Fed Unfiltered, Transcript
8/30/22 – Tom Barkin, Interview: Yahoo Finance

Brian:

Well, Fed policy in focus after Chair Jay Powell delivered a short and direct speech in Jackson Hole on Friday with one message: The job's not finished on inflation. So what's next for Fed policy? Let's bring you Federal Reserve Bank of Richmond president, Tom Barkin, joining us in an exclusive interview on Yahoo Finance.

Brian:

Great to have you on the program, President Barkin. It's been a pretty busy morning in terms of economic data. We got jolts showing 11.2 million job openings in the month of July. And then Conference Board consumer confidence coming in higher in August. Just wondering how you're reading through that information, what it tells you about what the Fed needs to do next?

Tom Barkin:

Thanks, Brian. Greetings from Huntington, West Virginia, where I've been talking to business and community leaders about what's happening in the economy. And I think that data is very consistent with it. A month or two ago, the debate was whether we were in a recession or not. I don't think that's the debate today.

Tom Barkin:

The job market is still very tight. The data over the last four to six weeks on the demand side has come on pretty healthy. And so, I think people are still trying to work through the issues that we've been working with over the last year: labor market supply chain, and of course, pricing.

Brian:

So on that point, I guess, how hot does the labor market look right now? Because there was the talking point from Jay Powell that there might be some pain to be felt in the future, and maybe an expectation that unemployment's going to have to go up to take inflation down. What do you see on that front?

Tom Barkin:

Well, it is getting better in the labor market, particularly frontline workers. People have figured out creative ways to deal with that. Professionals, I think, especially with the recent announcements of some of the tech companies, are being a little bit more careful about switching jobs. But where it's really still very tight are the skilled trades, and carpenters, plumbers, manufacturing. I'd even put nurses in there, truck drivers. Those markets are still extremely tight.

Speaker 3:

So, put it in the simplest terms here. If we are hearing the Fed chair say, "Look, there may be some pain for Americans in the labor market," what should they be expecting?

Tom Barkin:

Well, I think the place to focus is inflation, and we're committed to getting inflation back to our target. We have the tools to do it and we're on a path to get there. It's going to take help in multiple places. So, we're going to do our part. Supply chains will ease in time. Hopefully, commodity prices will continue their path down.

Tom Barkin:

And I think we're not focused on pain in the labor market. We're focused on getting inflation down, which I just point out, based on my conversations, everybody hates inflation. Everybody wants that to come down. And so that's what we're focused on.

Brian:

And I was listening into your remarks earlier this morning where you said that you don't expect inflation to come down immediately. I mean, some of that could be the lag effect in monetary policy. So I guess I'm wondering, you're trying to make these Fed rate hikes, the full impact of which you might not realize until months in the future, based off of economic data that's lagging in the past. So how do you try to square that timing together? When could you see the Fed getting the impact that it desires in terms of the CPI or the PCE figures?

Tom Barkin:

Well, you've explained why at least we think our job is hard, because there is a lag. Financial conditions did move pretty rapidly when we started announcing a new path that was helpful. And you've already seen impact in places like the housing market, where mortgage rates are up and mortgage traffic... I'm sorry, home purchasing traffic has been somewhat down.

Tom Barkin:

And so, we are getting that kind of impact. We'll get more. Remember, we started this about six months ago, and now's the time we ought to be seeing it hit in the rest of the economy. But as I said earlier this morning, Brian, we'll also want some help on supply chains and we'll need some help on that commodity side.

Brian:

So I guess then, naturally, the question is for the Fed's next meeting in September whether or not you might want to stick with the unusually large sizes that you've been going in the last two meetings, 75 basis points each. At some point, is the messaging, you will make those increments a little bit smaller. Do you see the case for that in September based off of the data you've gotten so far?

Tom Barkin:

Well, I'm not going to prejudge it. We've got a pretty important jobs report, as you know, coming on Friday. We've got a CPI report coming in a couple weeks. Both of those are pretty relevant to my view on the economy, and of course, through that, on what the right rate path going forward should be.

Speaker 3:

The challenge of course is, there's certainly a lot of factors here that the Fed can't necessarily control. We've been talking about the supply in oil and concerns going into the winter. Obviously, a lot of that concentrated in Europe, but the concerns are here as well.

