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Michele Bullock
Governor

Transcript

Governor Michele Bullock

Hi. Well, thank you all for coming and for your interest in the Board's deliberations today and this first media conference. It's actually a great opportunity for me to outline the Board's decision to the Australian community and to answer your questions on this.

The first thing I wanted to do, though, was just reflect a little bit on where we've come from over the last three to four years because I think we tend to forget it. We had a once in a lifetime pandemic and this was something that was entirely out of anyone's experience. In that context what we did was we took the cash rate, among other things, but the tool we had, that cash rate, we took it to practically 0 per cent. That was emergency settings. It was never going to stay there forever. I don't know what you would describe as normal, but possibly the situation where we're in now is back to more normal than it was certainly during those pandemic periods and certainly during the dark days of 2020 and 2021 when we were in lockdown.

But now the situation obviously is that we're fighting inflation, and the point about this is that inflation hurts all Australians. I think for many Australians the last two decades prior to the pandemic inflation was about 2 per cent. It was in the background. People weren't focused on it. Some prices were sort of increasing a bit more slowly, others a bit more fast, but basically it was in the background, people weren't worrying about it. That's not the case anymore. Everyone is focusing on inflation. For that reason, what we've seen is a very rapid rise in interest rates over the last 18 months to two years and it's been rapid because first of all, we had to remove all of that stimulus that we had from the pandemic and then we had to obviously address inflation, which means we had to get interest rates into restrictive territory. That said, the inflation rate still has a '4' in front of it.

Now, it's fair to say the Board does understand that people are doing it tough and a big reason for that is inflation. That's why it's really important we get inflation down. We have made good progress. Absolutely we've made good progress but there is more work to do. The job's not done. And the best thing that we can do with our tool is help households deal with the cost of living by getting inflation down. That's our aim. We want it back in the background again and people aren't worrying about it.

So, looking ahead we're forecasting inflation – we're expecting … our central forecast is inflation will return to the target range of 2–3 per cent in 2025 and it will reach the midpoint of the target range in 2026. The risks to the domestic outlook, they're broadly balanced, but I think it's fair to say we feel the costs of those are a bit different. There are a few risks we're mindful of and these are highlighted in the *Statement on Monetary Policy*. As I said, really welcome the recent decline in inflation, but while ever it remains above target there is a risk that inflationary expectations will drift further. That's obviously a risk we're concerned about because it would be costly to address if that happened. On the other hand, the recent weakness in household consumption could go on for longer than expected and that's a risk too and that might be compounded, for example, if growth offshore weakens. For all of these reasons the Board's going to continue to monitor the data closely and will do what we need to ensure that the economy remains on track for inflation to return to target while holding on to as many gains in the labour market as we can.

In short, by introduction, high inflation is bad for everyone. It's still high. We still have got a little way to go to get it down and that's what our job and our focus is for the next little while. So, I'll finish there and I'm happy to take questions and I think I start here.

Swati Pandey (Bloomberg)

Thank you Michele. I'm Swati from Bloomberg News. Your forecasts are pointing to downward revision to inflation and GDP, slight upward revision to unemployment, but the accompanying statement was read as hawkish by markets and economists. How do you square the two?

Governor Michele Bullock

The way I would square the two is to say that we are not ruling out what we might have to do next. We're not ruling in or out anything. We are focused on bringing inflation down. We still think the risks are balanced but as you would know, the further out we go with our forecasts the more uncertainty there is around them. So really what we're looking for is data which convinces us and helps us to be reassured that inflation is coming back to target within that timeframe. And that's important, as I said, because of the potential for inflationary expectations to drift. They haven't drifted yet, but that's the reason that we need to be reassured that it's coming back to target. So we're not ruling in anything or out anything.

Ron Mizen (*AFR*)

Governor, Ron Mizen from the *Australian Financial Review*. Market pricing at least certainly just prior to today's meeting had about two rate cuts forecast for this year. I'm wondering how realistic you think market pricing has been on rate cuts this year? And also in relation to productivity, can you give us a bit of an indication about how realistic you think that return to that long-run trend in productivity is over the next few years?

