Source: Reserve Bank of Australia

Sydney – 3 November 2026

Michele Bullock
Governor

Transcript

Michele Bullock

Good afternoon. Today the Board decided to increase the cash rate to 4.85 per cent. Now, I know this is not the news that many Australians want to hear, but it is what's needed to get inflation down.

Inflation is too high, and our forecasts suggest it will stay higher for longer. Part of the reason for inflation staying higher for longer is global oil prices. However, I want to be very clear that we are not tightening monetary policy because of the direct impact of oil prices on inflation. I know there is confusion in the community, so I want to be very clear. Monetary policy cannot impact global oil prices.

Rather, the tightening in monetary policy is to address domestic capacity pressures. These were evident before the rise in oil prices, which is why the Board started to increase the cash rate in February this year, prior to the start of the conflict in the Middle East. We now think that those pressures were greater and contributed more to inflation than we judged before. And as inflation has remained high, there is a risk that inflation expectations among households and businesses will rise, making the task of bringing inflation back down to target even more difficult.

Part of the reason for those capacity pressures is that productivity growth has been weak for some time, which has constrained the economy's ability to grow without generating high inflation. But parts of demand have also been stronger than expected. In particular, investment has been much stronger than expected, including due to data center-related investment. This has added to inflationary pressures by adding to demand at a time when the domestic economy is already capacity constrained.

While monetary policy can't do anything about the direct effects of an oil price rise, it can help to limit the indirect effects of the rise. Fuel is an important input to many parts of the economy, so as oil prices have risen, businesses have seen their costs rise, and they are looking to pass on these costs to the prices of the other goods and services they produce. The

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longer inflation remains high, the more likely it is that businesses will look to pass the higher costs on, and excess demand in the economy makes it more likely that they'll be able to do so.

Prior to today's decision, the Board had already increased interest rates four times this year. Spending in the economy has slowed, housing prices have come down, and conditions in the labour market have eased. We expect, though, that growth will need to remain subdued and the labour market will need to ease further to bring overall demand and supply back into balance and inflation sustainably back to target.

Now, I understand that today's decision is going to be difficult for Australians with mortgages, many of whom are already managing large repayments. But households with mortgages are not the only Australians doing it tough. Every household is dealing with higher prices for groceries, electricity, insurance and other essentials. High inflation is particularly painful for Australians on lower incomes, including people who rent and have little or no savings to fall back on. When most of your income is already going towards essentials, there is nowhere left to cut spending. This is why getting inflation down matters so much. It affects everyone, but the burden is not felt equally.

High inflation also damages the wider economy. It makes it harder for families to plan and for businesses to invest. And if high inflation were allowed to become entrenched, interest rates would ultimately need to stay higher for longer, with greater risks for the economic growth and jobs.

As I said earlier in the year, the conflict and the resulting supply shock would make us all poorer, and that is what everyone is feeling. It means that for a given inflation rate, growth will be lower and unemployment will be higher. Again, I know this interest rate rise is tough news for many households, but this is the right thing for the Australian economy.

Raising interest rates today is necessary to slow the economy and return inflation to target. It is 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. If we just let high inflation run, it will lead to even worse outcomes, much higher prices, higher unemployment and lower growth.

We are using the cash rate to stop that from happening. Some pain now will prevent even worse pain down the track.

Returning inflation to target is our priority, and we will do what is necessary to achieve that. Thank you, and I'm now happy to take your questions.

Matthew Cranston

Matthew Cranston from The Australian. What was the argument today for a hold and for this being the last rate hike? And I know today that while business investment has grown,

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government public demand is twice the pace of economic growth, just as you've downgraded productivity again next year. Are we wasting a productivity crisis by not taking the opportunities available to us?

Michele Bullock

Okay. There's a lot of people in the room today, so I'm only answering one question. And the question for the argument for a hold, as you will have all observed, it was a split vote. Those in favor of a hold, I would say, weighted the downside risks more than the upside risks, and those who voted in favor of a rise felt there was more upside risk. So it wasn't that both sides didn't recognise risks on either side, but I think those looking for a hold were thinking that housing has reacted, the unemployment rate is drifting up, there is no sign of wages growth accelerating. They felt that there were potential downside risks in these circumstances, particularly since we'd already done four interest rate rises, and maybe we should wait a bit longer to get some more data to test that. So, that was the argument in favor of a hold.

