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Michele Bullock

Governor

Transcript

Michele Bullock

Thank you for coming. So today the Board decided to leave the cash rate on hold at 3.85 per cent. Monetary policy has been working as expected and we've made good progress on bringing inflation down over the past 18 months. But quarterly trimmed mean inflation has only been in our 2 to 3 per cent target range for one quarter at 2.9 per cent in March. Very pleasingly unemployment remains low at 4.1 per cent. And we've already cut the cash rate by 50 basis points since February this year, the effects of which are still to flow through to the economy. The data and policy outcomes around the world since the May meeting have been close to what we expected in our latest baseline forecasts published in May, but economic conditions remain uncertain. We're waiting to confirm whether inflation is still on track to sustainably reach 2.5 per cent.

Since the May meeting, the two monthly CPI indicators have been broadly consistent with our forecasts for headline inflation and show that we're moving in the right direction. However, some components suggest that underlying inflation in the June quarter could be a little higher than our forecast. Wages growth has eased over the past year but growth in unit labour costs remains elevated alongside continued weak productivity growth. By our next meeting in five weeks, we will have the June quarter CPI, another labour market reading, further information about international developments and an updated set of forecasts. So the Board decided to wait a few weeks to confirm that we're still on track to meet our inflation and employment objectives. As well as a very thorough consideration of Australian economic conditions, global developments took up a lot of time at the Board meeting over the past couple of days. The likelihood of a severe downside scenario associated with a trade war which we set out in our *May Statement*, that likelihood has abated. But this is a very fluid situation and we will continue to watch the data here and overseas very closely to see how things play out. We're continuing to analyse what developments overseas mean for conditions here in Australia and particularly for inflation and the labour market.

Based on what we know today, the Board continues to judge that it is appropriate to maintain a cautious, gradual approach to easing monetary policy. We remain alert to adverse outcomes



that could cause a sharp deterioration in the outlook and monetary policy is well placed to respond decisively if necessary. The Board's strategy has been to bring inflation down while avoiding a sharp rise in unemployment. This strategy has meant that we didn't take rates as high as some other countries so it may be that we don't need to reduce rates as much as some other countries have done.

In summary, we must keep inflation down while trying to maintain a healthy jobs market because when inflation is low and stable and people can get jobs, it is good for households, communities and good for the broader Australian economy. When inflation is low and stable people don't need to spend time thinking about it and households and businesses can instead focus on what's important to them. So thank you and I'm happy to take your questions.

Brandon How

Thanks, Governor. Brandon How from Capital Brief. Given that today's rates decision was contrary to market expectations, do you think the RBA has effectively communicated with the public and markets since May? Or is there additional value to the RBA recalibrating market expectations at this time and potentially looking to August, does today's decision open the door to a rate cut larger than 25 basis points?

Michele Bullock

Thanks, Brandon. I think communication generally, actually, has been going pretty well. I think what was the difference was that reasonable people can differ in their interpretations of data and I think there was a couple of things. One was the labour market data and the other was the monthly CPI data. A lot of people focused on the headline CPI number at 2.1 per cent but we don't think inflation in a sustainable way is that low. We think it's higher. Our interpretation of the data I think was a bit different. Opportunities like this, for me to communicate that, I think is very helpful. What I would say is that what the decision today was about was about timing rather than direction. And I think I've made this point in the past but our forecasts guide us and, yes, they get more uncertain the further we go out but at least in the near term what we're looking for is confirmation that we are basically on our forecast path and that gives us confidence that we are on a path towards easing further.

Juliette Saly

Governor, Juliette Saly, Ausbiz. As we have said it's come quite as a shock to many, the Treasurer as well saying this is going to be a disappointment to millions of Australians. Lucy Ellis who used to work with you saying just get on with it. What changes between now and the next five weeks and to Brandon's point could we then see a bigger cut if a cut is warranted?

