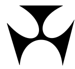 RESERVE BANK OF AUSTRALIA

Speech

The RBA's Dual Mandate – Inflation and Employment

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Governor

Anika Foundation Fundraising Lunch

Sydney – 24 July 2025

I'd like to begin by acknowledging the Traditional Custodians of the land on which we meet and pay my respects to Elders past and present.

It's an honour to join you today at the Anika Foundation fundraising lunch. The Foundation supports vital work on youth mental health research, awareness and education, in which I have a strong personal interest.

I'm proud to uphold the tradition of the Reserve Bank Governor speaking at this event to support an organisation that is making a real difference.

My remarks today centre on the dual objectives of monetary policy: 'price stability', which means maintaining low and stable inflation; and full employment, which I will talk about in more detail later. [1]

I'll explore how these aims have shaped the Monetary Policy Board's strategy in recent years. [2] As part of that, I will reflect on the relationship between the labour market and inflation over that time, and how conditions in the labour market have evolved to the present day.

Now is a good time to revisit these subjects, following the agreement two weeks ago of an updated *Statement on the Conduct of Monetary Policy*, which sets out the common understanding of Government and the Board on key elements of the monetary policy framework.

But before I turn to that, I'll start with an update on recent monetary policy settings.

Recent monetary policy settings

If you cast your mind back to 2022, you will recall that inflation was higher than it had been in decades, peaking at 7.8 per cent at the end of that year. It was this rise in inflation that required a tightening in monetary policy over 2022 and 2023, with the cash rate increasing from almost zero to 4.35 per cent over that period.

Over the past couple of years, we have made meaningful progress in bringing inflation down. Higher interest rates have been working to bring aggregate demand and supply closer towards balance. We expect headline inflation in the June quarter to be in the lower half of our 2–3 per cent target range – although that partly reflects the ongoing effect of temporary cost-of-living relief. As that effect unwinds, we expect headline inflation to pick up to around the top of the band at the end of this year and into the first part of 2026.

To help look through temporary factors like this, we also pay close attention to trimmed mean inflation (published quarterly), which provides a good guide to underlying inflation trends.[3] This measure has also been easing, but it's still a bit higher than headline inflation. At 2.9 per cent in the March quarter, year-ended trimmed mean inflation was under 3 per cent for the first time since 2021.

We expect trimmed mean inflation to fall a little further in the June quarter in year-ended terms. However, the monthly CPI Indicator data, which are volatile, suggest that the fall may not be quite as much as we forecast back in May.[4] We still think it will show inflation declining slowly towards 2½ per cent, but we are looking for data to support this expectation.

Encouragingly, as inflation has slowed, the labour market has eased only gradually and the unemployment rate is relatively low. I'll have more to say on developments in the labour market later.

Since February, we have reduced the cash rate by 50 basis points. The Board continues to judge that a measured and gradual approach to monetary policy easing is appropriate. Global economic and policy developments have so far been largely in line with our baseline May forecasts, and the likelihood of a severe downside 'trade war' appears to have diminished. But there is still uncertainty and unpredictability in the global economy. The Board's view is that monetary policy is well placed to respond decisively to adverse international developments if needed.

Our longstanding strategy has been to bring inflation back to target while preserving as many of the gains in the labour market as possible. This approach meant that interest rates in Australia did not rise as high as they did in some other economies, and so we may not need to lower them as much on the way down.

We also know that Australians continue to feel cost-of-living pressures, with the average level of prices now notably higher than it was just a few years ago. That is why we want to make sure that inflation remains low and stable from here on in. Low and stable inflation is good for households, good for jobs, good for communities and good for the economy.

Our goals of price stability and full employment generally reinforce each other

Stepping back from current policy settings and the inflationary episode of recent years, I now want to reflect on the framework that guides the Board's decisions more generally.

The RBA's monetary policy objectives are set out in legislation. [5] Our overarching goal is to promote the economic prosperity and welfare of the Australian people, both now and into the future. For the Board, this means setting monetary policy in a way that best achieves both price stability and full employment. [6]

These goals are often referred to as our 'dual mandate' and are longstanding objectives of the RBA.

Over time, low and stable inflation and full employment go hand in hand. Low and stable inflation – or price stability – is a prerequisite for strong and sustainable employment growth because it creates favourable conditions for households and businesses to plan, invest and create jobs without having to worry about inflation. [7] So our two objectives are complementary over the longer term. [8]

Even in the shorter term, the two objectives often go hand in hand. For example, when there are ups and downs in demand, inflation tends to rise as the labour market tightens, and fall as it loosens. So a monetary policy response that returns inflation to target will, in time, also move the labour market towards full employment. [9]

But sometimes there are developments that push up inflation at the same time as they weigh down demand – and therefore employment. This includes sharp increases in energy prices and supply

disruptions that push up prices more broadly. As I'll discuss in a moment, such 'negative supply shocks' were part of the reason for the high inflation of recent years, though they were not the only factor.

In the face of supply shocks that push up prices, we need to think about possible trade-offs: how do we balance our two goals in these circumstances?

If a supply disruption is temporary and modest, monetary policy should mostly 'look through' it. Raising interest rates makes little sense if inflation is expected to ease once temporary supply disruptions are resolved – it would only weaken the job market.

By contrast, when a supply shock is likely to have a longer lasting effect on the economy and inflation there may be stronger grounds for monetary policy to respond.

A key concern here is that the longer inflation stays high, the more households' and businesses' expectations for future inflation could increase. This could, in turn, lead to second-round effects on inflation as households and businesses build higher expectations into their decisions.

