

Sarah Hunter: Remarks - Australian Industry Group Executive Luncheon

Remarks by Ms Sarah Hunter, Assistant Governor (Economic) of the Reserve Bank of Australia, at the Australian Industry Group Executive Luncheon, Sydney, 20 November 2025.

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Before I begin, I would like to acknowledge the Gadigal people, the Traditional Custodians of the land on which we are meeting today. We are very lucky in Australia that our First Nations people protect our land and culture to hand down to future generations, and I would like to pay my respects to Elders past and present and extend that respect to any First Nations people here with us today.

One of the things I enjoy most in my job is interacting directly with all parts of the community in Australia; I always learn a lot and appreciate hearing a wide range of perspectives on what's happening in the economy, and how interest rate settings are affecting households and businesses across sectors and geographies.

While we are continuously assessing current economic conditions and the short-term outlook for the economy, we also undertake research and analysis on a wide range of structural shifts that shape the Australian economy over time.

This work deepens our understanding of current conditions and the outlook by how monetary policy transmits through the economy and how longer term forces may be changing the economy's fundamentals.

Therefore, today I thought I would highlight three key questions that we are currently researching and analysing. In all three cases, information and insights from the business community and our own liaison program can help shed some light on the answer. So, it's a pleasure to be here today, not just to share some of our work, but also to hear from you. I'm looking forward to our Q&A conversation in a few minutes and the opportunity to gather some fresh insights.

There is always change happening somewhere in the economy: a new sector is being developed as technology and its uses advance; the composition and preferences of households continuously change; and we're exposed to shifting global winds from evolving geopolitical relationships, financial markets and trading patterns. It's not enough for us to focus only on what's happening in the here and now, we have to look ahead to make sure we make good policy decisions today and in the future.

The first topic I want to touch on is, perhaps unsurprisingly for a central bank, inflation dynamics. Forecasting inflation over the past few years has been challenging – indeed we were materially surprised by the latest data, which came through stronger than we were expecting.

A particular focus of our work on inflation dynamics is to understand whether businesses have changed the way they set prices since the pandemic. Do firms now

look to pass costs through more quickly, if they can, given the recent experience of high inflation? How do firms' profit margins vary as economic conditions change?

To get a handle on these questions, we are making use of microdata sets from the Australian Bureau of Statistics (ABS) that allow us to look at anonymised individual firms' pricing decisions. We're hopeful that this research will tell us more about how businesses respond as their costs and conditions change, which will ultimately add to our understanding of inflation.

A second topic we're currently focused on is the economy's supply capacity. As my colleague Deputy Governor Hauser recently discussed,¹ the Monetary Policy Board is focused on setting monetary policy to keep demand in the economy in line with potential supply. If we can sustain this over time and expectations remain anchored, inflation will be within our 2–3 per cent target band and the labour market will be sitting at full employment.

Ideally, we would know what the economy's supply capacity is at any given point in time – it would be great if it were possible to measure this directly. Unfortunately, precisely measuring the economy's supply capacity is impossible – we can measure actual outcomes such as employment or economic output (GDP) but we can't, for example, measure full employment or the level of potential output.

We are particularly focused on ways to measure capacity in the labour market.² We think the labour market is currently a bit tight – in other words, it is operating slightly beyond what can be sustained with inflation at target, but this judgement is uncertain so we're actively investigating how close we are to full employment.

Within this line of enquiry, some of the questions we're currently investigating include:

- the extent of the upward trend in the number of women and older people in the workforce
- whether the easing in the cost-of-living squeeze (though we know it's still challenging) has resulted in some people choosing to dial back on work
- whether the match between the skills and expertise of those looking for work aligns with what firms are looking for (and if the speed of matching in the labour market is faster or slower now relative to the past).

As you can see, we have plenty of questions that we're actively digging into, and we'll have more to say on how we're thinking about full employment next year.

A third topic we're actively exploring is whether the transmission channels for monetary policy have changed in recent years, and if so how. As I've spoken about previously,³ there are a number of channels through which policy impacts the economy, and the importance of each channel depends on a range of factors. For example, the impact of a change in rates on household disposable incomes is crucially dependent on how many households are borrowers and how many are savers, and this can change over time. We are currently expanding and extending our tools and frameworks that will let us explore shifts like this.⁴

A key conjunctural question that relates to the transmission of monetary policy is how to think about the way the housing market has responded to the interest rate cuts that have already occurred. Thus far the response has been a little stronger than we anticipated, with activity in the established housing market picking up slightly more than expected in recent months. As outlined in the November Statement on Monetary Policy, we are actively watching how this unfolds from here, and what that might mean for our inflation and labour market objectives.⁵

The three issues I've highlighted today are just a glimpse into the broader research agenda our economists are actively exploring at the moment. We are constantly curious about how the economy is shifting and changing beneath the surface, the drivers of these undercurrents, and what they collectively mean for policy settings.

Hearing from businesses, not-for-profit institutions and individuals across the country is a vital source of information for this research and analysis. That's why conversations like today's matter. Your insights – from the ground level – help bring our analysis to life. So, thank you for being part of that process. I'm looking forward to our discussion and hearing what's on your minds.

I am grateful to Michele Bullock, Andrew Hauser, Brad Jones, Tim Taylor, Michelle Wright, Jarkko Jaaskela and Suzanne Houweling for their comments and suggestions on earlier drafts. All remaining errors are my own.

¹ See Hauser A (2025), '[On the Rail or Off to the Races? The Outlook for the Australian Economy](#)', Speech to UBS Australasia Conference, Sydney, 10 November.

² This work builds on earlier analysis that can be found in Ballantyne A, A Sharma and T Taylor (2024), '[Assessing Full Employment in Australia](#)', RBA Bulletin, April, which is also discussed in S Hunter (2024), '[Understanding the Journey to Full Employment](#)', Keynote Address to the Barrenjoey Economic Forum, Sydney, 11 September.

³ See Hunter S (2024), '[Monetary Policy: Forward Looking and Data Dependent in the Face of Uncertainty](#)', Speech to the Australian Financial Review Banking Summit, Sydney, 18 March.

⁴ For some early work in this stream, see Chipeniuk K, G Nolan, M Nolan (2025), '[RDP 2025-04: HANK and the Transmission of Shocks to Demand and Supply](#)', RBA Research Discussion Paper No 2025-04.

⁵ See RBA (2025), '[Statement on Monetary Policy](#)', November.