but some of it is on balance a bit softer than we had expected. So the Board wanted to convey that their opinion is and their views are evolving and they're evolving as the data evolves. I think that's what everyone would expect us to do. We're not saying what we might do, but we are acknowledging that there is some softening and our forecasts do see inflation coming back down gradually over the next year. As each quarter goes by and our forecasts look like they're basically - we're in line with our forecasts, then that gives us a little bit more confidence in the future. So we're not saying that we've won the battle against inflation yet but we're saying we've got a little bit more confidence that things are evolving as we think in our forecasts. We've got to be aware things might move in either direction but I think that's what people would expect of us.

Glenda Korporaal

The bank has misread perhaps the weakness in the economy that perhaps your model saw or the business liaison has let you know.

Michele Bullock

I think inflation has broadly come in as we expected. I don't think we've missed that dramatically. There has been a sense in which consumption has recovered a little bit more slowly than we might have expected but the numbers we're talking about here are relatively small. I think we basically feel that at the moment we're pretty much in line with our forecasts. As I say, things could move either direction but at the moment we look pretty much in line.

Cecile Lefort

Governor. Cecile Lefort, The Financial Review. In the minutes of the last month you mentioned that you wanted more than one quarter of good inflation print. Does it mean then that February - a move or easing in February is not on the table?

Michele Bullock

Well, I'm not going to give forward guidance, as you would expect me to say. I think in interpreting that statement about we need more than one quarterly, that didn't mean we necessarily needed two or three quarterly inflation prints. It meant we needed more information about the economy than simply one inflation print. I think I clarified that at a speech at CEDA. But there is other information that is relevant as well to inflation, not just the quarterly inflation prints. I don't want to give the impression we react to one number and one number only. Between now and February there is going to be a quarterly inflation print but there will also be another monthly one. They're very volatile. There is going to be a couple



of labour market indicators as well, some consumption indicators. So all these sorts of things are going to be important in thinking about how the economy is going towards the end of this year and, of course, our liaison going into early next year.

Cecile Lefort

Thank you.

Edward Boyd

Governor, Edward Boyd at Sky News. Just a couple of weeks ago the new legislation around the Reserve Bank passed through Parliament. When do you expect to start introducing the new two separate Boards at the RBA? And have you started recruiting roles?

Michele Bullock

So my understanding is the legislation comes in on the 1st of March, I think. So the new Boards will be set up at that point. The matter of who to appoint to those boards is in the hands of the Treasurer and the government and they will, I'm guessing, make announcements in due course on that.

Peter Hannam

Governor, Peter Hannam from The Guardian.

Michele Bullock

Hi Peter.

Peter Hannam

Just to be clear did the RBA Board consider a case for lowering interest rates during this recent meeting or is it still only one main case you were looking at? And secondly, with next week the government's mid-year economic and fiscal outlook landing possibly the last budget adjustment in the current term of the government, do you still think government spending is "not the main game" as I think you said in August or is now the time for spending straight if there is to be an interest rate cut early in 2025.

Michele Bullock

So the first question the answer is no we did not explicitly consider an interest rate cut or the reverse I should add. Similar to last meeting, actually, we looked at what we have found out since the previous meeting and asked the question whether or not we felt that the current stance of policy was appropriate. Like the previous meeting the Board spent time talking about what are the sorts of things that would make the move one direction or the other. So those are the sorts of things we talked about at the previous press conference and in the minutes. It's to do with the real economy side of things that might give us a feel for demand,



it's about inflation itself. So that's really where the Board discussion went. On your - I have forgotten your second question now?

Peter Hannam

About whether public spending - - -

Michele Bullock

Public spending. That's right. That's right. What's happening at the moment - and I think everyone knows this - is the private sector is very weak and the public sector is filling a bit of a gap there. With that configuration, we see, our forecasts see inflation coming back down. So there is a sense in which just looking at public expenditure by itself doesn't really tell you the full story of what's going on in the Australian economy. You've got to look at what's going on with particularly consumption which is a very large part of the economy, and it, as we know, is not growing particularly well. It's subdued. We are expecting it to pick up and there are some signs in October/November that it has picked up a little bit. So that's really, I think, where the action is. I think the public sector is there and public consumption is actually doing very good things at the moment. I mean, it is contributing to services that Australians consume, things like health and aged care and those sorts of things. So it's serving a very good purpose. But where I think the action's going to be is what happens in the private sector.

