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**Michele Bullock**

Governor

## **Transcript**

**Michele Bullock**

Good afternoon everyone. Today, as you will have seen, the Board decided to leave the cash rate unchanged at 3.60 per cent. Inflation in the September quarter was higher than we were expecting in our previous forecasts although you might recall at the September press conference I did highlight to you that after the July and August CPI indicators we were expecting inflation to print higher than those forecasts. In the event trimmed mean inflation, which is how we track underlying inflation in the economy, rose by 1 per cent over the September quarter, materially higher than our 0.6 per cent forecast in August. Now, we think some of this was driven by temporary factors such as travel costs, council rates and fuel, and we don't expect some of these to continue. We are, however, taking signal from stronger price increases that may suggest more inflationary pressure in the economy than we thought before. In particular the cost of new dwellings and market services both increased by more than expected and inflation in these components tends to be more persistent. At the same time the unemployment rate has gone up. It's still low relative to history and monthly data are volatile, but the labour market does seem to have eased. Employment is growing, but at a slower pace than before. Overall when we take into account a broad range of indicators we judge that the labour market is still a little bit tight relative to full employment. This highlights an important judgment in our forecasts. We still think there's a bit of excess demand in the economy. This may be what is manifested in the inflation data. Nevertheless we are alert to the risk that we have misjudged the gap between demand and supply in the economy in either direction.

Central banks often need to talk about trade offs when bringing inflation down because tighter monetary policy has generally led to larger increases in unemployment. This was the case in previous disinflationary episodes in Australia and this has been true in this episode for some other countries. Taking a longer view our inflation and full employment objectives are complementary. Keeping inflation low and stable enables strong and sustainable employment growth. The period since COVID has been unlike any other that we've experienced, including the fact that we've managed to get inflation down and keep jobs growing at the same time.



The resilience of the labour market also meant that we started cutting rates from a relatively strong position. When combined with the fact that we hadn't raised rates particularly high this could mean that less easing in monetary policy is needed in this episode compared to previous ones. So the Board will remain cautious, driven by what the incoming data tell us about the outlook. I'm happy to take your questions.

**Edward Boyd**

Edward Boyd at SkyNews. Governor, you've got a technical assumption in the monetary decision statement of one more rate cut next year. With inflation materially higher than expected, material miss to your forecast, do you need to start tempering peoples' expectations for rate cuts in the future?

**Michele Bullock**

So, yes, we do have that technical assumption of one more rate cut, and if you take the forecasts at face value that would suggest that in 2027 we get back to 2.6, which is close-ish to 2.5, so on the one hand you could argue that that's about where we want to be. The bottom line, though, as we know, forecasts are very uncertain and the further out you go the more uncertain they are. So at the moment our judgment is that the material missed on this occasion was at least partly temporary factors, so a number of things just randomly sort of increasing more quickly, but there is some element of persistence in there. So the Board is going to be watching closely. We actually start to get monthly CPI next month. It's going to be volatile, it's going to be bereft with a few seasonal problems but nevertheless it will be some information we'll have, monthly from now on, and the Board will be feeding that sort of information into its forecasts and its outlook to see if we can in fact continue to see disinflation in the economy notwithstanding the current September quarter number.

**Stella Qiu**

Stella Qiu from Reuters. Did you consider cutting interest rates at all at today's meeting, and during the discussions today and yesterday has any of the Board members sounded more worried about the spike in the unemployment rate?

**Michele Bullock**

No, we didn't consider cutting. We basically just talked about holding and the reasons to hold and then discussed strategy moving out depending on what way. You've highlighted what I think I highlighted in my opening statement which was that unemployment went up a little bit more than we expected but so did inflation. So we're being a little bit cautious here as to what we read. We think there's a little bit of information in both. Naturally the Board are concerned about employment as well because that's part of their mandate, but we're, I'd say, at the moment we're a little more concerned about making sure that we do get inflation sustainably



back in the band, because as the forecasts show in the *Statement on Monetary Policy* this blip in September is going to stay in the inflation numbers for basically the next 12 months. So it's going to have a three on it, which is not ideal. We are expecting the quarterly numbers to moderate, but - so for those reasons I think we're alert to the downside with employment, but we've also got this inflation number sitting there as well. So that's why the caution.

