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**Michele Bullock**

Governor

## Transcript

### Governor, Michele Bullock

Thank you for coming. You will have seen our Statement, obviously, that came out at 2.30 pm. I have to say the Board had a very productive discussion over the last two days. Overall, the information since the August meeting has not materially altered the outlook, the key judgments or the risks that the Board sees. We've seen the June quarter National Accounts, two sets of labour force figures and one monthly CPI indicator. We've also reviewed developments overseas. Through our liaison program we've continued to talk to businesses and community groups about the conditions they're facing right now and their outlook for the future. We've considered in detail whether our current settings are sufficiently restrictive and judged that based on what we know at the moment rates will remain on hold for the time being.

Inflation has come down a long way since it peaked in 2022 both in Australia and overseas. Part of this was the resolution of supply chain issues and energy prices easing and monetary policy has also been doing its job. But inflation is still above our target and it's proving to be sticky. Progress in getting underlying inflation down has slowed and it's likely to have remained slow in the September quarter. We judge that the level of demand is still above the economy's ability to supply goods and services but that gap is closing. The labour market is still easing but it remains relatively tight and we saw again last week solid growth in jobs. I know some people are worried about a faster deterioration in the jobs market so we are keeping a close eye on this. But based on the most recent data, employment continues to grow and the rate of lay-offs remains very low and while forward indicators have eased, some such as jobs vacancies have remained elevated. We're still hearing stories from our liaison that the availability of labour remains a bit of a constraint on some businesses.

Wages growth is past its peak but it remains high relative to productivity growth which has been weak for some time. Weak productivity growth weighs on growth in the economy's supply capacity; so compared to a scenario where productivity growth is stronger, weak productivity growth means it takes longer for the gap between demand and supply to close and therefore longer for inflation to return to target. Although goods inflation has returned around about normal, services inflation remains elevated.



Housing prices continue to grow strongly because of the imbalance between strong demand and lack of new housing supply but the pace of growth and advertised rents has slowed a bit.

GDP growth is very subdued at 0.2 per cent in the June quarter. That was in line with our August Statement. Private domestic demand declined in the quarter driven by weaker than expected household consumption. June quarter National Accounts and other recent data suggest a slightly softer outlook for the economic activity in the near term than what we were expecting in August. Although there have been some early signs of pick up in spending based on bank transaction data for August but that's very preliminary. Overall the weaker than expected momentum over the first half of the year and the mixed picture from recent indicators suggest there's some risk that consumption growth could remain subdued for a little longer than we previously anticipated.

So what does this all mean? Well, the recent data I think you would agree have been a little mixed, but overall they reinforce the need to maintain a restrictive monetary policy stance and remain vigilant to the upside risks of inflation. The Board needs to be confident that inflation is moving sustainably toward the target before any decision about reduction in interest rates. We really need to see progress in underlying inflation coming back down toward the target. Thank you and I'm happy to take your questions.

#### **Peter Ryan (ABC)**

Governor, you said you're remaining resolute and vigilant about getting inflation back into the band. You've also said you're not ruling anything in or anything out. Did you consider an interest rate increase and was there any debate or discussion about cutting interest rates?

#### **Michele Bullock**

We didn't explicitly consider an interest rate rise at this meeting. The format of the meeting was slightly different. The way we framed the discussion really was around what had changed since August. And what would we need to see to go either a raise in interest rates or a lowering in interest rates. So there wasn't an explicit alternative in the sense that I've talked about in the past.

#### **John Rolfe (The Daily Telegraph)**

Former Treasurer Wayne Swann recently said, 'I think the Reserve Bank is putting economic dogma over rational economic decision-making. The government is doing a lot to bring down inflation but the Reserve Bank is punching itself in the face. It's counterproductive and it's not good economic policy.' What do you say to that?

