Speaker 1:

Your response to that CPI print we got a little bit earlier.

Tom Barkin:

It's about as expected. Inflation's normalizing, but it's coming down slowly and I just think there's going to be a lot more inertia, a lot more persistence to inflation than maybe we'd all want. Part of that is still COVID factors, excess money in people's pockets, supply chain issues in places like cabinets and switch gears. Part of it's business factors. There are businesses out there still trying to recover loss margin. But I think the biggest thing is that after the experience of the last couple years, businesses have now understood that pricing is a lever again, and as I talk to the folks in my district, I'm hearing people still out there pushing price and trying to test where the levels of inelasticity really are.

Speaker 1:

So one thing we've heard from Fed officials including the chairman is that the disinflationary process has started. Is that something you agree with? Do you see much evidence of that and where do you find that evidence?

Tom Barkin:

Well, if you look at the 12-month numbers, you can see they peaked several months ago and they're coming down steadily, but that's one part of the puzzle is inflation coming down. The other part is actually hitting our target. It's going to take a while to get to there.

Michael Mckee:

Do the latest data that have come in, not just today's CPI, but the jobs report, et cetera, change your view of how far the Fed will have to go beyond perhaps what was in the SEP for December and does it change your view of inflation dynamics?

Tom Barkin:

Well, I try not to get too wound up in any particular data read, particularly a January data read, large seasonality factors, all that sort of stuff. But I do think what we are now in a position to do is to react to multiple months of data as they come in. We may or may not choose to take rates up further if inflation continues to persist, but we'll have to see what happens.

Michael Mckee:

Well, based on what you're seeing right now in terms of the path of inflation, the dot plot said 5.13% in December. You think that's enough?

Tom Barkin:

I think we'll see. We're going to get a PCE at the end of the month, another CPI before the next meeting, and then I think as the meetings go on this year, we'll see what happens to inflation. If inflation settles, maybe we don't go quite as far, but if inflation persists at levels well above our target, maybe we'll have to do more.

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Michael McKeen:

Do you think that maybe you and the markets are on a different timeframe, you're going meeting to meeting and they're looking out towards the end of 2023 saying you should be cutting rates by then?

Tom Barkin:

I'm not sure I understand markets. You guys are much better at that than I am. I'm very focused on what's happening in the demand in the economy. I'm very focused on what's happening to inflation and I think the way to think about my view on rates is were inflation to persist, we might have to do more. If inflation doesn't persist, maybe not.

Speaker 1:

How do financial conditions factor into that [inaudible 00:02:46], into that view? How do you think about financial conditions?

Tom Barkin:

Well, there's lots of definitions of financial conditions.

Speaker 1:

How would you define it?

Tom Barkin:

I think that as we raise rates, the market and all markets sort of respond to how we're [inaudible 00:02:59] in the path that we forecast. There are people who are out there saying financial conditions are back where they were a year ago. And I say, I don't know, it looks like rates are higher than they are a year ago. Certainly if you're trying to get a mortgage, that's what you'd think. And so the financial markets make their forecasts and lending conditions, whatever, work off of that. I think you can try to manage it, but I'm in the world of try to define your response function, try to live to your response function and I think markets will catch up to what you're doing.

Speaker 1:

If we can dig a little bit deeper, we've had a decent equity market rally year today. Credit spreads are I think something like 200 basis points tighter than the wides of last year. Do you see that as complicating your ability to tighten financial conditions and bring inflation back towards target? Is it something that's on your mind a lot?

Tom Barkin:

I think trying to manage markets, at least for me, is a fool's errand and so I'm in the world of trying to manage what we can control. If demand stays hot, if inflation comes in elevated, have rates move more. There are lots of other scenarios of what happens to the economy and we'll respond to those.

Michael Mckee:

Well, one of the questions that people are asking is does it make it harder? Is the market pushing back against you and do you see inflation maybe stickier because of that? And is it a question of you have to raise rates higher or leave them in place longer and wait for the cumulative weight of tightening to hit?