Stephen Johnson

Governor, Stephen Johnson from The Nightly and The West Australian. Your new Statement on Monetary Policy now doesn't have inflation underlying and headline returning to the midpoint of the 2 to 3 per cent target until the middle of 2028. How does it make another rate hike likely, and how premature is a rate cut talk?

Michele Bullock

So you'll look at the forecasts, and we do forecasts because it helps us to think in a strategic way and a structured way about what the interest rate rises we've already done will do to the economy. And if you look at the baseline forecast there, you're quite right, we don't get back any sooner. The point I would make, though, is that at least for the next year, it's pretty much baked in. Higher oil prices have materialised, and they don't seem to be coming down in a hurry. And also, the other thing that's happened is that we think we've got higher capacity pressures. So up until the end of '27, we've got that baked in. It starts to come down after that, but really, to the point about what we can do, we can't do much about the next year. So that's why it's really important that we make sure that we're in a position that when those baked through inflation pulses have happened, that we've got enough restriction in the economy that it will put downward pressure on inflation from there. So it's not a good situation to be in, and we're very uncomfortable with it, and that's part of the reason why six members voted for a raise today.

Jemeema Hanson

Jemeema Hanson from Capital Brief. A Capital Brief/DemosAU poll shows Australians overwhelmingly think government spending is the main factor driving inflation higher. Do high levels of government spending make it challenging to get inflation expectations under

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control, given you cannot influence fiscal policy? And would you disagree with the public's assessment?

Michele Bullock

So I've made this point before, and I'll make it again. Public demand and private demand in total make up aggregate demand, and it's the pressure of aggregate demand pushing up against, or in excess of what the economy can supply in terms of goods and services that leads to inflation. That's the situation we think we're in at the moment. So in a mathematical sense, yes, it's true that public demand is part of the total demand. Now, I've said a number of times in the past that we take public demand as given, and we set interest rates accordingly. It's up to the government, the elected officials, to decide what they want to do with fiscal policy. And as I've also said before, governments have lots of goods and services that they need to provide, and infrastructure, not just federal, all of the state governments as well. So there's a whole issue here about what governments need to provide for the people and how much spending therefore that entails. But that is for governments to decide. Independence is a two-way street. I don't tell them what to do with fiscal policy. They don't tell me what to do with interest rates.

Michael Read

Michael Read from the Australian Financial Review. The Board's statement removed the explicit reference from September about increasing the cash rate further if needed. Combined with the fact that there were three dissenters today, should we take that to mean that the RBA's on hold for the foreseeable future?

Michele Bullock

No, you shouldn't take it to mean anything in particular. I don't know what the next move will be. As you know, Mike, I don't give forward guidance. But I think the point is that we did three rises, now five interest rate increases in the system now. The last couple haven't even started to flow through yet. So it is probably a good point to just take stock for a minute and see what comes in, in terms of the data, to see if we're traveling more or less in line with the forecasts. What that means for interest rates in the future, I don't know the answer to that, but all I can say is that the Board will be watching very closely because there is still a bit of a skew on the upside to inflation risks, and we need to be alert to those materialising.

Ian Verrender

Governor, Ian Verrender from the ABC. Thanks for taking questions. You've already raised interest rates four times this year, and inflation continues to be a problem. What makes you think this time it'll work?

Michele Bullock

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Thanks, Ian. So as you know, monetary policy does take time to flow through the economy, and we think it can take 12 months or so, or maybe a bit longer for the full effects of it to flow through. We think that it is having an impact. We think the housing market, which is one part where monetary policy does have an impact, and we are already seeing that. There's a bit of an issue here about extracting what's interest rates and what sort of policy on negative gearing and so on, but monetary policy is part of that. So we think it is having an impact. The economy is slowing, demand is slowing. And as I've said in the past, as time goes on, those interest rate changes will start to affect decisions by businesses and consumers in the economy. It doesn't all happen immediately. And as that happens, asset prices change, the exchange rate also moves, and it just takes time for those things to flow through. Monetary policy will work, but it doesn't work instantaneously. You can change the interest rate quickly, but the effect takes time to come through. So that's what we're watching for, and our forecasts see that happening.

Shane Wright

G'day, Governor. Shane Wright from The Herald and The Age. In 1989, 1990, the Board members of the RBA then actually, as they pushed interest rates up fairly quickly, said they could hear the economy crack and realised they'd actually misjudged what was going on. Does the interest rate rise increase the chance of a domestic recession? And for many people, you can see that many of them dealing with inflation, higher interest rates, higher petrol bills, you've got a forecast of unemployment at 5, that may actually feel recessionary for many Australians.

