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**JOSH LIPTON, YAHOO FINANCE:**

We'll take it from here. The Fed is in focus on Wall Street today, FOMC voting member Austin Goolsbee speaking out on the state of the economy. Not necessarily hinting that another rate hike is coming in November, but saying risks still remain. And there are still some signs of weakness within the economy. Last revision, a second core GDP shows consumer spending grew at half the rate, previously thought. Joining us now is Tiffany Wilding, PIMCO Managing Director and Economist. So Tiffany, let's start with the economy. We got some economic data today, but there's a lot of cross-currents, as Julie (Hyman) was just mentioning, Tiffany. Oil, UAW, government shutdown, yields. How are you thinking, 30,000-foot view, Tiffany, about the economy? Are you in the soft landing camp that inflation's going to return to that 2% target without a downturn?

**TIFFANY WILDING, PIMCO:**

Well, I would say this in terms of your last question, answering it first. If you just look historically, the rate hiking cycles that started, when inflation was as elevated as it was in the United States, core PCE inflation was actually around 6% when the Fed started hiking interest rates. Looking back in time, when you've had rate hiking cycles that have started like that, it doesn't tend to end with the economy expanding. It tends to end unfortunately in some sort of recession. Now that recession could be mild. So if we did have a soft landing looking ahead, that would be quite anomalous relative to history. Now, you asked me about just the general view of the economy. I think the bottom line is that the economy was way more resilient than expected, than anyone really expected in the first half of this year. But nevertheless, I think the things that drove that resilience are potentially setting up to fade in the back half of this year. Obviously consumption was revised down, but overall consumption still 2% on average for the first half of this year is still quite strong. And then government expenditures are also pretty strong as well in the first half of this year. But I think excess savings that were accumulated during the pandemic because of government transfers are running out. And then you have various headwinds from the government side in the back half of this year that should also slow growth. There's been a lot of discussion around student loan payments and that should absolutely slow growth. But government expenditures should also just slow. The other thing is a bit of a wild card here as you mentioned: the government shutdown. This should have a temporary effect on the economy, but the longer the government is shut down, the more likely that you get what we call non-linear effects, and they grow and become much more material. So those are the kinds of things we're going to be looking for.

**JULIE HYMAN, YAHOO FINANCE:**

And just to kind of pick up on that and spell it out for people, Tiffany, when you're talking about a government shutdown, people not getting paid, most of those people, barring perhaps contractors, will get paid eventually, right? For work that they're doing. When you talk about the secondary or tertiary effects, if those people are going into an office, are they eating at the local businesses, are they driving, are they buying gas, all of these other things. I assume that's what you're talking about here?

**WILDING:**

Absolutely. So government contractors, government workers will not get paid. And that's okay. Many of them will still have to go to work. Some of them will get furloughed. That's okay if they miss maybe one paycheck. But you think about your own finances. If you miss two paychecks or three or even four, that becomes more painful. And even if it's a short run effect, and you know you're going to get paid later, you might adjust your consumption lower. And as you mentioned, maybe it's going out to a restaurant or a bar a little bit less. Maybe you're delaying some sort of goods purchase, a durable goods purchase, or going shopping a little bit less until you're getting paid. This will have a temporary effect on the economy. And again, the longer this lasts, the more it could have an effect on consumption. Because again, people can kind of smooth through maybe one or two mispayments, but more than that, it becomes a more significant issue.

**LIPTON:**

Tiffany, so a government shutdown is one potential challenge, but I want to get your gauge on the UAW strike as well because there is the threat that that broadens. To the extent, Tiffany, that it does broaden, that it does go on for a while, how should we think about the potential effects there on economic growth, on employment, and inflation?

**WILDING:**

Yeah, this is kind of a similar situation in the sense that auto production is being impacted. Now, the UAW started off in a very targeted way with very targeted plans to maximize the potential pain for the three automakers that they're targeting, but minimize the broader amount of people that were not going to work. And so they were trying to target. So that suggests that the broader GDP effects of this would actually be limited, but the longer this goes on, and of course, as you get the broadening out of strikes at more plants, obviously, they've also targeted some of the parts plants so that they will supply parts to more than just the three automakers here. So the economic effects of this definitely will grow in size. And of course, when the strike is over, those economic effects will rebound and they will reverse. But I do think an underlying issue here that's more important than that is that prices have adjusted quite a bit since the pandemic. That's an obvious statement. We've seen a lot of inflation. And the bottom line is just the wage levels that people are seeing have not adjusted as much. So real wages are still negative. And in a very tight labor market, you're getting people that are just bargaining to just catch up. And we think that's going to continue as you have these tight labor markets. And this is one of the reasons why we've argued that unless you see some loosening, more loosening in the labor markets, some unemployment rate increase, unfortunately, you're probably going to have wage inflation that's running somewhat above Fed target mandate consistent levels, and so that should be concerning for the Fed.

**HYMAN:**

It should be concerning for the Fed, Tiffany, but this is something I always struggle with, which is that it's a good thing when people make more money, right? If they can spend more, I guess the problem is, if their own wage inflation feeds into increased costs that they have to pay, could we get some sort of magical situation where wages are rising at the same time that prices for everything else are not?

**WILDING:**

You're absolutely right. So I would characterize it as real wage increases are very good for everybody. And that means wages that are increasing at a faster pace than prices. Now there's several ways that we could get that. One way is just that because of technological innovation or investments on the part of firms that hire these people, they're just more productive. So the people that are working can do more. Fewer people can just do more with the capital that they have, right? And that would be good. And they would get higher wages without a big hit to profit margins. And then the broader economy would continue to grow. By the way, I think that there was a lot of that higher productivity assumption that was embedded in the Fed's forecast that just came out. And productivity, by the way, is notoriously difficult to forecast. These productivity revolutions, you never know when they're going to happen. Obviously, there's a lot of good things that could potentially create a lot more productivity growth in the future. AI is the one that we've been talking about recently. But you never know how quickly these things are going to peripherate throughout the corporate sector and just really produce that productivity. So if we don't get the productivity growth, the other way this manifests itself is through margin compression. And corporate margins have been elevated since the pandemic. The supply shock that we got allowed corporations to just charge more for things. And people were able to pay them because they had a lot of excess savings that was built up. So as we move forward, I think the key question here is, how much can productivity offset these more elevated wage increases versus just corporate margins. And if it's corporate margins, that's bad for the equity market. And ultimately that will lead at some point to some labor input adjustment and potential layoffs.

**HYMAN:**

Yeah, we'll see in the meantime if the Fed's assumptions on productivity do prove to be correct. Tiffany, thank you so much. Good to talk to you, Tiffany Wilding of PIMCO.