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Michele Bullock
Governor

Transcript

Michele Bullock

Good afternoon. Today the Board decided to increase the cash rate target by 25 basis points to 4.60 per cent. Higher interest rates are needed to ensure inflation returns to target.

Inflation is too high and has been driven by domestic capacity pressures. The inflation impulse from the Middle East conflict is in addition to this. Domestic spending and investment have been stronger than expected, despite weak sentiment and the softening in housing market conditions. Productivity growth remains weak and the labour market remains a little tight. And outside of Australia, the global economy has also been more resilient than many expected.

We're seeing signs that upside risks to inflation are materialising. The conflict in the Middle East has escalated again in recent weeks, and oil prices have risen significantly. Disruptions to oil supply could last longer than anticipated and cause energy price pressures to last for longer than we previously assumed.

Separately, the global AI investment boom has driven significant price rises for some inputs within the AI supply chain, including software costs and some commodity prices. These costs are now beginning to flow through to the prices faced by businesses and consumers. The AI boom is also adding to demand in the Australian economy at a time when we already have capacity pressures.

Overall, these developments suggest that inflationary pressures will persist for longer than previously expected. Indeed, businesses in our liaison program continue to expect strong increases in their costs over the year ahead.

Today's increase in interest rates is needed to slow the economy and return inflation to target. Now, I know this decision is difficult for households with a mortgage and businesses with loans, but high inflation hurts all Australians, especially the most vulnerable. Every household has seen how the price of everything has gone up in recent years. Pay packets don't go as far as they used to, and that's why we need to stop this high inflation.

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It's critical that we stop expectations for high inflation from becoming embedded in price-setting decisions across the economy or the problem will only get worse. That's why bringing inflation down is our priority.

The Board will increase interest rates again if that's what's needed to get inflation down. Thank you, and I'm happy to take your questions.

Matt Wade

Good afternoon, Governor. Matt Wade from the Sydney Morning Herald. Unemployment's at a five-year high, house prices have been falling for five months, and GDP per capita is anemic in growth. Aren't they unusual circumstances for an interest rate increase? And also, do you think the chances of a recession are now higher as a result of today's decision?

Michele Bullock

So a couple of points. First, the unemployment rate is still quite low historically, and we still think the labour market is a little bit tight. So that's not actually sort of circumstances unlike some of our peer economies, for example, New Zealand and Canada, when they raised interest rates, they raised them a lot higher, and they've now got unemployment rates which are much higher than ours. So I think we do have a situation where the Board's strategy, if you recall, was to bring inflation back down to target in a reasonable time while trying to preserve as many of the gains in the labour market as possible. That still remains the strategy. The bottom line is that productivity is doing nothing. And I know we talk about productivity a lot, but it's so important if we want the economy to be able to grow and create jobs. So I think, again, it seems there's nothing we can do about productivity, but the supply side of the economy has to grow because the demand side can't grow strongly unless that supply side is growing. At the moment, we think we have excess demand, so that means demand has to grow more slowly than supply for a period. That's a fact. That's why we've got these inflationary pressures. And still the aim is to, as I said, bring that excess demand down so that we can preserve as many of the gains in the labour market as possible.

Matt Wade

A recession?

Michele Bullock

That is not our central base case at this moment.

Michael Read

Thanks, Governor. Michael Read from the Australian Financial Review. Markets expect tomorrow's CPI data to show underlying inflation coming in at 3.6 per cent in August. Would

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that outcome be good enough to avoid another rate hike in November? Or is that still just unacceptably high rates of inflation?

Michele Bullock

So that will mean that inflation, the underlying inflation rate's been about 3.5 per cent for the past six months, basically, since the beginning of the year. That's telling us what's happened in the past. So what we're trying to do is make sure that we have financial conditions tight enough so that looking forward, that inflation pressure eases. We're not going to put a lot of emphasis necessarily on one number, but it is a consistent pattern that over the past six months when we look back at what happened, remember, we can't influence that, that's what happened. So we now need to make sure that we have financial conditions tight enough to try and bring that down. We raised interest rates three times earlier in the year. A lot of that effect is still to flow through. This is one more, and so what we are predicting, what is the hope here, is that this will be restrictive enough, those four interest rate increases, to bring things down. Now, will it be enough? I don't know. I'm not going to give you forward guidance. But all I can say is that the number that comes out tomorrow, unfortunately tomorrow, is one part of the information about where we were. What's of interest to us is where we're going to be. That's the important thing, and how much the tightness in financial conditions are going to deliver that. Thank you.

Matt Cranston

Thanks, Governor. Matt Cranston from The Australian. Money supply in the Australian economy at the moment is at a record high, and the real interest rate's only 1.5 per cent. So why is it so crazy to think that we might return or start drifting back towards much more restrictive monetary policy that we saw back in the 1990s, with interest rates in double digits? And can I ask also, rates are a pretty blunt tool for you to manage this. What about the superannuation guarantee? How would that be a more nuanced, helpful tool in managing inflation?