But if households and businesses instead maintain a high level of confidence that the Board will do what is needed to return inflation to target, inflationary shocks will have less effect on price and wage setting. That means we can look through adverse supply shocks to a greater extent – even those that we think could last for some time.[10]

This highlights another important way in which our objectives are complementary – and it's something I want to emphasise. Having a strong track record of low and stable inflation puts us in the best possible position to support employment. It means there is less risk of inflation getting out of control, which allows inflation to be brought down with smaller increases in interest rates than otherwise. This in turn keeps the labour market closer to full employment.

That is why maintaining well-anchored inflation expectations is a key benefit of inflation targeting frameworks, as I will return to in a moment, and why it is important that inflation returns to be sustainably in our target range.[11]

The dual mandate in the post-pandemic period

So how did this dual mandate shape our policy response to the post-pandemic rise in inflation?

First, the starting point for our monetary policy settings mattered – these were of course very accommodative, with the cash rate effectively at zero.

Second, the causes of the pick-up in inflation were crucial. The initial pick-up in inflation was partly driven by some of the supply factors I have mentioned. Temporary disruptions in global supply chains during the pandemic led to strong increases in goods prices, and the war in Ukraine caused a spike in global energy prices.

But it was also clear that demand was part of the story. Accommodative fiscal and monetary policy settings in the pandemic period supported strong growth in demand for goods during lockdowns, and this demand strength interacted with supply constraints to amplify inflationary pressures. Then, as lockdowns eased and the economy started to recover, demand for services also recovered strongly. As a result, conditions in product markets and labour markets were very tight by mid-2022.

It was clear that we needed to increase interest rates to bring about a better balance between demand and supply, which would help to ease domestic price pressures. This need was reinforced by a concern that longer run inflation expectations could increase. If this happened, it would add to inflationary pressure and would ultimately require a larger policy response, and higher job losses.[12]

Although it was clear that we needed to raise interest rates to slow demand growth, it was less clear how quickly demand pressures needed to ease, how persistent global shocks or their effects would be, and how much we could afford to 'look through' those effects.

The Board could have chosen to match the more significant rate increases of some other central banks to bring inflation back to target more quickly. But this could have risked a sharper and more persistent increase in the unemployment rate.[13]

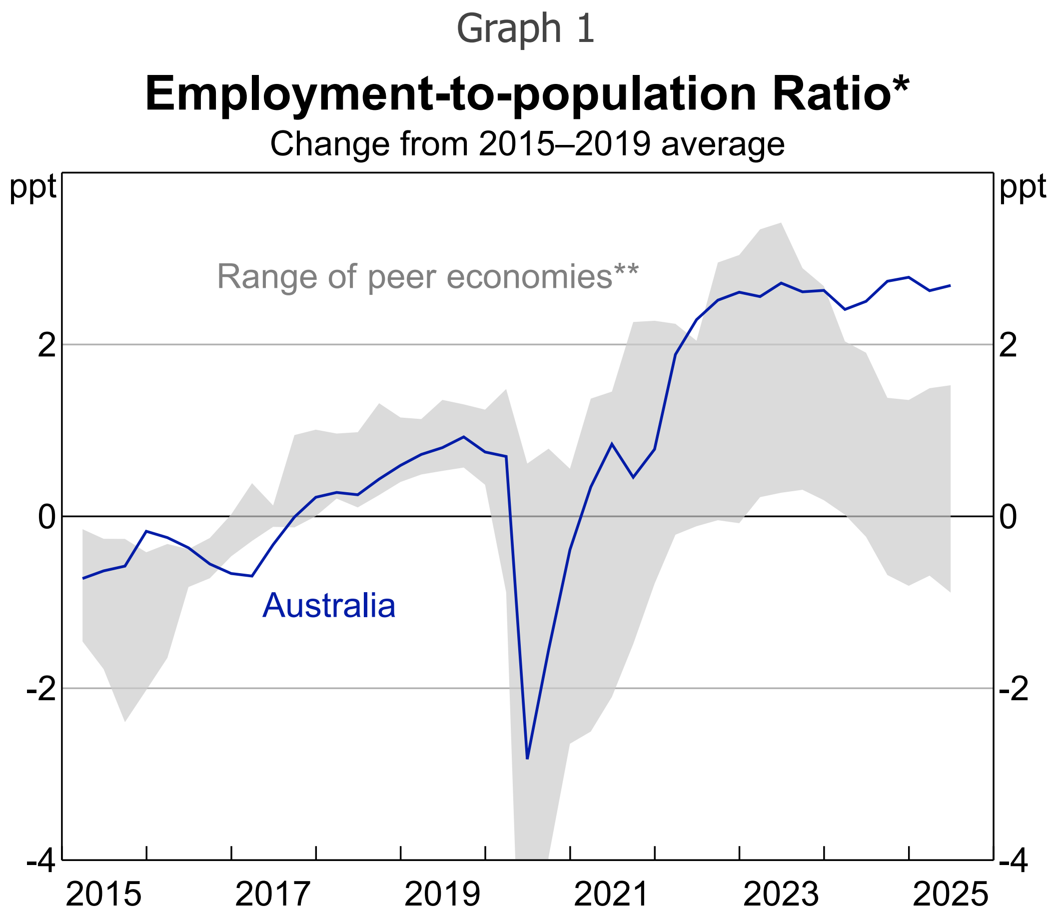
Instead, the Board judged that a measured approach was consistent with its dual mandate. We increased the cash rate quickly at first – but we didn't go as high as some other central banks. We then held the cash rate for over a year, even as some other central banks started easing monetary policy. Throughout, we kept a close eye on longer term inflation expectations, to ensure they remained anchored to the target.

