Fed Unfiltered, Transcript
6/1/22 – Tom Barkin, Interview: Fox Business

Liz:

In a Fox Business exclusive, we welcome Federal Reserve Bank of Richmond President, Thomas Barkin. Welcome, Mr. Barkin. Thank you for joining us.

Tom Barkin:

Hi, Liz. Great to be with you.

Liz:

Great to have you. All right. Jamie Diamond playing weather caster aside, what signs of a coming recession or stormy economic weather do you see right now?

Tom Barkin:

Well, as I talk to businesses, they are talking about the risk of recession, but then I always ask the follow-up question, which is, are you changing what you do? And right now, what I'm still hearing is people investing, consumers spending. You can't find recession in the data and you can't find it in the actions of executives. So I grew up in Florida. I learned you always prepare for hurricanes, but a lot of them pass and don't hit hit you.

Liz:

Yeah. That's a good analogy. I like that. But as the bankers warn of what they see as a real problem, and they've got clients too, and a lot of customers in business, it coincides with the official start of what you at the fed are doing. And that of course, is drawing down the fed balance sheet, the reducing of the nine trillion dollars. Starting today, every month till Labor Day, the fed's going to shrink, what, the balance sheet by 47 and a half billion dollars, that jumps up to about 95 billion starting, I believe, after Labor Day. What role does the winnowing of the balance sheet have when it comes to bringing interest rates to the point that you guys need to see them at?

Tom Barkin:

Well, I do think it's time, both on rates and on the balance sheet to normalize where we are. I think with inflation, this elevated ... and the economy's still this strong. It just makes perfect sense to do that.

Tom Barkin:

I'll say the reduction of the balance sheet is the kind of thing that's relatively new in our experience. And it's still stayed in lots of places, but it's clear to me at least, that it does a little bit more on top of the interest rates to tighten rates and therefore help bring inflation down.

Liz:

So you couldn't say, or can you say by the end of the year, perhaps does that equal maybe 50 basis points, which would mean one less federal reserve tightening?

Tom Barkin:

There's a lot of estimates of this, I have to say. It's hard to find one that's more credible than another. I think Jay used in his press conference, maybe 25 basis points a year as a marker for that. But I think the range of estimates is pretty broad on this.

Liz:

Yeah, this is true. Everybody's got their own calculations. The fed's longstanding goal has been getting interest rates back to what Jay Powell has said is a neutral position of about 2%. Mr. Barkin, what's your neutral position?

Tom Barkin:

Well, neutral's another number that if you look at our estimates in the SEP, you'll see a range between two and three. If you go into the literature, what you're going to find is a confidence interval of about 150 basis points. So I'm not sure that I find neutral to be the thing. I look at real rates on a forward looking basis. You could argue that from five years up, real rates are back to positive on a forward looking basis. And obviously, we've still got room to go on shorter rates.

Liz:

Well, let me put it this way to you then, do you think the committee will have to go above 2% or what at least Jay Powell says is neutral to really douse inflation fires?

Tom Barkin:

Well, we'll see. Jay laid out a path for the next couple of meetings that I'm perfectly comfortable with. And when we get to the fall, I think we're going to have a lot more information on the strength of the economy. We're going to have a lot more information on the pace of inflation. Those are the two things that I'm paying the most attention to, and stronger inflation and the stronger the economy, the more the case to do more. And to the extent that the two are weaker, the better the case is to do less.

Liz:

I'm glad that you just brought up paying attention, paying attention to certain things. The fed has always said, "We don't pay attention to the stock market. The stock market is separate from the economy," and it is, it's almost like people say that it's six months ahead sometimes of the economy, but May 20th, the S&P came within a cat's whisker of dumping into bear territory.

Liz:

So you've got the bankers sounding the alarm. You've got the stock market looking very close to bear territory at one point. Now it's down about 14%. So still in correction. It's easy to say that, but how much does that weigh on there? Because as we started to see a lot of volatility lately, you had Raphael Bostic of the Atlanta fed suddenly say, "Well, wait a minute. Let's do 50 basis points June and July. And then pause by September." And then he kept saying, "We have to be sure that we're not reckless."