Michele Bullock

So on the second question, that's not at all within our gift, so I have no comment on it. On the first point, inflation back in the 1990s was in double digits as well. Inflation is not in double digits. Inflation is about 3.5 per cent. It's a percentage point above our target, that is true, but it is nowhere near what it was in the 1990s. So I think we're in a good position at the moment. As I said, we think that financial conditions are restrictive. We have a variety of ways of looking at that. We look at what's happening in the housing market. We look at credit. We look at things like our estimates of the neutral real interest rate, all those sorts of things. All those things are telling us we think we're a bit restrictive. And the question is: Is that enough to bring it back down? So I don't think the 1990s is necessarily a helpful comparator for the situation we're in at the moment.

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Nasteho Said

Nasteho Said from Bloomberg News. So traders are pricing the cash rate will be above 5 per cent by May. Is that a level the economy could withstand? And how far are you prepared to go to return inflation to target?

Michele Bullock

Look, again, I'm not going to forecast where interest rates might go to. I know that's what the markets are expecting. What the markets are expecting is based on how they're interpreting the data and how they think we will interpret the data. At the moment, we have, as I said earlier, we were first cab off the rank in advanced economies. We raised interest rates once we saw that we had an inflation problem, three times. We waited. We waited for more evidence. In general, the evidence has been that inflation's been a bit more elevated than we're expecting in underlying terms. So we're trying to strip out some of the supply shock, but in underlying terms, market services, groceries, consumer durables, all these things, inflation's just elevated. So that's the sort of information we'll be looking at. If it turns out that the restrictiveness that we've introduced by these interest rate rises is enough to bring some of those inflationary pressures back, then maybe there doesn't need to be any more interest rate rises, and I would expect the markets will adjust as the data comes out, just as they think we will adjust. So, no forecasts.

John Rolfe

Governor, John Rolfe from the Telegraph and Herald Sun. In answer to Matt's question, you said that this unusual decision in all circumstances is because, quote, "Productivity is doing nothing." Who's responsible for that? And secondly, you said that there is nothing we can do about productivity. Who can do something about productivity?

Michele Bullock

So, again, I'm not the productivity tsar, that is Danielle Wood, and she is the person I think that is good to address those sorts of questions for. A couple of general points, though. I think there is a sense in which there are regulations that perhaps could be looked at in terms of governments could be looking at regulations. Council of Financial Regulators, for example, is looking at what we can do in regulation of financial institutions to perhaps ease the burden on financial institutions, make it easier for them to extend credit, grease the wheels, if you like. But it's also incumbent upon businesses to take opportunities to improve productivity. And our research, we're not experts in individual productivity sort of measures, but our research does suggest that we are a little bit further from the frontier, the dynamic frontier, than other countries are in some of these. So businesses need to step up to the plate as well.

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John Rolfe

So businesses and Danielle Wood, not the Treasurer?

Michele Bullock

So well, if the Treasury, if some things are in the government's gift, like regulation, for example, yes, they can do things like that. All I'm saying is that individual productivity policies are not my or the Reserve Bank's bailiwick, and monetary policy can't do anything about productivity. The best thing we can do for productivity is get inflation low and stable so businesses and households can spend and invest in an environment where they're not worried about cost of living.

Patrick Commins

Hi, Governor. Patrick Commins from Guardian Australia. To what degree has the worsening of the Middle East conflict led to today's decision? And do we need to see a real improvement in the Middle East if we hope to avoid further rate hikes? To what degree does the future path of monetary policy depend on some kind of easing in the Middle East conflict?

Michele Bullock

So the Middle East conflict, and I've said this before, but I'll say it again, the Middle East conflict has been a big shock, and it's made us all poorer in this country. That is a fact. You will all recall that when the Middle East conflict first started, everyone was sort of thinking, "Oh, it'll probably not last very long." Well, that's clearly not true. It's lasted, and there doesn't seem to be any end to it. That means that fuel prices, fertiliser prices, transport prices, all these things now are permanently higher. So this idea that they would go up and then come down again just hasn't happened. The challenge with that is that the longer it lasts, if businesses were thinking, "Oh, look, it'll come off, I won't pass on costs," the longer it goes, the more likely it is that businesses will just try to pass through the cost increases. Now, will they be able to? If they're in industries, for example, where there's excess demand, they might be able to pass it on, right? So I think it's not the only reason for the decision today. I want to make that clear. This isn't all about the Middle East conflict. It is making things much worse, but we did start from a position of excess demand anyway, and that's why we started raising interest rates even before the conflict started. But it's made it worse, and the longer it goes on, I think the more challenging it is to keep inflation expectations grounded at a level lower than what inflation is at the moment.

Ian Verrender

Governor, Ian Verrender from the ABC. Bond markets are aggressively pushing interest rates higher across the globe. Are you concerned that at some stage you might get to a point where you're forced to raise rates to a point beyond which you're comfortable with?

