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Michele Bullock
Governor

Transcript

Michele Bullock

Good afternoon. Today, the Board decided to leave the cash rate unchanged at 4.35 per cent.

The cash rate has been increased by 75 basis points this year. I know that these increases have been tough for households with mortgages who are also facing high inflation. But they were necessary. The Board judges that financial conditions are somewhat restrictive and are helping to slow the economy, which is needed to bring inflation down.

That said, inflation remains too high, and the Board remains concerned about the upside risks to the inflation outlook. The domestic economy continues to operate above capacity, and the labour market remains a little tight. Domestic spending and investment have remained resilient, and global activity has been supported by AI-related investment.

The ongoing conflict in the Middle East has led to volatility in commodity prices. Oil and most related commodity prices are higher than they were prior to the conflict. Some firms have passed these cost pressures through to the prices of their goods and services, and others are looking to do so. Continuation of the conflict or further escalation could intensify inflationary pressures. The Board is determined to ensure that expectations of higher inflation do not become embedded in price and wage setting decisions.

The Board also remains concerned about the continued weakness in productivity growth. Productivity outcomes have been weak for some time, and continued weakness will constrain the economy's ability to grow without generating high inflation.

We expect that a period of subdued growth in the economy will be required to bring inflation down sustainably. There are some signs that financial conditions are constraining activity. Conditions in the housing market have eased, though this only partly reflects monetary policy. We also assess that labour market conditions remain tight despite some easing in recent months.

Our forecasts are for inflation to ease through next year and be back around the midpoint of the target range by the end of 2027. The Board therefore decided to leave the cash rate target unchanged at this meeting to allow more time to assess whether the economy is evolving as expected. However, the forecasts are uncertain, and there are upside risks to inflation. So we will need still need to see some further progress before the Board can be confident that we are going to get inflation back to target with current monetary policy settings.

The Board will raise interest rates further if that is what is required to bring inflation down in a timely way. The Board will be closely watching for evidence of upside risks to inflation materialising.

I understand this is a difficult period for some households. High inflation hurts all Australians, especially the most vulnerable, and that is why bringing inflation down is our priority.

Now, finally, this meeting was the last for Ian Harper as a member of the Board. Some of you may know that Ian actually interviewed me for my first job at the RBA, and I got it. And he served on the Board for the past 10 years. So farewell and a big thank you to Ian from me and the whole of the RBA.

So that's it. Thank you, and I'm happy to take your questions.

Jacob Shteyman

Thanks Governor, Jacob Shteyman from AAP. You mentioned, and in the Board's statement as well, they mentioned upside risks to inflation, and that the Board might need to raise the cash rate further if that occurred. Does that mean that if inflation unfolds as expected, you're comfortable that you've done enough this cycle?

Michele Bullock

So, again, we'll be looking at the forecasts, and the forecast, as I said, do see inflation coming back down to around about the middle of the band by the end of 2027. But the forecast are uncertain, so I think the message today is that in waiting, the Board isn't ruling out that there might be a need for further interest rate rises if we look like we're off a path which takes us with inflation remaining above the target for much longer than in the forecasts. So we're not ruling that out, but we're saying we want to get a bit more information to confirm whether or not we still seem to be on that path.

Michael Read

Thanks, Governor. Michael Read from the Australian Financial Review. How are you and the Board thinking about what the downturn in the housing market means for interest rates? Does it make a rate cut in the medium term more likely?

Michele Bullock

Thanks, Mike. So let me, before I answer that, can I just step back a bit, and you'll see there's a graph in my Anika speech and a graph in our economic outlook in our Statement on Monetary Policy, which shows that shows the housing price level over time, and what you'll see is that housing prices have risen by about 50 per cent since 2020. And yes, they've turned down. And the reason that's of interest to us, is leave aside reasons for it, but monetary policy, one of the ways it works is through housing. It works through basically dwelling price inflation, building dwellings, and so on. So it does, and it impacts things like consumption as well. So there's a way in which it impacts the economy, but that isn't really the main game here for us at the moment. The main game here for us is excess capacity, a tight labour market, particularly in some areas like construction, the Middle East conflict, the AI boom. These are all the things that are front of mind in terms of the risks, the inflation outlook. So, yes, the Board is looking at housing and looking at what's happening in that market because it might have some flow-on effects, but it's not the main game. And before anyone asks, no, the Board did not discuss an interest rate cut at this meeting. It only discussed a raise and a stay.

