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**SCOTT WAPNER, CNBC:**

Stocks higher for a second day as earnings season ramps up and investors look ahead to this week's key economic data. My next guest says higher inflation is helping build a “strong case for the Fed to delay rate cuts this year, possibly into December”. Let's bring in Richard Clarida. He is PIMCO’s Global Economic Advisor, the former Federal Reserve Vice Chairman. It's good to see you again. Welcome back.

**RICH CLARIDA, PIMCO:**

Thank you.

**WAPNER:**

So I'm just going to ask you straight up. Do you think the Fed's going to cut this year?

**CLARIDA:**

I do think they're going to cut this year. Everything that's interesting in markets is a probability, but I think the odds are that we do get at least one rate cut this year. Yeah.

**WAPNER:**

Is that your baseline? And if so, what was it, let's say, a few months ago?

**CLARIDA:**

Well, I was taking my lead from the projections, which coming into the year indicated three rate cuts given the data we had coming into the year. That looked like a pretty sensible path. Of course, since then, the inflation data has been disappointing and the economic data has been strong. And so I think dialing back the expected number of cuts makes sense. I do think that this Fed is in data dependent mode right now and that the data could either improve or get worse and that will dictate the path. But I do think we're going to get a cut. Yeah.

**WAPNER:**

Jamie Dimon, an hour ago, described the US economy as “unbelievable”. It doesn't sound like there's any need to cut rates.

**CLARIDA:**

Well, certainly on the growth dimension, Jamie is right. Of course, the Fed's looking at the inflation data. The Fed's also judging that policy is restrictive now. So cutting rates a bit is not running an easier policy. It's just removing some tightening right now.

**WAPNER:**

What do you expect the PCE to show this Friday after, let's be honest, the last few inflation reads, certainly CPI related, were a setback to say the least?

**CLARIDA:**

They have been. Our team, which does a great job on this, thinks it could round up to 0.3%. It's probably going to be right in that range of 0.25 to 0.3%. You look at that number in isolation, it doesn't seem very big, but multiply it by 12 and you get 3.6, which is too darn high. So yeah, the Fed would like something at 0.2 or below for sure.

**WAPNER:**

I'm going to put you back in the room as I like to do. The room where it happened, so to speak. So here we are. We're in April. We have an election this year. So where does the election factor in? And if you were still in the role in which you once sat, how would that go through your own mind as to what the deadline is before it's off limits?

**CLARIDA:**

It's a good point. I think there are a couple of issues here. First, historically, the Fed does adjust rates in election years just because the economy calls for it. We've seen hikes and cuts out of the Fed. When I was there in 2020, we cut rates. It had nothing to do with the election, but the economy collapsed in the pandemic. Look, I think the Fed is an independent institution. It'll make the call for rates based upon what it thinks it needs to do to deliver price stability. I would say that the way the calendar lines up, the November meeting is right after the election. So I think it would make sense if the committee thinks it is going to get those rate cuts in before November, I would say. But I think the judgment is what do you need to do for the economy? And I think that'll dictate it.

**WAPNER:**

How are you thinking about the danger in waiting too long? What's strong today in terms of the economy might not be strong tomorrow, and the last thing I'm presuming that the Fed wants is to have broken something, whereas it's really difficult to fix it once the glass shatters.

**CLARIDA:**

It is a great question. And I'll be very honest with you, I would probably come down on the more hawkish side of that debate. I think there is path dependence here. The fact that inflation has been above 2% now for three years would indicate to me that I think getting price stability and anchored inflation expectations would take priority. Obviously if you get a lot of flashing signals, you want to factor that into account. But I think in a close call, I would err more on the hawkish side of fewer cuts than more cuts this year.

**WAPNER:**

Let's discuss the target of 2%, or trying to get to the target. And that maybe the Fed cannot get it down to target because we're just not playing the game the same way that we used to. I'm curious as to whether you heard the comments from the economist Joseph Stiglitz today on CNBC who said, because of the pandemic and the wars and work from home that have led to this inflation in the first place, it's going to take a long time to work off the effects. We're not in a demand led inflation boom. And even the Fed Chair himself has suggested that and I think maybe changed his view on that issue over time. So how does all that factor into trying to get to 2% when maybe you can't get there anymore?

**CLARIDA:**

Well, the way I've put it, I think also on your show in the past, is I've thought all along going back a couple years that the real plan, the hope a couple years ago was to get inflation in the zip code, in the vicinity of 2% from above. It's what I called the two point something destination. I think it is a round number, around two and a quarter, two and a half percent per year. At that point, is it really worth disrupting the economy for that last three or four tenths? I think probably not. And I think in that case, you run on a balance of somewhat restrictive policy and you think over time, and I agree with my good friend and Columbia colleague Joe, a lot of this has been supply driven and it may take more time. And so yes, I would agree that keeping rates where they are, we're getting to adjust down so long as inflation is in that two and a quarter to two and a half percent range, I think makes a lot of sense.

**WAPNER:**

Well, I feel like you kind of just said the quiet part out loud. I'm wondering whether the chair himself, you think, believes that as well, that he's not going to come out and publicly say, yeah, we'll accept a target that's higher than 2%. But deep down understands the same issues which Mr. Stiglitz spoke about and what you just said you agree with.

**CLARIDA:**

Look, I think the target is two and I think they believe and I agree that the policy they have in place will over time bring inflation to two, but I think the committee can afford to let that occur over time and not to try to get there in the next six months. I think you do have to take into account the nature of the shock and I would point out if you look across the world in the Eurozone, in the UK, in Sweden, in many other countries, Australia, we all got hit with the same pandemic shock. It's all taking time to get inflation. Inflation has come down, but it's still north of target and I think that is a common global dynamic in this post-pandemic world.

**WAPNER:**

Interesting. Mr. Clarida, I appreciate your time so very much. I always enjoy our conversations. We'll see you soon.

**CLARIDA:**

Thank you. Me too.

**WAPNER:**

That’s Richard Clarida.