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Michele Bullock

Governor

Transcript

Michele Bullock

Well, good afternoon. You'd think I would get used to this, wouldn't you? Thank you all for coming again.

So, the Board's had a good discussion over the past couple of days and I think the truth is that we're at a really complex part of the cycle at the moment. As I've said before, we're looking to bring inflation down to target while maintaining the gains in the labour market that we've seen over the past couple of years. Inflation's come down a long way since it peaked in 2022, both in Australia and overseas, and part of this was the resolution of supply chain issues and also energy prices easing, which has helped, but it also reflects the tightening of monetary policy all around the world and that's helping to dampen demand. That said, inflation is still above central bank targets in many economies and it is proving to be sticky. And the progress in getting inflation down has slowed and Australia isn't any different here.

Since the previous meeting, we've had March quarter national accounts, which has told us a few interesting things. First, the March quarter consumption data and upward revisions to its history mean consumption growth has been a bit stronger than we thought and the savings rate a bit lower. At the same time, I think you'll all remember that GDP barely grew in the quarter and consumption per capita continued to decline. We do expect that household real incomes will rise later in the year with tax cuts and lower inflation, so it is possible the consumption growth will also be a bit stronger. But we also know many households are really feeling the impacts of high inflation and higher interest rates. And as I noted earlier, on average households have reduced their saving rate by more than we thought to support their spending. It's tough just to keep up with essentials – groceries, petrol, health, education, rents, insurance expenses, I could go on, they're all going up.

On the other hand, the labour market conditions are quite strong. The unemployment rate published last week was at 4 per cent for May. Employment is still growing. It's just growing a bit more slowly than it was a year or so ago. This is important for the other part of our mandate because people having jobs is critical to them being able to meet the challenges of the higher cost of living. Wages growth in the March quarter was a bit weaker than expected and we think it's likely to have passed its peak for the current cycle. The growth of unit labour costs was still a bit high.



The monthly CPI Indicator for April was stronger than expected. However, there's been limited information about services inflation since the May Board meeting. And this is where the most recent strength has been coming from. So really, we need to get more comprehensive readings on inflation before we can get a handle on the momentum in services inflation.

So, what does this all mean? Well, the recent data have been mixed but, overall, they reinforced the need to remain vigilant to the upside risks to inflation. We still think we're on the narrow path. It does appear to be getting a bit narrower. We need a lot to go our way if we are going to bring inflation back down to the 2–3 per cent target range. The Board does need to be confident that inflation is moving sustainably toward target and it will do what is necessary to achieve that outcome. So, on that note, I'm happy to take your questions.

Stella Qiu (Reuters)

Hi, Governor. Did the Board discuss the case of a rate hike at the meeting this week and was the upward revision to consumption a reason for that even though consumers actually spent a lot of the money abroad?

Michele Bullock

So, yes the Board did discuss the case for increasing interest rates at this meeting. In the end it decided that its current strategy of staying the course and trying to bring inflation back down by bringing supply back to demand was the right way to go. Some of the things, though, that are on its alert list, consumption is one. You can think about the national accounts in a couple of ways. One is that people are saving less to support their consumption because they're very confident about the future. The other way you can interpret it is that people are really hurting, and they are not saving as much and they are really struggling to make ends meet. That doesn't bode so well for consumption, so I think there's different ways to think about that.

Nadia Daly (ABC)

Governor you recently said that Australia remains on the narrow path of lowering inflation without a recession. If you have to hike rates again, does that risk knocking us off that path?

Michele Bullock

Well, I mean that would be the decision we'd be taking if we were raising interest rates. We would be making a decision about whether or not we really needed a higher rate to bring inflation back down in a more timely fashion. Again, though, the narrow path point is about trying not to knock us off that, and we are really, as I've said before, trying to bring the level of demand back down to the level of supply so that there aren't those inflationary pressures in the economy. So, we're aiming not to do that.



Peter Hannam (The Guardian)

Your predecessor Philip Lowe has said among the future inflation sources would be the energy transition. It's obviously going to cost money to get the off the fossil fuels we've had. In your view, all else being equal, would ditching 2030 emissions targets and later attempting to flick a nuclear switch stoke inflationary pressures by adding uncertainty for investors?

Michele Bullock

Peter, that's a very interesting medium-term question and my focus at the moment is we've got an inflation problem now and I don't think the energy transition is something that's stoking things right now. Government policy on what they want to do with energy transitions is quite rightly for governments and we will deal with anything to do with inflation in the context of that but I really think it's a medium-term issue.