#### **Michele Bullock**

I will stay out of the politics of it, John. My only comment would be that what we are doing is what we think is best to maintain this narrow path of bringing inflation back down because it's still too high. It's still not back in the band. According to our current forecasts it's not really forecast to come back sustainably into the band until 2026. So that's our focus. And I would



have to say at the moment we still think we're on that path where we're managing to do that without resulting in a large increase in the unemployment rate. We've still got employment growing which is really positive. In fact the last few months it's grown quite strongly. So I would say I'm focusing and the Board is focusing on what we can do to bring inflation back down because, as I have said a number of times, that's the most important thing we can do to ease pressures on people is bring inflation back down.

### **John Kehoe (*Australian Financial Review*)**

Just on the RBA Board reforms, now that there's no longer bipartisan support for it and the Greens have said they will only support it if the Reserve Bank on the condition that you cut interest rates, do you still think that it is worth pursuing that dual Board structure at the moment in this political environment?

### **Michele Bullock**

Again, I'm going to stay out of the politics. Obviously there's legislation that is currently in the Parliament and there is a bit of debate about that. Interestingly, of the 55 recommendations in the Review, only 14 rely on legislation and admittedly the dual Board structure is part of that. So we've done a lot of work on that and I have to say my team here at the bank has done a lot of work on how we might set that up. Even if we don't end up with this new governance structure - again this is entirely up to the political process - it's not my business - even if we don't get that, we've still done a lot of great work in how to improve our governance in the Reserve Bank. I should remind people, I think, even though the focus here is interest rates - and this isn't the only thing the Reserve Bank does. The Reserve Bank operates banking for the government. So welfare payments, all those sorts of things go through the Reserve Bank. We operate the critical payment systems in the country, we operate the cash distribution, the wholesale cash distribution system, we have a massive IT operation. All of these things are really important functions of the Bank and at the moment I'm the sole accountable authority for those. So I think that it would be good for us to get some structure and I think we can, even if we don't end up with this new dual Board structure, some assistance for me in managing that because I think there's lots of good opportunities to bring experienced non-executives in, and we have some of those on the Reserve Bank Board currently, actually, who can assist with thinking about some of these big operational risks and challenges that the Reserve Bank has on its plate.

### **Peter Hannam (*The Guardian*)**

You mentioned then progress on bringing the underlying inflation rate is likely to remain slow in the September quarter. Given that we're not getting the monthly figures until tomorrow and then there is obviously the September quarter coming out at the end of October, what are the indicators that you're looking at to come to that conclusion? Is it, for instance, data on how much the tax cuts are being spent or the rate of the closing of the output gap? Can you maybe elaborate?



## Michele Bullock

Sure. Let me make one point upfront about the monthly inflation indicator, it's quite volatile. It moves around quite a lot. It's only partial - It doesn't capture everything. The one tomorrow will capture more services than the earlier one. That will be important because what we've seen in the most recent inflation figures is that services has been the thing that's been holding inflation up. One of the other important things we've noticed in recent inflation numbers is that building cost inflation has been relatively high as well, so they're a couple of important things. Having said that, one thing that we are expecting with tomorrow's monthly CPI is that we will expect to see the cost of living relief come into play, and what that's going to do is lower energy prices, fuel prices have also come down in recent months. So we're expecting it could well be, on current forecasts, that the inflation rate, the headline inflation rate in fact comes in 12 month end at below 3 per cent. So that is important because it's reflecting cost of living relief. So it is reflected in the prices that people are seeing. But it's not really reflective of the underlying inflation pulse which is more what are we observing happening with services, really, which is the crux of the matter. And I think, really, what we think that reflects is that demand is still a little bit above supply. That that gap is still remaining there. And that's what that inflation pressure is reflective of.

## Chris Kohler (Channel Nine)

You mentioned the global picture briefly before but interest rates are now coming down in the US, Canada, UK, Europe, New Zealand and China. A borrower here might be looking at that and saying what gives, where is my rate cut? What do you say to those borrowers?

