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Michele Bullock

Governor

Transcript

Michele Bullock

Good afternoon. Today, as you know, the Board decided to raise the cash rate by 25 basis points. Since the start of the year the cash rate has now been increased by 75 basis points. These increases have been necessary to tighten financial conditions and slow growth in demand in the economy to ensure we get on top of inflation. Inflation hurts all Australians because it eats away at the purchasing power of our money.

Inflation in Australia was already too high before the recent conflict in the Middle East began. The most recent data have confirmed that some of the increase in inflation was being generated by economy-wide capacity pressures including ongoing tightness in the labour market.

Developments in the Middle East remain highly uncertain but under a wide range of possible scenarios the conflict adds to global and domestic inflation. The shock to oil and some other commodity prices has worsened the trade-off between inflation and growth. Already we've seen a sharp increase in fuel and related commodity prices and this is already feeding through to inflation. The recent increases in interest rates will have no impact on this. What these increases do, however, is to help to contain the domestic inflationary pressures after the inflation due to oil and related commodity prices eases.

Now, I understand this is a really difficult time for households who are already facing higher fuel prices and other cost of living pressures, but we must get on top of inflation now so that it doesn't get away from us. We're already seeing that many firms that are facing cost pressures are looking to increase prices of their goods and services. If left unchecked, higher costs get embedded into price and wage setting decisions. These second-round effects could lead to even higher and persistent inflation and if so would require even more tightening in monetary policy to get inflation under control. We've already seen expectations for inflation over the next year or so increase and we need to ensure that this does not lead to higher inflation expectations over the longer term.



When inflation is already too high and the economy facing capacity pressures it doesn't take much additional spending to make the job of returning inflation to target more challenging. This means spending will need to grow more slowly for a time to help restore the balance between demand and supply. The recent cash rate increases have been to address the excess demand that existed in the economy prior to the Middle East conflict. Higher fuel prices by themselves will not address this. The Board now judges the level of the cash rate to be a bit restrictive, which will help to address the risk that inflation will be higher and more persistent once the current prices shock passes through the economy. This gives the Board space to see how the conflict plays out and the response of Australian households and businesses to the shock. The Board remains focused on returning inflation to target. The Board will continue to be driven by the incoming data. We will monitor the situation overseas and how it's affecting the Australian economy. We'll also continue to monitor the incoming Australian data and assess the implications for the outlook for domestic spending and inflation. Thank you. And I'm happy to take your questions.

Swati Pandey

Thanks, Governor, Swati Pandey from Bloomberg News. Just wanted to understand based on what you just said, are you on a wait and watch mode from here on? Because you tried to imply that current policy settings seem to be appropriate to bring inflation to target?

Michele Bullock

So wait and watch is probably the wrong term but I think the Board now feels that the initial conditions that we were trying to address before the war started – which was a space of excess demand, where we needed to get demand to slow so that it was putting less pressure on inflation – we feel we're now in a position where we've got space to be alert now to both sides of the risks: inflation and the potential risks to the downside if the war continues.

Matt Cranston

Matt Cranston from The Australian. The Australian newspaper today reported that the government is going to inject a big bunch of stimulus into the economy. Other governments have also got similar policies on different things. And in your statement on monetary policy today you sort of raised this point. You said, governments may consider policies to support households and businesses. So my question is, I'm not looking for your advice to government. I know not to ask you for that. But can I explain to Australians how these sort of policies may help or hinder your fight against inflation? And, more importantly, your fight against inflation expectations.