Cécile Lefort (AFR)

The ECB and Bank of Canada have eased. Does it make your job a little easier or perhaps the opposite, a little more difficult? What are your thoughts on that?

Michele Bullock

I don't think it makes it easier or difficult, necessarily. They are easing for different reasons; they're focusing on the domestic conditions. In Canada, for example, the unemployment rate is up above 6 per cent now. Their inflation rate, because they've got a bit more spare capacity now, their inflation rate is coming down a bit more quickly. They increased interest rates before we did. So, I think they're reflecting their domestic economic conditions. I think the other point about Canada – and they would make this point as well – is that they're not saying that they're still not tight, they're just less tight than they were. So, they're sort of easing their tightening.

The ECB similarly, I think they've got their own things going on in their countries. They have had fairly weak growth over a decade or so now, post GFC. So, they've got some other challenges that are associated. I can, sort of, see why they would be doing things that are slightly different from us but we've got our own focus on our own inflation challenges and our own domestic economy. I think that, rightly, has to remain the focus for us.

Edward Boyd (Sky News)

How many more inflation rates do you think you are going to need to see before you think about potentially reducing interest rates? I note the next meeting is in August. There is one economist suggesting that could be a live meeting where you might potentially lift rates and your language today actually changes at the end of your statement. You've reinserted the line 'do whatever it takes' for the first time since February. Is that significant?



Michele Bullock

So, I think the Board in its statement today, and in sort of deputising me, if you like, to come and speak with you, they wanted to make the point that they are alert to the potential upside risks. And there are a couple of things that haven't made them jump the gun – they've left things on hold – but there are a couple of things. One was the monthly CPI in April. It was a bit higher than expected. It's only a monthly CPI, it doesn't give you a full picture of things. The consumption things were a bit on the upside as well. As I said, a bit hard to know how to interpret it but a few alerts to suggest we might need to remain vigilant. The CPI for the June quarter is going to be important in looking at how the trajectory for inflation is going. The challenge for us, which is almost unique to us, New Zealand is the only other advanced economy I can think of, we only have quarterly CPI. It is very difficult to get a read on momentum. So yes, the CPI will be important for the June quarter but we're going to have to look at other things as well. We're going to have to look at the unemployment situation, the employment data, the suite of employment indicators that we have, which you see now in the *Statement on Monetary Policy*. I wouldn't say there's a particular number of times we need to look at CPIs. We're going to be looking at all sorts of data as it comes through, but the June CPI is going to be an important one because it's going to give us a much more comprehensive view of what's going on.

Chris Kohler (Nine News)

Consumer sentiment figures are the weakest now that they've been since the early '90s and before that the mid-'70s. This is not a recession, but do you see that that is the mood in Australia at the moment, that the feeling is exceptionally grim? And I guess the question is: can households last as long as you might need them to?

Michele Bullock

A few points. Yes, it is exceptionally weak and that's reflected in the fact that per capita consumption is declining. It is reflected in the fact that discretionary expenditure is not really going anywhere, it's been reasonably flat. It's reflected in the fact that people are really feeling interest rates but they are also feeling inflation. So that's across the board. Consumer sentiment is, one, a reflection of interest rates, it's, second, a reflection of inflation, I think. But the thing that's actually really quite positive is employment. While everyone is a little bit down in the dumps, I think it's also true that they've got jobs and I think that's really important for the future. Now, our forecasts see with tax cuts coming, with inflation declining, that real income is going to start to rise again in the latter part of this year and into next year. And I think that will help people's confidence; that they will see their real incomes rising. I think that will be important.

Joe Kelly (The Australian)

There's a sentence in the statement today where the Board says that recent budget outcomes may also have an impact on demand. Can I ask whether the Board is concerned that recent federal and state budgets have been expansionary and whether that is making it harder for the Reserve Bank to get inflation under control and back to target? And specifically whether



there are any particular measures in recent federal or state budgets that you are particularly concerned about in that regard?