Michele Bullock

I think, as I just mentioned earlier, the fact that we've had this massive shock has meant that we're poorer, and that's what people are feeling. I think to the point about the unemployment rate, though, it is still relatively low, and we are still getting jobs growth. So that's a positive thing, and what we're observing, in fact, is that multiple job holders are rising, and that's showing that people who probably, in some cases at least, under cost pressure, are looking for second jobs, and that they can get those jobs. So I think that's one positive thing that says we're not in a recession where unemployment is really high. So there's that. We don't see the economy cracking at this point. We did a downside scenario in the Statement, which you've probably seen, which tries to get a feel for what might happen in those circumstances if the domestic economy contracts much more sharply than historical relationships and our models would suggest. And it does suggest that unemployment rises more steeply. So is that a recession? I don't think it's necessarily a recession, but at the moment, the baseline is not forecasting a recession.

Chris Kohler

Good afternoon, Governor. Chris Kohler from Nine News. Thank you for taking questions. Look, we've spoken a little bit about the upside risks for inflation over a year before it comes back down. You've also mentioned that there is a lag. I guess, following off from Shane's

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question, how concerned are you that five interest rate rises this year will cause a deeper and darker correction next year? And if so, what would be the biggest threat to financial stability? Would it be the housing market? Would it be the unemployment rate? What exactly would you be most concerned about in that instance?

Michele Bullock

Let me just make clear again that that's not our baseline forecast. Our baseline forecast is that growth slows, but it needs to slow to eliminate the excess demand. We've done a little bit of scenario testing in our Financial Stability Reviews in terms of, not these most recent forecasts, but the Financial Stability team ran the old forecasts for unemployment and so on through some models to see what that would mean for financial stability. Yes, it does result in an increase in arrears, and it does result in an increase in the number of households that can't meet mortgage repayments. And certainly, there's an increase, given housing price declines, in negative equity. Negative equity typically doesn't come home to roost until you have unemployment or other life changes which cause the need to sell the property. But even under those circumstances, there's not any suggestion that there's any financial stability implications. The banks are very solid. They have generally lent at good loan to valuation ratios, and APRA's kept a good eye on things like debt-to-income ratios. So if you look at the strength of the financial system as a whole, even if the economy does turn down, and turn down more sharply than we're expecting, we don't expect to see financial stability implications from that. Now, having said that, that is not to say that there mightn't be some individual households, and maybe a group of households, that finds it very challenging and may end up in some difficult circumstances. That's different to saying the banks will end up in financial instability territory.

Stella Qiu

Hi, Governor. Stella from Reuters. You said the three Board members, they weighted the downside risks more in their decision to hold. Was it just the timing of the hike they disagree with, or do they actually think policy is restrictive enough to return inflation to the target?

Michele Bullock

I think that's an open question. I think they do still see the upside risks to inflation, but I think because they weight the downside a bit more, they're a little less worried about the upside risks. Certainly, there was a feeling that they weren't ruling out, but they wanted to see more information.

Edward Boyd

Governor, Edward Boyd from News 24. The ban on card surcharges began last month. Lots of small businesses instantly increased their prices, some of them pretty significantly. Is this just adding further inflationary pressure and potentially anchoring inflation expectations in our economy?

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Michele Bullock

Interesting question. Let me make a point about this. When the card surcharges were being imposed, say at your local coffee shop or something like that, the card surcharge was typically around 1 per cent or so of the cost. Some of the reports, and they're anecdotal, I haven't seen them, are saying that prices have been put up by much more than that. That doesn't suggest to me that's a reaction to card surcharging. That suggests to me that's a reaction to excess demand relative to the goods and services, and therefore they can put their prices up. So I don't think it's anything to do with surcharging. To the extent it's there, it's just another manifestation of the fact that demand for goods and services in the economy is higher than the ability to supply it, so businesses can put up their prices.

Lin Lin

Hi, Governor. Lin Lin from the ABC. Are you willing to hike further and push the economy into a recession if that's what's needed to tame inflation?

Michele Bullock

So I want to be absolutely clear here. The Board's dual mandate is still in play here. We are not looking to tip the economy into a recession if we can avoid it. But we do need to get inflation down, and we do have excess demand at the moment. So that is the key. Our central forecasts do not see us going into recession, but it does see growth slowing quite markedly. It shows that consumption is quite sluggish, and I think that is going to make it feel to people, to a question I think Ian asked, and Shane, it is going to make people feel like it's a recession because they feel poorer, their spending can't grow very quickly because their incomes aren't growing very quickly, and this is a manifestation of a lack of productivity growth, and the fact that we've had this massive supply shock imposed upon us and we're all poorer. So, answer, we don't want to push the economy into recession. We do have a dual mandate, and although at the moment we are focusing on inflation because we thought that the upside risks, if you like, the costs were higher, we haven't lost sight of the fact that we want to try and maintain, if we can, the gains in the labour market.

