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Michele Bullock

Governor

Transcript

Governor, Michele Bullock

Thank you all for coming and I hope you're enjoying a slightly more spacious experience than the previous press conferences. So today, as you know, the Board decided to leave the cash rate unchanged. For now, the Board judges that the level of the cash rate is appropriate for balancing our inflation and employment objectives, but there is still some considerable uncertainty about the outlook. I want to highlight here that there is still a risk that inflation will take too long to return to target. So, the recent CPI data were broadly in line with our expectations, our forecasts, but make no mistake, inflation is still too high and the Board does remain concerned about the degree of excess demand in the economy.

Now, what I mean by that is that the amount of goods and services that households and businesses and government want to buy and need, that's more than the amount that the economy can sustainably provide supply, if you like. To paraphrase what I heard someone say quite simply the other day was 'inflation is when there's too many goods chasing the same amount of things'. And when demand is above supply, that's inflation – prices go up. So, demand has been above supply for some time now and we've been highlighting this and that's the key reason why inflation has been so persistent. You will recall earlier in the pandemic and the immediate post-pandemic period we had difficulties on the supply side of the economy. There were things like shipping backlogs, there were shortages with certain goods and this overlapped with a period when people were demanding a lot of goods so there was a substantial increase in energy costs as well at the time when Russia invaded Ukraine, and all of these things conspired, basically, and resulted in higher goods price inflation around the world and that was the case in Australia as well.

Now, these supply shocks have largely now worked their way through the system and what we're dealing with is continued strong demand, particularly for services. And we're using the tool we have – monetary policy – to operate on the demand side of the economy. We're trying to bring demand back into balance with supply and get the inflation rate back into the target band of between 2 and 3 per cent. But the fact is that the progress on bringing inflation down has been very slow for a year now and while growth of demand has been slow, there's actually no guarantee that supply and demand will return to balance quickly enough. So what we really need to see is the underlying pulse of inflation, and we look at that as the trimmed mean, to start to come down further, because the longer inflation remains elevated the more



it hurts everyone, all Australians. So, we really need to stay the course in this to try and bring inflation back down by slowing the growth in demand.

The Board also discussed the rise in volatility that we've seen in global financial markets after the last couple of days. In part this is reflecting the markets adjusting to economic news in a period where there's already considerable uncertainty about the outlook, and we'll be keeping an eye on this as you'd expect.

Finally, I'd like to make a few observations on the Australian economy. So, you will have seen in the outlook today in the *Statement on Monetary Policy* we've revised up our forecasts for demand growth and that's due to stronger forecast public spending and an expected pick-up in household consumption. We've got conditions in the labour market easing gradually but they're still tight. Average hours worked and the participation rate have been holding up. Vacancies have come down, but they're still higher than they were before the pandemic. And wages growth appears to have peaked but it's still high and the growth of unit labour costs – and that's what it's actually costing businesses to employ workers for what they output – that remains elevated, and a key reason for that is because productivity growth remains pretty slow.

So, these are all the forces that you think inflation might remain a bit higher for longer and that might result in interest rates remaining higher for longer, but there's also risks in the other direction which we also highlight.

It is possible, for example, that household consumption growth will pick up less than anticipated and that might be if households are a bit uncertain and they choose to save a bit more of their income than we're currently expecting. There's also some signs that the business sector is under a bit of pressure, that the business outlook isn't as rosy as it was. And although overall employment growth has been strong, much of this has been driven by developments in a narrow range of sectors such as health and education. Jobs growth in some other parts of the economy has weakened quite a lot.

So, we're setting policy for where the economy is heading, not based on where we've been, and that's the challenge. There's a high degree of uncertainty about this. We're coming out of an extraordinary period of massive supply shocks, a near zero cash rate back in 2022, massive fiscal support for the economy, all part of the pandemic and the pandemic response, and it's not surprising, really, that it's taking time for things to stabilise a bit.

So based on what I know today and what the Board knows today, what we can say is that a near-term reduction in the cash rate doesn't align with the Board's current thinking. We've seen from overseas experience how bumpy inflation can be on the way down, and across the economy we need to see demand and supply coming back into better balance. Now, I understand that this is not what people want to hear. I know there are many households and small businesses that are struggling with interest rates where they are. Many people are doing it tough and we're very conscious of that. The Board is very conscious of that. But really, the best thing we can do, and I've said this before, the best thing we can do is to bring inflation back down to target because we can't let inflation get away— It hurts everyone, it particularly



hurts people on lower incomes. This is why we need to stay the course on bringing down inflation until it's sustained in the band of 2 to 3 per cent.

