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**JONATHAN FERRO, BLOOMBERG:**

PIMCO’s Tiffany Wilding, offering her own assessment after Friday's payrolls data, writing the following:

*“This was a Goldilocks report for the Fed. Labor markets are cooling, but not falling off a cliff. And the slowing is likely to continue as the economy faces various headwinds in the second half of 2023.”*

I'm pleased to say that PIMCO’s Tiffany Wilding joins us now for more. Tiffany, let's start there. The kind of slowing that you're expecting into the year-end for some really phenomenal numbers we're seeing in the third quarter.

**TIFFANY WILDING, PIMCO:**

Yeah, well, certainly consumption has been the standout this year. The consumer has been very strong. And that's pretty aberrant from historical hiking cycles. You do tend to see more moderation and consumption as the labor markets slow. We're just really not seeing that. Consumption in the third quarter looks like it's running above two and a half. Obviously, GDP tracking reports also look like they're closer to three. So this is an economy that just doesn't seem to want to quit. Now, nevertheless, though, we are seeing indicators, higher frequency indicators that would suggest that things are slowing. So we have student loan repayments that are starting, treasury daily data suggests that people are actually pre-paying that. And at the same time, they're spending less. So high-frequency data from credit cards suggests that we are seeing consumers that are starting to pull back. Add to that, that you have seen much less credit creation overall for the economy this year. That is a recipe for slowing. Now, whether it actually pulls us into a recession or not, I think that's more of a question mark here just because of the ongoing resilience in the US economy.

**FERRO:**

Well, do you see us on a path towards returning inflation to two percent? Are you confident we're on that path, Tiffany?

**WILDING:**

Yeah, well, I mean, we're certainly going to get some good news on the inflation front in the back half of this year. But really, that good news is centered around some of the pandemic related effects, just fading. Of course, things in China have been much weaker than expected. They are, as a result, exporting some disinflation. That's going to help US retail goods prices going into the holiday season, which many consumers will be happy about. But nevertheless, other measures of inflation wages, for example, in the United States, they still look sticky. This super core measure that the Fed loves, services ex-shelter within the PCE inflation measure also still looks relatively elevated. So one of the things that we've been noting, and this is consistent with the Fed's forecast, is that you do need to see some labor market cooling in order to get that down. And I think it's a question of whether we'll see some labor market cooling, just because the economy's been so strong.

**FERRO:**

That's the labor market, throw in housing as well, Tiffany, we could look at commodities, too. Can I just get a comment, Tiffany, potentially, from you on, whether this commodity market move complicates the Fed's effort with Brent, WTI back in and around $90 barrel?

**WILDING:**

Yeah, well, certainly, headline inflation matters. It matters for how consumers think about future inflation and inflation expectations. But on the other side of that, it also matters because higher gas prices will affect consumers' ability to spend on other discretionary items. So it's a little bit of a mixed bag in terms of how it affects the economy. We still, in terms of the underlying inflationary pressures, we like to look at core inflation. And again, that's going to look a lot better. And the second half of this year, with some risk, though, that maybe it re-accelerates if the economy doesn't cool.

**FERRO:**

So, Tiffany, when we get forecasts next up from the Fed Reserve, how do you think they'll compare to the last set of forecasts we got earlier this summer?

**WILDING:**

Yeah, so there are going to be a bit of a mixed bag in terms of their implications for the rate path. So we do think Federal Reserve officials will have to revise down their core PCE inflation forecast, at least for the end of this year. But at the same time, they're probably going to be revising up their growth forecasts. And there's been some good news on the labor market front. They could have to revise down their unemployment rate forecast. So all of that sort of suggests, maybe they keep that rate hike in in the back half of this year, maybe they don't. But this is coming up in September. We would also argue there's a lot more data between now and the end of this year for them to think about. And I guess overall, just looking out to 2024, if the economy is not cooling, if we are still running at above-trend growth, if the labor market, the unemployment rate is still at these levels, 3.5 to 3.8. You know, it's possible that the Fed might even have to do more. So I think that's something that we're grappling with, not our base case, certainly, but something that's the risk that's out there.

**FERRO:**

Well, let's take it one step further. Let's play “What If”, for 2024? Tiffany, are you still of the opinion that let's say inflation is “Two Point Something”, that they won't be willing to do anything about it. They won't be willing to crush the economy or the labor market. They'll just tolerate “Two Point Something”?

**WILDING:**

Yeah, certainly. I mean, I think if it's a two-handle, that's probably, that's probably good for the Fed. But I do think there's questions around if the labor market remains thi tight, you know, it could stay around three, which is a little bit more cusp-y Yeah, but overall, I mean, I think there is a question around, if you get it down to two and a half, let's say, and you continue to forecast it moving lower over the next few years, then maybe that is all you need to do. And that would be very similar to what the Fed did in the ‘90s with their opportunistic disinflationary strategy. And I would say if you look at economic performance in the ‘90s, it was pretty good. You know, and overall, two is really not- there's not a, it's not a magic number, if you will. I mean, it's, you know, two percent inflation, you know, that there's not a lot of cost-benefit analysis around two versus three versus, you know, price stability in terms of their target. You know, nevertheless, though, as Chair Powell said, they're probably not going to change their inflation target, but they could alter their strategy within that target, you know, to let it go a little bit above for a period of time.

**FERRO:**

Tiffany, thanks to the update, as always, one of the best, Tiffany Wilding there out of PIMCO on the look ahead for 2023 and 2024 as well.