**MEDIA: Television**

**STATION: BNN Bloomberg**

**MARKET: National**

**DATE: 2023-08-15**

**TIME: 01:35 PM ET**

**PROGRAM: Markets**

**SUBJECT: Tiffany Wilding - Canada Economy**

**PAGE COUNT: 4**

**MATT MILLER, BLOOMBERG:**

Well, I was talking to an analyst about this earlier, Drew Reading from Bloomberg Intelligence who said the problem is the comps are from a time when people were out there buying the big ticket items. They were getting the big Weber grills or decking for their patios. And now that that's done, it's not the kind of thing that you buy every month. You just do that every few years. And a lot of consumers have already done that with the excess savings they had. And the question is, how much is left? Let's talk about that right now because US retail sales rose in July by more than forecast. We saw increases in sporting goods stores, clothing outlets and restaurants and bars. But is this the very last of those savings? Tiffany Wilding is Managing Director and North American Economist at PIMCO. And Tiffany, this has been a debate for the last few months, but we're getting towards a point where consensus is that Americans at least have spent their excess savings. What do you think?

**TIFFANY WILDING, PIMCO:**

I definitely think that the statistics would suggest that we're getting close to that. We Americans — when I say we, I'm in Newport Beach, California. Americans have been spending more than they've been making on a real basis throughout this year. And that's been resulting in that excess savings that they built up during the pandemic on average to come down. So I think there's a couple of other things to keep in mind here as well about the retail sales report that came out today. It was probably boosted by promotions led by Amazon Prime Day. And what we've seen in the past is that you have other retailers that sort of follow on with those promotions. And that price discounting really drove volumes. So with that excess savings coming down, consumers are becoming more price-conscious. And that just means that overall demand is slowing.

**MILLER:**

What do you think about the inflation picture overall, Tiffany? Because the most recent data points we saw were pretty encouraging. On the other hand, the comps are going to start to get harder and we're looking at some things like airline tickets and healthcare costs that don't seem like they're going to go much lower.

**WILDING:**

It's kind of interesting from the Canadian statistics on inflation that we got out today. But in the United States, inflation has been falling pretty notably more recently. And we expect that to continue through the second half of this year. And really, the drivers of that from a high level call, these pandemic-related factors, they're just fading. So obviously we have the whole used car story in the United States, which was very idiosyncratic to the United States. That's coming off. You're seeing used car prices drop pretty dramatically now, as you've gotten supply that's coming back to the market. But in addition to that, you mentioned it, travel services, airline fares are coming down, but hotels as well. Some of that has been allowed by the lower jet fuel costs which are now going up again because of the reacceleration in global energy prices. So those price declines will moderate, but nevertheless, we think over the next quarter or so, you will see US inflation, core inflation on a three-month annualized basis, get down pretty close to the Fed's target. But they have to be careful. They don't want to prematurely declare victory because you could see some reacceleration back up early next year.

**JON ERLICHMAN, BNN BLOOMBERG:**

Well, Tiffany, you did bring up the inflation data in Canada just as a comparison. So maybe we should go into some more detail there, just because you had a headline reading that showed reacceleration. But to your point about core readings, one could take away from that some improving trends there. I guess the central bank question at this point is which inflation gauges do we want to watch? Even in Canada today, you had mortgage-related costs that have skyrocketed, which is somewhat ironic, considering higher interest rates have made that an inflationary factor.

**WILDING:**

Yeah, exactly. Because of the way that the statistics are calculated, the B.O.C. hiking rates is actually contributing to inflation somewhat, which seems a little bit counterintuitive. It depends on what measure you look at. Overall, I thought today's CPI report in Canada was a mixed bag. I do think that the headline surprise, higher surprise, ultimately is not good news for the Bank of Canada. But when you dug down into the details, it was really the travel services categories that were really resulting in some of that upside surprise. Those categories are notoriously volatile. It's the summertime. We have had very nice weather this year, obviously heat waves in some parts of the world, but it's been nice. And so I would expect inflation in those categories to come down as the summer passes. And looking at the rest of the categories, like the so-called super core measure, core services, X-shelter, that actually looks quite good. It's getting close to the B.O.C. or much closer to the B.O.C.'s target. So overall, I think the B.O.C, when they're thinking about their rate-hiking decision in September, it needs to take into account the broader range of data. We suggest that the Canadian economy is slowing. GDP suggests to us that it's slowing. Third quarter GDP looks like it's going to be sub 1%. And of course in the labor market, the unemployment rate has increased by 50 basis points over the last three months. And historically, that's more consistent with a recession. So B.O.C. is going to have to be weighing these things. It's going to be a close call. I think on net, they probably continue to pause, however.

**ERLICHMAN:**

So let me tie it back to the retail spending story, because Matt started the conversation by asking you, how much do Americans have left to spend? And I wonder for the central banks at this point, what is the Goldilocks level of spending when central bank action is meant to cool down the economy at a time when — every time we get a reading that's better than expected and people say, well, that shows a resilient economy, everybody starts getting worried about, well, that means interest rates are higher for longer.

**WILDING:**

Ultimately, you need to see consumers that are more price conscious, for sure. And that helps bring down inflation. Now, I think the question here is, in order to fully restore inflation back to target, where do you need to be in terms of the unemployment rate and how much additional capacity in the labor markets do you need? Because keep in mind, if the labor markets are tight, you probably will continue to see more bargaining on wages and wage pressure. That's increasing aggregate earnings, which is contributing to more resilient consumption. So it's all interrelated, but really it gets down to in our minds how tight is the labor market and how much does it need to weaken moving forward in order to bring inflation all the way back down to target? In the United States, and elsewhere in the world as well, you've seen wages, in terms of their level terms, wages have not fully caught up with the price level adjustment that we've seen. And that's resulting in people still wanting to catch up. So you're seeing increases in strikes in the United States as well as Canada, in order to try to get people's real wages,at least flat versus where they were pre-pandemic. And we think that continues unless you see a recession. We think you need to see that weakening in the labor market, a higher unemployment in order to bring wage inflation down.

**MILLER:**

Tiffany, great having on the program. Thanks so much for joining us. PIMCO’s Tiffany Wilding talking to us about the economy. She is their North American Economist.