### **Matt Cranston**

Matt Cranston from The Australian. Governor, is there still some risk that inflation could get away from you, and how confident are you that policy is actually restrictive enough, bearing in mind that all your forecasts are predicated on another rate cut?

### **Michele Bullock**

It's a very good question, Matt, and we do think that there are mixed signals on the tightness of financial conditions. Some things like credit spreads and equity markets suggest that things are a little bit easy, other things like the amount of disposable income that people are putting into their mortgages, and also the credit-to-disposable income suggests things are a little bit tighter. So there's a mix there. We still judge we're marginally on the tight side and that is what's baked into the forecasts, that we've still got a little bit of tightness which is going to take a little bit of heat out of the economy and bring inflation back down, but it's also true that the forecasts, as you see, only come back down to 2.6 per cent. So the Board's going to have to wait and see and it's possible that there's no more rate cuts, it's possible there's some more, but as I said earlier, we didn't go up as high, we might not have to come down as far.

### **Michael Janda**

Michael Janda from ABC News. Don't you think forecasting a 4.4 per cent quarter-ended unemployment rate is quite optimistic given that we're already at a monthly rate of 4.5 per cent, especially given the observation in the *Statement on Monetary Policy* that many large firms are cost cutting at the moment?

### **Michele Bullock**

Well, that is our forecast and it's based on the fact, I think, that, as I said, there was some news in the 4.5 per cent but we know the monthly numbers are volatile. What we're doing is we're looking at the forward indicators, and that's things like vacancies are pretty elevated still, the quits rate has jumped, there's evidence from surveys like the NAB survey and also from our liaison that businesses are still finding things a little bit on the tight side. Those forecasts are suggesting to us that there's a bit more stability in the labour market than you might think in just looking at that number jumping from 4.3 to 4.5. You could think there's a little bit of optimism in there, and that's why I say we're conscious of risks on both sides, but at the



moment our best guess is that the unemployment rate will remain reasonably stable from here on in because of those forward-looking indicators that we're looking at.

**Michael Janda**

Is one of those risks stagflation?

**Michele Bullock**

No, I don't think so. I think at the moment we're still confident that inflation is going to come down and we've got employment at a pretty good place.

**Luke Kinsella**

Luke Kinsella from The Financial Review. The decision noted that there are uncertainties regarding the assessment that monetary policy remains a little restrictive and the statement noted that the cash rate was already below some estimates of neutral. At the last press conference you said that you don't emphasise assessments of the neutral rate, but is it something you're thinking about more given the uptick in inflation and in light of that was a rate hike considered at this meeting?

**Michele Bullock**

So two questions. First question - in answer to the second question, no. In relation to the neutral rate, we do run models and they do have a wide swathe, and you'll know that, that the central estimates have a wide range, but if you add the uncertainties around those it's massive. Having said that, we do look at these models to give us some sort of idea and benchmark, but really what we're looking at is we're looking at what we think is happening to financial conditions, and the ultimate judgment on whether or not inflation is - on whether financial conditions are restrictive is what's happening to inflation and excess demand. So that's really what we're focusing on and that has been coming down so we have judged that things are restrictive, but the closer you get to neutral the harder it is to know.

**Tom Richardson**

Tom Richardson from The Nightly, Channel 7. You've said in the past you're not abandoning 2.5 per cent as the official inflation target, the mid-point of the band, but I think your latest forecasts don't have inflation core or trimmed mean falling as low as 2.5 per cent the way through 2027. So are you really still targeting 2.5 per cent or is anything below 3 good enough for you?

**Michele Bullock**

The answer to that is yes, the Board is very definitely targeting 2.5 per cent. Just below 3 is not good enough for the Board, and I think, again, when you take those inflation forecasts at



face value with the one more interest rate cut in there, what that's telling you is that it's really an interesting question about whether there's many more rate cuts left to come.