This strategy was designed to rein in inflation while also preserving as many of the gains in the labour market as possible – an example of our dual mandate in practice.

How has this played out so far?

Since the peak of inflation in 2022, headline inflation has declined by over 5 percentage points. And over the same period there has been a relatively modest easing in labour market conditions. The unemployment rate has increased from around 3.5 per cent in mid-2022 to 4.2 per cent in the June quarter this year, and remains low by historical standards.

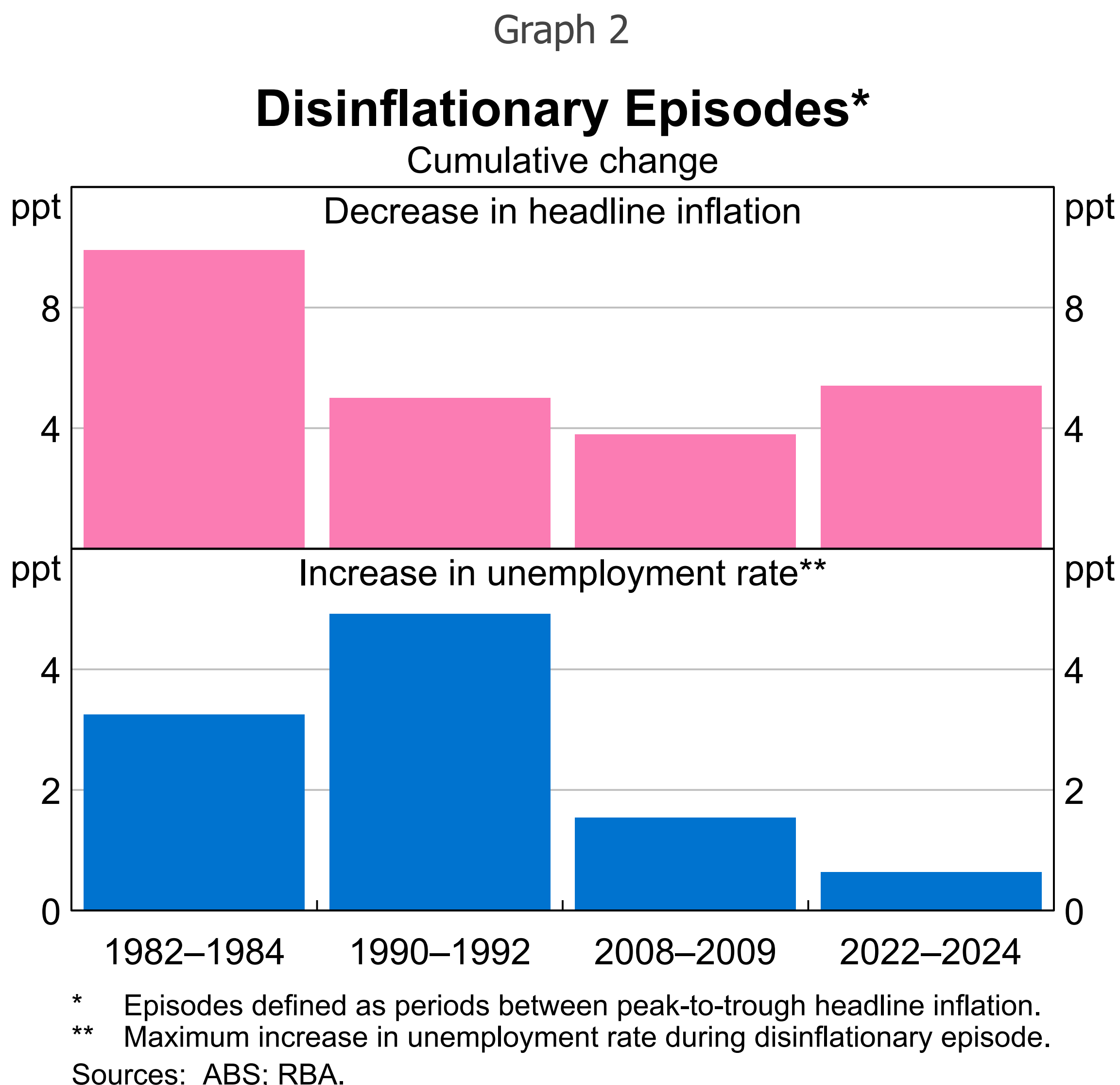
Crucially, the share of the population in work has remained around record highs; this is in contrast to declines in many other advanced economies (Graph 1).[14]



The fact that unemployment has remained low and employment growth has remained strong is remarkable – and very welcome.

And it is striking that the increase in the unemployment rate has been small compared with the large decline in inflation. This is especially true compared with previous episodes of disinflation in Australia (Graph 2).[15]