Tom Barkin:

Well, I think there's a very good case for leaving rates higher for a longer period of time to allow that tightening to hit. I do think the lesson in the '70s was very clear, which is don't give up too early. And anything I've read, and I've talked to lots of other people who seem to have understood that market and they say if you go back to the Arthur Burns years, it was raise rates, economy weakens, lower rates, inflation comes back stronger, raise rates, economy weakens more, lower rates... That doesn't seem like a path that makes a lot of sense.

Speaker 1:

Does history weigh on you? When you refer back to the '70s, do you really feel the weight of that?

Tom Barkin:

I've done a lot of reading about it and I think for better or for worse, we've got a really good episode where our predecessors did the right thing and got inflation back under control and I think that's certainly an aspiration for me and for us.

Speaker 1:

You understand the view of market participants that when they hear things like the disinflationary process has started, they get the sense that we're moving away from that language, that we want to learn from the lessons of the 1970s, we want to be tighter for longer. They see that as new information, the first step, and you'll hate this word, the first step towards a so-called pivot. Why isn't it that?

Tom Barkin:

Why isn't this a pivot?

Speaker 1:

The first step towards one. By acknowledging the disinflationary process has started, for some people, market participants that speak to us on a daily basis, they view that shift in language as a step away from the chairman Powell address we got in Jackson Hole, Wyoming, which was eight minutes down the camera, super blunt, there's going to be pain, it's going to be painful, but if we don't do this, it's going to be even more painful. Four or five months later with an equity market rally in between and a bit of deceleration in inflation data, it's now the disinflationary process has started and that's the focal point for so many people. Why isn't that the first step towards a pivot that says, okay, we can back away?

Tom Barkin:

Shoot. I just try to keep it simple for myself, which is nobody really knows how inflation's going to play out over the next year, over the next two years. And so I think what I can do is talk about how I think about it. The way I think about it is if inflation stays elevated, if it persists, we'll have to do more.

Michael Mckee:

Well, you struggle with what the markets are thinking, but you're probably very good on what companies are thinking because of course that's your background and you talk to CEOs all the time. What are companies thinking? You mentioned that some are still pushing the envelope on prices, but what's their outlook for growth and particularly employment and wages over the next six to nine months?

Tom Barkin:

So the way I put it is everybody's got a recession playbook. It's in the drawer. They've taken it out, they've dusted it off, they've updated it, right? They have a very clear sense of if things were to turn south what they do. For the most part, they haven't turned the pages of the playbook and the reason they haven't turned the pages is that their business actually remains pretty sound. Now that's not true if you're in mortgage lending, that's not true obviously recently in the tech world, but in most of the businesses I talk to, it's still not the point where they pull that. And part of it is they've really fought hard for 18 months to get workers and they're really reluctant to shed workers if it turns out that they didn't need to.

And so I think there's still a reluctance and when you see things like the recent jobs report or some of the consumer spending data we've seen for January, you start to see that in the businesses' actual demands and they're saying, we're not there yet. But of course we all know it. The world could turn and they could get there. I just don't think they're there yet.

Michael Mckee:

Well, that brings up an important question about your reaction function. When you're predicting that unemployment is going to rise significantly because you're trying to clamp down on demand and it doesn't happen, how do you incorporate that into your thinking about where you are?

Tom Barkin:

Well, I think we've taken rates to where we've taken them. We've signaled, or at least I've signaled that if inflation persists, I'll continue to respond appropriately. You do know that there are long and variable lags with rates, and so you're watching the demand side not because the objective is to manage demand, but because the objective is to manage inflation and so you're looking for signals that inflation comes down. You're looking for signals that demand is weakening, softening in places where that would be relevant to inflation coming down and you play it out.

Speaker 1:

Can you explain longer variable lengths to us? Because some people have come on in the last 12 months and they've said to Mike, they said to myself, to Lisa, to Tom on Bloomberg TV and radio and said,

they're not that long at all. They're pretty short. Financial conditions will price it all in immediately, they'll tighten and you'll feel it pretty quickly. Are they that long? Are they that variable?

