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Michele Bullock
Governor

Transcript

Michele Bullock

Thank you all for coming. As you will have seen the Board decided to hold its policy rate steady again at this meeting. A few points I would like to make up-front before I move to questions.

First of all, we're making progress against our fight against inflation but it does remain high. As we've discussed before, in fact at this previous press conference, it really is the big challenge in front of us. It confronts borrowers, renters, savers, retirees. It hurts everyone – inflation – and that's why it's important we get inflation back into the target band of 2–3 per cent. Recent data suggests we're on the right track but the interest rate path that best ensures we bring inflation back to target does remains uncertain.

We're keeping a keen eye also on employment numbers because as I have said before, we want to hold on to as many gains in the labour market as we can.

What we need is greater confidence that inflation will return to the target band in a reasonable timeframe and will stay there.

So, domestic data over recent weeks has been largely as expected. The Board believes the risks to the outlook are finely balanced and that it's too soon to rule anything in or out. The data showed a slowing in GDP growth in the December quarter, slightly higher unemployment rate, slightly higher wages growth and a further moderation in inflation.

We understand that households are still bearing the brunt of this inflation challenge. We see that in the weak consumption data. We know that there is a big cost-of-living squeeze on households.

Unemployment has also ticked up a bit. Employment is continuing to grow. But these are firmly on the Board's radar and that's why we're being cautious. Wages growth picked up a little further and it's expected to moderate but it may take some time.

There has been little new information on services inflation which is where the recent pressures have been. This strength has been because demand continues to exceed supply in the economy. Although there are signs this gap is closing and we're moving towards a better balance in the economy, things remain uncertain. And the other thing I would add here is we have seen overseas it can be a bumpy ride on inflation.

So today, as I said, the Board decided to hold rates at current levels. To the future, we still have to get inflation down and the risks to achieving that remain finely balanced. The war isn't yet won. So, we continue to be vigilant and we can't rule anything in or out. With that I'm happy to take your questions.

Edward Boyd (SkyNews)

There's a subtle change of language in the statement today. The phase of 'further increase of interest rates cannot be ruled out' has been replaced by the phase 'the Board is not ruling anything in or out'. Has your hiking bias been removed? Are you taking rate rises off the table for now?

Michele Bullock

As the statement said, we're neither ruling it in or out. We have changed the language, that's true, but that was in response to some data which has demonstrated to us that we're still broadly on the path we thought we were on. So, we're not confident enough to say we can rule out further interest rate changes, but we do think we're on the path to get ourselves back to inflation in target within our forecast period.

Michael Janda (ABC News)

The RBA's latest forecasts have unemployment reaching 4.2 per cent by June and 4.3 per cent by the end of this year. It already hit 4.1 per cent seasonally adjusted in January. What level does the unemployment need to reach to concern the Reserve Bank and have you considering interest rate cuts?

Michele Bullock

The unemployment rate does bounce around a little bit from month to month and as you know, it's not the only thing we look at here. We look at a range of employment indicators, including things like hours work and including importantly the underutilisation rate. Now, these things are all ticking up as well. The judgement at the moment is the labour market is still slightly on the tight side and that's on the basis that the unemployment rate is still much lower than it was pre-pandemic. It's risen from its trough, but it was far too tight then. We hear from business liaison that business are finding it a little bit easier are to get workers but there is it still some tightness there, and vacancies and advertisements are still slightly elevated as well. So, there are signs the employment market as a whole rather than focusing just on the unemployment rate is coming back more into balance, but it's maybe not quite there yet. I don't want to put a figure on the unemployment rate we would like to see. I think the unemployment rate is something that is mechanically going to rise as the economy slows. So, if you'll also see our forecasts, you will see employment continues to grow but it just doesn't grow quite as fast as the supply of labour. So that's mechanically why the unemployment rate rises. I think that we're focusing on that and if we can achieve that, with a slight rise in the unemployment rate while continuing to keep employment growing, I think we will have achieved our goals.

Cecile Lefort (*Australian Financial Review*)

Joining a little bit on Ed's question, analysts said that the Board has pivoted to a neutral bias. Do you agree?

