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**Michele Bullock**

Governor

## Transcript

### Michele Bullock

Good afternoon, everyone. I will make a few remarks first before I take some questions. Over the past six months we've seen quite a few ups and downs in the data. Things are pretty bumpy, and I think I have used that term before. Obviously, we try to take a much longer view than just day-to-day, month-to-month, quarter-to-quarter data points but I think what the most recent data do reinforce is we must continue to be vigilant about the continued risk of high inflation. I have said before we have made progress here and we're not going to jeopardise that.

The rise in interest rates that has been required to bring down inflation has been painful for many people. Inflation though as I have said before is bad for everyone and we have to see the job through. We believe we have rates at the right level to return inflation to the target range next year, but as we've said in the past, getting inflation back to target will take time. And I think the path will likely continue to be bumpy and we should all be prepared for that. We're also dealing with a very tight labour market. Inflation is high and declining only gradually, which is similar to the experience in other countries. Services inflation also remains high. We also know the experiences of Australian households are extremely varied. On the one hand, there are some people who are managing to save despite high inflation and interest rates. In fact, some of those with mortgages are still making extra payments into offset and redraw accounts on top of their required payments. But on the other hand, there are households really struggling to make ends meet. These people don't have a lot of extra savings, they might be working a second job, cutting back on discretionary items or making difficult decisions such as putting off medical appointments. These people are doing it tough and the Board and I are very conscious of that. One of the outcomes of this is household consumption is very weak. You will see that in the retail figures last week. Growth is subdued even though population growth is strong. We also know the housing market is very tight. Anyone who is trying to get a rental property can tell you just how challenging that is at the moment.

As I have said before bringing down inflation, we want to keep employment growing. This is the difficult path we're trying to navigate. Right now, we believe rates are at the right levels to achieve this but there are risks, and at this stage the Board is not ruling anything in or out. We must get inflation back to the target band, low and stable, in the background; that's the best thing we can do for all Australians. We're watching the economy very closely and we will



adjust policy as needed and we cannot let high inflation take hold. With that, I'm happy to take some questions.

### **Jack Quail (NCA Newswire)**

Thank you very much for your address, Governor. We have a Federal Budget next week. We also have state and territory budgets over the next two months, Victorian state budget today. Can you speak to the risk that those spending decisions pose to your inflation fighting efforts when they're not factored into the Reserve Bank's forecasts.

### **Michele Bullock**

I'm conscious that there are budgets coming up. The point I would make is that the Federal Treasurer, Jim Chalmers, he says publicly, and he says to me in private, that he does have inflation in his mind while he is thinking about the budget. I think that — and I have said this before as well — budgets are very difficult, they're big balancing acts for governments. They've got lots of things on their plate and I think they are all conscious that they want to help us beat inflation so they don't want to try to add to inflationary pressures, but we will have to see what the budget comes out like. And then we can think about how that might impact our forecasts. But as I've said, the signs at least by what has been said to me is that inflation is front of mind.

### **Ally Selby (Livewire Markets)**

There has been a change in tune between your statements in March and May. Back then inflation was falling in line with forecasts and there are encouraging signs that inflation was moderating. Now inflation is declining slower than expected. You mentioned it has been a bumpy ride. Given these changes or admissions, would you agree the Board is more significantly concerned about inflation than it was six weeks ago and if that's the case why not hike rates today?

### **Michele Bullock**

Let's take a step back a little bit and think back to November last year when we raised interest rates. At the time we talked about we thought the risks had shifted a bit to the upside and we were taking out a little bit of insurance. It's true that the data towards the end of last year and early this year led everyone to think 'oh it's okay now'. I think we have always felt that it was a bit too soon to declare victory. I think the numbers in recent weeks have demonstrated that for us. We think policy is restrictive. We don't think we necessarily have to tighten again. But we can't rule it out. If we have to, we will. If we really think that inflation is going to be persistent and significantly above our forecasts, we will tighten again. But the Board made the judgment at the meeting that the right stance at the moment is to stay where we are, continue to observe what is going on in the economy, be data driven and as I said, we might have to raise, we might not.



