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**Michele Bullock**

Governor

## Transcript

### Michele Bullock

Good afternoon. Thank you all for coming. As you know the Board decided today to cut the cash rate by 25 basis points to 4.1%.

The cash rate has been at 4.35% since November 2023. At that time in November '23 the upside risks to inflation had increased, so the Board decided to raise the cash rate to 4.35% from 4.1% to address those upside risks. Since then, inflation has fallen, and recent data suggests it's eased a bit more than expected. Growth in private demand has also been quite weak and wage pressures have eased. The Board therefore judged it was appropriate to remove the cautionary raise undertaken in 2023.

I've said many times we need to see inflation moving sustainably towards our 2 to 3% target band before we ease rates. In December we said we'd gained confidence that things were headed in the right direction. Now we're at a point where underlying inflation is at 3.2% and headline inflation is 2.4%. Inflation has eased over the past three quarters and in the most recent quarter a bit more than our forecast had anticipated. This has increased our confidence further.

It's clear that higher interest rates have been working as anticipated, restricting economic activity and putting downward pressure on inflation. The Board judges it's time to reduce a little bit of that restrictiveness, but we cannot declare victory on inflation just yet. It is not good enough for inflation to be back in the target range temporarily. The Board needs to be confident that is returning to the target range sustainably.

One of the big questions we're grappling with now that inflation is easing is how the labour market is reacting. The Board's strategy has been to bring inflation down while preserving the gains in the labour market. The judgment was that we could achieve this with a gradual easing in the labour market. But the strength of the jobs market has been surprising. Many indicators suggest that the labour market is tight, and on some measures, tightening further. While this is good news for job seekers, the Board remains alert to the possibility that it is signalling a bit more strength in the economy which could delay or stall the disinflation process.



There's also a lot of uncertainty around the global outlook at the moment. One of the things we're cautious about is the possibility that policy unpredictability could lead to slower growth. But at the moment it's too soon to tell. For these reasons I want to be very clear that today's decision does not imply that further rate cuts along the lines suggested by the market are coming.

As I noted we've removed the cautionary increase that we did in November '23 to a level that we still see as restrictive. But the Board needs more data and evidence that inflation is continuing to decline before making decisions about the future path of interest rates. The Board is very alert to upside risks that could derail the deflationary process.

I know that some of the central banks have cut interest rates quite sharply over the past year, but we have taken a different strategy to most. Our policy rate was not raised as much as many countries overseas. We judged that while inflation expectations remained anchored, we could take a bit longer to bring inflation to the target band, but we could keep unemployment a bit lower. We can be happy with the progress made but we have to be careful not to get ahead of ourselves. The truth is that some inflation pressures remain, and cost of living pressures are still front of mind for many Australians. The Board is conscious that households with mortgages have had to adjust following interest rate increases since the pandemic and the impact of high inflation over the past couple of years has permanently increased the price of goods and services. That's hurt everyone but particularly those on lower incomes and the more vulnerable. The Board will continue to look to the data to see if the economy and inflation continue to evolve as expected. Happy to take your questions.

### **Deb Knight**

Governor, Deb Knight from 9 Radio and A Current Affair. There are some very relieved Australians today with the rate cut and the banks behaving out of character, falling over themselves to pass the rate cut in full. How lineball was the decision though? The markets were certain it was a done deal, but how difficult was this decision today?

### **Michele Bullock**

It wasn't a lay down misère. It was a difficult decision in the sense that there were arguments on both sides. What I would say is that the Board had a very active debate of the arguments on both sides on this, but in the end came to the view that the better decision was to ease a little bit of the restrictiveness, still maintain some restrictiveness, but ease a little bit of restrictiveness in recognition that we are making progress towards our goal. I understand that many households will be relieved with this, but the important point that I've made before is that it's really important we beat inflation because that hurts absolutely everyone.

### **David Chau**

Hello, Governor, David Chau from ABC News. What are the chances the Reserve Bank is one and done when it comes to interest rate cuts, and today's cut could be the only one that we see?



