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**BRAD SMITH, YAHOO:**

Optimism for a C.A. Fed rate cut in March is dropping significantly, down around 15% from 46% last week, according to the CME FedWatch tool. This comes after the strong jobs report and Federal Reserve Chair Powell's comments. Let's bring Tiffany Wilding, who is the PIMCO Managing Director and Economist to discuss what we could see from the Federal Reserve ahead of March. Tiffany, just walk us through your timing, your thesis as to what's this next few months, especially as we continue to think about the upcoming meeting schedule, what they could signal about the pace of some of their cuts.

**TIFFANY WILDING, PIMCO:**

Yeah, well all of those are really good questions and I think as just taking a step back, you know, really what the Fed is trying to balance right now. Obviously there is the risk that maybe the job isn't done. Inflation settles somewhere above target with the risk that they're going to do too much and sort of needlessly weaken the economy. And the data quite frankly hasn't really been that useful. Obviously the data is useful, but there's been some question that's arisen from the data because on the one hand, we have very strong growth and what we would argue is still a tight labor market, although it's eased versus last year, well on the other hand, inflation has come down. So obviously this has been almost a “too good to be true" kind of experience and I think the Fed just wants to be sure that inflation's coming down in a sustainable way. So what does all that mean? Well, we had been arguing that March was probably a little bit too early. Chair Powell confirmed that at the most recent FOMC meeting, we think FOMC officials themselves are looking more like a mid-year, maybe a June timeframe for the first cut. But then after that, their own forecast suggests that every other meeting pace could be likely. But when we look historically, what we've found is that in rate cutting cycles that were not coinciding with recession, something like every other, excuse me, in every meeting pace is making it more likely. So maybe they get going a little later, but they start to go, when they do go, they go a little faster than their current projections.

**SEANA SMITH, YAHOO:**

Tiffany, what does all this mean then for the job market? Because just looking back at Friday's number, obviously much hotter than what the Street had been anticipating, what many economic forecasters have been expecting to see on that print. Will we be able to or will the Fed be able to orchestrate and pull off this soft landing without causing too much harm to the labor market?

**WILDING:**

Well, you know, so I think that is really the key question. And obviously, the Federal Reserve officials believe that they can, you know, and one of the things that we would just note here is that for the unemployment rate to stay consistent, to stay constant, the kind of the neutral level of jobs that the economy can create is about 100K per month. Now, we've been creating much more than that, you know, 250, 300K in the fourth quarter, you know, it is well above that. So eventually, that kind of job gain should put some downward pressure on the unemployment rate. And that's, you know, that's a hot economy that should result in support of inflation. You know, so I think the Fed really wants to be careful here. I do think you need some weakening in the labor market and labor demand. One of the reasons why we haven't seen the unemployment rate increase, despite the fact that jobs have been strong, is because we've had a labor supply that's come back. You know, some of the folks that maybe took a “time out” after the pandemic have come back, and obviously immigration has been quite strong this year. You know, but ultimately, those factors, you know, they look set to fade. And so we really kind of need some cooling off of the labor market here in our view, in order to get inflation sustainably back to target.

**BRAD SMITH:**

Does all the data right now say “soft landing” or does it say “no landing”? And what does a “no landing" look like Tiffany?

**WILDING:**

Well, you know, I think it's all a matter of timing, right? You know, the markets are going to trade, you know, data, economic data, you know, can certainly lead markets to trade one way or the other. You know, I think ultimately, our own view is that probably over time, over the long run, “no landing” is really not an option. Chair Powell has said, you know, that, you know, in not so many words that he doesn't want to be Arthur Burns, they're not going to stop until they get the job done. And so, you know, that's why they're being very careful here. And as I mentioned, you know, I think that balance, you know, the balance of risks here is that they maybe wait a little bit too long. They're delayed in cutting, but then they have to cut a little bit faster than they're currently projecting. So I think eventually we will get back to two, you know, but right now the economy looks strong. And it looks like maybe the Fed has a little bit more work to do in terms of remaining restrictive.

**SEANA SMITH:**

Tiffany, what you're reading on sectors of the economy like the housing market, which could potentially suffer a bit more if the Fed in fact doesn't cut rates until the middle of the year.

**WILDING:**

Yeah. So the housing market is a little bit tricky in some sense for the Fed. And the reason is because, you know, after the 2008 Financial Crisis, obviously we had a housing boom. We had big, big levels of inventories of housing as a result of that. But after the Great Financial Crisis, we just stopped building in the United States. And years and years of underbuilding have resulted in actually a housing shortage, specifically at affordable housing shortage, which we're dealing with today. And the problem with Fed policy or the kind of conundrum with Fed policy is that when you raise rates, real investment, real residential investment. So the supply of housing, you restrict just as much as demand. So, you know, in terms of the longer term housing shortage issue that the U.S. is facing, you know, it's not actually clear that higher interest rates are helping that. And so that could be a little bit of actually an inflationary headwind for the Fed moving forward. You know, now we do think if rates fall, you will see a pickup in housing activity pretty quickly as a result of that housing shortage. And of course, you know, the Fed, you know, that's, you know, that's not something that the Fed wants either. So housing's a little bit tricky for the Fed right now.

**SEANA SMITH:**

All right. Tiffany Wilding, always great to get your insight. Thanks so much for joining us here this morning. PIMCO's Chief Economist. Thanks Tiffany.