Michele Bullock

Yeah, sure. Taking off where I finished with Swati, we have a situation in Australia prior to the war where we had demand above supply. The ability of the economy to supply the goods and services that were being demanded in total, including by government and by the private sector, that was outstripping the ability of the economy to supply it. That's why inflation was rising. By definition, if we are increasing interest rates what we are trying to do is slow growth in demand and that hits the private sector typically: consumption, investment, those sorts of things. To the extent that the government is demanding goods and services of the economy, so in the variety of ways that they do, whether it's direct expenditure or giving money to households to spend on goods and services in the private sector, that adds to demand. Now, if we're sitting at a position where we are constrained – the economy and productivity aren't growing very quickly, we think the potential growth is around about 2 per cent a year – that means that in order to close that gap we have to have demand growing by less than 2 per cent. And both private sector and public sector have to contribute to that. So all I'm saying is that the extent to which government make up the shortfalls for households by giving them more money, it makes it harder to dampen demand. The bottom line though on all of this is this shock has – it's a real income shock for Australia and the world. Australians are poorer because of this shock to oil prices and energy prices and all the other commodity prices that are being impacted. We are poorer and there is no way out of that. The trade-off is much worse.

David Chau

Hi Governor, David Chau from ABC News. With each successive interest rate hike comes the higher risk of a recession. So how will you know if you've gone too far?

Michele Bullock

I don't know what specifically - specifically what definition of recession that you're referring to but if you look at our forecasts you'll see that we have growth going down to about 1.3 per cent. That is pretty anaemic growth. I would say that in those circumstances it's not a great outcome for Australia but as I said earlier, we've had this shock which has lowered our real income. So, yes, we are all feeling poorer. That's what this has done. This war on the other side of the world. So, yes, it's possible that we have given too much weight to the inflationary risks and we haven't given enough weight to the possibility that consumption will pull back quite a lot. At the moment, we think in our baseline scenario that that's not going to happen, that growth is going to be anaemic but the economy will still grow. But there's always that risk. We'll be doing what we always do, which is we'll be looking at the forward indicators to the extent we've got them, our liaison programs, our surveys and the hard data so we know where we're standing at the moment and we'll be making assessments. If things change, we will change.



Shane Wright

Shane Wright from The Herald and The Age. 48 mentions of the word 'uncertain' today. 50 per cent up on the last quarter. In the November SMP you had a forecast dwelling investment of about 2.5 per cent by the end of 2027. February that was down to 0.3, now it's at -0.3 with a -1.1 and you've also got falling business investment. How do you think that plays out in a rental market, in the property market and for productivity if you were hoping or expecting businesses to keep investing but they're clearly, on your own forecasts, ebbing away?

Michele Bullock

Well, this is the challenge. Monetary policy does work partly through the housing market. That's partly what it does. And, as you point out, we already have a lack of supply in housing. In fact, building costs are such that you often hear from builders that – particularly for high rise – that it's just not worth building because they can't sell the properties for the cost it takes to build them. This is making it worse. It's not us, I think, that's driving this. I think there's an essential problem with supply and the inflation in building costs, which is going to be worse out of this shock. Quite frankly it is going to make the situation worse. The only thing we can do is think more medium term and think about trying to bring inflation down so that we don't have high cost growth in the construction industry. That gives certainty to builders. It gives certainty to home buyers and that is the thing that we can offer in the medium-term but it's not something that we can offer in the next 12 months. This is a shock completely out of our control.

John Rolfe

Governor, John Rolfe from the Daily Telegraph and the Herald Sun. My question is about the non-war inflationary pressure in the economy and seeking to clarify some of your interesting opening remarks. If there was no conflict in Iran, do you think that you personally would have voted for an interest rate rise today?

Michele Bullock

That's a double-edged question, isn't it? You're asking me what I voted for today. Let me put it this way, we already had a problem with inflation, as I said, because we had excess demand. Would we have had to have had three increases? I don't know the answer to that but what I can say is that this oil shock that has been driven by what's gone on in the Middle East, this has complicated things immensely. It's made a trade-off for us much worse. For any given inflation rate now that means lower growth. It means higher unemployment. If you like, if you want to be technical, the Phillips Curve has sort of shifted right a bit. So it's quite possible that we wouldn't have had to increase interest rates a third time if the shock hadn't occurred, but the fact is the shock did occur. It occurred at a time when inflation was already too high.