Thomas Henry

Thanks, Governor. Thomas Henry from The Australian. Your Statement on Monetary Policy shows new home loan commitments for investors falling substantially further than previous rate hiking cycles. This contributes to a collapse in dwelling investment towards the end of next year and into 2028. How much of this decline is a symptom of interest rates, and how much of it is to do with the government's budget tax rates?

Michele Bullock

So I wish I could give you a precise cut of that, if you like. But I think as you mentioned that graph, the fact that investors have declined so much further than it has in previous interest

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rate increasing cycles suggests that there's something else going on here, and there's something else going on is the tax changes. So I can't give you a firm breakdown, but interest rates do impact, and we see that in the past. We know that investors do react, and we know that investors typically move with the price cycle of housing. So when housing prices are going up, they're tending to buy in and exaggerate it, and likewise on the downswing. It's just much bigger this time.

Patrick Commins

Hi, Governor. Patrick Commins from The Guardian. You said at the start of the press conference that we are not tightening monetary policy because of the direct impact of oil prices on inflation. So are you saying that even without the 40 to 50 per cent jump in the oil price since early July because of the worsening Middle East crisis, so even absent that, if oil prices stayed low, we still would've got back-to-back rate rises?

Michele Bullock

I couldn't do that counterfactual for you. What I am saying is that absent the oil price rise, we had a problem with excess demand, so we had to increase interest rates. Now, would that have meant that we had to go up the same amount? I don't know the answer to that. Part of it might lie in the fact that to the extent that because the oil price shock has exacerbated inflation in people's minds and perhaps altered their inflation expectations, it's possible that it's caused interest rates to mean they have to be a little bit higher. But I really couldn't do the counterfactual. All I know is that they would've had to have been higher than they were to address what was the fundamental problem domestically, which is excess demand.

Patrick Commins

[Inaudible]

Michele Bullock

Well, it had to be something.

Sophia Rodrigues

Sophia Rodrigues from Central Bank Intel. In the SMP, your commentary on wages growth looks a bit scary to me. So first we had the Fair Work 4.75 because of higher inflation, then we are having private agreements, where because of pass-through from higher inflation, that's higher. Then you have got liaison contacts saying wages growth increased noticeably since July, and finally, you're saying liaison contact expectations for wage growth over the year ahead remains elevated. Why shouldn't I call this not the start, but a bit more than start of price-wage spiral or wage-price spiral?

Michele Bullock

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Because I don't think it is a wage-price spiral. I think what we're observing is that consumers are reacting to seeing their purchasing power decline, and they're demanding higher wages for that, and businesses are saying, "Well, my labour costs and my non-labour costs are going up, so shouldn't I be able to increase my prices?" What allows those two things to go together is the fact that there's excess demand in the economy, and we think that the labour market's a little bit tight. But I wouldn't say that's the start of a wage-price spiral because what we've done is tighten policy, and that is having an impact because we are seeing demand start to slow relative to supply, and ultimately it's going to come back into balance. It's just a question of when. So no wage-price spiral.

John Rolfe

Governor, John Rolfe from The Daily Telegraph and Herald Sun. In your opening remarks, you referred to the period before the Iran war saying, quote, "Domestic capacity pressures were greater and contributed more to inflation than we judged before." In your opinion, are those who argue that high oil prices are the predominant cause of our inflation woes wrong?

Michele Bullock

No, I'd say it's a slightly different perspective than that. There's two parts to it, in my view. So as you know, we focus on underlying inflation, but what people face is headline inflation. That's what the general public sees, headline inflation, and there is absolutely no doubt that headline inflation is being impacted by higher oil prices. It was high in September. I think it was 4.5 or something, 4.3, I think. The bottom line is we think that the next number's going to be pretty punchy, too, and that's related to not only the oil price rise, but also the fact that there's a base effect. In October of the previous year, there was a very low number because of electricity subsidies. So we're going to see even higher headline inflation. So, that's all by way of saying it is partly oil, but it's also partly the fact that there is excess demand in the economy. That's the bit we're trying to get at with interest rates. And I also mentioned in my opening statement the point about indirect effects, so we would expect businesses to pass through some of it. What we want to make sure is that this expectation that inflation is always going to be 3 or 3.5 per cent doesn't get embedded, and everyone just thinks that this is the way forward. So I'd say it's both.

