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**JON FORTT, CNBC:**

Joining us now is Richard Clarida, currently PIMCO Global Economic Advisor and a former Fed Vice Chairman, great to have you, Richard. So what's the most important data point that you're going to be looking for in tomorrow's job report beneath the headline?

**RICHARD CLARIDA, PIMCO:**

Well, I think potentially, revisions. Sometimes the data does get revised, also be looking at both the household survey and the payroll survey, and look to see if the trend of slowing job growth is continued.

**FORTT:**

Richard, hold on just a moment.

**FORTT:**

Let's get back to Richard Clarida. I'm sorry, if we cut you off there on a thought, first of all, I want to give you a chance to finish that.

**CLARIDA:**

No, as I said, obviously the labor market is incredibly important to the economy and to the Fed. We’ve had a trend of slowing employment growth and some modest rise in the unemployment rate, so obviously we'll be looking to see if those trends continue tomorrow.

**FORTT:**

More broadly, we're seeing, we just have this with Broadcom's report, certainly with Llululemon’s, a few moments ago, revenues were a little bit weaker than some might have hoped, but profits are strong because they want to hold to pricing. As we think about how this holiday season continues to pan out and what we see employers, retailers do in January based on how their profitability has looked and how the sales have looked, what are you concerned about? How is this holiday season going to set us up for ‘24?

**CLARIDA:**

You know, it's a great point because it's relevant in either direction. If firms are really, really aggressive in trying to keep their margins, then that will make the Fed's job more difficult, because it will mean inflation's more stubborn. On the other hand, if firms are not able to keep those margins, that makes the Fed jobs easier, but obviously it's not great for earnings. And so, you know, typically, Jon, we do see this in past business cycles when we get towards the middle part of the cycle. There's a handoff from pricing power to workers and the way that balances out will be an important story in 2024.

**MORGAN BRENNAN, CNBC:**

Richard, it's great to have you on the show. We know the economy is cooling. We know inflation is moving in the right direction, and that's cooling as well. Do we know- can we yet wrap our arms around the magnitude of it, especially as you do have a Fed that's basically said it's going to be a lot harder, potentially, and it's going to be a lot stickier to get from a three-handle on inflation down to a two.

**CLARIDA:**

Well, that's right. Of course, that's been a theme at PIMCO as well, you know, the last mile. But I think we want to look at the good news. The disinflation progress really has been remarkable in the last 18, 24 months. And so, the amount of heavy lifting the Fed needs to do from here on is certainly not all that much. We would have thought. In fact, I think the Fed thinks that they're done. There is a risk that they may need to do more. But importantly, Morgan and Jon, the Fed has indicated, and we think that Chair Powell will repeat this on next Wednesday, is they can start to think about cutting rates even before inflation gets to two if they are convinced that the progress is real. And we heard some commentary along those lines from Governor Waller. So I think there's a difference between how long does it take inflation to get to two, and a separate question, how long does it take for the Fed to start thinking about rate cuts?

**BRENNAN:**

Is the market too aggressive in what it's pricing in terms of rate cuts? And I guess just as importantly, as someone who's sat in the room to have these types of conversations before, what is going to be the methodology that enables the Fed to actually start to do that, before we reach 2 percent?

**CLARIDA:**

Yes. To your first question, Morgan, we do believe that the five cuts that are priced in for next year look aggressive to us. That could happen. In September for what is worth, the last time the Fed did its projections, it had two cuts next year, and something in that two to three range probably as a baseline makes more sense than five. In terms of sitting in the room, yes, I had that privilege for nearly four years. The Fed is looking at a large body and range of data, but at the high level, they're going to want to be convinced that inflation is less than 3 percent on its way to two, and they'll be looking at not only the price numbers, but also the wage inflation data as well. So I think they'll look at a wide range of data, but the important point is they are absolutely focused on succeeding, and I think the Powell-Fed will succeed, but as inflation continues to fall, they'll entertain rate cuts starting next year.

**BRENNAN:**

Okay. Richard Clarida, thanks for joining us.