John Rolfe

Governor, John Rolfe from the Telegraph and Herald Sun. I appreciate that you say housing is not the main game, but I'm going to ask you about it anyway. The Statement on Monetary Policy out today says the decline in house prices has been more significant than expected, and then it references rate hikes and property tax increases, although doesn't use that language. It then says that weaker house prices reduce the incentive to build new homes. Could you explain why that is?

Michele Bullock

Well, the reason that it – so basically construction costs are rising, and if established housing prices are falling, then what you can sell new construction for obviously is going to come down as well. At the same time, we've got construction costs rising. We're already hearing, particularly in the high density market, that it wasn't worth building because you couldn't – the cost it took you to build, you couldn't sell for it. So that's the way in which it might constrict housing construction. But these are short-run impacts, John. And you've got to think medium-term here. Ultimately, what we've got in Australia at the moment is we still have a shortage of supply relative to demand for housing. Ultimately, that is going to resolve somehow in prices. So it will correct. It might not necessarily correct in a hurry, but that's the mechanism in which it sort of might flow through in the short run. But ultimately, over a longer period, you will see the forces of supply and demand deliver price incentives, if you like, to either construct more dwellings, or for people to reduce their demand. That's the way it will work.

John Rolfe

Would that come through in even lower prices?

Michele Bullock

No, it might come through higher prices. That people are willing to pay more, and therefore people are willing to build them.

Edward Boyd

Governor, Edward Boyd from News24. How much more economic info and data do you need to see before making a decision on whether to raise or lower interest rates? Because money markets – is it just a couple of months, or is it longer? Because it looks like money markets expect you might need to raise rates in February of next year.

Michele Bullock

So we'll be looking at the – the next Board meeting is at the end of September. There's a few things we'll get by then. We'll get labour force. We'll get national accounts. We'll get some more inflation readings. We'll get some more information from our liaison programs, which is also very important in this. And what we'll be looking for, I think, was an answer to Jacob's earlier question. What we'll be looking for is: Are these things evolving broadly as we expect in the forecasts, and if it looks like they're not, and some of these particularly upside risks to inflation are starting to crystallize, then the Board is thinking very hard about when it's appropriate to raise. I reiterate, we did not discuss a reduction in interest rates.

Millie Muroi

Hi Governor, Millie Muroi from the Sydney Morning Herald and The Age. The RBA has noted that producer price inflation has increased sharply in a lot of economies, driven by higher energy prices and higher prices for AI enabling inputs. Is this something we're experiencing in Australia, and how are you thinking about the inflation sort of implications given the boom in data center investment here?

Michele Bullock

So I mean yes, producer prices are rising for the things you'd expect, and we are seeing it come through in things like building costs. So I already talked about the higher costs of construction. So we are seeing it come through. Classic example people give is PVC pipes, but you know all these sorts of things – the higher price of energy is impacting these sorts of things, so we are seeing it. What we're hearing from our liaison is that firms are seeing cost pressures. They are trying to pass it on. Some are managing to pass it on. I think the building industry is one where they're trying to pass it on. Others are wondering whether or not demand is strong enough for them to pass it on, because it all depends on whether consumers will actually choose to pay if prices go further. So that sort of push and pull between whether or not it comes into the producer prices and ultimately gets passed on to the consumers, that's what we're going to have to be watching. And in a position where we think we are of excess demand, our concern is that it will be easier to pass that on than it might otherwise be. And that's why we need to get supply and demand back into better balance.

