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Michele Bullock

Governor

Transcript

Michele Bullock

Good afternoon. So today, as you know, the Board decided to leave the cash rate on hold at 3.6 per cent. Monetary policy is working as expected with three cash rate reductions this year starting to have an impact. Monetary policy works with a lag, though, so the full impact of recent reductions on the economy are yet to be seen. On balance domestic data since the August meeting have been in line with or a little stronger than what we were expecting in our forecasts. The labour market remains solid and although employment growth has been slower in recent months we judge it's still a little tight relative to full employment. Inflation remains within the target range, but recent data indicate there could be a bit more upward pressure than we thought in August. The June quarter national accounts also gave us a bit more confidence that the recovery in private sector demand, particularly household consumption is progressing as we expect.

In our August forecasts we expected global growth to slow, partly reflecting the impact of tariffs and changing trade flows. Since then there has been some weaker than expected data from China, but the trade volumes have held up and it's still expected that the authorities would provide support if needed. Data from the United States has been more mixed with weak employment data but relatively strong activity data. The Board sees the risks as broadly balanced and it remains data-driven. By the next meeting in November, we'll have more data on the labour market and inflation data for the September quarter. We'll also have some more forward-looking indicators, including from liaison and an updated set of forecasts. We know that high inflation has pushed up prices across the board over the past few years and while inflation has fallen a lot the price level isn't coming back down, and this higher price level affects everyone and it's been especially tough on people of lower incomes and the more vulnerable. This is why it's so important to keep inflation low and stable and unemployment as low as possible. Thank you and happy to take your questions.



Stella Qiu

Stella Qiu from Reuters. You said the economy was in a good place just a week ago. Is it still in a good place after the monthly CPI reports and what is it about those reports that seemed to have alarmed you so much?

Michele Bullock

Yes, I think the economy still is in a good spot. We have inflation basically in the 2 to 3 per cent range, the unemployment rate is holding at around 4.2, we expect it will drift up a little bit but we still expect it to be relatively low compared with history. The monthly data are volatile, but a couple of components, we've got two months now of the quarterly number and a couple of components, market services and housing inflation were a little higher than we were expecting, so we're just being a little bit cautious about that. It doesn't, I don't think, suggest that inflation is running away, but we just need to be a little bit cautious.

Matt Cranston

Matt Cranston from *The Australian*. Can you tell us a little bit about how the wealth effect works and how the RBA looks at how house prices affects that, and what sort of indicators it sees from that when it makes decisions about interest rates?

Michele Bullock

Just very briefly, I mean we have models and our models of consumption have incomes in them and they have a wealth effect, and that's where it finds - now, I can't rattle off the model for you, but basically that's the way that wealth finds its way into - and the evidence is that wealth does affect consumption. Wealth comes from a number of things, certainly it comes from housing prices, but to the extent that particular households might have shares or superannuation that they can observe rising because asset prices are rising, those are the sorts of things that add to wealth, and as I said the evidence, if you look at consumption modelling, the evidence is that those wealth effects do have an impact on consumption.

Matt Cranston

How does that - -

Michele Bullock

Well, it finds its way into our forecasts for consumption. That's the way it works and consumption finds its way into GDP and then GDP relative growth in demand in GDP relative to what we think the supply capacity of the economy is, that then is how we work it into what we think it means for inflation and employment.



Cameron Micallef

Hi Governor, Cameron from NewsWire. As a group you've used your last few speeches to talk to people about the fact that prices will remain permanently higher and will never go back to pre-COVID levels. Why are you trying to sell this message and why is it important for households that prices, that there is no period of deflation?

Michele Bullock

I'm not trying to sell anything, I'm trying to state a fact and the fact is that prices have risen and they're staying up there permanently. We're not going to see a decline in - we don't want to see deflation. Deflation is not good for businesses, it's not good for making investment decisions. That's why low and stable inflation is best when it's in the background and it isn't influencing decisions. But I just want people to understand that when we're lowering inflation that doesn't mean we are lowering the price level. We're lowering the rate at which prices are increasing.