Graph 2

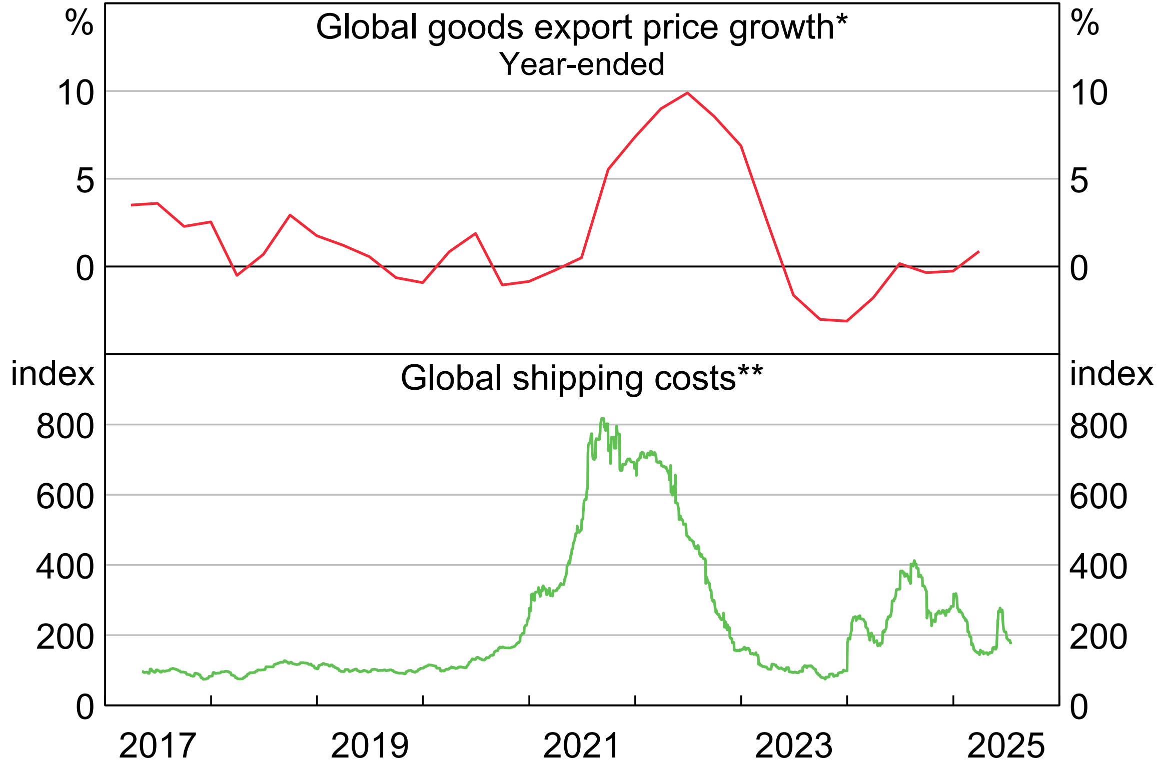


Why is this?

Part of the answer is that the supply-driven price increases that I mentioned earlier did turn out to be temporary, even if they flowed through to the economy over a long period of time (Graph 3).[16] As these supply disruptions eventually subsided and oil prices declined, price pressures eased.

Graph 3

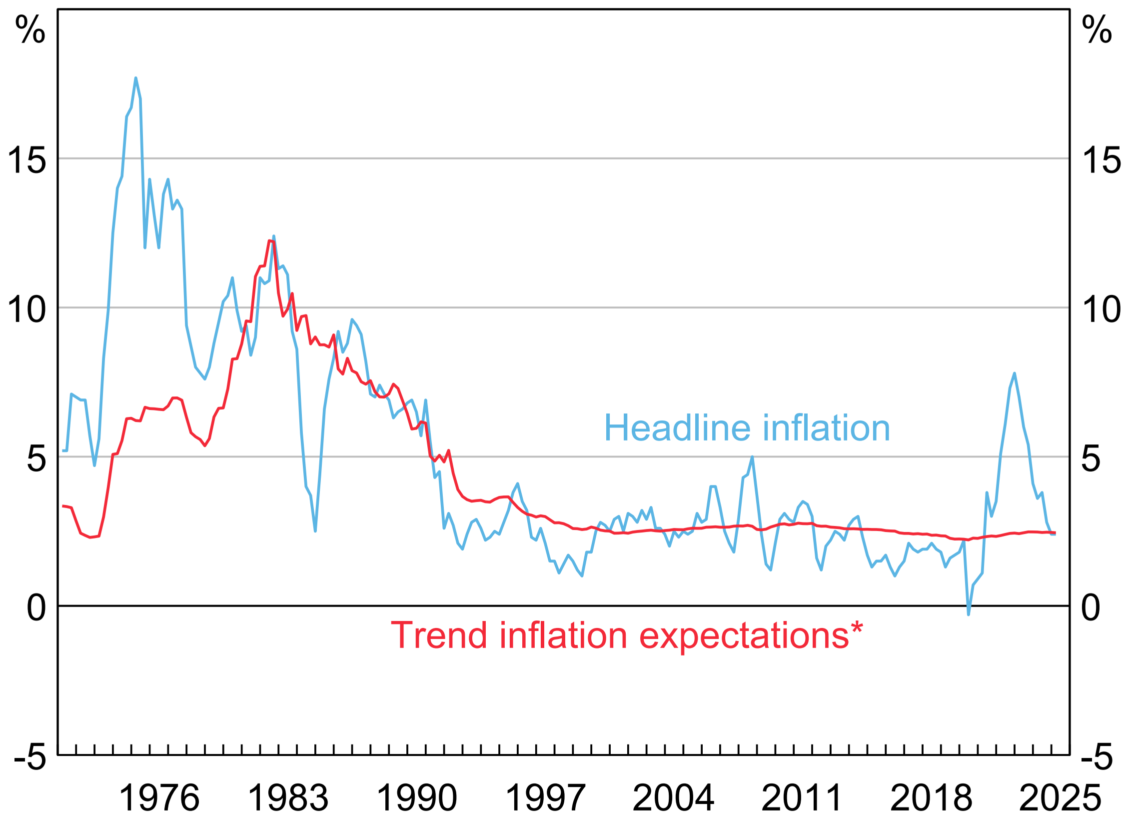
Global Price and Supply Indicators



* Excludes fuel; import-weighted.
** Freightos global container index; 2017–2019 average = 100.
Sources: LSEG; Oxford Economics; RBA.