## Michele Bullock

Thanks, David. I couldn't say. What I would say is that the market is expecting quite a few more interest rate cuts to the middle of next year; about three more on top of this. Whether or not that eventuates will depend very much on the data. Our feeling at the moment is that that is far too confident that that's as many rate cuts as we'll be having. So I can't say one and done. What I can say is that we've done one, we've removed a bit of restrictiveness. We are still restrictive and we are waiting for more evidence that we are getting inflation sustainably back in the band before we are willing to move again.

## Jack Quail

Governor Bullock, Jack Quail from the Australian here. The RBA seems to be an outlier when it comes to estimating full employment; granted your forecasts, can the economy sustain unemployment at four and a quarter per cent to hold inflation within the RBA's 2 to 3% target band.

## Michele Bullock

It's a good question, Jack. There's a lot of debate out there in the market about what level of unemployment or employment is consistent with low and stable inflation. I have to say at the moment we're a little surprised because we have seen inflation continuing to come down at the same time as we judge the labour market is still a bit tight but there are things that are happening. We see housing costs are starting to decline which is good, and that's a big part of people's expenses. We also hear from liaison and other areas surveyed that business margins are being squeezed a bit which suggests that demand is not strong enough for them to pass on these things. These are - we don't know the full answers yet. As I said, I've said in the past I think, what that level of employment is, is actually really uncertain. So we're not pinning our numbers on it. I'm certainly not pinning any number on what that unemployment rate is. But we are continuing to test how low we can keep unemployment without adding inflationary pressures. So far, in good news, we're achieving it but there are risks. We've got to be careful.

## Michael Read

Michael Read from the *Australian Financial Review*. Governor Bullock, could you give us some extra detail about what conditions would need to be in place for the Board to be ready to deliver a second rate cut?

## Michele Bullock

Well, the sorts of things that the Board is worried about at the moment, in terms of the upside risks would need to abate a bit. So we'd need to continue to see easing wage costs, growth in wages. We'd need to continue to see that. We'd need to continue to see the disinflation in market services in particular. We'd want to see that the reduction in housing inflation we've seen is sustainable and it's continuing to come down, because that's been a very big component of the rise in inflation over the last couple of years. And I think also what we'd



need to see is a general easing; we don't know what the demand/supply gap is here. We're very uncertain about it. I think we've set out in the Statement on Monetary Policy that in the past we thought demand was a bit above supply. We're a bit uncertain whether that's still the case. So, it would be really good to see some recovery in supply, on the supply side of the economy and obviously productivity is an important part of that as well. So, they're not exclusive list of things that the Board would need to see, but all of these things, if you started to see these things, these would be good for inflation and that's what we're looking for.

### Effie Zahos

Governor Effie Zahos, *Nine News*. You just mentioned that the cost-of-living pressures are still there and you mentioned that some prices are permanently higher. Do you acknowledge that this rate cut barely touches the sides for households?

### Michele Bullock

It's a very small rate cut, that's true. It reverses the one we did in November, but I think we are removing a little bit of restrictiveness as an impact at the margin for people who have mortgages. And again, the fact that inflation is coming down is actually really good for everyone. So that's really positive for renters as well and people on low incomes. So, yes, it's at the margin. It's a small decrease. The banks have passed it on. Every little bit helps.

### Swati Pandey

Governor, Swati from Bloomberg News. The RBA was doing a live experiment in monetary policy by not taking interest rates very high. Do you think you have been successful, given what we have seen in New Zealand and some other economies as well. Do you think that the RBA's experiment has been successful?