**Effie Zahos**

Effie Zahos, 9News. Households would argue that they've taken the RBA's medicine, that they've tighten the belts, so who is to blame now for the uptick in this new inflation?

**Michele Bullock**

Well, I guess there's a couple of things. The first is that it's possibly telling us that there's a little more excess demand in the economy than we had thought, and it's sometimes hard for people to understand that, but if you take just a very - a microcosm, a very sort of simple example, I don't know how many people have tried to get a tradie, perhaps, to work on their house. It's difficult. What that's telling you is that in that particular microcosm of the Australian economy that the demand for these services is above the ability of this to supply it. So that's what I mean when I say demand is a bit above supply, and when that happens inflation tends to rise. So, yes, the way monetary policy works is by raising interest rates. It influences people through the cashflow channel, those that have mortgages, it encourages people who have savings to save and encourages people who have mortgages to save as well, in fact, and it has influences on the exchange rate. So it works through those channels to try and dampen the excess demand. That's what I try and explain to people. It's an economy-wide thing. We do understand it affects different people in different ways, but monetary policy is blunt in that way.

**Swati Pandey**

Swati Pandey from Bloomberg News. First question is - -

**Michele Bullock**

Only question.

**Swati Pandey**

Only question. It's related. It's related. Do you still have an easing bias, and what is the - if unemployment was to go up to let's say 4.5/4.6 per cent and stay there, what can we expect you to do given the risk of inflation still remains?

**Michele Bullock**

You know exactly what I'm going to say to that. I don't give forward guidance. What I will say is what I said before, which is that if you take the forecasts at face value we do see elevated inflation in the first 12 months because of the most recent numbers, that's baked in now, and then we see the quarterly numbers starting to come off and delivering an inflation rate of



around about 2.6 per cent by the end of the period. But there's a great deal of uncertainty of that. It also incorporates a technical assumption of one interest rate cut. So what I would be suggesting is that the Board is watching very carefully. We think we're pretty close to neutral. We may be a little bit restrictive, we may not. So there may be a slight - a decrease, there may not, and the Board is going to be going meeting by meeting and using data to inform that outlook and see whether or not that outlook still looks reasonable, and if it isn't they'll change their mind. We don't have a bias.

### **Shane Wright**

Shane Wright from The Age and Sydney Morning Herald. You know how much I like to count words in the monetary policy statement. You mention the quits rate 12 times. The quits rate had been falling for three consecutive quarters and there's been a spike in the most recent quarter. Is there a danger around pulling noise and the signal that's going on, the Bank has had that issue going back trying to work out, and the fact that you've referenced the quits rate just in here, based on one quarter is there a little bit of danger that perhaps that's overreading what's going on in the jobs market?

### **Michele Bullock**

It's not reading it independently, and we mention it usually alongside things like capacity utilisation, what we're seeing in vacancies is held up as well. Yes these things can be a little bit bouncy, but our judgment on a lot of these forward-looking indicators is that they're at the moment stabilised. So some of them were heading in an easy direction but they seem to have stabilised and that's the basis. So I wouldn't say we're focusing entirely on the quits rate. We've got other things we are looking at here and we also are looking - I think the other thing to be looking at here is unit labour costs and they're still rising quite quickly.

### **Tom Dusevic**

Good afternoon, Tom Dusevic from The Australian. Last week in your fireside chat you talked about that episode of rising public pressure and commentary during the big inflation where people were saying you should go harder on inflation. You said that you decided to go a little easier to maintain employment. I'm interested to know what role does outside commentary and how does it affect what goes on in the Board room?

### **Michele Bullock**

That's an interesting question. So we're alert to outside commentary, and I think some of the Board members are alert to it as well. They read papers. But I think the Board very much makes the decision based on what they think is right. I don't think they are moved by outside commentary and I think you saw that in July when everyone thought we were going to move and we didn't. So they are conscious of it, and they're conscious of it in the sense that they



want to understand what alternative views are, but they also want to make up their own mind and do what they think is best. So they're not immune to it, but I wouldn't say they are driven by it.