Governor Michele Bullock

If I forget the second question while I'm answering the first, forgive me. On market pricing, we don't think about market pricing as being a forecast of our own cash rate. Markets will make their own decisions and they're putting their money where their mouth is on those sorts of things, but we're not really driven by market pricing. Really what's important for us is looking at the economic data. We want to see that inflation continues to decline. We have had encouraging news so far, but it's still got a '4' in front of it so that for us is more important than market pricing, I think.

On productivity, I'd like to sort of get people to take a bit of a step back here and there's been a lot made about productivity and about the fact that if you look at the most recent productivity it hasn't really grown in five or six years, something like that. But I think you've got to remember that during the pandemic productivity estimates were all over the shop, they were everywhere. Concentrating on quarterly movements in productivity I don't think is particularly helpful. So, I think we need to take a step back. We have assumptions in our forecasts that productivity will return to some sort of long-run trend, which will be positive because that's really important for the economy to continue growing. I'm confident that that will occur, but I think concentrating on quarterly ups and downs is sort of distracting. It's a bit noisy so I think we just need to take a step back. Ultimately, I think productivity is going to return to the Australian economy. Technology will help. There is business investment going on and I think these things are all positive for productivity looking out further, not looking at the quarterly ups and downs.

Patrick Commins (*The Australian*)

Governor, Patrick Commins from *The Australian* newspaper. The government's revamped stage three tax cuts look like they'll pas –.they were introduced today and look like they'll pass. The question is given the beneficiaries of the bigger tax cuts will be lower and middle income earners and they tend to spend more of these bigger tax cuts, how much will that add to demand on spending and inflation?

Governor Michele Bullock

I think the very short answer to that is I don't think it's a material issue. If you look atTtreasury's analysis, which was published on the website, they actually did a little bit of an analysis to look at what might happen depending on different marginal propensities. It's very at the margin. The bottom line is that the fiscal envelope is the same. It's the same amount of money being handed to household, it's distributed slightly differently, but we don't think it has any implications for our forecasts.

Peter Ryan (ABC)

Governor, Peter Ryan from the ABC. Given what we are seeing in the revised forecasts in the quarterly *Statement on Monetary Policy* – softer GDP, inflation slowing faster than expected, the jobless rate ticking higher – was it a mistake by the RBA Board to raise the cash rate in November and have you overdone the rate rises?

Governor Michele Bullock

Thank you, Peter. The short answer is that we didn't make a mistake. All of this is based on risk and risk management framework in some sense. What we're doing here is we're trying to balance bringing inflation down versus keeping the employment gains of the pandemic that we made, which has been great. At the same time, we don't want inflationary expectations to rise, which would make the job harder and ultimately more costly. So, on that basis the raise in November, the risks had shifted to the upside and in order to mitigate some of those, to give a bit more assurance, that was the appropriate move at the time. I don't need to remind you, probably, you'd know this, we haven't gone up as far as other countries have gone up because we are trying very hard to make sure that we bring this balance in in terms of the employment and the inflation objectives.

Chris Reason (Channel 7)

Chris Reason from Channel 7. You've indicated that you're not going to rule out any further tax cuts which is going to terrify many Australians —

Governor Michele Bullock

Tax cuts?

Chris Reason (Channel 7)

Sorry, rate cuts. Are we now at the situation where people are going to be terribly nervous about that announcement today? We had been told by economists they could expect up to three cuts by the end of the year. Are you saying that is now completely ruled out? And is there a danger that if you don't act, that if we see unemployment numbers continue to rise, retail sales keep falling, that it gets away from you, we start to spiral down?