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Michele Bullock

That's not worrying me at the moment, Ian. I think what's going on with bond markets around the world, I think there's a couple of things going on. One is that they're all adjusting to higher inflation overseas. Expectations for higher interest rates from central banks overseas, so there's that. There's increasing demand at the longer end of the curve for funding. So you have governments obviously are funding there, but also increasingly, the AI hyperscalers are funding there as well. So there's increased demand for funding, so that's also impacting there. And I think the bond markets are reacting in an orderly way. Yes, the bond yields are rising quite quickly, but there doesn't seem to be anything disorderly about it. There's no liquidity issues that we can see. Having said that, we are watching it quite closely, and asset prices in some areas, equity markets particularly in technology areas, are quite elevated. Our Financial Stability Review comes out on Thursday, and it will talk a little bit about the vulnerabilities of having some of these asset prices really high and the risks that might be associated with a pullback in the bond market if it happens quite in a disorderly fashion, what that might mean. So at this stage, I'd say not alarmed, but we are alert to it.

Stella Qiu

Hi, Governor. Stella from Reuters. What were the other considerations this time around? Did you consider a pause or maybe a 50 basis point move, if you can share?

Michele Bullock

We considered holding and 25 basis points. The holding, if you like, was there are a couple of downside risks. Housing market is one of them, at least I think. But I think what we sort of discussed was the fact that there's three issues that we identified as risks on the upside and the skewed risks to the upside that we talked about last time. One was the Middle East conflict going on for longer and fuel prices rising again. Second was the AI boom, and the third risk was that, in fact, capacity pressures were a bit higher than we thought they were. The first risk, Middle East, that's more or less materialised. That is now worse than we were thinking. The AI boom, yes, it's certainly having an impact. It's having an impact on demand here, overseas. So I wouldn't say it's definitely materialised yet, but I'd say the risks are building there. And the issues to do with domestic capacity pressures, this is a very difficult area. It's difficult to estimate output gaps and how tight the labour market is. Usually, the evidence comes up in inflation numbers and unit labour costs, those sorts of things. So, we're still alert to that, but there does seem to be, at least in some of the leading indicators for the labour market, they've pretty stabilised now. So there doesn't seem to be much more weakness occurring there. So they're the sorts of considerations, I think. As I said, three big risks we identified. One's materialised, and the other two, there does seem to be a little bit of building risk in both of those as well.

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Stella Qiu

Downside risks, just housing or any other?

Michele Bullock

Well, there's downside housing, but there's also the whole issue of the Middle East conflict, and if it extends for much longer, will it actually cause a lot of uncertainty, a lot of problems in real economies around the world? There's that. At the moment, AI is sort of drowning everything out, but that's still sitting there as a potential risk to world growth.

Chris Kohler

Afternoon, Governor. Chris Kohler from 9News. Just following some of the questions that you've been asked. You said we started from a place of excess demand. Now you're talking about permanently higher prices imported from the Middle East via oil prices and other. You're talking about AI and data centre spending. You're not talking about government spending. Of course, that is part of the commentary at the moment. Those things, they're not accessible at the household level, and yet households are the ones footing the bill. So I guess the question is, with this blunt instrument, is the solution becoming detached from the problem? Is another rate hike actually going to work?

Michele Bullock

So a couple of points. The transmission mechanism for monetary policy isn't just through the cash flow channel for households. Those who have mortgages, yes, this clearly impacts them and it hurts them. They've got less cash flow, and they've got less money to spend on things. But that's not the only way monetary policy works through the system. The other ways it works is it encourages saving versus investment, and we see a bit of that actually, saving versus spending. And we see a little bit of that actually in mortgage holders, because when mortgage holders can, when interest rates go up, they try to save more because it's costing them more. So that's the second sort of channel, this intertemporal sort of channel. The third channel is through asset prices. So if it impacts, for example, housing prices, which we think part of the downturn in the housing market has been related to interest rates, that sort of affects people's wealth. It affects how they feel. It might affect the share market, again, these sorts of things. So that can affect consumption. So there's that. And then according to our research, in fact, the most important channel is the exchange rate channel. And raising interest rates impacts import prices. It makes imports cheaper, encourages people to spend more on imports rather than domestically produced goods. So again, it alters the supply-demand equation. So I guess my response would be, I understand why the people who are impacted by this very directly in terms of loans feel that they are carrying the burden, but actually, the interest rate increase gets into all sorts of cracks.
The other point I would make here, too, is that we know monetary policy works overseas, and many overseas countries do not have this cash rate channel in the same way we do because

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they don't have a predominance of variable rate mortgages. But interest rate rises still work, and they work because there's these other channels through which interest rates impact the economy. People don't see those things, but they're the sorts of mechanisms through which ultimately we can bring demand down. Thank you.