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

Was there any discussion or debate at the two-day meeting about raising interest rates?

### **Michele Bullock**

Yes, that was one of the things that the Board discussed. The Board did discuss the option of raising interest rates. It discussed the option of keeping interest rates where they were. As I said, on balance the Board felt that at the moment, staying where they are was appropriate. We think that policy is currently restrictive. That doesn't rule out that we mightn't have to raise rates but it doesn't mean we will have to raise rates. There was a discussion about it, but the Board decided on balance to stay where it was.

### **James Glynn (WSJ)**

The tightening cycle is now two years old, as of today, happy birthday. It's 425 basis point old as well. Still the inflation rate is kicking around the 4 per cent mark and the unemployment rate I think miraculously we would all agree is sub-4 per cent. There is a group in the markets that argue that that's evidence that the RBA simply hasn't gone hard enough. That we should have mimicked the overseas example. We've got the RBNZ going well above 5 per cent, et cetera and Australia should mimic that. How do you respond to those people who argue that we just haven't gone hard enough, that the Reserve Bank has been too timid and we may actually have to push the cash rate towards 5 per cent?

### **Michele Bullock**

I would respond by saying that at the moment our judgment, as I've said, is that we have got restrictive financial conditions. We see that in the household sector. You would know that there was some recent work done by the IMF and it looked at how interest rates impact various countries. It's very clear that it impacts Australia very quickly because of our relatively high share of variable rate mortgages. We're very conscious we have a dual mandate. Yes, we have to get inflation down and if we don't get inflation down it ultimately is not good for employment. But we're trying very hard to get it down while maintaining employment growth. That's the balance we're choosing. Have we got it right, have we got it wrong? We think at the moment we are probably okay. Our domestic conditions are not the same as the domestic conditions in other countries. We do have our own domestic conditions to consider and as I've said at the moment we think we've got it right, but things are uncertain and if we have to move, we will.

### **Ron Mizen (AFR)**

Your February statement on monetary policy had inflation returning to the midpoint of the target band in 2026 but that assumed interest rate cuts in the second half of this year and into next year as well. You now have the same inflation profile but you have adopted market pricing effectively suggesting no cuts in the next 12 months at least. So should people be interpreting that as effectively saying no rate relief this year and possibly early next year?



## Michele Bullock

It is slightly confusing. It's an assumption we make because we need to make an assumption for our forecasts. And we need to do forecasts, we need to do them. But we do know the further out you go, the more uncertain it gets. For the purposes of the forecasts, what drives inflation down in the later years is the fact that there's a higher interest rate path in there. Is that the interest rate path that will eventually be actualised? I don't know the answer to that. It is a very technical model driven proposal, which I think if you interpret that as sort of: 'that's the path we're definitely going to take', then I think you're reading too much into it.

## Patrick Cummings (*The Australian*)

You talked about how it's been a bumpy ride on inflation and getting it back to target. Can you get a little bit more colour about what do we take, the kind of conditions you would need to see that would tip the RBA further towards a rate hike? Is it the case that you get another six months of disappointing inflation or unemployment just doesn't go up? Can you give us a little bit more colour around what it would take?

## Michele Bullock

That's quite challenging, for a couple of reasons. The inflation forecast in the next little while is going to be quite driven by petrol prices. Which can go up and down obviously. It is going to be a little bit elevated in the near term in the next six months and then we think it's going to come down. Inflation at the moment is still declining but it's declining less quickly than we thought it would. At the moment, we still think we can make our target of coming back into target range by 2025. We have been discussing at the Board what is the tolerance for that. We're not putting any numbers on that yet. I would have to say we're a little reluctant to say 'one month here, one month there'. But really if we saw that inflation expectations were starting to shift and that it was going to take markedly longer to come back to target then we might have to be thinking about whether or not there needs to be an interest rate rise but at the moment that's not our central forecast.