So, thank you for that and I'm happy to take your questions.

Peter Hannam (*The Guardian*)

Did the RBA consider a rate rise at the meeting and what stopped you given financial conditions are less restrictive than you thought, demand continues to remain above supply, and the underlying inflation rate has fallen very little over the past year, as you've mentioned?

Michele Bullock

Yes, the Board did consider a rate rise at this meeting as well as a hold. Where the Board is now is that inflation is forecast to come back into the band at the end of 2025. If you look back that's exactly where we were in November last year – inflation coming back into the band at the end of 2025. The Board is trying, as we've said in the past, to steer a narrow path here, not result in a spike in unemployment. We want to try and keep employment growing if we can, and the judgment of the Board was that keeping the interest rate where it is and making sure that people understand that a rate cut is not on the agenda in the near-term, given what we know, that continued pressure will help to keep demand coming back into line with supply. That's the judgment the Board's made. But I should say that they are vigilant to the upside risks and if it does appear that inflation is not tracking the way we are forecasting then they will, if needed, increase interest rates.

Fiona Willan (*SkyNews*)

How much of a role did the market volatility play in today's decision?

Michele Bullock

The Board discussed it, obviously. It didn't play a role in the decision itself, but it is of interest and we do need to watch it. The trigger for it, as you know, was poor employment numbers in the United States and then coupled with a raise in interest rates in Japan there was a sense in which there was an adjustment of people's expectations to economic conditions in both those countries, but there was also an adjustment in terms of expectations, I think. In the equity markets, I think everyone felt that perhaps it was a bit rich, the valuations in the equity markets, particularly in the United States. So, I think there's been a readjustment there and there's also been a readjustment in investors who are indebted, who have leverage and have leveraged up into assets and they're now trying a little bit to think 'well, perhaps we better pull back a bit'. So there's some sense in which it's based on economic fundamentals, there's also a sense in which it's volatility as a result of people trying to adjust their position. So we're watching it very closely. I think things have settled down a bit today, but it was one employment number in the United States, and so I think we just need to have a little bit of caution and a little bit of calm.



Michael Read (AFR)

Governor, in November 2023 your old boss, Phil Lowe said if central banks pushed out their timeline for getting inflation back down to target out to 2026 the community will, and I quote, 'rightly say are they serious'. Has the Board's opinion about the acceptable deadline for taming inflation changed over the past year and is your new forecast of December 2026 for mid-point inflation a hard red line for you and the Board?

Michele Bullock

It's hard to talk about hard red lines in the context of the forecast because, as you know Michael, the forecasts are inherently uncertain and we're looking to get back to the middle of the band. I've said before that if we can get back into the top of the band and continue the downward trend by end '25, which is the current forecast, then I think that we'll be on a really good track for that. So I wouldn't set middle of 2026 as a red line in the sand because, quite frankly, there's a lot of water to flow under the bridge by then and if the Board feels that in the next six to 12 months that we're not even tracking to get back into the top of the band by the end of '25, then I think there'll be some very difficult decisions to make.

John Rolfe (The Daily Telegraph)

You used the term 'near term' about five minutes ago and until about five minutes ago I'm sure there were plenty of people who thought that a rate cut might be coming later this year. Could you please explain exactly what you mean by 'near term', and if you could put an actual timeframe on that? I just mean what is the difference between 'near term' and 'medium term' when you use that expression?

Michele Bullock

I'm going to obviously preface this by saying no forward guidance, but near term – I think what the Board's feeling is that the market path at the moment is pricing in interest rate reductions by the end of this year. I think the Board's feeling is that the near term, by the end of the year and the next six months, given what the Board knows at the moment and given what the forecasts are that that doesn't align with their thinking about interest rate reductions at the moment.

Nadia Daly (ABC)

Governor, markets are saying rates should be lower, have the markets got it right, and is a recession on the way?