Deb Knight

Governor, Deb Knight from 9 Radio. I am wondering are you confident the government is on the same page as the Reserve Bank in tackling inflation as the key priority because we had the Treasurer hold his press conference after the statement coming through, and he flagged more government spending in the mid-year economic review to cover the cost of natural disasters. And we've also got a close election coming up, with no doubt more government spending. Do you think the government is on the same page as the Reserve Bank?

Michele Bullock

I think they are. And when I speak to the Treasurer, I believe him when he tells me that he is absolutely on the same page because he understands, like I do, and I think like all of you do, that inflation is really what's causing so many troubles for Australian people at the moment. As I said earlier, last three years prices have gone up as reflected in the CPI by 16%. That's a massive increase in people's out goings. I think he really does understand that. And obviously, I can't speak for the government, I don't want to tell the government what to do, but I have said in the past - and I do believe this - that governments have a tough job. They have got a lot of balls to balance, a lot of things to do, a lot of services to provide. And they've got to find ways of doing that because that's what the public expects government to provide them with services. So I think the government - but having said that, I do think they are conscious of the inflation implications and I think that's why they have tried to approach things like rebates in the way they've done.



Juliette Saly

Governor, Juliette Saly, ausbiz. When we last spoke Americans were still heading to the polls and we didn't know that there was going to be a President Trump 2.0. You said you hadn't done modelling on what that would mean for the economy. Have you now given there is likely to be further inflationary pressures in the US and potential US/China trade tensions.

Michele Bullock

Modelling is a strong word, I would say. I don't think you can just - I've said this before as well - repeating myself - you just can't plonk a whole lot of assumptions into a model and get out what you think these things might mean. I think - we have done some scenario analysis looking at it. I think there's - it depends very much on whether he does what he says he will do, and that actually is a bit of an unknown. And then it depends on how other countries react to that sort of thing. So I think if there is some tariffs imposed and there's some government expenditure - yes, it might be a bit inflationary in the United States. It may not impact us greatly. I think where our scenarios suggest it may impact us more is if there's some big impacts on China. If there is some moves that really impact growth in China, and obviously if growth in China is affected that impacts the demand for exports from us, and that impacts our economy. So I think the scenarios that we're playing with sort of fall into what if it is - he just do a few little things around tariffs and spending; what if he takes much more broad action, particularly against China, then there's some quite different impacts on us depending on what he does. But having said that, I think we're still in wait-and-see mode.

Stella Cho

Hi, Governor. Stella Cho, Reuters. Given it was just two weeks ago you said underlying inflation was too high for cuts in the mid-term. Would you say the same today what you know now and what is your term exactly.

Michele Bullock

Another question for guidance. What I would say - and I think this has been clear and I think people have taken the message from the Board's statement - is that yes, underlying inflation is still too high. But some of the data on the real economy are a little softer and so that might indicate that inflationary pressures might start to come off broadly in line with our forecasts because our forecasts do see inflation continuing to come down slowly. And if that eventuates then there's going to come a point where we're going to be confident enough that inflation is back in the band to start easing interest rates. When that will be, I don't know. But the point, I think, of the statement today was to just let people know that we have noticed this, as have everyone else, another questioner mentioned it as well, and we do need to take a little bit of signal from that. Having said that, we do need to be alert to risks and what we'll be doing is looking at the data that comes in the next month or so before our February meeting, and assessing what that means for inflation and whether or not we're going to meet our forecasts.