Millie Muroi

[inaudible]

Michele Bullock

Well, AI. I mean, the most obvious place that AI in Australia, just in Australia, is the data center construction issue. And I already highlighted that there is a bit of a shortage of construction resources, construction workers in particular. There is some evidence that perhaps they're being drawn away from residential and non-residential construction into data center construction. So yes, that is a concern that there's already an area which is under pressure, and it's under more pressure because of data center investment in Australia. But worldwide, the whole AI thing has got a different, slightly different take on it as well, which is that the demand for semiconductors and chips and so on is outstripping production, and so that's putting upward pressure on those as well, and we may well see some of that coming into electronics and consumer electronic products in Australia as well. So there's a number of ways in which it might be working through.

Matt Cranston

Matt Cranston from The Australian. You slashed the productivity levels again, and the Statement on Monetary Policy says the increase in the GDP revisions was due to population, does that ring alarm bells? That population is the thing that's boosting the economy? And related to productivity, really important is this business investment theme. You say in the Statement on Monetary Policy, that data centers is contributing to business investment, and that's great. But I'm sure you know that just about every accountant in Australia at the moment is looking at tax changes. Just about hundreds of thousands of investors, hundreds of thousands of business operators are also looking at the tax changes, but your Statement on Monetary Policy says nothing about the tax changes and the impact on business investment. It's all saying what impact it has on house prices. Why would you leave such an important bit of analysis out on something that's so important for productivity?

Michele Bullock

So I can't even remember your first question now, because the second question, I would say that we're definitely not experts in the way that – either the impact on housing prices or the impact on business investment. I actually don't know how some of these tax changes are going to affect business investment, and some of them aren't even in yet. So we're relying on our colleagues at Treasury to work with us on these sorts of things. Our expertise isn't in business taxation and potential impacts and incentives. That is actually what Treasury are working on, and we take a lot of our information on these sorts of things from Treasury. That's appropriate. First question was?

Matt Cranston

Are you concerned that the only thing that boosted your GDP revision was population?

Michele Bullock

Well, it was mechanical. Yes, it did. It did. And are we concerned? Yes, we're concerned because the productive capacity of the economy is not growing, and you know this. And I set that out in my opening statement that as long as the productive capacity of the economy isn't growing, we cannot grow very fast without running into inflationary pressures. So yes, we're concerned. Can we do anything about it? No. So we just have to set monetary policy to deliver low and stable inflation, and hope that low and stable inflation gives good economic conditions for businesses to be confident and consumers to be confident to go about their business. That's the best thing we need to do.

Ian Verrender

Ian Verrender from the ABC. You seem to be surprised by the speed and extent to which the property market has turned down. Was that a consideration in keeping rates on hold today? And will it stop you from making interest rate decisions in the future about inflation?

Michele Bullock

We were a bit surprised on the downside, but no, that's not what's keeping us on hold. What's keeping us on hold is that we've already raised three times, and we are still waiting to see because it takes time for those to come through. So we're waiting to see the impact of that before we make decisions on whether we need to do more. We think we're tight. We think we've got tight financial conditions, but we need a bit more evidence on whether we're tight enough to get inflation back down and to ease the excess capacity we've got in the economy. So no, the housing market wasn't a constraint, and I would not say that the housing market is – I think it was an answer to Michael's question – that's not, we didn't consider an interest rate cut. The housing market in terms of cutting interest rates – that that's not entering the equation.

Patrick Commins

Governor, Patrick Commins from Guardian Australia, you said that the Board discussed a hike today. To my memory that you didn't discuss a hike at the last meeting. Is that right?

Michele Bullock

No, that's right. We didn't. We'd already done three in a row, and we decided now was time to basically wait for a bit.

Patrick Commins

Because my question was, you know, given that some of the things have turned out better than you thought last time, last time you didn't discuss the hike, and this time you did. So I was wondering what's changed between the last meeting and this one that made you discuss a hike again at today's meeting?