Hannah Kwon

Governor, Hannah Kwon, SBS News. You've said unemployment needs to rise to put downward pressure on inflation. If this rate rise does lead to job losses, does the RBA see that as a necessary cost?

Michele Bullock

So strategy is to try and preserve as many of the gains in the labour market as we can while bringing inflation down. But ultimately, we've got to get inflation down, because if we don't, that's really bad for employment. But just on your point there, a rise in the unemployment rate does not necessarily mean job losses. People sort of say, "Oh, that means you're kicking so many people out of work." In fact, the unemployment rate has risen from 3.5 per cent over the past couple of years to 4.6 per cent, and in that time, there's been over a million jobs created. So it doesn't mean job losses. What it often means is that people might be taking longer to find a job. In fact, the most recent increase, just the monthly one, there was an increase in the participation rate, so more people came in. But actually, there was jobs created as well. So I just want to caution that if we can lower the inflation rate by lowering demand, and we can have a gradual increase in the unemployment rate to a level that isn't putting pressure on inflation, then that doesn't necessarily mean lots of job losses. In fact, it probably doesn't mean that at all. What it means is that the number of jobs is growing more slowly than participation in the labour force, which there is a big difference there. Job losses, I don't like the idea of job losses. We'll do what we have to do to get inflation down because we need to. But if we can avoid massive job losses and a massive increase in the unemployment rate, that is a really important thing to be able to try and do.

Brandon How

Thanks, Treasurer. Brandon How from Capital Brief.

Michele Bullock

I've been promoted.

Brandon How

Oh, sorry. Thanks, Governor. Sorry. With Treasury, Jim Chalmers continues to say that the inflationary environment is beyond his control. But given high public spending and low productivity growth, do you think the public is growing weary of this seemingly blame-shifting?

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And just in terms of the data centre rollout, a lot of the investment underpinning that boom is unlikely to be rate sensitive, and the productivity promise of AI is still quite far out in the future. Is there a concern that we'll be trapped in a high inflationary environment until that rollout subsides?

Michele Bullock

Look, I'm not here to play a blame game. The bottom line is that there are a number of pressures all bearing down inflation at the moment, and the problem is that demand is growing more quickly than supply, and all sorts of things are contributing to that. And then you layer on top of that, the Middle East conflict, and we've got a very difficult situation. So I don't want to suggest blame one way or the other on any of this. It's just we've got to slow the rate of growth of demand down, and our instrument is the interest rate, as we discussed. On the AI thing, look, it is an interesting issue because there is a sequencing issue here. Investment in AI, there's a lot of investment going on in data centres, obviously. A lot of that is imported, so it's actually not directly impacting on demand in Australia. But some of it's not, and building data centres, the need for tradies, those sorts of things, and materials, that is actually impacting, and construction is an area we know is under pressure. That's where demand is actually above supply, so we do know that. So that is adding to demand. But at the same time, out there, there possibly is productivity gains. When? I don't know. But I think all countries are grappling with the same issue. You've got a big demand impulse with the prospect of productivity improvements and increasing the supply. So you do have a bit of an issue, potentially, in the short to medium run about how this all plays out. And I think you are seeing in some countries, and you're certainly seeing in the United States, that inflationary pressures are up. So it's a challenge, demand side and supply side, and the supply side, the positive supply shock is out there. So let's hope we get there.

Stephen Johnson

Hi, Governor. Stephen Johnson from The Nightly and The West Australian. If unemployment goes much higher now than 4.6 per cent, the Reserve Bank will be failing its dual mandates at the same time for full employment and keeping inflation within the 2 per cent to 3 per cent target. What's your definition of stagflation in 2026? And how likely is stagflation considering the Reserve Bank's simultaneously failed both its mandates at the same time in 2021, and before that in 2006? It's quite a rare situation.

Michele Bullock

So I would say inflation, yes, it's true, we have been outside of our target now for six years. We came in briefly in 2025, and then we popped back out again. We are aiming to get it back. I guess I would question what you mean by failing our full employment target because the full employment target is the unemployment rate, if you like, or the level of employment which is consistent with low and stable inflation. And what we're saying at the moment is that the rate of unemployment or the employment, is actually a bit tight, and it's not consistent, we

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don't think, with low and stable inflation. So it's not that it's gone too far up, it's that it's still a bit tight and it needs to ease a bit further to be at a level which is consistent with low and stable inflation, which is our mandate. So, I think that is what we are aiming to do. When I talk about our strategy, that is exactly the strategy we are trying to do. We are trying to bring employment to a level which is consistent with low and stable inflation, and we are doing that by raising interest rates. That is the point. Now, we can't do it overnight. One option, I suppose, would be to increase interest rates really dramatically and tank everything. That wouldn't be a good outcome. So this is the basis of the strategy, to try and do this in a measured way that keeps inflation coming down towards target, and our forecasts do see it coming back to target. We just seem to keep getting hit with all these extra shocks. Middle East came into the picture at the beginning of the year, that just sort of blew everything out of the water again. So, I'd say that you're right, we haven't met our target in terms of inflation. At the moment, we're not overshooting our employment target, but at the moment, we're undershooting it in some sense. So, those two things have to come together by slowing the economy.