### Michele Bullock

It might be a bit early to say, Swati, I think. We are getting more confident that we're being successful. We're not the only country - the other country that has a dual mandate of inflation and unemployment, is the United States. When you listen to them, you'd know that they often talk about unemployment as well. So, we're not the only country that's been thinking about the impact on employment of our monetary policy. I think it's too early to say whether we've been successful but as I said I think the signs so far are positive. We have got inflation coming down. We've got in our forecast in the *Statement on Monetary Policy*, we have the trimmed mean being back in the band in the first half of next year, and that's on the basis of the current market path of interest rate cuts. It's got that little qualification in it. But have we not been tight enough and inflation will take off again? I think that remains to be seen, and it is a risk that the Board is alert to.

### Shane Wright

G'day Governor Shane Wright from *Nine Newspapers*. The *Statement on Monetary Policy* talks about growth improving and strengthening. But for the next two years it's around



2.2 to 2.3 per cent. Trend for Australia is supposedly around two and three quarters. Do you think trend growth has actually stepped down and why?

### **Michele Bullock**

Well, part of the issue is productivity, I think ... we've got some assessment in there for productivity, or assumptions for productivity I should say, but we all know productivity hasn't been as strong as we would have hoped, and that's the way we grow the economy. That's the way that we can have trend growth higher, because if demand increases and supply doesn't, then that's when you get inflationary pressures. So, I think there is some question about how do we grow the supply capacity of the economy, which increases the trend growth of the economy. And that does come down to the sorts of things that we should be doing about productivity.

### **Sophia Rodriguez**

Sophia Rodriguez from *Central Bank Intel*. You said you reversed the rate hike from November '23. Given there were upside risks even after that, if you had to raise the cash rate once more, do you think you would be in a more comfortable position and probably two more rate cuts you could have been confident of at this stage?

### **Michele Bullock**

Well, no, because if the Board thought it needed to rise rates further it would have. The Board thought in November '23 it raised the rate to offset some upside risks. If it thought it needed to go further, it would have, but it didn't. It felt that the best way to achieve its strategy of bringing inflation down and keeping employment as strong as we could was to keep rates where they were for an extended period which we did. We kept them there from November '23 until now. So, I think now is the right time to unwind that increase. We're still restrictive. We still think we're in restrictive territory and that will continue to keep a bit of pressure on inflation.

### **John Kehoe**

Thanks Governor, John Kehoe from the *Australian Financial Review*. The forecasts have inflation flat lining at 2.7% through to 2027. I think the official target is 2.5. That's what the RBA Review recommended. Is that still your goal or is less than 3% good enough, given that you're cutting rates, are you not actually expecting to hit the 2.5% target?

### **Michele Bullock**

So, John, as you would know that 2.7% is actually predicated on a market path which sees three more cuts. So, what that tells you is that if we really want to hit 2.5 which we do, and I'll come back to that, then that market path on the basis of the information that we have at the moment is unrealistic. Have we abandoned 2.5? No, we haven't because our target is 2 to 3% and the best way to make sure we stay there is to target the middle of the band. If we target the top or bottom of the band then the likelihood we flop outside the band increases.



So I think it is important that we target the middle of the band. We're not always going to hit bang on the number, but it gives us the best chance of staying within the band that we can.

### Edward Boyd

Governor, Edward Boyd at *Sky News*. Just to follow up from Swati's question, the narrow path has been a bit of an experiment. If it does turn out to be a success, do you think it could become a blueprint or a new strategy for other central bankers around the world to follow in the future?

### Michele Bullock

Every central bank has a focus on inflation, but they all have slightly different mandates. We have a dual mandate, we have employment, as does the Fed, other countries don't necessarily have that. So, it depends, it's not necessarily for all central banks. Central banks will decide based on their own legislative mandates how the best way to achieve their mandate is and it's not the same for everyone.

### Cecile Lefort

Cecile Lefort from the *Financial Review*. Policy is restrictive but some economic indicators like housing lending suggest policy is not restrictive. So how tight do you think policy is and what level do you estimate the policy not restrictive?