## Peter Hannam (*The Guardian*)

Just to clarify from your statement there is no tightening bias? You are still maintaining a neutral bias? I see some economists are now interpreting your statement. Secondly, one change from the February forecasts is quite a big uptick in public demand, which adds to growth in the economy. Is it fair to say that if there hadn't been that increase, we might actually have an interest rate cut more likely this year?

## Michele Bullock

Well, there are two questions, I'll answer the first. The second, it might be better directed to my forecasting colleagues who know more about the specifics of the forecasting than I do. But, yes, in the past when we have statements we have said we may increase interest rates; we haven't put that explicitly back in. But I think if you read the statement, you will see that the Board is signalling that they are very alert to the fact that it might be a little bit higher,



and they're remaining vigilant on that. We still use the words, and I used them last time as well, that we're not ruling anything in or out because things are uncertain. But the recent data have just indicated to us we need to be a little bit alert and vigilant on this.

### **Chris Reason (Channel 7)**

You mentioned key drivers for inflation are tight jobs, petrol, services industry, et cetera. You mentioned there as well population. Can I ask you about the impact of immigration? Where do you stand? I noted last year in November you welcomed it and said immigration was a good thing for Australia. Do you still stand by that given the sticky nature of the inflation figures now and the impact it's having on the economy?

### **Michele Bullock**

A couple of points. Immigration broadly over the long sweep of history I think has been positive for Australia. What we've observed though with the pandemic is that immigration has had really big swings. We had the borders closed, we had no immigration, and then the borders opened and then we had a massive increase in immigration. My understanding and I think this goes into our forecasts is that the government is looking to put immigration on a much more steady footing going forward rather than these big swings which we have seen. But we have been through a once-in-a-100-year shock through the pandemic. On the impact in inflation, it's not actually that straightforward. Yes, new migrants add to demand and there has been that element of it. They have certainly added to pressure on the housing market, we know that. But on the other hand, they have added to labour supply. One of the biggest complaints I used to hear from businesses, during the pandemic and during the border closures, was they couldn't get staff. Even as we were coming out of those circumstances, you will remember the labour market was so tight businesses just could not get workers. They've added to the supply side of the economy as well. I think our judgment is that on balance it really hasn't added dramatically to inflation, with the exception that it has put big pressure on the housing market and that's obviously working its way out in rents. But otherwise I think it's been pretty much of a muchness.

### **Chris Kohler (Nine News)**

This afternoon the market is pricing about a 25 per cent chance of an increase in the cash rate by August. Do you think the balance of probabilities has shifted from the need for a cut this year to perhaps the need for a hike?

### **Michele Bullock**

Back at the last meeting, we thought things were reasonably balanced. I think we still think they're reasonably balanced with perhaps a little bit of a signal that we need to be very watchful on the upside. I wouldn't think about it in terms of balance of probabilities. I don't ever think we said there was a balance of probabilities it would go down last time. I think I have been fairly careful to say if we're being neutral, we're not ruling out an up or a down and we're not ruling them in or out. I don't think it's shifted the balance of probabilities dramatically. We still think things are reasonably balanced but the cost on the upside is higher



than it is on the downside if you like. So even if the risks are balanced it's more costly if we end up with higher inflation than we're expecting. I think that's the way I would describe it.

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

Given the stickiest elements of inflation are essential services and demand for discretionary goods and services is already slumping, will any future rate hikes really be effective?

### **Michele Bullock**

That's a good question. It's one people often ask if you can't do anything about it why raise interest rates? The challenge is that in order to get inflation back down to the 2-3 per cent range, if some things are increasing by more than that, other things have to be increasing by less than that. That's typically what we have observed. You always have a range of different price increases in the CPI. Some are increasing by say more than 3 per cent and others are increasing by much less than 3 per cent. That's always a balance. If other parts of the economy are resulting in inflation which is much higher, then we do need — it's the only tool we have got — we do need to think about using interest rates to impact the parts of the economy we can impact. Because if we don't get inflation down as I have said before that's just bad all round. It will be bad for employment. It will be bad for the whole of the Australian people.

