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**TOM KEENE, BLOOMBERG:**

This is well timed. Joining us now is Richard Clarida. He is the PIMCO Global Economic Advisor. He's the former Vice Chair of the Fed and associated forever with Columbia University. Richard Clarida, Ethan Harris, student of Columbia, ex-bank of America, wrote a brilliant piece off his hero at Columbia Phil Kagan the other day. And he said, we've blown it on our inflation studies. We've got to get on trend. And for him, the trend is the Dallas-Trimine, the Cleveland median, and the rest of it. What is the trend right now, Professor Clarida, in inflation?

**RICH CLARIDA, PIMCO:**

Well, thank you for having me on, Tom. Good friend of Ethan, and Phil Kagan was a colleague and a friend for many years. I look at Dallas-fed trimmed mean, too. It’s running somewhere in the mid-twos on inflation. That's down a lot from a couple of years ago. But still, obviously, somewhat above the Fed's long-run goal of 2%, but I think that's a good reading right now.

**JONATHAN FERRO, BLOOMBERG:**

Rich, when you look at the pushback, and it’s such a pushback in this statement, why do you think this Federal Reserve is not quite prepared to fully embrace that rate cut conversation taking place on Wall Street?

**CLARIDA:**

Well, on this one, Jon, I actually agree with him. Looking at the data they're looking at, I would have thought March would be too soon. We don't get a lot more data in March than we have today. Moreover, as you've pointed out on air, and I've been watching, there is still some upside risk on the inflation picture. So I just think good policy prudence would call for getting more information. And I applaud what they did in the statement today. I don't have it in front of me. I read Mike's account. Looks like there's a lot of red ink in it, and I think that made sense today.

**LISA ABRAMOWICZ, BLOOMBERG:**

Yeah, especially with that particular comment, the committee does not expect it will be appropriate to reduce the target rate until it has gained greater confidence that inflation is moving sustainably toward 2%. I'm wondering, Rich, do you think that the New York Community Bank Corps issue changes the equation, even on the margins for the Fed, and if you were on the Fed, for you?

**CLARIDA:**

Given what I know right now, Lisa, I would say not, but I do think that the reality is we have a number of regional banks in the U.S.,above 100 billion, but not in that mega category. And the Fed did what it needed to do last spring. I have no doubt that they will be there if further action is needed. So I'd say right now, this doesn't appear to me to be systemic, but whenever banking is involved and you see an unexpected loss, it certainly is on their radar, and I'm sure it is.

**FERRO:**

Rich, as you know, as we know, a lot of thought goes into the language that gets put in this statement. That line “greater confidence”. A lot of people are going to stress test that line “greater confidence” for the next one month or so. Neil Dutta, a good friend over at Renaissance Macro writes in, what exactly does greater confidence mean? Can you talk to us about that, Rich? What do you think greater confidence means? And I'm going to ask this question just to wind up TK. Is it one CPI print? Is it two? Is it three? Rich, what is it?

**CLARIDA:**

Well, I think at the risk of exaggeration, you might have 19 opinions on that on the committee. I think the center of gravity, though, the price inflation numbers have been moving in a very good direction. Six months now, core inflation or Dallas Fed measures are definitely close to two percent, but we do have an economy in which wage inflation is running about a point hotter than probably they think would be consistent with the long run goal. So I think implicitly they'll be looking at a number of indicators from the labor market. We got some good news today on ECI, but even with that, ECI's still probably about a point hotter than they would ultimately like to see.

**KEENE:**

Rich Clarida, measured. I'm going to associate it with Alan Greenspan. You might want to take it back further. But I'm sorry, we are slaves to measure it in our great fear of becoming unanchored. We have regret. We're worried about the Bank of Japan. I believe it was back in the early 2000s. We need to be measured. How do we be measured after this pandemic and after this original economics?

**CLARIDA:**

Not surprisingly, good question there, because a measure was used by the Maestro in 04 to talk about a measure of pace of rate increases, but certainly now it may enter the conversation once they start to cut. And I think here you do see the tug of war. Folks look at past history. They see that when the Fed starts to cut, it cuts very fast and in big chunks oftentimes. Typically, if you go back and look, Tom, in what turn out to be soft landings, it looks a lot different. More like two or three cuts, 75 basis points or so. So I think a lot of the measured in this cycle in the down direction is going to depend upon how soft the landing is. Jay Powell thinks the runway for a soft landing is in sight, but right now that's a forecast. So it will be data dependent. Sorry, that's a cop out, but I do think that it will be data dependent.

**ABRAMOWICZ:**

Well, can the Fed afford to be measured and start later if we're also bumping up against a political silly season, as Tom would say? This has become something that more and more economists are looking at. Why not start earlier, go more slowly, and be less susceptible to becoming a political football?