Michele Bullock

I think the conversation of the Board today wasn't specifically on the budgets but on the total context. I don't think it's very helpful to think about the budgets in isolation. You need to think about them in the context of what else is going on and, as we saw, GDP is absolutely not growing at all, private investment, dwelling investments. So, there is a whole lot of stuff going on in the rest of the economy. So I think from the Board's perspective, that's one piece of information. We've got all this other information that we've got to take into the context. And at the same time then when we do our forecasts in August, then we'll be able to take that holistically into account. I think that's more appropriate way to think about it – holistically rather than taking one element and saying is it going to be expansionary or contractionary. I don't think you can do that. I think you've got to consider it holistically.

John Rolfe (The Daily Telegraph)

You mentioned that the case for a rate increase was discussed by the Board. Was a case for a cut considered and is the likelihood of an increase in rates increasing?

Michele Bullock

No, the case for a cut was not considered. I think I should say, because I haven't said it yet today, we're not ruling anything in or anything out at the moment. I wouldn't say that the case for a rate rise is increasing. What I would say – and I think we tried to reflect this in the statement – is that there's been a few things that have made the Board alert to the upside risk. I wouldn't say it's increasing the risk of an increase, but it is a bit more focused on that and I think that reflects the fact that if it looks like inflation is not coming sustainably back in the band within a reasonable amount of time, that just increases the risks that inflation expectations will adjust and that will make it harder to get inflation down in the future. So that's really the crux of it.

Deb Knight (9 Radio)

So, no change in rates since November last year and households and businesses, a lot of them desperate for an interest rate cut. Does it feel for you and for the Board a bit like Groundhog Day here? What do you say to the Australians who are thinking: 'What the hell are you doing? Why is nothing working?' And when can you tell them that they can expect some relief?

Michele Bullock

I can't tell them when they can expect some relief. What I can say to them is I am very conscious that the high interest rates are hurting particular sectors of the economy more than others. The interest rate is the only tool we have and it's a blunt instrument. I do understand it affects different people in different ways. It is our only tool to bring inflation down and, again, what I would say and I've said it a number of times before, is that interest rates are



part of what's hurting them but inflation is really hurting them. Businesses are feeling it because all of their input costs are going up and if they can't pass it on that's obviously hurting them. Consumers are feeling it when they go to the supermarkets. So, again, I can't tell them when we will bring interest rates down, but I can say that my laser focus and the Board's laser focus is bringing inflation down and that will help them. That will really help them.

Michael Janda (ABC)

Governor, construction activity is still reasonably strong as projects that were already in the pipeline get completed. But there's not a lot of new work coming into the sector. Are you worried that this is emblematic of the broader lags in the economy in the transmission of monetary policy and that perhaps the economy might snap later this year when the downturn in new orders catches up with economic activity?

Michele Bullock

I hope it won't snap. That's not the aim. But you have highlighted one of the points where we're a bit wary. We talked a little bit earlier about budgets and so on. There's other things going on, and you've highlighted one of them, which is the lack of a construction pipeline. It is quite possible that the private sector will turn out to be not driving demand very much in the following year. So there is a risk that that has an impact on employment and, therefore, if that happens and it does happen more quickly than we expect, then rate cuts will be on the agenda. So, again, not ruling anything in or out. It will depend very much on what happens and happens on the private side of the economy as well as the public.

Millie Muroi (Sydney Morning Herald)

What are you expecting Australians to do with the stage three tax cuts that come into play from July 1?

Michele Bullock

That's a very good question, Millie. I think it will depend very much on who, but I expect some people will welcome it as an opportunity to meet some of their cost-of-living pressures that they have been under for some time. So, I fully expect that. Some people will save some of it. What we do observe in the data is that people who have mortgages – on average, not all – but people on average who have mortgages tend to try and put more into their offset accounts and their redraw facilities because they're paying quite a high interest rate now on their mortgage and so they want to offset it. I expect some people will do some of that as well. I expect it will be a mix and we won't really know. But I have no doubt there will be some people who will be really, really using it to meet their everyday expenses.

Karen Maley (AFR)

You say in the statement that inflation is taking longer to come down than you expected. How do you explain this to the Board? Is this a problem with your forecasts or have there been



more expansionary budgetary conditions than you expected? Or is it the fact it's an ageing population and a richer population keeping on spending? How do you account for this?

