



Source: Reserve Bank of Australia

Sydney – 12 August 2025

Michele Bullock

Governor

Transcript

Michele Bullock

Good afternoon everyone. As you know, today the Board decided to cut the cash rate by 25 basis points to 3.6%. Monetary policy has been working as intended and we've had good progress on bringing inflation down over the past 18 months. The Board's now cut the cash rate by 75 basis points since February this year as we've become increasingly confident that inflation is on track to be in our 2 to 3% target range on a sustainable basis. Because the price level has gone up so much during the period of high inflation from 2022 to 2024, households are still feeling the pain of those higher costs. This is why we're so determined to keep inflation down. The Board's strategy, as you know, has been to bring inflation down while avoiding a sharp rise in unemployment. Because we didn't take rates as high as some other countries it may be that we don't need to reduce rates as much either. As demand and potential supply in the economy get closer to balance and inflationary pressures ease the Board is discussing how we can sustain this. We're continuing to analyse what developments mean for inflation and employment here in Australia. The global outlook remains unpredictable even though it seems that the risk of a more damaging widespread trade war has eased a bit. We expect global growth to slow over the rest of the year and into 2026 as impacts from high tariffs and broader policy uncertainty will weigh on activity. Our latest forecasts for the domestic economy see a slow recovery in GDP. We expect a modest recovery in private demand. We also expect labour market conditions to remain around their current levels and underlying inflation to remain sustainably at the mid-point of the 2 to 3% target range. The forecasts imply that the cash rate might need to be a bit lower than it is today to keep inflation low and stable and employment growing, but there is still a lot of uncertainty so the Board will continue to focus on the data to guide its policy response. Monetary policy remains well positioned to respond to shocks that could come our way, and the Board will keep doing what it needs to do to keep inflation down and maintain a healthy jobs market because, as we know, when inflation is low and stable and people can get jobs it's good for households, it's good for the community and it's good for the broader Australian economy. Thank you and happy to take your questions.



Juliette Saly

Juliette Saly from Ausbiz TV. It was a unanimous decision to cut interest rates by the 25 basis points. Was there any discussion for a larger cut, even 35 basis points to bring it back to those 25 basis point increments a lot of people have OCD about the out-of-cycle rate at the moment.

Michele Bullock

Yes, I get a lot of questions about that Juliette, about the 35. The answer is no, there wasn't a discussion of a larger rate cut. It was, as you say, unanimous and I think if you looked at the minutes from last time you would see that was where it was leading. I think last time I spoke about it was a matter of timing, not necessarily direction and all Board members were fully behind 25 basis points. Thank you.

David Chau

David Chau from ABC News. What would you say is an appropriate level for interest rates, one that doesn't stimulate or slow down the economy, in other words the neutral rate?

Michele Bullock

I was wondering if you were going to give it the name, David, the neutral rate. Look, the neutral rate is something that is a long-run concept and it's the concept that is relevant for, as you say it's monetary policy's neither restrictive nor accommodative in the absence of shocks, and so we are very often not in the absence of shocks. We're usually the stock standard time we have got shocks, particularly at the moment we have. So we think that, you know, the neutral rate - our estimates are somewhere between 1 and 4. It's a very wide range, so we don't put a lot of emphasis on the neutral rate in terms of thinking, well, that's specifically where we're aiming at. In fact in the last minutes we actually highlighted that the Board discussed the fact that people probably put a bit too much emphasis on point estimates of the neutral rate. So really what we're focusing on, and what tells us if we're getting to that point, will be what's happening with inflation, what's happening with employment, so that's really what we're aiming at. It's not a point estimate, but as we get closer obviously it becomes much more uncertain how close we are.

Edward Boyd

Edward Boyd at SkyNews. In the SOMP you've downgraded your long-term productivity growth for Australia and downgraded GDP. Why has productivity got so much worse since you last did the modelling?



Michele Bullock

Productivity isn't modelled. We don't model productivity. It's an assumption we make and it's an assumption for the purposes of the two-year forecast period. So it isn't - I want to make very clear it is not an assumption about long-run productivity growth. As you know, the government is very focused on what we need to do to lift productivity in a long-run sense so this downgrade is not saying anything about long-run productivity, it is simply saying that for the purposes of our forecast period we think that the productivity assumption needs to be a bit lower. Interestingly, the reason - one of the reasons we've come to this position is that our forecasts were such that we were hitting our employment and our inflation forecasts but we were overestimating our GDP and our consumption forecasts. So there was a tension in the forecasts. Why were we hitting our targets when we weren't hitting - and part of the solution to that was that the productivity assumption was a little too high. So, again I want to just make the point that it's an assumption. It's for the purposes of the forecast period only and it says nothing about the long-run, which is a whole other ball game.