Governor Michele Bullock

As I said earlier, we haven't ruled anything out and we haven't ruled anything in. So, I would say we have maintained the option that it might be that there has to be more rate rises, but there might not be either. Nothing is in, nothing is out. The optionality needs to be maintained because we need to be driven by the data. And I'd come back to the point I made earlier. I really understand that the mortgage holders are sweating on this. I do understand that. But the big issue that's confronting not just mortgage holders, but everyone, is inflation and the fact that inflation is so high in so many parts of their lives at the moment is really what's hurting them. So, what's really important here is that we address that issue for people. That will help mortgage holders. I know that they're doing it tough, but it will also help renters, for example, who don't have mortgages and also are experiencing these inflationary pulses. So, in the end I think that's why we need to stay the course.

Chris Kohler (Nine News)

Governor, Chris Kohler from Nine News. Thank you for doing this. Looking at the forecasts, Australians could be forgiven for thinking there will be up to two interest rate cuts this year. As you said mortgage holders are hoping for that. What do you say to them?

Governor Michele Bullock

If you look at the forecasts, the point I'd make about the forecasts is there is a cash rate assumption in the forecasts and there has to be. We need some sort of assumption to work with there. But I emphasise the word 'assumption'. It isn't a commitment, it isn't a forecast, it isn't even an expectation. It's something to work with. As we move out with our forecast it gets more uncertain and we've already emphasised there could be risks on the upside, there could be risks on the downside. If the risks on the downside present themselves, then we have the options of cutting interest rates. If the risks on the upside eventuate, then we might have to look at whether or not we need to increase again. But I think the point is that we need to make sure that we don't have to backtrack on inflation, that inflation doesn't get away. We do need to make sure. We're making progress, we need to be convinced that that progress is going to continue. That's what's going to help ultimately mortgage holders and everyone.

Stella Qiu (Reuters)

Hi Governor, Stella Qiu from Reuters. We just have a question about — on a scale of 1 to 10 how confident are you currently inflation is moving sustainably by back to target range? And what will make you more confident?

Governor Michele Bullock

1 to 10 on how confident am I?

Stella Qiu (Reuters)

About inflation moving sustainably back to target.

Governor Michele Bullock

If you looked at our forecasts and thought that's our central forecast, .5 – or 5, sorry, 1 to 10. I think that the signs are that – my predecessor used to talk about the narrow path. I feel that we are potentially on that narrow path, but I also feel that we need to just remain very alert to the risks on both sides. But as I said earlier, if inflation does not move back into target within a reasonable time, and if it's still well above our target band in a few years' time, that will not be good for inflation expectations and ultimately it will not be good for the economy. So, I think the signs are good, but we've got to be very vigilant.

Shane Wright (*The Age/SMH*)

Governor, Shane Wright from *The Age* and the *Sydney Morning Herald*. Taylor Swift inflation hit my family again last night when my daughters tapped the bank of mum and dad to pay for some newly announced releases. Is the huge interest in Ms Swift, who is about to hit our shores, an example of the type of services inflation that you've mentioned quite often through the *Statement on Monetary Policy* and how do you stop, or how does interest rate rises affect services inflation, be it insurance, legal fees or Taylor Swift tickets?

Governor Michele Bullock

Yes, I know all about Taylor Swift inflation as well myself. So, I think the bottom line on services … — we were talking to colleagues about what services inflation is, because I think people don't quite really get what it is. One of my colleagues said services inflation is anything that you can't drop on your foot. So all of these sorts of things you're talking about. Monetary policy, it's true, works on the demand side and to the extent that some of these things you're talking about, like insurance and electricity and these sorts of things that are being driven by other things, monetary policy doesn't directly impact that. But it can indirectly impact because these sorts of costs go into businesses cost obviously – non-labour costs – and to the extent that demand is tempered it tempers the ability of them to pass on costs. So, this is the way that you can end up with an indirect impact of monetary policy on these sorts of services. On Taylor Swift tickets, I'd say from my own experience, my kids put money away do it. They forewent other things in order to be able to afford Taylor Swift. So I think there's also issues people are deciding what's really important to them and what's not as important to them and clearly for a lot of people Taylor Swift is very important.