Tom Barkin:

You didn't like financial conditions a second ago and so we'll work on that. I do think we've seen in a number of sectors, particularly interest sensitive sectors, particularly sectors where the strength of the dollar matters, you've seen demand move very, very quickly. And well before we started increasing rates, mortgage rates increased and that of course meant the lag in that sector was less than the world where we used to hide what we're doing. On the other hand, if you go into lots of other places, think healthcare for a second, a big part of the economy, it's not at all clear that the rate stuff we've done or doing is having that much impact on demand there.

I think that's where it takes more time and the studies I've seen suggest that there's a period of time to go from raising rates to the impact on demand, but I think the real issue here is from impact on demand to impact on inflation, and that's really when you talk about the long variables to inflation. And then I get back to where I started and I would just say there's the sales department, the finance department. The finance department loves raising prices because it's the fastest way to move the bottom line. The sales department historically has been very nervous about doing it either because of incentives or market share or whatever. After the experience of the last couple years, the finance department has a lot more sway in that conversation than they used to.

Speaker 1:

So how would you characterize the balance of risk at the moment with all of that in mind that it is tremendously difficult to confront as a policymaker? Chairman Powell said repeatedly a few times last year that the risk of doing too little outweighed the risk of doing too much. Is that still the case?

Tom Barkin:

It is for me. I mean, we're still in a 3.4% unemployment economy with inflation depending on which measure you want to look at. Well over our target, five, 6% on a 12-month basis. It feels to me like the risk is on the inflation side at this point rather than the economy side.

Michael Mckee:

We are talking with Richmond Fed President Tom Barkin on Bloomberg television and radio. Thank you to all of our viewers and listeners around the world. What is your view in terms of the growth outlook at this point? It seems like we went through a phase of recession's inevitable, then we're going to have a soft landing. You have people saying no landing. Where do you come down on all of that?

Tom Barkin:

I keep trying to look at past recessions or past economic tightening cycles and ask the question of which this is most like, and of course the ones that are most recent in our memory are all recessions where something winged in from left field, whether that be 9/11 or the financial crisis or the pandemic. And so I think we may be looking at an economy more like the one that I remember back in the early '90s where there was a tightening cycle and different sectors got hit one at a time. It seemed like much more of a rolling situation and so the overall numbers perhaps aren't going to be as negative. Again, I'm assuming

nothing comes in from left field but aren't going to be as bad as the ones we remember them from two years ago or 15 years ago, but we'll see.

Michael Mckee:

Well, when you sit down on March 22nd with your new projections for the economy, are you marking up growth? Are you marking down growth? What do you think is going to happen?

Tom Barkin:

I've got a month before I need to make those projections and I'm teasing, but I'm quite serious about it. We have a real serious process. We run multiple models on this. We've taken all the most recent data. We will get another jobs report, one perhaps with less seasonality impact, we'll get another PCE and a CPI. And so I wouldn't want to front run our team and our models on that forecast.

Speaker 1:

Just in terms of risk around the view already projected from December, upside risk for growth, for inflation, for the terminal rate, how are you thinking about things currently?

Tom Barkin:

Well, the biggest surprise has been the jobs market. I mean, the jobs report we got a couple weeks ago was quite significant and much stronger than what I had anticipated. And so the question in my mind's going to be, are we going to get another one like that in February or are we going to get something in February that revises, corrects, moves it down? So I think that's really the key thing I'm looking at in terms of growth.

Speaker 1:

It's been surprising for all of us to see unemployment come lower. There was a take, I think last year, Mike, you and I talk about it all the time, this is the Fed's job. They need to get unemployment up to get inflation down and it sounded ugly, it was brutal, it was difficult to communicate as a policy maker. Do you still see it that way? Do you need to get unemployment up to get inflation down?