Jack Quail

Jack from *The Australian*. Just with that .7% assumption, what's the risk again that those assumptions - that sum is a bit heroic? You touched on this in the Statement of Monetary Policy, but, you know, given we do have flatlining productivity growth at the moment is there a risk that you've overcooked these assumptions again and, if so, what's the risk if they're not borne out?

Michele Bullock

Well, if they're not borne out again what we'll probably see is we'll be overestimating growth and potential supply again. You'll notice in the forecasts that the implication of this - it doesn't actually have implications for inflation because the output gap isn't changing, it's just we're lowering the potential growth rate and therefore the - so that's possible. We think we've taken a fairly conservative view in lowering it a few percentage points, but again I want to come back to the point that this does not say anything about the long-run productivity growth potential of the Australian economy. We know the government's focused on that. We've got a roundtable coming up on that, and I think that needs to be the focus. The Reserve Bank can't do anything about that. All we can do is assume what the productivity growth rate will be.

Michael Reid

Michael Reid from the *Australian Financial Review*. Governor, you'll be attending the productivity summit next week and delivering a presentation on the first day. What's your message going to be to attendees at the summit?



Michele Bullock

You want a preview, Michael?

Michael Reid

I would love a preview.

Michele Bullock

I've been focusing on the Board meeting to start with. I'm there for the first session and I'm a scene setter and I'll be talking probably a little bit about resilience of the Australian economy, how reforms and productivity can help the economy be resilient. That's as much as the preview as I'll be able to give you at this point.

Stella Qui

Stella Qui from Reuters. Do you judge the current cash rate of 3.6 to be restrictive? Because in the minutes of last meeting the Board did assess the 3.85 to be restrictive, and do you think the terminal rate of 3.1 is - -

Michele Bullock

Very similar question that David asked, Stella. We don't have a point estimate for where we might end up, you will note that in the forecasts we have inflation coming back down to target and the unemployment rate remaining where it is with a couple of more cash rate cuts in there. That's the best sort of guess, but things can change, and the Board has to be taking things meeting by meeting and absorbing the data and thinking about what that might mean for whether or not we're on track to achieve our goals and that will happen meeting by meeting.

Evan Lucas

Evan Lucas from 9 Radio. You've done a lot of work obviously in the productivity part of the Statement of Monetary Policy. One of the things that caught our attention is you've obviously assumed that businesses and consumers have already materially adjusted lower their expectation around productivity and the outlook for it. How do we break out of that?

Michele Bullock

Well, I'll answer the question, but the main news here is actually the reduction in interest rates and so on, so look, breaking out of the productivity slowdown is a matter for the government that they are taking on. They're looking at what they can do. Businesses are looking at what they can do to take themselves out of the productivity slump. There's nothing the Reserve Bank can do. All the Reserve Bank can do is make sure we have low and stable



inflation, and if we have full employment both of those things are very stable environments for businesses to think about how they might improve productivity, how they might produce more for the same amount of labour and capital input. So nothing we can do about it, but the government recognises it's a big issue and they are tackling it. They are having a roundtable to discuss matters. There's lots of ideas coming in and I hope that that will be a productive exercise because if we don't, I've said before, and others have said, I'm not saying anything unique here, the way we grow our living standards is through productivity. That's the key.

Shane Wright

G'day Governor, Shane Wright from 9 Newspapers. In the monetary policy statement the business liaison goes into a fair bit about talking to businesses about what they're seeing, and it notes that many firms are flagging the ongoing pace of growth in software prices to take on new tech, which is clearly an inflation issue for you. You also mention in the report about lack of competition. Would that suggest if software companies are able to lift their prices, that there is an imbalance in power within that sector and that is going to, if it's leading to more inflation or less take-up of productivity enhancing tech that's a problem for you?