Michele Bullock

Pivot – that word used to get used a lot in the pandemic; I haven't heard it so much recently. I think what the Board is doing is as it said and it's responding to data as the data come out. What the Board is saying is that there are risks on both sides of this and the risks are finely balanced. On the one hand on the upside, we still have inflation above target. And we know from overseas that it's a bumpy ride and we also know that services inflation is still elevated and that's proving difficult to get down. On the other hand, we're conscious that consumption is slowing a lot, that the unemployment rate – there are signs, that as I said earlier, that some of the tightness in the labour market is easing. So, you have got that on the downside. What the Board is basically saying is that we're uncertain, we don't know, we can't rule in or out either.

Tom Dusevic (*The Australian*)

Last week, we saw the Fair Work Commission grant a fairly hefty wage rise to aged care workers. Later in the year, we will see its decision in the minimum wage order. Given that's such a key component of services inflation, what are your forecasts factoring in for the wage rises you're expecting later in the year?

Michele Bullock

Our forecasts factor in wage rises that have been granted, not ones that are in prospect. The aged care piece, for example, would not be in our forecasts at the moment. But let me say right up-front that I don't think anyone would begrudge aged care workers a rise. They have been historically underpaid for the work they do. It's a very important job and there are shortages in those industries. So, I think it's a very worthy pay rise. I don't think personally, and I don't think our forecasts – when we do put it into our forecasts – I don't think it will make a measurable difference really to what we're forecasting. We might want to watch to see if that are some spillovers, but I'm not expecting that it's going to have a great impact.

Peter Hannam (*The Guardian*)

Just to clarify if you could, Governor, was a possible rate cut at all considered in this Board meeting? You did mention that you're looking for greater confidence that inflation is coming down. Specifically, what would it take, if you like, to get a rate cut as part of your consideration if you didn't do it today?

Michele Bullock

What we need to consider a rate cut is really to be much more confident inflation is coming back into the band in the future. And as you know, the central forecasts, have it not coming back into the band until 2025. So, if we were to see some acceleration and get some more confidence that we are overachieving there, then possible rate cuts might be something on the agenda. But at the moment, we're not seeing that. We're in a position where we're cautious, we want to wait and see. As I said, there are risks on both sides and we need to be conscious of that.

Deb Knight (Nine Radio)

With the announcement today from the Energy Regulator that power bills are set to fall for the first time in two years by as much as 10 per cent on the eastern seaboard, is that going to help the case for cutting interest rates later in the year to help bring inflation down? Or could it have the opposite effect? Could we see people with more money to spend, potentially undermining your efforts to get on top of inflation?

Michele Bullock

I think ultimately it will assist. One of the things we have observed with inflation rising quite sharply, a large part has been things like energy. And that not only impacts consumers, it also impacts all the businesses that rely on energy and that means that puts pressure on cost bases and then potentially also on the prices they charge. So, I think an easing in energy prices, even if it's just a stabilisation, it's not increasing anymore, that's a really positive for the inflation outlook. I think that is good news.

Chris Reason (Channel 7)

In July, we will obviously see a lot more money flow into the economy by the tax cuts from the Federal Government and also potentially from the May budget, we're going to see a lot more handouts etc. come through to the community as well. How much does government policy actually prevent the RBA from being able to initiate a cut to rate hikes?

Michele Bullock

Firstly, on the Stage 3 tax cuts, they are actually factored into our forecasts. So that's something that is already in there – we have already taken account of it in our settings on monetary policy. It's true that monetary and fiscal policy need to work together in some sense, so you don't want them working at cross-purposes. I would argue at the moment they are not working at cross-purposes. I think the Treasurer has said very clearly, publicly and he's certainly said to me that he is very conscious they have to be careful that they don't add to inflationary pressures. As we've talked about before, I think in this forum six weeks ago, ultimately what is hurting people at the moment is inflation. One response is to say let's give people more money, but if it doesn't address the inflation problem then it doesn't address the underlying issue for people. So, I think basically at the moment that monetary policy and fiscal policy are pushing in the same direction. The only other thing I would add there is that governments have a difficult job. They have lots and lots of competing demands on their purse and on their policies. I don't envy them their job.