### Michele Bullock

So, I wouldn't like to hazard a guess as to what specific interest rate we would think is, you might be referring to the neutral rate. That's a very uncertain concept. Housing credit is probably a bit more restrictive than you think it is because it's in nominal terms. If you look at housing credit, I'm sure we had something like this in the *Statement*, as a share of nominal household disposable income isn't growing very much at all. Remember it's a nominal concept and it's relative to household disposable income which is more important. But having said that, there are some things that on the business side if you look at our dashboard of all the things we look at in terms of financial conditions, on businesses they seem to be a little bit better. Risk premiums are quite low, the equity markets high. On the household side though we know, and this goes back to an earlier question, that households are paying record historical amounts on their mortgages in terms of required repayments as a share of their income. It is still binding and very tight on the household sector. This has been one factor, not the only factor, that's been important in the response of consumption. We haven't had growth in real incomes, real household disposable incomes, and that's been a product of a number of factors including interest rates. So, we think it's restrictive on the household side. Less restrictive on the business side. We still would think that overall conditions are restrictive.

### Jacob Shteyman

Jacob Shteyman from the *Australian Associated Press*. What conditions would trigger the Board to raise interest rates again?



### **Michele Bullock**

If inflation reversed course and we started to see the signs that inflation started to move in the other direction. That is ultimately what we are aiming at. Now, what we've observed from overseas, and we've observed it a bit here as well, is it can be bumpy. It is not a smooth ride. So, we're going to be getting some more information on inflation in the next few months. It will include some monthly indicators which can be very volatile. It will include some quarterly numbers. What we'll be looking for is continued disinflation in those. If that starts to reverse course in a trend sense and we start to see some of the easing in prices we've observed start going back up again then that is going to be something that the Board will seriously need to consider.

### **Juliette Saly, Ausbiz**

He stole my question. I was going to ask that because Warren Hogan has been one of the people that has been very critical saying you'll lose credibility if you do cut today. With that in mind and just off the back, what other factors including from offshore with these tariff threats could force your hand to re-raise rates?

### **Michele Bullock**

So, the tariff threats and what's going on overseas, it's very uncertain and probably even worse it's unpredictable. So, we don't know exactly what's going to happen. So we can't make specific plans. What we probably can say is that in a particularly bad case it would be bad for economic activity around the world and possibly China and that wouldn't be good for us. What it means for inflation is slightly different because it could mean higher inflation in some countries due to tariffs. So, it very much depends on how it plays out, in terms of - well, what actually gets implemented and then how people respond to those things. But I think we are thinking about it in the longer term. We're trying to not focus on the noise. We're trying to think, well, what sort of things might impact activity and impact us and what might the impacts be on inflation. So that's sort of the things we're thinking about. We really don't know yet. It's still a movable feast.

### **David Taylor**

David Taylor, ABC. A lot of this stuff goes over people's heads and there are a lot of people listening and watching now and will be very pleased they got a rate cut and all four banks have moved. I get the sense millions of borrowers, because you're the public face of this, they want hope from you. You can't give forward guidance; outside of forward guidance in really plain speak, can you give millions of households some hope now, the households that are really struggling to make ends meet, in terms of their mortgage repayments?

### **Michele Bullock**

I can't tell them what will happen, but the point is we have made one cut and at the margin I understand that will be helpful for some people. But I want to come back to the point I was emphasising earlier, and we focus a lot on mortgage holders, and yes they are hurting because



interest rates have risen so much from the emergency lows during the pandemic, but the fact that prices have gone up by 18% over the last couple of years is hurting them. It's hurting all of the renters. It's hurting all the low-income people. It's hurting everyone. So, it's really essential we get that under control. And that will mean that we can return to more normal levels of interest rates. I don't know what they are. But what I can say is they won't be the levels of interest rates they were during the pandemic. They were emergency low interest rates. They will be above that. How much below where they are now? I couldn't tell you and it will all depend on the success in getting inflation down.

### Nic Fildes

Nick Fildes from the *Financial Times*. I just wondered now you have cuts in an election year, are you concerned about further cost-of-living relief measures or promises and whether you factored them into your forecasts for the coming year?

