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**JONATHAN FERRO, BLOOMBERG:**

I've been looking forward to this conversation all morning, Richard Clarida, The Global Economic Advisor at PIMCO and Former Federal Reserve Vice Chair and a good friend of this program for many, many years. Rich, wonderful to catch up with you, sir. I was thinking back to our conversation we had on the West Coast when PIMCO put out their secular outlook and you and I talked about what you called “the Fed, tolerating two point something”. Did you hear that from Chairman Powell in that news conference yesterday? Because I did.

**RICHARD CLARIDA, PIMCO:**

Well, yeah, I think that, you know, they've had a lot to do, they've done a lot of heavy lifting. Ultimately, they do want to get inflation to two, but they understand that if a year from now it's running in the twos, that will have been a big accomplishment and they can adjust rates down, they obviously don't want to tighten too much. And so, yes, I think “two point something” is kicking and alive, for sure right now.

**FERRO:**

Rich it's worth going over what they're basically telling us, explicitly. They're willing to cut interest rates with inflation above 2%. How controversial might that be?

**CLARIDA:**

I think they'll do a good job explaining it. What they're going to say is look, as inflation falls, if the Fed doesn't cut rates, it's actually tightening policy because policy is the real rate. So if the nominal rates aren't changed, inflation's falling, they're tightening and they won't think they need to add additional tightening if they think the inflation momentum's going in the right way. So that's the way that they will explain it.

**LISA ABRAMOWICZ, BLOOMBERG:**

The Fed was talking a lot about data dependency and how they really aren't giving forward guidance at this point. Did you get a sense of which data could really shift their views before September, even though we do get a slew of data, we've heard every time, they come out and say, “one data point a trend does not make.”

**CLARIDA:**

Sure. And I think, so they'll have two more inflation prints and two more labor market prints. But Lisa, I've thought for a long time that another important development that they're going to be following is what's going on in the labor market. They like the fact that the labor market is buoyant, but wages are going up faster than consistent with the 2% target. So I do think they'll be looking at the labor market data wage, employment cost index, as well as the price inflation.

**ABRAMOWICZ:**

So what would they have to see? How high is the threshold for them to hike again in September or if not September in November?

**CLARIDA:**

I think it's maybe a closer call than some of the market pricing right now. You know, they did write down two more hikes in June. We got one of them yesterday and an overwhelming majority of the committee thought in June that appropriate policy would call for one more hike. So I think certainly one more hike is in play at some point in the fall. You know, the chair said that explicitly. He also said that when he was in Europe a couple of weeks ago. So I don't think it's an overly high hurdle to get that hike. I don't think they necessarily have to do it in September. I will say this, whatever hiking they think they need to do, I think they want to get in this year.

**FERRO:**

Why this year, Rich, why is that important?

**CLARIDA:**

Well, I think there are a couple of reasons. I think that they think they're close to the end anyway, and inflation’s moving however slowly in their direction. And I think they would like to stay out of the spotlight in an election year. Now, we've had the Fed hike in election years, ‘04,1984 come to mind. And they'll do that if they really think that inflation really requires a much higher rate path. But I think this cycle is aiming to finish up sometime in the fall.

**FERRO:**

You know that this Fed is always criticized. The committee always faces criticism for something. Some of the criticism we heard from some guests in the news conference before the news conference. And after the news conference too was just how data dependent this Fed actually is. They took a break from hiking, Rich. Then they come back and hike again. And in the intimate period, we had inflation that actually improved. The inflationary backdrop seemed to get better and yet they hiked anyway. How data dependent are they?

**CLARIDA:**

Well, good, good point. Data dependent is a very elastic phrase, which has opened to various interpretations. I think on balance really going forward, especially after this meeting yesterday, they really are data dependent. As you know, I've said on your air before, most of this rate hike cycle, they've not been that data dependent in March of last year, they knew two things. The funds rate was at zero and inflation was at five going to six. That's all the data they needed to set off this, this very aggressive rate hike cycle. I do think that we do get close to the terminal rate that the margin is more data dependent. Although I agree, and I said on Bloomberg after that meeting, it was an awkward pause in June. That's for sure.

**ABRAMOWICZ:**

It's an awkward moment also right now, given that the Fed is removing recession as the base case. And we're looking at a soft landing. And yet there's a real question mark among analysts and real split among investors about whether inflation could re-accelerate as a result of the strength, the resilience, the wages. Where do you fall on this? Where do you think the Fed falls on this, given that they seem to be taking perhaps a bit more of a dovish stance?

**CLARIDA:**

Yes, quite, quite, quite frankly, Lisa, I was surprised in the press conference. I wasn't surprised to hear the chair say as he has many times that he thinks there's a path to a soft landing. That's okay. Sure, there's a path. But I was surprised that he invoked the change in the staff forecast. I don't think that was in the June minutes. And so he's obviously entitled to do that. But yes, not my base case, not our base case, but there is a scenario where we get some good news on inflation this fall because of falling rents, used car prices again falling. But if the Fed finds itself in March of 2024, with an unemployment rate of four and inflation rate of four, with some of that temporary good news behind them, they're in a very tough spot. So I do think it's a risk. It's not the base case. But certainly something, if I were still there, I would be assessing.

**ABRAMOWICZ:**

What do you think right now is the bigger risk, Rich? The idea of inflation, re-accelerating, and still being a problem, or the idea of recession and avoiding something more entrenched, which could happen if the Fed moves slower.

**CLARIDA:**

Well, personally, I do think that, you know, again, I'm in the private sector now. I do think that the Fed, the bigger risk for the Fed, is to declare a mission accomplished too early and find themselves next year having to restart the rate hike. So if I were there, it would skew me to getting in, you know, that additional hike this year. And I think some members of the committee will see it that way. Look, Lisa, the other thing is the Fed's own projection, which I agree with, has the unemployment rate rising by about a point by the end of next year. That would be very modest. That would probably be the most modest downturn we've had. Historically, as we know, the Sahm rule, whenever the unemployment rate rises by more than a half a point, it's ultimately declared a recession. So I actually think a truly non-recession outcome without any rise in the unemployment rate at all, is going to be tough. That's my personal view.

**FERRO:**

It would be phenomenal, if that materialized. I want to finish on this, if we can, Rich. No dissents. We talked about this yesterday. I've been talking about it for a while. You've been on the committee. Why do people, even when we know they might disagree with the decision, make the decision not to dissent? Why does that happen on the committee?

**CLARIDA:**

Well, you know, the Fed has been an institution that's been around for 100 plus years, and there are certain cultural norms. And certainly, it's been a very long time since you've had a governor dissent on a policy rate decision. If you go back to the Volker years, he had governors and his vice chair dissenting. But, you know, since Greenspan- but the Reserve Bank presidents can and do dissent, certainly during my time at the Fed, especially in 2019, we had three dissidents, and we had several presidents saying they would have dissented if they had had a vote. So dissents can happen. The other thing I should note is we've had a lot of turnover among the regional bank- district bank presidents. You know, the announcement of Jim Bullard, recently Esther George at Charlie Evans, Rosengren, you know, there's accumulated 50 plus years of institutional experience that's no longer in that room. I think that's also relevant.

**FERRO:**

Richard, thank you, sir, for weighing in. Thank you. Let's catch up. So next time in the studio, please, Richard Clarida there, the former Fed Vice Chair and now of PIMCO.