**MEDIA: Television**

**STATION: Bloomberg BNN**

**MARKET: Canada**

**DATE: 2024-01-25**

**TIME: 09:06 AM ET**

**PROGRAM: The Open**

**SUBJECT: Tiffany Wilding - Bank of Canada**

**PAGE COUNT: 3**

**JON ERLICHMAN, BNN:**

To get more on all of this, we're joined now by Tiffany Wilding. She's Managing Director and an Economist at PIMCO. Tiffany, great to have you with us. So there are a lot of moving parts in the economy. But let's zero in on generally speaking, the shape of the North American economy. I know we've got a very specific U.S. story this morning. We had a Bank of Canada decision yesterday. When you put it all together, what do you see?

**TIFFANY WILDING, PIMCO:**

Well, when we look at the U.S. data starting with that, I think there's two things that you really want to emphasize about this morning's data. The first is just that the U.S. economy against many, if not all, expectations has been extremely strong and resilient despite tight monetary policy, despite elevated geopolitical tensions around the world and a small-scale banking crisis that happened in March. The U.S. growth came in at two and a half for the year and ended the year on a really strong note at over 3%. The other thing to emphasize about the U.S. data that came in this morning is despite that elevated and resilient growth, inflation has come down quite a bit. This was the second quarter in a row. The fourth quarter was the second quarter in a row that core PCE inflation, which is the Fed's preferred measure, came in at 2%. I think there's a lot of indicators that would suggest that we're basically coming to a soft landing here. Now, but we would suggest you have to be a little bit careful of the data because the strong supply side gains that have resulted in resilient top-line growth, but decelerating inflation, those supply side gains are probably largely behind us now and we're left with a pretty resilient economy, so that's going to be a little bit tricky for the Fed.

**ERLICHMAN:**

What do you think the Fed ultimately does this year on interest rate policy? What do you think the map is for 2024?

**WILDING:**

Yeah, I mean, so I think not to get too wonky here, but the PCE, the Fed's preferred inflation measure, has looked a lot better lately than the CPI, and a lot of that is driven by differences in the way Medicare is captured within the PCE index. There's a lot of so-called non-market prices, that it looked really good lately, but the CPI is not looking so good, or at least it's not looking as good, so it's running at 4%, so that could make the optics of a near-term cut, markets are obviously talking about them cutting as soon as March, could make that near-term cut maybe less likely. That coupled with the fact that growth has just been so strong, underlying potential is probably not 3%, or 5%, what we've gotten in the 3rd and 4th quarters, so the Fed still has some work to do to cool off the economy, we think, if they really do want to get back to 2%, so what does that mean? Well, that means we think they probably start cutting interest rates later this year, maybe by mid-year, our expectation that they cut maybe three times this year to lower the Fed funds rate around 75 basis points still seems reasonable, but again, underlying that forecast is that growth in the U.S. cools, and we haven't seen that cooling yet, so maybe the balance of risks here just based on the current data is that they wait a bit longer.

**ERLICHMAN:**

Okay, so a wait time at play for rate cuts in the U.S., we alluded to in Europe where the signal today was that cuts are still a way off, and then yesterday, of course, we had the Bank of Canada, the messaging seemed to be primarily based around the idea that we've peaked with interest rates, again, with a caveat, the assumption that, you know, the trends that we're seeing play out, I guess the question I have for you on the state of Canada's economy, by comparison, is how would you describe the current state of affairs? I would imagine that, you know, resilience does not match as much with Canada's economy as it would with the U.S.

**WILDING:**

Yeah, so Canada's economy is certainly more interest rate-sensitive, and you're seeing that in the growth figures within Canada, so growth has been much more stagnant this year compared to the U.S. performance, you know, and obviously that's because you have headwinds to consumers from the pass-through of higher mortgage interest, costs, and things like that. Now, on the other side, though, Canada has had the benefit of pretty strong immigration flows. The U.S. has had strong immigration flows as well, but just the size of that compared to the broader labor market in Canada has been quite large. And what that's doing, in our view, because of the mix of those immigrants, is it's resulting in- and the fact that Canada has a very tight housing market; is it's actually counter-intuitively not reducing inflation, maybe in the way that you would think. It's raising inflation or it's supporting inflation within the rental markets, and it actually hasn't really cooled off wage inflation if you look at the wage inflation statistics in Canada. So, I think what the Bank of Canada is having to deal with is the fact that monetary policy does appear to be passing through to the economy, through lower growth, unemployment rates are starting to come up, but they have this tricky thing that they have to deal with, which is the higher immigration flows, which are maybe even inflationary impulse, and wage inflation is not cooling the way they expect. So balancing all of that, we think Canada, and the Bank of Canada, is probably on their way to cutting rates towards the middle of this year as well.

**ERLICHMAN:**

So, in the middle of this year, we'll be watching Tiffany, thanks as always. It's great to have you back with us, Tiffany Wilding from PIMCO.