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**JONTHAN FERRO, BLOOMBERG:**

Joining us now to discuss PIMCO's Tiffany Wilding, PGIM's Mike Collins, to the two of you. Thanks for being with us. And Tiffany, first of you, just how much of a split are you in the team at PIMCO seeing emerging here between the United States, Europe and China?

**TIFFANY WILDING, PIMCO:**

Yeah, well, the PMIs have definitely started to diverge with Europe being a lot worse. You know, now we knew that China also has a downside risk. I think the key issue with China is stimulus that the policymakers are gonna input into the economy. You know, does that lift all boats? We think probably “No” is the answer. It's gonna be much more targeted. And there's much more wiggle room for downside risks on Chinese growth moving forward. Now, despite all of that, the global, weaker global backdrop, the United States actually looks relative- and has been looking relatively resilient here. So, you know, certainly interesting dynamics happening in the global economy.

**FERRO:**

Housing, recovering, you mentioned GM, raising their outlook, 3M, a little bit early this morning, raising their outlook for the year as well. Tiffany, when it comes to US economic growth, have you been raising your outlook for this year and beyond?

**WILDING:**

Yeah, I mean, certainly things have looked a lot better than we thought they would at the beginning of this year. But I would say, though, that the US economy does face some headwinds into the back half of this year. The first one is just the fact that student loan payments are going to restart. We've seen some research that suggests that the people that didn't have to make those student loan payments actually took out more debt, thinking they never would have to. So those are increased interest cost burdens that the consumer is going to have to weather. And the other thing is, although regional banks' reporting season has been relatively good news, still, credit creation from these regional banks to the broader economy is slowing. And that's going to weigh on the small and mid-sized businesses, which are the growth engine from a labor market perspective. So we think these things are in the back half of the year. They're still going to put weight on the US economy resulting in it's slowing.

**FERRO:**

Tiffany, you talked about the prospect of weakness in the second half. And student loan repayments are something a lot of people are focused on too. We've got this deceleration, this disinflationary trend in the backdrop as well, in the background. And Tiffany, I wonder from your perspective, can you identify just how much of that deceleration in inflation that we've witnessed, seen, so far experienced, has been a consequence of the tightening of the last 12 months from the Federal Reserve?

**WILDING:**

Yeah, I mean, frankly, I think very little of it has. So interestingly, inflation is always a lagging indicator, but it seems like this cycle, inflation is actually leading a little bit here. So inflation's coming down without an increase in the unemployment rate, which just suggests that the reason why inflation is coming down is because we're finally getting these pandemic-related shocks to inflation that are fading. And we think that's definitely going to be the case, even going into the September FOMC meeting. So there's going to be some nice tailwinds that the Fed is going to get on the inflation picture from a decline in used car prices, which were various idiosyncratically increased throughout the pandemic, but you also have shelter prices which are going to moderate. So that's going to be a tailwind for the Fed in the back half of this year. But the key question in our view is, what does wage inflation do? Because if wage inflation remains sticky, which we think that it could, as labor markets remain tight, you could actually see some re-acceleration in core inflation into 2024.

**FERRO:**

And then will the Fed tolerate that, Tiffany, because in your secular outlook, you guys, the team, Tiffany, you and others, suggesting that maybe they will tolerate “two point something”, maybe not 3 or 4, but “two point something”.

**WILDING:**

Yeah, I mean, certainly they, you know, I think they could definitely tolerate a little bit of above-target inflation. Ultimately, the question is, how much? They're not going to want to push the unemployment rate even higher, I think, if you do get inflation that's sort of running above 2%. They could continue to forecast it moving back to two as a result of monetary policy lags, but it kind of never really gets there. Now, in terms of the near-term trajectory of the Fed, we think, obviously, they're going to be hiking in July. Could hike again, maybe in the back half of this year, but maybe not, because inflation, the inflation picture could look good, but that doesn't necessarily mean they’re going to be cutting rates until they see, you know, more evidence that the labor market is weakening, and they're less worried about these sticky wage inflation trends.

**FERRO:**

Tiffany, the guide for tomorrow, the question I've asked repeatedly in the last week, is this Fed one and done or is there more to come? What do you think?

**WILDING:**

Well, I mean, clearly, my crystal ball is just as cloudy as yours. But ultimately, I think it's going to depend on inflation as well as the growth trajectory in the back half of this year. And we think that's going to look very different than the first half. So the first half, we saw growth re-accelerating on a real basis, as consumers had more real spending power, energy prices falling down. But we also saw inflation that was a little bit more sticky than many people were thinking. In the back half of this year, we think inflation really starts to decelerate. And as I mentioned before, there's some real headwinds to economic growth as a result of lower- tighter credit conditions and of course, the student loan issue. So we think that's probably going to be enough for the Fed to hold rate study after this meeting. But of course, things can change. And obviously, we'll get a lot more data between now and then to try to figure this out.

**FERRO:**

Tiffany, let's finish there. Michael Collins talked about the prospect of high real rates for longer. Do you see evidence that this economy can tolerate that?

**WILDING:**

Yeah, well, I mean, it's a little bit tricky because it all gets back to how monetary policy lags are working. You know, are they longer or maybe shorter this time? You know, various federal reserve officials have argued that maybe they're shorter. But I think that the balance of evidence that we're getting is that maybe they are a little bit longer. You know, maybe the pandemic related stimulus and some of the backlogs from bottlenecks is just creating much more runway. You know, so that suggests that maybe they do need to keep rates higher for longer. You know, but nevertheless, at some point, these kinds of stimuluses are going to run out. And the question is, what happens then? And it does that increase the potential for some nonlinear effects, i.e. the economy weakens in a kind of surprisingly strong way at some point in the future. Of course, economists are historically very terrible at pinpointing when recessions occur. You know, so take this for what it's worth. But, you know, ultimately, these are the kinds of things we're going to be looking at as we move into 2024.

**FERRO:**

We know how it's worked so far this year. Just keep pushing out the call. Just another three months. Just keep pushing it out. Tiffany, it's been wonderful to catch up. Thanks for being with us today and carving out some time in your schedule. Likewise, it's Michael Collins. A busy couple of days for those guys.