Chris Kohler

Chris Kohler from 9News. In previous press conferences, media conferences you've said it's not a question of the direction for cash rates, but rather the timing. Now, you sort of say that the balance are a bit more even. Is it kind of fair to say that your thoughts on that have changed and that maybe people at home should be expecting a period of on hold interest rates?

Michele Bullock

It's all dependent on the particular meeting and I think what you're referring to was the July meeting when we didn't move and I think at that meeting what I said was people were thinking the next move was probably down, but it was a question of timing. So they were sort of meeting-specific comments I think in that particular context. In terms of what people should expect now, I'm not going to give forward guidance, I think I've said that a number of times, but what I would say is that today we felt, given the evidence we had, the reasonably balance, there had been a bit of an upside surprise on some of the data, the inflation and the activity data, and I should say that's good news. It's good news that activity is responding. I don't want anything to think that's bad news, but it just makes us think, well, we've got another - it was a good decision today to hold, we'll have more information available in November and we're looking forward, we're trying to see where this might take us in terms of inflation and employment and then we can make a decision in November so we'll make that decision in November about whether it's down again or maybe it's hold again and if the economy is continuing to recover that's really good news.



David Chau

David Chau from ABC News. Recently you and your colleagues have said the economy is showing signs of an upswing. In that kind of environment how could you justify further interest rate cuts?

Michele Bullock

Because we're focused on what's happening to inflation and employment, and if we can observe a bit of an upswing at the same time as we're continuing to see the labour market tightness contract and also the supply and demand imbalance contract then you can foresee circumstances where it might be appropriate. The issue is that we don't really know where everything is in balance at the moment. We think we're close, but we don't know, so that's - I come back to my earlier point which is we'll look at this meeting by meeting based on the data and it's welcome that we're getting this swing up in activity, and if we can get that swing up in activity at the same time as the labour market remains reasonably in balance, then that will also mean that inflation is staying under control.

Michael Read

Michael Read from the *Australian Financial Review*. After the recent inflation data most economists now don't expect to see another rate cut for the rest of the year. What do you make of those assessments?

Michele Bullock

Well, the market and economists make their assessments based on the same data that we see. I'm not going to say they're right or wrong because, as I've said earlier, it will depend a little bit on what we see coming over the next few months and what our forecasts end up being. So I can't say whether or not they're right or they're wrong and as you've seen, actually, they adjust depending on what the data - so, you know, six weeks ago they did expect more cuts, now they don't because of the inflation data. So I wouldn't say they're right or wrong. I do take notice of what they're predicting, but I'm not basing my own thoughts about what will happen on what the market or the economists are expecting. But we're looking at the same data they are.

Swati Pandey

Swati Pandey from Bloomberg News. The question is if the Board considers the stance of policy at this point is still an easing bias or is it more neutral now? Based on the statement today it looks like the economy does not need any stimulus or it does not want any stimulus, so would you say the policy stance at this point is neutral or does the Board still have an easing bias?



Michele Bullock

I think it's very difficult to say, Swati, and that's why I think we have to be data dependent. I think we feel that it's still probably a little bit restrictive policy. We certainly don't think it's very restrictive and we certainly don't think it's very expansionary. All we've got to go on, because we don't know what neutral is, is observing inflation, employment and what's happening to the economy, and we've got three interest rate cuts already since the beginning of the year and we know that there's some impact of that starting to happen, but we know that there's more to come. So how restrictive are we at the moment, I don't know. So we're really - that's why we have to be data dependent. We have to see what the outcomes are looking like, what the forward-looking indicators are telling us, and what our forecasts are telling us.

Caroline Marcus

Hi Governor, Caroline Marcus from Sky News. Thank you for today. Why did the Reserve Bank depart from its narrative that inflation had been tamed? Do you think that gave consumers a false sense of hope that there were still multiple rate cuts ahead of us and that they responded by increasing discretionary spending and on investment properties?

