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**SARA EISEN, CNBC:**

We're going to stay with the Fed and how all the data this week impacts the timeline for cuts. Let's bring in PIMCO economist Tiffany Wilding. Have you guys changed your view of what happens this year based on the recent data we've gotten, Tiffany?

**TIFFANY WILDING, PIMCO:**

So we think the risk at least at this point just given the data is that they do maybe cut fewer than what the median is currently penciling in. So about 75 basis points is currently in the median SEP projection as Steve Liesman was discussing. And we certainly think the balance of data that we've seen would suggest that maybe going a little slower than that is okay. Now, having said that though, I do think they are pretty certain they want to get started with rate cuts around the middle of the year. Our read of Powell during the semi-annual testimony was that he almost pre-committed to a cut around mid year. We think they want to get going, but I think there's a broader question of, will this be closer to a mid-cycle adjustment. something like we saw in the 90s, or is a start of a broader cutting cycle? And I think the jury on that, in some sense is still out. It will be dependent on the inflation data.

**EISEN:**

You bring up a good point. It's all about the framing of this. And it does feel like how they're going into the cutting scenario is not thinking of it as easing. They're thinking of it as adjusting, right? And as long as they continue to follow that script, maybe it allows them to go earlier than maybe they should.

**WILDING:**

So I think historically, taking a step back, central banks are always kind of delayed, in their reaction and in their rate cuts. Usually, historically, they're cutting in response to recession. They're not really good at forecasting a session ahead of time, but they're good at knowing when their economy is in one. And so we always have kind of thought the Fed's probably going to be delayed. They don't want the Arthur Burns legacy. Understanding how delayed they will be is a bit more of an art than a science in terms of estimating that. There's various tailor type rules out there that already suggest they are late to cut. And I think we've been discussing this “two point something” zone for core PCE. As long as they're below three, maybe that's okay, and they can cut. So it's a bit more of an art than a science here, quite frankly, but I guess the bottom line for us is that we still think you need some more labor market easing in order for inflation to more fully move back to target on a sustainable level.

**MICHAEL SANTOLI, CNBC**

Yeah, that has been one of the bigger questions, Tiffany, that the Fed has attempted to set aside starting late last year. They didn't necessarily think that you really needed to slow the economy that much more to achieve what they wanted to achieve on inflation. I'm not sure if that equation has actually changed or if they will acknowledge that it changed. On the other hand, their framework still says they’re at five and three eighths on the Fed funds. Inflation, even if it's not as low as they'd like, is still below three. They feel like they're restrictive. And also, I guess even if you're not on the Fed, if you think inflation is being a little more stubborn, is a cut from five and three eighths to five and an eighth or whatever, going to be the thing that rekindles it even more?

**WILDING:**

Well, just on your last question, I think the worry is that the markets will pull forward easing because they're forward looking and you get more than easing in financial conditions that you want on that first cut. And I think that's why they've wanted to say that, hey, we want to be confident that inflation is going to be moving back sustainably to two before we start to do that in order to reduce the extent to which you get that market reaction. And then you do have the economy re-accelerating. Now I think there's potential for a focus on communicating that this is going to be really slow, and we could stop the potential cuts in order to try to keep financial conditions tight. But then the other thing here is just that maybe they're okay with a little bit of above-target inflation for a while. Like I said, two point something. Maybe if it's two seven, they're okay with that, knowing they'll continue to forecast they're getting to two. But they're kind of okay with it, realizing that for a little while, because they don't want to push the economy more in terms of dampening demand.

**EISEN:**

I think they signal that they're okay with it being a little high before they start cutting, but it has to be moving in the right direction. And up until this year, it really had been, and the progress has stalled out. And I guess one of the questions they might have to figure out is why, Tiffany. I get that energy prices are back up, and that's filtering through, but why haven't we seen more progress in the rest of the economy? If we are starting to finally see the unemployment rate go up and consumer weakening.

**WILDING:**

So we've gotten some unemployment rate increase. Obviously, they really like the vacancy to unemployment ratio, in terms of understanding what labor demand is. How many openings do people have for labor that they can't fill? All of those things have been normalizing post-pandemic after the severe labor shortages that we had. But nevertheless, they're not back to pre-pandemic levels. If you look at the vacancy to unemployment ratio, we would argue, yeah, the labor market's eased, but it's still tight. And when you look at that in the context of the inflation data, core services, X shelter, which appears to be re-accelerating, it's in some of the wage data that looks like it's stalling out as well. That's why we think that some of these underlying inflationary pressures are still coming from the labor market. And as a result of that, maybe you need some below-trend growth and some more easing there in order to bring it home.

**EISEN:**

Thanks for going deep on that one with us, Tiffany. We really appreciate it. Have a good weekend. Tiffany Wilding of PIMCO.

**WILDING:**

Thanks.