

ECONOMIC REVIEW | July 2019 US FOMC Meeting**Expecting Better GDP Growth in 2H19 after the Fed Cut Interest Rate by 25 Basis Points**

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- *GDP growth softens in 2Q19. Advance estimate showed the US's annualized economic growth slowed to 2.1% in 2Q19 from 3.1% in 1Q19 but better than market expectation of 1.8%. Household consumption and government spending increased at faster paces while private investment and exports registered negative growth rates.*
- *No more rate cut for the rest of 2019. As guided by macro trends and indicators, we opine there is only one rate cut in 2019. The single cut yesterday is sufficient to support economic growth in the US. In fact, fundamentally the economy remains stable across all sectors except manufacturing and export-oriented due to trade war. Domestic demand stays solid underpin by full-employment condition, moderate inflationary pressure and lower interest rate.*

Fed's funds rate lower by 25 basis points. The Fed reduces its key policy rate to 2.00-2.25% during the FOMC meeting in Jul-19. The central bank views the economy is expanding at moderate pace while global uncertainties remain as major downside risks. Cutting the interest rate is expected to impact economic activities in the US particularly household spending and business investment. In addition, it may offset the uncertainties due to global trade tension.

GDP growth softens in 2Q19. Advance estimate showed the US's annualized economic growth slowed to 2.1% in 2Q19 from 3.1% in 1Q19 but better than market expectation of 1.8%. Household consumption and government spending increased at faster paces while private investment and exports registered negative growth rates. Private consumption surged 4.3%, the highest pace since 4Q17 and government spending jumped 5%, fastest in 10-year. In contrast, exports contracted -5.2% amid heightened trade tension and private investment which contributed about 18% to the economy shrank by -5.5%, slowest ever in 3½ years. The investment channel has been losing its speed since 3Q18, thanks to increased interest rate, business confidence uncertainty and trade war stress. Henceforth, 25 basis points cut in the interest rate is timely to spur the investment activities in the economy especially with higher external trade risks.

Consumer optimism improves while business pessimism stays. Domestic demand in the US is seen solid and sound given that the IBD/TIPP Economic Optimism Index and The University of Michigan's consumer sentiment signal steady upward direction since Jan-19. In addition, services PMI hits 3-month high at 52.2 points in Jul-19. On the other hand, business confidence continues to decline due to Trump's protectionist trade policies, slight slowdown in global growth, trade tension, volatility of commodity prices and geopolitical risks. In Jul-19, the IHS Markit US Manufacturing PMI fell to 50 points, lowest ever recorded since Aug-09. Moving forward, we opine the 0.25% cut is sufficient to further support domestic demand and boosting business confidence to rebound in 2H19.

Stable inflationary pressure. The US's headline CPI slid to a 4-month low at 1.6% in Jun-19 amid lower global energy prices. Core CPI maintains above 2% level for 16-consecutive months since Feb-18. Based on the Fed's preferred inflation indicator, core PCE inflation hovers below the target line of 2% in 1H19.

Jobs added rebounded. Non-farm payrolls increased 224K in Jun-19, highest in 5-month and exceed market expectations of 160K. The average so far in 2019 is 172K per month, lower than the previous year's 223K per month. The long-term average is 126K per month. The slowdown in NFP figures indirectly sparked the idea of a rate cut by the Fed in 2H19. Trade war and moderating domestic economic growth are among factors to cause slowdown in the US's labour market. Nevertheless, the job market remains at full-employment condition as unemployment rate at 3.7% in Jun-19.


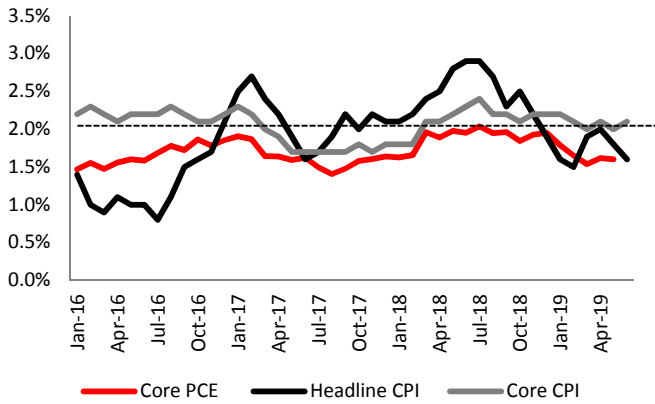
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Table 1: Central Bank Policy Rate by Selected Economies (%)

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.50	4.50
Thailand	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
South Korea	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.50
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
UK	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25