### Michele Bullock

So, what we factor into our forecast is what's publicly known about public expenditure and as you will have seen in the *Statement on Monetary Policy* today, with the assumption of the cash rate target we see inflation declining to within the band but not quite back to the 2.5%. So, I have no further knowledge of what might happen in terms of cost-of-living relief and so on. Cost-of-living relief I should point out is really helpful for households because it does help the financial pressures they're under, so it's important but it does mean that sometimes reading the inflation numbers are a little bit more difficult. It makes them more volatile. So, we can't guess what they might do. All we can do is take what is given to us and use our instrument, which is the interest rate to best meet our target which is the inflation rate.

### Jennifer Duke

Jennifer Duke from *Capital Brief*. I'm going to extend on from that question. Clearly economists all seem to think there's a big surge in spending coming over the election campaigns on both sides of the aisle. Did that give you any reason to pause today and yesterday during the Board meeting and do you have any thoughts on whether those things could be inflationary down the track?

### Michele Bullock

The Board basically considered what it knows at the moment. It doesn't speculate on what governments might do. Politics does not enter the conversation. It's purely based on the data and what we know at the moment. If that changes then we have other meetings to consider what changes.

### Stella Qiu

Hi Governor. Stella Qui from *Reuters*. With inflation slowing don't you need to keep cutting to stop real interest rates from rising, and if you don't cut in April does it mean policy will be more restrictive by then?



## Michele Bullock

Inflation, the forecast for inflation at the moment is that - well, we've got headline and we've got underlying. I think underlying is the better measure of the pulses. Real interest rates are about expectations in inflation. They're not actual inflation. And we know that expectations - inflation expectations - at the moment are pretty anchored at around about 2.5%. So, it's not mechanical in the way that you've described it.

## Michael Pascoe

Governor, Michael Pascoe, *Michael West Media*. This time last year the *Statement* said it is possible we are at full employment but it's not probable. 12 months of roughly 4% unemployment, 12 months of falling inflation, now the *Statement* says it's possible the bank got it wrong. It doesn't actually use the word wrong. Underestimated capacity. And yet sticking with the estimates. How many months does it take before the bank will admit it's wrong and perhaps accept that full employment is 4%?

## Michele Bullock

Well, full employment is a very nebulous concept. I don't think you can put a number on it like a lot of people try to do. What I would say is that we are at the moment pleasantly surprised by the fact that we've got unemployment still at 4% and what looks like a strong labour market at the same time as we've got inflation falling. There are some factors that are playing into that. As we said, we're seeing housing costs start to decline. We're seeing margins constrained. Now, there is a question about whether or not the strong labour market, in fact, helps consumption to rebound, along with the rebound in real incomes and that stalls some of this compression in margins. Perhaps that's occurring and keeping inflation a bit lower. So, I think the jury is still out, Michael. I think - but we are as you would note, we are alert to the fact that full employment could be much higher and still have a relatively sustainable low inflation rate than we've currently got in our sort of thinking but, again, we look at all sorts of things in the labour market. We don't just look at one number. I really want to impress that upon people. It's not just one number. We've got record participation rates. We've got underemployment coming down as well. We've got lots of job vacancies. So, these are all things that are telling us the labour market is really healthy. And if it turns out that we can continue with that and get the inflation rate continue to come down that's a great thing. I'm not begrudging that at all. That would be great.

## Millie Muroi

Hi Governor, Millie Muroi from the *Sydney Morning Herald* and *The Age*. The Government has been claiming a fair bit of credit for getting inflation down back towards the target. How much of the fall in inflation do you think is actually due to Government policy and their decisions?

## Michele Bullock

Look, monetary policy and fiscal policy are two different arms. They both work independently. The Government has their role to play, and we have our role to play. It's not just interest rates.



