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Michele Bullock

Governor

Transcript

Michele Bullock

Good afternoon. Thank you all for coming, again. So as you know, today the Board decided to cut the cash rate by 25 basis points and that takes the official rate to 3.85 per cent. Now, we've done this because the most recent quarterly CPI confirmed that both headline and underlying inflation are now under 3 per cent, and if you ignore the more volatile items in the headline CPI our forecasts see the underlying pulse of inflation around the midpoint of the 2 to 3 per cent range over the next year or so. So price increases have slowed and it's fairly broadly based, and this is very good news.

The Board's strategy over quite some time has been to bring inflation down while avoiding a sharp rise in unemployment. This is consistent with our dual mandate of price stability and full employment. I know this period of relatively high interest rates has been, and continues to be, challenging for many households and businesses, but it was essential we brought inflation down because inflation hurts everyone. The strategy that we took to achieve this was different to that of some other central banks who took rates much higher than we did. The Board accepted the trade-off that leaving the cash rate where it was would bring inflation down more gradually, but without a big increase in unemployment.

A sharp rise in unemployment would have been very costly for families and for the Australian economy. Anyone who has experienced unemployment knows the profound impact that it has on your life and those that depend on you. Anyone who has experienced - when the unemployment rate is elevated for an extended period that's not only debilitating for individuals and their families, but it also has significant negative impacts on the economy. When inflation is low and stable and people can get jobs it's good for households, it's good for communities and it's good for the broader Australian economy. So the cautious approach we have taken has got us to this point, where inflation is now below 3 per cent and employment is holding up. But now we've got inflation down, we must keep it there, while trying to maintain a healthy jobs market. So there's now a new set of challenges facing the economy, but with inflation declining and the unemployment rate relatively low, we're well positioned to deal with them. The Board remains prepared to take further action if that is required.

Now, since our last meeting global economic and policy uncertainty has increased substantially following tariff announcements by the US administration, the response of its trading partners and subsequent changes to the policies, including various bilateral



agreements and deals. It's been a complete rollercoaster I'd have to say. How the tariffs are going to affect the global economy are going to depend on a few things: where tariffs will settle following negotiations between the United States and its major trading partners, how the other trading partners respond, the extent to which global supply chains are disrupted by the increased barriers to trade, the degree to which trade can be diverted and the impact of uncertainty on business investment and household spending.

Our baseline forecasts that we released today for the global economy reflect the potential economic impacts of high tariffs and impacts on consumption and investment of policy uncertainty. We see growth in our major trading partners slowing over the remainder of this year and next year. In terms of the forecast for the domestic economy, we see growth in demand picking up, but a little more slowly than previously. This sees inflation declining a little more than previously forecast and the unemployment rate a little higher. Some of this reflects the downgrade to world growth, but some of this also reflects the effect of uncertainty on domestic demand. If the trade outcomes are much worse for the global economy though, we could be facing a much larger downturn in Australia, with implications for inflation and unemployment.

One thing to keep in mind we have made the judgment that global trade developments will overall be disinflationary for Australia, however there is a risk to inflation on the other side. The trade policies could lead to supply chain issues which could raise prices for some imports, much as we saw during the pandemic, and so we'll also need to be alert to such upside risks.

So thank you and happy to take your questions.

Chris Kohler

Afternoon, Governor, Chris Kohler from 9News. Everyone here, and I'm sure many beyond, are analysing and interpreting the *Statement* with the aim of trying to get some more meaning out of it. If I could just ask, is this a confident cut or is this a cautious cut, and should people at home, should they have confidence that this is now the direction of monetary policy in Australia?

Michele Bullock

I think it's a confident cut, Chris, in the sense that we think this is the right decision at this point in time. Where this leads us in the future is a little more uncertain, I'd have to say, probably a lot more uncertain given everything that's going on. You will see that in the *Statement* we actually put some scenarios into the *Statement on Monetary Policy* which talked about extreme downside scenario and back to trade peace sort of scenario. So depending on where we end up on that spectrum it's possible that there might be more interest rate adjustments. The Board is alert to that, but at the moment it's a confident cut in the sense that this, we think, is the right cut for now.