### **Shane Wright (SMH /The Age)**

The forecasts have downgraded economic growth to 1.2 per cent to mid-June and 1.6 to the end of the year but you have unemployment at 4 per cent. You have reduced the unemployment rate forecast. How as a macro economist can you reconcile exceptionally poor growth but an exceptionally tight jobs market the likes of which I can't recall historically an unemployment rate at 4 or under and growth in per capita terms you're in a recession. How does the Bank think about what is going on in that interaction?

### **Michele Bullock**

Yes, consumption is very low. As I spoke about earlier, there are two components to that. People are cutting back on consumption. Some are cutting back to save and some are cutting back simply because they don't have money and that's having an impact. What is going on in the labour market is a very interesting question and I don't really have a full answer for you. What I can say is a few things. The first is a lot of the jobs are being created in education and health. These are cyclical things. A lot of them are government and they are essential services in effect. There is a lot of employment going on there. Some of the areas where employment isn't growing as strongly and in fact may be declining are areas in hospitality and retail where in fact you are observing the impacts of demand. I would say you are observing some of it. The other couple of points I would make is and these are a bit more speculative, but these are things people talk about. Firstly, as I said back a year or 18 months ago, businesses couldn't hire enough people. They just couldn't find people. So, we think that some of what is going on might be that businesses are only just starting to be able to hire the sorts of people they're looking to hire, so they're only just getting on top of that. That's another reason why employment might be strong. A third reason which we've have talked about, and I'm not sure



there is a lot of evidence about it but it gets bandied around, is labour hoarding. Businesses don't want to lay people off just yet because they're worried they will get caught like they got caught 18 months ago, laid off people and then had to try to rehire them and they couldn't. There is an element of labour hoarding going on possibly. There are a few explanations for why we think the labour market is still maintaining relative strength. It's worth remembering too that not only is the unemployment rate really low by historical standards, the participation rate is at historically high levels. It's not like a U.S. situation where a lot of people have dropped out of the labour force; they are still there. It's probably a combination of a number of factors that is keeping the employment market strong. Again, I go back to the fact that all of this was disrupted by a once-in-100-year event in a pandemic. I think all of our history on unemployment and the way unemployment responds is not based on this sort of shock happening in the economy. I think we need to be not basing necessarily our views on what historically might have happened. We have to be alert to the fact it might be a little bit different this time.

### **Fiona Willan (SkyNews)**

New figures show since the September quarter of 2022, the volume of retail sales has fallen by 1.8 per cent. What does that tell us about how consumers are had a handling the current economic situation?

### **Michele Bullock**

I think it tells us that consumers are responding to higher interest rates in the way we expect them to, which is in cutting back demand. What we know is that they're cutting back on discretionary expenditure. They're doing things like they're downgrading, they're going to perhaps budget versions of things they might ordinarily buy more expensive versions of. Their basket sizes are getting smaller. As I said earlier, the other thing households are doing, some households are doing, is they are saving more. And if you think about it, if you have a mortgage and it's now 7 per cent, and you have the choice of spending or perhaps saving a bit of money and sticking it in your mortgage, a lot of people are choosing to do that because it's worth their while. It's 7 per cent less. Australians have a history of wanting to pay off their mortgages more quickly. As interest rates have risen, I think we have observed initially that they have cut back on their extra savings and then as they have adjusted their consumption, which we are seeing in the retail sales figures and other consumption figures, as they have done that, they're putting more money into offset and redraw accounts into order to get their mortgage under control. That said, that's not all people. We know there are a lot of people that don't have excess savings, they don't have that luxury and they are the ones we have talked a little bit about in our *Financial Stability Review* that are struggling to have income to meet their regular expenditures. There's a portion of people like that but there are some that do have the benefit of savings.

### **Cecile Lefort (AFR)**

Given strength in equities, housing and bank loans, do you think that financial conditions are sufficiently restrictive?