There's been a number of things happening with inflation coming down. One is that supply chain pressures have eased so some of the supply side has eased and that's allowed prices to come down. I'd say the impact of interest rates on demand has clearly been there as well. I think we are succeeding in the mix of policies that we have got to bring inflation back down at the same time as we're maintaining employment. I think that's actually a really positive outcome. It's two independent arms of policy but they're each doing their own thing.

### **Cameron Micallef**

Hi, it's Cameron from *Newswire*. Just a quick question, Phil Lowe once said he was getting hundreds of letters from mortgage payers who are struggling with their mortgages. Are you receiving anything similar, and if so, what's your message for Australians?

### **Michele Bullock**

I do receive similar messages. My message has been in the past and continues to be, I understand that you are hurting and I understand that mortgage rates have increased a lot and you are finding that hitting your disposable income, but we need to get inflation down because that's the other thing that's really hurting you, and if we don't get inflation down then interest rates won't come down, and you'll be stuck with inflation and high interest rates. So we have to be patient. I understand it hurts but it's really important that we get inflation down.

### **Michael Janda**

Governor, Michael Janda from *ABC News*. To what extent do you think interest rates and monetary policy have been responsible for the massive run up in house prices in Australia over the past three decades and are you at all concerned that today's rate cut might spark the next leg up in that house price boom?

### **Michele Bullock**

Wow, that's a historical question, Michael. We've done a little bit of work on this. I mean, household debt in Australia has risen a lot over three decades and there's been a number of factors that have gone into that. One is that inflation has come down, so interest rates have come down, so serviceability has gone up, so that's been really important. The second thing is that we deregulated the banking system so people were credit constrained. They couldn't get access to credit so that was really important as well. So, you don't like credit constraints normally so it's a good thing they're off. The bottom line though on housing prices is it's the interaction of supply and demand. So, we can talk about an historical run up in housing prices and if you compare it to household disposable income it's risen substantially as well. But this is the interaction of supply and demand. So, we can't just talk about lower inflation, lower interest rates, increasing serviceability to add to demand because at the same time we've had a long-standing problem with supply of housing in Australia. We've talked about this at previous press conferences but really the gist of the housing price problem comes down to a mismatch being supply and demand. That's what it comes down to. So, I don't think you can blame monetary policy on this and certainly I don't think 25 basis points makes a huge



difference to the serviceability for people in these circumstances. So, we're focused on inflation, not housing prices. If you want to fix housing prices you've got to go to different policies.

### Jonathan Shapiro

Jonathan Shapiro from the *Financial Review*. You mentioned earlier that even with your market projection of interest rates the inflation rate still won't be returned to your target midpoint, and then you said that those market projections seemed overly optimistic. I guess in that context, why have you decided today to cut interest rates?

### Michele Bullock

Because we have seen good progress in inflation and we're getting a little bit more confident that we're going to be backed sustainably in the band. I've also said that we don't have to be back in the band before we start cutting interest rates. We're around about - where we are relative to our target, in terms of inflation, is around about where other countries were when they started cutting interest rates. So, I think there's some sense in which we're not out of whack there which is good. I think also that - and remember I made this point before. We're removing some restriction. We put on some extra restriction in November '23. A lot of people thought that was overdoing it. Some people didn't but other people did. We've taken that off now. We still think we're restrictive and if we're still in restrictive territory that's still exerting downward pressure on the economy and on inflation. So, I think it's - the other point I would make is that - and we've made this point a number of times, is we didn't go as high as other countries. They've cut quite quickly. We can still possibly cut but we may not have quite as much room to go because we didn't go as high in the first place. So, we can cut because we've been restrictive, we're still restrictive, and it's a recognition that we've got some good progress in inflation and monetary policy works with lags and we want to make sure, if we can, that we don't miss the turning point.

### Frances Du

Hi Governor, it's Frances from *Bloomberg*. Can you please explain why the GDP growth is so weak through to 2027 and why are we not seeing a 3% or higher growth rate?