Matthew Cranston

Governor, Matthew Cranston from *The Australian*. Obviously you look at underlying inflation to look through or ignore volatile items, but if you look at some of the business costs, energy prices, for example, up 47 per cent this year without rebates, wage growth still a little bit higher than what you thought it would peak at from your last forecast, and this one, and also business, the labour unit costs also pretty high, partly because of lower productivity. So the question is, what is the risk that business actually can't sustain those higher prices that aren't included in your underlying inflation, and might that restoke inflation later this year when business might have to increase their prices?

Michele Bullock

I guess the first point I'd make is that this has been going on for some time, of course, high unit labour costs, high energy costs and so on for businesses, and we're still seeing inflation come down. So the outcomes are suggesting that inflation is still declining despite those costs that you're referring to. The second point I'd make is that businesses can put up their costs only if they're not going to impact the demand for their goods and services. So in a context of very strong demand, which arguably we saw coming out of COVID when everyone was out there trying to spend, then businesses have the ability, I think, to pass on costs. What we're hearing from our liaison is that businesses are finding that their margins are being impacted so they are having to absorb some of the cost increases. So is there a risk that some of these cost increases could feed back into inflation as the economy starts to recover? Yes, there is. But we're judging that the signs so far and the evidence so far is that that's not happening, but we'll remain alert to it.

David Taylor

Governor, David Taylor from *ABC News*. On April 7 the financial markets went into a complete tailspin and since then the bond market, the share markets have done backflips and cartwheels, rollercoaster ride, as you said. I'm just wondering, because you mentioned severe downside risks in the *Statement*. When you say severe downside risks, is there the potential - I'm not saying high potential necessarily, but is there potential for an Australian recession - I've asked you that question before and I'm asking it again - over the next two years, and is the Reserve Bank on the lookout for another - and I'm at risk of hyperbole just like anyone else - cataclysmic event on global financial markets, are you on the lookout for that?

Michele Bullock

Yes, David, we are on the alert for that, and we're paid to worry about that sort of thing and we have been watching that very closely, as have other central banks all around the world. You rightly point out that the financial markets have recovered. I would say that we are still not sure that the financial markets will remain nice and steady. The key point about the situation we're in is it's not just uncertain, it's actually unpredictable. So I think in terms of our focus, part of the reason in the *Statement* that - on monetary policy that we put those scenarios in was to demonstrate that the range of outcomes here could be quite wide. I'm



not putting a strong possibility on a really, really bad outcome, but I think we have to be alert that there might be.

David Taylor

You're not getting away without a response to the recession. Is there the potential, an increased risk of a recession in Australia over the next two years?

Michele Bullock

If you look at our scenario analysis it does suggest that in a really bad outcome there would - there could possibly be a recession, yes, but that's in the very extreme circumstance, and again it was to try and give ourselves some sort of spectrum of outcomes that we might be looking at. At the moment we're not looking at that, but we need to be alert.

David Taylor

Thanks, Governor.

Jacob Shteyman

Thanks Governor, Jacob Shteyman from AAP. Was this a unanimous decision by the Board and how much discussion was there of a 50 basis point cut or, conversely, a hold?

Michele Bullock

Okay. First of all it was a consensus decision. What the Board discussed was two options, hold or lower. There was a bit of a discussion about hold and that was sort of put aside pretty quickly. The discussion then was about a cut and how big, and there was a discussion about 50 and 25. The Board was of the view that 25 was the right number on this occasion. I think the way I would think about it, describe it, is that if you put the international things to the side for one moment and just ask the question if we were just looking at where the domestic economy was at the moment, would we be looking at lowering rates or not, and as I said earlier with inflation in the band and also employment doing pretty well, we think there is a bit of scope to lower interest rates, and then if you add the international uncertainty, that sort of gives you a little bit of confidence that, yes. So I think we said in the *Statement* that the risks have actually balanced up a bit with a bit more on the downside coming into play now. So yes there was a discussion of that, but on balance I think the Board was of the view that - well, I know the Board was of the view that 25 basis points was the right thing for now. Doesn't rule out that we might need to take action in the future, to David's earlier questions, but for now we felt that was the right number.

Shane Wright

Shane Wright from *Nine Newspapers*. I just want to pick up on something you told Chris, that this was a confident cut. The monetary policy *Statement* uses the word uncertain 134 times, and I have lost track of how many times you've used the word uncertain in just talking to us. How confident can you be in a world when there's so much uncertainty?