John Rolfe (*The Daily Telegraph*)

Governor, John Rolfe from *The Daily Telegraph*. As usual on a first Tuesday of the month I'm confused and I am wondering are you telling us that the central forecast of the central bank is for two rate cuts this year or are you saying that rates could go up? The US Federal Reserve has been explicit in offering guidance of three rate cuts this year. Or is it simply the case the Reserve Bank has no idea where it's going?

Governor Michele Bullock

In the forecast as I said earlier, they're assumptions of a cash rate. They're not the forecast, they're not an expectation. They're an assumption that we need in order to generate our forecasts. As you can see in the *Statement on Monetary Policy*, the further you get out the bigger the range of uncertainty that is around those. So, although the central forecast is for inflation to get down there, that's not necessarily where it's going to be and it's only as you get closer that we're going to be able to narrow down the bands of uncertainty and get more certain, and then we can make decisions about interest rates. I don't want people to get confused about the assumptions in there that this is somehow the path that the Reserve Bank will follow. It's not necessarily, it's not an expectation, it's not a commitment, it's a technical assumption.

John Rolfe (*The Daily Telegraph*)

So how can the US Federal Reserve be so much more confident? Do they have better computers than you?

Governor Michele Bullock

No, the Federal Reserve I think are in a different position to us. We are setting monetary policy based on Australian conditions and if you go back, the Federal Reserve have a situation where they have put interest rates up much further, they've got a stronger economy, they've got inflation coming down in other ways for different reasons than we have. So, they're setting according to theirs and we're setting according to ours. Their pause and their guidance is based on what they think is happening to their economy. They're not always going to be certain and I would hazard a guess that if you went back a couple of years and you looked at what their dot plot said, for example, their dot plots will look quite different now. They're not the same. It doesn't mean they don't move. They just put things out there in their dot plots which we don't put out. So we've got a cash rate assumption, which we need for our forecasts, but that is not a forecast of where we think interest rates will be.

David Chau (ABC)

Hello Governor, David Chau from ABC News. My question is what's keeping you up at night and what are the biggest risks on the horizon that might cause you and your colleagues to lift interest rates again since you haven't ruled out that possibility?

Governor Michele Bullock

I'd like to say nothing keeps me up at night, but that wouldn't be true. Look, what worries me, I think most is that we don't manage to bring inflation back down to target without collateral damage, if you like, with more damage in the labour market than we can avoid. I really, really am convinced, and the Board is convinced too, that we can manage this. The risks on the upside – there are risks on the upside which are sitting out there. There's still supply side issues going on at the moment, and although traditionally we would think we would look through supply side issues, sometimes if it gets entrenched in people's expectations you can't entirely look through. So, I think the thing that worries me is that we get some more shocks and we don't know where they're coming from. You look at the last few years, pandemic, Ukraine, Middle East. What's going to come from left field? That's what worries me; what I don't know is coming and what the implications of that might be for inflation and inflation expectations and how do we handle it.

James Glynn (Wall Street Journal/Dow Jones)

Governor, James Glynn from the Wall Street Journal and Dow Jones. I'm just going to flip things a little bit on the head. Everyone is talking about rate cuts. Is it the case that another rate hike is a bigger probability than everyone is betting, including the markets and economists? I mean we're looking out – we were talking about services side, we've got rents, electricity and insurance; these are parts of the economy where prices are rising and interest rates can't really affect too much. The budget is coming, the base wage increase is on the horizon and we all know the government is in favour of a high wage economy. They have mentioned the tax cuts, the Red Sea and a bunch of other things, but is it the case that people are sharply underestimating the prospect that the next move in interest rates will be up?

Governor Michele Bullock

I think, James, we judge the risks actually at the moment as fairly balanced. I'll come back to my previous point that we're not ruling in or out interest rate changes. We're not. The Board decided today to stay on hold given all the evidence it had. There were encouraging signs that the forecasts indicate, so that in the central forecasts we are coming down around about to target in 2025 and then midpoint 2026, and the judgment that the risks are broadly balanced. So that's I think the way I would characterise it.