## Michele Bullock

The first point I would make here is that Australia can set interest rates to its own domestic circumstances. We have a floating exchange rate so we are able to do that. Economic circumstances here are a little different than they are overseas. Some of the countries you cited, New Zealand, Canada, for example, seeing quite sharp rises in their unemployment rates. The United States is a little different as well. It's seen inflation come - and some of those countries too are seeing inflation come down further than we are at the moment. So their disinflation process is further advanced than ours is. Same in the United States. The other point I would make is most of those countries had official interest rates up around 5- over 5 per cent. So in our judgment we look at how restrictive some of those countries are relative to us. We're restrictive but we think they are more restrictive than us so they are removing some of their restriction because they are seeing disinflation and they are seeing their labour markets respond as well. We're yet to see some of that but we didn't go up as far as other countries. So I think that's the explanation I would give to people. We didn't go up as high, we haven't seen the same deterioration in the labour market some of these countries are seen yet and we are yet to see some of this inflation that they are. But we're watching for that.



### **Aaron Patrick (The Nightly)**

If I could read you a quote and ask your response, please. Former Productivity Commissioner wrote this morning, 'the Treasurer is coming very close to undermining the independence of the Reserve Bank by hinting Australia should be following suit as official interest rates are cut in several advanced economies.' How are you feeling about your independence? Are you feeling very independent? Are you feeling there is any pressure on it?

### **Michele Bullock**

We had a meeting in the last couple of days at which the Board were just extremely focused on what we have to do to get inflation down, and that's the focus. I'm not focused on what other people are saying about me or the Board.

### **Eric Johnston (The Australian)**

You spoke in your opening comments about sticky inflation. If we just turn our attention to that. Is there still some areas, particularly around wages and other inputs into this sticky inflation that's concerning you or is that sort of starting to pan out as you expected? What do the parts of the sticky inflation that are making you worried?

### **Michele Bullock**

I'm reluctant to get into specifics because every time I get into specifics someone seems to get offended. So I'm not going to get into specifics. What I would say is that if you look at—most around the world, we're not unusual that services inflation is remaining sticky. And in some sense that's not surprising because the massive goods price inflation that we saw through 2022 and started to come off in 2023, that was partly supply chain issues which were linked with a massive demand response through the pandemic. Once everyone came out of the pandemic then demand for services went up because people could suddenly consume all these sorts of things they weren't able to consume. And at the same time the supply of those services found it difficult to respond and labour was a very good example of where you might all recall that there were grave shortages of labour in many services, hospitality was a classic one. So I think we're still seeing that there's a carryover from that. The goods price inflation has largely come down but most countries are still seeing services price inflation elevated. So what we expect is that, as demand normalises, and we are seeing from the National Accounts, that discretionary expenditure is actually declining. People are cutting back on discretionary expenditure and services is a classic area of that. So that was sort of happening in the first half of this year. That's what we know from the June National Accounts. So our forecasts, if they come to be, we're expecting - we will expect to see consumption recover a bit as income starts to recover and wealth is, of course, rising through housing prices but we are expecting to see demand for services actually come back more into line with supply of those services over the next year or so. So that's what we're focusing on.



### **Deborah Knight (Nine Radio)**

Economics is often, can be, quite heartless with decisions based on numbers rather than on people. You recently said that struggling homeowners might need to sell their homes. Do you factor in the human cost? How much of that human cost are you factoring into the decision-making that you are making?

### **Michele Bullock**

I would like to address that point. What I was trying to do when I was talking about that was exactly your point. I wanted people to understand that we do recognise that there are people out there that are having to make some very, very difficult decisions. That was the purpose of the bit in the speech and if you didn't read it in full I would encourage you to read it in full. It was not advice to people. It was really to recognise that we understand that there are some very difficult decisions going on here. You are right, we only have - and I have said this before as well - we only have one instrument. It's the interest rate. I do understand that distributionally it affects people in different ways. The government has more tools at its disposal but we only have the one instrument. So really, in my comments I wanted to make that absolutely clear. I wanted people to understand that we do know this and although we can't do anything about it with our interest rate policies because we only have one interest rate, we do understand and in trying to tread this narrow path and maintain the gains in the labour market, one of the most important things for people to be able to continue to meet their expenses and keep their homes is that they have employment. And that's why it's so important for us that we get this balance between bringing inflation down while trying to keep the gains in the labour market. So that's the way we're trying to manage it but it's blunt, I agree.