Michele Bullock

Using my own words against me. Thank you very much, Shane. I mean confident cut in the sense that we were confident that it was the right thing to do in the circumstances. I think what we can say is directionally we're confident that was the right thing to do. How confident are we that we know what's going to come and what we might have to do in the future? That's, I think, where the uncertainty comes in, and also as I said earlier the unpredictability. But it is hard to be confident. We do have to try and look into the future forecasts, figure out where we think things are going to go, but it's difficult. It means we have to be agile, and it means we have to be alert to the risks and these days, and my central bank counterparts are the same, everyone is talking about we need to be thinking about how we're using what we call the soft data. This is like surveys, liaison, things that might give us a bit of a handle on how businesses are thinking, how consumers are thinking. Overseas we've seen quite a lot of uncertainty finding its way into businesses and consumers, not so much here at the moment, I have to say. So these are the sorts of things we'll need to be alert to. But yes, more uncertainty than usual, but I still think in those circumstances we can say we're confident we did the right thing today.

Michael Read

Governor, Michael Read from the *AFR*. What's the Board's current thinking on whether or not to agree to those two outstanding recommendations from the RBA Review, one about publishing votes at the end of Board meetings and the other about making Board members do an annual engagement so we can hear from you even more?

Michele Bullock

Thanks, Mike. We discussed that again today in the context of a draft *Statement on the Conduct of Monetary Policy* from the Treasurer. The Board discussed that today. We'll be going back to the Treasurer and you'll be hearing in due course where that gets to.

Michael Read

So you've arrived at a decision, you're just waiting for the all clear from - -

Michele Bullock

We're waiting to go back to the Treasurer now, because it's an agreement between the Board and the Treasurer, and once we've got that agreement you'll know. Okay?

Deb Knight

Deb Knight from *9 Radio*. Productivity remains at a 60-year low. Did that factor into your decision-making today on rates and is productivity now a bigger concern than inflation is?



Michele Bullock

Well, I think the Treasurer listed it as one of his top ones, along with inflation, actually. I wouldn't say it's more of a concern than inflation. I mean, I think we've talked before about the fact that productivity matters because it's what grows the pie for us all, so we can earn more real income. That's why productivity matters. We at the bank, we have to take it more or less as given and set monetary policy appropriately for that. So am I worried as an Australian citizen that productivity is not growing? Yes, I am worried. I can't do anything about it and the bank can't do anything about it, but am I more worried about it than inflation? No, my mandate is definitely inflation and employment, so that's my focus. But it does make it harder, as I said, if we want to see wages increasing over the medium term, it does make it harder for wage rises - for people to get good wage rises if productivity isn't improving. It is really important and I'm very happy that the Treasurer has identified it as being one of the government's priorities.

Edward Boyd

Governor, Edward Boyd at Sky News. Most of the banks have already passed on the cut in full or announced that they will later this month. Are you expecting to see a bit of a pick-up in household consumption over the rest of this year with a couple of rate cuts now coming through the economy?

Michele Bullock

Thanks for that question. In our forecasts we actually have rate cuts incorporated into our forecasts, so what we have in our forecasts is a pick-up in consumption and that's a product of the fact that household disposable incomes, real household disposable incomes are rising and that reflects not only the fact that wages are now rising and inflation is much lower, but also the fact that interest rates are falling. So yes we would expect consumption to be picking up. It's picking up a little bit slower than we thought. Households are being a little bit cautious. The outcome on that is, I think, not as - it's not picking up as much as we thought it might given historical circumstances, but I think we will expect it to pick up.

Cecile Lefort

Governor, Cecile from *The Financial Review*. You have a dual mandate of price stability and full employment, and in case they get out of line, which one will take precedence? Inflation or jobs?

Michele Bullock

Well, I think I've said this before too, Cecile, you can't, in an equilibrium sense, you can't have full employment unless you've got inflation under control. So most of the time they go together. If it looks like inflation is getting out of control, then I think we do have to make sure that we've got that back under control, because that's ultimately what will mean that we can keep the labour market in a good place. We can't keep the labour market - can't get full employment if we've got inflation running out of control. So I think it's not that we're



prioritising inflation overall. What we're saying is that in the normal course what you need for full employment is you need low and stable inflation. So that implies that if inflation really does get out of control we do have to make sure we get it back, but I'd have to say that what we've managed to achieve here is, so far, subject to what's going on elsewhere in the world, so far we have managed to get inflation back at the same time as keeping the employment market on a relatively good footing. So I think that's so far so good.