Michele Bullock



Thanks for the question. I think, again, to the point about the recent CPI data that we saw, a lot of the focus was on the monthly data. And we think that's a little too volatile and not quite representative of what's really going on with inflation. So we're a little cautious about that. I think a lot of people reacted very much to that. What we would - the quarterly CPI is the comprehensive thing that gives us the best read. There was a couple of components in that monthly CPI that suggested to us that the quarterly CPI might be a little bit higher than what we've been forecasting in May. That doesn't necessarily mean that we're off track but we just want to get the data to confirm that we are pretty much on track. You will recall the forecasts had an assumption of a gradually easing interest rate path in it and what we're looking for is confirmation that we still look to be on the path for inflation and with those assumptions.

Patrick Commins

Governor, Patrick Cummins from *Guardian Australia*. We saw a split decision in the Board. This is the first time we've seen that as part of the new regime. Can you tell us more about the people who didn't vote in favour of the majority, whether they were RBA staff and what they voted for?

Michele Bullock

They are unattributed votes, so I can't tell you who voted what way. What I can say is that what it demonstrates, I hope, is that there was really good active debate in the boardroom about the pros and cons of holding and easing. And I would characterise it as saying that the difference between the two camps really was down to a slightly softer reading - those who wanted a cut, a slightly softer reading of the data than those who wanted to hold just for the time being. And also, a little bit more concern about the downside risks particularly on the international side for those people who wanted to ease. But, again, I will emphasise I think I made the point earlier that the difference was not about directionally; it was more about timing.

Victoria Thieberger

Governor, Victoria Thieberger from *The Conversation*. You mentioned productivity hasn't picked up. One of the issues we've seen is capex has been very soft, negative over the past year, expectations are pretty flat and also negativity has predated all the trade uncertainty we've had. What do you think it is going to take for businesses to start spending up again?

Michele Bullock

Well, I think in terms of what the Reserve Bank can do certainty in terms of price stability would be very helpful for businesses, I think, because when businesses are having to worry about inflation and I think that isn't helpful for their investment plans. But it is challenging in the current environment because international environment at the moment is very uncertain



and it is very uncertain for businesses and also consumers, but you would expect it to show up with businesses. Interestingly, the NAB survey came out today and we're still not really seeing it show up in businesses in Australia. Certainly, we don't have the same direct exposure to the US that many other countries have so that might be part of it. But I think certainty from us in terms of inflation and a stable economy, and I think in terms of the productivity side of things, we're not the only country with productivity issues. United States aside, most countries have seen slowing productivity. There are other issues that have got to be addressed and they're for governments and I think that's part of the government's reform roundtable to address those issues.

David Chau

Governor, David Chau from *ABC News*. A lot of Australians with big mortgages are probably a bit disappointed about today's decision to keep rates on hold. How would you explain it to them? What was the biggest thing that prevented you and your colleagues cutting rates today?

Michele Bullock

I do understand that and I do understand that households with mortgages are very keen to see interest rates decline because it helps them with their cash flow. I'm very conscious of that. I'm also very conscious we don't want to end up having to fight inflation again. We want to make sure we've nailed it. As I said, the biggest thing here is that it wasn't really directionally where we think we're heading in terms of easing. It was more about timing. And just making sure - we've only had one quarter of underlying inflation just back in 2.9 per cent. Underlying inflation at the moment gives us the best idea of the underlying inflation pulse, if you like, because the headline numbers are mixed up a bit by particularly energy rebates. So the underlying is the best read. And all the Board's decision today was recognising that, look, there's five weeks until the next meeting. By then we will know what the June quarter CPI is and if it comes in as we think it will, a little bit at the margin we're a little bit worried about but if it comes in as we think it will, continued decline, that validates our easing path and so that's what we're waiting for. That's the reason - as I said earlier, it wasn't so much the difference in opinion amongst the Board wasn't so much directionally, it was about timing.