Tom Barkin:

I say we need to get inflation down to get inflation down, and what I mean by that is our tools work on demand. They work on lots of various things, but the key to this whole thing is getting inflation down. I don't start with unemployment, I start with inflation and we'll see what happens on the employment market. We're still at 3.4% unemployment. That's a historically low number. You're talking 1969 and before that 1951. And so there's been a lot of talk about the jobs market. So far, quite strong. We'll see what happens.

Michael Mckee:

Are people in the companies in the Richmond district telling you that they are still having trouble finding people or has that eased?

Tom Barkin:

It's not as desperate as it was a year ago or a year and a third ago, but it's still very tight. On the professionals though, I think that has kind of loosened. Some of the layoff announcements recently have sort of hit home. People trying to hire tech workers are having an easier time doing it. For the frontline service workers, still very tight, but people are getting by, whether it's lower service levels or not cleaning the hotel room every day. The place that's still screaming tight is skilled trades, construction, nurses, truck drivers. We just don't have as many as we need. Demand in a lot of those places remains elevated and folks are really struggling to find those folks. That's really where it's the tightest.

Michael Mckee:

Let me ask you about the balance sheet. It's been running in the background, it's been paint drying, but there have been concerns expressed in the short term money markets and we're still seeing a lot of money put back into the repo facility. Is it working the way you want it to? Are you getting the results that you want or is this also a case where the markets are not reflecting necessarily what you're trying to accomplish with QT?

Tom Barkin:

I think we did a bunch of actions we thought important at the time in terms of stimulus and supporting the markets back in 2020. We're now trying to unwind that. I think our primary tool is the rate tool. It's not the balance sheet tool. The objective is to unwind the balance sheet expansion that we did and do it in a way that doesn't change any focus on our primary tool, which is the rate tool. You guys still seem to be focused on the rate tool, so I think so far so good.

Speaker 1:

We're focused on the balance sheet too, so let's stay there. I'm sure you're pleased that people see it as paint drying, but it's not. It wasn't just an objective to get the balance sheet up. You were looking for a consequence from doing that. You said the objective was to get the balance sheet down. You're not expecting there to be a consequence there?

Tom Barkin:

No, I mean, first of all, the analysis of the impact of balance sheet movements is unbelievably difficult, arcane, opaque-

Speaker 1:

Super complex.

Tom Barkin:

And tortured. And so I've really struggled as I've kind of come into this to come to ground to it. Where I've landed is it's got to be symmetric. If you believe that adding to the balance sheet does something, then you've got to believe that shrinking the balance sheet does something else. So I've got no question about that. I do believe that on both the expansion side and the reduction side, it's a lot smaller than some of the estimates you'll see. And people talk about the impact of buying more bonds. There's also a

signaling effect when you're buying. I think the signaling effect may actually outweigh the impact of buying the bonds, the signaling effect in terms of when you would finally raise rates or whatever.

When you're shrinking the balance sheet, there's a shrinkage effect and then there's a signaling effect. The shrinking effect of course I would say is parallel to the expansion. And then the question is what is the signaling? The signaling tends to be around liquidity. That's the conversation that gets raised. I just would come back and say, compare today's balance sheet to 2018 or 2019's balance sheet, it's still so much larger that I have trouble seeing that liquidity's actually being driven by what we're doing right now.

Michael Mckee:

Back at home, what worries the people of the Richmond district? I mean, we have the idea of a possibility of a recession. We've got what's going on with energy prices because we don't know what's happening in Ukraine. There's this whole idea of the debt limit leading to a default. How much are people in your area focused on those things?

Tom Barkin:

What I hear over and over and over again is that people hate inflation and that's what they're focused on. I mean, people hate inflation because it seems unfair. I mean, you get a raise and then you spend the money you just got at the gas pump, it feels arbitrarily taken away, it creates uncertainty, and it's just exhausting. It's exhausting to shop around for better prices. It's exhausting to defend your prices to a customer. And so people are really excited about the prospect that we might get inflation under control, but you don't have to look much beyond the sentiment indices to see what people think about inflation and that still is the overwhelming conversation we're having.