### **Juliette Saly**

Juliette Saly from ausbiz TV. In September you mentioned that if consumer spending remains robust there may be fewer rate cuts. Given the recent consumer spending index that we saw, how confident are you consumption could remain robust if we're at or end the cycle? And a then a cheeky question, did you have time to bet on the Melbourne Cup?

### **Michele Bullock**

Answer to the second question, no, and I don't even know who was running in it. At the time we did get a household expenditure indicator. Again these data can be a bit volatile. I think our initial take with that information is that it probably doesn't change our judgment on consumption for the time being. We did get quite a strong June quarter consumption, you will recall, in the national accounts. So it doesn't really, I don't think, change our view for the September quarter, but it's an interesting point, and I think this is one of the risks that we have here is that we do have a pretty strong labour market, strong initial conditions, as I said, we've got rate falls - three rate cuts, still the bulk of that has yet to come through in terms of its effect on the economy. So we'll be watching that to make sure that it doesn't feed through too much into consumption and ultimately consumption that can't be met by supply. So that's the key. It is a balancing act.

### **Sophia Rodrigues**

Sophia Rodrigues from Central Bank Intel. Your baseline scenario is on one cash rate cut. I would like to believe that the Board was also presented with alternative scenarios where the cash rate remains flat through the projection period and where the cash rate is slightly higher. Which of those alternatives delivers you inflation sustainably at the target mid-point?

### **Michele Bullock**

Well, again, subject to all the uncertainties, if you don't lower the cash rate from here then that gives you a little bit more downward pressure on demand at the margin, you know, because it's 25 basis points, so that might make it - given we're already at 2.6, if you put that in then it might get you to 2.5 a bit more quickly. So I guess, you know, yes you can do different scenarios, but again I would emphasise once you're getting out to 2027 we have to do these forecasts, we need to do them, but we know they're very uncertain the further out you go. That's why bit by bit more information comes in, we can reassess those forecasts as we move and change if we need to.



**Cameron Micallef**

Hi Governor. Cameron from NewsWire. With inflation rising, how concerned should mortgage holders be about their Christmas spending impacting future rate cuts?

**Michele Bullock**

Well, at the moment what the Board is saying is that we just haven't lowered interest rates at this point and we'll come back to this point in December, because we have another meeting in December just before Christmas, and we can reassess then with more information. We'll have national accounts, labour market, first monthly CPI, so there will be more information there. I would say we've already had three interest rate cuts. I know mortgage holders want more, but it's also important we make sure we keep inflation under control because ultimately that's also what impacts peoples' living standards. So it's really important we get that right too.

**John Kehoe**

John Kehoe from the Australian Financial Review. You've got core inflation at 3.2 per cent for at least the first half of next year, which is well above 2.5 notwithstanding the temporary mechanical factors driving some of that. Some economists are saying you're going to be on hold for quite some time, through to the middle of next year, and that means the next move in interest rates, whenever that may be, could just as well be up as it could be down. Is it plausible that if you're on hold for a long time that you could move rates in either direction?

**Michele Bullock**

Anything's possible, I think, John. At the moment all I would say is I think we're at the right spot we need to be at the moment and we can respond where the risks arise. So if the risks turn out to be on the downside, which some people have suggested on the employment side, we're able to respond. Likewise if the risks are on the upside we're able to respond. But I think at the moment we think we're where we need to be.

**Brandon How**

Thanks Governor, Brandon How from Capital Brief. I just wanted to confirm at the board meeting today did you consider the potential need for rate increases in the near future, and what's underpinning the view that quarterly inflation will come down after the next 12 months?

