

ECONOMIC REVIEW | May 2019 US FOMC Meeting**Interest Rate to Remain Unchanged in 2019 as Private Spending Moderate**

- *Fed's funds rate unchanged. The Fed maintains its key policy rate at 2.25-2.50% during the first FOMC meeting in 2019. Based on the FOMC latest projection, the central bank would not raise or cut its interest rate this year amid moderate economic growth.*
- *Major component showing signs of moderation. Personal consumption expenditures (PCE) continue expanding, however, at a moderating pace of 1.2% (2.5% in 4Q18) due to a drop in consumption of goods. Similarly, non-residential fixed investment growth eased to 2.7% following 5.4% expansion in the preceding quarter.*
- *Interest rate stays idle in 2019. As guided by the Fed's latest projection, we see no change in the US's monetary stance. Looking at the 1Q19 GDP performance, PCE which constituted approximately about 70% of the economy is showing signs of moderation.*

Fed's funds rate unchanged. The Fed maintains its key policy rate at 2.25-2.50% during the first FOMC meeting in 2019. Based on the FOMC latest projection, the central bank would not raise or cut its interest rate this year amid moderate economic growth. Moreover, GDP growth estimate is trimmed from 2.3% to 2.1% in 2019. Forecast for core PCE maintains at 2% while unemployment rate slightly higher from 3.5% to 3.7%. Zero change in the monetary rate would indirectly encourage higher investment and spending particularly by businesses and consumers.

1Q19 GDP growth beats market expectations. The US economy advanced by an annualized 3.2% in the 1Q19, way faster than 2.2% growth in the previous quarter and easily exceeded market estimations of 2% despite concerns over the longest government shutdown in history. The better-than-expected growth was driven by better performances of public expenditure and external trade. State and local spending accelerated 3.9%, the highest since 1Q16 and rebounded from a 1.3% fall in the previous quarter. Exports surged 3.7% (1.8% in 4Q18) while imports declined by the same pace (+2% in 4Q18).

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Stable inflationary pressure. The US's headline CPI rebounded modestly at 1.9% in Mar-19 amid uptrend in global energy prices. Core CPI maintains above 2% level for 13-consecutive months since Feb-18. Based on the Fed's preferred inflation indicator, core PCE inflation hovers below the target line of 2% for the first three months of 2019. Latest in Mar-19, the rate is 1.6%.

The labour markets remain steadfast. Steady labour market is one of the strong economic fundamentals in the US. Average monthly jobs added for 2019's is 180K below than previous year's 223K. The labour market is at full-employment condition as jobless rate at 3.8% in the last month of 1Q19. In addition, the average wage growth in 1Q19 is 3.3%yoy, better than the previous year's 3%yoy. Moving forward, we foresee the steady labour market in the US will persist until the end of the year, in tandem with steady performances of IPI, external trade, investment and domestic spending.


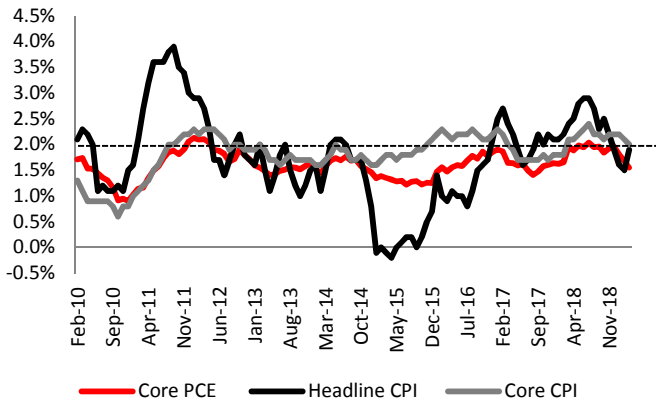
Interest rate stays idle in 2019. As guided by the Fed's latest projection, we see no change in the US's monetary stance. Looking at the 1Q19 GDP performance, PCE which constituted approximately about 70% of the economy is showing signs of moderation. Henceforth, we opine maintaining Fed's funds rate at current level would provide support for consumers as well as businesses to spend and invest in 2019. 