Matt Cranston

Matt from *The Australian*, Governor. Firstly, for all the economic students out there in Australia, can you tell us what is the importance of central bank independence? And then secondly just to follow on you have got the productivity roundtable that you will be attending next month. And you said today that there was continued weak productivity outcomes. You guys - the RBA actually has productivity returning to trend. Mining productivity was more than 60 per cent of all productivity for the decade leading up to COVID. But that's all declined. So how can you possibly put that back into trend? Where do you get that productivity from?



Michele Bullock

So on central bank independence, what's important there is that it is really important for people to have stable inflation expectations. One of the best ways to deliver that is to have a central bank that you trust to be focused on keeping inflation low and stable. So that's the simple - just a very simple answer. We could go on for a while. No, I'm not going on for a while. On productivity, yes, productivity has been slowing and it was slowing even before the COVID pandemic. Basically productivity has gone nowhere apart from - it has been all over the place during the pandemic for various reasons but basically it hasn't gone anywhere in years. We are looking very actively at productivity and what is driving productivity or what is not driving productivity. We are thinking about whether or not the assumptions that we typically think about are still relevant. And that's ongoing work for us at the moment. I am participating in the roundtable. I'll be there talking more setting the scene for what's the context and why is it important. But I think it's really good that the government and the Treasurer have latched on to productivity as being a really important thing we've got to get on top of.

Jonathan Shapiro

Governor, Jonathan Shapiro from the *Financial Review*. For the sake of transparency I was wondering if you could disclose how you voted in the Board meeting? For those at home who maybe thought they were going to get a 50-basis point cut are now seeing they are going to have to wait longer, how do you explain how you've swung from the prospect of a jumbo cut to no cut in such a short space of time?

Michele Bullock

So the answer on the first question is no, they're unattributed votes. I won't reveal how I voted. They are unattributed for a reason. And so the answer to that is no, I won't tell you how I voted. The second thing to do with - what was the second question, sorry? That was - 50 basis points. I am a little surprised that that got so much reaction because I thought I said fairly clearly at the press conference that we discussed it briefly in the context - if you go back to May, I don't know if you recall but we had basically the United States and China declaring they weren't going to trade with one another anymore. 145 per cent tariffs. That was the end of that. Facing into that, the question seemed "well is 25 enough?". I thought I made it fairly clear at the press conference that it was considered but we dismissed it fairly quickly and went back to the 25 and it was the 25. So people, I think, got quite excited about the fact we considered it. But we considered it because just for the sake of having a debate about alternatives but in the end the firmest and the confident cut I think I called it was 25. That was where we got to. So I don't think we're swinging around at all. I think basically, as I said earlier, what - we are not debating where we think directionally we're going, provided inflation and



unemployment continue to track where we are forecasting them to, we do see ourselves on an easing path. The question is timing.

Chris Kohler

Afternoon Governor, Chris Kohler from Nine News. Cut then hold, cut then hold. I mean, Australians might be feeling like they have got a bit of whiplash at the moment. You are saying directionally that interest rates are coming down but you're speaking to households who are paying mortgages and going out and buying things. Are you worried at all you are going to struggle to convince them that you are committed to delivering relief given that it feels like we've hit our inflation target?

Michele Bullock

And I understand, Chris, why people think we've hit the inflation target. As I said earlier, we have in the sense that the headline inflation which is what people face is down sort of around the target. And if you look at the monthly CPI which some people quote 2.1 but I don't think it is really there, but that's actually an artefact of certain subsidies. Now, real consumers because they are getting the subsidies but they will roll off. What's really important is that we get this underlying inflation, which is ultimately where headline inflation will end up. It is ultimately where we get it down. Now, I wouldn't say cut hold, cut hold is whiplash. I would say that's sensible, cautious approach to lowering interest rates in a sensible way. If you look at our - and I would add, too, we're not coming from as high a level as many other countries. We're coming from a percentage point below than many of them. We have the opportunity to do it cautiously and gradually. If you look at our forecasts that's exactly what is envisaged in the forecasts that you have inflation gradually coming back down. You will recall maybe if you go back a lot of people are criticising us for not going higher and not getting inflation down more quickly. I think Australia has done remarkably well. Who would have said two years ago we would be sitting here now with inflation at 2 something and unemployment at 4.1. Not many people. So I think we've done remarkably well. And I think that this idea of just gradually moving as we see our forecasts are running in line with the ability to move quickly if we need to. I think we're in a great position.