And we know that a very salient price, a price that sticks in people's brains, is petrol. The problem then is, this is adding now to concern that people will just start to think, inflation now is just starting to become embedded. So it's possible that – I mean, I don't have a counterfactual, it's possible but I would say certainly what this is – what the war has done is it's made the trade-off much, much worse. And although we are looking through some of it, we can't look through everything. We've got to be cognisant of the potential impact on inflation and expectations.

Lea Jurkovic

Hi Governor, Lea Jurkovic from The Financial Review. The SMP said that the pass-through of the energy price shock to the broader economy is quite fast, and perhaps faster than before. Does this complicate how much space you have to watch for the activity risks to play out and will the Board be more sensitive to inflation prints because of this?

Michele Bullock

A couple of points first worth making here. The first thing is that, as I said in the remarks, these interest rates rises are not going to do anything for inflation in the next six months. That's done and dusted. We know those prices are coming through. The second point I would make is that it's not unreasonable for firms, if they are seeing their cost bases rise because of what's going on, whether it be fertilisers for farmers or fuel, diesel for transport costs, it's not unreasonable for them to want to recover their costs because the alternative is if they can't they might end up going bust and that's not good either. There's nothing unreasonable about that. What we're trying to guard against is: we're pretty sure we had excess demand in the system, which will make it easier for them to do it and easier to pass on perhaps more. And that's the way that the inflation expectations get embedded. So I want to be absolutely clear, I'm not saying that businesses shouldn't pass on costs. I think it's reasonable that they should be doing so. What we're trying to guard against is, once those new price levels are achieved, that people don't think, well, it's normal for things to go up by 4 or 5 per cent. We'll just continue to do that. That's the challenge.

Patrick Commins

Thanks, Governor. Patrick Commins from Guardian Australia. I had a question about the adverse scenarios. The baseline scenario, which you consider setting your forecasts off, is reasonably optimistic. It suggests that the Strait of Hormuz opens pretty soon. So how likely do you think that we do end up in the more adverse scenarios, how are you thinking about that and relatedly if we do what does that mean for the path of monetary policy? Does that start to change how you're weighing out the potential impact of growth versus inflation?



Michele Bullock

So let me just clarify quickly I don't think we're being optimistic but we're taking the assumption of the futures price curve for Brent and some people are suggesting that that is optimistic. And it may well be. Certainly when I stood here at March I think the war was maybe a week or two old. Everyone was thinking it will be over in a couple of weeks. It isn't. We're still here. We still have no idea. So that's why we do the scenarios. We've done the scenarios with a higher shock to oil prices and a more prolonged one. And that does, as I said earlier, that complicates things again because inflation peaks higher. You end up with unemployment possibly tracking higher. You end up with a much less favourable outcome than – again, the Phillips curve is shifting right again. So that's the challenge. Is it optimistic? I wouldn't like to say. I have no intelligence into how likely this thing is to be resolved. But even if it is resolved quite quickly, in terms of the actual conflict, the effects are going on for the rest of this year and the oil price does not get back to where it was pre-war. So we're still in a worse position than we were, in terms of the cost to society. We still have a real income loss for Australia. The world's got a real income loss. So that's still what we're facing. That's why we do the scenarios.

Patrick Commins

Did you end up in the adverse ... [inaudible]

Michele Bullock

Well, I wouldn't know at this stage. If, for example, the adverse scenario turns out and that affects confidence and has a big impact on demand then that might mean that we close that excess demand gap more quickly. It might. I don't know. We're just going to have to be alert.

Chris Kohler

Afternoon, Governor. Chris Kohler from 9News. Now, you said you're conscious of the difficulty for households. You also said the next six months are done and dusted so I might just ask you a little bit more directly on that. I mean, looking at the forecasts, inflation is going to get worse, prices will rise further and that's despite three interest rate rises so far this year. So I mean, this is going to feel like very, very bad news for households. Can you just speak to how those households are likely to be looking down the barrel of 2026? I mean, is it as grim as it looks?