John Rolfe

Is one greater than the other?

Michele Bullock

It's very hard to determine what's greater than the other. If you look in our Statement, you'll see there's a graph of quarterly deviations of inflation from the target, and you'll see we've tried to divide it up into indirect effects from oil prices and excess demand. And maybe one's a bit greater than some in some quarters, and one's a bit greater in the other. But it is very

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difficult to put your finger on how much. But if you're looking at headline, there's no doubt that oil prices have had a big impact there.

Nasteho Said

Nasteho Said from Bloomberg News. You paint a worrying picture, particularly on the risk of inflation expectations becoming unanchored. How is it that those who voted for a pause don't see the same risks?

Michele Bullock

Well, again, it's because it's a nebulous concept, if you like, and they accept that some of the information we're relying on, so liaison is one thing that was mentioned earlier. We see it in some of the surveys, the NAB survey and so on, that businesses are sort of expecting prices to remain elevated and, as I said, some of the liaison information. They're conscious of that. But I think because they weight the downside risks a bit higher, they think that will resolve itself, because what you'll see is you'll start to see the economy slowing, and people will adjust their expectations in those circumstances. So I don't think they're dismissing them, but I think they just feel that they're probably not as prescient as some of the people who are putting a bit more weight on the upside risk to inflation.

Jacob Shteyman

Thanks, Governor. Jacob Shteyman from the Australian Associated Press. The SMP spells out that global AI investment is pushing up tech prices. Data center investment in Australia is adding to activity here. Meanwhile, productivity is still going backwards, so if it is having a positive impact, productivity is not showing up yet. When can we expect AI to have a positive impact on inflation?

Michele Bullock

Oh, well, that's a difficult question. I don't think anyone knows the answer to that question. I think probably around the world, what most countries are experiencing is that what we're experiencing is that demand is being impacted at the moment, and any impact on productivity, and that's uncertain, but people are predicting it, is yet to come. So we do have an issue, particularly in Australia, as I said, where we have demand greater than supply, that we're not getting the impact on supply yet. We're only getting the impact on demand. So ultimately, if productivity improves dramatically because of AI, it'll do a couple of things. One, obviously, it'll allow us to grow faster. But the other thing that, and we talk a little bit about this in the SMP, the other thing that's happening is that because of the demand for investment in AI is so big at the moment, it's outstripping savings, and that's leading to an increase in what we call the neutral interest rate. So if people think that productivity improvements will help to lower inflation and keep interest rates low, that's not necessarily the case, because the neutral interest rate in these circumstances is likely to rise, and arguably we're seeing it rise

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around the world at the moment. But when it will happen, your guess is probably as good as mine, I'd say. But there's a mismatch.

Patrick Morrow

Governor, Patrick Morrow from 2SM. Do you think that the current global economic uncertainty is making it harder on your job, given that we don't know what the US president's thinking on a day-to-day basis? The US have held rates last week, the ECB as well. Are you kind of concerned that you're just in this rock and a hard place position?

Michele Bullock

I think all central banks are in a similar position. They're all facing into inflation above target, and what do they do, and how do they... And everyone's in slightly different circumstances. So some countries are coming from positions of excess supply, but they're still seeing inflation rise. The United States is growing very strongly, and they've got inflation well above target. So everyone's dealing with it in their own way. I think the way that most are thinking about it is similar to us, which is there will be first-round effects, and to your point, back when this started and we were doing our forecast, everyone sort of had forecasts for all of this to be finished in a month or so, and petrol prices were coming back down. That's clearly not happened, and we're in the world we're in. It is difficult. And I guess the surprise in this is that the world economy has done much, much better than people expected, and a big part of that is the AI story and the investment that's going on there. So similar challenges around the world. Uncertainty does make it very difficult and very challenging, but so far the world economy is holding up with respect to that uncertainty.

Youssef Saudie

Youssef Saudie from SBS. The Board has most recently spoken about the media focus on the impact of high interest rates onto mortgages only when there are other transmission methods like flow-through to savings and most importantly, currency markets by which making imports cheaper and reducing inflation. So why exactly hasn't it worked out yet?