Michele Bullock

Well, competition, again, isn't in our bailiwick and the ACCC are obviously very focused on competition issues and in fact one of the possible reasons for slowdown in productivity over recent times people have highlighted possible decrease in competition. From our perspective and inflation, I wouldn't specifically call out technology costs, but we do know from businesses more broadly that input costs are rising and they're having difficulty passing those costs on. So to the extent that demand hasn't been particularly strong, it's only been going quite slowly, we know consumers are quite price conscious. To the extent that businesses are having to absorb these costs and can't pass them on, that's keeping a bit of a damper on inflation. But if things pick up quite strongly, demand picks up strongly, that might give them the ability to pass on more of these price increases. That's something that we have to watch.

David Taylor

Governor, David Taylor, ABC. I'm just looking at the ASX website here and the stock market goes up when the announcement is made to cut interest rates, and there was 100% chance basically priced in that you would cut interest rates. So it seems to me there's a connection between when you cut interest rates and when asset prices rise. In fact I'd hazard a guess that every time you do cut rates or the assumption that rates will be continuing to fall, that asset prices keep rising. The share market is supported by an easing cycle, as is the property market. So I'm just wondering, what happens if the markets tank, so the share market falls considerably later in the year? Can financial markets in Australia for a start be confident that if things really hit the fan then you'll go down to zero interest rates or even money printing



again? Because I have a sense that the financial markets think that you're essentially underwriting risk assets, and then if things get gnarly that's what's going to happen. Can you give us a confident statement that when things do really get quite bad that you'll engage in money printing if it's necessary.

Michele Bullock

I won't give any promises, David, but as you know from the past, when there is - so if you think back, for example, to the GFC, that was a financial crisis and what happens in financial crises is that it impacts the flow of credit to the private sector and that, therefore, has a depressing effect on the economy. So in those circumstances yes you would typically be alert to financial stability issues and you might be willing to respond with interest rates if it was needed. But, again the guiding light here has to be inflation and employment, and if the financial markets have a little bit of a meltdown and share markets decline a bit, and you'd have to say the share markets seem pretty sanguine about everything at the moment, considering everything that's going on.

David Taylor

Is the Australian share market overvalued in your view?

Michele Bullock

I'm not going to make any comments about overvaluation or not, but they do seem pretty sanguine to the risks at the moment. So there is a risk that there may be some volatility in financial markets if particularly what's going on in the United States, if things go a bit pear-shaped over there, but at the moment everyone seems pretty relaxed that the worst will be avoided.

David Taylor

Will the Reserve Bank be there to support financial markets?

Michele Bullock

If there is financial stability implications - the Reserve Bank also has responsibility for financial stability matters and it will be there, but it's not going to come in just for the sake of protecting asset prices. We don't aim at asset prices. We are focused on inflation and employment. Asset prices, they - yes they tend to go up when interest rates come down, but we can't - we don't aim at that. We don't target that and we can't control that. That's a matter that obviously - for others, I guess, to look at, APRA, macro Prudential tools something help that kind of thing. It's not just an issue for the Reserve Bank, David as you know, it's an issue all around the world with markets when they collapse a bit or they go into volatile times they sort of expect, well, what are the central banks going to do. Well, not necessarily anything. We'll see.



David Taylor

Thanks, Governor. Cheers.

Patrick Cummins

Patrick Cummins from *Guardian Australia*. You talked about how interest rates might need to be a bit lower than they are today and you said you've been taking it meeting by meeting. Last time around you gave us a pretty good steer about, you know, needing inflation to confirm it was on track. Can you give us any more idea of the kind of conditions you're looking for, whether there's certain data you're interested in, some kind of idea, because at the moment it seems like you're on a watching brief and you take it as it comes.

Michele Bullock

So we're looking - we're doing a number of things. We've got some data that's backward looking, so it's what happened in the past, employment, actual inflation rates, we have survey data, we have liaison data that tends to be a bit more forward looking, and we have our forecasts, and the way I would say we look at this is we look at individual bits of data. Now, monthly data can be volatile, but are they basically confirming where we thought we were or are they causing us to rethink where we are? So as we go through the next - towards the end of the year we've got three more meetings to go, there'll be a few more labour force surveys, there'll be some monthly CPI indicators and then ultimately we'll get a full monthly CPI, we'll have some national accounts data, we'll have more surveys data, we'll have more information from our liaison. All that information, it's - you know, we weigh that all up and we look at whether or not we think it's confirming where we thought we were and where we're going or it doesn't, and if it doesn't confirm either direction that we're heading then we'll have to have a think about what we're going to do with interest rates. Do we continue to follow the path that we think are underlying our forecasts at the moment? Or does it require a bit of tweaking in either direction? So they're the sorts of data that we'll be looking at to confirm, and those data come out just on a rolling basis, as you know. There's going to be quite a bit of data coming out over the next few months.