Julia Bradley

Thank you, Governor. Julia Bradley from Sky News. You say you won't identify the voting record as to not stifle debate. Aren't all nine RBA Board members esteemed enough to have their voting record made public and to have their arguments heard by the Australian public? The US federal reserve outlines their voting record. Can Australia be in a position to do the same?

Michele Bullock



No, our agreement with the Treasurer is that we will - and that was the recommendation of the Review, and the reason it was recommended that it was unattributed votes was that it would mean that people weren't subject to lobbying, it would mean that people could speak freely, and I think that's a really important part of the unattributed. It means that we can have this very, very good discussion and quite active discussion today with people knowing that yes, the votes will be recorded, but they individually can speak freely without people lobbying them. So I think it is actually a really important feature of ours. US has a different system. They have professional pointed economists, they have presidents of Fed Reserves. We have a different system and this is right for our system.

Julia Bradley

Do you think we wouldn't be able to have that free, frank debate –

Michele Bullock

I think it would stifle free and frank debate, frankly.

Julia Bradley

Thank you.

David Taylor

Governor, David Taylor *ABC*. No one knows what's going to happen with Trump tariffs, right. It is the great unknown. There is the potential for a lot to go wrong on global financial markets. The Commonwealth Bank today has come out and said that there is the possibility the Australian dollar might fall as much as four cents against the greenback in coming weeks or months, who knows. Are you keeping your powder dry? The cash rate is at 3.85 per cent. If something does go down big time on global financial markets you do have room to move. Trimmed mean monthly data, it looks okay. I know you are waiting for the June quarter data for confirmation. But you are also, as part of it, keeping your powder dry?

Michele Bullock

I wouldn't say we're keeping our powder dry. If we were worried about the exchange rate declining very sharply, of course, that implies interest rate rises, not interest rate cuts.

David Taylor

I am more talking about being able to stimulate demand if you need to.

Michele Bullock

Yeah, well, certainly. What at the moment we're focusing on is the domestic economy and where we think the domestic economy is headed. In our forecasts in May we did our baseline



forecasts and we looked at - and in those baseline forecasts were assumptions about the sorts of tariffs we might end up with. You might remember we had three scenarios, trade, peace, trade war and something in the middle which - it is worth remembering that despite what we were facing in May which was a disaster after the 2nd of April's announcements and then the Chinese announcements, everyone saying, "Oh, things aren't as bad anymore." They're still much, much worse than they were prior to April 2nd. Trade barriers, tariffs, are going to be much, much higher. World trade is going to be impacted, yes. Our judgment though because we are not as directly impacted by the US itself is that the impact - there will be an impact on us and that's partly what's driving, I think, some of the deflationary impact in our forecasts, it is partly that. But we're not going to be anywhere near as badly impacted as some countries because we're not directly linked to the United States and our fortunes are much more linked to China. That's why a lot depends on what happens there.

David Taylor

Will there be a chance the sharemarket will go through –

Michele Bullock

It is possible that financial markets will react to all of these sorts of things. We've seen it in the past. At the moment they are remarkably sanguine. Anything can happen. This is true. This is true. Well, I think they are pretty sanguine. Anything can happen and we're alert to that.

Stella Qiu

Hi, Governor. Stella Qiu, from Reuters. If you are going to shock markets, how come you didn't come out and push back against market pricing in the last seven weeks and does that mean that the Board went against the - what the RBA recommended this time and how is the market going to read your reaction function going forward?