Michele Bullock

Well, it's hard. Those households with mortgages and debt, yes, this is hurting them immensely. The thing is though, and I've said this before, inflation is actually hurting everyone, including those people. So they've got a double whammy. But the people who are most impacted by inflation are the most vulnerable. The people on the lowest incomes. They're the



ones who don't have savings. They don't have earnings from interest or anything like that so they're not benefitting from that. They're just getting hit by inflation. So, yes, it's hard. The shock with oil prices, there's nothing we can do about that. And as I said earlier, the interest rate rises will not do anything about that. That is going to happen. And we're going to see over the next three to six months, inflation will peak probably in June. I think our forecast is about 4.8 per cent. It will then start to come down. As according to the baseline, if oil prices start to decline, it will start to come down but even if oil prices stay up there inflation will still ease a bit because at least oil prices won't be increasing. But look, it is tough. We're staring down the barrel. Not only here, many other countries are staring down a similar barrel. It is a very, very tough time.

Stella Qiu

Hi Governor, Stella Qiu from Reuters. I had a similar question about the adverse scenarios as well but I'm just going to pivot a little. Just interested in if there's any discussions among the Board members on their view on the adverse scenarios, if that might happen, what's their view on this and when do the concerns about demand construction overtake inflation?

Michele Bullock

Well, we did discuss the forecasts and we did discuss what the adverse scenarios might mean. The outcome of that discussion really was that it's uncertain. We don't know. One reason for deciding to increase interest rates to give ourselves space now to sit and see what happens, whether the baseline turns out or it's an adverse scenario, that was part of the thinking, I think, in terms of increase now and then give yourself space.

Brandon How

Thanks, Governor. Brandon How from Capital Brief. In the latest RBA forecast it says the bank is expecting productivity growth to be effectively stagnant through to the end of the year. Should we be expecting there to be no recovery in productivity growth as long as the conflict in the Middle East persists? And how much additional difficulty is this putting on rectifying some of the capacity pressures in the economy?

Michele Bullock

Well, to the extent that high inflation and worries about fuel supply and so on are taking businesses' eye off the ball of productivity improvement then, yes, that's not good. I mean, there is another opposite force going on in the world economy at the moment, which of course is the big AI boom, and that's actually – if you look at forecasts for world growth and major trading partner growth, that is actually giving something back. So even though you've got this big supply shock, on the other hand, you've actually got growth coming from this AI inspired investment boom and that's impacting our major trading partners and so on. And



that might also have some productivity benefits but that, I think, is something that's out there. It's not immediate. But I think this is another reason why high inflation and why our job of keeping inflation low and stable is so important because, you know, if you've got high inflation that's what people are worrying about. They're not thinking about how are ways to improve my business, what are the ways I can do things better. They're worrying about cost. They're worrying about inflation. So it's not good news for that but we've just got to get inflation back down.

Juliette Saly

Governor, hi, Juliette Saly from Ausbiz TV. You were asked a question last time about whether or not Deputy Governor Hauser was guiding the markets, given that he gave that podcast and then money markets started to suggest that we would have a rate hike. The same happened with his fireside chat this time in New York. So, I guess, is the Deputy Governor somehow giving a little bit of an indication as to where the Board is thinking? And if so, are you or Deputy Governor Hauser happy to come on Ausbiz and give some forward guidance?

Michele Bullock

So the answer to the question is, no, he's not out there giving guidance. I mean, I've said before that we can't actually tell you what the Board is going to decide and, again, I will reassure you – or it may not be reassuring – but I can tell you that the discussion in the Board is vigorous and we had a lot of debate about this decision today, as we did about the last meeting. So he's not guiding the market because he doesn't actually know what the Board is going to say. Certainly this is a Board that I think contribute a lot, in terms of their own experiences. They all have different sorts of skills and experience to bear on this. And everyone listens to one another and everyone thinks deeply, I think, personally about their positions and then they make their decision.

Juliette Saly

[inaudible]

Michele Bullock

Oh, well thank you for the invitation.