Michele Bullock

So the arguments in favor were, I mean, we had a new set of forecasts, obviously, so that was one thing. The arguments in favor of a hike really are the fact that inflation is still too elevated. We have got upside risks potentially if this conflict continues to go on in the Middle East. The longer it goes on, the more likely businesses are to embed cost increases into their prices, put the prices up. We have seen a bit of flow through, but we think we actually think there's a risk that there's more to come, and so we want to be alert to that. And I think we're also still conscious that, as I said, the labour market still, notwithstanding that it's eased, it's still a bit tight, and there's some areas of the economy where labour shortages, and this comes out in our liaison, is still an issue. So these are the sorts of things that are still in the Board's mind that these upside risks are there. They're not centralised in the forecast because they're very uncertain. But those were the things that the Board was discussing today about why we might want to be looking at an increase in interest rates. In the end, we decided to wait for a bit more information, but it's still front of mind.

Stella Qiu

Hi Governor, Stella from Reuters. You mentioned a lot about inflation risk. I just want to focus a little bit on the – because I feel like in the past few weeks the economy was slowing down. Inflation seems to have peaked. Housing market is a little bit in a bit of downturn, and labour market has even more than expected. And the pass-through from higher energy prices seems to be a little bit limited in some industries. I'm just wondering: Are these giving you more confidence that the current cash rate is restrictive enough? Are you growing more confident in that assessment?

Michele Bullock

Well, we certainly do think it's restrictive, a bit restrictive, and some of those things that you highlighted, I think, slowing in the labour market, the slight rise in the unemployment rate. We've got housing prices, which at least partly we think are related to the rising interest rates. We've got a bit of slowing in growth, but that's not necessarily reflecting – as I said, you know, the three interest rate rises at the beginning of the year, there's still more to go on those. So we think we are seeing some signs, but again, we do have these risks sitting out there on the inflation side. And I think I said at a previous media conference, that the supply shocks that we've seen through the Middle East conflict and so on, they worsen the trade-off. They mean that for every for any unemployment rate, we've got a higher inflation rate. Turned around, it means that for every inflation rate, we have to have a higher unemployment rate. So it does make the choices quite challenging, and I wouldn't like people to think that because we're seeing a slowing and a rise in the unemployment rate, that means that we have to reverse course. Actually, we need that. We need growth to slow because potential growth in the economy is not very – it's not growing strongly. We need to slow. We need a little bit less tightness in the labour market in order to bring inflation down. So the fact we're seeing those things means that monetary policy is working, but it doesn't mean that monetary policy is wrongly too tight. It means that monetary policy is doing what it's supposed to be doing.

Chris Kohler

Afternoon Governor, Chris Kohler from 9News. You've been asked a couple of property questions. I'm going to ask another one. Sorry about that. But following on from Ian, you said you were a little bit surprised on the downside with the current market downturn. A lot of the commentary over the last few months has given fairly equal weighting to the monetary policy changes, the fiscal policy changes. I'm just curious your perspective. That surprise on the downside. Do you think that's coming more from the fiscal side or more from the policy side and the reaction in the market

Michele Bullock

It's very hard to tell, Chris. And I, I think people who try to divide it up neatly into X percent interest rates and X percent Budget. The other thing, of course, is that I think just general uncertainty earlier in the year from the whole conflict in the Middle East and petrol prices and all those sorts of things. I think that's all added to people being a little bit nervous about it. So there's a number of factors. I wouldn't like to attribute a particular percentage to any. All I can say, though, is that historically, when interest rates rise, yes, you would typically see some sort of slowing in the housing market. But I wouldn't like to attribute particular bits to it.

Juliette Saly

Hi Governor, Juliette Saly from ausbiz TV. You discussed there that you did talk about raising the cash rate, however, the decision to hold was unanimous. What do you say to economists and Australians who think that you should be fulfilling your mandate in terms of price stability by hiking rates, and any concerns about denting your credibility given you didn't?

Michele Bullock

Well, I first would point out that we raised three times. We raised we raised February, March, April – May, sorry. So we've already raised interest rates 75 basis points from where they were. So that's the first thing I would say. We've acted on that. With our forecast, we think now we are tight, and that we will start to see inflation start to decline through next year and be back sort of around the middle point of the target band by the end of next year. Having said that, those forecasts are uncertain, and we are conscious that we might need to tighten further if it looks like some of those inflation risks are – so, yes, I would say to those people:

yes, we're aware of those risks, but we've already raised three times, and we will go again if we need to. And I think personally that it's quite possible we might need to go, but we'll wait and see what the data tells.