Edward Boyd (SkyNews)

Governor, Edward Boyd at SkyNews. Today's the new day of doing things at the Reserve Bank, the two-day Board meeting, the press conference. Firstly, how did the new format of the meeting go and was there a bit of pressure in the Boardroom today knowing you've now got a six week break until the next cash rate call? Is there more pressure there knowing there's more time in between these rates decisions?

Governor Michele Bullock

It went well, thank you very much, and it's amazing that you give people more time and more discussion. So, there was no shortage of things to talk about and I think that it went well. I think there was –- the Review talked about more time for in depth discussions. I think that was borne out. I think we got that. I also think that the Board are conscious they're meeting less often, but I think that gives them a bit more opportunity to think a bit more broadly rather than meeting to meeting, to think a bit more about strategy and I think we saw that borne out today as well, so I'm happy with the way things went. Rachel Clun (*The Age/Sydney Morning Herald*): Thanks Governor, Rachel Clun from the *Sydney Morning Herald* and *The Age*. You said services inflation can be indirectly impacted by monetary policy, but for something like insurance which everyone kind of has to have, how much impact can you have and what else could be done about that?

Governor Michele Bullock

Well, the insurance sector has its own issues going on and there's not a lot that monetary policy can do about that. We only have our tool. Insurance costs and the way insurance is moving in relation to climate change, in relation to the effect on premiums and profit margin rebuilding, re-insurance costs, these are things monetary policy can't do anything about so that's much more a matter for the government.

Peter Hannam (*The Guardian*)

Thank you, Governor. Peter Hannam from *The Guardian*. Just two questions. You do mention that inflation hurts, but so does joblessness and so I'm still wondering when – because you talk mostly about the inflation risks – but what will it take in terms of rising unemployment for that to get say a priority interest from the RBA. And also you do say inflation has a '4' in it, but December it was 3.4 year-on-year. So, the RBA did underestimate how far inflation was going to fall for 2023, it came in at 4.1 instead of 4.5 that you'd forecast in November. So, is there a possibility that you might also underestimate how far inflation might drop?

Governor Michele Bullock

Well, I'll take the second question first. It's true that that was lower than our forecast that we had in November. That was goods price inflation. Services inflation pretty much came on where we thought it would, so really the surprise in goods price inflation, I think, is the main point there and it doesn't alter our view that services is actually underlying a lot of the … and evidence of some still underlying demand strength in the economy. Sorry, I've forgotten. The first question was?

Peter Hannam (*The Guardian*)

You said that inflation hurts, but so does joblessness—

Governor Michele Bullock

Unemployment, yes. We talked about that in the Statement, actually, and in the new Statement on the Conduct of Monetary Policy that the Board has agreed with the government, full employment, which basically means employment which is consistent with inflation sustainably in the band. The Board is very conscious of that and that gets a lot of attention in Board meetings. We're very conscious that employment is very important for people. It's important for them meeting their financial obligations, obviously, it's important for good mental health reasons and so on. So, it gets a lot of consideration. The point I would make, and this is in the forecasts as well, is that we still have employment growing. We want employment to continue growing. Mechanically what happens, though, is if we slow growth in employment – because we do still feel there's tightness in the labour market, it's a little bit overtight, it's eased but a little bit overtight – slowing the growth in employment so it's not quite keeping up with the labour force, mechanically that moves into a rise in the unemployment rate. But employment is still growing. Job opportunities are still growing and that, I think, is the balance we are trying to achieve. That's really what we're aiming at and the Board, I can assure you, is very, very focused on that.

Jack Quail (NCA Newswire)

Thank you Governor. Jack Quail from the News Corp wire. Wage growth has been revised high in the forecasts in the near term, what's the risk to the economy if we don't see concurrent uptick in productivity in the near term with those higher wage growth forecasts?