Michele Bullock

A little bit back to the answer to the question to Ian earlier. It takes time. We started raising interest rates in February, and we have seen some impact on the housing market. And importantly, as housing prices fall, there's a sort of a wealth effect, if you like. People feel less wealthy, but that's probably relatively small. What's probably more important is that as housing prices fall, you see turnover fall. When turnover falls, people don't go out and buy new things for their new houses, and so there's an impact on consumption through that process. So you're seeing a little bit of that, but there's probably more to come. The exchange rate has basically moved, we think, pretty much in line with interest differentials and the tightness of monetary policy and commodity prices. But the flow-through from import prices into prices in Australia can take 9 months to 12 months. So it just takes time. And the

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exchange rate channel we've talked about, some people have suggested we've only just started talking about that. That's actually not true. We've always talked about that. But it lowers import prices coming into the country, and it lowers, for example, if businesses are importing intermediate goods to produce goods, that lowers their costs as well. So it has a more pervasive effect than just a consumer seeing a cheaper price for a television, say. But it takes time.

Cecile Lefort

Governor, Cecile Lefort from The Financial Review. Today your forecast show that you pushed back the return to the inflation target again. And meanwhile, you also removed the key line in the Statement today that you would be prepared for further tightening. And markets took that as a dovish sign. So why not be explicit about the risk of further tightening today?

Michele Bullock

Well, I think because what's happened with the forecast is that, I think what the staff would say or the team would say is they've centralised the risks on activity in the forecast now. So we think the risks to activity probably are balanced on both sides of the forecast now. Now, possibly the risks skew to the upside on inflation, but we don't know yet how this is going to play out. The underlying assumption is the cash rate path, which was basically one more rise. Now, it may be that that doesn't work out to be enough, but I think there was a feeling that if you look at the forecasts, it wasn't as obvious as it was in some of the previous meetings where we had three big skewed upwards risks on inflation. We've centralised some of that now, so it's not as obvious. It doesn't mean there won't be more increases in interest rates, but it's not as obvious as it was back in August and September when we were looking at a really, really skewed... There's still a bit of a skew there, but it's not as skewed as it was. I'd not be interpreting this as saying we're not going up. I wouldn't be interpreting this saying we definitely are going up. We're basically preserving our options.

Cameron Micallef

Hi, Governor. Cameron Micallef from Newswire. You mentioned a couple of times that people may start feeling like they are in a recession. Is there any fear they might become a bit of a self-fulfilling prophecy and that as house prices keep coming down, people may stop spending and then drive us into a recession?

Michele Bullock

Well, as I sort of mentioned, that is one possibility, that the housing price decline continues and continues much more severely. Turnover, as I said, is a really important point here. If that continues to stay very low, then that might have a bigger impact on consumption than we've factored into some of our forecasts. So yes, that's a possibility. We did do a scenario, as I said in the Statement on Monetary Policy, which was a downside scenario to activity, and that does see unemployment rise more than we've got in the baseline forecasts, and GDP is lower,

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because it turns out lower. But it actually doesn't bring inflation down a lot more quickly because, as I said earlier, to some extent for the next year, because of what we've seen in oil prices, indirect effects, and excess capacity, it's pretty much baked in for around three and a half for the next till the end of '27. So even what we do now can't impact what's going to happen in the next few quarters. That seems to be something that we just have to accept, and we've got to concentrate on making sure we bring it down in the out year.

Millie Muroi

Hi, Governor. Millie Muroi from The Sydney Morning Herald. The Bank has said in its latest Statement on Monetary Policy that the non-accelerating inflation rate of unemployment has probably drifted a little bit higher. In the past, it seems like the Bank's view has been it sits somewhere around 4.5 per cent. So where do you see it sitting now, whether it's a range or a specific number?

Michele Bullock

Yeah. So the NAIRU is something that we need to put into our forecasting. It works in our models, but we don't rely just on that. So you'll know we have the big abacus graph, which goes through a variety of different... So the models will churn out what they think the NAIRU is just by cranking the handle and out pops a NAIRU in some sense. And then there's judgment imposed upon that, and the judgment is based on things like leading indicators of vacancies and hires and things like that, as well as things like the unemployment rate, the underemployment rate, those sorts of things. So we don't just take the NAIRU that the models crank out, we adjust it accordingly. Now, what's happened is that we thought that what we were seeing, what was basically materialising in the labour market, suggested that we could maintain a lower unemployment rate and not put pressure on inflation. What we've in fact observed by what's happening with particularly inflation and unit labour costs is that actually that doesn't seem to be the case. It does seem that there's still tightness in the labour market, and that might be that there's skills mismatches. It might mean that there's just not enough people around. Everyone's heard anecdotes about how difficult it is to get construction workers and tradies. It just might be that that's what this is reflecting, and that's why we've raised. Now, I couldn't give you an exact number. Every time I give an exact number, people misinterpret it as meaning that I want the unemployment rate to go to X. But it's true that it's higher than we thought it was, and that's reflecting the fact that we see tightness in the labour market.

