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**TOM KEENE, BLOOMBERG:**

And this is a challenge, folks, because it's crazy out there, the countercurrence in that, Tiffany Wilding, to give common sense to a jobs report today. This was green on the screen right now, markets have reversed nicely into a more constructive tone off of five days of challenges here, three days, whatever it is of 2024. Tiffany, Alan Ruskin was on, from Deutsche Bank. And he said, “You know what? Job formation is a good thing. Why are we upset if we're creating ‘200 xx thousand’ jobs?” It just doesn't make sense to me.

**TIFFANY WILDING, PIMCO:**

No, I agree with you. And thanks for having me on. I mean, today's report was a pretty solid report. 216,000 payrolls per month. And I think we're kind of close to that in terms of the average for this year. I mean, that's a very good outcome for the US economy. I think what is a little bit more concerning for the Fed and for monetary policy, though, is that if you look at average hourly earnings or wage inflation, that does appear at higher levels, higher than levels that would be consistent with their 2% inflation target. It doesn't really appear to be moderating, so–

**KEENE:**

Yeah, I've been following your travels. I mean, the bottom line is we're seeing a buoyant America; I get it, bankruptcies are terrible. And there's a lot of worry out there and restrictions and the real rate in that. But the answer is it's pretty good GDP. It's pretty good.

**PAUL SWEENEY, BLOOMBERG:**

It seems like a pretty good GDP. I mean, it's, so I guess Tiffany, the issue is, when you look at 2024, how do you think this economy is going to unfold here? I mean, I think the consensus building in that, you know, the last 10 weeks of last year was, “oh the soft landing, looks like a smart bet here”. Does that ring true to you?

**WILDING:**

Yeah, I mean, I definitely think that the odds of a soft landing have increased more recently, you know, just because you've seen the Federal Reserve that is, I guess, now more clearly communicating, you know, that cuts could come because inflation has moderated so much. You know, and one of the, I think the main reasons why the markets were so, you know, were more worried about a hard landing risk was because you had a central bank that was very focused on inflation. You know, and it was potentially willing to, you know, sacrifice the economy in order to get inflation down. So now that that rhetoric has changed, I definitely think the soft landing odds have gone up. You know, but nevertheless, we're not out of the woods yet. You know, the Fed still has to balance the fact that the economy is strong. You could get inflation that reaccelerates, you know, obviously, again, some of the downside risks that monetary policy lags, you know, start to kick in more meaningfully next year.

**SWEENEY:**

I mean, it feels like for a lot of folks, the inflation rate is coming down, but the reality is for, I guess if you talk to the folks out there, “I'm paying a lot more for a lot of things than I did two or three years ago. And that still hurts”. But I mean, I guess the issue is the inflation rate is in fact coming down. So that's all the Fed can really work towards, I guess.

**WILDING:**

Yeah, and I mean, I think that's the issue, you know, that's kind of the issue with why wage inflation is still, so appears to be so sticky here, although price inflation is coming down. And the reason is because, you know, wages haven't fully caught up, the wage level, you know, with the price level adjustment that we've seen. So although prices are high, you know, inflation is coming down, but prices are still higher than the one where they were a couple of years ago. You know, and wages, the wage level adjustment that we've seen hasn't really caught up with that. So, you know, our view has been that wage inflation is probably going to continue to be sticky because people can catch up, labor markets are tight.

**KEENE:**

Is the Fed restrictive now? I've had a number of news reports, Matthew Klein with a really sharp tweet out, a really wonderful economist, Matthew Klein saying, “Look, at the end of the day, we're restrictive now off the two year real rate”. Are we?

**WILDING:**

You know, so I think it's, you know, obviously this is something that the Federal Reserve has to probe for. It gets to this idea of there being some neutral rate in the economy, a level of interest rates that the economy can kind of handle and is neither accelerating or decelerating and where that is. And obviously that's very uncertain. You know, we think the economy is, or the monetary policy is restrictive. And one of the reasons why you haven't seen that so clearly is just because of the amazing amount of fiscal policy stimulus that we got after the pandemic. And you had that fiscal policy that was still sloshing around in the economy. You know, consumers still have elevated savings. You know, but eventually all of that will normalize. And once it does, once people spin down that savings, what you're going to be left with is tight monetary policy. You know, and we think that that becomes more obvious in 2024 in terms of the growth drags. You know, assuming, you know, the Federal Reserve doesn't aggressively cut rates, which we don't think that they necessarily will.

**KEENE:**

What's the number one question the bond managers of PIMCO ask you?

**WILDING:**

Well, you know, I mean, I think understanding how fast essential banks have cut rates historically, even in non-recessionary cutting cycles, has been an important sort of historical benchmark to think about market pricing. And when we do that analysis, we look across 14 developed markets. You know, it's about 200 basis points on average in the first year after cuts that central banks tend to cut. Now, that's a pretty fast pace. That's twice that that's baked into the Federal Reserve forecast. But nevertheless, the markets are kind of there. You know, the front end is actually getting kind of close to that. You know, so when we look at value, at least in the front end of the bond market, the short interest rates, you know, we don't see as much value there now. You know, just because the market's already pricing in a pretty decent cutting cycle that would be more consistent with what we've seen in the past.

**SWEENEY:**

So Tiffany, I'm looking at the WIRP function, the interest rate forecast function on the Bloomberg terminal and boy, the bond market, the Fed funds market, really aggressive talking about, I don't know, five, maybe six rate cuts this year. So is that even, is that something the Fed has ever done before?

**WILDING:**

Yeah, I mean, so certainly in their, you know, usually central banks, they usually cut when they are pretty certain that we're in recession. In other words, usually they don't have the foresight that monetary policy works through lags, right? They usually don't have the foresight to see the weakness ahead of time. So they're usually late in cutting, and they're cutting when they're pretty sure that we're in recession. Nevertheless, there's a handful of cycles historically where they've cut and we haven't had a recession. You know, and I think if you think recession risks have, have receded more recently, you know, I think those are the cutting cycles that are more interesting here. And even in those cycles, the central bank has cut about 200 basis points in the first year that they started cutting. But again, that's kind of close. We're kind of there in terms of market pricing. So you, I think you really need data to suggest that recession risks are higher at this point, you know, to get the markets to price in more. You know, and I think the risks of inflation accelerating are there as well. So, you know, in terms of the front end pricing, you know, it seems pretty fair to us.

**KEENE:**

So are you giving me a Newport Beach GDP, now? A statistic like Atlanta, that we've got solid 2% economic growth that was distant from our recession?

**WILDING:**

I mean, the labor market data today, you know, the data that we've seen, the kind of current activity indicators that we look at, would suggest we're still kind of at 2%. So we're really not seeing the real, you know, real activity, we're not seeing it decelerate, like many people thought it would into the year end.

**KEENE:**

Tiffany, thank you so much. Tiffany Wilding with the PIMCO there, with a really nice summary to get us into the week and a look ahead.

**SWEENEY:**

Newport Beach, California. That sounds good right now.

**KEENE:**

Yeah, it's like, you know, Mohamed (El-Erian) is out there walking the beach, you know, rooting for the 49ers out there. The rest of the “PIMCO Combine”, they got a whole new building out there. We should do a remote there.

**SWEENEY:**

I think we should.

**KEENE:**

I think you and I will go on a road trip in February?

**SWEENEY:**

Yeah, that'd be perfect. That'd be perfect.