Liz:

I'm not asking you to comment on a colleague's comments, but I am asking you whether some look at the volatility and get a little wishy-washy when it comes to continuing on the path of rate hikes?

Tom Barkin:

Well, when I say I'm going to be looking at demand, you know what I'm looking at? The question of, are consumers pulling back from the economy? Consumer spending's two thirds of the economy. Consumers might pull back because sentiments down, that's something we definitely see. Consumers might pull back because markets crater, if that were to happen, that's something, but I'm really looking less at the driver and more at the result, which is, are consumers pulling back from the economy? If they were, that's the kind of thing I'd want to pay attention to.

Liz:

Aren't they kind of starting to do that? I mean, we heard from Target, we heard from Walmart, we heard from SNAP, which is a little bit different considering that's sort of a technology type of company, but they all said that the situation changed markedly beneath their feet. So somebody's seeing something, are they not?

Tom Barkin:

I'm still hearing very strong consumer demand at the high end. And at the lower end, what I'm hearing is the start of the kind of trade down you normally see when things get a little tighter.

Tom Barkin:

If you look at the PC numbers from a week ago, they were still extremely strong. Retail sales still look healthy. So I'm not seeing yet in the data, anything that made me concerned about consumer spending. And you'd still have a significant amount of excess savings and increased network since beforehand. So I think the dynamics would support spending.

Liz:

Were you surprised, because many people were, depending on where you stand on this, that Janet Yellen and the treasury secretary said on CNN yesterday that she got it wrong on inflation. And she basically admitted that she missed, and here's the quote, "She missed large shocks to the economy," and that they would boost energy in food prices and that she didn't, "fully understand supply bottlenecks that have affected our economy badly."

Tom Barkin:

Well, one thing I try to do on a constant basis is go back to what I used to think and ask myself whether I was right or wrong. I remember extremely well the times I was right and not that well the times I was wrong. But I think it-

Liz:

Selected memory.

Tom Barkin:

Yes. It's very hard to predict the future. I certainly didn't see the Ukrainian situation coming and what that's done to food and oil prices. Like many people, I saw the notion that workers would come back to the economy faster as highly likely. And it turned out not to be that. So I think it's an extremely constructive process to take a look back and reflect on what you learned out of it. And I think that's healthy for anybody. And I certainly try to do that myself.

Liz:

Well, to be fair and to be honest, well before the Ukrainian situation, we started to see inflation, whether it be from the supply chain snafus that were triggered by all of the lockdowns, certainly China didn't help. So I'm not sure that resonates with the American public if they don't see that they are paying more, they were paying more a year ago January it really started. And therefore, that leads me to wonder, can the fed hold onto its resolve, continue to hike rates to bring those prices down even as those same people who are crying about high prices are also very upset about the problem with a slightly slowing economy?

Tom Barkin:

Well, one thing I hear as I go out constantly is, whether it be from businesses or consumers, I was with a bunch of construction workers two weeks ago, is people really do not like inflation. People don't like higher gas prices. People don't like our food prices and people want us to do something about inflation.

Tom Barkin:

I think there's actually unanimity on that. And so we're doing what we have to do on inflation. And I think to the extent that our tools work, which I'm convinced they do, we will have the right impact on inflation. I think that's what the American people want.

Liz:

The markets, of course, are pricing in a half point hike for June and July. That's pretty much expected. What scenario Mr. Barkin do you see that would push that to a 75 basis point hike? And is that a possibility, at least in the next two meetings?

Tom Barkin:

Well, I've said it publicly before, I never take anything ... put anything on the table or take anything off the table. So I guess anything's possible. That said, you have to just believe ... to change your pace, you'd have to believe that something fundamental changes in your assumptions. And in this case, I think it would have to be around inflation expectations.

Liz:

All right. So we're watching inflation of numbers right alongside you with the fed. And please come back, Mr. Barkin. Thank you very much for-