Chris Kohler

Afternoon Governor, Chris Kohler from 9News. You just spoke about asset prices then a moment ago. I might ask you about property prices though. I know it's not technically part of the mandate, it's not something you technically look at, but I'm curious. The interest rate cuts do, of course, have an effect there and whether it's to do with financial stability or the wellbeing and sentiment of Australians, to what extent are you concerned with what might happen to property prices as a result of three or more interest rate cuts this year?



Michele Bullock

So we have been watching that and one of the ways through which monetary policy works is through the housing market. It works through new housing starts, dwelling investment, and it works through people obviously getting a bit more confidence that they can purchase a house because interest rates are coming down, and the other thing it does is that, as housing prices rise it increases peoples' wealth so that improves their feeling of wellbeing and that also increases consumption. This is some of the ways in which monetary policy can work through the property market generally, not just property prices. So we are watching that. I'd have to say, though, that the easing so far has been fairly gradual and what we've seen so far is a fairly gradual recovery in housing activity broadly, housing prices, dwelling investment, those sorts of things. So yes we would expect to see it happen. We hope it happens in a nice, measured way, but ultimately we don't forecast property prices. We can't control what happens there because I think as I've said before the property prices are about supply and demand, ultimately, in the housing market and we don't control that, but we do know that historically as interest rates fall then activity in the housing market picks up. That's exactly what we would expect and it is one of the channels through which monetary policy works.

Chris Kohler

Thank you.

Michael Janda

Michael Janda from ABC News, Governor. A follow-up question to that. In just three months the bank has had to double its forecasts for dwelling investment growth for this calendar year. Is that a sign that the biggest impact interest rate cuts have had is on the property market and is it also a sign that there are risks that interest rates may not fall as far as people might be anticipating because of the heat that we might see in the construction sector and other industries?

Michele Bullock

So dwelling - yes, dwelling investment is, as I've already said, a key path through which monetary policy impacts. It's positive from housing supply and what we're hearing from liaison is that some of the tightness in construction inputs, in particular labour, has been easing somewhat. So I think that's broadly positive in the sense that it's creating more housing supply if people are actually building more homes, that's a positive thing. I don't know if ultimately this resource contention will continue to bite in the housing market, but we have seen it ease and we have seen the pipeline start to get worked through. So I would say generally watching it it's probably a positive sign in terms of the supply of housing, and as I said earlier, it is the way - one of the ways monetary policy works and that ultimately, I think,



will be positive for the economy, but we're going to have to wait and see if this resource contention, again, comes to the fore because that has been something that in the past we've heard has been an issue for building new housing and that, I think, has been easing a bit, but we'll just have to wait and see.

Michael Janda

In layman's term a shortage of skilled labour.

Michele Bullock

A shortage of skilled labour has been part of the issue for housing supply, yes.

John Kehoe

Thanks, Governor. John Kehoe from the *Australian Financial Review*. The RBA staff has downgraded the productivity growth medium term assumption by 30% to 0.7% a year, perhaps adjusting to the new reality that Australians have already experienced given we haven't had productivity growth since 2016. I wanted to ask you what are the implications from peoples' take-home pay, real incomes, wages and living standards as a result of having weaker productivity growth?

Michele Bullock

So weaker productivity growth in the terms of our forecasts, the implications of that, I think, are already being felt. That is, that real wages are not rising by very much because that's the implication of slow productivity growth is that real wages can't grow as quickly. So that's the implications in terms of the forecast period. In terms of the long run it depends on the long-run productivity growth and that's not what our productivity assumption is about. It's not about where the 10-year productivity growth might be. Again, that is a matter that obviously is front of mind for the government at the moment and they are looking at and the implications, if we can get productivity growth up, are that that will allow for more growth in real wages which is ultimately good for Australians. That's the long-run implications of trying to make sure that we improve our productivity performance.

Swati Pandey

Governor, Swati Pandey from Bloomberg News. Your forecasts show inflation will be around where it is at the moment and unemployment rate as well. Do you even need to cut if unemployment remains at 4.3%, inflation is within target, and did the Board consider what happens in a scenario where you do not cut - where interest rates are at 3.85%, would we have the same economic outlook?