Michele Bullock

So, the markets – it's interesting. The markets are saying that they expect us, they're betting their money, if you like, on that's what we'll do. I guess there's a question about whether or not – I wouldn't say are they right or not. They're trying to guess what we're going to do and what I'm trying to tell the markets today is that I think they've probably expectations for interest rate cuts are a little bit ahead of themselves. Are we heading for recession? I don't



believe so and the Board doesn't believe so because we still believe that we're on that narrow path. Having said that, we are data dependent and there's a number of things, as we mention in the *Statement on Monetary Policy*, that could result in the economy slowing much more quickly and inflation coming down much more quickly than we expect, and we need to be alert to those and if they come to pass then yes, interest rate cuts would be on the agenda. But at the moment, given what we know at the moment, and the forecasts, as I said earlier to John, the near-term interest rate cuts are not in the agenda.

Tom Dusevic (*The Australian*)

Since the May statement growth in public demand has nearly tripled by the end of the year from something like you're expecting 1.5 per cent, it's now 4.3 per cent. Is public spending keeping interest rates higher for longer?

Michele Bullock

I talked a little bit about this at the last press conference as well. I think it's very difficult in our forecasting framework to think of public demand by itself. You can't think of it by itself. You've got to think about it in the context of everything else that's happening, and yes, public demand has been revised up, but there's other elements of the economy in which demand has been revised down, and the extent to which public demand is offsetting weakness in private demand, it's not necessarily putting upward pressure on inflation. So I sort of would sort of encourage you to think a bit more broadly than just narrowly focusing on what one item went up when there's actually other items that are experiencing more weakness. And I think with our forecasts as they are, you will see, as I said earlier, that we're getting back into the band at the end of 2025, lots of uncertainty around that, and lots of things can go wrong on either side, so we just have to be alert.

Millie Muroi (*SMH*)

Why has the bank downgraded its forecast for wages and at what point or under what conditions, if not now, would wage growth begin to add to inflation pressures?

Michele Bullock

I'm not the head forecaster so I couldn't give you the technical specifics of why the wage forecast has been revised down. What I can say is that we have observed, in the recent wage data, that it does appear to have peaked and it is easing a bit, and as you would expect as our forecasts going out see the employment market soften a bit then we would expect to see wages growth soften a bit as well. The point that I made earlier, though, was that what adds to inflation is unit labour costs and unit labour costs are dependent upon not just wage rises but also what's happening to productivity, and productivity is difficult to read at the moment. It has been influenced by the pandemic, it's been very volatile. We do expect it to get back towards its trend level in the next year or so, but it's possible that at least in the next year or so, if productivity doesn't improve, then even wage rises of around 3½ per cent might not be enough to keep unit labour costs contained. Now, unit labour costs are part of what goes into businesses' costs. The extent to which they can pass them on depends on the level of demand



in the economy and as demand in the economy slows then it's possible that it will get a bit more difficult for businesses to pass it on. So, it doesn't necessarily mean that wage rises just automatically get passed on into prices at all. It all depends on what else is happening in the rest of the economy.

Swati Pandey (Bloomberg News)

If you could give us some flavour around the discussion on recent market volatility that happened at the Board meeting today. At what point does this become a concern for the central bank? And also with this easing cycle that is starting globally, RBNZ is seen cutting next week, Fed is maybe mid-cycle which probably is overdone, but could be. Is there any peer pressure at all? I know you're pushing back against interest rate cuts, but if there is this wave of easing.

Michele Bullock

Peer pressure. The discussion on volatility, we had some briefings on that yesterday and today, because of what went on overnight. It was really just to understand what was going on, what was the reasons for it. I think there was a bit of a feeling that it was a bit of an overreaction in some ways. It was one number. But it was a reassessment by some parts of the market as to the US economy, and I think the Board discussed, well, how much signal do you take from that. I don't think they took a lot from it, but they accepted that they needed to just keep an eye on it. But things were settled down a bit today and, as I said earlier, the dramatic reaction in the equity market in particular is at least partly driven by investment decisions, people who were borrowing in Japan and investing in the United States all of a sudden leveraged finding, 'oh dear, maybe I better reverse this'. So, there's a lot of fundamental stuff going on as well so I think we need to wait and see. As I said earlier, it didn't factor into the Board's decision on what to do with interest rates today. On the peer pressure point, I mean interestingly, I think other countries have experienced a little bit of this as well. A lot of commentators are saying, 'well, no-one can go until the Fed goes'. That's not true. Canada went, Sweden, Euro, UK now. So, the point about a floating exchange rate is you do have a little bit of flexibility. You still have to consider what's going on in other economies, but you can focus a little bit on your domestic, more on your domestic economy. You do have to watch what happens to your exchange rate, but the beauty of the floating exchange rate is it does give you that flexibility. So I would resist peer pressure.