Governor Michele Bullock

I think a few quarters of higher wage growth isn't necessarily an issue and we've actually seen that some of the uptick very recently has in fact reflected the wage case and uptick in award wages. So, we're expecting that. We flowed that through to the forecasts. But from a liaison and from other sort of sources we are seeing that in some sectors wages growth is starting to ease off a bit. But, again, as monetary policy, which we think is restrictive, it's impacting the economy, its impacting demand, that will start to ease labour demand and that will start to ease wage increases. So, is it a risk? Possibly. But we think at the moment that it's a reasonably balanced risk. We think that the signs are in the right direction.

Ursula Heger (Channel 10)

Ursula Heger from Channel 10 News. Given that the Reserve Bank has the target of 2–3 per cent for inflation, how far into that range would you want to see inflation reach before you'd be willing to move or is near enough good enough to the range given the risk of recession?

Governor Michele Bullock

So that's the range. The new Statement on the Conduct of Monetary Policy says we should be aiming for the midpoint of the range. That's sort of ideally where we want to be because if you're sort of at the top or the bottom the risks of being pushed out obviously are higher. Would we need to wait for it to be in the range absolutely? I think that's a question that remains to be seen. What we need to be convinced is that it's moved enough and we're convinced that it's going to get there and it's going to be sustainably staying there. I can't give you a timeline on that, but as I said earlier, we're data dependent. We're watching the data, we're watching the impact on demand. Demand, we assess, is still a little bit higher than the ability of the economy to supply the services and goods that people are demanding, but it is coming off. And we're confident. As we said, our central forecast is that we will get there and if we're getting there and we look to be on track to get sustainably in the band then we might be able to think about interest rate cuts, but we've got to be confident about that.

Nic Fildes (*The Financial Times*)

Nic Fildes from The Financial Times. Just a non-domestic question. China is mentioned as a risk factor, specifically a prolonged cyclical downturn. I wondered if that is built into your GDP forecast at this stage given it's mentioned a few times and is obviously a clear risk and what impact would that have and how are you monitoring it?

Governor Michele Bullock

China, yes, the slowdown in China is built into our forecasts. As we all know they are experiencing difficulties, particularly in their property sector. There has been some policy response to the slowdown in China GDP, but it's still a slowdown. The way that impacts us, of course, is through commodity prices in particular and our exports of commodities. So, we are very focused on it. We've got a slowdown built into our forecasts. We've got what's there at the moment and obviously if circumstances change in China then we'll have to relook at our forecasts, but at the moment I think we're comfortable that we've got something built in there which is realistic for China.

Deborah Knight (Nine Radio)

Governor, Deb Knight from Nine Radio. You say that you and the Board have an understanding of how Australians are hurting, but how do you come to that understanding? Because it's all good and well to sit in a boardroom, but are you speaking directly to people who are struggling to pay their pills, to people who have had their homes repossessed, to businesses that have had to shut up shop? And what are you saying to those people who really are hurting?

Governor Michele Bullock

There's a number of ways in which we're in touch. We have a business liaison program where we go out and we talk to lots and lots of businesses, small, large. We also talk to community organisations, we talk to organisations like ACOSS, Beyond Blue, those sorts of organisations. I can assure you I get lots and lots of letters from the public and I read those letters and I understand those issues. The challenge for the Board is that we have one instrument that works in aggregate and it impacts demand and it does have distributional issues because interest rates affect different people in different ways. But I come back to the point that what's really hurting people at the moment, really big thing, is inflation. Grocery prices increased by 20 per cent over the last two years – that's massive. That's really hurting people, particularly people on low incomes. That's why I know it's really hard for people to understand this when they're being impacted by interest rate rises, but the alternative is much, much worse and if we can just get inflation down then that will benefit everyone and interest rates can come back to a more normal level. That's the critical thing.

John Kehoe (*AFR*)

Hi Governor, John Kehoe here from the *Australian Financial Review*. Just on the new arrangements with the Board that kicked off over the last couple of days, was it a unanimous decision? Was it actually an improvement and if so how, the new processes? And some people are out there saying that there's going to be a lot more noise for you to deal with various Board members appearing in public, maybe giving speeches, maybe appearing publicly somewhere else. What do you say to that?