Phoebe Deas

Hi Governor, Phoebe Deas from SBS. How worried are you that inflation is becoming entrenched in the economy?

Michele Bullock

Well, that is that is one of the reasons why we are being quite cautious, and we are signaling that we will raise rates if we need to, if it looks like inflation is becoming entrenched, some of these other risks that I highlighted, some of them are actually crystallizing. So it's important that people believe – it relates very much to Juliette's question – it's important that people believe that we will act if we need to. We've already acted three times, as I said. We've already put interest rates up 75 basis points. Short-term expectations of inflation have risen. They've come off a bit. I think it's particularly when petrol prices rise. That's a very salient price in people's minds. You see it every time you drive down the road. So, you know, that has a big impact on the way people think about inflation. They have come off a bit, but we're very conscious that those short-term inflation expectations, we need them to continue to keep coming back down. We don't want to see them entrenched in more medium-term inflation expectations. That's why the Board is quite firm that if it needs to raise interest rates, if it looks like inflation is remaining higher than desirable, and certainly well above 3 per cent – not meeting the forecasts, if you like, that we're looking at – then, Board is prepared to raise.

Jemeema Hanson

Thanks Governor, Jemeema from Capital Brief. We're hearing major banks predicting that property prices will fall as much as 15 per cent. Are there any financial stability risks from the market downturn, and how might this flow through property values? Thank you.

Michele Bullock

So, property values. Well, I think it's very difficult to forecast, number one, and you'll see there's a massive range of forecasts of what it might mean. We think that – we've done a little bit of work on this from a financial stability perspective. We think that it's not a massive risk to financial stability. Banks have generally been quite conservative on their loan to valuation ratios, and housing prices have risen a lot. So, in fact, if you look at the percentage of households who are in negative equity, it's under 1 per cent. If property prices, I think we've done some scenarios, if property prices fell by 20 per cent still only about 5 per cent of households would be in negative equity, and then you add to that that negative equity only matters if you are a distressed seller and you need to get rid of the property because you lose your job or for family breakdowns or things like that. Awful circumstances, which are compounded by the fact that you'd have to sell your house, but it doesn't pose a risk to the financial institutions because they are very well capitalized. They're very well covered in these circumstances. So yes, we're alert to that, and we are looking at the potential impacts of that. But we don't think there are financial implications.

Daniel O'Leary

Hi, Daniel from MNI. Given inflation has been above target for such a long time now, would you describe the Bank's current forecast to get inflation back to target as reasonable or timely, you know, that agrees with the Bank's mandate?

Michele Bullock

Well, it's – so the reason we have this dual mandate, obviously, and if we were just focusing on inflation and we weren't focusing on employment and the economy more broadly, then we could possibly raise interest rates very substantially and induce a very big impact but get inflation down very quickly. The reason why we've got this sort of slightly more flexible mandate is to allow us reasonable time to get inflation back down and hopefully avoid some of those costs, particularly on the employment side. So yes, we know that forecasts are inherently uncertain. We have to do it, we have to do our very best job at forecasting based on historical relationships and what we typically observe happening between various variables in the economy. But the fact is that it's very difficult. We do our best, and when the facts change, when we get data that tell us things have changed, then we have to go and we have to work out what that means for our forecasts. So, am I certain that those forecasts will come out? No, I'm not certain. But what I do know is that when looking at the data, we'll be reassessing our forecasts against those. And if it turns out that we think those forecasts are wrong, we will change them, and we will react with monetary policy accordingly.