Stella Qiu

Hi Governor, Stella Qiu from *Reuters*. We have a question about how you conduct monetary policy meetings. Do you always make a formal recommendation on interest rates at the beginning of the meeting? And has there been times when the Board acted against your recommendation and then go the other way?

Michele Bullock

I can only really talk for the time I've been involved with the Board. What I can say is that typically the papers include a recommendation. There have been the odd occasions where they haven't included a recommendation, and as to whether or not there's ever been a vote against - I couldn't answer that. I can say during my time, no.

Jack Quail

Jack Quail from *The Australian*. Your statement points extensively to the impact of the Trump administration's tariffs and other exogenous factors on the Australian economy, but I just want to ask about the domestic factors. What is the biggest domestic risk to the economy that you see and is there a risk that you underestimate the impact of these home-grown factors on the Australian economy?

Michele Bullock

I think on the domestic side the thing that we are still grappling with is the labour market. There is - we characterise the labour market as still a bit tight and the indications that it includes employment growth, the participation rate, vacancy rates, all these sorts of things are suggestive of the labour market still being quite tight. Our liaison tells us, for example, that some firms are still finding it hard to get the right labour, qualified labour. So there's still something there. Now, not all people agree with us on this, but that's our judgment at the moment, that it's on the tight side. So it's still possible that that's indicating that supply and demand have not really come back into balance and if that's the case then there will still be inflationary pressure. So there's that risk. On the other side of the risk register, if you like, is the fact that consumption, as I said earlier in response to a previous question, consumption - we've been a little bit surprised that consumption hasn't recovered as real incomes have started to recover. It's just a bit softer than we thought it would be if you think about historical relationships. We thought it would have done better. So that's the risk, that households for some reason are being much more cautious than they have been in the past and that that is a downside for the economy. So they're the two things I think that if I was looking just purely at the domestic economy that I'd be weighing up.



David Chau

Governor, David Chau from *ABC News*. How concerned are you that inflation might get out of control again and as a result the Reserve Bank may not be able to deliver further rate relief that so many borrowers are desperate to see?

Michele Bullock

Well, not as concerned as we were, hence the cut in the interest rate today. It can't be completely off our radar because, as I said earlier, inflation has been what's really - interest rates, I know, have impacted people who have loans, really, really severely, and they've been under the pump, but inflation has been the rise in prices over the past two years has really hurt everyone, and that's what people are feeling. So we can't take our eye off that ball. We do need to make sure that we keep inflation low and stable. We've got it down, it's not quite down as far as we'd like it yet, but it's getting there, and we can't let inflationary expectations, so peoples' expectations of inflation rise. At the moment that's consistent with what we think the inflation target is, but we need to make sure we keep it there. We can't - as I said, we can't take our eye off the ball, but we have got a little more comfortable, just a little more comfortable that things are going in the right direction so we can take the foot off the brake just a little bit more.

Jonathan Shapiro

Governor, Jonathan Shapiro from *The Financial Review*. The last time the RBA cut rates you struck a very different tone. I guess the market would call it a hawkish cut where you pushed back or you cautioned the market thinking that there'd be a series of rate cuts towards the end of the year. I think this time is very different, at least most economists sort of see this one as a very dovish cut, particularly what you said earlier about a potential for a 50 basis point rate cut. So in that context, my question is do you still feel that there is a big disconnect between where the RBA thinks the cash rate will settle, ultimately settle, and where the market has it?