Michele Bullock

That's three questions. I will try to answer generally. I can't go out - this is a decision of the Board. The Reserve Bank can't go out and talk to markets and tell them what the decision is going to be ahead of the meeting with the Board. The Board has to make the decision. So even though markets were pricing in a cut at this meeting, it was inappropriate for me or anyone in the Reserve Bank, frankly, to go out and say, "Oh, you know, maybe not." Because the Board hadn't met and the Board hadn't made a decision. As you saw today, as we've announced the votes, the unattributed votes, not everyone agreed. So we can't do that. What I would say, though, at a general level is that reasonable people at situations like this, reasonable people can disagree on - not even disagree, have different perspectives on how you should be dealing with matters. And back to the point in the boardroom, I think, today, the difference in perspective was a matter of timing, not so much direction of interest rates.



Stella Qiu

The Board went against what the RBA recommended --

Michele Bullock

I'm not.

Sarina Andaloro

Governor, Sarina Andaloro from Seven News. Home buyers and mortgage holders have been banking on this cut. They have been factoring it into their budgets. Have they been betrayed today?

Michele Bullock

I don't think we're betraying anyone. As I went back to earlier, betrayal would be to let inflation get out of hand. What's made it so difficult for households over the past year or so has been - everyone is talking about the cost of living. We're never going to go back from the level of prices now but we can at least stop them from rising as quickly. I think that households should be banking on us to make sure that we don't let inflation get away again. The direction, as I said, is provided inflation keeps coming in as expected we can expect interest rates to decline. But we need to make sure we've nailed inflation and the other point I would make is that the other part of the mandate, employment, we're delivering at the moment we are - we've still got really good employment, low unemployment rate relative to history. That's also really important for households. That's what they need in order to buy their houses, meet their mortgage repayments. I know it's tough. I know that they've been through a really tough haul with interest rates and cost of living and so on. But the best thing we can do for them is to try and meet our mandates of keeping inflation low and unemployment as low as we can.

Sarina Andaloro

With the greatest of respects, can I draw your attention to some of the commentary that's coming from households online. A lot of people asking how many members of the Board are actually mortgage holders and home buyers?

Michele Bullock

Well, personally, I don't know the answer to that question. So I haven't looked at the online commentary. But I understand that people had expected perhaps that there might be a rate cut today. My message to them is that provided we are still on top of inflation, which is what we intend to be, then - and we're getting confirmation that we are, then yes, there is an easing cycle coming.

Cameron Micallef



Hi, Governor. Cameron from Newswire. To follow up on a few other questions. If it is just a case of timing why as Chalmers say not disappoint millions of households. Why not pass on a rate now instead of waiting until August?

Michele Bullock

As I said earlier, because there are a couple of indications that things are a little higher in inflation side than we wanted to see. We want to confirm with a full quarterly CPI that we're still on track to deliver inflation continuing down to the middle of the band over time. That's the reason we're waiting - that's the reason we're waiting. We decided to hold. And we'll reconsider again in August with this extra information and new forecasts and that will allow us to decide whether or not we're still on track for continuing to ease.

John Kehoe

Governor, John from the *Australian Financial Review*. You mentioned there was a couple of components in the monthly inflation figures that gave you a bit of pause to think there is a little bit of an upside risk for the full quarterly underlying numbers. What were those couple of components? Are you reluctant to move based on monthly inflation data? And are you generally just going to wait for the quarterly inflation data barring some external economic event that might give you some reason to move otherwise?