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

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	5.50	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.25	4.00	4.50	4.50	4.75	4.75	4.75	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	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
Korea	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75
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	2.00	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50

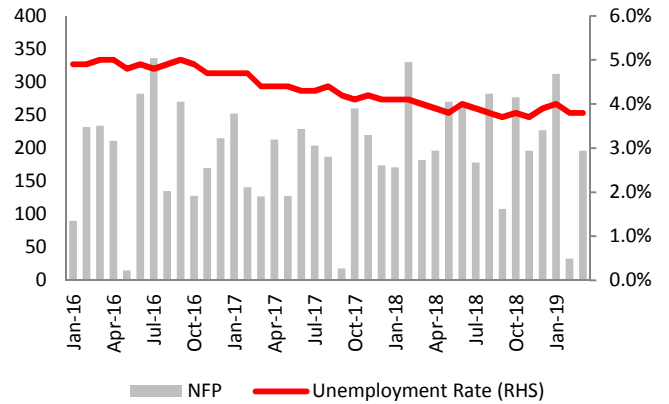
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



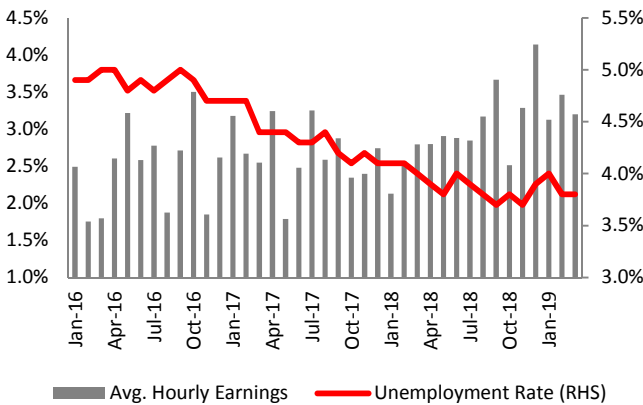
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



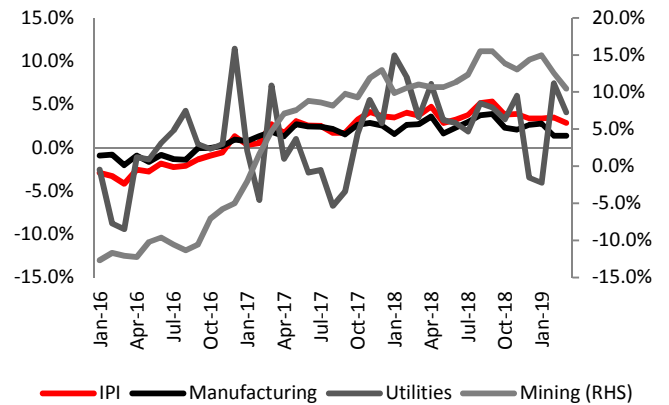
Source: CEIC; MIDFR

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



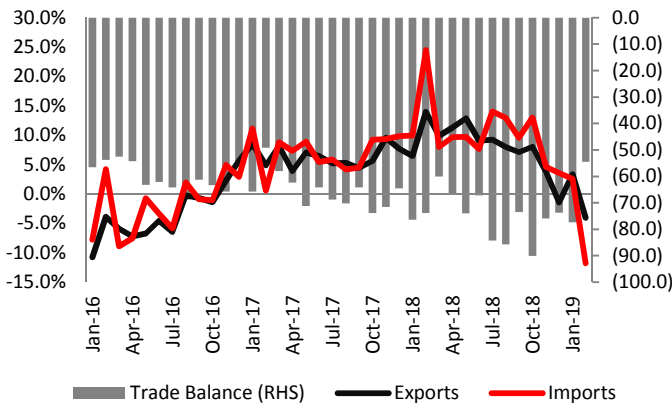
Source: CEIC; MIDFR

Chart 4: IPI Performances (YoY%)



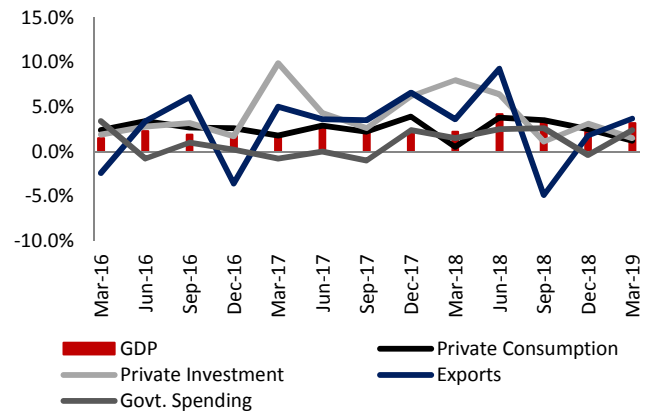
Source: CEIC; MIDFR

Chart 5: External Trade Performance (YoY%)



Source: CEIC; MIDFR

Chart 6: GDP Performance (Annualized Rate %)



Source: CEIC; MIDFR

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