Michele Bullock

So the economic outlook, Swati is dependent on some more interest rate cuts. So the implication for the forecasts if we held the interest rate where it is and didn't cut any more, then the implications are that in terms of the forecasts that we would expect to downgrade employment and inflation, lower inflation, higher unemployment. So that's - when I was talking earlier to Stella about this, you know, how far do we think we need to go down, we don't know, but the forecasts are conditioned on a couple more cuts. If we didn't cut then there would be implications for our forecasts. So we'd probably be missing both our targets at this point.

John Rolfe

John Rolfe from *The Telegraph* and *Herald Sun*. The statement on monetary policy forecast show downward revisions to household consumption, a big reduction in business investment, the growth forecast there, and also to economic growth more generally, yet the RBA is saying unemployment, it will stay 4.3% all the way through until at least 2028. So does that miracle only occur if you actually move to 3.1% cash rate by middle of next year?

Michele Bullock

Yes, it's a nice set of forecasts, isn't it, you're right. It's conditioned on, as you said, a continual lowering in interest rates for the next - couple more, two/three, and the point about the - the lower of productivity, which everyone has been focusing on, what that does is it brings down potential supply and potential demand together, so it doesn't have an impact on our inflation or our unemployment forecasts. We're saying that we're overestimating the ability of the economy to grow, we downgrade that, we downgrade growth, but it doesn't have implications for employment and inflation. That is all predicated in the forecasts on a couple more rate cuts. If it turns out that we are wrong about some of those things, that they're stronger than expected and that growth is stronger than expected and we think potential supply is not growing that quickly then that does potentially have implications for employment and inflation. But at the moment we're not seeing that. That's why we're taking things in a measured pace and making sure, trying to make sure that we've got to this good position, how do we make sure that we maintain it.

Cecile Lefort

Governor, Cecile Lefort from *The Financial Review*. You stressed a gradual approach to policy, so does it mean that it's less likely to have back-to-back cuts?



Michele Bullock

I wouldn't say one way or the other that we won't be having back-to-back cuts. I think, again, as I said earlier, what we'll be doing is looking at the data that come out before each meeting and each meeting we'll be looking at what we've learnt since the previous meeting and judging whether or not we think that we are broadly still on track, have the risks shifted, has there been news that's made us think there's risks have developed on either side. You know, we keep looking at the United States, looking at your phone in the morning, what's happened overnight. So we basically will be just making sure that we take into account any data that's coming out before each meeting and assessing at that meeting.

Tom Dusevic

Good afternoon Governor, Tom Dusevic from *the Australian*. We're looking at 2% growth, that's the slow lane for the Aussie inheritance. We're not used to muddling along in that fashion. We may end up with quite weak consumption growth off the back of quite weak income growth. Do you think that there's a danger that, you know, productivity is hard to conceptualise, that people will think that the bank is just keeping rates too high?

Michele Bullock

Well, I don't know, Tom. I don't - I think the way that we'll be judged is whether we've got inflation coming down and employment is being maintained, and if we can do that I don't think there's any evidence we're keeping interest rates too high. I want to come back - I mean, everyone - so many questions about productivity. The news here isn't productivity. The news here is that we have - this is our third decrease in interest rates, we've had 75 basis points now, and that our inflation is gradually returning sustainably to the target and that the unemployment rate is remaining pretty low in an historical sense. That is the good news here, and so far that doesn't suggest we've had interest rates too high. It suggests that we've managed to - well, you might remember we were in this room maybe a year ago being criticised for not taking interest rates high enough. So I think that's the news that we should be focusing on and that's the evidence we'll be focusing on to see whether or not interest rates are too high.

Millie Muroi

Millie Muroi from the *Sydney Morning Herald* and *The Age*. I'm going to be a bit annoying and ask about productivity, but more in the sense of the productivity roundtable you'll be appearing at. Obviously there's been quite a few submissions made to that productivity roundtable, among them the Productivity Commission's recommendations around company tax. What are your thoughts on those suggestions and in particular that net cashflow tax they've suggested?



Michele Bullock

Millie, I'm sorry, I'm not going to make any comments on particular suggestions to the productivity roundtable. I mean, my job is to deliver, and the Board's job is to deliver low and stable inflation and full employment and yes we're very interested in conversations about productivity, but ultimately we don't have any control over that and I don't feel in a position to comment on any particular suggestions for productivity.