Brandon How

Thanks, Governor. Brandon How from Capital Brief. Given data center investment is adding to inflation, does something need to be done to take heat out of the sector, or is it something that the Monetary Policy Board thinks they can look through?

Michele Bullock

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Well, it's certainly not for me to opine on data centers and what's an appropriate policy with respect to data centers. All I would observe is that to the extent that it is relying on similar resources to some extent as... So let me just step back for a sec. A lot of data center investment, estimates vary, but we think maybe about 70 per cent is imported. So it's actually not putting pressure on the Australian economy and Australian goods and services. But there is a chunk, and it's related to building the warehouses and getting electricians to come in and install the servers and all those sorts of things, that does put pressure on Australian resources, and that's where it might be putting inflationary pressure in. Generally, though, what you would hope over time is that investment, and it's not just data centers, there is investment in other things going on as well. Investment adds to demand, so it does add to demand pressures, but hopefully over time, investment leads to productivity gains. So it's a little bit back to this question earlier about what comes first, and to the extent the demand comes first, it's challenging. But if you can get productivity improvements coming out of the investment, then ultimately that will be positive.

John Kehoe

Thanks, Governor. John Kehoe from The Australian Financial Review. Your forecasts have GDP growth in the low to mid 1 per cent range. Given that you're experiencing domestic capacity pressures, zero productivity growth, inflation, is this the sort of new normal that we need to get used to in growth in Australia? And is potential growth now seemingly even below 2 per cent?

Michele Bullock

So we haven't altered our medium-term productivity assumption. So we still think that potential, given population growth and productivity growth assumptions, that it's probably around about 2 per cent. So we haven't changed our assumptions on that. But it does mean, to your point, that to get demand back growing so it's not putting pressure on supply, we do need growth to slow relative to growth and potential. But once it does slow there, it can't speed up again. So to your point, if the supply side of the economy can't grow any faster than 2 per cent, then once you're back in balance, it's very difficult for demand to grow any more than 2 per cent. So yes, unless you can fix that side, the supply side, the new normal is that we can't grow, demand can't grow, consumption can't grow, investment can't grow very quickly.

Nic Fildes

Nic Fildes from the Financial Times. The Fed, the ECB, BOJ, RBNZ all held rates in recent days. So does this decision against that grain suggest that Australia's inflation outlook is materially worse than in other countries, despite it being a global supply shock? And if so, why?

Michele Bullock

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So a couple of points. The first is that, as I said earlier, our excess supply issue was a domestic issue for us. New Zealand, they actually ended up in excess supply territory, so they were coming from that position rather than excess demand, so they didn't have that issue. The ECB, I think, and the Fed are probably different. But one point I would make is that if you look at the deviation between target and actual inflation, we don't look a lot different than some of those countries because our target is 2.5 and theirs is 2. So yes, we have a domestic homegrown inflation problem, that is true, and some of those other countries don't, although I'd question the Fed, I'd question the US. But it's also true that you can't just look at our inflation rate relative to 2 per cent because our target isn't 2 per cent, our target's 2.5. And if you look at it that way, yes, we're still above target, but others are also around about 1 per cent above target as well. So I wouldn't say that we're completely Robinson Crusoe here, but we do have a domestic issue.

Adrian Rollins

Governor, Adrian Rollins from Business News. Going to the central banker's nightmare that Andrew Hauser has talked about. When the RBA considers modelling how interest rate expectations might drift, does it think about in terms of going from 2 to 3 per cent to 3 per cent to 4 per cent? Or does it think there's actually a risk that it goes higher than that, that people start thinking more in the realm of 4 per cent to 5 per cent?

Michele Bullock

Well, that would be a nightmare, yes. At the moment, we're not hearing that. I mentioned liaison earlier. What we're hearing is that people are thinking, "Oh, well, maybe 3.5 per cent is the new normal." We're not hearing numbers higher than that. But this is the thing with inflation expectations, is that once you let them creep, then if 3.5 per cent is acceptable, well, maybe 4 per cent is acceptable, and then maybe 4.5 per cent. So that's why I think it demonstrates the importance of keeping inflation expectations anchored. Long-term inflation expectations do seem to be anchored. That's a necessary condition, but it's not a sufficient condition. We need to make sure that some of these short and medium-term inflation expectations don't start to drive people's decisions. So we are looking at that. We're not seeing it accelerate away, but these little inklings, then we're a bit more cautious.