Ingrid Willinge

Governor, Ingrid Willinge from Sky News. Just a question in regards to the dual mandate. Do you still believe in the narrow path to ease inflation gradually while maintaining full employment or are you seeing it as more urgent to address inflation at the moment?



Michele Bullock

So I think the narrow path was something that my predecessor talked about and it captured that idea that we had a dual mandate. But it's also true that we don't give equal weight to both and it depends a little bit on where we think the relative risks lie. So in early '25 when inflation was coming down, unemployment was drifting up, we thought, okay. Maybe we need to pay a little bit more attention to the downside. It became clear in late '25, early '26 that actually the risks had all shifted to the upside so we had to shift our focus and that's why we're ending up where we are today. Having said that, we still are conscious of the dual mandate. We are still conscious that we want to try and slow the economy enough to bring inflation back to target and we would rather not have unemployment or employment slow anymore than it has to. That's still part of it. But we do have to pivot depending on where we think the risks are lying.

Cameron Micallef

Hi, Governor. Cameron Micallef from NewsWire. Are you concerned that lifting savings rates will actually increase spending for those people that have assets already at the expense of mortgage holders effectively?

Michele Bullock

So that's one way it could work. The other way that it often works, and you observe this actually when you look at what mortgage holders do with their payments, higher interest rates actually encourage saving, as well as spending. So one way to look at it people often do is say, well, I'm getting more interest there so therefore I'll spend more. But what higher interest rates do is encourage people to save more and save it up to spend later. That's what they tend to do. And that's one of the transmission mechanisms in monetary policy and where you see it often is in mortgage holders where we observe that, for example, when interest rates were coming down a lot of mortgage holders were opting – interest rates were still a little bit elevated – and they were opting not to spend that extra money. They were opting to continue to save it. So it could encourage some people to spend their interest earnings but another transmission mechanism is it actually encourages them to save.

Michael Janda

Governor, Michael Janda from ABC News. This is probably one a bit for the economics nerds out there but historically governments used fiscal policy to constrain inflation and address inflation break-outs. In the past three or four decades we've seen the pendulum swing very much to central banks having a lot of responsibility for constraining inflation. Do you feel that there's now too much reliance placed on central banks to keep inflation under control?



Michele Bullock

I think that where we've got to on this worldwide is that cyclically it's easier for central banks to respond. Because, as I've discussed before, fiscal policy is trying to address a lot more things than just inflation. It's got tax, it's got spending, it's got infrastructure. So it's not a very nimble way to address inflation. Having said that, yes, it's true – and we talked about it in answer to Matt's question – that when governments are spending a lot of money and we're running up against capacity constraints, then they do need to think about whether or not there's ways they can help the inflation problem by looking for ways to constrain demand. That's one thing that they can do and I personally think that the Treasurer, privately and publicly, he is focusing on that. But it's not just the Federal Government but it's the State Governments as well. So, yes, I think they do need to be conscious of it. But I don't think going back to fiscal policy being the swing factor in a cyclical sense – there's automatic stabilisers that do some of it for it – but I don't think actively using fiscal policy to try and address the cycle is necessarily the right way to go.

Daniel O'Leary

Daniel from MNI. What impact would a prolonged oil shock have on the bank's neutral rate estimate?

Michele Bullock

That's a good question. It depends on what happens really to savings and investment, I think, which is the ultimate reason why the neutral rate is what it is. It depends on the balance of savings and investment globally. I don't know is the bottom line. If, for example, it resulted in a massive investment expenditure in renewables, so it super charged that, we could end up with a higher neutral rate because of investment taking off. If, on the other hand, it makes people uncertain, cautious, savings go up, it could lower the neutral rate. If we stay here I don't know what it would necessarily be but ultimately it's going to depend on whether or not in any long-term sense it has any impact on savings and investment profiles and I suspect other factors are going to be over the long run more important there.

Veronica Lenard

Thank you, Governor. Veronica Lenard from SBS. You spoke earlier about how those most impacted by inflation of vulnerable communities, many already stretching their budgets to accommodate higher costs. In this climate what are your concerns about the potential for unemployment to surge in the months ahead?