Stephen Johnson

So what is stagflation in your opinion?

Michele Bullock

Well, I wouldn't call inflation of 3.5 per cent and an unemployment rate of 4.6 per cent stagflation. That's a pretty good unemployment rate historically. Stagflation you typically associate with very high inflation and very high unemployment, and I don't think we have very high unemployment.

Matt Taylor

Hi, Governor. Matt Taylor from News24. You foreshadowed before that the inflation print that we get tomorrow is likely to be about 3.6 per cent. Again, you've conceded that inflation hasn't moved. It's been about 3.6 per cent for six months, despite three, now four interest rate hikes. Could we read between the lines and possibly suggest that we'll need three more rate hikes to get inflation even slightly lower, move the needle at all, which is essentially, as you addressed earlier, what the market's currently pricing in?

Michele Bullock

I think it comes back down again to the lags in the way monetary policy works. So we raised between February and May. The next inflation numbers we'll get will be for, I think it's August. So that's not very long for interest rates to work their way through the economy. We talked earlier about the various transmission mechanisms. It doesn't happen overnight. Yes, it impacts cash flow, but that doesn't necessarily impact consumption overnight. The exchange rate channel takes a while to feed through. Our estimates suggest that it can take 12, perhaps even 18 months in some sense for the full effect of interest rates to come through. All of that

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background because the point I want to make is that we've got to see how these four interest rate rises feed through. What we're observing at the moment, what we'll observe tomorrow, is a number that happened a month ago. So we're trying to look forward and we're trying to say how the interest rate increases we've done so far, what are they going to deliver for the economy in a few months' time, into early next year? That is the critical thing, not the number. But what that number will confirm for us tomorrow, probably, if it comes in on expectations, is that inflation in the first half of this year was unacceptably high.

Michael Pascoe

Governor, Michael Pascoe, Michael West Media. A segue on that, if I may, and a question. You said it's unfortunate that the number is out tomorrow. The CPI, it's your key metric, it is your mandate. You've made today's decision based on ABS figures that were collected two months ago. Isn't it more than unfortunate? Isn't it scheduling incompetence to have the meeting now? Does that need to change? That's a segue. The question is, Iain Ross, your fellow Board member, a week ago bagged the financial press for its fixation with the wages threat, destroyed the myth of a wages breakout presently, and showed that wages aren't causing inflation. Do you agree with him?

Michele Bullock

So on the first question, we set our Monetary Policy Board meetings around about 18 months to two years in advance, and when the ABS change their date, it's not ideal, but there wasn't much we could do about that. So in future, we are looking to how we can schedule those sorts of meetings. But it's very challenging. We've got a Board of a broad range of people, they've all got other boards as well. We've got to schedule those meetings around them. I have a lot of commitments as well. So on this occasion, it was because the meeting schedule was set, and I can tell you that financial markets do not like us moving around our scheduled meetings, I can tell you that. The second question on Iain Ross, my impression is the point he was making, and I've made this point before, is that there is no wage price spiral going on in Australia. Rises in wages are not driving these cost pressures. Unit labour costs, yes, they are rising more quickly than is consistent with inflation, but that's not because wages are rising quickly, it's because productivity is doing nothing. So, I concur with his view that, no, this is not a wage price spiral.

Michael Pascoe

But you still say that the labour market is quite a bit tight?

Michele Bullock

We think the labour market is a bit tight, yes. But we don't think wages are spiraling out of control and causing all these rises in unit labour costs. The challenge is that productivity isn't increasing, and we know that over time, if you don't get productivity growth, you don't get

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growth in real wages. And that's another reason why people are just feeling pretty poor and pretty hard done by.

Juliette Saly

Governor, Juliette Saly from Ausbiz TV. Picking up on people feeling poor and hard done by, chairman David Koch has written an open letter to you, arguing that Australian households are being squeezed from both sides, high interest rates, rising everyday costs. We've also got the card surcharge ban about to take place in about two days time that many people are warning will see businesses have higher costs and consumers as well. So how confident are you that monetary policy isn't just simply shifting the cost of fighting inflation onto households and small businesses?

