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**ROMAINE BOSTICK, BLOOMBERG:**

And then, of course, there's still a focus on the macro, even though the micro dominates right now. We did get Fed Minutes just a little while ago, and the markets are taking their time to digest exactly what we learned about what the Fed discussed at its last meeting. The big concern there was, well, are they going to cut rates too quickly? At least that's what the market wants to see, not necessarily what the Fed wants for itself. Former Fed Vice Chair and now, PIMCO's Global Economic Advisor, Rich Clarida, joining us right now to give us his thoughts on — I don't know if it's a conundrum, Rich, maybe that's not the best way to put it, but this is a Fed that has made clear that that last mile down to a 2% inflation target was going to be a little bit bumpy. I think we saw that, certainly in the inflation reports last week, and we certainly saw that to a certain extent in the minutes and the discussions that were had behind closed doors at the end of January.

**RICH CLARIDA, PIMCO:**

I think that's right. I think in particular, the phrase that jumped out at me, Romaine, was, they said most of the members noted the risk of moving too quickly to cut rates. There was also a reference to some of the progress on disinflation may have been due to idiosyncratic factors, so that skewed a little bit in a bit of a hawkish direction. Of course, since that meeting, we in the Fed have gotten the CPI inflation data, which came in very hot, and a gangbusters employment report, so as often as the case, these are a little bit stale, but my bottom line is maybe a touch more hawkish than perhaps we got out of the Chair's press conference in January.

**BOSTICK:**

Are you convinced that where rates are right now, meaning the Fed funds rate, that that is indeed the peak?

**CLARIDA:**

Well, you start with what they think, and they think it's the peak, and the minutes confirmed that, and Chair Powell, more or less, said that at his press conference. So I think that has to be the baseline. In life, and in Fed policy, there are risks on both sides, and so you wouldn't want to attach a zero probability to the fact that they may need to hike if inflation moves up, which they don't expect, and we don't expect. But yeah, they think they're done, and they probably are done.

**GINA MARTIN ADAMS, BLOOMBERG**

Rich, talk to us a little bit about the role that the jobs market is playing in the Fed's decision process. So when they're thinking about growth, and they're thinking about jobs, and the sort of stickiness of the jobs market, is that the key factor here? While we're all focused on the inflation numbers and getting back to 2%, isn't it really about, are we seeing enough jobs weakness to really justify a cut?

**CLARIDA:**

I think the Fed's thinking has evolved. The traditional macro model would say if you want to slow inflation, you've got to see at least some rise in the unemployment rate. We have had a slowdown of wage inflation, indeed, the employment cost index, which I think is the one they follow the most closely, has shifted down into the high threes. And so I think this is a Fed in particular, a lot of new folks around the table, when I was on the committee, this is a Fed that is perfectly happy to have the labor market adjust through wages and vacancies so long as it doesn't necessarily require a rise in unemployment. So I think so far that view has been borne out.

**ADAMS:**

And then how do you think they incorporate the signals from the market itself? Obviously, the bond market has been pretty frenetic around the last couple of months, pricing in for several cuts, and now really contemplating maybe a hike. Do they care what the bond market is doing around these times? Are they a little bit concerned about the degree of volatility that has emerged in the bond market?

**CLARIDA:**

I've pointed this out before. There was a disconnect that opened up after the December meeting. At the December meeting, they indicated that most participants thought that three cuts this year would make sense, and the market at one point was pricing in six. So since we got that hotter CPI and employment data, there is now a pretty good alignment between at least where the Fed was until recently and where the market is pricing. So I think that's going to be part of the cycle. It's been part of other cycles. If you look at the record, when the Fed says they think they're done, the markets will be off to the races to price in those cuts. So I think more or less, this is part of what they're expecting, but I think there's a better alignment now than there was after the December meeting.

**BOSTICK:**

Is the job market, Rich, also aligned with that same narrative?

**CLARIDA:**

It's moving in that direction, Romaine. I think they have pointed out, if not in the minutes, then certainly other times, that wage inflation, compensation is about two-thirds of cost for many companies. It’s still a little bit hot relative to the number that would be consistent with price stability. On the other hand, we have been given some good news on productivity. Now, even if you average through the pandemic gyrations, which were substantial, productivity growth is probably at the high end of where it was before the pandemic, and that's quite important. Unfortunately, productivity is hard to forecast, but strong productivity numbers definitely move in the direction they want.

**BOSTICK:**

Well, I'm glad you went there because there's been a lot of concerns as to why we haven't seen a more meaningful shift in productivity, higher productivity, at least in past economic cycles. We're getting some of that now, but as you know, Rich, there's a lot of talk about artificial intelligence and all the companies involved in that, and what it could potentially mean for labor productivity, and just the overall efficiency of this economy. I know it's kind of early, but do you see a promise that AI and some of the technologies associated with it could lead to greater productivity?

**CLARIDA:**

Sure, there's that promise. Technologists think it potentially is at least as big a deal as internet connectivity and personal computing was, and of course, that led for at least a decade or so to about a percentage point increase in productivity. I think it's too soon to tell, but obviously that's a real possibility, and part of what stock markets do is try to value that possibility. I think right now that the Powell Fed is really focused more on the here and now. The economy also benefited from an increase in labor force supply as well, so I think that's their focus.

**BOSTICK:**

All right, Rich. Got to leave it there. Great to talk to you. Richard Clarida, former Fed Vice Chair, now PIMCO’S Global Economic Advisor, helping us count down to the closing bell here on this Wednesday afternoon.

**CLARIDA:**

Thank you.