Speaker 3:

Despite some of the pullback we've seen in oil prices, you've got what's happening over in China and the zero COVID policy, potential for shutdowns that could have knock-on effects on supply chains that could affect inflation here in the US. How are you looking at those external factors in the broader context of where inflation is right now?

Tom Barkin:

Well, the world is very complicated, you know that, and you pointed out several reasons for it. And some of the things you talked about could work both ways. If you have demand shocks in Europe or in China, that could actually lessen some of the stress on some of these commodity prices. On the other hand, if you have supply shocks coming out, that could increase the stress.

Tom Barkin:

And so, I'm pretty attentive to the data. One of the reasons I don't really want to spend too much time predicting the future is that the future's pretty uncertain. So I'm going to spend a lot of time with the data before we get to the next meeting and the meetings after that, and try to end up with a path forward that for sure has the impact on demand that our rate path needs to have, but also is attuned to these other outside influences.

Brian:

When you talk about the rate path, President Barkin, I mean, we've seen a reversal in terms of the financial loosening in markets, which is a fancy word, I guess, of saying stock market going up and bond yields going down that we saw between June and essentially July.

Brian:

Now, after the markets saw what Jay Powell had to say on Friday, seems like there's been that reversal. Another market day red across the board. Do you feel like the markets are now getting the message clear from the Fed about what they're doing here?

Tom Barkin:

Well, I guess you have a tough job too, because you're watching the markets and they do move around. And luckily, I just get to focus on the economic data. The way I think about it is this. For us to have impact on demand, we're going to have to move real rates into positive territory across the yield curve. We've done that, and actually, we've made pretty good progress on that.

Tom Barkin:

But of course that requires us completing what we need to do in terms of moving rates into restrictive territory, as the markets are predicting. And so, I'm more focused on the rate path in terms of what we can control, which is getting rates into restrictive territory. And I'll try not to spend too much time doing what you have to do, which is looking at day-to-day movements in markets.

Brian:

Yeah, it does get a little tiring at times. Now, another market question though at the same time is quantitative tightening, the Federal Reserve getting up to speed, the speed that it wants to get in terms of rolling off the amount of assets that it has on its balance sheet. How do you think people need to be thinking about that aspect of things in tandem with your interest rate hikes, knowing that you're going to get up to that full $95 billion a month speed this month? Or next month. September begins this week.

Tom Barkin:

Well, I believe in symmetry, and if we believe that buying assets has a positive impact on financial conditions while we're buying them, then I think we ought to believe that shrinking the balance sheet ought to have some amount of tightening as we go.

Tom Barkin:

My personal belief is it's pretty modest on the way up and it's pretty modest on the way down. And I've been pleased with what I perceive to be very little market reaction to date to the three months of tightening we've already done. And so, we've pre-announced this path. I don't think there's any surprises in there. Everyone knows it's coming.

Tom Barkin:

And so, I hope and anticipate we're still very much at a point where this is just not going to be a big deal. Though it does work very much in the same direction as our rate increases. And so, I think it's consistent and supportive of it. I don't think it's determinative. I think, focus on the rates as the determination of what we're doing.

Brian:

And then, in terms of just the broad picture here, how difficult is Fed communications right now, whether or not that's with the people that you're visiting, for example, in West Virginia today, or to market participants that you're talking to, given the sensitivity to what the Fed is doing? If there's one story I feel like that has been the case over the past few months, it's that this is a very sensitive market and a very sensitive economy, with a lot of people wondering, "What's the Fed going to do next?"

Tom Barkin:

Well, I'll tell you, for the most part the people I talk to are not focused on the markets, they are focused on the economy. And they have two questions. One is recession and one is inflation. The one that really matters to them right now is inflation.

Tom Barkin:

With the job market as tight as it is, everybody dislikes inflation intensely. They think it's unfair. They think it's exhausting, frankly. And they'd like us to do what we need to do about inflation. And so, I'd say people are actually pleased to hear us take on the inflation task as straightforwardly as we are.

Speaker 3:

Richmond Fed president, Tom Barkin, really appreciate you stopping by the show today. Thanks so much for joining us.

Tom Barkin:

Great to be with you. Thanks so much.