Michele Bullock

So it comes back again to my response to Chris earlier. Monetary policy, I know everyone is focused on what it does to their interest rate and what it does to their cash flow, but that is not the only way that interest rates work their way through the economy. And as I said, other countries that don't have predominantly variable rate mortgages and don't have this sort of cash flow channel thing, monetary policy still works. It's because it works in a variety of ways. Now, I know that's hard for people to understand. People are feeling, quite rightly, very annoyed and very upset about the fact that the costs of everything are rising, that their wages are not keeping pace with that. They're seeing real wage cuts. And then on top of that, they've got this shock from the Middle East, which is nothing to do with them, but it's made us all poorer. This is true. So I understand all those sentiments. Again, back to the point, the best thing we can do is get that inflation rate back down to 2.5 per cent, where it sits in the background, people are not worrying about it, and when we can get to that point, and hopefully if we get some productivity growth, then we'll be able to grow, and we will be able to get some real wage rises. But back to a comment earlier, if we don't get productivity growth, there's not going to be real wage rises coming down the pipeline. So, I get it. I understand. I know why everyone is really annoyed with this situation. Some of it is coming from offshore, some of it is domestic demand driven. It's just that we are consuming more than we can supply as an economy.

Nicholas Comino

Nicholas Comino from The Daily Mail. Governor, the Board said in their statement, growth in aggregate demands needs to remain subdued for a period. Is it the Reserve Bank's assessment that public sector spending is currently adding to aggregate demand, and if so, has that made your job harder?

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Michele Bullock

So I've made the point a number of times before that aggregate demand is made up of public demand and private demand. They are both adding to aggregate demand. And so I wouldn't say any particular items are making our job harder. Our job is to focus on what we can do to bring inflation down. And as I explained earlier, the way we do that with interest rate rises is to try and, through those various channels, bring down demand. That's our complete focus. I'm not here to blame the AI boom or public demand or consumers for what we're observing. The fact is we're observing that demand is increasing a bit too quickly. Well, it's slowed now, but it's still above supply, and that's what we're trying to do here.

Patrick Morrow

Governor, Patrick Morrow from 2SM. In terms of what's your message to mortgage holders, given they've had to tighten their belts back so much and they're thinking to themselves, going, "We can only do so much on a day-to-day basis." And in terms of the jobs data itself, some would argue that there are people who are taking on more jobs on, so that would inflate the numbers in some way as well.

Michele Bullock

So on the second point first, yes, there is some evidence that there are more multiple job holders than there used to be. There might be a number of reasons for that. One might be that people are feeling financial pressure and they feel they need to take an extra job to do that. It might be just that some people prefer to work a couple of part-time jobs rather than a full-time job. So there's things going on there. The important point there, though, is that the jobs are there for them. So I think that the strength of the labour market, that has been a positive there. There's nothing I can say necessarily to make households feel better in this. I understand that. This is tough. And can I say that the Board did not take this decision lightly without thinking that we knew that this was going to hit some people pretty hard. We know this, but we have to do it if we are to bring inflation back down. We need to do it if we are to bring inflation back down. That's our mandate, and ultimately, in the long run, hopefully in the next couple of years when we get inflation back down, this will all have been worth it.

Millie Muroi

Hi, Governor. Millie Muroi from The Sydney Morning Herald. So obviously, there's a few things driving inflation, but you said in the statement that firms are facing higher costs and are either raising prices or looking to do so. Have a greater proportion of firms than usual said this, in which case we might see an increase in the rate of inflation, or is it a continuation of what we've been seeing over the past few months where inflation is high but maybe not necessarily rising?

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Michele Bullock

So I think there's a couple of sources of information on this. One is obviously our liaison program. We have, I think, observed over the last few months or year or so, we have observed that there are more, it is identified as something that businesses are concerned about, their cost increases. Some of them are saying they want to pass it on. Some are saying it's a little bit hard to pass it on. So the message varies a bit there. If you look at some of the NAB survey data as well, that indicates that cost pressures are also not gone from there. They're still seeing that there's cost pressures there. So I think we're seeing it in all of the survey and the liaison information. Certainly since the Middle East conflict, there's been an increase in concerns about transport costs, fuel costs, those sorts of things, which are building into concerns. And that's what we were talking earlier about if it had been short-lived, might have been okay. But the longer it stays, I think the more concerns there are.

Paige Fryer

Hi, Governor. Paige Fryer from NewsWire. The RBA previously said high interest rates are weakening demand from developers. Are you concerned that Australia could end up building too few houses to meet the $1.2 million demand?

Michele Bullock

So I'm not an expert on where we're at with our housing targets, but what I can say is that we have a structural under supply of housing. One concern that with the downturn in the housing market, it may make it uneconomic for developers to build because even before the housing downturn, we were hearing that particularly for high density, it wasn't economic for developers to build because the cost of building it, they couldn't sell the houses for the cost of building it. It's possible the housing downturn may make that worse. Particularly in an environment where we're observing the cost of building materials rising quite substantially. So there's a possibility that that might be a risk to housing, dwelling building. So, yes, it's a concern. We do have a structural under supply of housing. My understanding is that we're not really meeting the targets, but there is action. Governments are trying to find ways to remove obstacles to development. They are trying to encourage higher density, medium density, those sorts of things. So these are the sorts of things that we need to do to address this structural under supply of housing.

