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**JONATHAN FERRO, BLOOMBERG:**

On the data this morning, the data tomorrow and going into the Fed next week, I’m pleased to say that with us is Tiffany Wilding of PIMCO. Tiffany, wonderful to catch up with you again. Just had a bit of economic data this morning going into GDP tomorrow. What are you expecting from the first quarter and how do you think everything we've seen in the first quarter of this year will shape the conversation next week?

**TIFFANY WILDING, PIMCO:**

Yeah, so we're looking for a pretty strong report. I think the Bloomberg consensus as you mentioned is two and a half, but our lean as well as is on the higher side of that. And I think the more important thing that we’ll be focused on is just the core measure of GDP, “Final Domestic Demand Growth”, which economists call it. That's going to be incredibly strong that strips out the volatile Trade and Inventories categories, and that looks like that's going to be above three. You know, the thing that we've been really highlighting and focusing on, is that this will be the third quarter in a row that we've gotten core GDP growth of above three, and that's something that we haven't seen since 2014; absent the pandemic related rebound. So all of this is to say that GDP in the United States is incredibly strong, and that strength has continued after 2023. We've seen strong momentum going into 2024. All of that suggests that inflation and pressures in the economy. You know, we'll run it we're running a hot economy here and it's not really consistent with inflationary pressures further moderating.

**FERRO:**

Do you think that will shape the language in the statement next Wednesday, when we open that up at 2 p.m. Eastern time? Is that going to look any different?

**WILDING:**

Yeah, I mean, I certainly think you could see some changes to the statement. But I think what markets will be more focused on is what Powell says in the press conference. And and his you know- in the past at least Powell has made reference to the SEP projections, prior SEP projections at a non-SEP meeting, and given us some hints on how he thinks they could change. And we think that's potentially what he could do now, set the stage for more revisions to the SEP that we're going to get in June. You know, say that the inflation forecasts are likely going to have to be revised up. And then as a result of that sort of hint at the fact that you could take out maybe one or even two cuts In the forecast for 2024.

**LISA ABRAMOWICZ, BLOOMBERG:**

Tiffany I hate to do this. I feel kind of a little bit dirty doing this But is this a pivot to the pivot that we got in December?

**WILDING:**

Well, it does seem like in some sense that the pivot party from December is over. And I think that says a result of the inflation trends that we've seen. And again, just the economy is just incredibly strong. We have argued that the so-called last mile on the inflation- in the inflation race is going to be the toughest and that's just because we have a strong economy, labor markets are tight. And that and that just is likely to result in inflation hanging above their target. And really the question is, are they okay with that? And it seems like there is some threshold. Maybe we think it's 3% where they won't be okay with that but above three, it's okay. But again, it's a bit- monetary policy is a bit of an art and a science here. So I think the art is that they don't really need to be cutting. They shouldn't be in a rush and so really it's up to them to choose when they start to do it.

**ABRAMOWICZ:**

You said the “pivot party” is over. When people were talking about the “pivot party”, it included a real rally in risk assets. So I wonder, “Okay ‘pivot party’ is over. The ‘earnings party’ is just getting started”. Is this basically an economy that can handle where we're at right now? And that's basically what we're hearing from a lot of people around this table.

**WILDING:**

Yeah, I mean, it's certainly- if you- and not only obviously; if you- well the equity market; we look at equity risk premiums and even though you've seen some weakness in the equity market, the additional yield over treasuries- earnings yield that you get over treasuries, is still looking okay. We're still looking rather narrow in the equity market. So from a valuation perspective, equities still look somewhat rich here. But nevertheless, I would just say if we look at the GDP data, the data that I focus on more, we're seeing a re-acceleration in cyclical sectors of the economy. That is, residential investment even in CapEx and things like that. Corporate profits- NIPA corporate profits have re-accelerated as well. And this is at these high level of interest rates. So it does seem like the peak effects of the monetary policy drags, they are increasingly behind us. And that suggests that yeah, maybe the economy can withstand rates at these higher levels.

**ABRAMOWICZ:**

Which raises this question, how much do financial conditions frankly, how rich stocks are? How well-bid Credit markets are? How much does that influence, how long inflation can be persistently above the Fed's target?

**WILDING:**

Yeah, I mean, I think I think overall, the Federal Reserve monetary policy works through not only the policy rate, but a broader context of financial conditions. And the point that we've been making lately is that you need financial conditions to tighten here, in order to cool the economy down. And the question is, how does the Fed engineer that? Now partly, they can engineer that through just staying on hold. The bond market is still pricing in cuts. So the longer they push that out, stay on hold, that should sort of mechanically tighten financial conditions. And I think that's what the Fed will try to do and just see if that's enough. And maybe rates on hold longer will get them that financial conditions tightening that they need, in order to cool things down a bit here. But of course if not, then they'll have to find other ways to try to tighten a little bit more.

**ANNMARIE HORDERN, BLOOMBERG:**

I know we're all focused on inflation this week, but I want to ask you about the jobs market. Because in your note you talk about elevated immigration boosting both supply and demand. What happens if we still don't have the same levels of immigration? Whether or not it's an executive order that Henrietta Treyz says, potentially coming out of the Biden administration or a whole new paradigm next year if we get an entire different administration.

**WILDING:**

Yeah, so that will result in growth slowing, for sure. Because immigration boosts both supply and demand, the effects on inflation are more nuanced, we would argue. And they're less clear. So what we could see is if you have immigration that is falling; we've had a lot of asylum seekers cross our borders over the last couple of years. We estimate that that's contributed around 50 basis points to 100 basis points to GDP growth, so if you don't get that we will absolutely see growth slowing. But in terms of the inflationary effects, that's certainly less clear. Now, there are folks that are in the economy now, they have workers permits, they're waiting for their asylum hearings. I guess if there's policies to try to make them wait in Mexico or other places like that, that growth drag will be even more. But, we'll just have to see how that plays out.

**FERRO:**

Tiffany, as we were talking, and we're talking about US strength; how pronounced it is, how much longer it could last, I was just thinking of your cyclical outlook, that you helped lead and really through that note; the amount of divergence that we can expect. What about everybody else? What is the growth backup drop going to look like, The US versus the rest of the world?

**WILDING:**

Yeah, well ultimately, we still think that there is some durability in this US exceptionalism story that started in 2023. And really the factors that we believe contributed to that was just the fact that the US government fiscal stimulus during the pandemic was much larger, than it was in other developed markets. We've also seen what I call, “less mean reversion”, in our federal government fiscal deficit since then. They've been kind of structurally hanging around six to seven percent. Everybody else has managed to get more fiscal retrenchment. The other thing for the United States is that we've seen less pass-through of monetary policy via the interest rates that people actually pay. We have a large stock of mortgages that are low duration, low interest pay- long duration, low interest paying. That's just not- the consumer is not feeling really the effects of higher mortgage rates in the United States, they are elsewhere. So we think these things can continue, at least through our cyclical horizon. I think structurally, the US economy is also just delivering better productivity growth than some of our peers. And I think that can certainly continue versus Europe for example, where they've had a pretty big energy shock that's made them somewhat less competitive. Obviously weakness in China is also had a bigger impact on Europe. But all of these things in our minds can contribute to this US exceptionalism story, and eventually that's also going to create divergence and monetary policy, we think.

**FERRO:**

Tiffany enjoyed this and enjoyed the note as well. Tiffany Wilding there of PIMCO.