Governor Michele Bullock

We're still under the old Board processes at the moment. The new processes – with unattributed votes and Board members having public appearances – that doesn't start until the new Monetary Policy Board comes into place and if the legislation goes through that's expected to be 1 July this year. But having said that we have already changed our processes a little bit, as you say, the two-day meeting and I think I answered earlier that I thought it was really good. I thought we weren't as time-constrained, we did have time to let conversations go on and debate across the Board table to go on so I thought that actually was a success. The other thing I would draw your attention to, maybe you noticed it, maybe you didn't, but the *Statement on Monetary Policy* looks different. I hope what it is, is more accessible and plain speaking and drawing people's attention to what's important, what the Board thinks is important, what the Bank thinks is important much more readily so that people hopefully can use that much more readily to understand where we're coming from. I think that's one part of the process, but there's more to come, John.

Tom Dusevic (*The Australian*)

Tom Dusevic from *The Australian*, Governor. Following on from the Statement, the quarterly *Statement on Monetary Policy*, there was a fair bit of discussion on unit labour costs there. Overnight we've had the OECD basically saying with core inflation elevated around the world it notes that the growth in unit labour costs isn't compatible with return of inflation to target. Is that something that worries you, that the big inflation that started in 2021 may not end in 2025 because of unit labour costs?

Governor Michele Bullock

And it's related to an earlier question on productivity. We've talked about this for a little while. Unit labour costs have increased quite a lot – 7 or 8 per cent, I think, in Australia and overseas have seen similar sorts of increases. It's unit labour costs obviously that are important for businesses because it's the cost of producing an extra bit of output, obviously, and if they're rising by that much, that's what's going into their cost base. So that's why productivity is important to that. Now, as I said earlier, it's been difficult to get a read on productivity in recent times. The pandemic has thrown things out a bit. We are assuming, in our forecasts, that productivity does go back to something which is more normal and that's going to be very important for bringing increases in unit labour costs down to a level that's more consistent with inflation running at about 2–3 per cent. So, you're bang on the money. That's what's important. We're confident that there are reasons to think that productivity will start to pick up, but again don't get too hung up on the individual quarterly machinations, but ultimately, I'd like to be able to look back in a couple of years' time and say yes we're now seeing productivity resume its normal trend.

Eric Johnston (*The Australian*)

Governor, Eric Johnston with *The Australian*. Last week had a couple of state premier's telling the RBA how to do its job. I'm just wondering if you have a message for them particularly as they're thinking about their own state budgets.

Governor Michele Bullock

So, they've got their tools, we've got our tool. The thing I would say about governments generally, not just state governments, is that they have a very challenging balancing act. They have got a lot of issues to address, and they've got to use their expenditure and their revenues in order to address those. So, I'm not going to tell them how to do that. They're best placed to figure out how to do that. The other point I would make is that one of the things that's really important for the growth in the economy is having a capital stock and an infrastructure that supports growth and many of the things that governments do is all about infrastructure and it's about health and its education and it's transport and so on. So, this is their challenge. They've got to on the one hand deliver these things but they've also got to be mindful of their impacts on their spending and so on. And so I have no message for them, but I think they do have a challenge and we will work with what we've got and they can work with what they've got.

Jennifer Duke (Capital Brief)

Jennifer Duke from Capital Brief. I have two quick questions if I may. One sort of expanding on from that one, that we do have a federal budget coming up in a few months; are you worried if it's a big spending budget that might have an impact on inflation risks? And, secondly, as you've heard from some of my colleagues here, markets obviously don't really believe that we're not going to have a cut any time soon and mainstream economists and some of the commentary that seems to suggest the same. Does the RBA have a credibility issue? You've said repeatedly this is about the data. Why don't they believe you?