Michele Bullock

I'm not ever sure I said inflation was tamed. Certainly I have said that we've made a lot of progress in getting it back down into the range which it now is. Now, it's possible that consumers have responded to news that inflation - and they're observing that inflation has come down - because what we're observing now is that their real incomes are rising and so we've been expecting that as real incomes rose, and back to the question earlier about wealth, as housing prices have been rising and shares have been rising, that we would expect to see households start to increase their consumption again. As I said, that's actually welcome because it's reflecting that they're feeling better about things. So I don't think it's a bad news story. I think it's a good news story, but we just have to be alert to the fact that demand doesn't increase more quickly than the supply capacity of the economy to provide the goods and services.

Luca Ittimani

Thanks, Governor. Luca Ittimani from *Guardian Australia*. Last week markets and economists were pretty quick to pick that inflation was running hotter than expected, but they weren't so quick to pick how the RBA would interpret that, how seriously the Board would take that data going forward, so just going forward, would you be comfortable cutting even if underlying quarterly inflation wasn't falling?



Michele Bullock

Well, it depends very much on what we think about the outlook. So if it's sort of - it's got a 2 in front of it and it's 2.6, 2.7 and it's not continuing to fall we don't forecast, then that doesn't necessarily mean that we can't lower interest rates further. It also, likewise, doesn't mean that we might keep interest rates on hold. It all depends on what we think the outlook for the economy is. They were quick to interpret. I do want to just make a point about the monthly CPI. It is volatile. It moves around a lot. I think some people have interpreted it as we think there's absolutely no information in the monthly CPI. That's not true. There is some information in it, but you just can't look at monthly CPI literally and take it at face value. You've got to take some of it with a grain of salt and you've got to look some of it in the context of what you think it might mean for your forecasts. No, I don't think it does necessarily mean that. What we're focusing on is an interest rate path that will deliver us inflation sustainably in the band. That could mean a couple more reductions, it might not, I don't know at this point, and we'll look at all this again in November.

Brandon How

Thanks, Governor. Brandon How from Capital Brief. Given the data is broadly in line with the RBA's forecasts and market expectations are split on the future trajectory for rates, what would be your message about what we're likely to see from the Bank over the coming months?

Michele Bullock

Another request for forward guidance. Again, I'm not going to predict what the interest rate is going to be in the next three to six months. What I'm saying is that we have got a situation now which is actually quite a positive situation. We have inflation back in a 2 to 3 percent band, both in underlying and headline. Headline is going to be volatile, as we've seen, because what happens when - happened in the monthly CPI when subsidies drop out for electricity, energy, the headline goes back up again, so we know that's going to be volatile, but we broadly have got inflation back in the band, we've got employment around full employment, maybe a little bit on the tight side. That is all really good, positive news. I can't say what that means for next month or the month after because it is going to depend on what the data tell us and we're going to have to wait for that.

Tom Richardson

Tom Richardson from The Nightly, Channel 7. I won't ask you about forward guidance again. Just on the monthly reporting of inflation data, I think the ABS is going to change how it reports it from November and I think you've previously said that you will place more emphasis on it then. Can you just talk to us a little bit about that, please?



Michele Bullock

Just very briefly. The first point is that, yes, from November we are getting a full monthly CPI rather than a partial indicator which we've got at the moment, and I want to say that's great news. Nearly every other country in the world has a monthly CPI, I think, or advanced economies, so this will bring us in line with that so that will be great. A couple of points, though, when it comes in. The monthly CPI will be more volatile than the quarterly. It just will, because it will be monthly data rather than quarterly data. The second point is that the monthly trimmed mean is not calculated in the same way the quarterly trimmed mean is. Our focus is the quarterly trimmed mean. We think that's the best measure of underlying inflation. So our focus will not be on the monthly trimmed mean. We're not going to be focusing on that. The third point to make is that it is a transition, and the ABS have recognised this. There's going to be some components that they're going to have to figure out what the seasonal patterns are in those components over the next couple of years and so there is going to be a transition period. So yes we will be looking at it, but we won't be taking our focus off the quarterly trimmed mean and the ABS is going to continue to produce that for us for the next 18 months, which will allow us to, in effect, sort of get a bit of a feel for how the new monthly series benchmarks with the old series and our preferred measure of underlying inflation.