Millie Muroi (*Sydney Morning Herald*)

We have had four quarters of slowing GDP growth. If GDP does turn negative, would the RBA have to consider a rate cut?

Michele Bullock

I guess the way I'd put it, Millie, is what we have been trying to do … we have a situation where aggregate demand has been above aggregate supply. The demand for goods and services in the economy has been above the ability of the economy to provide it and the big signal there has been services inflation has been one part of that. So, with demand slowing, it's slowing and it's bringing demand back more into line with where the economy can supply the goods and services. Ultimately that will be positive for inflation and when it is, then there are opportunities to consider whether or not policy can be slightly less restrictive.

David Taylor (ABC)

Governor, are you worried about the Australian economy?

Michele Bullock

I'm worried about inflation. I am watching very closely what is happening with growth in the economy. As I said earlier, though, I think it's really important here to distinguish between levels and growth rates. As we came out of the pandemic, demand just exploded and it was well above the ability of the economy to supply the goods and services. So, the slowing is something that needed to happen so we could bring those two things back. If our forecasts come true – and I really hope we're on that narrow path that Phil used to talk about – then we can slow the economy enough that it preserves a lot of the gains in employment and brings inflation down. And once we bring inflation down then, you will see in our forecast periods, what is happening then, is that real incomes start to grow again, consumption starts to improve again. So, if we can pull that off, then I think that will be great.

David Taylor (ABC)

Are you still firmly on a narrow path?

Michele Bullock

I still firmly believe we're on the narrow path and that's what the Board is focusing on. There are risks on either side. That's why the Board is being cautious on rates at the moment.

John Rolfe (*The Daily Telegraph*)

Governor, in retrospect was the November rate increase unnecessary?

Michele Bullock

No, I don't believe it was, John. I think it's a bit sort of dangerous to think about increments of 0.25, when really what it is, there is a cumulative effect of interest rate increases and I think we have to think about it in those terms. Having said that, it's also true our forecasts are predicated on an interest rate which is where it is now. And that's where the Board thinks at the moment interest rates are best. As I said, with a caution to both risk on both sides. Under those circumstances we think at the moment we have got the right level.

Stella Qiu (Reuters)

We just have a simple question. Did you consider the case of a rate hike at today's meeting?

Michele Bullock

There is never a simple question, is there? The Board basically considered what was best for this circumstance. Obviously, the Board considers a range of possibilities and the possibility a rate rise is something the Board may consider in terms of 'well, are we at the right spot?'. I think where the Board came down today was, as I said, where we are now is where we need to be. But the Board always considers different alternatives.

Swati Pandey (Bloomberg)

You mentioned how demand is still exceeding supply in the economy and there was a previous question about GDP per capita recession. How much of the exceeding demand that we are seeing in the economy is due to that population growth, which is actually masking the real weakness in the economy? And is it something that the Board also discussed in today's meeting, where on the face of it, it looks like the economy is doing all right, there a little bit of resilience, but if you take population growth out, people are going backwards?

Michele Bullock

The Board is really conscious that particularly per capita consumption is declining. We understand that. It's declining because of inflation, interest rates and, to some extent, tax is part of it as well. Real disposable incomes are declining and that is really hurting the household sector. The Board is aware of that. The Board is not blind to that at all. So, as I said, if we can get inflation down that will go a long way to reversing these declines in real disposable income. That's what is really hurting people's incomes and that's why they're having to cut back on discretionary items, even to some extent some people are having to steel back on essentials. The Board is very alert to it.

Jonathan Shapiro (*Australian Financial Review*)

Governor, we know that market pricing has changed and maybe become more in line with what central banks are thinking in terms of maybe less rate cuts than central banks were thinking. But overall financial markets are quite buoyant, equity markets are at highs, speculative assets are running strong, credit spreads are probably near or at all-time heights. I wonder if yourself and other central banks are looking at this and wondering if it's some sort of signal that financial conditions might be too loose? And also, one other question, if you had any perspective on Japan today ending their negative interest rate policy and what that might mean?