Rurika Imahashi

Hi, Rurika Imahashi from Nikkei, Japanese media. The ban on card surcharge takes effect day after tomorrow. Do you expect it to deliver meaningful relief for households facing cost of living pressures? And what broader effect do you anticipate for consumers and retailers? Thank you.

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Michele Bullock

So not quite monetary policy, but maybe I'll just make a couple of quick comments on that. When we surveyed consumers, their number one dislike was going to a cafe or going to a restaurant or going to a store and seeing the price is 10 bucks, but when it rings up, it's $10.10. They disliked it immensely. So the bottom line, to cut it short, is that surcharging was no longer serving its purpose, and just like electricity and wages and everything like that is built into the price, then the cost of taking cards and cash will be built into the price. That's the way it will work. What we did, though, is we reduced interchange fees, which we are pushing, and we are monitoring that is being passed through to cost for merchants. So at the same time, hopefully they'll see their merchant service fees decline, and we're going to be monitoring that very closely. So that will partly offset the effect on merchants.

Sophia Rodrigues

Sophia Rodrigues from Central Bank Intel. At the zero lower bound, we have unconventional monetary policy tools that we innovated during the COVID time to return inflation to target from lower level, because even though interest rates were there as a tool, we couldn't go negative. Now we now have elevated inflation caused by repeated supply shock, and interest rate as a tool doesn't appear to be good enough unless you're prepared to keep lifting rates. So my question is, are you internally doing any work exploring potential for other tools? Because if you find one, I'm sure Treasurer Chalmers will be happy to allow you another tool. Or will we do the study after the whole inflation episode is over? Or are you confident that you will return inflation to target with your one and only cash rate tool while still trying your monetary policy strategy?

Michele Bullock

So the answer is, I'm not aware of a tool, which would be alternative to interest rates, which is within our control. The bottom line is it's asymmetric. You get to zero, and there's not much further to go. Whereas, yes, you're right, we can keep going up in interest rates, so it's asymmetric. Am I confident? Yes, I am confident that we are going to get inflation back down, and we will do what we need to get it back down, but that means using the interest rate. That is our primary tool, and it's the only tool I can think of that we've got for this particular purpose.

Sophia Rodrigues

So confident means interest rates as high as needed?

Michele Bullock

We will do what is needed with the interest rate. Now, I don't know what other tools, if others have … There's no tools I'm aware of that we've got to address inflation in our armoury. So

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it's interest rate is the tool, it is the primary tool, and we will use it as needed to address the inflation challenge. Thank you.

Jonathan Shapiro

Governor, Jonathan Shapiro from the Financial Review. Resisting the temptation to play spot the difference, but I think the statement didn't have the phrase somewhat restrictive. But you mentioned it, caveat, I might be wrong, but you did mention it in your preamble ahead of today, and I think the market maybe reacted in some way. So I thought, could I ask if you could clarify how you would describe the current degree of restrictiveness of monetary policy at the moment?

Michele Bullock

Well, as I said earlier, I think it's hard to be really precise. We think it is restrictive. And there's a number of things that tell us that. One is if you look at mortgage payments as a share of disposable income, I mean, basically, scheduled mortgage payments, including interest, they're back up sort of around 10 per cent of, I might get that number not quite right, but they're up where they were probably when we had interest rates at 4.35 per cent, so they'll go up a bit further. So that's an indication of restrictiveness. The housing market has turned down a little bit, so that's also an indication that things are working. We do, as I said, have these models for neutral interest rates, and what's interesting there is that the neutral interest rate, so that's the interest rate at which we think monetary policy is neither restrictive nor expansionary, and that interest rate, not only in Australia, but actually around the world, is sort of moving up a little bit. But we think we're up the top of those sort of ranges, pretty imprecise. But the proof of the pudding is going to be in the eating, and how restrictive we are is going to be the determinant of whether or not we get real gains on the inflation front. And if we're not restrictive, I don't think we're expansionary, I think we are restrictive, but how restrictive is the key question. We think we're restrictive, and we think that's going to pay off in terms of a reduction in the growth in demand, and inflation. But the proof of the pudding will be in the eating.

David Taylor

Governor, David Taylor from ABC News. You said right at the start that a recession wasn't your base case scenario, and that makes sense because the economy's doing okay at the moment. But I can't help but think that the fundamental problem here, apart from the exogenous shocks, is that demand is too strong for what the economy can cope with. And this 2 per cent to 3 per cent target is just ever elusive. So can you see a scenario where you do actually need to put the economy into recession in order to get what you desperately hope for, which is basically the midpoint of 2.5 per cent? Can you see a scenario where that would be needed?

