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ECONOMIC REVIEW | September 2019 US FOMC Meeting

The Fed's 25bsp Interest Rate Cut to Fuel Better GDP Growth in 2H19

- *Fed's funds rate lower by 25 basis points. The Fed reduced its key policy rate to 1.75-2.00% during the FOMC meeting in Sep-19. The central bank views the economy is expanding at moderate pace while global uncertainties remain as major downside risks. The second cut of 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.*
- *No significant pressure on inflation. The US's headline CPI recorded at 1.7% while core CPI hit 1-year high at 2.4% in Aug-19. Based on the Fed's preferred inflation indicator, core PCE inflation hovers below the target line of 2% so far in 2019. The recent spike of global oil prices would not sustain for long as Saudi's Energy Minister confirmed the oil production will be fully restored by end of Sep-19. Hence, there is no significant increase in prices of imported oil to the US.*
- *No more rate cut for the rest of 2019. As guided by macro trends and indicators, we opine there are only two rate cuts in 2019. The second cut 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.*

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IPI and exports indicate signs of moderating economic growth. Thanks to global trade uncertainties and volatility of commodity prices, overall IPI growth slowed to 0.3%yoy in Aug-19, weakest gain since Dec-16. Manufacturing output shrank by -0.4%yoy, 2-straight months of contractions while mining output growth moderated at 5.5%yoy, slowest pace in almost 2½ years. On external front, exports have been on contractionary since Feb-19. Trade deficit widened despite protectionist policies by Trump was initially aimed to reduce the trade gap. Average monthly deficit in 2019 was $71.5 billion (2016: $60.2 billion, 2017: $65.3 billion, 2018: $75.1 billion). Domestically, household spending remains solid as retail sales continue expanding at steady pace. Average sales growth for first eight months is 3.2%yoy, lower than previous year's 4.7%yoy. Henceforth, we opine the second cut is timely to compensate the external risks and provide additional boost to domestic demand.

Consumer stays optimistic despite economic outlook weakened. Consumer sentiment and confidence indices remain on optimistic path amid low inflationary pressure, full-employment condition and lower interest rate. On the other hand, IBD/TIPP Economic Optimism Index declines to 50.8 points in Sep-19, lowest in 7-month. Among its components, Six Month Outlook deteriorated to 43.0 points, weakest point in 3-year. Personal Finance Outlook slides to 59.2 points, lowest since Dec-17 while Confidence on Federal Policies decrease to 50.3 points, lowest in 7-month. The second cut by the Fed is expected to boost up domestic spending as well as business investment in 4Q19 and 2020.

No significant pressure on inflation. The US's headline CPI recorded at 1.7% while core CPI hit 1-year high at 2.4% in Aug-19. Based on the Fed's preferred inflation indicator, core PCE inflation hovers below the target line of 2% so far in 2019. The recent spike of global oil prices would not sustain for long as Saudi's Energy Minister confirmed the oil production will be fully restored by end of Sep-19. Hence, there is no significant increase in prices of imported oil to the US.

Full-employment condition remains. Non-farm payrolls increased 130K in Aug-19, lowest in 5-month and below market expectations of 158K. The average so far in 2019 is 158K per month, lower than the previous year's 223K per month. The long-term average is 126K per month. The moderation of NFP is in tandem with the downward trends of IPI and external trade performances. Nevertheless, the job market remains at full-employment condition as overall unemployment rate at 3.7% in Aug-19.

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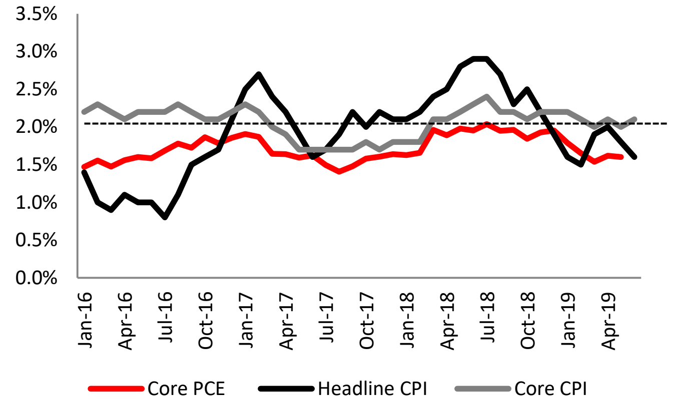
Table 1: Central Bank Policy Rate by Selected Economies (%)

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.50
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.75	4.75	4.75	4.75	4.75	4.75	4.50	4.50	4.25
Thailand	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.50
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	1.50	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	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25