And also as I mentioned earlier, the Board were very alert to the risk that inflation expectations could increase. Crucially, that did not happen.[17]

Instead, households and businesses continued to believe that inflation would return to the target range (Graph 4). This limited any so-called ‘second-round’ effects on inflation, which allowed inflation to fall without a sharp rise in the unemployment rate.



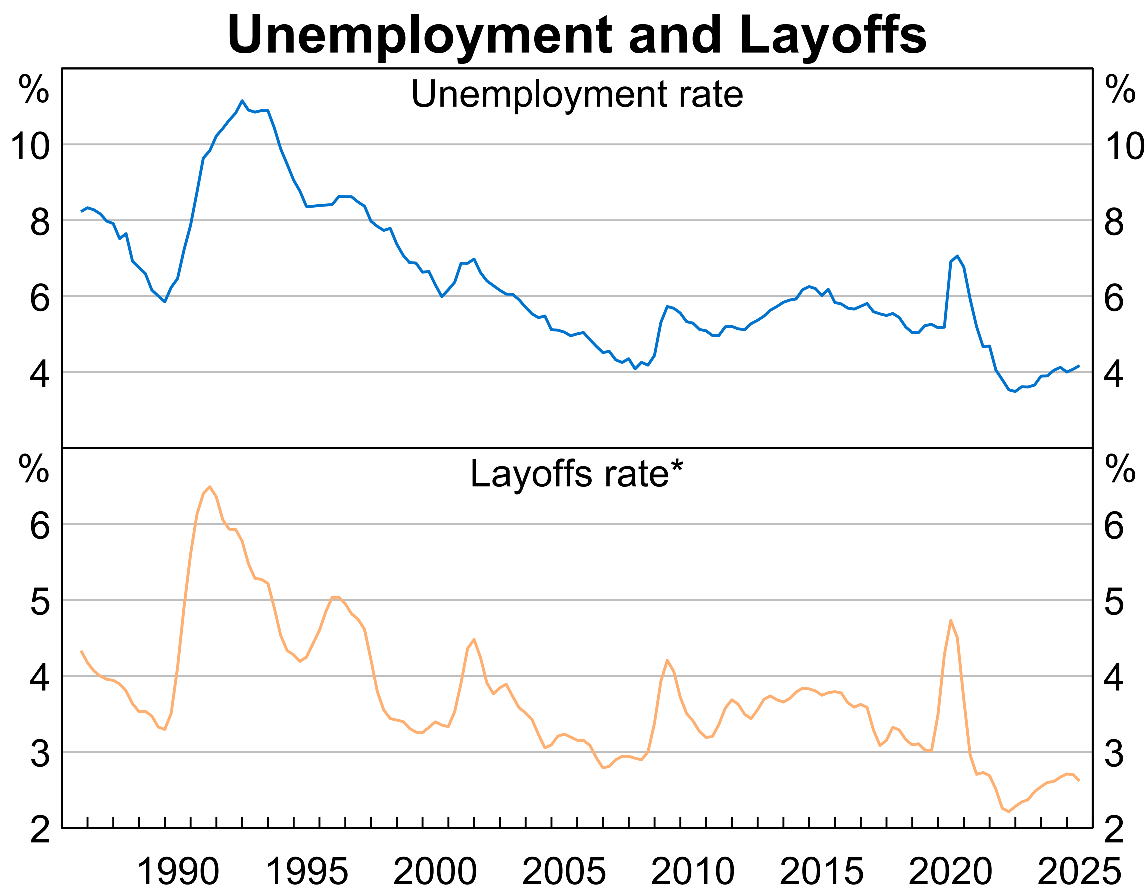
This demonstrates the point I made earlier about how our two objectives can be complementary. A history of low and stable inflation, and the resulting public confidence in the inflation target, enabled the Board to adopt a strategy that protected the labour market as much as possible while still ensuring inflation came down.

How has the labour market adjusted in the current cycle?

I've already highlighted the comparatively modest increase in the unemployment rate over the past few years from a very low level, and that overall employment has continued growing. The rate of layoffs has increased only a little and remains at a remarkably low level by historical standards (Graph 5). The share of workers who are long-term unemployed also remains low.

These are good outcomes – as job losses are an especially painful way for the labour market to adjust to tighter monetary policy. Losing a job can be one of the most stressful events in someone's life, and it can have far-reaching implications for families and communities.

Graph 5



* Layoffs as a share of filled jobs; Henderson trend.
Sources: ABS; RBA.