Michele Bullock

Well, I do worry about unemployment and I worry about it for the most vulnerable. I also worry about it for people who are paying mortgages, for example, because the best way for them to continue to meet their commitments is to have a job. But quite apart from that, having a job is just really important for people's self-worth and their self-esteem. So there's good reasons why we don't want unemployment rising too much. But we think still, if you look at our forecast, we still see employment growing. The unemployment rate moves up a bit, but employment's still growing. It just might mean that it's taking a little longer for people to get a job. It might mean they get a little less hours. But if we can keep employment growing then I think that's the most positive thing we can do. So it's a little bit back to the narrow path question. I mean, we haven't forgotten that that's the other part of the dual mandate because it's very important.

Sophia Rodrigues

Sophia Rodrigues from Central Bank Intel. If I have watched and listened to other central banks properly, I think they're all looking for signs of second-round effects of higher oil prices and I think that the first central bank was saying that we are already seeing indications of the second-round effects. Now, is the second-round effect because of home grown inflation or is it because of the Middle East conflict?

Michele Bullock

So we might get into semantics about what's first-round and what's second-round and so on. So let's just be clear. There's clearly an impact on the Consumer Price Index on inflation from fuel prices. That's number one. Then there's the extent to which some of these other prices, fertilisers is another one you hear quite a lot about, feeds into the cost bases of – and fuel – feeds into the cost bases of businesses and they pass the costs on. Now, that could be it. In which case we've just reached a new high level of prices and if inflation expectations stay low and stable then we'll go back to, basically, inflation more in the two to three, sort of, which is what we're aiming at. I think what central banks are watching for is not necessarily that the cost – yes, you would expect to see the costs being passed through and that's second-round –but I think more what they're talking about, what they're watching for is: are there other implications once that's occurred, is that mindset getting set further into inflation expectations? I think that's the worry that most central banks have. So when we say we look through it, we can look through the initial impact. The indirect impact, if you like, on the costs of other businesses. And then we're looking for it to stop there. And any indications that it's not stopping there is the worry.



Sophia Rodrigues

Just to clarify, so when you say second-round effect, do you actually mean indirect effect or –

Michele Bullock

Look, the terms get used interchangeably. There's a first-round effect which is just the very direct effect of the fuel price. There's a second-round effect which is the fuel price and other things feeding into costs and into there. You could call that the second-round effect. And then there's the ongoing – making sure the ongoing effects are not so. I don't know what the central banks are calling second-round effect. I suspect what they're worrying about is making sure that there's not ongoing impacts on inflation expectations. That's what I suspect. But I think you'd be wrong, as I said earlier, to expect that businesses would not look to pass on some of the costs of doing business. Otherwise, if they can't, then what's going to happen to the businesses? Then you will end up in a recession.

Sophia Rodrigues

Thank you.

Millie Muroi

Hi Governor, Millie Muroi from the Sydney Morning Herald and The Age. The latest decision was not quite unanimous at eight to one for a rate hike. Can you outline some of the arguments made by the person who argued to hold and how any of the arguments might have influenced your thinking or the thinking of the Board?

Michele Bullock

So, it wasn't just one person that made – we all considered all of the arguments. I think what was the difference for the one was that they put more weight on the risks that the oil shock was going to have a big impact on demand. They were less convinced that we had excess demand, as much excess demand as we thought, and they therefore were of the view that the inflationary risks – and we'd already increased twice – therefore they weren't quite as concerned about the inflation risk. Everyone was thinking about that. We were all thinking also and discussing, what's the potential implications for demand of this shock. We've seen a big drop in confidence, consumer confidence, business confidence. Is that going to have an impact over and above what we might have thought, according to history, on the way people and consumers and business are investing? And so I would say that what it was a matter of, for the one versus the eight, was the one sort of put more weight on those downside scenarios, those downside risks and worries, than the others. But having said that I think it's also true that those who voted for a rise were also of the view that this, as I said earlier, this puts us



now in a good space to just observe now what's going to happen with the war and what's going to happen with prices and with employment.

