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**JONATHAN FERRO, BLOOMBERG:**

PIMCO Economist and Managing Director, Tiffany Wilding, joins us now for more. Tiffany, let's start with the data tomorrow, and then we can sort of backfill and talk about jobless claims, which we just got. What are you and the team looking for, not just tomorrow, but ultimately, what do you identify in the current trend coming into tomorrow? And what things could look like in a couple of months' time?

**TIFFANY WILDING, PIMCO:**

Yeah, well, I think the bigger issue in our minds is just that after we did two quarters of 2% core PCE, inflation; the third and fourth quarter of last year, obviously, we got a revision, a very small revision to that this morning, we think the first quarter inflation reaccelerated up to over 3%. So, that's obviously going in the wrong direction for Fed officials. Christopher Waller talked about that in a speech last night. Powell seemed much more sanguine, but we think it actually will result in a lot of focus being on that second quarter core PCE, inflation number. It has to come down, we think. It has to come down from three. I think in order for them to get the confidence to cut here.

**FERRO:**

Governor Waller put forward the argument, Tiffany, that maybe they should go later or do fewer, Is that where you and the team are currently?

**WILDING:**

Yeah, I mean, we certainly think the balance of risks are skewed that way. I think the biggest argument that we would make is just that the growth has been quite strong, and we would argue, yes, there's some supply side improvements that are happening, but nevertheless, growth is above levels that we would think would be consistent with potential. And when you have above potential growth, usually that's tightening the labor market, not easing it, and of course, tighter labor markets will ultimately put some upward pressure on inflation. So, I do think the balance of risks here is that they are on hold at high levels for longer than they're maybe currently projecting. I think only one has to move for the median to move to two cuts this year. And that's certainly the way we think things are headed.

**LISA ABRAMOWICZ, BLOOMBERG:**

Do you think, Tiffany, that Powell is actually data dependent? Or do you think that this is a Fed that has it in its mind that it would like to cut rates at least once ahead of this fall just to get ahead of that and make sure that they're not being overly restrictive?

**WILDING:**

Yeah, I mean, I certainly think, when we listen to Powell, not only at the press conference, but his semi-annual testimony to Congress, it appeared to us that he almost pre-committed to getting things, to getting the easing cycle started in the middle of this year. And if you look at various Taylor-type rules, they would suggest that the Fed is already late to cut. I think they certainly have the cover to cut. And we've also been arguing that, as long as inflation is in the “two-point-something” zone, it probably gives them the cover to go ahead and do it. So, getting ahead of the election, might be something that they want to do in order to appear apolitical, but nevertheless, I think getting a cut in before the election, maybe they do fewer in the back half of the year as a result of the data.

**ABRAMOWICZ:**

Which raises this question. A lot of our risk assets have rallied on the heels of potential rate cuts in the near future, even if it's just one. A lot of people say, “it just gets the cycle going and it makes them feel good”, and they want to go out and buy risk. How much does that actually make the expected inflation down the road, higher? Actually, giving a little bit of a boost to some of the inflationary pressure that people are seeing around the edges, certainly in goods, but elsewhere as well.

**WILDING:**

Yeah, I mean, I certainly think there's a wealth effect here that's been important since the pandemic, obviously, because you had a lot of fiscal transfers, and I think that wealth effect continues to be important. And it is near-term, should be boosting demand and on the margin should be inflationary. So, yeah, I mean, I think overall continuing to manage financial conditions is something they're going to need to do.And I think that, maybe when they start to cut interest rates, to try to convince the markets that this is going to be slow, we could even stop for a time. We've been talking about the potential for this to be a mid-cycle adjustment. I don't think they'll ever say that, but that kind of language to try to keep financial conditions tight is probably what they'll continue to try to do in order to manage those inflation risks.

**FERRO:**

Tiffany, I just want to pick up on that mid-cycle adjustment. Remember the language of Chairman Powell a number of years ago, when he talked about extending the cycle. Is that what this feels like to you?

**WILDING:**

Well, ultimately, the Fed is projecting that they will sort of slowly march back towards where they think neutral is. But of course, neutral is very difficult to understand and to estimate, at any given point in time, right? We don't really know where neutral is until several years after the fact. And even then, the models are pretty wide in terms of their confidence bands. So I think I certainly think it's possible that they start to cut and the economy just re-accelerates a little bit. And that then stops them from kind of continuing to march back to neutral. I think over the longer term, we still think, demographics and lower productivity trends, probably make that neutral policy rate on a real level, kind of zero to one. But in the short run, we still have a lot of fiscal policy that's kind of sloshing around in the economy. The interest rate passed through to the consumers because of low rate, long duration mortgages has been relatively slow. So, those things can kind of keep the U.S. economy going. Even relative to our developed market peers who have been a lot weaker.

**ABRAMOWICZ:**

Tiffany, just this morning alone, we've had people come on the show and say, “We're early cycle”, say, “We're late cycle”. And now you're referencing “mid-cycle”. How confusing is it to really understand what cycle we're in, where we are in it, and how it's relevant to what's going to happen in, say a year's time?

**WILDING:**

Yeah, I mean, so I definitely think the pandemic has created a unique set of factors that have, really, made difficult forecasting, not only obviously for the economics community, but for market participants as well. I think that the key issue here is one of, honestly, one of supply. It’s, “how long can you get the kind of supply side gains that we saw last year to continue in the U.S. economy?” And of course, that's going to depend on productivity. We obviously saw a lot of immigration last year as well. I think there's reason to believe over the longer term that productivity could be great. AI, obviously, is something that can be very transformative for economies. But, that's- I think economists are worse at forecasting productivity than they are recessions, and we know, and we know how difficult that's been over the last couple of years.

**FERRO:**

Tiffany, appreciate the update. Tiffany Wilding there of PIMCO on the latest economic data. And what PIMCO and the team think about the Federal Reserve later on this year.