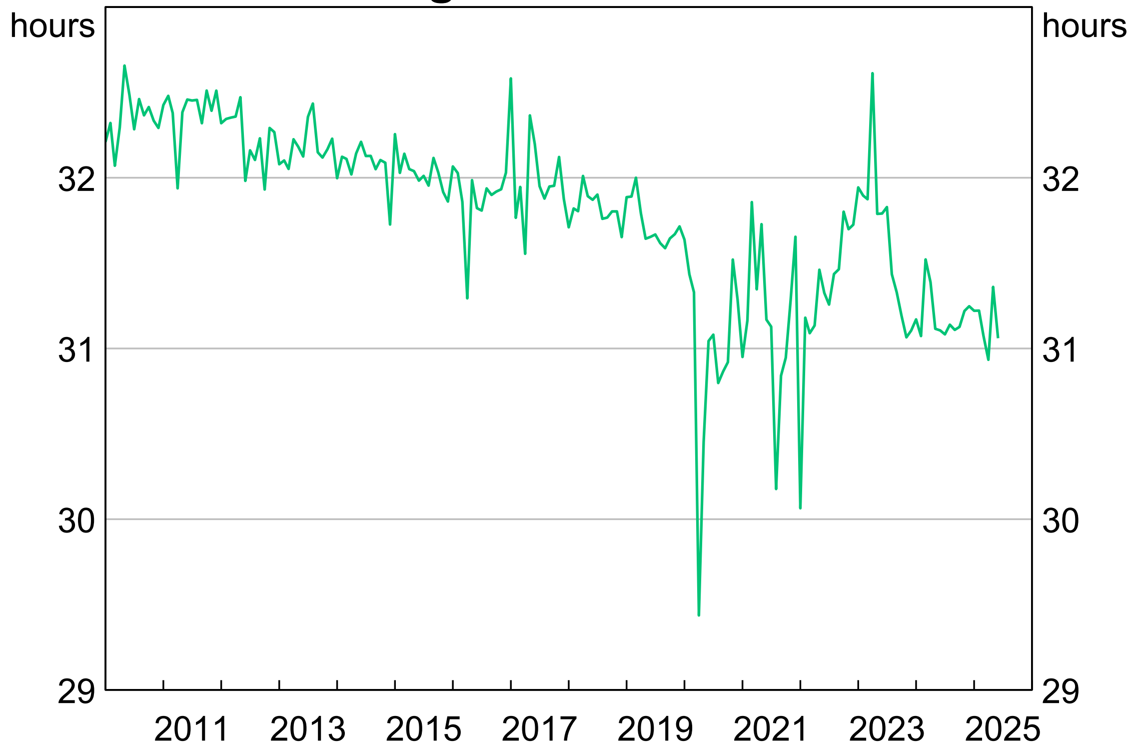
While the unemployment rate has risen since its trough in late 2022, including an uptick in the month of June, there has been significant jobs growth in aggregate. Instead, the labour market has adjusted in some other – less disruptive – ways.

First, job vacancies have declined from a very high level as firms have slowed hiring activity.[18]

Second, the average number of hours that people are working has declined. This follows a period when hours had increased sharply due to very strong demand for workers (Graph 6).

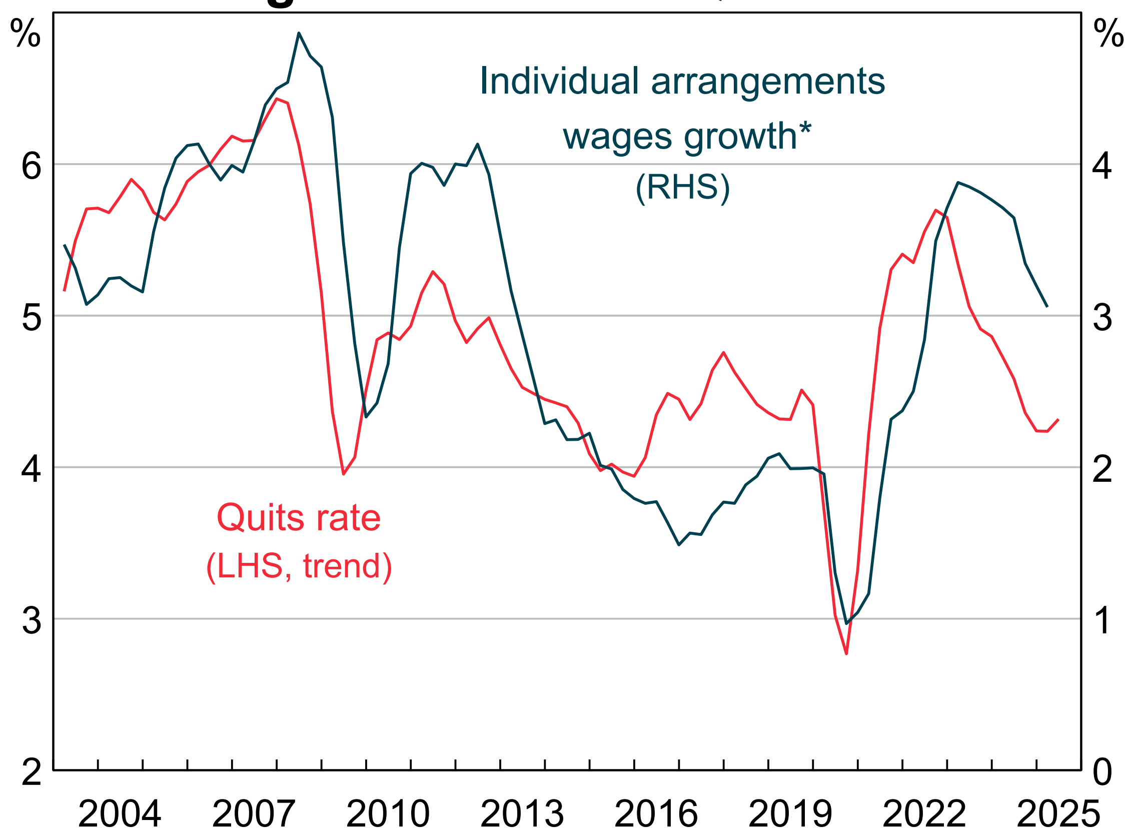
Having your hours cut is tough, but it's often preferable to losing a job altogether. And it's worth noting that some of this decline in hours has been voluntary, especially over the past year or so.[19]

Graph 6



Third, there has been a decline in the share of workers voluntarily leaving their jobs (the ‘quits rate’).[20] This suggests there could be less need for firms to compete to attract and retain workers, implying less upward pressure on wages growth than otherwise (Graph 7).