### **Caroline Marcus (Sky News)**

Since the last RBA meeting there's been a significant escalation in the conflict in the Middle East. How do you see that geopolitical volatility affecting the Australian economy?

### **Michele Bullock**

Look, it's an interesting question. It's very difficult to tell. The way it might impact is if it was a broader escalation and there were implications for energy prices and fuel prices and so on, or perhaps transport costs. We're not seeing that at the moment but obviously it is a watching brief for I think probably everyone around the world. But at the moment we're not seeing it as impacting our economic conditions here.

### **Kayla Olaya (Sydney Morning Herald)**

Over the past two years the RBA has downplayed price margin maintenance and price gouging tactics by companies. Given the accusations against Coles and Woolies from the ACCC and the Prime Minister, do you think it's time to revisit that thinking?



## Michele Bullock

I'm not going to comment on the case, obviously. That's for the ACCC and obviously before the courts. I would only reiterate what I think I've said before. Back in May 2023, I think we had a Box in the *Statement on Monetary Policy*. We looked at an aggregate level and said, well, look, profit margins - leave mining to one side - profit margins haven't expanded. What that was telling us was that as costs were going up, on average businesses were just passing on the costs but they weren't any more than passing on the costs. Having said that, it's quite possible that some individual firms might have used opportunities of strong demand to more than pass on any increases in costs and increase their profit margins but at aggregate level, it wasn't showing up as something that was widespread across the whole economy that - the non-mining sector was expanding its profit margins. We keep an eye on this sort of thing. I don't think we see any evidence that that conclusion has changed but we keep an eye on that. But at the moment, really the focus is on slowing the growth in demand, which it is slowing, and that is going to mean that it's much more difficult for businesses to pass on costs and to increase margins.

## Stella Qiu (Reuters)

It's curious this time around you haven't mentioned rate cuts are unlikely in the near term. Is there a reason why? Do you stand by that assessment based on what you know today?

## Michele Bullock

Yes. Didn't I mention it? I will mention it now. Yes, the Board did discuss whether or not the messaging should change. As I said at the beginning we didn't explicitly consider an interest rate rise because the framing of the discussion was what has changed since last time? And the assessment was not enough and it was mixed enough for us not to change our view from last time. Having said that, the message clearly from the Board is that in the near term it does not see interest rate cuts.

## Cecile Lefort (*Australian Financial Review*)

With the real interest rates in the US far above those in Australia, about 1.5 percentage points, how confident are you that our interest rates are high enough to bring inflation back sustainably to target? And also now that the Fed have cut rates by more than expected. How do you see that affecting your policy?

## Michele Bullock

I mentioned earlier that the Fed went up more than we did, as did many other countries. If you look at our sort of judgments about how restrictive our policy is relative to some other countries when they were at their peak interest rates, it's true that we assess that we are restrictive but we're a bit less restrictive than some of those countries were at their peak. And that was a deliberate strategy to get into restrictive territory, to slow growth in demand enough to ultimately bring it back into line with supply while maintaining the gains in the labour market. Some of these other countries now estimate that they have what you would



call a negative output gap. Some of them now estimate that they have demand less than supply, which is why they are seeing their unemployment rates rise quite sharply. Again, it's part of our strategy, it's the way we've been trying to do this, to maintain those gains in the labour market but we still need to focus on inflation, and if it looks like inflation is not coming down or it's starting to go back up again, then we'll have to reconsider that strategy if we're restrictive enough. But we judge we are restrictive.

### **Nadia Daly (ABC)**

Governor, if the jobs market is still so strong and inflation is, as you have said, uncomfortably high, why is the economy barely growing?

### **Michele Bullock**

So if you look at the National Accounts, what you would see is that consumption has been very, very sluggish, and part of that is because people are under pressure with interest rates, they're under pressure with inflation. Even people who don't have mortgages are under pressure because the cost of everything is higher. So they're under pressure. And a lot of them are renters so they are under pressure there as well. So despite the fact that we've got growth in jobs, that's helping people to keep paying those bills even though prices are higher, rents are higher and mortgage rates are higher. I want to distinguish again between the concept of levels of demand and growth in demand. So the economy isn't growing. So demand isn't growing very much but total demand, because of good employment and generally some of the savings, I guess, that people have; people basically are still demanding more than we can supply. So I just want to make that distinction between growth in demand and levels of demand and supply. So that's why I would say that you are observing per capita consumption declining as people say, but total demand, because we've got more people in the country, has been holding up. It's still not growing but it's holding up better than per capita.

