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**SCOTT WAPNER, CNBC:**

Welcome back. We are rallying big time today on the heels of those strong results out of big tech, even with a stronger than expected jobs report, which maybe cements the fact that March is not going to happen, as Fed Chair Jay Powell suggested during his news conference. So maybe we really do need to move on from that. For better clarity, let's ask former Fed Vice Chair Rich Clarida. He is PIMCO Global Economic Advisor and joins us now. Good to see you. Welcome back.

**RICH CLARIDA, PIMCO:**

Glad to be on the show.

**WAPNER:**

You told our producer on this segment that today's jobs report would be, quote, unwelcome news for the Fed. Why wouldn't it be exactly the opposite?

**CLARIDA:**

Well, the Fed has tried to engineer that soft landing, and I think in their mind, 350,000 jobs looks a little robust, in particular the tick up in average hourly earnings. I also think, however, that there are typically some seasonal factors in January. So I don't think they'll secure a huge amount of weight, but they were certainly thinking of a little bit softer landing than you would get from this report.

**WAPNER:**

But did you have the idea that what was once — we need to really hurt the job market from the Fed has clearly seemed to morph into a, look, we don't want to ruin a good thing. So it's a really delicate balance.

**CLARIDA:**

It is. And I thought the Chair was very effective the other day when he indicated that the Fed welcomes a strong labor market. It’s evidence that we're going to be able to achieve the disinflation that they want. So the Fed actually likes a strong labor market, but they also want inflation to return to 2%.

**WAPNER:**

Were you surprised by what he said about no March, that he was as explicit or

answered that question he was asked as explicitly as he did?

**CLARIDA:**

I was a bit surprised in the press conference because a straight reading of the FOMC statement conveyed to me that he and the committee wanted that optionality. I'll give Jay Powell credit. He did say in the first person “I think it is too soon”. So maybe the other 18 folks have a different view, but yeah, he certainly did convey his own thinking there. And for what it's worth, I agree with it. I just don't think we'll have all that much more data between now and March. And so if it made sense not to move in January, I think probably in March as well.

**WAPNER:**

Do you think it opens the door in any way to descents, a more fractured Fed, if you will, and the debate becomes more rigorous in the room?

**CLARIDA:**

That could well happen. I think it's been remarkable how unified the committee has been through what has been a challenging period in terms of aggressive rate hikes, but I haven't really picked up on that too much in the speeches by the different officials. So I think it's probably too soon to worry about that.

**WAPNER:**

What makes sense to you then in terms of — what's your own gaming this out? When does the first cut happen?

**CLARIDA:**

I think especially after today, June is looking like a pretty sensible meeting to pencil in. At the June meeting, there'll be a set of projections. They'll have a lot more data by then. I think the committee has decided that they're done. The Chair more or less confirmed that and that they are discussing cuts. And so if I don't think it's March, it would either be May or June and I would lean to June.

**WAPNER:**

How many do you think we will get in total this year?

**CLARIDA:**

I'm still in the three camp. I know that makes me boring because that's what they wrote down in September. But I think three cuts beginning in June would be my baseline right now.

**WAPNER:**

What do you think their take is on what the stock market is doing? This rally is nothing short of incredible. New highs obviously, new record highs and we're not just that far away from S&P 5000. Does that make them uneasy, nervous? What?

**CLARIDA:**

It's a good question, Scott, because as recently as November, they were citing financial conditions directly in the statement. You may have noticed they took out any reference to financial conditions in the statement two days ago. Of course they're looking at financial conditions, but they are also looking at credit spreads and other indicators. And so I think they're thinking that it's consistent with a soft landing. The Chair won't use that term yet. But I think right now that's how they're interpreting it.

**WAPNER:**

Do you have any worry whatsoever that they wait too long to cut, that they're looking at either backward looking stuff or they're just too afraid to come to a consensus to move and it becomes too late and they do undue harm to an economy that they never had to do that to in the first place?

**CLARIDA:**

I've heard those arguments. I respect that to some extent. But I think given the data flow that we're seeing, that would not be a front and center worry for me. I think we'll have enough indication of the economy slowing. And of course, if the economy slows and inflation falls faster as you'd expect, they can move more rapidly. So no, I've heard that argument, but I'm not very persuaded by it.

**WAPNER:**

But I could look at offsetting things, if you will. I say, okay, well, today's job support is a blowout. Why would they go in March, but then if you look at employment cost index, for example, or PCE, all of those are trending overwhelmingly in the place that makes the Fed most comfortable because they look at those metrics perhaps closer than anything else. So I could say, well, those would suggest why not March?

**CLARIDA:**

And I think the answer is that although the progress on inflation in the last six months has been welcome and remarkable, it's been driven largely by goods inflation. Services inflation is still running a little bit hotter than would be consistent with the target. But again, I think they are going to cut. They think they're going to cut. And certainly given the data they're looking at, May will be a live meeting. I think that would be the way I'd sum it up.

**WAPNER:**

Any doubts in your own mind that they pull this off, that we have a soft or so-called no landing?

**CLARIDA:**

Scott, I would distinguish between the no landing and the soft landing. I think with no landing, you don't really get inflation returning to two percent. So I think this has been a cycle where we've been surprised. When I was there in 2021, we were surprised. And so you have to be a little bit humble about forecasting. But things are looking very, very favorable right now. And I think that that should be the focus.

**WAPNER:**

Well, you allude to something. And I want to end on this. The idea that if growth remains too strong, you can't bring inflation down to two percent. Or that's the principle worry of the Fed. Is that necessarily true and isn't the inflation data proving that it might not be?

**CLARIDA:**

I think what I'd look at, Scott, is it coming from improvements in supply? No, we've had some really good news on productivity. Productivity is very noisy, but the last four to six quarters have been strong. We were getting good news on labor force participation, but that's been sort of flat lining recently. And so I think that you can get strong growth in disinflation if it's coming from the productivity side. If it's coming from the demand side, then that's really what rate hikes are meant to address. And so I think they are looking at the supply side pretty closely.

**WAPNER:**

That's why we have these words immaculate disinflation, right, which we're kicking around.

**CLARIDA:**

Yeah.

**WAPNER:**

Because conventional wisdom would suggest to you, well, maybe inflation can't come down if you still have the growth, but in fact, perhaps it can. Mr. Clarida, I appreciate your time so very much. We'll see you soon.

**CLARIDA:**

Thank you.

**WAPNER:**

That’s Richard Clarida joining us there.