### Michele Bullock

Well, consumption is recovering but it's not recovering as strongly as we initially thought it would. We still have it recovering reasonably slowly until the next - and that's a big driver of GDP growth. So, I think it's really on the basis that consumers still are in - we're still in restrictive territory with consumption. We still have interest rates and restrictive territory so that's still bearing down on consumption. It is going to recover as real incomes recover, but we don't think it's going to be a massive increase in the growth rate in consumption. It will recover but it's not going to be a big driver of a massive increase.



### Michael Heath

Governor, Michael Heath from *Bloomberg*. Just inspired by the *Australian Financial Review* so asking again. Just wanted to telescope ahead a bit to next month's meeting when obviously the system will change and potentially we'll have votes. Was today's decision unanimous and did you argue for a rate cut?

### Michele Bullock

I think the Board would allow me to say yes that it was consensus. There was a consensus.

### John Rolfe

John Rolfe from the *Daily Telegraph* and *Herald Sun*. Early on you said three more cuts by the middle of next year was far too confident, I think later on you said unrealistic. Financial markets heading into today had one cut priced in by July, is that also unrealistic?

### Michele Bullock

Everyone always wants forward guidance. I don't want to say it's unrealistic and I don't want to say it's realistic is the bottom line. I don't know. We've just cut for the first time. We want to see more information on particularly inflation and the labour market before we decide what we do next. We do think we are restrictive but as I said earlier, we didn't go as high as other countries so we're probably not as restrictive as some other countries have been. So, we are trying to balance here. It's the narrow path. I haven't mentioned that term yet but there you go, the narrow path. And I just think as you get further out the forecast just gets so uncertain. And I think my point would probably be that the market has probably got more confidence than I do that that path is what path is going to deliver us sustainably back to the middle of the band. I don't have that confidence yet. The market clearly have some confidence in it, but I don't.

### Tom Richardson

Hi Governor, Tom Richardson from *Livewire Markets*. You've updated your forecasts for trimmed mean inflation to fall to 2.7% in the June 2025 quarter, I think you touched on it earlier and for that to remain at that 2.7% level right through to June 2027. If we assume those forecasts are on the money, is it fair to say you must feel optimistic about the Australian economy today?

### Michele Bullock

Well, I think we do feel optimistic but we're also alert to the risks. So, the point is that with those forecasts it does come back to 2.7. They're very uncertain as we go further out. If it eventuated like that, which it probably won't, that won't get us back to the middle of the band. As I said earlier, we do want to aim at the middle of the band because it gives us the best chance of staying within the target range. That's still the aim. The point really was that the current market path that gets us there only gets us to 2.7. So that makes us alert to the



risk that if we cut too much and too soon then we mightn't get back to the middle of the band. That's how I would describe that.

### **Jonathan Barrett**

Thanks, Governor. Jonathan Barrett at the *Guardian Australia*. You said the decision wasn't a lay down misère. What was the strongest argument against it and how much credence do you give to that argument personally?

### **Michele Bullock**

Some of the stronger arguments were based on the labour market basically. Uncertainty about the labour market. We have a view that the labour market is tight and also that it has tightened recently. So, one of the stronger arguments, I think, on the side of not doing anything was caution; let's wait for more data to see what exactly is happening to the labour market. Is that feeding through to wages pressure, and is it feeding through to inflation? So that probably is the strongest argument, and I think when you hear us talking about it in the *Statement on Monetary Policy*, or read us talking about it, you'll see that the labour market does feature quite prominently there. It is something that came up a lot. We did talk about - to Michael's question earlier - we did talk about the fact that it doesn't seem to align with what we might have expected to happen. So, we are continuing to challenge ourselves on that. We are continuing to engage with others outside this organisation who have quite different views than us, because I think that it is worth really checking ourselves on this and making sure that we really are certain that we have a good idea of how tight the labour market is and what the implications of that might be. If we can have a tight labour market but it doesn't, for some reason, feed through to inflation and wages then it's positive. That's the million-dollar question. Thank you.