John Kehoe (AFR)

You said earlier that the Board today considered a potential rate rise or holding rates pat as you did. How serious was the contemplation of a rate rise? Was it any more likely or more serious than any of the meetings you've had since you last raised rates in November last year?

Michele Bullock

It's a difficult sort of judgment to make, I suppose. It was a very serious consideration. There were only two things on the table. Hold, and hold accepting that we might have to hold for some time, or raise. And I think the Board felt that the risks associated with raising at this



point as opposed to holding where we are and just staying where we are, warranted the second alternative, which is what we did.

Stella Qui (Reuters)

I want to ask about the headline CPI. So according to your forecast it's expected to turn to the top of the target band by the end of this year. So is that going to have an impact on people's inflation expectations, setting behaviours and do you think that increases the public pressure for you to cut?

Michele Bullock

We actually put a Box in the *Statement on Monetary Policy* talking about the headline and the underlying inflation, if you like, the trimmed mean. The headline in the next year or so, as we know, is going to be quite impacted by the temporary impacts of the energy rebates in particular, and what will happen is that it will lower the headline inflation rate and then it will pop back up again after the rebates roll off and that's in our forecasts. We think for the moment the best indicator of what underlying inflationary expectations are doing sets in the trimmed mean. We think that's the best indicator. Over time you'd expect the two of them to go together, but the trimmed mean smooths out the volatility that you tend to get in the headline. Now, to your question will it affect expectations, yes, I think that if people see a number with a 2 in front of it, it might affect expectations. It might affect at the margins some people's thoughts on wage rises and so on. So I think it might have an impact, and that might ultimately have a flow-through to the underlying inflation. But I think, broadly, people understand that we're about the underlying inflation pressure here and just because it pops down briefly for a few quarters under 3 and then pops back up, I think people would understand that we're in here for the long game. We're not in here for the quarter-to-quarter movement, so that's the message that I'll try to be getting across to people, is that yes, be aware that these things are happening but they're short-term and what we're focused on is making sure that the underlying inflation is coming down steadily below that.

Poppy Johnston (AAP)

I was hoping you could expand on some of the information about business pricing decisions coming out of the liaison program. There seemed to be a bit of uncertainty there perhaps. Can you expand on what businesses and firms were telling you?

Michele Bullock

First point I should make is that I don't see as many businesses as my liaison team do. They're really the experts on this. I obviously get the summaries from them. I think it's fair to say that businesses are finding their cost pressures, labour and non-labour costs, it's not just labour costs, are affecting them. They are seeing those costs, and I think if you went back a year or so it would be fair to say that they felt they could just pass those on. Certainly, in some of the discussions I've had with some businesses they are conscious now that it's possibly a bit more difficult to pass it on. That's the impact of demand slowing, demand coming back in a bit. So I think some businesses are really finding it very, very challenging, and we know this from



insolvency numbers that that is rising now from very, very low levels, but a lot of businesses are feeling the cost pressures and they're finding themselves a little bit squeezed between those cost pressures and the ability to put prices up. So, I think that would be a reasonable summary.

Cecile Lefort (AFR)

You factored in rate cuts and government subsidies in your forecast. How confident are you that we won't see a revival in consumer spending?

Michelle Bullock

Sorry, rate cuts in government ...—

Cecile Lefort (AFR)

In your forecasts.

Michele Bullock

So, we've factored in tax cuts?

Cecile Lefort (AFR)

And tax ... rate cuts and government subsidies in your forecasts, where the cash rate will be.

Michele Bullock

Okay. Sorry. The cash rate assumption, and it is an assumption, it is a technical assumption and it is just the market path. So if you read the forecasts and you think about that, that would suggest that if the market path is for a cut in interest rates and there are no cuts in interest rates then you might expect that the forecasts for inflation coming into target might in fact move a little bit depending on how big that difference is between the technical assumption and what actually transpires in terms of rate cuts. So, I don't want people to get hung up on the technical assumption, but it does tell you something about ... it's a benchmark, if you like. If the rate path is higher than that, then that will tell you something about what might happen, what direction our forecasts for inflation in the economy might go. So that's to that point.