Daniel O'Leary

[inaudible]

Michele Bullock

I would say that the Board thinks the current timeline, given the shock we've had, so we've basically got – we've had a situation with excess demand, and on top of that, we've had a supply shock from overseas, and given that shock, then this is a reasonable time to get inflation back down to target. Now, will there be other shocks that come? I don't know. It's quite possible. I talked in the Anika speech recently about the fact that we are in a very difficult time where supply shocks seem to be more prevalent. That makes it extremely difficult not just for us, but central banks around the world. How do you react to these supply shocks? Do you look through them, or if they are occurring frequently and adding to inflation expectations – to a question earlier – then maybe you do have to react to them. And I think you've seen we have reacted firstly to the excess demand. We have also been reacting to what's been going on in the supply shock, and the risks that I pointed to are about supply shocks. And I think, given circumstances we're in, I think we have limited ability to completely ignore any future supply shocks. I think we have to be very careful.

David Taylor

Governor, David Taylor from ABC News. I want to talk about private credit, if I could. It's a trillion dollar industry globally. Now, from an FOI, we know that the Reserve Bank is looking at it, but we also now know that your counterparts in the United States are worried about it, and across the road in Market Street, ASIC's worried about it. Simone Constant's been talking about it. Governor, what's the worry?

Michele Bullock

In Australia, I don't think there is a massive worry about it. I think the concern, and it's not just in the United States, it's been in Europe as well. The concern is that there's very little data on it. People don't know where the leverage is. They don't know who is exposed. Any time that there's a big unknown, you know it's a big chunk of lending, but you don't know anything about it. That just makes people worried. I think we're a little less worried about it in Australia. I know ASIC is doing some work on it. They're trying to understand and gather some data on it. But I think we are still quite a heavily intermediated, financial intermediated, country. It's the banks that drive a lot of it. Even in housing and business lending, it's still pretty small, the non-bank financial institutions and private credit, relative to the formal financial sector.

David Taylor

Is there talk of it potentially blowing up in the United States?

Michele Bullock

I would say people are concerned about it, they want to discover more about it, but they also understand that there is a role for some of this non-bank financial intermediated finance as well. So I wouldn't say people are worried about it blowing up, but I think you'll look and you'll see sort of from some of the Financial Stability Board work, it's on their radar.

Nasteho Said

Hello Governor, Nasteho Said from Bloomberg News. Given that you say that we need higher unemployment to bring down inflation, at what level does the jobless rate become worrying to you?

Michele Bullock

Well, I don't like people losing their jobs generally. It's stressful for them. It's stressful for their families. So, thinking about employment, the point I usually like to make up front is that when we talk about seeing the forecast for the unemployment rate rise, if you look at our forecasts, employment itself is still growing, so it's not like massive masses of people losing their job. Employment's still growing, but it just means that there are possibly less jobs available. It's taking longer for people to find work and that sort of thing. So if we can end up with a situation where the unemployment rises gradually up to about 4.8. Now, people often talk about the NAIRU, the non-accelerating inflation rate of unemployment. That's a very imprecise measure. It might be somewhere between 4.5 and 5 per cent, I don't know, but usually, if it's getting well above that, then you would start to think that you don't need unemployment that high to have inflation low and stable, because that's the whole point of your mandate: it's to try and maximize employment while being consistent with the inflation objective. We have it rising because it's tight in the labour market, and that's contributing a bit to inflation pressures. But obviously, we're trying to make sure that we don't have it rise more than it has to.

Sophia Rodrigues

Sophia Rodrigues, Central Bank Intel. Last week, a bright student from Macquarie University asked me this question, but I think you're best placed to answer it. So your recent survey showed a gap in understanding about the public, about the link between interest rates and inflation. If higher interest rates are seen as pushing inflation higher, it would reflect in household inflation expectations, which means this understanding is very important for monetary policy, and especially given in your SMP today, you say whether short-term inflation expectations ease from their current elevated levels is a key risk to the outlook for wages and inflation. So, what communication strategies or monetary policy tool, are you using to correct the public's incorrect understanding and to manage expectations?

Michele Bullock

Yeah. Look, absolutely agree. Understanding, and that was a key finding from that particular survey that I think is very interesting. What I think is interesting about it is that there's possibly two reasons why people are confused about thinking higher interest rates drives up inflation. One is that when inflation is high, you tend to see interest rates rising, so it might be a correlation thing. The second reason they might think that is because people who have mortgages, they see the cost of their mortgages going up, and therefore their cost of living goes up. And they're conflating – they're saying cost of living going up is inflation. They're actually not the same thing. But I get why people think that rising interest rates is making my life harder, it's making everything more expensive, it's costing me more. So yes, I understand that.