### **Michele Bullock**

That's another good question. We think that financial conditions are particularly restrictive on households. They're somewhat less restrictive on businesses. Small businesses they're probably quite restrictive on because they are quite dependent on bank loans. But to your point, equities, corporate bond markets and so on, for larger companies that can access those sorts of markets, they're actually finding it a smidge easier to get finance. I think there is a little bit of dichotomy there. Currently, the judgment of the Board is that financial conditions are restrictive enough to get the desired reduction in inflation, but it's much more restrictive on the household sector than particularly on the big end of business.

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

My question is a follow-up to what Cecile asked, we had the NAB CEO say he was shocked at the resilience of the business sector. We have had record new car sales, the housing market is strong as well. Housing loans and auto-loans are seeing strength there. Do you believe that Australia's economy can stomach further tightening in interest rates?

### **Michele Bullock**

Can it stomach further tightening? Well, I hope it doesn't have to stomach further tightening. As I said, I think conditions are restrictive. We know that interest rates impact different sectors of the economy differently. And what we are really trying to do is slow things enough to bring inflation down without tipping the economy into a recession. That's what we're trying to do. The reason that's important is because people when they have jobs are able to meet their needs. They are able to pay for their groceries, they are able to meet their mortgage repayments. The worse the employment market becomes, the harder it is for people to meet those. And when you add an inflation challenge on top of that, then that's really hard. I hope that we don't have to raise interest rates again. Having said that, if we think we have to, we will.

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

On a personal level, how frustrating is it for you that inflation is proving so difficult to bring down to the target 2-3 range? Do you and the Board find yourselves shouting into the wind or having an internal dialogue thinking, 'what is it going to take to get this job done?'

### **Michele Bullock**

I think we would all like it to come down more quickly and the reason being because it hurts. It really hurts. I went to fill up my car with petrol the other day and I got an absolute shock when I saw the price of it. That's something that is really obvious to people but there is an underlying chunk of stuff here which is just eating into people's spending power the whole time. So, yes, it is frustrating. But as I've said, we do feel we're on the right path. I come back to the point earlier that we're trying not to tip the economy into recession. Because really the worst thing that could happen for many people is to lose their jobs. That would really tip them in. Then they would have inflation and no job. At least at the moment people can get work,



they can get second jobs if they need to. There is a sense in which they can meet their needs by being employed and that's what we're trying to preserve. But 'frustrating' might be one way of putting it, yes.

### **Naveen Razik (SBS)**

What do you say to people who were expecting and budgeting for a rate cut by the end of the year? What is your message for them.

### **Michele Bullock**

I hope I didn't give them any impression there would be an interest rate cut by the end of the year. I certainly don't believe I ever gave people that impression. You would understand why I'm very cautious about suggesting any particular rate increases or decreases, for that reason. I would say to people who are struggling that I understand they are struggling. Part of the reason they are struggling is not just interest rates though, it's inflation. The best thing I can do for them is to try to get inflation back down so they don't have to worry about the prices of their every day things continuing to go up. That's the best thing I can do for them. I understand the interest rates hurt but that's the tool I have got and that's the best thing I can do for them.

### **Michael Pascoe (The New Daily)**

The statement effectively puts a number on what you regard as 'full employment', 4.3 per cent unemployment. Media, we are always concerned about the unemployment rate. A factor you didn't mention behind the strong labour market, is it simply that not enough marginal not very productive businesses have gone broke? That monetary policy hasn't been tough enough on business while it has been hitting hard on households? The statement uses the euphemism of slowing capital and labour relocation when talking about weak productivity growth. You want a 10 per cent rise in unemployment. Do you need a 10 per cent rise in the number of bankruptcies and business failures to achieve your outcome?