Michele Bullock

I wouldn't like to say there's a disconnect. We look at the market path and we do look at what the market is. I think what the market path is reflecting is a possibility that there's a really bad outcome and so on average they've got sort of a path that brings us a little bit lower than it was, I think, in February. I think the - although, of course, it's been on a rollercoaster as well because immediately after April 2nd rate cut expectations dropped dramatically then they recovered. Everything is sort of all a bit waiting on what's happening, every little bit of news that's coming out, particularly on the international side. I think the difference from February is that things have changed. We've had April 2nd happen, we've had massive volatility in financial markets, massive uncertainty about not only about where might the eventual policies with respect to tariffs turn out, but also once we do have certainty on that, what impact that might have. So I think it is different than it was in February. Now, does that mean that we are headed into a long series of interest rate cuts? I don't know at this point, and



that's why I think the cautious 25 basis point cut, with a recognition that if we need to move quickly we can, we've got space. I think that's the most appropriate way to think about it.

Sophia Rodrigues

Sophia Rodrigues from Central Bank Intel. You've got three scenarios and a baseline, a trade peace scenario - I like that term "trade peace" - where monetary policy will be less accommodative, "trade war" where there will be possibly more easing depending upon what happens to the currency, protracted trade war where you're not committing to anything, and then there is baseline where you're endorsing market pricing, because based on that you're still expecting inflation to be in the target band by end of next year. Does it mean, all things being equal, based on your baseline forecast, we would see 3.4 per cent cash rate by the end of this year?

Michele Bullock

That's certainly the assumption. I wouldn't say we endorse it. That's the technical assumption we use. The baseline forecast generated out of that does take us around about middle of the band, which is a good thing. Having said that, and I've said this before as well, as you go further out the level of uncertainty around those forecasts widens. So I can't tell you definitively that's where the cash rate is going to end up because I can't tell you definitively the baseline forecast is what we're going to hit. In fact we made the point in the *Statement on Monetary Policy* that we've put a little less weight on the baseline forecast this time because of everything that's going on in the world. So I would not read as this is endorsing that the rate cut path is what we're going to get. I would say that in the baseline forecast, yes, it's giving us some confidence that we can get back to a situation where we're in the middle of the band for inflation and unemployment is still relatively low, but, again, as you go further out it gets more uncertain so we do have to remain data-driven.

Millie Muroi

Hi Governor, Millie Muroi from the *Sydney Morning Herald* and *The Age*. You've said the labour market is still pretty tight but there seems to be an increasing acknowledgement across the February and May *Statements* in particular that the RBA might be overestimating how much excess demand there is in the labour market and with inflation now seemingly quite formally within the target band alongside unemployment of 4.1 per cent, which is quite a bit lower than 4.5, would it be right to say you're becoming a bit more sceptical of the bank's existing estimate of full employment?

Michele Bullock

I wouldn't say we're sceptical. What I would say is that we are open to the idea that we may be overestimating, or underestimating full employment, and I think that's a healthy thing for us. I think we do need to be challenged. I think that thinking about where we might be wrong is a really healthy thing. You point to the fact that one of the outcomes is that inflation is continuing to come down, and we're thinking about what that implies for us. So all those things, I don't think we're sceptical of ourselves, just as we're not sceptical of others, we're



interested and we're open to having a debate about this. Ultimately the evidence will bear it out, and at the moment, it does seem that inflation is continuing to come down notwithstanding a bit of tightness in the labour market.

Swati Pandey

Governor, Swati Pandey from *Bloomberg News*. You said so far so good just now talking about inflation and employment, like your strategy. RBC's Su-Lin Ong said that RBA is in policy "nirvana", there's another economist who said we are in a "Goldilocks" situation. Do you think you have created a playbook for the next crisis?

Michele Bullock

I think that would be - no, I don't think so. As we've seen actually, things can come from all directions. I mean, we have to remain very focused on the potential risks to the outlook. Shane obviously counted the number of "uncertains", but there's a lot of them and that's deliberate and we're not the only ones. I think the Bank of England tripled the number of uses of the word "uncertainty" in their equivalent of our *Statement on Monetary Policy*. I wouldn't like to suggest that somehow we've got the formula right for every circumstance in the world. Everything is going to be different. The GFC was different to the pandemic, this current shock is completely different as well. It's coming from a completely different direction, so I don't think there is a playbook for every circumstance. I think we just have to, as I said, we have to be alert. So far so good. We are in a good position, but there's things coming down the pipeline and we don't know what they are and how they're going to impact us, so I don't know if the playbook is going to have to change or not, but I think, again, what we have to do is we have to be focused on the data, we have to be focused on the risks, and we have to be prepared to act when we think it's the right thing to do.