Nadine Blayney

Nadine Blayney from Ausbiz. Is there a scenario in which we don't see any further rate cuts at all and what would that world look like, and I know you referenced earlier that it could actually be a good news story for Australia.

Michele Bullock

Yeah, and it could be. We've got scenarios on the upside and one scenario on the upside might be that real income is rising, wealth rising and consumers now start to spend again. We know that many households, for example, with mortgages, they've actually been saving rather than spending everything. So as their mortgage repayments have come down they've opted not to reduce their mortgage payments, they've maintained them. So that's suggesting a bit of caution. One upside scenario is a positive one that they react to that and start consuming again. That's good for business, good for employment. That's not a bad news scenario and if that means that we don't lower interest rates further then I wouldn't say that's necessarily a bad news story. The alternative, of course, is that there's a lot of uncertainty around, there's still things going on overseas that might make people nervous, we know that consumer confidence is still a little bit on the low side. So it's possible that that doesn't eventuate - the upside doesn't eventuate and there's some downside that eventuates and that affects the employment market. That would have different implications potentially for monetary policy.



Cecile Lefort

Governor, Cecile Lefort from *The Financial Review*. In your last projections last month you had trimmed mean at 2.5 per cent this quarter and now most economists project it's going to be closer than perhaps 2.8 per cent. Is that a level that you would still be comfortable with continuing easing?

Michele Bullock

Well, again it depends on the specifics and it depends what else is going on in the economy at the time, and it depends on - we take some signal from some of these things, but whether or not we take the increase in inflation as being all signal, that the direction is reversed, or whether it's a temporary blip, because even the quarterly numbers do go up and down a little bit. Again it's going to depend on what the data tell us, and I think we are aiming - remember we do have to aim at 2.5, so if we think that we're not going to - we're not continuing to go down towards 2.5 then I think we will have to be thinking about what's the appropriate stance of policy.

David Taylor

Governor, David Taylor from the ABC. What is your message to a family who can't get into the property market now for a first home, but with the same income, combined family income, could have gotten into the property market 20 years ago? There was a relationship between - and I know you don't like to look at it, or whatever, but there is a relationship between interest rates and property prices. So what's your message to that family facing renting for the remainder of their time?

Michele Bullock

It's a very, very difficult situation, David, and as an individual and as a citizen I think we're in a very difficult position with the property market and I don't actually think that most reasonable people think that this is a good outcome. Having said that, there's nothing that I can do personally about it. We don't target housing prices. It's true that part of the transmission mechanism for monetary policy is through the housing market and we're observing a little bit of that at the moment.

David Taylor

Well, as interest rates have come down property prices have gone up.

Michele Bullock

They typically do, although I have to say as interest rates were rising as well property prices were going up.



David Taylor

That was after a pandemic where you threw billions of dollars at the property market.

Michele Bullock

So what I would say - yes, you're quite right. That is part of the transition mechanism monetary policy. Can we impact housing prices or should we impact housing prices? No, we have to focus on our mandate which is inflation. I've said a number of times before the problem in the housing market is a structural deficit of supply. That is the problem and governments now get that and you are seeing some action on that, but it's going to be slow to work its way through. So - -

David Taylor

Are you confident it will?

Michele Bullock

It's going to take time and if the governments really want to commit to this then they - -

David Taylor

Are you confident it will?

Michele Bullock

I'm not confident it's going to make any impact in the next two years. The bottom line is that all I can do is make sure I keep inflation low and stable and I keep employment as strong as possible because that gives people the best opportunities to get jobs and be able to possibly get into the market.

Sophia Rodriguez

Sophia Rodriguez from Central Bank Intel. My question is on a different take on that price level question asked earlier. Now, there is two ways I can interpret that. One is because price levels have gone up so much you give me some relief so that I feel good with a rate cut and I don't feel the pinch of that higher price level, which means as long as you're confident that inflation will be around the 2.5 per cent mark you are more inclined to give me that relief through a rate cut. On the other hand, because price levels have gone up so much, you are very cautious that no, we cannot afford any inflation above 2.5 percent which means you will be cautious and not cut. Which way are you thinking?