Jacob Shteyman

Thanks, Governor. Jacob Shteyman from AAP. Just turning attention abroad for a second. Are you concerned about the independence of the Fed and what that could mean for global financial markets, and if Donald Trump does succeed in strong arming the Fed to lowering the cash rate faster than is currently expected what would be the implications for the RBA?

Michele Bullock

Obviously I don't have any control over that either. I think if the Fed does lower interest rates too quickly and it does result in inflation rising then that potentially does have implications for the world economy. What those implications will be it's hard to tell because there's so much else going on at the same time. You've possibly got a slowing in world growth as well, certainly a slowing in growth in the United States, and if inflation takes off in the United States - so to the extent that tariff inflation is once-off and temporary, but if it is - if it's accommodated by lower interest rates which allows it to get into inflation expectations then there is a very difficult situation because you're going to have to raise interest rates in the United States in order to address that and that's going to affect growth in the United States and the whole thing starts again. I think all we can do is focus on what our inflation rate looks like and we have a floating exchange rate, so we do have the ability to set - we have to take into account what's going on, but we do have the ability to set our own policy for our own domestic conditions, which is what we are doing. The floating exchange rate allows us that. So I think we'd have to take things as they come, but I'm confident, and history plays this out since we floated the exchange rate, we do have the ability to set our own policy for our own domestic needs.

Brandon How

Thanks, Governor. Brandon How from Capital Brief. I just wanted to ask a question about the statement on monetary policy as well. The assumption is that productivity fall in the mining sector over the past few years is expected to unwind over the coming years. I was just wondering why is it that this is the bank's position and are you able to characterise on how you expect it to unwind?



Michele Bullock

I'm not sure - so I'm not across the absolute details of this particular issue. I do know it has fallen a lot. We're expecting it to stabilise. I don't think we're expecting it to rebound substantially. I could be wrong on that, but there has been factors that have been impacting mining and one big one is that as we mine all the easy-to-get stuff and we have to move into mining the ore that's harder to get then you're having to spend more capital and labour to get that ore out of the ground so that's the sense in which you've seen a drop in productivity. I think all we're expecting is that particular structural shift probably will run its course and mining productivity will stabilise. That would be - but I'm not across all the detail on that, but if you want to talk to someone about the specifics of that I can find you someone.

Sophia Rodriguez

Sophia Rodriguez from Central Bank Intel. You said earlier we have a nice set of forecasts. I agree. Then you said that the news is not productivity. I think it is otherwise, at least based on your forecast, but if they downgrade in productivity was not important we wouldn't have - you wouldn't have lowered growth forecasts, you wouldn't have lowered wage price forecasts, so then that means productivity is the news. What am I missing?

Michele Bullock

No - well, the point is that the wage - what is important for inflation is unit labour costs and so if you lower the productivity assumption then obviously wages can grow less fast because of - not as quickly because obviously that will push up unit labour costs. What we're saying in the statement is that the productivity adjustment is actually closing a bit of a puzzle we had about why we were hitting our inflation forecast and our unemployment forecast and the wages forecasts were underperforming a bit, we were predicting a bit higher and they were coming in a bit lower, and GDP - we were constantly overestimating GDP and consumption. The puzzle in those forecasts was the productivity assumption. So the way I would describe it is that it's not impacted our inflation and employment forecasts, what it's done is it's solved a bit of a puzzle about why it was we were overestimating some parts of the economy, the performance of some parts of the economy, at the same time as employment and inflation seemed to be coming in on target. So it's not driving the inflation and the employment outcomes, but the adjustment in the assumption is helping us to explain why we had this puzzle in our forecasts going back over the past year. That's the way I would explain it.

Jennifer Duke

Jennifer Duke from Capital Brief. I'm just curious, given the RBA's own admissions that it's been wrong about productivity for quite a long time, why are you suddenly revising it now? What's been the trigger for that, and given the benefit of hindsight, do you regret not cutting in July?