Tom Richardson

Hi Governor, Tom Richardson from Livewire Markets. Mortgage holders will be happy today as they've got more interest rate relief. I think in your own assumptions ... more rate cuts ahead, the markets' forecasts are for more rate cuts. In April I think we saw Australian house prices at a record high, gold prices near a record high, Bitcoin prices near a record high, I think the CBA share price hit a record high today, I think it's up 40 per cent over the past year. So if you're wealthy you're getting wealthier, right? What's your message for younger people and renters who feel like housing is becoming unaffordable for them if they don't own assets? Thanks.

Michele Bullock

I don't have a message from the Reserve Bank. I guess my personal reflection is that there's nothing the Reserve Bank can do about these affordability issues of housing. This is an issue of housing demand and housing supply, and increasingly this issue is finding its way into the governments, both state and federal governments, and that's where the focus has to be. I think increasingly they are. There is a recognition that over many years - this didn't just pop up overnight. This has been brewing for many years, so there's nothing that I or the bank can



do about this. We've got to focus on our inflation and our employment mandate which is actually a really good thing we can do for young people and renters, keep inflation low and make sure they have jobs. That's really important. That's what we can do. What governments can do is look at the supply/demand imbalance in housing, and I'm confident now that at least there is some focus in that direction.

Brandon How

Thanks, Governor, Brandon How from Capital Brief. I just wanted to ask a question on the government's proposal to tax unrealised super gains, just wondering do you have any financial stability concerns regarding the policy at all?

Michele Bullock

We haven't done any analysis of the financial stability implications of that. My initial reaction would be probably not great financial stability implications, but we haven't done a great deal - any on that so I really couldn't say.

Jonathan Barrett

Hi Governor, Jonathan Barrett at *Guardian Australia*. How strong was the argument for a 50 basis point cut in the room, in the boardroom, and did it almost win the day?

Michele Bullock

What I would say is that there was an argument and we did debate it, and you would expect us to debate it, quite frankly, but it wasn't the strongest argument in the room and as I said, it was a consensus decision for 25 basis points, and I think that reflects the fact that the strength of the argument for 25 was much bigger.

Juliette Saly

Governor, hi, Juliette Saly from Ausbiz TV. I asked you last year before the outcome of the US presidential election whether the Board had done any scenario modelling on President Trump 2.0 presidency and you said you hadn't. Fast forward six months later and all the uncertainty that we have seen, how much of your time, of the Board's time, is spent worrying about the geopolitical pressures caused by who is in the White House?

Michele Bullock

Certainly it's fair to say that our economic team and our financial markets teams have spent a lot of time on these sorts of issues ever since it all exploded. Even before April 2nd we had done some work, some scenario analysis looking at the potential implications, but us, just like everyone else, was completely blown out of the water by the scale and the scope. So we really had to go back and have a much harder look. So there has been a lot of analysis done. Some of that is reported in the *Statement on Monetary Policy*, you will see, and the Board does have to consider and factor much more of this into their thinking than was the case back before this all happened. So I couldn't give you percentages or anything, but suffice to say it's a lot.



Michael Pascoe

Governor, Michael Pascoe, Michael West Media. Trimmed mean over the past two quarters is running annualised smack on your target, the forecast is for the financial year ending next month 2.6, so inflation is exactly where you want it. The bank says it's forward-looking and data-driven, monetary policy runs with the lag, you've still got a mildly - or still a restrictive monetary policy. Was it a mistake not to cut in April given where inflation is and has been running at for eight months?

Michele Bullock

No, I don't believe it was a mistake not to cut in April. I think we needed to see more evidence. We hadn't had the CPI at that stage, you will remember, so I think, as I said earlier, we've still got this labour market issue and we need to make sure that we want to see the strong labour market but we don't want that to result in inflationary pressures. So what we've got now, and this was the change from April, of course, was we've got all the international uncertainty, so that is a big change. I think it was right to stay put where we were and wait for more information in April. We've got more information, we've got more, and we've got actually much more uncertainty so we've got more information about risks on the downside, and in those circumstances I think it's appropriate that we did it this time.

Michael Pascoe

So inflation is right on target, but you're still trying to squeeze it lower.