Governor Michele Bullock

Let me take the first question. I'd say that at the moment the government are keenly aware of inflation and I know that when the stage 3 tax changes were announced the government was very conscious of inflation and the point that they kept the changes within the fiscal envelope indicate to me that they've got that at top of mind. But as I said earlier, they've got a lot of things to balance here. On the markets, I don't think we have a credibility issue here. I think generally the markets think we're serious about inflation, because we are. We've said it a number of times. The markets will jump at little things. I know they sort of go through the statement and they try to figure out exactly what little word changed where and how that might mean, but I think sometimes they're looking for tiny little subtle things that maybe not be there, but I don't think it reflects on our credibility.

Hans Lee (Livewire Markets)

Governor, Hans Lee from Livewire Markets. Thank you for today. Combining today's decision to hold rates and the assumptions around the cash rate, and I know you don't want to rule anything in or out, but combining both of those things together does it suggest that monetary policy is restrictive enough? And how much risk is there that you may be forced back into tightening mode over the coming months?

Governor Michele Bullock

I think the evidence is that monetary policy is restrictive, it is working, and we see that in a number of things. We see it in inflation is coming down. We see it in the fact that the labour market is easing. We see it I think in the fact that, just generally I think, households are saying we're kerbing our consumption, we're focusing on essentials rather than things that you can do without. So, I think the evidence is it is restrictive and I think the challenge for us is that is that restrictive enough to bring inflation back down within a period, a reasonable period, that means that inflation expectations don't get out of hand? We think we're on that path. That's our central forecast, but we're alert to things that might go either direction. That's the message.

Daniel O'Leary (Market News International)

Hi Governor, Dan from MNI. Just want to know if there's going to be any future clarification on assumptions around the NAIRU and the neutral rate in future?

Governor Michele Bullock

Both unknown variables. On the NAIRU, that's a very technical term. We put out a chapter in the *Statement on Monetary Policy* today which talked at length about the way we try to think about full employment. It's not about a single number, it's not about a NAIRU. It's about a range of indicators that give us a feeling of how close or how far we are from full employment. So, I would like to step back from focusing on specific numbers in this case. Similarly to the neutral rate, it's not observable. We can't deal with it in real time, but we observe what's going on in the economy and that's what gives us a feeling for whether or not we're restrictive or not, whether we think we're above the neutral rate or not. I think people can get a little too focused on individual specific numbers. It's a lot more judgement than that.

Michael Pascoe (The New Daily)

Michael Pascoe, The New Daily. Lucky last. I'll make it a segue to Peter Hannam, really. The Statement says basically you're comfortable with the present rate of wage rises, it's consistent with the target. That's at an unemployment rate of 3.8 per cent. Implied in the forecast, you think full employment is 4.4 per cent, that's what will get you to the target. The Statement also admits that, really, it's possible you're already there at full employment. Does the Bank have any idea what full employment actually is? Will you ever know it until after you've gone past it and done damage?

Governor Michele Bullock

It's sort of a little bit the answer to the question there. There's no single number here that we're focusing on. We still think the indicators are that there is tightness in the labour market and there are pockets of tightness, there are pockets of wage rises that are still quite strong, there are pockets that aren't. So, there's still indications that there's tightness. We're still hearing from businesses that some of them are finding it hard to get staff. It's easier than it was, but it's still a little bit harder. There are all these sorts of things we're putting into the mix together and I would again discourage you from saying 'just because the number says 4.4 in the forecast that that's what we think full employment is'. It's much more difficult than that and it's much more a judgment call.

Michael Pascoe (The New Daily)

Do you have an idea of what full employment is?

Governor Michele Bullock

We have an idea that full employment is where we've got unemployment at a level that inflation is low and stable in the band. That's full employment in our language, sustainable full employment. That's what we think of it as, and we only know that by looking at the financial indicators, the economic indicators around it, again the data. Thank you.

Michael Pascoe (The New Daily)

So you might already be there.

Governor Michele Bullock

Thank you everyone.