Michele Bullock

I will answer the first one. We actually have a *Financial Stability Review* coming out on Friday, which will talk a bit about this. It's true that financial conditions, particularly to do with businesses and some of the higher risk areas, are actually easing a bit, notwithstanding central bank communications. So, there is a bit of that going on. I think the focus, really, internationally is what that might mean for financial stability and whether there are vulnerabilities. I commend to you Friday's publication, which will talk a little bit about those issues.

Luca Ittimani (*The Guardian*)

Today's decision assumes that labour productivity will return to the long run average, which is not quite what it has been doing for the last couple of years. Is the Board still expecting productivity will return to the long run average and if it doesn't, will rate cuts be deferred accordingly?

Michele Bullock

We have talked a bit about productivity at the last press conference and I also talked about it at the parliamentary committee. What I would say is don't get too caught up in the individual quarterly movements in productivity – it is a long run concept. Having said that, it's encouraging that at least we have started to see the last couple of quarters that productivity has picked up. Productivity ultimately is something that is going to be based on businesses investing. We need it to grow the pie so we all have more income that we can share around amongst us all. So, it's really important. The government has an important role to play here in terms of its work. The Productivity Commission has no shortage of suggestions on things like technology and education and so on. What can the Bank do? I wouldn't say we can directly affect productivity but what I would say is that having low stable inflation, which businesses don't have to worry about and it's in the background, is much more conducive to investment and focusing on how they can improve their businesses than at the moment, when I'd say what they're doing is, they're worrying about costs and worrying how they get cost down in my business. For me, the most important thing we can do to encourage productive investment is to get inflation back down and let businesses get back into the business of deciding how to run their businesses best.

Rurika Imahashi (Nikkei Japanese Media)

Coincidentally today, Bank of Japan decided to raise interest rates for the first time in 17 years and ending a negative interest rate finally. I'm curious about what is your take as a fellow Governor of a central bank?

Michele Bullock

I can't possibly read the mind of what went on in the Bank of Japan. It's true that they have had the opposite problem to the rest of us. They have been trying to get inflation up and we have been trying to get it down. My reading is they have obviously been encouraged enough by recent signs that inflation and wages are heading in the right direction. That allows them to come out of negative interest rates but I highlight they're still zero.

Jassmyn Goh (Capital Brief)

Just wondering what you think the effect on property values might be when interest rates are cut, and whether high housing prices and higher household debt makes it more challenging when we go through a rapid rate rising cycle.

Michele Bullock

I wouldn't like to predict housing prices, frankly. Every time we try to do that we seem to get it wrong. We were surprised when they started rising again, quite frankly, and I think everyone was. The bottom line with housing prices, though, is that it's really about supply and demand. This goes for housing in general whether it's rental accommodation or purchasing, it really comes down to supply and demand. And we know that governments are very focused on housing at the moment because at the moment we are suffering from a situation where demand for housing is higher than the supply of housing. There is some sense in which – and again I commend the *Financial Stability Review* to you on Friday where it will talk a little bit about bank lending standards, borrowing limits and so on – it's true that as interest rates rise, borrowing ability of households declines. So, because your repayments go up, you can borrow less. It's true that that effect is there. But ultimately, the bigger force in housing, I think comes down to supply and demand and that's something that obviously governments can deal with in terms of development policies, in terms of land, well-located land, infrastructure to ensure that land has got good facilities around it and is well-located. These are the issues that really I think are more important for housing prices.

Poppy Johnston (AAP)

Analysts are suggesting you will want to wait until the Stage 3 tax cuts and the Federal Budget, anything in there to be worked through, before feeling fully comfortable with the inflation outlook and contemplating cuts. Is the plan to wait and see how these policies play out and if so, how long would it be reasonable to sit and watch and see what happens?

Michele Bullock

I won't be giving forward guidance. That's the first point. I think to your point, some of those things that are going to happen, they're in our forecasts. But as I have said a number of times, our forecasts are inherently uncertain. As we get more data and more information, if it confirms our forecasts then that will be good for us and we will be able to say okay we're on the right path. But if some of those things come to pass, and it doesn't look like the data is moving in our direction, then we have to consider how to move. So, yes, it's almost a truism that as time moves on and more data become available, and more things come to pass that we have got in our forecasts, then we will be more certain about whether or not we're on the right trajectory. Those things are in our forecasts at the moment so if we continue and we continue on that trajectory, then that's a positive.