Swati Pandey

Governor, from Bloomberg News. I have two questions if I may, please. There are a few reporters covering this. The first one is the market reaction to GDP report and after today's statement as well so now there are expectations for two rate cuts by May. You had previously tried to guide the market, like to push back, push out the interest rate cuts from November of this year. Do you think the current reaction is an overreaction to GDP data and your statement, or do you kind of like are comfortable with how market is reacting? And the second question is with legislation on the two Boards, what changes can we expect from the RBA? Would you publish unattributed votes from next year? Will there be more speeches or public appearance from Board members, or is there anything else that's kind of in the chain as far as changes are concerned?

Michele Bullock

I will answer that one first. That will be something that the new Board itself will have to consider when it's put together. So the new Board, monetary policy Board will have to consider the current Board can't commit a new Board to that, so that would be the answer to that question. On the market reaction, the markets do move around and they move around in response to things we say, because it's giving them information about how we might react. And they also react to data, as you point out, because they look at the data and they think, "Well, how will the Reserve Bank react to those data?" So they do move around and in the past they've reacted in ways that perhaps they were misreading the way we were thinking about things, or - I would like to think that we are being clearer about our reaction function and the way we're thinking about things. I don't want to endorse a particular market path or anything like that, but am I surprised that the market has reacted? No, I'm not because that is what they're going to do. They're going to look at the data, they're going to look at things we say and they're going to try and figure out what they think we might do but I'm not going to endorse any sort of path.

Nick Fildes

Nick from the Financial Times. The statement makes a reference to pronounced geopolitical uncertainty. I just wondered if you could spell out what those risks are, obviously the tone today is about consumption as well as sort of increased confidence on various data. But how do things like a slowing Chinese economy and potential tariffs and Middle East conflicts impact on your thinking heading into 2025?

Michele Bullock

So it's a difficult question because we can't react to things that we think might happen but haven't happened and may not happen. So it is challenging. But the sorts of things we're thinking about are the sorts of challenges around the trade tensions. Australia is a small open economy that's done very well out of an open trading system. So I think it's really not in our interests, ultimately, if the world economy starts becoming quite protectionist and inward looking. So there is that. There is obviously a lot of tensions and wars going on. These can sometimes cause supply shocks. The most obvious one is fuel prices. When we get supply



shocks we typically get inflation. Then how do we react to that? So these are the sorts of things that I think we've got in mind but it's very difficult to know. And for the moment, at least, I think the best we can do is focus on what we have got in our domestic economy, what we're seeing in our domestic economy, and trying to focus on that, and that's inflation. So what do we do to bring inflation down? And if there are shocks, we'll have to react at the time.

Michael Read

Mike from the Australian Financial Review. Governor, have the existing RBA Board members been told which of the two new Boards they will serve on? And relatedly, how many fresh faces on the monetary policy Board do you view as desirable from an organisational continuity perspective?

Michele Bullock

I have no numbers. The only thing I've said - and I stick by it - that I would like continuity on both - some continuity on both Boards. That's the only comment I've made. And I haven't suggested numbers. The matter about who and the appointments, that's a matter for the Treasurer. Obviously I've been speaking to the Treasurer over the past year because the legislation's been on foot for all that time. But ultimately, the appointees will be matters for the Treasurer.

Sophia Rodriguez

Sophia Rodriguez from Central Bank. 6 weeks ago you talked about remaining vigilant on upside of inflation. Can you elaborate on what in the last 6 weeks have given you confidence that the inflationary pressures are declining in line with the recent forecast? Question number 2 if I'm allowed please, can you describe how you would cut the cash rate in February?

Michele Bullock

The second answer no. I couldn't describe such a scenario. I don't actually know because there is many configurations of data that might potentially lead us in that direction. But I honestly don't know if we're going to be cutting in February. We're going to be looking at the data and be data driven. The sorts of things that we're looking at, the national accounts obviously was quite important. Momentum there wasn't quite as strong as we thought it could have been. We have observed that the WPI came a little bit lower than we thought it might be. Our forecasts for inflation broadly are coming in in line with our forecasts. And I think I've said this before, that we have these central forecasts they have big bands around them. But as you move closer and if you sort of broadly - if you hit one of your forecasts, then you think, okay, well, how am I looking now for my next one? So as you get closer and closer you do get a little bit more confident in your forecasts. I think what we're observing, at least on the wages and the activities side of things, because remember the point about we've been making for some time is that aggregate demand has to grow more slowly because we've got to close the output gap. So we are observing that it is happening. We are observing that it's not only slowing as we thought it might but it's slowing maybe a little bit more, and that's positive for inflationary



pressures. Now, will that play out? We're just going to have to wait and see. But those are the sorts of things we are looking at that are giving us a little more confidence that we're coming in on our forecast path, the narrow path.