Michele Bullock

This is a difficult question. The first thing on the forecasts, I suppose, I would say is that forecasts are inherently uncertain and it's very difficult, and anyone who thinks that they're very certain about their point forecasts, I think is really not being very honest. So, it's coming down a bit slower than we expected and I think that's reflective of the fact that we think aggregate demand is still above aggregate supply and that's what's keeping inflation a little bit high. So, if you think about it in terms of input costs, we talk about input costs for businesses and so on, when demand is quite strong, businesses can pass that on but when demand isn't strong – and the total level of demand I'm talking about here – then it gets more difficult to pass it on. That's what brings pressure to bear on inflation to bring it down. We don't have any specific things we can point to but what we can say is that the evidence on inflation is that it's telling us that demand is still a bit too strong. Your point about distributional things, yes, I have no doubt there are distributional issues going on here. Back to the point that monetary policy can't do anything about that, it can only focus on bringing aggregate demand down.

Sarah Allen (Livewire Markets)

There are increasing signs of global recession risks like weaker US growth figures especially for the consumer. Are you concerned about a domestic recession?

Michele Bullock

Interestingly, the world economy we think actually probably has troughed now. We think that it won't actually go down further. Sort of answer similar to what I answered before, which is the point of the narrow path is to try to avoid recession here and that's still our aim. The aim is, as I have said earlier, bring inflation down and try and maintain as many of the gains in employment as we've had over the past year or so as we can, and keep employment growing to the extent we can. That's not a recession, so that's not what we're aiming for. So I would say that that's not what we're going to see, but as I said earlier and as was brought up by others, there are some risks on the downside, so we've got to be really alert to them. If they look like they're materialising then that's when we have to think about whether or not we have to loosen monetary policy.

Swati Pandey (Bloomberg)

My question is on the use of the word 'vigilance'. One economist pointed out that the ECB and sometimes BoE use the word vigilance to signal to the market that an interest rate hike is coming. Given that you have somebody from that region now on your Board, is that a deliberate use of the word? Thank you.



Michele Bullock

No. No, you do not interpret vigilance for an interest rate rise is coming.

Jassmyn Goh (Capital Brief)

Do you think that the inflation cost-of-living battle has meant that other economic concerns such as productivity has fallen by the wayside in public debate?

Michele Bullock

I actually think productivity is pretty forefront of the public debate actually. It gets talked about a lot because it's actually really important that we have productivity growth if we are to grow the pie, if we're going to end up with better living standards into the future. I think it's still there. I think it might have got a little bit lost in the general discourse, but I do feel it's still very much in the minds. It's certainly very much in our mind because it's important for a potential inflation outcomes. And I think it's also very much in the minds of governments as well. But to your point, it's possible, I think, that because of everyone's concerns about the here and now, that the looking forward has lost some focus.

Juliette Saly (AusBiz)

Just picking up on that because you do say that productivity growth needs to pick up in a sustained way if inflation is to continue to decline. You just said as well you're trying to keep employment growing. What's the impact of the migration picture, particularly when we're seeing a lot of concerns with sticky inflation like rents in capital cities being driven to?

Michele Bullock

A couple of points about migration. The first is that yes, you have got more people and that adds to demand but it also adds to the supply side of the economy. We've been able to grow employment quite strongly and you might recall that a year or so ago there was lots of vacancies that people couldn't fill. There just wasn't people to fill those jobs. So that's meant that we've been able to supply more goods and services because we've had more people coming in to provide those goods and services and work in those areas. So, I think that's really important to understand. I think productivity is not linked to migration per se, I don't think. I mean, I'm not a productivity expert. Danielle Woods is the person to speak to on productivity. But I think the issue with migration has been that because it's been so up and down, because of the pandemic, it's just caused congestion and the housing market is a very good example of that. Although it's added supply on labour market side, it's actually put pressure on the capital stock and the particular bit of the capital stock that's really evident is the housing market. It's not just that, though, because I think we found rents were rising before immigration started to go up. It's exacerbated it, but it isn't the whole issue.



David Taylor (ABC)

How will you know if inflation expectations become unanchored? What data will you know to say 'look, it's running away from us' and you will have no choice to raise rates at that point. When will you know ... how will you know inflation expectations are actually unanchored?

Michele Bullock

We monitor this quite a lot, David, and there's a number of sources of information. We have survey information on households, inflation expectations, unions, we also have information from financial markets. So financial markets, they're like the people that put their money where their mouth is. They're investing in bonds and they have an expectation that they need to get compensated for future inflation. So, we look at those very carefully and our analysis of those suggests at the moment that they remain anchored around the middle of the band in the medium term. Now, that's not to say that people's expectations of inflation in the next quarter or the next month mightn't rise because people place a lot of emphasis on things they are observing immediately at the moment. Fuel prices, insurance, rents, these sorts of things. But at the moment we've got quite a lot of information that suggests to us that they do remain anchored.