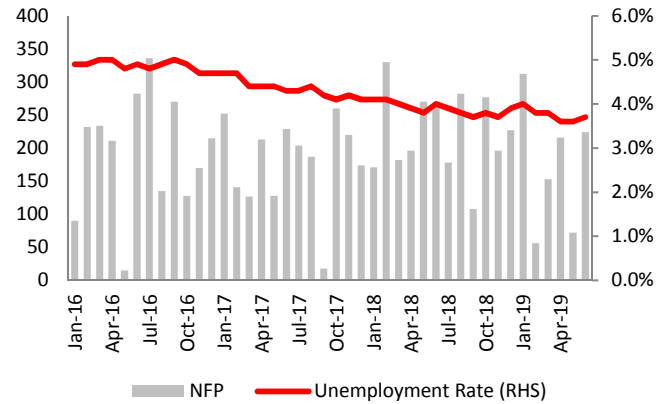
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



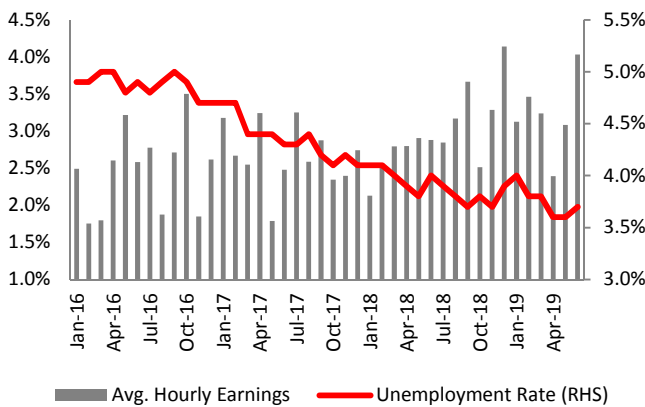
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



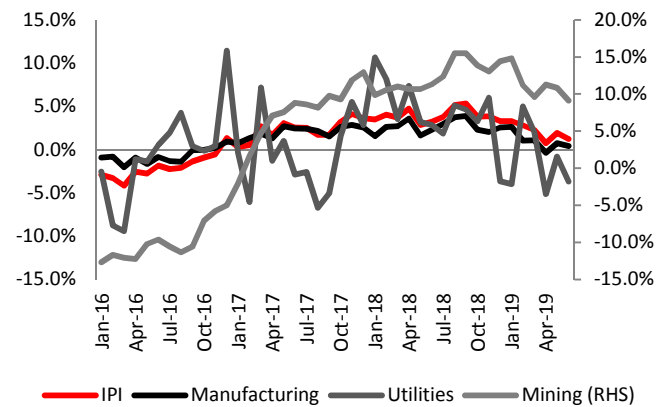
Source: CEIC; MIDFR

Chart 3: Wage Growth (YoY%) vs Unemployment Rate



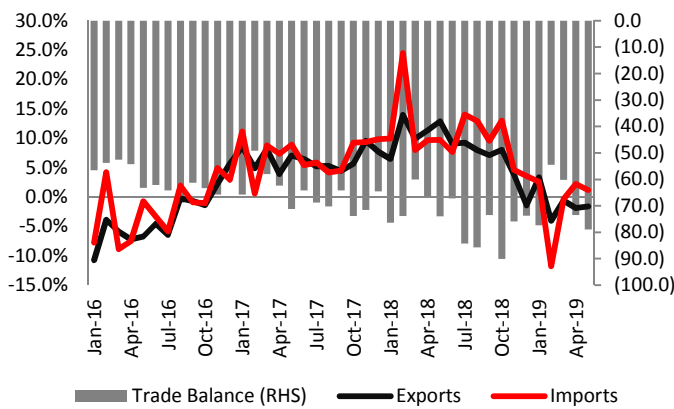
Source: CEIC; MIDFR

Chart 4: IPI Performances (YoY%)



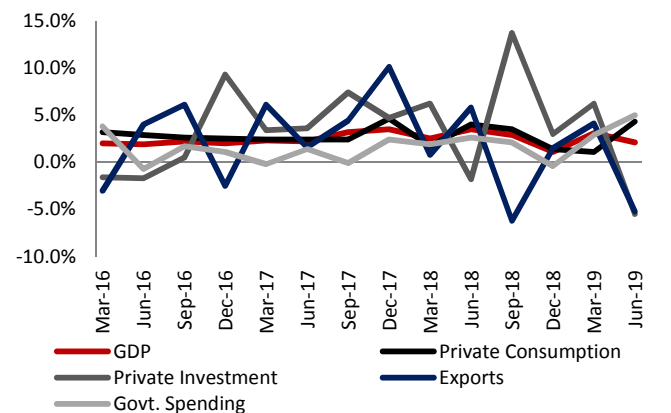
Source: CEIC; MIDFR

Chart 5: External Trade Performance (YoY%)



Source: CEIC; MIDFR

Chart 6: GDP at Annualised Growth (%)



Source: CEIC; MIDFR

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