Michele Bullock

Again, I just want to emphasise the productivity is an assumption. We don't model it, we don't base it on any sort of strong analysis. The new assumption is based on the average 20-year productivity growth prior to the COVID. It's an assumption. So I don't want people to get the impression that somehow this is something that we model and it falls out of our models and then we use it. In that context I think it's just worth noting that we've done it now because, as I said earlier in response to an earlier question, what was dropping out for productivity of around about 1% when we put that in to our forecasting framework it was delivering stronger growth in GDP and consumption than we actually ended up getting, at the same time as inflation and employment were coming out exactly where we thought, and the missing element of that was that if productivity is a bit lower that explains why we were missing that. So that would be my comment. In terms of July, no, I think the right decision was to confirm that we were on track and we are on track. I said at the time in July that there were a few monthly numbers, they're volatile, we don't really know, but they did give us pause to think whether or not there were some risks that we'd underestimated a bit of inflation. We were comfortable when we saw the quarterly numbers and five weeks, I think, was a relevant time to wait and confirm.

Luca Ittimani

Thanks, Governor. Luca Ittimani from *The Guardian*. As you've mentioned now with this update to the forecasts you've kind of solved a puzzle that was playing out in those forecasts. Do you feel like that puzzle had made the Board a bit more data-dependent, and inversely, now that you've solved that puzzle do you feel the Board can be more pre-emptive in its actions?

Michele Bullock

Pre-emptive and data-dependent, I think the Board is always data-dependent. Pre-emptive suggests that we will take action based on something that we expect might happen that - on the basis of the forecasts, and I would say that the Board is doing that. What we are doing is we are - we have got a forecast, we've got some assumed path for interest rates in that, we're looking for confirmation along the way that we still seem to be on that path. So I wouldn't say being pre-emptive and data-dependent are separate things. I think they're linked. But when things are really uncertain sometimes you might lean a bit more to say, well, actually I'd really like to see some firm information on that before I move, and I think that's probably, in this uncertainly times that's probably a little bit where we are at the moment, but we're still not - I don't want to give the impression we're not looking forward, we are. That's the point of the forecasts. The point of the forecasts is to say where we think we're going, that's our best guess,



and we're looking to see that we continue on that path, and as we do we can continue to lower interest rates.

Michael Pascoe

Governor, Michael Pascoe, Michael West Media. The statement and the bank continues to say or fear that the labour market is a bit tight, as if that's a bad thing. I can understand business liaison wanting it to be in balance. From the point of view of the economy, from the point of view of productivity growth next week, shouldn't we be seeking to have the labour market a bit tight to put pressure on business to invest so that the least productive businesses fail? The question is, is this bit of tightness the right amount we have now, and just because you wouldn't want only a productivity question, did any of the minority three say, "I told you so."?

Michele Bullock

Second answer, no. It is an interesting question and some people have raised this before. What is full employment? Full employment, just in simple terms, is anyone who really wants a job can get a job. Now, you might think that - some people might say that's a tightish labour market. Businesses might say that's a tightish labour market. Consumers might say - or households, people looking for jobs, they might say, well, that's not a tight labour market. That's good for me. So look, I think that at the moment it's fairly uncertain where we are. We really - everyone is thinking that - let me go back a step. There's some sense in which the labour markets is easing. There are some indicators that we think suggest that things are still a little bit on the tight side. If we can maintain where we are I don't think that's a bad thing, to your point. It will keep businesses focused on where can we make savings, where can we make productivity improvements. So I think you're right. I think that is a good thing. But we don't want labour markets so tight that businesses are finding it difficult to maintain their cost increases. If you end up with a very tight labour market and you end up with quite strong growth in wages as a result, as businesses compete workers away from one another, which is in the very - in the periods of COVID when the in employment rate was around 3.5%, there was a lot of evidence that businesses were competing people away from one another with higher wages. That makes it harder to contain costs and it makes it - and it demands there it makes it easier to raise prices so it can be inflationary. I think there's a balance here and a labour market that's sort of in balance, maybe a bit on the tight side, maybe a little bit on the loose side, but broadly in balance I think is very consistent with what we're aiming at.

Michael Pascoe

So just to be clear, do you think the Labour market is too tight now or perhaps just right?



Michele Bullock

I'd say it's uncertain, I'd say there's some disagreement, even amongst our staff, amongst people that we talk to externally. Some people think it's not tight at all. Some people think it is still a bit tight. I think the Board's assessment is it's still a bit tight, a little bit tight, but it's eased quite a bit and whether or not it's at full employment in terms of the Board's mandate I think is something that we're thinking we might be getting close to that. Thank you.