Cecile Lefort

Governor, Cecile Lefort from The Financial Review. The last time the cash rate was at 4.35 per cent was two to three years ago. At that time the unemployment rate was a bit lower but the inflation rate was at 5.2 per cent. Is the inflation problem really as bad now as it was then?

Michele Bullock

Well, there's a few things going on here. So I would say that what we've observed prior to the conflict was, in fact, that inflation was persistent. It was sitting above 3 per cent, 3 point something and it didn't look like it was going to be coming down to target very quickly. At the other end of the spectrum the cash rate isn't the only determinant of how restrictive monetary policy is. Financial conditions more broadly are what influences demand. And I think what we'd observed was that for a similar cash rate, financial conditions weren't quite as tight as they might have been in the past. There was a few things going on. I think we've highlighted in the past that margins on loans were narrower. So for a given cash rate you got looser financial conditions. There was certainly world financial conditions - risk premia were very low. Everyone seems very confident, I don't know why. So it's not just the level of the cash rate that's the issue. It's the financial conditions around it. The other thing that's really important is that credit conditions seem very, very plentiful. There's no problem getting loans from the banks. Credit is increasing quite strongly. More strongly than average. So there were signs that even though we'd lowered interest rates that, in fact, what we thought might have been restrictive it turned out maybe it wasn't quite as restrictive as we thought. So I guess that's a long way of saying that you can't just say 4.35 then equals 4.35 now. Even if you look at our neutral rate estimates, and you'll see that in the *Statement*, the neutral rate estimates have arisen a bit now. We're not slavish to the neutral rate estimates but it's just suggestive that 4.35 now might not be quite as restrictive as we thought it was back then, when it was 4.35 the first time.

Emilia Terzon

Emilia Terzon from the ABC. Many Australians right now feel like they're being whacked on many fronts. We have petrol going up. We have supermarkets warning of higher food prices to come and now people's mortgages will be going up today as a result of this. We just had someone comment to us that today's rate rise means I'm skipping more meals to feed my kids. Is there a better way to deal with, largely oil shock-driven inflation than doing this to people?



Michele Bullock

So we're not dealing - as I said earlier, the oil shock is not the sole reason why we are - we had an inflation problem before this. People often say to me, you must have a - well, you must have a better thing than the interest rate, we don't. It's all we have. And we know that it affects different people differently. We know that. But it's the only thing we have to address inflation. And the more important thing in that comment was about the rising costs of all those things. That's why we have to stop this happening. We have to stop inflation because that's - yes, the mortgage cost is hurting them but it's all those other things that are hurting people. The rise in prices of groceries, the rise in prices in fuel, all those sorts of things are hurting people. We've got to get the inflation rate down.

Emilia Terzon

As you've just acknowledged there you have that one tool. Is there another tool you could be given to deal with this?

Michele Bullock

Well, I'm not sure what that tool is. Fiscal policy has lots of tools, in a sense. Fiscal policy has many more things that it can do. But it has to be careful, I guess, in the sense that it needs to be targeting where it's most needed. It can't just - we talked about earlier we can't just go out there and just add to demand. The interest rate is the tool that we've got. It's blunt. It does affect people in different ways. But it's the best way we've got of controlling inflation and that's ultimately what we have to do.

Michael Pascoe

Michael Pascoe, Michael West Media. Governor, the SMP notes that business liaison as always says the labour market is a bit tight as the Reserve Bank tends to always say too. The *Statement* notes that unemployment 4.3 per cent. Broadly stable for the past year and quote low by historical standards. I'm wondering where the Bank draws the line between modern and ancient history? That unemployment has been around 4 per cent for going on five years now. Four and a half, will be five by the forecast. Isn't unemployment around 4 per cent now the standard, and shouldn't that have implications for what the Bank views as trends in the labour market, instead of continuing to think that, oh, this is low?