Michele Bullock

No, inflation is right on target from a six-month annualised point of view. We get quarterly inflation rates in this. We don't get monthly. We get the monthly indicator, which is very volatile. We get four readings on inflation a year. Other countries get them 12 times a year. So I think it's much more challenging for us to judge the momentum of inflation when we only get four readings of it a year, and so what we're looking for is some sort of reading, and we get some of that from liaison, we get some of it from the monthly numbers even though they're very volatile, we're wanting to make sure that we are continuing to see the progress in disinflation. It's very easy to take a quarterly number and annualise it and say you're there. It's not quite as easy, I don't think, as thinking about where the momentum might be. So I don't ascribe to the view that you can simply take quarterly numbers or half-yearly numbers and just extrapolate them into annual and say there, you're done. I think there's more to it than that. I think there's a story about, as I said, the underlying momentum and that's a much harder read given the information we have. So that would be why I think we have to be just a little bit cautious.

Tom Dusevic

Governor, good afternoon, Tom Dusevic from *The Australian* newspaper. Looking at the forecasts, we see that public demand is still a big contributor to growth. We look at the business investment and the household consumption numbers, they're a little bit weaker



than they were the last time. The plan seems to be to shift the drivers of growth from the public sector to the private sector. Are you confident that we're on track, that the private sector will be able to pick up and be the driver of growth?

Michele Bullock

Well, that's the purpose of easing monetary policy a little bit is to try and get a bit of a pick up in, and as I said earlier the forecasts that have the interest rate declining, that will help to basically support some consumption, support some investment. Again, we've got this uncertainty hanging out here now with the international and how that's going to impact that we don't know, but that's certainly the idea, and we are seeing that the private sector is picking up a bit, which is as we'd expect. Is it going to pick up enough? We'll just have to wait and see. Enough given what else is going on in the world, and those are the circumstances we have to be alert to in setting monetary policy.

Michael Janda

Governor, Michael Janda from *ABC News*. The *Statement on Monetary Policy* noted that housing prices have yet to materially respond to easier borrowing conditions. Does that give the Reserve Bank Board a little more confidence that it can lower rates further without sparking another housing boom?

Michele Bullock

Look, I understand that people are really concerned about housing prices. As I said earlier, though, our focus has to be on inflation, and if the right thing to do in terms of employment and inflation is to lower interest rates, I think we have to accept what that might imply for housing prices because, as I said earlier, the issue for housing is supply/demand, and if we start thinking about, well, do we lower interest rates because of housing prices, we're going to take our eye off the ball, which is inflation and employment, and I don't think that would be the right thing to do. So I acknowledge that some people are worried that as interest rates come down housing prices will rise, but other policies have really got to step up here and address what is a housing shortage.

Michael Janda

Thanks, Governor.

Cameron Micallef

Governor, Cameron from *NewsWire*. You mention cost of living and weak household spending from cautious mortgage holders. What advice do you have to Australian households and is more help coming?

Michele Bullock

I wouldn't give advice to households at all. What I would say is that I understand that they've been through a really rough few years, and I would say that bringing inflation down is, as I



said earlier, the best thing we can do to help them, while keeping employment strong. That is the best thing we can do for them. At the moment we are on track to deliver that and so, as I said, my encouragement to them is I know you're doing it tough, but conditions are improving, inflation is improving, and employment is holding up and that's a positive thing.

John Kehoe

Hi Governor, John Kehoe from the *Australian Financial Review*. You seem to be communicating a sense of vindication that you've been able to trod the narrow path, get inflation down, keep unemployment relatively low. I know you're not declaring complete victory, but do you feel like you've actually trod that narrow path successfully and what are the lessons you've learned over the last couple of years from that?

Michele Bullock

I think I'm going to retire the narrow path analogy now. I don't want to sort of suggest that I'm 100 per cent confident that we're there, but it is really encouraging that we do manage - we have got inflation down, and we still have employment holding up, but this is not a situation that is going to just be the equilibrium, I think. We're always going to be thrown off course by things, as we've seen. So I don't think it's easy to just say, you know, this is - in answer to a previous question, that this is the way to do it in the future. The learnings I think I've had would be to be patient. When you know you're a long way from where you need to be you need to get there quickly, but you also need to be a little bit cautious, so - but I think the next year is going to be a really interesting time. It's not the same as earlier shocks. It's a completely different shock, and it's quite possible that the responses, the way we have to set monetary policy in this circumstance is quite different because the shock is quite different and we're only going to learn as we go through this process.