### **Swati Pandey (Bloomberg)**

My question is really on your term as Governor so far when you took on the job in 2023 you did raise interest rate once but it's really been unchanged kind of scenario which was also in line with what we were seeing globally. Now the RBA has diverged. Do you think this part now as Governor is more challenging for you in terms of both communication but also the risk of a policy error?

### **Michele Bullock**

It's all challenging, I have to say. Not just monetary policy. There's been lots of other things going on at the Bank as well which has been equally challenging. On the monetary policy side of things, we didn't go up as far as everyone else. And our disinflation, as I said earlier, our disinflation hasn't been as marked as others, and our employment gains have held up. One of the challenges thinking about this is how much signal do we take from overseas? Are we just behind everyone else or is there something about the fact that we didn't put interest rates up as high as others that means we're going to diverge in terms of our path? So I wouldn't say that we're deliberately—we are diverging in a sense, but we've always been a little bit - we



didn't go up as high so when others are starting to come down and reduce their level of restrictiveness, we haven't had to come down yet because we're not quite as restrictive as everyone else and we're not seeing the same response in our economy. Yes, it is challenging. It's very uncertain. We highlight this in our media release, the uncertainties on both sides, and that's why we say that we can't rule anything in or out and we're prepared to respond in either direction if it looks like our forecasts, which are - I should highlight, I know everyone focuses on the midpoint of the forecast, but the bands around that are very uncertain, and it could be lower, it could be higher. Inflation could be lower or higher. Unemployment could be lower or higher. So we need to be alert. We need to be looking at the data. And we need to be - we need to respond when we see things are maybe not turning out the way we think in either direction.

### **Swati Pandey (Bloomberg)**

You are not worried about a policy error at this point?

### **Michele Bullock**

We're always worried about the uncertainties and whether or not we've got it particularly right. It's very uncertain. All I can say is that the Board is doing its best to judge what is the right level of restrictiveness to keep it on the narrow path.

### **Sophia Rodrigues (Central Bank Intel)**

(inaudible) speech at Jackson Hole, one line that caught my attention and he talks about it as a take away and I think it's applicable - it might be applicable to us - is that an important take away from recent experiences that inflation expectations reinforced by vigorous Central Bank action can facilitate disinflation without the need for slack. Given that our mandate is almost the same - not same - they have a strict dual mandate, we do not have a strict dual mandate, we have had strong labour market and I think on some metrics even stronger than the Fed, then why is it that the RBA have not considered - have a rigorous monetary policy reaction? What gives you - my question is a little long, I'm sorry. So back in August 2022, Dr Lowe and the RBA Board - Dr Lowe formulated the strategy that we will go slow on inflation and protect gains. Since then for all the Board meetings from then to now, how often have you revisited the strategy and did the RBA at any point think that we need to go hard?

### **Michele Bullock**

Well, we do revisit that strategy and we revisit it every meeting. We ask the question: do we still think we've got the right level of restrictiveness? Do we still think we're on the narrow path? Yes, we do that at every meeting. You recall we adjusted upwards at November last year which you highlighted because we felt we needed to take out a bit more insurance but we haven't moved since then. And we do think that we are restrictive. We do think all the signs are, consumption, we think inflation is coming down, it's just coming down slowly. Inflation expectations remains anchored. So yes, that's something we discuss at every meeting and we still think, as I said, that we've got the right level of restrictiveness at the



moment but if the data start to suggest to us that one way or the other, we're either on the down-side or on the up-side, then we will have to respond. Can't rule anything in or out.

### **Sophia Rodrigues (Central Bank Intel)**

But that's only in terms of up sides but what about strategy, what about going hard and getting inflation into the target say by end of 2025.