David Taylor

Are you worried about it?

Michele Bullock

We are not worried about it at the moment. We think the risks of it getting away are low. We think at the moment they're anchored but we're very focused on it and look at it very regularly.

Jonathan Shapiro (AFR)

Given the Reserve Bank did not raise rates as high as other developed market central banks and as today's statement seems inflation is proving more challenging than you initially assumed, do you and the Board think there appears to be potentially a net cost of not having raised rates higher than the RBA did, rather than a benefit?

Michele Bullock

No, we don't. We do feel that there is a genuine narrow path here to bring inflation back down without having unemployment rise very sharply and people lose jobs. We do think there's a genuine path here. So, we haven't raised rates as much, that's true. But we still think our financial conditions are restrictive and they're particularly restrictive on households. And we do observe that inflation is coming down. Maybe it's coming down a bit more slowly than we'd like but it is coming down. We are observing the labour market ease. So, we're seeing all the right signs and, again, that's what the narrow path is about. We're trying to do it without having a recession. Other countries have made different decisions and think they need a recession to do it. We're trying to do it without having a recession.



Sophia Rodrigues (Central Bank Intel)

Last month a key assumption to your forecast was that saving rate would continue to rise and consumption would grow slowly. We have already proved to you that we are spending. On top of that today's statement had a few upside risks. One of the interesting ones was your mentioning increase in wealth driven by housing prices. I have noticed that after, I don't know how many, probably four or five statements. So given all this, why are you still reluctant to open the door for a rate hike?

Michele Bullock

You've highlighted an interesting conundrum. Initially when we were forecasting consumption, we were a bit puzzled for why consumption wasn't higher because real incomes were starting to rise as inflation was coming down and also wealth, there is normally a wealth effect in consumption, and we weren't observing that in the data. The models were saying it should be going up and we were saying, well, we'll have to sit on the models. In a way, the new data has resolved that conundrum for us. There is consumption going on, savings is lower. But to my point earlier, there are different ways to interpret the fact that savings now is lower. People are still saving, they are saving less than average. One interpretation is to say, well, people are feeling pretty confident – 'I've got a job, I'm just going to spend more because I can and I feel confident about that'. But the other interpretation, as I said earlier, is that, in fact, people are hurting and they really want to save but they're finding they can't. And if that's the problem, then that doesn't bode as well for future consumption. It depends a little bit on the way you interpret the numbers, I think, but it does resolve what was a conundrum for us for why consumption wasn't a little bit stronger in the past.

Michael Stutchbury (AFR)

Following a bit from Karen's question, I imagine you must be thinking about, you know, if inflation remains sticky towards the end of the year and by the end of the year you're forced to tighten, that will be quite a step to do after waiting so long and would raise questions about the inflation forecasts. Given all that would you consider at all using the power of persuasion or the jawbone to encourage Baby Boomers who are a bit more cashed up not to quite spend as much, to encourage state governments not to employ those people on the jackhammers out there outside the building or to bring back infrastructure projects a little bit more? Maybe that would help?

Michele Bullock

Well, hopefully some of what I'm doing now is trying to bring this home to people that while ever people are spending a lot ... Again, back to my point, though, there are distributional issues with monetary policy. We know that. I really genuinely feel that we're in quite a complex situation here. I know that there are people out there who have much more definite and they seem much more convinced that they know exactly what to do. It's not as easy as that. It's a challenging time and the reason it's a challenging time is because we've got balancing risks on both sides here. As I said earlier on when we were raising rates it was quite obvious what we had to do; it's not so obvious now. I can jawbone like this – I can explain to



people, if you like, that part of the reason why inflation is holding up is because demand is holding up. Maybe they can take that home and think about how they're contributing to that, I don't know. But certainly, I think, we do believe it's working but it's going to be a slow grind to bring inflation back. We're still hoping, forecasting to have inflation back down into the band by the end of '25 and then '26 we'll hopefully be tracking to the midpoint of the band. That's still what we're forecasting. But again, we've got a new round of forecasting in August. We're going to have to take into account a lot of the new information from the National Accounts, the budgets, the labour market and new inflation information and that's going to inform where we think we're tracking.