In terms of the subsidies, look, yes, in theory if you give people subsidies for, say, electricity on their power bill, they're spending less on their power bills and they've got a little bit more money to spend. How significant is that? I don't think it's hugely significant. I mean, \$300, \$75 a quarter, maybe it's one cup of coffee a week. I don't know. I mean I don't think that it's going to be that significant in terms of consumption outcomes that it's going to change our forecasts markedly.

David Taylor (ABC)

Philip Lowe used to receive letters on his desk, I assume maybe people emailed them or actually sent physical letters telling them how they were feeling, letters from the public, and



some of them were pretty distressing. You've been in the job long enough now that people know what you are and what you're about. Have you been receiving letters and have some of those letters been quite distressing from mortgage borrowers and what finances they're facing?

Michele Bullock

The answer is yes, I have, and I do read them and yes, some of them are quite distressing. I understand that monetary policy is a blunt tool and interest rates is a really blunt tool, but the point I would come back to, and I've made it a number of times, is that it's not just interest rates hurting those people, it's the cost of living. It's the fact that inflation has been so high now for a few years, and they're not used to seeing, and they don't want to see, the prices of their essentials going up at the rate they are. So, the most important thing that we, I and the Board, can do is to get that inflation rate back down. So, I do understand that, and as I said, I do get letters that tell me this, I do understand that, but really, getting inflation down is really the key to this ultimately being resolved so that households can just get on with their lives and not have to worry about this.

David Taylor (ABC)

Follow-up question, does it affect you personally?

Michele Bullock

Yes, it does. It does affect me personally. I do find it difficult to read some of them, and I can't respond to every single letter I receive. Some I do try to respond to, but it's difficult to read about it.

Juliette Saly (AusBiz)

You mentioned a couple of times that the market volatility has been by one US unemployment number. There's also the thought that it's a Fed policy misstep, they were too slow to hike, they've been too slow to cut. Are you worried about a policy misstep given what David just talked about and how distressed many Australians are?

Michele Bullock

Well, yes, we are worried and that's why we're worried on both sides of this. We're worried on the one hand that inflation might stay higher for longer which is bad for everyone, on the other hand we're worried that if certain things transpire and the economy slows more quickly more people lose their jobs, that's not great for people either, so we're worried on both sides. This is the nature of monetary policy. It is really uncertain. We have a lot of data which is telling us what went on in the past. We have survey data and liaison data which tries to give us a handle on what's going on in the future, but what ultimately happens to the economy is the outcome of the decisions of 25 million individuals, millions of businesses. No models can capture that. We try our best. We are trying our best to think where we think things will be



and how high we have to have interest rates in order to deliver a low inflation rate, but it's inherently uncertain.

Now, a couple of other points I'd quickly make is that we didn't go as high as the Fed. Our interest rates are lower and that's been used against us. People have said, well, some commentators are very certain that we haven't gone high enough and we need to go more, and that, I think, means that we're maybe not quite as restrictive as some other countries. We think we're restrictive but we've chosen that because we've deliberately tried to follow this narrow path of bringing inflation back down at the same time as we are preserving what we can in the labour market. It's uncertain and we are very alert to the risks, but we're doing our best.

Jonathan Shapiro (AFR)

Central banks often talk about the lags in monetary policy and it's been a fair amount of time since the RBA has raised interest rates. So my question is has the RBA changed its view on how long those lags in monetary policy are? Because if the RBA is saying there's no capacity in the economy, then how does it expect to bring inflation down?

Michele Bullock

No, I don't think we have. Mean, I think we think the lags are sort of up to 18 months for interest rates. If you just look at the cashflow channel, which is only one part of the channel, the cashflow channel has probably been a little bit slower this time because of the prevalence of fixed rate mortgages and that's still rolling off, and if you, I think it's in the *Statement on Monetary Policy*, you will see that we're still predicting that debt repayments are still going to be rising a bit over the next little while so there's still a little bit to come there in terms of that channel. I don't think we feel that the lags, long and variable, have changed necessarily, but obviously we need to be very alert to that and if it turns out that the previous interest rate rises have, we think, washed through the economy and we've still got inflationary pressures then that's a difficult decision to make.