Amelia Brace

Thank you so much for your time. Amelia Brace from 7 News. No Christmas joy for mortgage holders but will it be a happy new year, we have Valentine's day in February, mother's day in May. The gift of a rate cut. Will we get one next year at all?

Michele Bullock

I wouldn't like to forecast when. All I'll say is we are watching the data, we think things so far are moving in line with our forecasts, and if they continue to move in line with our forecasts, then at some point inflation - we are going to be convinced inflation is coming back to the band and we will be in a position to consider that. I couldn't give timing on it. But that's the way we would typically think about. Now, having said that, if things don't work out as planned and inflation does not continue to decline, then we've got another problem because, as I said earlier, if we don't get inflation down ultimately that is bad for everyone. It's not just bad for mortgage holders - it's bad for them but it's bad for everyone.

Michael Janda

Thanks, Governor. Michael Janda from the ABC. If I could indulge in two related questions, which is what can be done to increase productivity given there is so much talk about how important it is? The other one is from me, your former assistant Governor economics Lucy Ellis pointed to weakness in productivity and strength in employment both being due to growth in the government sector. What happens when that growth inevitably stops? Might the RBA as she wants suddenly find out it's left rates too high for too long?

Michele Bullock

On productivity, people ask me about productivity. I'm not a pre expert. We have a whole productivity commission headed up by Danielle Wood who have lots of ideas on what to do about productivity. Education and training is probably part of it. I think technology is going to be a part of it. But I don't have any specific suggestions for what we need to do. All I know is that productivity growth is important for growing the economic welfare of the people. It's the way we get real wages, it's the way we grow the pie and people get more well off. That's how we get it, through productivity. Yes, we are well aware that the growth in employment has been coming through the non-market sector. So it is not all government; often it's private sector firms as well which are associated with things like health, aged care, child care, those sorts of things. So they're private but they're sort of driven by that non-cyclical sort of. So it is possible that as growth in that slows, then we will start to see employment growth slow and if the private sector doesn't pick up the slack then that's what will happen. At the same time, though, we are expecting, as real incomes are rising again, that consumption will start to rise again. So that will give a bit more of a boost to the private sector. So how that plays out, I don't know. What I do want to make extremely clear, though, is that in talking about



the market and the non-market sector, I get the impression that some commentators are trying to make it sound like growth in non-market employment is not valuable. It's very valuable. The jobs that these people are doing are very valuable jobs. So I don't want the debate about market and non-market employment to end up in a sort of a debate about whether or not these are worthy jobs or not. They are worthy jobs, they're important jobs. And if growth in that slows, then yes, that won't be great for employment, but there's other things on the other side that might lift private employment in the year ahead as well, and that will balance things out. So we will wait and see.

Jonathan Shapiro

Governor, Jonathan Shapiro from the Financial Review. There seems to be a lot of interest in how a February interest rate cut might be. My question is along those lines. Is there anything in the quality of the GDP banker or anything the bank has gathered in its liaison or recent survey data that might negate or reduce the need to see two quarterly inflation prints to pave the way for a rate cut?

Michele Bullock

Well, I mean, we do use the survey data and I think the NAB data came out just before - it might have come out just before our announcement, I suspect. It showed, I think, very similar things. Weak private sector activity. But the comment from NAB was capacity utilisation is still high so growth isn't strong but the level of activity is holding up. And that's the story we've been telling, which is that everyone's focusing on the fact that the economy is not growing very quickly, hardly growing at all but the level of activity is still quite elevated because when we came out of COVID the level of activity just shot right up and that was partly the cause of the inflation, was that there was so much demand coming out of the COVID lockdowns and so on that the economy couldn't supply everything that was being demanded. So we're still feeling the effects of that particular wild ride we had during COVID. So I think what we are seeing in the - ultimately the test is whether or not it impacts inflation. And we think that there are some signs that economic activity is softening in a way that's in line with our forecasts and that's going to help bring down those inflationary pressures. But we've got to get a bit more confident before we're willing to declare victory over inflation.