### **Michele Bullock**

I wouldn't use the word 'need' or 'want' or 'like to see'. I wouldn't use any words like that. I think the business circumstances are interesting. Back to the COVID again, back to the pandemic, there was a lot of money that went out the door from governments to help households and businesses. Interest rates were at rock bottom levels and in those circumstances, if you go back to the *Financial Stability Review* you will see this, businesses in aggregate, yes, there will be differences across them but in aggregate, businesses' balance sheets improved markedly. They had a much better balance between their assets and liabilities, their interest coverage ratios recovered, their debt servicing went down. It wasn't a surprise that there were many businesses in those circumstances who were actually doing quite nicely and their balance sheets were doing well. Coming out of that, with interest rates rising, yes, I think some of those businesses that were perhaps being kept running because they just had really low interest rates and propped up balance sheets because of COVID-like subsidies, they will find it more difficult. I think we are starting to see that. We're seeing now



bankruptcies go back to around about the level they were historically as a share of businesses. They are starting to come up. The other factor here is tax. I'm not a tax expert, but I do know that the Tax Office is also looking for repayment of debts to the Tax Office as well. I think all of these things are going to come to bear. To your point, you do need business dynamism if you're going to get productivity improvement. Again, I think because of the whole COVID situation we have just been a very interesting period of time where you haven't seen the sort of turnover you would have normally seen in businesses.

### **Michael Pascoe (The New Daily)**

Just to clarify, you expect the bankruptcy levels to go above what was the case to bring it back into balance?

### **Michele Bullock**

I have no expectations in particular, but we are seeing a rise to more historically normal levels now than they were. Yes, we are seeing that.

### **Michael Pascoe (The New Daily)**

It's part of the statement that the Bank doesn't really get into.

### **Michele Bullock**

We talk about that in the *Financial Stability Review* more typically. I suggest go have a look at the last *Financial Stability Review*. We have some information there on that sort of thing.

### **Poppy Johnston (AAP)**

Now we're a few months into the new regime for monetary policy meetings, I was hoping you could reflect on how it's going. Is fewer meetings working well? Do you think it's hampering the Board's ability to be flexible and react to incoming data? It would be good to get your views.

### **Michele Bullock**

We have had three meetings in the new format. It's also necessitated changes internally as well to the way we lead up to the Board meetings. We had a bit of reflection in the Board today about how it's going and I think the Board thinks it's going quite well. The extra time, the afternoon on the Monday and then the Tuesday morning, I think is giving ample opportunity to have good quality discussions with the Board. I think they're very open discussions. I think it also gives us an opportunity to come back in the morning on the Tuesday and add any reflections people had overnight. And some people do in fact have reflections overnight. And it gives the Board an opportunity as well to craft the statement, which now comes from the Board and not from me. I can tell you that the Board actively are involved in drafting the statement. My personal view and certainly the Board members are telling me the truth and I trust they are, that they think it's working well and that the slightly longer time period between meetings allows us to not get so fixated on individual ups and downs on



monthly things and try to take a step a little bit back and try to think slightly longer. That would be my reflections.

### **John Kehoe (AFR)**

You have not immaterially increased the inflation forecast both headline and underlying. If we get another inflation upside surprise, will the Bank's credibility be on the line in terms of needing to react to that? Is that going to be a threshold issue for the Bank going forward?

### **Michele Bullock**

I'm not going to deal in hypotheticals. That's something we're alert to. Obviously, credibility is really important to be able to get inflation down. We need people to believe we will get inflation down if we are to get it down. We don't want inflation expectations adjusting. The near-term increase in the inflation forecasts that you have seen, petrol prices is a really big part of that. We know petrol prices can be up, they can be down. To some extent we want to try to look through that. One thing I would highlight though is that the forecasts now don't look a hell of a lot different than the November forecast. In November, we increased interest rates, you will recall, we took out a bit of insurance, we thought we needed a little bit of insurance. I think that stood us in good stead. I think that's one reason we can say at this meeting: 'we'll just sit for a minute'. If we hadn't raised in November, it might have been a different story. If it does turn out that inflation stops declining, and we can't think about things like petrol prices as being part of that process; if the services inflation really gets stuck and gets stuck at a level which is inconsistent with our target band, we will have to act. And that goes to credibility.