Jennifer Duke (Capital Brief)

I was curious about whether or not you agree with some economists' perspectives, including some who have previously worked here, that Australia will shortly follow the kind of global disinflation trend in a very, very similar way such as to the US and whether that might suggest we're in for a similar rocky ride down the track. And on the point of being data dependent, the monthly data has been pretty volatile for inflation to the point where it surprised a lot of people in the June quarter. Has that data actually been helpful to you or has that been more difficult in determining what's going on?

Michele Bullock

So, on the CPI, we've always been a little bit cautious of the monthly CPI because of the reasons you highlight. Having said that, we've taken some signal from the monthly CPI and I think it's fair to say that taking too much signal from it, as some people did, turned out to give



people a bit of a wrong steer in terms of how high the inflation right might be. I'm looking forward to getting a full monthly CPI. It's going to be great. So, yes, it is very challenging. In terms of what other commentators ... —it's really funny, actually, over the last week I've read commentators with absolute certainty that we must lower interest rates now. I've also heard commentators with absolute certainty that we must raise interest rates now. I wish I had their certainty. So I think, yes, it's possible that we are just lagging and the disinflation will occur here as well, but I wanted to highlight for you something that I've said before again, and that is that services inflation around the world, notwithstanding headlines, if you look at services inflation, it's all elevated. It's all around 5 and 6. Everyone is around about the same, and the difference for us is that our goods price inflation is a bit higher than overseas, and a big reason for that is that we have new dwelling construction costs in our goods CPI and that is continuing to rise by about 5 per cent a year, and that's not in other people's CPIs. Everyone addresses housing costs in slightly different ways in the CPI. So that's what is sort of elevating ours, but inflation around the world in terms of services is bumpy and it's going up in some countries again. So, we've got to take some signal from overseas, but I think we do need to focus on our own domestic economic conditions and that's where our judgment that demand is still elevated relative to supply comes in.

Jessica Wang (Newswire)

Given the serious consideration the Board gave towards a rate rise ahead of today's decision, has the likelihood of a future rate rise increased since the Board's last meeting?

Michele Bullock

Oh, probabilities, that's a difficult one. I wouldn't say it's increased. I would say that the Board, though, are remaining very vigilant to the risks that it will continue to shift, that our getting back to target will continue to shift out. Now, they think it's where we are at the moment in terms of our central forecasts we're fine, but if it looks like that's shifting out again then I think the Board, the likelihood, or the probabilities of an interest rate rise do increase, but at this particular one I think over the last few meetings some of the data we've had have just raised the alert a little bit for the Board and that's why you will have seen in some of the statements that the statements have highlighted vigilance to the upside. Not ruling anything in or out, but vigilance to the upside.

Michael Heath (Bloomberg)

I just want to take you back to Wednesday and the inflation report which we haven't really touched on because so much has happened in between. How nervous were you ahead of that and how close did the RBA come to slipping off that narrow path? It was getting pretty thin until it came in under forecasts and everyone calmed down a bit.

Michele Bullock

Well, I was worried. I mean our forecast, as you know, was basically what we pretty much got. So I was worried given taking some signal from the monthlies that it would be higher, and I think in those circumstances it was going to be a very serious discussion about whether or not



monetary policy was tight enough. As it turns out the number's come on basically where we forecast and there was a little bit of good news in the sense that there was a reasonably broad base in some of the market services categories that show, still too high, but a little bit of easing in some of those market service. It wasn't just one or two, it was reasonably broad. Still far too high, but starting to ease off a little bit. So, we took a little bit of encouragement from that, I think, but I'm back to my earlier point that the inflation rate is still too high and it needs to come down to under 3 per cent, in that 2 to 3 per cent band. That is our aim.

Michael Heath (Bloomberg)

Can I just follow up, if you did have to hike again, is that the end of the narrow path?

Michele Bullock

It's difficult to say. Not necessarily. Not necessarily. I mean, it still might be that you might be able to maintain the narrow path with slightly higher interest rates. We're balancing risks on both sides. I think the staff forecasts basically see the risks broadly balanced on both sides of this at the moment, but it's still possible that you could end up on the narrow path, but at the moment we're focusing on the narrow path with interest rates where they are and I'll come back to the point I made earlier which was that at least what we know now and the forecasts, that implies that no near-term reductions in interest rates.