Michele Bullock

Well, I would hope that we can continue to have an unemployment rate in the 4's. I think that would be - certainly back prior to COVID it was more in the 5's and so when we got the unemployment rate down, particularly coming out of COVID, it was at 3.5 at one point. It was too tight then. And I don't know. Anecdotally you'd walk around and there'd be restaurants



and cafes that couldn't get staff. Agriculture couldn't get people to do their pickings. So there was shortages. The labour market was strained. I would hope we can still keep an unemployment rate in the 4's. That is my hope. But ultimately we don't control what the full employment number is. We can't control that. We can only basically set monetary policy to keep inflation low and stable. That will hopefully mean that businesses have room to plan, not worry about inflation, makes it conducive to hire people, to invest. That's what we can do to contribute to it. You can't have low and full employment if you don't have low and stable inflation. They just don't go together in the long run.

Michael Pascoe

So if the forecast comes true and unemployment does go up to 4.7 per cent, that would be considered too high?

Michele Bullock

No, I'm not saying it's too high. I'm saying that what we need is some slowing in demand at the moment to bring demand back into line with supply. We've got a supply problem. We've got hardly any productivity growth and until we can address that the bottom line is that we can't get substantial growth in the economy without running out against capacity problems. And that also means that, just as an aside, that real wages can't grow by very much as well.

John Kehoe

Thank you, Governor. John Kehoe from the Australian Financial Review and just picking up on that wages theme, your *Statement on Monetary Policy*, the 70 page document you released notes that in the business liaison program the RBA has done that businesses expect higher wage demands and potentially to be passed on as a result of workers responding to the higher headline inflation. Do you have a view whether businesses, governments who employ a lot of people, and also unions who make these demands, should or could be requesting for broad, above inflation wage increases at this time? Can the economy sustain that and cope with that?

Michele Bullock

So two points, I suppose. The first is, yes, I fully expect that people will try to make up their wages, real wages, the hit they've taken from inflation by asking for higher wages. The extent to which they can achieve them depends on the tightness of the labour market. So it depends on how much bargaining power they have and to the extent that we think the labour market is still a bit tight, there probably will be some success there. The only point I would make though is that as I said earlier, this shock from the conflict is a shock, it makes us poorer. It does affect the income of Australian people. Real income of Australian people. So I fully expect that that's what will happen but what I don't want is for it to become engrained in expectations going forward. Interestingly when we had the big inflation after COVID, what you



saw was that real wages actually didn't maintain. People got wage rises higher than they were getting but they weren't keeping pace with inflation. So there were cuts in real income. And the other thing that was actually good about it - well, good in an expectations sense, was that to the extent that there were EBAs at the time, enterprise bargaining over, say, two and three years, you typically saw a larger increase in the first year and then smaller increases in the second and third year. So that was sort of positive because it showed that people were accepting that, yes, it's probably not going to go on like this so I probably don't need to have 5 per cent increases for the next five years. What worries me is that this is the second shock of this nature in so many years and they might not think quite the same this time. So that worries me, and with a tight labour market it's possible that that will therefore be - that will be the outcome. That you will end up with higher wage increases and that will feed through into businesses and businesses think, well, that's now the norm. That's the inflation worry that - inflation expectations worry that I have. I'm not saying that's happening. But that is a risk.

Thomas Henry

Thanks, Governor. Thomas Henry from the Australian. Both the baseline and the two adverse scenarios modelled by the Bank assume that supply of imported fuel products will continue to meet demand and still the growth forecasts look pretty bleak. How bad could economic conditions get should shortages hit Australia and should rationing be required?

Michele Bullock

Well, yes, it's a very pertinent question and it could get very bad. I don't know practically how that would be dealt with. But if that were to happen I think we're in a very different world and we'd be looking very differently at the way things are panning out in the economy. That's not what we're seeing happening at the moment and it's not the central expectations but if that event happened, we're in a very different world and I think the Board would be looking very differently at things.

Thank you.