### **Michele Bullock**

Sophia, that could be an alternative strategy which is go up really hard, smash the economy, to use a term, and then be prepared to come back down very quickly. We've chosen a strategy which is to get into restrictive territory, see if we can bring inflation down by, bringing demand back down to supply without actually moving into a negative output gap. That's what we're trying to do.

### **Nic Fildes (Financial Times)**

Just a quick one back to the RBA reforms, the RBA has been used as a political football in recent days, it feels like. I am wondering what effect that has had on the Bank, on the decision-making and whether given the uncertainty about what's doing to happen presuming you are preparing for that, whether that has left the bank in a bit of limbo.

### **Michele Bullock**

I go back to a comment I made earlier that 55 of the recommendations for the Review - the review recommended for the bank, 14 of those were dependent on legislation. Most of them weren't. So actually, the Bank is pushing ahead with implementing and you have seen a lot of stuff on the external side, you see the 8 meetings a year, you see the press conferences. What you don't see is what we've done internally and we've done a lot internally. We've completely changed our monetary policy processes, we've changed the Board papers. You will have seen we've actually changed the way we do the Statement on Monetary Policy as well. We're working on our culture, we've changed the way we work between groups and departments in the Bank. So we've made a lot of internal change with respect to this. Now, where the political process comes out on this, the political process will come out. What we will do is we will work to do what we can internally, whether it's under new legislation or the old legislation, to implement some of the changes if we need - as I said earlier, it would be good to look at our governance processes, the risk management, all those sorts of things. We're doing all of that anyway. And if it turns out we get new legislation with a new Board, then we will be in a good position. If we don't, we'll be in a good position. I mean, I have been on the record as saying that I think a governance Board with experienced non-executive directors would be helpful for me in terms of managing the Bank. I outlined for you earlier all the things the bank does. It's a complex institution but if we don't get that, then there's other things that we can do without legislation which will allow us to advance that.



### **Hans Lee (Livewire Market)**

Given last week's move from the Fed I'm curious do you envisage any scenario where the RBA will cut by 50 basis points at some point in this cycle and, if so, what would such a scenario look like?

### **Michele Bullock**

That sounds awfully like a cry for forward guidance. We are not thinking about actual numbers of how we might cut. All I would do is reiterate what I said earlier which was that we are looking at the data and we're not ruling out, we might raise, we're not ruling out we might cut. We think we're in the right spot at the moment. When the time comes, then we'll have a discussion about how urgent in one direction or the other is it that we move, and how big those moves will be. So I wouldn't like to speculate right now about the size of any moves but I just want to, again, reiterate that we're data driven, we're watching not only the data in the past but we've got all of our liaison and business surveys and things which are trying to give us a bit of a window to the future. We use all that information. We're going to be using that to make decisions about whether or not our forecasts look like they're coming in on track. And if they're not, which direction are they not and how do we need to respond.

### **Kath Landers (SBS)**

You have largely covered this already but to what degree does the RBA take into consideration moves by other Central Banks globally?

### **Michele Bullock**

As I said earlier we have a floating exchange rate so we can set our interest rate policy for domestic conditions. So we can do that. We're obviously interested in what's going on overseas because it might be telling us something about what might happen here ultimately but it might be telling us about the strength of the global economy and what that might mean for our exports. But ultimately, if other countries are lowering their interest rates, and we're not, then that gives a bit of support for our exchange rate. Now, I know that people focus on the cash rate channel as the way monetary policy works in Australia, but actually the exchange rate is another channel through which policy can work, and if we keep our interest rates where they are and others start lowering, ultimately that gives a bit of support to the exchange rate which is good for inflation. So it's something we consider but ultimately we need to focus on setting monetary policy for what we think is best for the Australian economy and, as I said earlier, the challenge for us still is that we haven't seen the same disinflation as they've seen overseas and ultimately that is the challenge for the Australian public. That's why people are hurting is inflation.

### **Juliette Saly (AusBiz)**

You mentioned in the Statement labour productivity is only at 2016 levels. How confident are you that it will pick up enough to disinflate economy and if it doesn't, does that therefore mean we could be higher for longer for all of 2025?