Misa Han (LinkedIn News)

I'm wondering about the return to office mandate, half a million public service sector workers being called into the office. Are you worried that might have an impact on services inflation, particularly around transportation, dining out and the whole point of the exercise is to stimulate the demand side of the economy in the CBD, do you have any concerns and that contributing to services inflation across Australia?

Michele Bullock

No, I don't, really, and I don't know what ... sort of our experience is that some people are loving coming back into the office, others not so much. So, with the mandates, that might make it a bit more challenging, but as the labour market eases it might be a little more difficult for employees to leave one job and go to another as the labour market eases. But I don't have any particular concerns that I think it will add to services inflation, no.

Sophia Rodrigues (Central Bank Intel)

At the June Board meeting one of the questions the Board couldn't answer was whether policy was sufficiently restrictive. Now, in the SMP your staff's assessment is that it is restrictive, I'm a little intrigued with this line in the cash rate statement which says 'policy will need to be sufficiently restrictive'. Is it 'need to be' or 'will need to remain'?



Michele Bullock

Well, it needs to remain sufficiently restrictive. That was a forward-looking sort of point, if you like, that it needs to be sufficiently restrictive. That's a statement of fact, if you like. So we weren't trying to say it's not restrictive enough now or it's got to be more restrictive in the future, just a statement of fact that it needs to be restrictive enough to bring inflation back down.

Sophia Rodrigues (Central Bank Intel)

And is that language a bit similar to what Bank of England had back in March, I think, and then went on to cut the policy rates? I'm just wondering whether this is a language which says that the cash rate is more likely to remain unchanged for some time?

Michele Bullock

I couldn't tell you about what the Bank of England said. I'd only observe that Bank of England, the Fed, Bank of New Zealand, all have interest rates up above 5. Bank of Canada did too. We don't. And a number of people have remarked on this. We think we're restrictive, we're possibly a bit less restrictive than some of those economies, depends on what you think the neutral real interest rate is, but possibly. The point is that a lot of them are coming down and I think the bank of Canada has said this, they're coming from quite restrictive to less restrictive. They're still restrictive. So we're operating with our narrow path idea that we are restrictive enough and if we keep the restrictive enough then we will get back into target band in the time we need to.

Michael Stutchbury (AFR)

Question about the level on growth. On the one hand you seem to have increased your estimate of the excess demand gap in the economy and that's both on the high demand and weaker supply. Some people then on the other hand point to weak growth in the economy and suggest the economy is really slow, you need to cut rates to fuel growth because the economy is really weak. The question is what's behind, do you think, your estimate of the lower supply capacity in the economy and given this higher excess demand estimate is there really any scope, for example, consumer spending to increase at all from here on?

Michele Bullock

As you would know, estimates of productive capacity, supply, potential supply, they're very difficult to estimate, and we do have a go at looking at output gaps in our *Statement on Monetary Policy*, and you'll see very wide bands around the estimates. It's notoriously difficult. The reason we have revised our thinking on that a bit is mainly because of what we're observing in inflation. It's what we're observing as the outcomes. Inflation has been a bit more persistent than we were expecting, wage rises are coming off but the labour market has been a bit tighter than we expected. So, these things are telling us that perhaps our assessment of the demand/supply gap was a little too narrow. We weren't as narrow as we thought. So, I think, as I said, there's two things going on here. There's partly a demand story. The supply



story is partly a productivity story as well. But, again, these are very inherently difficult estimates. I wouldn't want to hang my hat on the precise estimates of these things, but what we're taking is signal from what we're observing in the economy in terms of the inflation outcomes and the labour market outcomes. That's where we're taking the signal from. So don't read a lot into it.

Michael Stutchbury (AFR)

(Inaudible)

Michele Bullock

Well, the amount of growth that we can have going forward, I think we've talked about this before, you know, productivity is really important for that. That's what grows the pie. Productivity, being able to produce more using the same amount of labour and capital, that's what grows the pie, and that's what's really important for growth going forward. So I think we all talk about this, and it's obviously not something within our control, and I know the government is focused on it, I know businesses have an incentive to focus on it, so we just really would like productivity to get back to some of its trend levels prior to the pandemic after it all got thrown out, and that's going to be really key to the fortunes of the country.