**Michele Bullock**

No, we didn't consider a rate rise. What's underpinning the view that in a quarterly sense that underlying inflation will start to come down is that, as I said, some of the increases, things like



rates went up by 8 per cent. We saw fuel go up. It's always very volatile. We saw electricity - not electricity, that's obviously in the headline, but there's some of these things that just sort of went up and it wasn't clear why they were necessarily going up. The ones we did take signal from were the ones that we do think reflect possible underlying inflation pressures and that's the housing, the new dwellings, and also the market services. Both of those things tend to be persistent and they are reflective, we think, of a bit of a recovery in demand in some sense. So that's the sorts of things that we're looking at to just keep us focused on inflation.

### **David Taylor**

David Taylor, ABC. The New York Federal Reserve injected \$50 billion into the US banking system on Friday, then the same New York Federal Reserve injected a further \$20 billion into the US financial system yesterday, so all up \$75 billion via repurchase agreements going into essentially Wall Street banks, or banks. Analysts the ABC have spoken to have said this could be the early signs of a brand new global credit crunch. What's your view on that?

### **Michele Bullock**

Well, I guess my first point would be that the Fed have got themselves, as I think Jay set out, to a position now where they think their reserves are about as low as they can go without introducing difficulties in the money markets for banks trying to get liquidity. So this is obviously part of their response to do that. I don't think there will be a credit crunch because I think that's exactly what the Fed is trying to avoid, getting some sort of liquidity crunch for their banks over there. I think the Fed is well aware of that and I trust they will be focusing on that. In terms of Australia, there isn't a credit crunch here. There is liquidity out there and there is credit out there for those who choose to take it up.

### **David Taylor**

If I can follow up really quickly, without the Federal Reserve intervening there would be a credit crunch.

### **Michele Bullock**

But that's the whole point of the Federal Reserve. The Federal Reserve is injecting cash liquidity into the banking system over there through repurchase agreements because they've reached the judgment that their reserves have come down far enough now that if they came down any further they would start to introduce these problems, so the Fed's on to it.

### **Cecile Lefort**

Governor, Cecile Lefort from The Financial Review. Central banks in the UK and the US are easing despite inflation above target, and I was wondering could that happen also in Australia,



particularly if the job market weakens, and do you see the problems in the job market as structural versus cyclical?

**Michele Bullock**

The reason I think they're easing is because they think that their inflation is coming down anyway, even as they ease. So the question really is - the question I think we should be asking is if we ease much further do we think inflation will continue to come down? I think, again, if you take our forecasts at face value, I think that's a bit marginal. But we didn't go up to 5 per cent and above 5 per cent. We only went to a bit above 4. So we're not expecting to have to come down quite as far as those other countries.

**Cecile Lefort**

And the job market? Do you think it's structural?

**Michele Bullock**

Well, the Reserve Bank has a mandate for full employment, that's full employment that is consistent with low and stable inflation. We can't affect that unemployment rate. Whatever that unemployment rate is, consistent with low and stable inflation, depends on other things like skills training and job matching and those sorts of things. That's not something we can do anything about.

**Luca Ittimani**

Luca Ittimani from Guardian Australia. As you said the Board isn't happy getting below 3 per cent, it wants to be at 2.5 per cent, but you're not going to get there on these forecasts, which do include a rate cut within the next 12 months, but there's a lot of room to miss if something comes out in the next couple of quarters. How much damage would it do to the bank's credibility if despite seeing that you're going to stay above 3 per cent for a while you still cut in the next 12 months?

**Michele Bullock**

Well, what I would like to think is that people understand now that we are not wedded religiously to a particular path, that what we are trying to do is very actively analyse the data as it comes through. We're not backward looking. We take the data that we've got, we use that as a starting point and then we attempt to forecast using our models, using our judgment about what the outlook might look like. I would have thought, quite frankly, that it would be worse for the bank to stick to its guns rather than change its mind in the face of new information. So if it turns out that the unemployment - bottom falls out of employment and that means inflation comes down very quickly, then yes, you might be cutting, but I wouldn't say that that's damaging the reputation. I would say we'd be looking to information to tell us



that ahead of time and hopefully react. So that's the way I think central banks are working. We are trying to be forward looking.