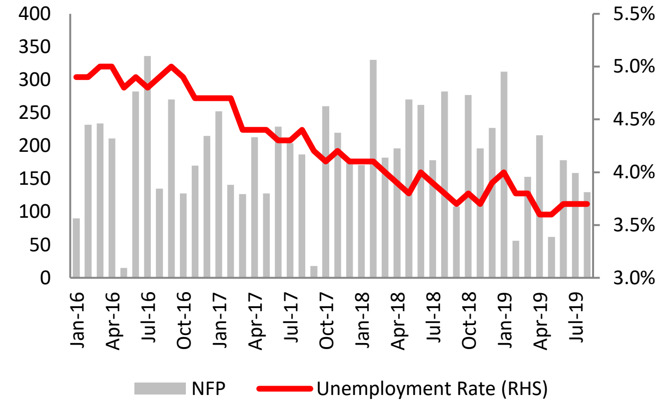
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



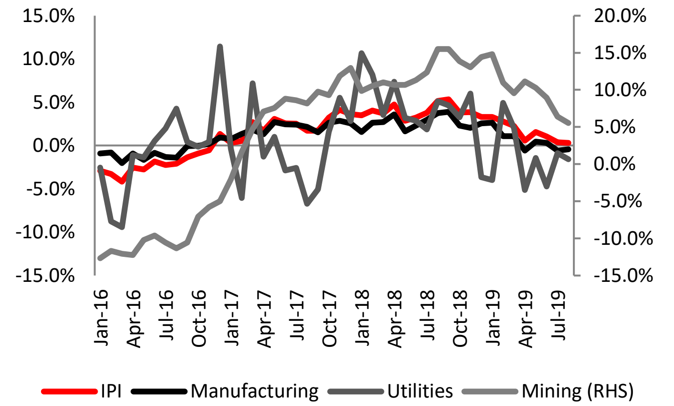
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



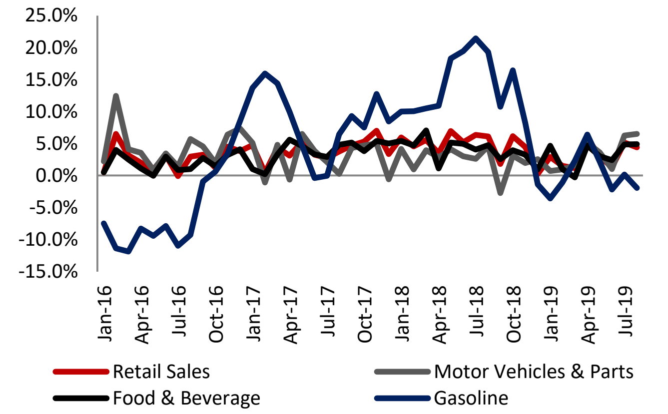
Source: CEIC; MIDFR

Chart 3: IPI Performances (YoY%)



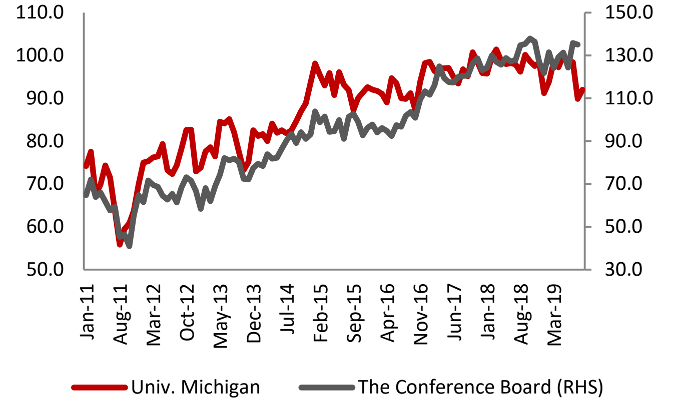
Source: CEIC; MIDFR

Chart 4: Retail Sales (YoY%)



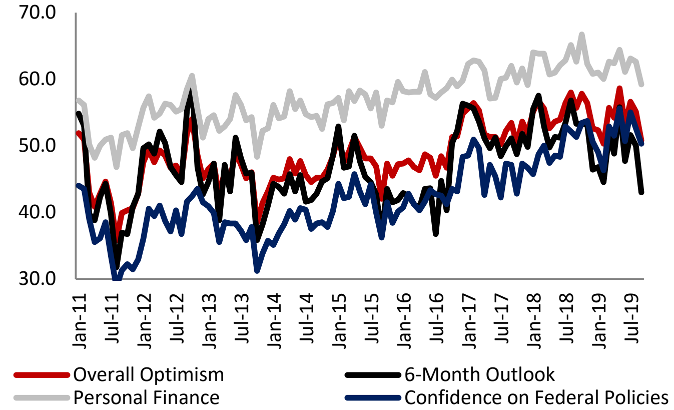
Source: CEIC; MIDFR

Chart 5: Consumer Sentiment & Confidence (Points)



Source: CEIC; MIDFR

Chart 6: IBD/TIPP Economic Optimism Index (Points)



Source: CEIC; MIDFR

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