Juliette Saly (Ausbiz TV)

In our statement you mentioned the economic concerns as well about overseas, particularly China's economy. How much are you concerned about the implications of China as Australia's biggest trading partner especially considering iron ore prices have fallen significantly since you last met?

Michele Bullock

It's something we look at a lot because it's really important for the national income of the country. Obviously, they're our biggest trading partner; iron ore is our biggest export to them and the price of that obviously impacts the income of the resource sector and that's important for the national income of the country. China is facing significant headwinds. They had set themselves a growth target next year of 5 per cent, which is the same as actually around 5 per cent, which is the same as they set last year. It's lower than it has been in the past but it's still reasonably solid growth. The question is, I guess, whether or not they can meet that target, what sort of policies they will put in place to meet the target. But there are headwinds. One headwind obviously is the real estate sector, which traditionally has been a massive part of their economy. Can they – dare I use the word pivot – can they pivot to move more towards sort of consumption. But consumption is very soggy there at the moment as well. So, it is a concern. It's something we're watching very closely. But it is going to play into how the Australian economy evolves over the next little while. If it turns out to be significantly weaker, then that's something we will have to figure out how that plays into our forecasts.

Michael Stutchbury (*Australian Financial Review*)

Just on your reluctance to give forward guidance, would it be right to say when you're talking about the risks being finely balanced, not ruling anything in or out, would it be fair to characterise this that if we stay on the forecast narrow path for the economy and inflation, then the next move in interest rates by the RBA is likely to be a cut? That's probably the base case scenario because otherwise you wouldn't have forecasts; they must be the most likely outcome. But if the bumpiness you talk about keeps inflation elevated then you might have to increase the cash rate again and that's probably a lesser likelihood but if things don't go to plan that's what the outcome would be?

Michele Bullock

The message I really want to get across is that, again, we're not ruling anything in and we're not ruling anything out. You'll get sick of me saying that. The reason being, you have articulated it, Michael. The fact is that there are some downside risks but there are also some upside risks. We're very conscious that we would love to get on the narrow path, but as we have said in the past, that does mean that inflation will have been outside of target for over four years. And if there look to be risks that that's going to be extended, then I think we do need to be concerned about that. On the other hand, if a number of things conspire and we end up actually moving more quickly than the forecasts, then we might need to think about interest rate cuts. But at the moment, we're in the position where I don't want to say either way. It's basically not ruling it in, not ruling it out.

Hans Lee (Livewire Markets)

Given the RBA has described household consumption and dwelling investment as weak. I'm curious, what is still holding inflation up above the 2–3 per cent target and how does that affect where the Bank thinks or sees neutral interest rates being at?

Michele Bullock

It comes back to the point I made earlier that growth is weak but the level is still high. It comes back a little bit to the point, I think Swati made, that aggregate demand, because of population growth, has been elevated. So, what we're observing now is that that aggregate demand is slowing and coming back more into line with supply and that's what we would expect with restrictive monetary policy. We think monetary policy is slightly restrictive. To your point, that means sort of by economic definition, if you like, it's above a neutral rate but we think the signs are that it's in slightly restricted territory. And then as we hopefully observe inflation coming down, that's when we start to have conversations about what is restrictive and how do we remove the restrictiveness.

Michael Heath (Bloomberg News)

I'm just wondering, you have more than one element to your mandate, the other one being employment and I guess growth goes into that. If we were to see quite a good inflation print at the end of April, at what point does worries about rising unemployment, very weak growth start to take over from inflation? The Treasurer has already started talking about this with his budget coming up as well.

Michele Bullock

Look, it's hard and I can't give you a definite answer on that. What I can say is that it is part of our mandate. We do want to have employment at a sustainable level and that means a level that's neither increasing inflationary pressures or decreasing inflationary pressures. Do we know what the level is? No, we don't. We think it might be around sort of between 4 and 4.5, but we don't know where it is. So, all we can do is tread carefully and, back to the point I made earlier, be prepared to act if we see the risks moving in one direction or the other. If we see the risks, as I said I think in response to Michael's question, we've got a baseline sort of scenario which is our forecast, and that sees inflation back in band by the end of '25, into the middle of the band by 2026. That's still a way off and it's quite uncertain. What we have to do is, we have to be cautious, we have to be prepared to watch the data, we have to be prepared to consider things like our business liaison and survey measures we're getting as well; what is telling us where things are heading and is that changing our assessment of the risks. That's what is going to drive potential changes.