Michele Bullock

So in the monthly numbers, the couple of components that concerned us a little bit were house building costs and durable goods. They were a little higher than we thought. But having said that, and this is why we want to see the quarterly numbers, the monthly CPI is not a full CPI. Each month has different components in it. The middle month has more services, the previous month has more goods. They bounce around a lot. If you look at the monthly numbers, they bounce around a lot. And the other thing is that the trimmed mean for monthly isn't calculated the same way as the quarterly. So there is a number of reasons why we take a little bit of signal from it but we don't really depend on it. The number we like to see is the quarterly because that gives us the best reading. And this, of course, is our problem because we only get four readings a year. And it is very difficult - I have said this before - it is very difficult on four readings a year to get an idea of momentum of inflation. Other countries have full CPIs every month and that's - much better idea about the momentum of inflation coming from that. So that's why, and I think the Board in its decision has been cautious, it's been cautious, careful and it is trying to make sure that it gets this right. This has paid off well for us. We've been cautious for a while now and I think it's paying off and I think you just have to look at where we are and we can continue this cautious approach. And if something external comes then we can react because we have got room to move.

Swati Pandey



Governor, Swati from Bloomberg News. My question is around communications and to follow up from what Stella asked, there has been rumblings in the market about the RBA's communication strategy. There has been seven weeks of silence, there has been some comment that the press conferences have become short-term tactical trading opportunities, to not provide long-term view into what RBA is thinking around how they view for full employment is evolving or where r-star is, like you don't really get that deep insight into economics and given that the number of speeches have come down as well, there is a lot of discussion to explain the rate decision rather than shape views around, you know, where some of these key like r-star or NAIRU is for example which allows the market to shape their expectations as well. Do you think the RBA's communication strategy is failing? And given that you yourself said that you've been surprised how market interpreted the 50-basis point commentary, is there something the RBA can do to improve that communication to the market so that there is no shock?

Michele Bullock

So many questions. First of all, is the communication strategy failing? No, I don't think it is. We put out four times a year a *Statement on Monetary Policy* and it goes through all the things that you talk about. It goes through the outlook, it goes through NAIRU, spare capacity, neutral rates, it is all there. People can read it. It doesn't change week by week. This stuff on NAIRU, neutral rate, these things don't change week by week. We have quarterly information on all these things. I would think if you look at those things now compared to those documents now compared to a couple of years ago, they are much clearer, easier to follow, they give you a much better narrative. I think they're much better. So no, I don't think so. In terms of these press conferences, it is designed to explain the decision and I think I do answer questions about - to the extent that I can say where we're going. But sometimes it's not possible to say where I'm going. I know a lot of people are really certain that they know exactly what to do and exactly how to get there. I'm not quite so certain. So I try to give a bit of a feel for that. And I'm trying to talk to the public. And I'm trying to help them to understand what we're focused on and why we're doing what we're doing. And traders and market economists and so on, they've got all this other material they can go and look at. They can look at our quarterly *Statement on Monetary Policy* and see where we're going. So no, I don't think it is. And we do lots of speeches. I just don't do as many speeches because I do this. And I do three Senate estimates and I do two House of Representatives. We're out there all the time. So answer - no.

John Rolfe

John from the *Daily Telegraph* and *Herald Sun*. Does the trimmed mean for the June quarter need to come in at 2.6 per cent or less for there to be a rate cut in August? And is it the case - I mean, when will Australia get a full monthly CPI like other nations?



Michele Bullock

Second question you will have to ask the ABS that question. On the first question, what I would - so at the moment I think our quarterly forecasts for the June underlying is 0.6 for the quarter. And it may be at the margin, it might be a little bit higher than that. Again, what we're going to do when we come to this point is we will also have a new set of forecasts, we'll have a new cash rate path which will be as it always is assumed as the assumed path of the market. We will assume that path and then we will see what our forecasts churn out for that. So I'm not going to put a number on if it comes in at 2.6 we'll cut and if it comes in at 2.7 we won't. What we'll be doing is looking at it in the context of where the forecasts think it is leading us. If we think it is leading us back to the centre of the band there will be an opportunity for the Board to consider that at the August meeting.