Graph 7



In summary, the gradual easing in labour market conditions has so far been most evident in fewer job vacancies, reductions in hours worked and declining rates of voluntary job switching.

These shifts aren't without their challenges, but they all tend to be less disruptive than outright job losses.

I should note that the RBA can't wave a magic wand and control how adjustments in the labour market play out. Interest rates are too blunt an instrument for that, and I am not here to claim credit for the fact that the adjustment has so far taken place in a less costly way.

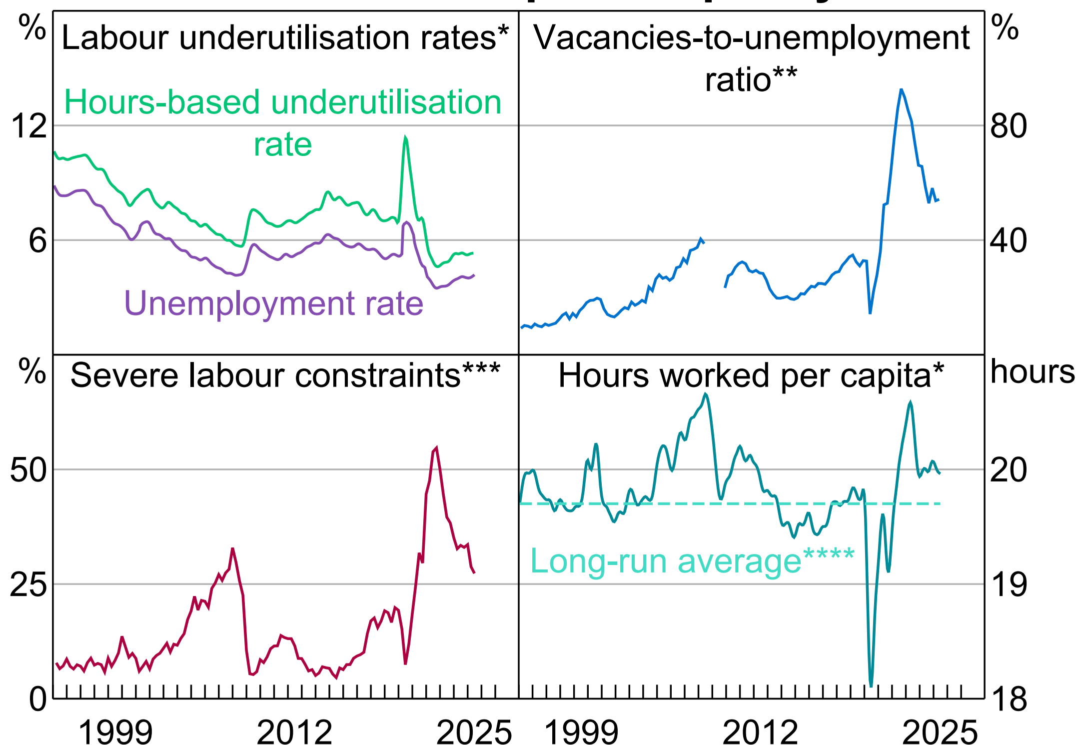
By the same token, because the labour market can adjust in different ways, we do not 'target' any one adjustment mechanism, such as a set number of job losses, as we seek to bring demand and supply back into balance. Indeed, there have been substantial job gains over this period.

Are we close to full employment?

Let me bring the labour market story up to date.

Our overall assessment at the time of our most recent forecast in May was that there was still some tightness in the labour market, and we expected it to ease a little over the remainder of this year.

A broad range of indicators underpinned this assessment, and in many ways not much has changed. Firms still report significant difficulties finding labour, even if this constraint has eased somewhat recently. The ratio of vacancies to unemployed people remains high (Graph 8).[21] At the same time, unit labour costs have been increasing strongly.



* Trend.
** The ABS vacancies survey was suspended between May 2008 and November 2009.
*** Share of firms reporting labour as a significant constraint.
**** Average since 1978.
Sources: ABS; NAB; RBA.

In May we also highlighted the possibility that labour market conditions could be less tight than we thought. As I noted earlier, the low rate of job switching may imply less upward pressure on wage growth than otherwise. And the quarterly rate of underlying inflation has recently been around a pace that would be consistent with 2½ per cent in annual terms.

For that reason, our May forecasts for wages growth and inflation incorporated some downwards judgement to reflect the possibility that there is more capacity in the labour market – and the economy more broadly – than is suggested by our usual assessment.

Last week brought us the latest labour market data, which confirmed that the unemployment rate increased in the June quarter. Some of the coverage of the latest data suggested this was a shock – but the outcome for the June quarter was in line with the forecast we released in May. [22] That on its own suggests that the labour market moved a little further towards balance, as we were anticipating. While the June monthly data showed a noticeable pick-up in the unemployment rate, other measures – such as the vacancy rate – have been stable recently. More broadly, leading indicators are not pointing to further significant increases in the unemployment rate in the near term. [23]

Nevertheless, the risks we highlighted in May remain. As always, there is uncertainty around how labour market conditions stand relative to full employment, and we will continue to closely monitor incoming labour market data. Our August *Statement on Monetary Policy* will provide a full updated assessment of labour market conditions and the outlook.

Concluding remarks

So, to conclude, our goals of low and stable inflation and full employment are closely linked and generally reinforce each other.