Patrick Commins (*The Australian*)

I just want to change tack a little bit to the RBA's review and the recommendations. You have talked before about having received reassurance from the Treasurer that there will be continuity on the new monetary policy board, presuming the legislation goes through. Can you give us a little bit more colour on what you mean by continuity? Is that if you get two of the six external members changed, is that continuity? Is there any more information you can give us on what you would like to see?

Michele Bullock

Thanks, Patrick. I guess my purpose of this press conference is really to focus on monetary policy and the monetary policy decision we announced today. The only point I would make, very briefly, is that continuity for me means that some continuity with respect to both Boards. I have no particular firm views on numbers. But that's what it means to me.

John Kehoe (*Australian Financial Review*)

Just wondering, markets have one or two rate cuts priced in by the end of the year – do you think that's a reasonable assumption?

Michele Bullock

Thanks, John. I'm not going to opine on whether or not markets have got it right. I know you will have all noticed that in our forecasts one of our assumptions is the market path for interest rates. So our central forecasts are conditioned on a market path, which sees some interest rate decreases later in the year. I wouldn't like to opine on whether or not the markets have got it right, but I only would observe that the markets move around a lot. We have seen that overseas, as well. They jump in relation to various bits of news. They jump in relation to various bits of commentary. I suspect they will be jumping as I'm speaking today. So, I wouldn't like to, as I say, suggest they're inaccurate in any way but just to observe that market path is in fact in our forecasts.

Adrian Lowe (*The West Australian*)

The comment in the statement by the Board that inflation expectations remaining reasonably well anchored. I just wonder what your red flags or possible concerns are for inflation expectations as we do tread this difficult path ahead.

Michele Bullock

Number of things, I suppose. It's a bit difficult to measure inflation expectations, Adrian, but we look at a number of things. We look at market-based measures. The market-based measures – these are the people putting money where their mouth is, they are betting on it – and the expectations there are that inflation is anchored around about 2½ per cent. So, we have other measures of inflation expectations, which more directly come from, sort of consumers and unions and also wage demands are to some extent a little bit of a gauge of what people are expecting inflation to do. All of those things suggest to us that, as expected, when inflation shot up quite a lot in 2023, that short-term inflation expectations also increased quite a lot. But we are observing that these are coming down, so people understood it was a temporary thing. It's important, though, that they don't come down and stick at around 3, 3.5 per cent. We want to see them continue to come down to around about 2–3 per cent, 2.5 per cent. That would be ideal. What we're observing so far is that there doesn't seem to be any indication that they are de-anchoring at a higher level but we need to keep a very close eye on it.

Jack Quail (NCA Newswire)

We have seen in some recent data flows, particularly around retail sales and also labour force data has been thrown off because of issues with seasonal adjustment. I wonder if there is anything you are learning from the business liaison or other surveys, I guess, that is not reflected in the data you are receiving?

Michele Bullock

Only that it's sort of reinforcing what we're seeing, that things are slowing. As I said earlier, one of the things we used to hear from businesses quite a lot when things were quite tight was that they couldn't find labour, they couldn't find people to work. So, we're seeing that ease off a bit. We're also hearing from businesses that demand is easing in some discretionary sectors. We're hearing that as well. That's all consistent with what we're seeing in the data, I think. We're not seeing any red flags that tell us that we're being led astray by that. So, I think that's all consistent. But it is important to keep … our business liaison program, it is a very important part of our focus. It's important for us to get a bit of a flavour for what is going on in the real world. I think we will continue to take notice of that. And I would say that so far – it's a long history now, it's about 21 years – and the business liaison program and the way it's been set up, it has generally historically given us a pretty good steer as to what is going on in the economy. So, I think at the moment, it's reinforcing what we're seeing in the hard data.