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Michele Bullock

Well, I hope it's not needed. Are there scenarios in which it might have to happen that way? I guess possibly. And the scenario that I'm thinking of there is if inflation expectations get away from us. If inflation expectations start, if people start saying, "You know what? Three point something's fine," or, "Four is fine," and you do hear some of that. If that gets away, then that is a circumstance in which I think you might need to have quite a dramatic slowdown in the economy to – and that's our worry. Our worry is that if we let, and back to the mortgage holders and so on, I know they don't understand why we have to do this and it hurts them. But the point is, if we don't address this, inflation will get worse, and interest rates will have to be higher, and the economy in a worse position in order to address that. So it's not our base case, I don't want it, but if inflation expectations get away, that's the sort of scenario you might be looking at. Thanks.

Cameron Micallef

Hi, Governor. Cameron Micallef from NewsWire. Given higher fuel costs basically act the same way as higher interest rates and taking money out of people's pockets, was there any sort of case for holding today?

Michele Bullock

There was a case for holding, but that wasn't the sort of reasoning, and it comes back to my more detailed response to Chris earlier. It's not just about cash flow. So yes, to the extent that people are paying more for fuel, that means they might have less to spend on something else. It also might mean that they decide to take public transport or spend less on fuel and preserve money for something else. So there's not a one-for-one sort of relationship between interest rates and petrol prices. And as I said, the other point is that it doesn't just work through the cash flow channel. So in a sense, yes. That will affect people's consumption patterns, and it will have an impact, and I would expect that probably, in some cases, people will choose to consume a little less, and that'll lower demand. But it's not all about that, and it's certainly not got a one-to-one relationship where you can say, "Well, if petrol prices go up by X, that means interest rates don't have to go up by as much." It doesn't work that way.

Cecile Lefort

Governor, Cecile Lefort from the Financial Review. What would you like – what are you hoping to see in Q3 inflation numbers not to hike again? How would you feel about 1 per cent?

Michele Bullock

Look, I wouldn't like to make a prediction. The bottom line is that in order to have inflation at around about 2.5, you need quarterly numbers, which are sitting more around .6 rather than .8 and 1. The quarterly numbers, when we get them, at the moment, we're at the end

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of September, so when we get the quarterly numbers in a month or so, that's already behind us, as I said earlier. We can't impact that. That is done. So the important point is, have we done enough on interest rates to make sure that the inflation numbers another six months out are going to reflect that slower demand relative to supply? That's the key point. So in a sense, all the quarterly numbers in September will be doing is confirming what we already know, that inflation pressures were elevated in the first part of this year.

Lin Lin

Hi, Governor. Lin Lin from the ABC. The cash rate is back to 2011 levels, but household mortgage debt is, of course, vastly bigger. Are you underestimating how hard this is hitting borrowers?

Michele Bullock

So we do have estimates of household debt to disposable income, and if you look at that, it rose very sharply around till the mid-2000s, and then it sort of leveled off. And if you put offset accounts in there, actually, it's declined a bit. So remember that a lot of people have a mortgage, and then they have an offset account, which sits in the background. And the amount of money in those offset accounts has actually grown quite a lot over the last decade or so. In the Financial Stability Review, we'll talk about this on Thursday, we'll talk about the position of the households. But at an individual level, yes, there are households that are hurting. Absolutely. But at an aggregate level, in terms of debt and debt-to-household income ratios, things like measures of mortgage stress, measures of how much income people have to spend on – do they have an income shortage, if you like, of money to spend once they pay off their mortgage? All those sorts of measures, yes, there are people that are hurting. But at an aggregate level, it's not suggesting that there's any massive stress in the household sector as a whole. Now, that, as I said, doesn't mean there aren't people that are, but the Financial Stability Review will talk about this a bit when it comes out on Thursday.

Luca Ittimani

Thanks for taking all our questions, Governor. Luca Ittimani from The Guardian. You've spoken a lot today about how prices are now permanently higher for a range of reasons. Markets have got the message. They've chucked out expectations of rate cuts next year, for the most part, but households might not quite have got that message. So I just want to give you the chance to make it really clear. Do people need to get used to rates being at the level that they're at now?

Michele Bullock

And this relates to the other question about rates in 2011. In 2011, inflation was also around about 3.5 per cent to 4.5 per cent. What I think households are thinking about is that prior to COVID, and then particularly through COVID, interest rates were really low, and they were

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really low pre-COVID because the economy was very anemic. It wasn't growing very quickly. And during COVID, of course, we know that we had a drop in interest rates. Everyone did around the world, right? So I think the point is, I don't know if this particular level is the new normal, but what I do know is that we're not going back down to interest rates of zero or very close to zero, policy rates of that. And the reasons for that, I talked a little bit earlier about the neutral interest rate. What we're observing around the world is that, particularly with this AI-driven investment, the demand on the savings pool is really strong at the moment, and that's going to continue, and that means that puts upward pressure on interest rates. So that's all by way of saying that the exception probably looks to have been pre-COVID and certainly COVID. Whether or not this current set of interest rates is where we end up in the long term, I don't know. But it's certainly we're not going back to where we were, certainly not in COVID, and probably not even where we were immediately pre-COVID.

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