Michele Bullock

The way I am thinking is that the price level we are at is history. It's done. What we're focusing on now is making sure that we keep inflation low and stable. We're not trying to offset what happened in the past. What happened in the past happened in the past. It is about making the right decisions on monetary policy that will keep inflation sustainably at the middle of the target band, hopefully, and keep employment as strong as we can get it. That is the aim. It's not about offsetting price levels or anything like that. That's a bygone. It is purely on what happens next.

Sophia Rodriguez

It's not about offsetting, it is more about giving relief through a rate cut.

Michele Bullock

No, we're not in the business of offsetting price levels and giving people relief. We are in the business of targeting inflation and employment. That's the aim.

Luke Kinsella

Luke Kinsella from *The Financial Review*. What do you think was driving the increase in services inflation in the monthly print? And can you just identify what exactly it was in that print that gave you confidence to make a decision based on at this time that you didn't have at the July meeting?

Michele Bullock

The July meeting I think we highlighted, if you look back at what we said at that point, we did highlight that there were some components - it was volatile, but there were some components that gave us concern. It's the same thing this time. Now, can I drill down into individual items and say which of those individual items gives us concern? No, not specifically, but one thing about market services inflation is that it often reflects the labour market because market services often have a high input from labour. We know that many countries overseas are also experiencing services inflation above levels that are comfortable, so they've seen goods price inflation come down but they're seeing sticky services price inflation. So it's just - when we see this number looking a little higher than we thought it would be there might be some one-offs in there, there might be some things that won't be repeated, but we've just got to be a little bit careful because that's the bit overseas that's been persistent, and if it's persistent here then we may have to be a little bit cautious on forecasting how far inflation will come down. That's the gist of it.



Luke Kinsella

Are there particular expenditure categories that you have - -

Michele Bullock

No, I'm not going into particular expenditure categories. I think the further - you can go down and down and down into the weeds. All I'm saying is that I think as a whole market services inflation is a bit sticky, it's sticky overseas as well, and it often reflects labour market conditions and conditions in the labour market.

Jacob Shteyman

Thanks, Governor. Jacob Shteyman from AAP. In today's Board statement you note there had are signs that labour market conditions were remaining stable. In last month's statement you note there had were still - that labour market conditions were easing. What's made you change your judgment over the past month given employment growth contracted last month?

Michele Bullock

The labour market has eased and we still forecast it to ease a bit further. Employment month to month is volatile. It's a monthly series and it can be quite volatile, so we try to think about it sort of a little more over three months, get a bit of a feel for what's happening on average over those three months rather than focusing on individual numbers. The unemployment rates held steady at 4.2 percent, so it has eased over the past year and we think that the - if you look at some of the forward-looking indicators like vacancies, if you look at surveys, you look at our liaison, all of those things don't suggest that there is mass lay-offs coming or anything like that. That's the sense in which we think things look reasonably stable. They have eased, but at this point in time they look reasonably stable. That doesn't mean it's not still a little bit tight, and we think there is evidence that it's still a little bit tight.

John Kehoe

John Kehoe from The *Australian Financial Review*. The statement points to an inclination that businesses may be feeling or feel in the future more confident about passing costs on as consumer demand picks up and recovers. Previously they've been absorbing those cost increases. Is there anything outside the hard data that you're hearing and seeing such as from liaison that gives you pause for thought and informs your thinking around that?

Michele Bullock

The statement, I think, highlighted that as sort of an upside risk, John, rather than something that we're observing. Something that we had been hearing from liaison was that over the past six months businesses have found it a little more challenging to pass costs on, so it's sort of



impacting their margins a bit, so that might have been pulling down on inflation a bit. We're not hearing anything yet to suggest that that is not the case anymore and that they feel emboldened. It was really more a scenario to say what happens if, in fact, consumers with increasing wealth, with increasing real incomes now start to consume and what if that starts to increase demand and businesses say, well, now we can start to push these on, what might that mean? So it wasn't saying we think it is happening. We're just highlighting it's something that could happen. Thank you. Thank you, everyone.