So, what are we doing communications wise? Well, as you know, I have a communications team that are looking into this. We are looking to use different channels. Social media is one of them. We're looking at ways of trying to target, particularly those groups of people that seem to want to know more, but admit they don't understand and would like to know more. And some of those groups are women, for example, and youth is another group that sort of indicate that they don't – they're not sure they quite understand, but they want to understand. So we're looking at channels to try and target them. Hopefully, when Reserve

Bank staff go out and talk, and I talk at this, we can try and explain as well the relationship between inflation and interest rates. And that's why when I get up here, one of the things I normally always say is inflation is bad for everyone, and that's why we need to get it down. And one way to get it down is by raising interest rates. And if we can get it down, then interest rates can come back down. So you know that's sort of some of the strategies we're trying to employ. But you probably know as well as I do that trying to get information through to people takes time. You have to repeat yourself and repeat yourself and repeat yourself.

Sophia Rodrigues

But it has implications for monetary policy. It could have implications for our next decision because if short-term inflation expectations …

Michele Bullock

Well, they are coming down, and you know, but we're very conscious of it.

Cecile Lefort

Governor, Cecile Lefort from the Financial Review. Many forecasters from major banks believe that you are finished raising interest rates, and without giving any forward guidance, do you think the risks at the next interest rate move is up or down are evenly balanced?

Michele Bullock

So I think we've already said in the in the Statement on Monetary Policy, and I think I've highlighted in my opening statement, that we think the risks skew to the upside for inflation. So we think there are these risks out there. I highlighted them: Middle East conflict. There's inflation expectations we talked about. There's the rate at which prices will come through. The extent of excess demand that's already there. The more there is, then the easier it is for businesses to pass through cost increases. So there's all of these risks sort of on the tail, if you like, that we're that we're worried about. So I wouldn't say it's balanced at the moment. I would say that, and I think the discussion at the Board reflected this, there was a diversity of views about how strongly people felt that they were worried about inflation, but everyone was at least a little bit worried about what those inflationary risks might be and what they might imply. And so that's, sort of, we're staying put, but staying put with a very clear focus on watching how the data come in, and whether or not the next interest rate move we might need to increase again, if it looks like we're not on track to get inflation back down. That was very much the discussion today.

Luca Ittimani

Thanks, Governor. Luca Ittimani from The Guardian. I want to ask about household spending. So you've spoken about how consumption has been pretty resilient to the conflict overseas, poor sentiment given interest rate rises, but household balance sheets are held up. But today's forecasts seem to show pretty big downgrades to consumption growth this year. Even bigger downgrades if you strip out the population growth upgrade. So, where is the weakness expected to come through? Is it maybe negative wealth effects from falling house prices? What's behind that big downgrade?

Michele Bullock

Well it's partly the wealth effects, I think, there's some of that going on. I think generally, what we're observing on consumption is that it's holding up, but it's really, really strong. It's come off. It was a bit stronger through the latter part of last year, and now its growth in consumption has come off. The specifics of the forecasting, I probably can't get into the specifics of those for you, but it's continuing to grow, but it's growing slowish. And some of the liaison that we get is that firms say yes, people are still out there, but they're looking for bargains. You know, they're still spending, but and that's part of the reason why some of the businesses are saying, well, can we pass it on? Can't we pass it on? The cost increases. So, I probably can't directly answer your question on why the downgrade relative to May. It's probably a little bit wealth in there. But what I can say is that it is part of the process of monetary policy feeding through into the economy and slowing the economy and bringing that excess demand back, which is which is the key to bringing inflation back down.

Luca Ittimani

Probably partially also interest rates.

Michele Bullock

Well, interest rates are part of it, but we had we already had interest rates rising in the last, so relative to May, that would be the reason consumption was downgraded to May. I don't know the specifics, so I wouldn't want to mislead you. So – but we can find out.