Michael Mckee:

I have to ask you this. It appears that at the Federal Reserve, you're going to be in the market for a new vice chairman. Lael Brainard, what does she bring to the Fed and to the open market committee? How would you characterize her tenure?

Tom Barkin:

Well, I don't know what will or won't happen from the administration, but Lael's an asset. I mean, she's very smart, she's very capable and she's an asset to us and if she does something else, I'm sure she'll be an asset there.

Michael Mckee:

She's been seen as one of the doves on the board. Is there such a thing? And was she?

Tom Barkin:

We have 19 really, really capable people on the committee and I listen to every one of them because every one of them brings a unique view and as we've learned in the last few years, people's views change as the data comes in, and so I've got colleagues that you might think are doves who might... I think people take the job very seriously and they're very genuinely interested in landing the plane on whatever is actually the situation in the moment as opposed to, I'll call it a preexisting leaning.

Speaker 1:

There's rarely any dissent? Why is that?

Tom Barkin:

You mean dissents or dissent singular? Because I have the privilege of sitting in the meeting and there's lots of points of view that are phrased, so I wouldn't be confused about the idea that there aren't a lot of different points of view raised.

Speaker 1:

Give us a bit more clarity on that because from the outside looking in, sometimes it feels like group think. There aren't people that come out that say, I disagree with the decision and this is why. It's incredibly rare, particularly from the board. How much of that is actually taking place inside the building around these decisions that we are just not aware of? Why isn't this group think?

Tom Barkin:

Well, I spend my time every six weeks, seven weeks per [inaudible 00:19:20]. I go into the market. I don't spend a lot of time in my building. I'm trying to figure out as best I can what's happening in the economy from people who are participating in it. I try to come up with my own points of view in terms of what's happening to economic conditions and where we ought to go with policy and I show up with my points of view and then every time I go there I learn something and I learn from people who are doing the exact same thing with their own independent views. I think the structure of the system is very well set up to gather independent views and then of course the meetings are very well led, an effort to put those on the table and try to land on a place where you can get some version of a consensus.

Michael Mckee:

One of the things people have been critical of is that there are 19 members of the open market committee who are speaking all the time, and it can be confusing to markets and to the public. Do you see that as a valid critique?

Tom Barkin:

Well, I'm privileged to be here, so I guess if I say no, then I'm asking-

Michael Mckee:

Well, you're the only one that's allowed to come back every day.

Speaker 1:

No more interviews [inaudible 00:20:22].

Tom Barkin:

Exactly, exactly. I see a huge part of my job as trying to translate what we do into the district that I serve. And so like I said, I really am on the ground all the time. I'm doing chambers of commerce’s in small cities and I think there's a real thirst for understanding and I think there's real value to the people

in our community hearing from and understanding people who they think are actually rational, not people from Washington, if I could put it that way. And so I think there's huge value in that. If you guys choose to cover it, I'll leave it to you whether that's the right thing to do or not, but I don't see it as [inaudible 00:20:59] messy as actually talking to the constituents in my district.

Speaker 1:

Just one final question, and you've been incredibly gracious with your time, so thank you for that, Tom. It's the third year of pandemic economics. China's reopening. I feel like the consensus has been dead wrong every single year on every major issue. As we go into the third year of all of this, how are you thinking about that challenge as a policy maker? Is there something you're hesitant on drawing too many conclusions onto prematurely?

Tom Barkin:

Right. I think we're normalizing, but you can't ignore the impact that the pandemic is still having in the economy. Some of the things we've talked about, businesses reluctant to shed workers because of the history, shortages in switch gears and cabinets, a trillion plus in excess savings still out there, the infrastructure bill still being deployed. All of these things are, if I could call it not normal, artificial things that are in the economy today that weren't in the economy three years ago. Now for me or for us, you have to take it as a given. And so you try to make policy against the economy you've got, not the economy you wish you had. But I think for sure you've still got that in the economy.