**MEDIA: Television**

**STATION: CNBC**

**MARKET: National**

**DATE: 2023-08-09**

**TIME: 11:04 AM ET**

**PROGRAM: Squawk on the Street**

**SUBJECT: Richard Clarida - US Economy**

**PAGE COUNT: 5**

**SARA EISEN, CNBC:**

The market is looking ahead to inflation numbers this week. Tomorrow, CPI, PPI, and wholesale inflation on Friday. That could spell out the Fed's next move. Our next guest expects a slight re-acceleration for the July number, but says any inflation improvement doesn't mean a soft landing and expects a recession by later this year or early next. Joining us now is former Federal Reserve Vice Chair, PIMCO Global Economic Advisor, Rich Clarida. It's good to see you, Rich, welcome back.

**RICHARD CLARIDA, PIMCO:**

Hi, Sarah, good to see you.

**EISEN:**

So what are you expecting tomorrow? You think we're going to have a problematic number?

**CLARIDA:**

We're looking more at the core number. The headline number could actually pop up just because of the base year effect, but we got a good print on core in the last report and we expect a similar print. We could be wrong, but a core number in the range of, say, two and a half percent or so annualized and that would certainly be better than we've been having.

**EISEN:**

So what will that mean for September for the Fed, or November?

**CLARIDA:**

I think the Fed is truly data dependent now. I think that the Chair, for example, in his press conference emphasized that they could pause in September, they could hike. I think they'll want to keep their options open. In particular, Sarah, they don't want to declare a mission accomplished too soon, but also they can't be tone deaf. I think they do need to acknowledge that the data is improving, especially on the price inflation side, less progress on the wage inflation side.

**EISEN:**

So why wouldn't they just keep hiking? Market's not expecting another hike for this year.

If there's still work to do on inflation and they haven't destroyed the job market, far from it, third quarter GDP from the Atlanta Fed is tracking over four percent, why not just keep going?

**CLARIDA:**

Well, Sarah, I tend to agree. If I were there, I would be supporting getting another hike in this fall, but I'm not on the committee and some of the rhetoric, including recently from John Williams and Pat Harker, have indicated that they're receptive to the idea that they could be done. But I think you raise, as usual, a very important point. Inflation forecasting has not had a good track record in the last three or four years, including mine. And although there's a case for forward-based policy, right now, I hope they do look for inflation actually to come down durably and stay there. And so I think it's too soon to declare a mission accomplished.

**CARL QUINTANILLA, CNBC:**

Although Rich, you were asked about a month ago about some of the market wagers about a March cut, and you did suggest at least at the time that a cut in March or an indication that the March meeting would involve cuts makes some sense. Do you still feel the same way?

**CLARIDA:**

I do, and I'll tell you why. First of all, remember, the Fed baseline projections at the June meeting had that additional hike in the SEP dots. Indeed, the vast majority of the committee thought they would need that additional hike. And under that projection, they had inflation, core inflation next year falling into the twos. And so I think if we're sitting at the March meeting with core inflation on a year over a year basis in the twos, I think they will begin to entertain cuts. But that's only conditional on getting there. There's a lot of road to travel between here and then. But I think under that baseline outlook, that's a sensible thing to start thinking about for next spring.

**EISEN:**

So does that mean we're in recession by then?

**CLARIDA:**

Well, I think the odds of at least a technical recession as declared by the NBER are more likely than not. Historically, whenever the unemployment rate has risen by more than half a point, it's been declared a recession. My sense is that we're going to need to see some modest rise in unemployment to get wage inflation into the ballpark consistent with the inflation target. I'm aware that there are a lot of folks on the other side now who are calling for a very soft landing without a recession. Sarah, I'm in what I call a softish landing camp, where we get some rise in unemployment saying to the mid fours as what we're going to see in order to get inflation into where the Fed wants it.

**EISEN:**

Because there's this view in the market that we could get away with it with no recession, no landing, no soft landing, right? And the data continues to show that that might happen. If inflation continues to come down and the economy continues to perform, and yes, we're seeing rising delinquencies, but they're normalizing to 2019 levels, not a lot of distress out there. How probable is that?

**CLARIDA:**

Well, I think there is some likelihood. I would say more probable is what I just called the softish landing with a technical recession, maybe a quarter or two of negative growth. Again, everything in life that's worth thinking about in markets, at least in markets, if not in life, is a probability. And I think the odds of a really soft landing are less than those in really the scenario the Fed itself has described in the SEP projections. Although I understand why they don't want to use the R word, I do think that will ultimately be part of the adjustment here.

**QUINTANILLA:**

Hey, finally, Rich, I wonder if you're starting to think about how Jackson Hole gets framed, if they will sort of set this tone of, we're resolute until further guidance or if they can start to talk about some victories, I guess.

**CLARIDA:**

That's a great question, because obviously all eyes on Jackson Hole this year as in most years, I would expect the Chair to do a couple things. I would expect him to review the track record thus far of the rate hikes what they've delivered, the positive developments they're seeing in the data, but also I would expect the Chair not to use it as an opportunity to declare a mission accomplished, to emphasize they'll be resolute and the ultimate destination is getting inflation over time back to target. I think what he will want to avoid is being interpreted as reinforcing the mission accomplished theme the Fed has done because that would ease financial conditions. And of course, the other thing I do expect him to say as well is repeat what he said, which is that part of their adjustment will be to keep rates at a restrictive level for some time. So I think he'll make that point as well.

**EISEN:**

But it's not the sort of policy shift signal where we've seen in prior Jackson Holes. It doesn't sound like that.

**CLARIDA:**

I don't think there's a need for that, Sarah. Obviously last year was a historic event where the Chair used Jackson Hole to really reinforce and double down on the decisions at the June and July meeting to hike by 75. And keep at it until the job is done. He said a couple of times acknowledging some pain in the labor market. So I don't think the stakes are quite as high as last year. I think we'll see a fairly balanced assessment and set of remarks from the Chair.

**QUINTANILLA:**

It's interesting. The financial conditions element, I think about because of what the chair told Sarah in Portugal and that, the whole don't fight the Fed thing and asset prices. He's like, it's not how I think about it.

**EISEN:**

Yeah, he really had an opportunity, Rich, to shoot that down and he did not.

**CLARIDA:**

Well, Sarah, I think you are referring to your interview with the Chair? I believe it at Centra. Yeah, I watched it. Did not make it to Centra this year. By the way, I thought it was an excellent interview. And yes, I noted at the time that he did not take that opportunity as he has on past occasions. I think Chair Powell wants to leave the door open to an eventuality where they're done, where they need to hike some more with the context of keeping rates restrictive for some time and keeping a focus on the ultimate mission. But an important point for the Fed is they need to be consistent, but they can't be tone deaf. And if the data are improving, they need to acknowledge that. And so I think so far I give them high marks for that certainly.

**EISEN:**

All right, Rich, really good to have you here on such an important week ahead of inflation. Thank you.

**CLARIDA:**

As always, thank you.

**EISEN:**

Thank you, Richard Clarida up, former Vice Chair of the Fed.