**Jacob Shteyman**

Thanks Governor, Jacob Shteyman from AAP. Back to your forecasts given, with the assumption of one extra cut inflation will still be above the band in about a year's time. Is the RBA comfortable waiting that long to get back in the band or is there the possibility that more hikes could be needed to get back in the band sooner?

**Michele Bullock**

So the fact that we're out of the band for the next few quarters is - we discussed a bit earlier - it's a mechanical effect because we've had a big jump in the September quarter and that will now stay in those numbers in a year ended sense for effectively the next 12 months. So that's the mechanical effect. What we are expecting is that embodied in our forecasts is that when the quarterly numbers start to come out for December, March etc, and we'll be getting monthly CPIs, what we'll see is that some of that big jump was temporary, transitory, if you like, and so that will not be repeated and then we will - we still think there's a bit of underlying inflation left from some other items which might show up. But we are expecting in a quarterly sense for underlying inflation to come back down again, maybe to the top of the band, not right to the middle, but certainly if you think about it in an annualised sense, certainly more towards the top of the band, so we will see that happen. That's what we are forecasting. Now, we'll be looking at the data and if that doesn't look like it's happening then we'll have to re-examine our forecasts and our thinking about how much of it was temporary and how much was not.

**David Chau**

David Chau from ABC News. Your forecasts gave borrowers a lot of hope that interest rates would be cut quite significantly in the next 12 months. Now, those hopes appear to have been greatly diminished or even dashed. What would you say to them?

**Michele Bullock**

I think I've been fairly cautious about making predictions about what would be happening to interest rates. I think I've always - in fact if you go back as far as February when the Board made its first cut it used words in the statement to the effect of cutting too quickly or cutting too much might stop the disinflationary process. The Board has always been cautious, so I'm not sure I would describe the way that the Board has spoken in its statements, or I've spoken, has somehow given people hope that there's lots and lots of interest rate cuts to come. I think, as I said earlier, we didn't go up as high as many other countries, we therefore possibly have less room to come down, and I think the most recent inflation data just remind us that we



need to be data-driven, we need to be looking at what that might imply for the forecasts and it's imperative and the board is committed to getting inflation back down to the mid-point of the target band.

### **Millie Muroi**

Millie Muroi from the Sydney Morning Herald and The Age. You said earlier the inflation and unemployment objectives are complementary and that low and stable inflation is key to that. Does that mean that over the long-term controlling inflation is the focus and perhaps priority for the RBA because that will keep the jobs market strong?

### **Michele Bullock**

Well, I think it depends a little bit on where you see risks lie. If it seemed that - so I think it depends, is the bottom line. Mostly I think the focus has to be on inflation, but it's entirely possible that you find yourself in a circumstance, as some countries overseas have done, where their unemployment rate has shot up, in which case the risk isn't on the upside to inflation, the risk is on the downside to employment. So I would say it depends very much on the circumstances you're in and where you think the relative risks are lying for how you're going to balance those objectives.

### **Michael Pascoe**

Michael Pascoe, Michael West Media, Governor. The underlying factor that continues to concern you, the dwelling costs, we've got a double impetus there that's mentioned in the statement, the 5 per cent deposit for first home buyers increasing demand, interest rates having been cut stirring investors in particular, doubled inertia there. Would macroprudential controls at this stage make your life a lot easier?

### **Michele Bullock**

Macroprudential tools are to address financial stability issues rather than - and so if it was judged that some of the activity in the housing market was leading to perhaps riskier lending, perhaps exacerbating the housing cycle then, yes, macroprudential tools might have a role to play there, and I think the sense in which it would affect monetary policy is that if we felt there were financial stability issues therefore we couldn't lower interest rates and we wanted to, then macroprudential would be a good thing to sort of try and marry up with to address that risk. But at the moment I don't think we see financial stability risks so I'm not seeing a macroprudential role with monetary policy at the moment.

### **Michael Pascoe**

Why not use macro more freely?



**Michele Bullock**

Well, that's not for me to decide. That's obviously for APRA to decide, and if there's no financial stability implications on this then I don't see us telling APRA what to do as a very helpful intervention. Thank you.