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**TYLER MATHISEN,CNBC:**

Welcome back to Power Launch, everybody. The Fed is raising rates by 25 basis points or a quarter of one percentage point. Interest rates are now at the highest level in some 22 years. Let's get some reaction and perspective from Richard Clarida, former Fed Vice Chairman and Global Economic Advisor at PIMCO. Richard, welcome. It's good to have you with us as always. I think in the statement the keyword here, or phrase maybe, is that the Chair and the committee referred to the extent of policy firming that may be indicated, not whether more policy firming is indicated.

**RICH CLARIDA, PIMCO:**

Exactly. That language was introduced in the June statement, and I think at the time was viewed as maybe a touch dovish, and then, of course, in the June meeting, we had the skip, but we had the more hawkish elevation of the dots. No dots today. But I think when you look at statements, there is a decision to leave wording unchanged, and I think I take that as the Chair wants to leave all of his options open for the rest of this year, and I'm sure we'll hear something on that in the press conference.

**MATHISEN:**

One of our panelists, a few moments ago, referred to the idea that the Fed was sort of behind the curve. Do you agree with that or not, or have they gotten out from that?

**CLARIDA:**

The Fed is not behind the curve. They have moved rates at a very brisk pace in the last 15 months into what they, and we think, is restrictive territory. They've pushed back on the idea that they're on the verge of cutting. I think the Fed is close to where they're going to need to be, to put inflation on a path down towards 2 percent. But again, the Chair, I think, will leave his options open to go at the September meeting, to skip the September meeting, to go later in the year.

**MELISSA LEE, CNBC**

In the statement, Rich, the Fed repeated that tighter credit is likely to weigh on activity. We haven't seen too much of that between the last meeting and today, and I'm wondering in terms of the long and variable lag effects, what the number one concern, the number one effect is in your mind. Is it tighter credit, and is that mainly from the banking crisis, or is it from the rate hikes?

**CLARIDA:**

I think it's a combination. I think with tighter credit, historically, there is a lag. You are actually seeing data that the number of loan applications being turned down has moved up. Loan growth is basically stalled. I would expect some of the additional regulatory measures that the Fed's going to put in place after SVB are going to tighten credit conditions. And if you look at other measures, including the SLOOS loan officers survey, that's also showing it. So these things do take time, but I do think we will start to see additional slowdown in the economy from these conditions.

**LEE:**

Knowing that the Fed and the FDIC will meet on Thursday to vote for an initial round on the new bank regulations, Rich, do you think that that is in mind — when Jerome Powell takes that podium and talks to reporters and talks to the world about what their intentions are, will that factor in knowing that there are those new capital requirements to come, and that will be an additional tightening on credit?

**CLARIDA:**

Here I would distinguish between two related but distinct measures. There are the so-called Basel III measures that they will be talking about. And those will be phased in and there will be a comment period. I think more front and center this calendar year will be after the SVB and related disruption in the spring, we heard commentary from Vice Chair Barr and other Fed officials that they're going to take a second look, an additional look at capital and liquidity standards for banks in that 100 billion plus category. And they can do that without an extensive comment period as they will with Basel III. They can do that under existing statutory authority. We would expect that to happen as well.

**MATHISEN:**

Where would you expect inflation and specifically core inflation to be, let’s say, a year from now?

**CLARIDA:**

Well, here, I think I'm going to say both what I expect and what I hope. I do think a year from now that the Fed's preferred measure, core PCE inflation, will be in the twos. I think there's uncertainty about the path there. We here at PIMCO are really optimistic that we're going to start seeing some real improvements in the inflation data because in particular housing and rental inflation has slowed down. And I think there is good reason to believe that we will have core inflation in July of next year somewhere in the twos. Probably north of two and a half, I would imagine somewhere between two and a half and three. And of course, the Fed in its June projections did have core inflation falling to 2.6 percent by the end of next year. So I think that's in line with their assessment as well.

**LEE:**

Rich, you've been inside the room. Does it irk the Fed, do you think, that the stock market has been rallying all year and is up 5 percent since the June meeting alone?

**CLARIDA:**

I don't know if I'd use the word irk. I think the Chair has been asked and perhaps even by Steve Liesman at recent press conferences. And I think his answer is, look, the market may be assessing a different probability than the Fed does of economic slowdown and the like. And so within range, look, I think they correctly — certainly when I was there, we really focused on broader financial conditions, lending standards, how much does it take to take out a car loan and the like. And those have clearly tightened. So I don't think they're going to get too caught up in the stock market here.

**LEE:**

All right. Rich, thank you. Rich Clarida.