Michael Stutchbury

Governor, Michael Stutchbury, Financial Review. ... that the RBA and the government through the Treasury work on better coordination on monetary and fiscal policy. Since then the big forecasting surprise of 2024 has been the strength of public demand. A bit unclear whether you think that's a good or helpful or unhelpful thing. But does, for example, the strength of public demand unexpected show that there needs to be more institutional work done on coordination of fiscal and monetary policy, and have any steps actually been taken towards that?



Michele Bullock

So it's challenging because yes, you want to make sure you're pulling in the same direction. At the same time, the government is responsible for fiscal policy. I don't want to tell the government what their fiscal priorities should be and, likewise, I'm Chair of the Board which sets monetary policy and we are independent from government and we don't really want the government telling us what we should be doing with interest rates. So the concept of coordination in that context is a little challenging. Having said that, once the new Board is in place and we've completed our organisational restructure to devote some more time to some of these issues, we will be looking at ways that we can perhaps engage with the private sector. I think that was one of the recommendations, that we look to engage with the private sector on this. So independent think tanks. So no work has been done yet but that is something that we are thinking about how we might work with Treasury, perhaps, to forward some thinking in this. But I have to say, Michael, I think it is a challenging issue. Yeah.

Michael Heath

Hi Governor. Michael Heath from Bloomberg News. I have got two, if that's okay.

Michele Bullock

It seems to be the new one.

Michael Heath

There is fewer people here. Two is the new one. Just a quick one on the RBA reforms. When the new Board comes - sorry, two parts to that - do you and the Treasurer coordinate between yourselves and new Board members or will it be exclusively his decision? Also once you've got your new Board in place will you be advocating for an unattributed vote and for them to do speeches? What's your view there?

Michele Bullock

On the first one, myself, Stephen Kennedy - so you will recall that one of the recommendations of the review was we had a skills matrix of the sorts of people we needed on the Board, and then that there would be a group, myself, Stephen Kennedy and an independent member who would think about ideas, sorts of options that might go on those, and then recommend those to the Treasurer. That has basically been done but, ultimately, it is up to the Treasurer to decide how he wants to configure that. So that's up to him, and I'm sure he's thinking about it. I think he is thinking about it. So that's that. On the unattributed votes and the publishing Board papers and public appearances, I don't have particularly firm views on those things. I think it's important that the Board - the new Board talk about them. But I, myself, don't - I know that's what the review recommended but I don't have particularly firm views. I would want to take the counsel of the rest of the Board members and have a good conversation about that to see where people come out on that.



Michael Heath

Sorry, I forgot my second question which is given the weakness in GDP which means presumably in my limited understanding of economics there is not the same fuel inflation going forward when economy weakens. Does that exclude the labour market from what we're looking at so long as it doesn't tighten remarkably, it is more the private sector we're keeping an eye on?

Michele Bullock

When we talk about demand being above supply, some of that is reflected in the labour market. So the example I've given before is the construction industry, the skills shortages in the construction. That's an example of where you're seeing demand above supply reflected in labour market shortages. So they are related. It's easier to observe the labour market. It's very difficult to observe - well, you can't observe demand and supply separately. All you can observe is the outcome. And so, really, the key thing that is telling us that there is still this imbalance there is the inflation numbers. So that's why the inflation numbers - they're obviously our target, they're important - but they are also telling us something about the supply/demand balance. Yeah.

- Thank you, Governor.

Michele Bullock

Thank you, all. And thanks for your interest in this this year. It's been a bit of a wild ride for me but thank you again for your interest and making it successful. Thank you.

- You too.