Adrian Suljanovic

Thank you Governor, Adrian Suljanovic from Momentum Media. With rates being cut again will a potential increase in home loan market activity factor more into the Board's decisions going forward, and is the Board at all worried about more borrowers taking on more debt seeing as the economic outlook is still uncertain?

Michele Bullock

I didn't catch the first question. The second question on debt, that's something that from a financial stability perspective we always are interested in. At the moment, actually, at an aggregate level households are pretty - in a pretty good position in an aggregate level. That's not to say there's not people out there who aren't under stress, there are, but loan-to-valuation ratios aren't too high, generally people are meeting their repayments, and in fact some people are more than meeting their repayments, they're paying their loans off more quickly. So our judgment at the moment is that there's not a financial stability risk associated with this, and with interest rates coming down, provided there's not a lot more risky lending this actually will help households. It will actually reduce the extent to which households are under stress and that will be good for financial stability.



Luca Ittimani

Thanks Governor, Luca Ittimani from *The Guardian*. You've spoken a bit today about setting aside the international developments and looking at the domestic fundamentals. In your judgment, do you reckon a cut today would have been the right decision even if President Trump hadn't walked out into the White House rose garden and held up that board of tariff rates?

Michele Bullock

I think the Board thinks it probably would have been, but the added international uncertainty added a bit of emphasis to, yes, maybe the downside is here and it's prudent. As I said earlier, if you'd looked at what was happening domestically prior to this, inflation is now back at headline and trimmed mean are now between 2 and 3, which is good, the employment market is holding up, still a little bit tight, we are hearing that businesses are finding it difficult to pass on cost increases, margins are being compressed a bit. So all of these things, and the fact that inflation was coming down in line with what we had been thinking it would, I think gave the Board enough that absent the international evidence there was a case to cut. It might have been a bit more of a debate about leave or cut, but the added weight from the uncertainty associated with the international environment said, well look, yes, it's actually a good decision to cut today.

Michael Stutchbury

Governor, Michael Stutchbury from *The Financial Review*. In the forecast you've downgraded the forecast for business investment going out at the same time you've forecast there will be quite a turnaround in productivity growth from going negatively to going quite significantly positive. In the PEFO, the treasury and finance department suggested if you didn't get the turnaround in productivity growth then the wages forecast would have to be brought down from where they are. Would you share that qualification, and could you explain how do you see in your mind how the productivity numbers turn around when they haven't in the past been forecast?

Michele Bullock

The productivity numbers, as you know, Michael, are assumptions, and we're basically making an assumption that it returns back to more or less its trend level prior to the COVID, 2018. But I think there's enough to think there's a great deal of uncertainty about productivity. I can't tell you what's going to turn it around. I do know that we are not the only country. The only country in the world that's experiencing productivity growth is the United States. Most other countries are in the same position as us, they don't have productivity growth. So what is the answer? I don't know. The Productivity Commission is, in fact, doing some work on this at the moment. The Treasurer has stuck it up the top of his list of things that he wants to work on and I think that's where we need to focus. We have to take it as given and it is an assumption, but it is quite an uncertain assumption and to the extent that it doesn't turn out to be right then that means we'll have to adjust our forecasts.



Cara Wood

Hi, I'm Cara from 7. What would the RBA need to see in terms of inflation, consumer spending or global conditions to consider another rate cut or even a hike in the future?

Michele Bullock

Well, I think if we continue to observe inflation coming down and staying down sustainably, then to the extent that we think there's still restrictiveness in monetary policy and we think there is a bit, then that would give us opportunities to lower the interest rate further. If it looks like things pick up much more quickly than we thought they would, so maybe consumption doesn't stay subdued, maybe consumption with interest rate decline and real incomes rising, consumption picks up quite substantially. Then all the cost pressures that the businesses are saying, well, they might be able to pass them on. That might be the risk on the upside, and the question there would be for us are we still restrictive enough to keep that under control or do we need a bit more restrictiveness? These are all adjustments. We can't be certain, but they're the sorts of factors, I think, that would be important in that context.