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**TYLER MATHISEN, CNBC:**

Welcome back everybody. The Fed, holding interest rates steady as expected, but pointing to rates staying a little bit higher for longer. As we await Fed Chair Powell's news conference, let's get some reaction. Richard Clarida, former Fed Vice Chairman and Global Economic Advisor at PIMCO. Greg Ip from Wall Street Journal is still with us. Thank you for staying around. Richard, welcome. Good to have you with us. You were looking for a so-called hawkish hold. Is that what we have here?

**RICHARD CLARIDA, PIMCO:**

That's certainly what we have here. I expected them probably to take out one hike from next year. They took out two hikes. They didn't really change the inflation outlook that month, and also, they really do have a soft landing here. They have the unemployment rate peaking right at their estimate of maximum employment, and so this is a Fed that sees a soft landing, but it wants to buy some insurance against that with I think a pretty hawkish pause right here.

**MATHISEN:**

Steve Liesman pointed out one thing that I expect he is going to ask the Chair about, and that is the idea that real interest rates, the difference between the rate and the inflation rate, is actually going to rise next year. What would you say the message is in that?

**CLARIDA:**

I think the message is that this is a committee that is probably happy with where they are and where they're projecting, but they do not want to repeat the mistakes of the past, of premature mission accomplished as we saw in the 60s and 70s, and so I think the balance here is reducing rates less rapidly than inflation to keep stance in a relative restrictive zone with what is a very, very hot and healthy labor market and growth projection on the other side.

**KELLY EVANS, CNBC:**

How much of a complicating factor is the fiscal spending that our Congress reporter Emily Wilkins just highlighted? Just today they're dispersing another $200 plus million dollars from the CHIPS Act.

**CLARIDA:**

Well, that's right, and I think our expert team here does think that the CHIPS Act and the other legislation will boost the economy over time, so it's not necessarily a big impact in ‘24, but of course, let's be honest. Fiscal policy has been a big surprise. We've had a big increase in the deficit this year. There's still some accumulated savings from past programs. So fiscal policy, I think, to the Fed, is a wild card here, and I think they do need to factor that in.

**MATHISEN:**

Talk to us a little bit about employment and jobs and what they said today about what the numbers seem to indicate for 2024 and beyond.

**CLARIDA:**

That's really what I took note of: the traditional view, and I'll confess I have been in that camp, is that some of the adjustment to disinflate and get inflation down reliably to target is going to require some softening in the labor market. Not to a great extent, but some softening. Until today, that was the Fed's view. They had the unemployment rate rising about a point to four and a half. In today's projections, the unemployment rate goes up, I think, to 4.1. That's a very great outcome, but that really is a soft landing disinflation, and that's a change from what their thinking has been.

**GREG IP, WALL STREET JOURNAL:**

I want to come back to a point that Steve made, and actually get Rich's feedback on this. Hey Rich, how’s it going? It’s about the Fed now seeing the real rate somewhat higher over the medium term. In 2025, you have the federal funds rate near 4%, even though you have inflation more or less back to the 2% target, and you have the economy growing at trend and the unemployment rate near its long-term natural rate, right? So, given all that, I almost want to say that 3.9% to 4% funds rate is their view of the long-run funds rate.

**MATHISEN:**

That’s what it should be.

**IP:**

But, if you look in the same document, they say that their view of the long-run funds rate is still only 2.5%, where it’s been for years. And by the way, that number is starting to look really stale. If you look at the long-dated, forward curve on the market, it thinks that the neutral rate is more like 3 to 3.5%, so I'd like Rich's view on what he thinks is going on here. If the committee is a little bit behind the times in terms of thinking where the neutral rate is, because this has huge implications about where long-term yields are, discount rates are, everything in the financial markets.

**CLARIDA:**

Well, and Greg, it has implications for the basic question, is policy restrictive? It's only restrictive if it's above some estimate of neutral, so you're absolutely right. We'll find out in a couple of minutes, but I would suspect that if the chair is pressed on that, we may hear him as we move further into the future to 2025 and 2026 probably downplay the dots in a precise way. We could be surprised. Maybe the message today is as you suggest. My own thinking is at least at the front end of the curve, when the Fed succeeds in getting inflation down to two, then the short-term funds rate consistent with those objectives is going to be more or less what we saw before. But obviously, we have to get there first, and part of, I think, what we're seeing both from the Fed and markets is a bit of, I'm from Missouri, you have to show me. And I think that's part of the risk-management calculation here as well.

**EVANS:**

Although, of course, it either implies they need to be cutting rates by another point and a half to bring it to what they think is neutral, or that they're going to be running it very restrictive, or like you said, Greg, that they're behind the times. Rich, do you yourself kind of have a view on what's going on with long-term interest rates and which side of this trade you'd be on?

**CLARIDA:**

Well, yes. I think what we need to do is distinguish between the very front end of the curve, the federal funds rate, and the longer end of the curve, say a 10-year treasury bond. Historically, there was a positive term premium in the yield curve. Investors got a higher yield and return by taking on interest rate risk. That term premium was essentially squeezed out of markets in the prior decade, and certainly my thinking is looking ahead, especially given all the government debt that's been issued in the last dozen years, is that we will see a higher term premium and possibly a steeper yield curve. And the way that balances out between the long and the front end, we'll find out. But that's the way it looks to me right now.

**MATHISEN:**

Does this all spell soft landing to you, Rich?

**CLARIDA:**

Well, it's certainly a Fed that thinks that the baseline is a soft landing. I continue to be in the camp that thinks we're going to probably need to see some additional softening in the labor market beyond what they're showing. But look, this has been a very surprising cycle. The pandemic, the reopening, the recovery, the surge in inflation, and now the rapid disinflation. So I guess the real lesson to take from the last three years is to be prepared to be surprised.

**MATHISEN:**

What are the fourth quarter potholes that you have your eye on, Rich?

**CLARIDA:**

Well, the economy has gotten a lot of support from the ability of households to draw down that $2.5 trillion of excess saving, again, in the aggregate. We had a period where real disposable income was contracting for about a year and a half, but households kept spending. So I do think that the ability to keep on chugging along in some sense is more limited than we saw. Also, oil prices are a wild card. We've been focused on so many other things in the last several months. We've had a big move up in oil on supply decisions. The U.S. economy is different from in the past. It's less exposed to higher oil prices. But again, high oil prices push up headline inflation, and that's obviously a wild card as well.

**MATHISEN:**

Rich, thank you so much. As always, it's great to see you, Richard Clarida.

**CLARIDA:**

Thank you.