Nicholas Comino

Governor, I'm Nicholas Comino from The Daily Mail. Just on expectations, the market has called the peak wrong a number of times after each rate rise this year. We've now had five hikes. The RBA has noted today inflation will stay above 3 per cent until the end of 2027, and productivity continues to lag. Warren Hogan from Judo Bank has said rates could go above 6 per cent. At what point do you admit that households can't keep being the shock absorbers for inflation? And when is enough enough?

Michele Bullock

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Well, we will need to raise interest rates to the extent that we need to, to get inflation down. I don't know how high that is. I know we've done five hikes this year, and as I've already said, that has still got another 12 months to play through. So will we need more? I don't know. Warren Hogan is one voice. There are other voices that are saying, "Actually, we're heading into recession territory, and we're going to have to start dropping rates, and we've overdone it." One thing all these people have in common is that they are all entirely certain about what needs to be done. I am not, and I admit that. We do our best with our forecasts. We have to do forecasts because we don't want to be backward-looking. We have to be looking forward, but they're uncertain, and things change, and who knows? Back in February, we weren't expecting a conflict in the Middle East. So things happen. So, I'm not going to respond directly to the question on how high can interest rates go. I'd only say that we will do what we need to do to get inflation down.

Nadine Blayney

Michele Bullock, Nadine Blayney from ausbiz.com.au. Look, I think by my count, there's about eight speeches or panel participations between now, so 3rd of November, and the next interest rate decision beginning of December. What's the strategy there? Does that give you time and opportunity to get the market ready for whatever will come in terms of a decision in December?

Michele Bullock

So let me be really absolutely pinpoint clear on this point. A lot of people interpreted our communication strategy as to go out and massage the market to where we want things to go. One thing I want to be absolutely clear about here, I don't make the decisions. Andrew Hauser does not make the decisions. The Board makes the decisions. And for us, for me, or for Andrew, to go out there and try and suggest to the market that this is what the Board will do is entirely putting the cart before the horse. The Board makes the decisions. And so all we can do, I think, is highlight the sorts of things the Board is looking at, so that's what I've tried to do today. I've talked about where Board members see the downside risks, where Board members see the upside risks, and let the market make their decisions. But this is a Board decision, and the idea that there might be a strategy as information comes out for me to go and nudge, nudge, wink, wink to the market, this is what we might do, that would be entirely inappropriate. So, what the strategy is, and I think Kevin Warsh has made these comments as well, is not about providing forward guidance to the market or telling the market what we might do. It's basically saying, "These are the things we're interested in. These are the concerns we have, the risks we see. Market, you go out and you look at those things, and you interpret that according to what you think our reaction function might be."

Phillip Hudson

Governor, Phillip Hudson from the Financial Review. Given that you don't do Board guidance, I'm wondering if I could encourage you to think about a bit of rearview mirror and in the context of always trying to do your best. Hindsight's a marvelous thing, it's a power we wish

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we all had. Reflecting on the interest rate cuts last year in May and August, and what you now see as the domestic inflation issues, do you now look back at those rate cuts and feel that perhaps one or both were a mistake?

Michele Bullock

So yes, you're right. Hindsight is a wonderful thing. And when I reflect back on that time, many of you might have forgotten, people were complaining that rates were really hurting. We were seeing consumption decline. We were seeing the inflation rate decline. It came back into the band briefly. And then what happened was a few things happened. First of all, the concern over what the tariffs would do and the impacts on trade, that all faded. Everyone thought that the world economy was going to be very badly impacted. Didn't turn out it was. Turns out that the rate declines and increases in real income meant consumption increased more quickly than we thought it would. So, I wouldn't say it was a mistake. I would say what happened was, with hindsight, if we saw what was coming, if we saw that, actually, you know what? Those Trump tariff things, they're not going to do anything. Don't worry about them. If we saw that consumption was going to do better than we thought it was going to do, then would we have lowered? Maybe not. But I think it's very difficult to say with hindsight. I can remember at the time people telling us, "You're not cutting quickly enough." Again, with great certainty. So hindsight is difficult. I wouldn't say it was a mistake, but I would say that if we had the crystal ball and we knew what was going to happen there, then maybe we would've been a bit more cautious.

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