A critical feature of the recent high-inflation period is that longer term inflation expectations remained anchored. This has enabled the Board's monetary policy strategy of bringing inflation down in a relatively gradual way so as to limit the easing in labour market conditions.

Much of the rebalancing of demand and supply in the labour market that has occurred in recent years has been reflected in declines in job vacancies, hours worked and voluntary job switching. There are many ways the labour market can adjust. The RBA doesn't 'target' a specific outcome, like a certain unemployment rate or number of job losses, to reach full employment.

Monetary policy cannot control how the adjustment happens, but if it can occur while keeping employment strong – and even growing – that is a great outcome for workers, families, communities and the economy.

In the end, the best way to promote the economic welfare of Australians is by achieving low and stable inflation alongside full employment.

And that is what the Board is constantly striving for.

Thank you and I look forward to taking your questions.

Endnotes

[*] Thank you to Samuel Evangelinos, Kevin Lane, Mike Major, Tim Taylor and Michelle Wright for excellent assistance in writing this speech. Thanks also to many of my colleagues for their comments and contributions on an earlier draft.

[1] I discussed these objectives in my first speech as Governor in 2023: see Bullock M, 'Monetary Policy in Australia: Complementarities and Trade-offs', Speech at the 2023 Commonwealth Bank Global Markets Conference, Sydney, 24 October.

[2] I have used the phrase Monetary Policy Board here, although for some of this period it was of course the Reserve Bank Board.

[3] The trimmed mean rate is the average rate of inflation after 'trimming' away the largest price changes in the quarter (positive or negative). See RBA (2024), 'Box C: Headline and Underlying Inflation', *Statement on Monetary Policy*, August.

[4] RBA (2025), *Statement on Monetary Policy*, May.

[5] They were clarified by amendments to the legislation that took effect in March this year. In practice, however, our focus on price stability and full employment is unchanged. See *Reserve Bank Act 1959*.

[6] The latest *Statement on the Conduct of Monetary Policy* states that the RBA's goal is to achieve 'sustained' full employment, which is defined as 'the current maximum level of employment that is consistent with low and stable inflation'.

[7] Bullock, n 1.

[8] To expand on this, it is also the case that when the labour market is persistently deviating from full employment, inflation will persistently deviate from its target.

[9] The employment and inflation objectives are also complementary when there are influences that expand the productive capacity of the economy – like strong productivity growth, successful innovation and expansions in the capital stock.

[10] Of course, there are limits here. The longer a central bank permits inflation to remain outside target, the more likely it is that inflation expectations will shift. And if they do, it will require even higher interest rates and unemployment to bring

inflation back to target.

[11] Bullock M (2024), 'The Costs of High Inflation', Keynote Address to the Anika Foundation Fundraising Lunch, Sydney, 5 September.

[12] See Bullock, n 11.

[13] See, for example, Day I and K Jenner (2020), 'Labour Market Persistence from Recessions', RBA *Bulletin*, September; Cassidy N, I Chan, A Gao and G Penrose (2020), 'Long-term Unemployment in Australia', RBA *Bulletin*, December; Borland J (2020), 'Scarring Effects: A Review of Australian and International Literature', *Australian Journal of Labour Economics*, 23(2), pp 173–187; Kroft K, F Lange and MJ Notowidigdo (2013), 'Duration Dependence and Labor Market Conditions: Evidence from a Field Experiment', *The Quarterly Journal of Economics*, 128(3), pp 1123–1167; Cohen JP, AC Johnston and AS Lindner (2023), 'Skill Depreciation During Unemployment: Evidence From Panel Data', NBER Working Paper No 31120; Jarosch G (2021), 'Searching for Job Security and the Consequences of Job Loss', NBER Working Paper No 28481.

[14] Much of the strength in employment in Australia has been driven by the non-market sector, particularly the health care industry owing to higher demand for disability and aged care. For more on this trend and how it has interacted with the broader labour market, see RBA (2025), 'Box C: Health Care Employment and its Impact on Broader Labour Market Conditions', *Statement on Monetary Policy*, February.

[15] In Graph 2, the dates of the four episodes shown are Q3 1982 – Q4 1984, Q1 1990 – Q4 1992, Q3 2008 – Q3 2009, and Q4 2022 – Q4 2024. For more on this topic, see Ball L (1994), 'What Determines the Sacrifice Ratio?', in Mankiw NG (ed), *Monetary Policy*, The University of Chicago Press, pp 155–193.

[16] See Beckers B, J Hambur and T Williams (2023), 'Estimating the Relative Contributions of Supply and Demand Drivers to Inflation in Australia', RBA *Bulletin*, June.

[17] See Hunter S (2024), 'Inflation Expectations – Why They Matter and How They Are Formed', Speech to Citi Australia and New Zealand Investment Conference, Sydney, 16 October.

[18] For the economists in the room, this suggests that the economy has been operating on the steeper portion of the 'Beveridge Curve'.

[19] The share of workers that are underemployed has actually declined since mid-2024.

[20] This could reflect a combination of there being fewer opportunities for job switching (especially for workers in the market sector) and also reduced willingness by workers to take the risk associated with switching jobs, (consistent with weak consumer sentiment).

[21] See Hunter S (2024), 'Understanding the Journey to Full Employment', Keynote Address to the Barrenjoey Economic Forum, 11 September.

[22] RBA (2025), *Statement on Monetary Policy*, May.

[23] See Tan J (2025), 'How Useful are "Leading" Labour Market Indicators at Forecasting the Unemployment Rate?', RBA *Bulletin*, April.

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