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**TOM KEENE, BLOOMBERG:**

The reason people listen from India is because of our guests, like Tiffany Wilding. She's the PIMCO, small bond manager on the West Coast, Chief North American Economist. We talked to her about this job's day. Tiffany, I think I've been guilty of saying, we're deep into August, deep into summer, and I got to move on to the weekend. And I know that's wrong, wrong, wrong. Why is this job report today important?

**TIFFANY WILDING, PIMCO:**

Yeah, good morning, Tom and Paul. Well, I think it tells you if you take a step back from all of the report for today or any one report and you just kind of look at the trends, basically what this report tells you is that the labor market is slowing. Obviously, the pace of job gains over the month was still pretty strong. It was in the broader context, but things are slowing. And I say this a little bit tongue in cheek, but the best linear trend- or the best predictor of payrolls lately has been a linear trend from the peak. And it's funny, but it is working. And when you look back historically, at the peak in payroll growth right before recession, that always tends to be the case. The labor market's kind of slowly decelerate until at some point, obviously you kind of fall off the cliff until recession. So we are certainly in that- I think the late stages where we're still slowly decelerating.

**KEENE:**

The first thing I did is I went back folks and I looked at the, you know, forget about the gyrations of early 2020; a gazillion this way, a gazillion that way. Paul, Tiffany nailed that by 500,000 each way.

**PAUL SWEENEY, BLOOMBERG:**

Sure, yeah.

**KEENE:**

It was amazing how she did that. And we're sort of back to Q4 of 2019, under 200,000 a little bit, not gloom and doom. But does it feel that way? Is this the first report, Tiffany Wilding where we're beyond COVID?

**WILDING:**

Well, I mean, I think that it's kind of interesting that we had 14 reports, I think, that- where the economists just got it wrong, to the downside . In other words, the economists were too low. The labor market was much stronger than expected, but these last two reports, you know, the economists have been too high. So it does look like, you know, we have kind of moved, we've pivoted away from, you know, there's just crazy strength within the labor market. Now there's much more evidence, I think, of some slowing relative to what people are expecting.

**SWEENEY:**

So how do you think, ultimately, our Federal Reserve will view a print like today, Tiffany?

**WILDING:**

Yeah, I mean, it's really kind of a Goldilocks print for them. I mean, ultimately, the thing that they're really waiting on, I think, at this point, is some labor market cooling. You know, they need to see that. We're obviously seeing inflation that's really starting to come down. We expect inflation to continue to come down over the next six months or so. You know, so they're really just kind of waiting for the labor market to cool. And we are starting to see that, obviously. You know, now the question is still remaining, you know, how much does the unemployment rate, will it, how much will it rise and how much does it need to rise in order to really bring inflation back down to 2%. You know, but the other kind of key issue here is, you know, maybe the Fed doesn't really need inflation back down to two. Maybe they're okay with it hanging a little bit above that for a period of time, you know, in which case, you know, they can be okay with, you know, kind of labor markets where they are, where they are and wages where they are.

**SWEENEY:**

So Tiffany, we have a Fed that's been very clear in its messaging. The job number one is to fight inflation, but of course, some folks, the concern on the flip side of that has been, “OK, but what does that do to our economy in terms of potential recessionary pressures?” It seems like the recessionary call has abated somewhat over the last several weeks. Are you in that camp?

**WILDING:**

Yeah, I mean, certainly I think that the incoming data has suggested that inflation risks are lower. You know, the reacceleration that we got in the first half of this year, according to the GDP data, was just much more than anybody expected. You know, although there's some headwinds to the economy in the back half of the year, if you just start from a higher level, you know, maybe you don't decelerate as much. So we still do think the economy slows in the second half. You know, you do have dwindling savings, you know, banks are not really increasing their loan book. You know, all of those things are going to be headwinds to the economy and just amid tighter financial conditions, you know, but nevertheless, you know, things have been resilient.

**KEENE:**

I learned about the BTMM screen today on the Bloomberg money market, short-term money market, and treasury money market screen. And Tiffany, I found only one statistic that I could round up to 6%, that was three month Libor, which I know is a pretend number now. They changed the rules, Paul, I don't like that at all. It was good enough back to Mary Poppins. Mr. Banks and, you know, the whole thing. Tiffany, is your shop when they listen to you, which is rare because, you know, you're an economist, but your shop, are you beginning to model around it up to 6% space? I mean, dare I say we're beginning to look six-ish?

**WILDING:**

For? Just for–

**KEENE:**

Short-term paper, pick your number, pick your medicine, but, you know, all of a sudden, 5.8 is a new 6%. Are we there yet?

**WILDING:**

Yeah, well, you know, I think it's, you know, it really depends on wage inflation, I think, and how sticky that is. You know, and if it remains sticky, you don't have a labor market that's cooling off, then that could mean that the Federal Reserve just has to do a little bit more in order to get that cooling that it wants and needs to bring back the inflation goal. So I definitely think that there's a really valid scenario that the markets are probably pricing and trying to understand the probability of where the Fed has to do more next year. You know, maybe throughout the second half of this year with inflation cooling off, you know, as a result of pandemic-related factors fading, you know, they're, you know, there's some pause, but next year, if things re-accelerate, you know, you could certainly see the Fed doing more.

**KEENE:**

At the long end of the curve, look at 30 year, the bank rate 30 year mortgage, Paul Sweeney's broken out to new highs. Today, 7.3X%, I can't remember the number, exactly. In the short-term space, my radar’s always like, okay, what's no one looking for? I don't hear anybody talking about 6% short paper, you know, I'm trying to figure out what the ramifications are if we get 5.8-ish. 5.92-ish. We're not there yet.

**SWEENEY:**

No, we've got a Fed that, you know, we'll see if it pauses here. One of the things, you know, I looked at the employment data today, Tiffany, and I'm wondering if it's something structurally changed here that 3.5% unemployment, the days of a mid-to-high fours to a five, are those days over for some reason, or is that, or are we just in an unusual post-pandemic kind of labor market here?

**WILDING:**

Well, I mean, I think there's actually a lot of building evidence that, you know, the underlying level, the neutral level in the labor market, what folks have historically called “Nehru”. I actually think that there's some evidence that it could even be higher, as opposed to lower. I think you're suggesting it might be lower, but, you know, there's more, potentially, there's evidence that there's kind of more mismatch in the labor market, and that's because of the pandemic. You also had this wave of retirements. Older people, they just tend to have lower levels of unemployment, just because older people stay in their jobs, they don't move around, and they're just more employed. So there's demographic shifts within the labor market, as well as some of these pandemic-related effects, could actually have meant that we're at five percent as more of a neutral level now, as opposed to four. You know, and so that suggests that we are really overheated within the labor market. You know, but of course, you know, again, only wages will tell. Like we have to see where wages and inflation really kind of bottoms out, and it does look like it's moving sideways here, as opposed to more moderating down.

**KEENE:**

I mean, you go get your morning- we're gonna be- it’s gonna take too long. Tiffany Wilding, thank you so much. I got like, she knows everybody, like her whole coffee latte in the morning. It's all the Screen Actor's Guild people. She's hanging out with A-List.

**SWEENEY:**

Yep, out of Newport Beach.

**KEENE:**

Yeah, Newport Beach. It's all A-List. I was gonna ask her about the strike out there. Tiffany Wilding, thank you so much with PIMCO on our labor economy.