Natasha Moore

Hi Michele, Natasha at the *Fin Review*. You have discussed throughout the conference how the RBA has considered a slow gentle lowering of the cash rate. As you say this, young people such as myself are increasingly struggling with the possibility, or lack thereof, of entering the housing market. How do you think the idea of asking them to wait for a decrease will go? Thank you.

Natasha Moore

Look, I sympathise with that. I do. I would say, though, it is not only interest rates that are the issue for the young people, it is the housing prices. And there is nothing we can do about housing prices. And in fact, I've heard criticisms that we shouldn't lower interest rates because housing prices will go up, so we can't win, really. Can't put them up, can't put them down. So I understand that but, again, what I'm saying is that provided we stay on track with our inflation, which that's what we're looking to do, then there is opportunity for interest rates to come down. The question of housing prices, of course, is something we can't do anything about and that's a whole story for governments in particular.

Jacob Greber

Governor. Jacob Greber, *ABC 7.30*. So listening back to the press conference so far global developments took up a lot of the Board's time. You retain an ability to move if you need to. And if something external comes up we can react. That does sound awfully like you are keeping policy stimulus in reserve for when something bad happens. We've talked about trade. Can you elaborate on what those scary things are that you're talking about and thinking about? And secondly, how much faith are you putting on the government's reform summit to really lift living standards in Australia?

Michele Bullock



So it is sort of - very similar to David's question of keeping our powder dry. Let me be a bit more direct. We are not keeping interest rates high just in case. We're not doing that. We are reacting to the domestic data, domestic inflation data and the employment data and trying to find our way through it. When I say that we've got room to move if we need to, it is addressing the fact - everyone knows there is this big chunk of uncertainty out there to do with the trade situation at the moment. Now, if it all goes according to what some - what the market seem to think we will end up with a baseline of tariffs substantially higher than we had prior to April 2nd, prior to the Trump administration, and that's going to be bad for the world economy. It is going to be bad for Australia as a small open economy that has done very well out of an open trading environment. Ultimately how that impacts us will depend on China and how China reacts. If China reacts by - to the impact on it by fiscal and monetary stimulus and keeping its growth going that will help to cushion for us. But all I'm saying is that if things really do in the world economy take a very bad turn and that impacts us badly, we've got interest rates much higher than they were - let me - sorry, just go back a step. Pre-COVID, interest rates were already down at 1.25 per cent. We had hardly any room to move during COVID. So all I'm saying is that if something really bad does happen we've got more room to move and we've got room to move. But we're not deliberately holding interest rates high in order to give ourselves more powder.

Jacob Greber

On the productivity summit? The government's productivity summit?

Michele Bullock

I think it is a good idea. I don't have any particular comments on it. I'm speaking at it but I think it is a really good thing to do. We need to focus on productivity.

Tom Dusevic

Good afternoon, Governor. Tom Dusevic, from *The Australian*. You spoke just now about the caution around the global outlook. Can you outline for us a little bit more about what are the domestic concerns that you have? And in particular, I know you have made reference to unit labour costs. Obviously, that's part of the productivity story. There is some mention about the pricing power of companies. Could you just tell us how you see that playing out over the next few months?

Michele Bullock

Well, productivity isn't a month-by-month thing. Productivity is a much more medium-term sort of concept. What we see at the moment, at least in measured unit labour costs, is that they are elevated because productivity is low and wages have been increasing a bit more quickly. That doesn't mean that wages - often if - what you would expect is if productivity is



not growing very quickly, then wage growth will actually adjust to the lower rate of productivity growth. So these things sort of - it is not all in isolation. So I think we do have elevated labour costs at the moment but having said that, will that stay that way? Certainly the fact that inflation is continuing to come down suggests that they probably are not going to stay that way.

Tom Dusevic

So wages are still a big part of the data story?

Michele Bullock

Wages growth has been moderating as well but productivity is what's sort of driving the rise in unit labour costs. But the conundrum is that inflation is coming down at the same time. So there is something going on there and I think generally what you would expect is if productivity doesn't recover, then wages growth will have to come back to meet productivity growth.