### **Tom Dusevic (The Australian)**

Just following up John's question on inflation expectations, you point that out in the statement today as one of the risks. We're seeing that on current forecasts it's something like inflation would have been out of the band for four to four and a half years. So that goes to credibility. But also in the popular mind, people aren't quite focused on inflation as a concept. They're focused on prices as a level. People are now getting hit and getting used to —you said you were filling up the tank. Petrol prices go up and down. So do food prices seasonally. But some things we know just aren't going to go backwards. Insurance, education costs, rents, a whole range of things that are unlikely to go back. Again, are you confident that inflation expectations in the community more broadly won't change and that they won't feed into wages?

### **Michele Bullock**

We're not observing that happening at the moment. Yes, wages have gone up and there has been some substantial increases in the minimum wage and award wages and that's been feeding off inflation. But as headline inflation comes down as the supply chain issues wash out and so on, we're seeing those sorts of things come down. And also prices that are indexed to inflation, they start to come down as well. With education and health, there was an element of indexation in there which has added. As headline inflation comes down, that will



help reinforce that. I don't see a de-anchoring yet. Certainly, we don't see it in the medium-term financial market expectations about inflation. Yes, very short-term expectations for inflation rose as lots of things rose when the supply chain issues were on. But we start to see that coming off now and I think they are moderating. You see a lot of wage agreements that have a high number in the first year and then taper off in later years. I think that's indicative that people do believe that inflation will come back down and that is what we have to make sure we deliver.

### **Stella Qiu (Reuters)**

Did the drop back in the unemployment rate in March surprise you and how can you judge the true state of the labour market when the recent data is so volatile? If the labour market keeps surprising on the upside is that going to concern you?

### **Michele Bullock**

Let me say that I like good employment outcomes. It's good that people are getting jobs. It's good that unemployment is low. If we can all keep it that way that will be great. The month-to-month numbers are very volatile and we think there are some seasonal things going on there. It's also true that we don't just look at the unemployment rate. You will see in the *Statement on Monetary Policy* we do set a range of indicators of the labour market that we're looking at. Employment is still growing, it's growing more slowly than it was. Our forecasts are that it's going to grow a bit more slowly than the workforce, so that will mean that mechanically the unemployment rate rises. It doesn't mean there are mass sackings, it just means you don't get as many people employed as the workforce grows. We do see if we can have that outcome, that will be the best outcome for everyone. When you look at all the range of indicators, it's true that other things are moving. For example, hours worked is one margin of adjustment. Rather than laying people off, what businesses are doing is just reducing hours perhaps or there is more part-time than full-time employment. There are other margins on which the labour market can adjust. The other thing is the vacancies have come down. There were very large vacancies, there are not as many vacancies per unemployed person now as there was. There is a sense in which as the labour market has eased, we haven't seen it represented in a rise in the unemployment rate, but we have seen it turn up in these other indicators in employment. I mentioned a couple: one was hours worked, another one is the full time, part time issue; another one is youth unemployment, which is typically one of the first ones to turn. These other things are demonstrating there is an easing in the labour market. It's just not necessarily showing up in the unemployment rate but that's because the unemployment rate isn't the single thing that defines what is going on in the labour market.

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

I feel like the last person picked in the PE team. It's hard when you are last. I wanted to ask your thoughts about frustration with the only tool you have got, which you have said many times is monetary policy, the only tool you have. In particular when you are looking at this



two-speed economy, people that really would struggle with a rate hike versus as you mentioned the inflationary impact.

### **Michele Bullock**

Well, my only thought on it is that it is the only thing we have. We talked earlier about fiscal. To my mind, the governments are saying the right things in trying to make sure they try not to add to inflation. As I've said, they have got their own particular issues to balance, policy issues to balance but they are saying the right things. It's the same around the world. Central banks with their interest rates do tend to be the first port of call for affecting inflation because we have an impact on demand. We can't impact supply. Everyone is very conscious it's a blunt instrument, it works through particular channels and that does have different impacts on different people. But it's a fact of life. It's what we've got.