Brandon How

Thanks, Governor Brandon How from Capital Brief. Just a question on AI. The Prime Minister told us in an interview this morning that he doesn't use AI. Do you personally use it? And also wanted to check in, it's been almost a year since you unveiled the RBA PubChat AI tool. Has this been useful to the Monetary Policy Board, and more broadly, how has AI use within the Bank changed the Bank's thinking on the Australian money?

Michele Bullock

Sure. So on PubChat, I mean, it's not so much – it's great use to staff. We're doing a lot. We do have some people who are doing more with AI agents and things in the Bank. Personally, me, I'm not great with it. I am trying. I have a reverse mentor, who's helping me. And I am using it for some things to help me organise the day, and it's sometimes handy to ask it to give me some questions from journalists. So, but look, you know, it's really important that I think all of our people are finding ways to fold it into their work. But we're still at early stages. We're looking at ways we can use it, both in terms of policy. How do we use it to relieve people of jobs in analysis that might be sort of mundane, and get them to focus on what's the important stuff, the value add. We're looking at ways we can use it to simplify processes in the organisation. So, but you know, we're not out at the bleeding edge of this sort of thing, we're a conservative central bank.

John Kehoe

Hi Governor, John Kehoe from the Australian Financial Review. You've upgraded your business investment forecasts almost exclusively because of the data center boom, which you say is adding to capacity constraints in the economy, drawing our workers' resources from other construction industries. Do you think it's plausible or even likely that in the short term, at least, this AI-driven data center boom is more likely to be inflationary for the economy before we potentially get any sort of deflationary productivity, broader benefits in the medium term from AI and the related areas.

Michele Bullock

Yeah, I think there is concern about that, and it's not only us. I think some other countries, leave the US aside, I think, but there is a concern that the investment itself, the productivity is out here, and the investment is adding to demand there. So, I think it is, it's a very good question. I think we're not – at the moment with our forecasts, we're seeing aggregate demand still slow enough to close the gap, so that doesn't seem to be the impact. But it is a risk out there that if aggregate demand and particularly if it puts a lot of pressure on some of these areas that are very tight, then it is possible that it keeps inflation elevated before we get the productivity improvements that we're hoping for. So, you know, jury's out, but I think it's a valid question, and it's something we'll be looking for.

Thomas Henry

Thanks Governor. Thomas Henry from The Australian. CPI has been above the target band for 37 of the past 49 months. Underlying inflation has been above the target band for 42 of the past 49 months. Does today's decision to hold despite risks to your inflation forecasts being skewed to the upside risk undermining the RBA's target for sustainable inflation?

Michele Bullock

Yeah. Well, again, what I said earlier, I mean, we've raised three times, and we raised before any other central bank did, and some others are now raising. So I think we've demonstrated that we will react when we need to, and we're serious about it. I think the message I'm giving you today is that we remain serious about it. The Board did not discuss cuts. It only discussed the possibility of a raise, and it's very conscious of the risks outside. They're skewed. They're out on the tail, but nevertheless, they are risks that we're concerned about. So, really, for us, I think it's meeting by meeting, looking at the data that are coming out, seeing how that's lining up with our expectations, and if it looks like we're wrong on our inflation forecast, then we will react, and I think we've proven we will.

Cameron Micallef

Hi Governor, Cameron Micallef from Newswire. Household spending came in strong in May and June, above market expectations. Is there any concern in the strength of spending and can you hit your target if household spending stays at 6 per cent for the year?

Michele Bullock

I think they were nominals, so they're impacted obviously by inflation. The forecasts, I mean, it's again – it's a valid question. We need growth in aggregate demand to slow, and so the extent to which investment or consumption is speeding up, then that's not helping to slow aggregate demand. Nevertheless the forecasts are showing that we expect demand to grow slower than potential for the coming year or so, and that ultimately is going to bring the economy back into balance. So it's a risk, and it's something that we'll be keeping an eye on. But at this stage, we don't we don't think it's a risk to the inflation forecast in and of itself.