**CLARIDA:**

Yeah. Great, great point. It is an election year. I noticed historically, and you can confirm this on your Bloomberg terminal. Historically, the Fed has moved in election years both up and down. So I think the Powell Fed will do what it needs to do this year in terms of adjusting rates presumably downward. But I do agree with you, Lisa. If you think you're going to cut three times, say, which was what the December SEP was, certainly it would make sense to get that process going perhaps in the summer and not wait until November, shall we say.

**ABRAMOWICZ:**

So in the press conference, most certainly, Rich, there's going to be someone who comes up and asks Fed Chair Jay Powell, how much did you guys talk about rate cuts, did you throw out dates, did you throw out what your criteria are? If you were on the Fed, what would you hope he would say? How granular should they be given the fact that people know they're talking about it? They have to be talking about it. Everybody else is talking about it. How much do they really telegraph to the market?

**CLARIDA:**

Lisa, when the press conference is moving beyond what was in the statement, sometimes it’s because the Chair wants to move in that direction or because you've got a divided committee. I think today, and of course we'll find out at 2:30, I think today is a day when the Chair on that question in particular will hug the FOMC statement pretty closely because it was a big change from December. Some of it was expected. Some of it was a little bit more hawkish. And so knowing Jay Powell, I think today will be a day when he gets a question like that, he will hug the FOMC statement language pretty tightly.

**FERRO:**

That's what you do with Bramow questions. Just hold on to the statement, trying to come up with a question. I just wonder how many times they shared the love letter from Senate Banking Committee Chair Sherrod Brown and the letter from Senator Elizabeth Warren and the Democratic colleagues. Rich, you've got experience of this under the Trump administration. I'll say it for you. It was inappropriate then, it's inappropriate now. How did you deal with it then? How do you suspect this FOMC will deal with it now? As you see lines like this from Senators down in Washington, D.C. that I urge the Federal Reserve to ease monetary policy early this year. How did you deal with that, Rich?

**CLARIDA:**

Obviously we had to deal with it in a different context, but it goes way back. And I think Fed institutionally and Jay Powell individually understands the stakes. And I think he just thinks this is just part of the job and the Fed will look through it. And of course, the data is breaking in a direction where that completely reinforces it.

**KEENE:**

Richard Clarida, this is a good time to mention, of course, this is your public service to the nation with John Snow in Treasury, Paul O'Neill, and your work, of course, as Vice Chair, recently anointed by the Museum of American Finance to the Whitehead Award.

And I'm going to go back there to Paul Volcker and others. I'm sorry, Richard Clarida. At the end of the day, you were teaching Politics 101 at Columbia. This Fed has to go into an election cycle no one watching or listening has ever seen. How political does the Fed get, say, Labor Day?

**CLARIDA:**

I think the Powell Fed will not be political, but it's inevitable that monetary policy will be pulled into the political presidential discussion. I think they're prepared for it, and I think they have decided, or they're deciding what they think they need to do based on the economics. And when they're ready to go, they'll communicate it. I'm confident they'll succeed, but I don't disagree that there is going to be enhanced emphasis and focus and a political element to the focus on this.

**ABRAMOWICZ:**

Richard Clarida, one thing that was really notable about the December press conference was that Fed Chair Jay Powell had an opportunity to push back against that rosy outlook, this sort of flooding into risk assets that Robert Tipp was talking about and that so many people have embraced. He didn't push back. Do you think it's going to be the same at this press conference that he will just say ultimately the markets will do what they want to do, we’re watching something else and we're on a good glide path?

**CLARIDA:**

Again, I think this is going to be a press conference where it will make sense for the Chair to really hug that FMC statement. There was a lot of red ink. It was there for a reason. It gave the message basically trying to dissuade folks from pricing in that March adjustment and talk about how they want to see the considerable and additional evidence. And so I think that's a pretty good place for him to spend most of the day, at least on those sorts of questions.

**FERRO:**

I have to say, Rich, you're not hyping up this news conference at all. I appreciate the honesty, though.

Richard Clarida, let's come to you and just wind things up and put a bow on it if we can. This has been a single mandate central bank for the last couple of years with a focus on inflation and getting it back down towards 2%. Can we talk about the other side of the dual mandate? Is there anything to worry about in the labor market from your perspective?

**CLARIDA:**

The labor market is in a very good place. If anything, it's running a little hot, but I do think there's a path for that to adjust under the outlook. So with the labor market, that's what we want: maximum employment. We're at perhaps a little bit more than maximum employment, but wage inflation is decelerating. We saw in the ECI and I think that's what they're factoring in for this year, continuing that.

**FERRO:**

Richard Clarida, thank you, sir. And congratulations on that Whitehead Award. Truly prestigious, sir. We appreciate your time.