Tom Dusevic

Thanks, Governor.

Michael Janda

Michael Janda from *ABC News*. Governor, does the RBA's focus on unit labour costs risk prioritising the business profit share of national income over the opportunity for workers to recover some of the purchasing power they lost through falling real wages over the past three years?

Michele Bullock

No, I don't think we're prioritising profits over wages. I think we have seen real wages start to recover and that's, in fact, what's helping to at least lift slowly consumption at the moment. So we are seeing a recovery in real wages. The unit labour costs story really is something that we're just keeping an eye on because, ultimately, that might be something that if businesses can pass it on, if, that might drive a bit of inflation. In fact, so we don't have a goal for it. I don't want to give anyone the impression we have some sort of goal for profit shares and labour shares. We don't. It is just another indicator that might go to why inflation is high but what we do know at the moment - and we get this from liaison - is that demand is such that it is recovering a bit, but businesses are still finding it hard to pass on costs, whether it be labour costs or input costs. It is not just labour costs that are impacting businesses at the moment. It is their input costs as well. It is electricity.

Michael Janda



Profit share has come down a bit from what were record high levels a few years ago. Is that where some of the rise in unit labour cost is being absorbed?

Michele Bullock

I don't know where - I mean, the profit share actually, if you take mining out, has actually been pretty flat. So unit - some of it will have been absorbed in margins, I suspect. At least recently that's what we're hearing but I wouldn't get obsessed with the idea that somehow we're obsessed with unit labour costs because we think that that's the way that businesses maintain their profit margins. That's not - it is about indications that it might give to us that there might be inflationary pressures in the system. That's the reason we're interested in it.

Sophia Rodrigues

Sophia from Central Bank Intel. What was the Board's judgment on monetary policy setting and whether you still think that it is somewhat restrictive and how long are we going to have somewhat restrictive if it was somewhat restrictive before the May cut? And how far does the Board feel and my emphasis on "feel" because we're going to feel our way to neutral - how far does the Board feel we are away from neutral?

Michele Bullock

So neutral, this concept - I think it is actually a very difficult concept to use in a meeting-to-meeting concept for monetary policy. It has sort of a good medium-term - there is good medium-term context to it. But in terms of making a decision meeting-to-meeting, thinking about where we are relative to neutral and deciding where to move relative to neutral, is not really the way the Board thinks about it. What the Board is looking at is financial conditions, it is looking at interest rates, looking at growth in credit, it is looking at, you know, cash market, it is looking at bond rates, it is looking at borrowing costs for businesses, these sorts of things. These are the broad things it is looking at in terms of financial conditions. On that basis, I think the Board still thinks there is a little bit of restriction in there. The question is how much is there? And I don't think we know and we probably won't know till we get there. And that's another reason for the cautious, calm approach. As we think we're getting there we have to just be a little bit careful that we don't overdo it one way or the other. So I don't have any more firm answer for you. I can't tell you where neutral specifically is. I can't tell you where the terminal rate necessarily will be. What I can say we think at the moment the direction is down, but it is cautious.

Michael Heath

Governor, Michael Heath from Bloomberg. Just to till a little bit of old ground there, if I understand correctly under the new regime of having the Board setting policy, I mean once upon a time in my early days you would find a leak, if the market was looking the wrong way,



someone would put out a leak and would say in fact the forecasts are a bit different, this is not happening. But under this regime what you seem to be saying is that can't happen because you can't pre-empt what an independent Board is going to say. Is that a fair assessment?

Michele Bullock

That's a fair assessment. So I can't go out and suggest to the market that the decision might be X if the decision hasn't been made. And the decision is made by a Board of nine people, all independent, and I hope you see today from the release of the unattributed votes that reasonable people can have different opinions on what the right move is. That's what I'm saying. I can't go out there and can't send Reserve Bank people out there to tell the market to expect something different because we don't know what the Board necessarily is going to decide.