## Michele Bullock

So the challenge with productivity is that, as you highlight, that's the supply side of the economy. You remember I talked earlier about demand slowing to bring it back in line with supply. Obviously if supply rises more quickly then we get to that balance more quickly. So it is important that productivity picks up but it's important it picks up in a long run sense because productivity growth is the way we grow our living standards and if productivity isn't growing, obviously that's not great and it means that wage rises, people can't get real wage rises because they are not being more productive in what they are doing. So it's really important that it picks up. A small caution, the productivity numbers have been very, very volatile through the COVID period. So we are - and I think I have described myself ultimately as an optimist on productivity, that it will start to pick up, but at the moment it's really very weak. So it's important it picks up. I can't do anything about productivity. It's important, obviously, because it does have a bearing on how quickly demand can run without running into inflationary issues, it's important for those reasons but I can't do anything about it. So hopefully things will start to pick up in productivity terms. One thing I would observe is that a lot of countries around the world - the US is an exception, they've had productivity growth in the last few years - most countries around the world have not seen productivity growth. It might be we've just got to come out of the ripples of the pandemic before we start to see productivity pick up again, but at the moment it's as we've said, 2016 levels, and we really need some impetus in that to help us with inflation but help us with our living standards.

## Hugo Mathers (Capital Brief)

There have been calls from some quarters for the government to step in on rates. I won't ask for a political comment could you share your thinking in the event a move like that happened? Do you see it as a likely risk? And have the Board discussed it?

## Michele Bullock

So you are talking about the section 11 which is part of the *Reserve Bank Act* where the government can overrule the Reserve Bank. It's never been used. We've not discussed it being used.

## Matt Bell (*The Australian*)

Recently the Bank has started to shift the language around the term 'returning inflation to target' to now be 'sustainably to target'. What does sustainably look like to you, Governor?

## Michele Bullock

So sustainably means that we're getting there and we're staying there, in effect. I want to highlight - and we did sort of bring this out in the media release - there's two things going on here. There's what we'll see in headline inflation which is going to be affected by one-off factors and volatile components, and then there's underlying inflation. Over time, the two things will converge to be together, but quarter to quarter they can diverge. So I think the point I would make is that if tomorrow we get an inflation number which has got a 2 in front



of it so it's back in the band, that doesn't mean that we've got inflation under control. It doesn't mean that inflation is sustainably back within the band. It just means it's back there at the moment. So I think what I want to draw out with sustainably is that we need to see that there's a consistent trend down to the band and it's going to stay in the band rather than dip in and out. But that's the concept I think. I hope that explains it.

### **David Taylor (ABC)**

Are you confident that Australia will not enter a recession in the next 12 months?

### **Michele Bullock**

It's a very good question, David. Our forecasts do not have it entering recession at the moment. But as I have said, if you look at the forecasts, there are very wide bands, the further out you go, the broader the bands of error. Certainly, we are aiming not to end up in recession. That's what we're aiming for. Could I guarantee it? No. You only have to look at the forecast errors to see I can't guarantee anything. But certainly that is what we are aiming at.

### **Michael Stutchbury (AFR)**

You referred before about the exchange rate being a mechanism through one monetary policy works, particularly as other central banks cut and you said that would be good for inflation if the Australian dollar rises. I think we're reporting the dollar has risen to a 12-month high of 68/62 or thereabouts after your Statement today. Would you think that's a good thing the dollar is rising and would you encourage it to rise further as a way to have that transmission of monetary policy operating more clearly?

### **Michele Bullock**

No, I wouldn't be encouraging. It's an outworking of our interest rate policy that we're aiming at domestic conditions. So I'm not suggesting that we would be encouraging anything with the exchange rate but, as I said, one of the potential impacts of aiming our interest rate policy at the domestic conditions, it might be that one impact is that the exchange rate moves. So I'm not encouraging or discouraging. The only thing I would highlight, though, is that it is ultimately the Trade Weighted Index I think that matters more here rather than just the US dollar. There is a bit more at play than just the US dollar rate.