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**PAUL SWEENEY, BLOOMBERG:**

Rich Clarida, Former Vice Chair at the Federal Reserve now. He's got a paying job. He's a Managing Director in the New York office and PIMCO's Global Economic Advisor. Rich, thanks so much for joining us here in the studio here.

**ALIX STEEL, BLOOMBERG:**

Hey Rich, good to see you.

**SWEENEY:**

What is your Federal Reserve going to do? And when are they going to do it?

**RICHARD CLARIDA, PIMCO:**

I've been doing other things for two years, so it's not my Fed anymore. I think they think they're done. I think they think the next move is a cut. And certainly in the Resuppressed Conference, the Chair did not really try to push away the idea that they would start this summer. And so I think WIRP is more or less where I would be right now as well, three cuts. But I do think and hope that they are data dependent because the inflation data has been mixed at best. So I think it makes sense to start cutting now, but the pace and destination I think should depend on the inflation data, I hope.

**STEEL:**

I've been talking about this all morning Rich. Great to see you, by the way. In terms of the Baltimore Bridge collapse. And I understand overall, you can just go to a different port eventually. But in the short term, there could be an impact on disinflation for autos. And I'm wondering if we see disinflation stop for durable goods and goods stuff. Does that change the data? And does it change or push back a cut?

**CLARIDA:**

Great question. I think that the crisp answer would be “no”. For the simple reason that it's potentially a big shock to auto prices, although I think other folks think it could be attenuated. But I think the Fed would tend to, and that would be a good approach to look through that. So it shouldn't change the Fed's one or three-year inflation picture materially about this tragedy in Baltimore. And I think they would look through that. If that's the only thing going on. The tricky thing, of course, is that goods disinflation is a big part of getting down to 2% eventually. It's been happening in the last couple of years. But they need to be looking at that more closely, because there are other factors pushing up goods prices, including supply chains and all reshoring and onshoring and all that. So right now they’ve been getting a lot of help with goods disinflation, but they'll need to keep on top of that.

**SWEENEY:**

Rich, a lot of folks we talk to, whether they're academics or practitioners, they say, “Inflation is already whipped. If you look at the real-time data, it's done. We're done”. Why isn't the Federal Reserve not moving now? And perhaps because the Federal Reserve looks at data that's in the rear view mirror, what do you think about that argument? How do you kind of come back to that?

**CLARIDA:**

Well, I think that if the Fed were targeting the CPI inflation index, which is probably more well understood than the PCE, the CPI is running a point hotter now. It's somewhere in the high threes, maybe low four. So we really wouldn't be talking about Fed rates cut if the Fed were targeting a different index. Also, I think the Fed will tend to look at the drivers of inflation, if you will, the trend in inflation. And a big part of that is labor cost. And wage inflation has come down, but it's still a little bit hot. So certainly if I were still at the Fed, which I'm not, I wouldn't be in the “Mission: Accomplished” camp. I would be encouraged by the data we got in the second half of last year. And it's been very, very great as Governor Waller was saying two years ago that we've been able to disinflate without really any pain in the labor market. So knock on wood, that continues. But I don't think if you look at broader measures of inflation that were there yet.

**STEEL:**

Why did the Fed miss the boat on inflation a few years ago? And will they miss the boat now?

**CLARIDA:**

Well, I was there, of course, then, and a charter member of “Team Transitory”.

**STEEL:**

So you were “Team Transitory”?

**CLARIDA:**

Oh, yeah.

**STEEL:**

And everyone hated that that was the word, but yet that was true.

**CLARIDA:**

Well, it was in the FOMC statement, which I signed off on. So I guess I didn't hate it at the time. Look, initially in the spring and summer of 2021, headline inflation was high, but it was not really broad-based. In fact, I remember at one point saying to one of my colleagues, I'm not prepared to raise rates because used car prices are up 40%. But by the second half of 2021, it didn't matter. Every inflation index was going up and was very broad-based. And so I think the transitory story had a confrontation with reality, and the Powell Fed pretty quickly beginning in the fall of 2021, began to pivot to tighter policy. So “Team Transitory” was really in play for maybe six or nine months, but the Fed moved pretty quickly once the data changed.

**SWEENEY:**

And you feel like the economy is in such a position now that, again, we had some inflation data over the last month or so that kind of suggested to some people that maybe inflation's not beaten down here. So does it suggest that the Fed can in fact wait here and just kind of let the long and variable lags play out?

**CLARIDA:**

I think that's certainly an option. And I think that is a message the Chair was conveying at the press conference at the last meeting. They think their policy is restrictive. So one option, if you think policy is restrictive, is just to delay the cuts and the longer you keep policy restrictive, the more the lags will tend to kick in. But they're also very cognizant of the fact that they're getting some good news on the supply side. Labor force participation is up, productivity growth is up, and appropriately, they don't want to lean against that. So if more people are working and they're more productive, you don't want to try to lean against that.

**STEEL:**

Rich, what would be a word that you would use to describe inflation now? Like if it was, because, you know, to some extent, transitory wasn't wrong. Like for goods prices, it was transitory. Just the time frame of transitory was challenging. What's the word you would use?

**CLARIDA:**

I don't know if I have a word. I'd say we're on the right path, but there is a risk that the progress could stall. Maybe the next time I come, I can condense that to one word.

**STEEL:**

Okay, yeah, I'm going to think about that too. Risky? Risky, nerve racking?

**CLARIDA:**

Sticky and stubborn is a possibility. Yeah.

**SWEENEY:**

All right, Rich, you got your advanced degrees at some place in Cambridge, Massachusetts, but the bottom line is you’re a University of Illinois Illini. And Sweet 16!

**CLARIDA:**

And proud of it.

**SWEENEY:**

How do you feel about your Sweet 16 Illini?

**CLARIDA:**

Well, you know, I looked it up. It's been a long time since my Illini made the Sweet 16. In fact, it was 20 years ago, which in itself is pretty sad. Yeah, you got a root for them. I think when they did make it to the Final Four, they played in a North Carolina team that was better. So yeah, hope springs eternal. I graduated in 1979, so it's been a long time since the Illini have been the center of attention in basketball.

**SWEENEY:**

But you'll be rooting them against, I guess it’s Iowa State, this time, right?

**CLARIDA:**

Oh Yeah.

**SWEENEY:**

All right, good stuff. All right, Richard Clarida. Thank you so much for joining us. Richard Clarida Former Vice Chair at the Federal Reserve. He's also a Managing Director in the New York office of PIMCO, but of course, the most important thing on the CV is, he's a graduate of the University of Illinois, the Illini, in the Sweet 16.