Economic Review

No Change for Now but Fed Still Expects FFR to be Reduced Later

ECONOMIC REVIEW:
Mar-25 US FOMC Meeting



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- FFR target maintained at 4.25-4.50%. In line with ours and market expectations, the Fed decided to keep the target range for fed funds rate (FFR) unchanged at 4.25-4.50%. On the back of still resilient US economy, the Fed concluded that the US inflation remained "somewhat elevated" on the back of still "solid" labour market.
- FOMC downgraded economic growth projection, inflation to remain above target. Despite the still solid growth in the recent months, the FOMC revised down its projection of the US GDP growth to +1.7% (previous: +2.1%) for 2025 and +1.8% (previous: +2.0%) for 2026. Forecast for PCE inflation was upgraded as inflation will remain above target.
- Inflation eased but remained above target. While the Fed maintained similar assessment that inflation in the US remained "somewhat elevated", with the core PCE inflation easing further to +2.6%yoy in Jan-25 (Dec-24: +2.9%yoy), the lowest since Mar-21. The outlook for inflation in the coming months is expected to reflect the effect of tariff hikes.
- Anticipate more rate cuts this year. We expect the Fed will carry out 2 rate cuts later this year, reducing the policy restrictiveness on the economy. Although the higher tariffs could cause inflation to remain elevated, growing concerns about slower growth also supports for more rate cuts by the Fed.

FFR target maintained at 4.25-4.50%. In line with ours and market expectations, the Fed decided to keep the target range for fed funds rate (FFR) unchanged at 4.25-4.50%. On the back of still resilient US economy, the Fed concluded that the US inflation remained "somewhat elevated" on the back of still "solid" labour market. The FOMC also mentioned that uncertainty has increased which could affect the US economic outlook, where we believe, this is related to the concerns over the effect of the policy changes, including the higher import tariffs, which could result in higher price pressures.

Monthly redemption cap for Treasury securities will be slowed next month. Although the Fed will continue to reduce its balance sheet, the pace of reduction of Treasury securities will be slowed starting Apr-25 with the redemption limit to be reduced to USD5b a month, from USD25b currently. Meanwhile, the cap for redemption of agency debts and agency mortgage-backed securities will be kept at USD35b a month. As of 12 March 2025, the Fed's has reduced its balance sheet to USD6.76t, the lowest level since early May-20, after a total reduction of -USD2.2t from the peak in Apr-22.

FOMC downgraded economic growth projection, inflation to remain above target. Despite the still solid growth in the recent months, the FOMC revised down its projection of the US GDP growth to +1.7% (previous: +2.1%) for 2025 and +1.8% (previous: +2.0%) for 2026. We opine this takes into account the recent estimate projecting the US economy to sequentially decline in 1QCY25 given the relatively weaker consumption data in recent months. On another note, the FOMC still projects fed funds rate will be slashed to 3.90% this year and 3.40% next year. The FOMC, however, upgraded its forecast for both the headline and core PCE inflation to +2.7% (previous: +2.5%) and +2.8% (previous: +2.5%), respectively, as inflation will remain above-target this year. The recent surveys also indicate consumers anticipating higher inflation in view of the various policy changes.

Moderation in US consumer spending. While the FOMC indicated greater uncertainty, the Fed Chair indicated that there has been indication of moderation in consumer spending and at the same time growing concerns about the upward price pressures from the higher import tariffs. Looking at economic data, the growth in the US retail sales moderated for the second month to +3.1%yoy in Feb-25 (Jan-25: +3.9%yoy; Dec-24: +4.4%yoy). From month-to-month change, the retail sales rebound to +0.2%mom in Feb-25 was slower than market expectations (+0.6%mom) after a rather sharp decline of -1.2%mom in Jan-25. This suggests the monthly personal consumption expenditures would register a weak rebound in Feb-25 when the data is released at the end of the month, after registering -0.2%mom fall in Jan-25.

Job market still solid and in balance. The Fed maintained its assessment that the US job market remained solid in the recent months with the unemployment rate "stabilizing at low levels". More jobs continued to be created with the non-farm payrolls rising by +151K in Feb-25 (Jan-25: +125K). Although the unemployment rate edge slightly higher to 4.1%, the rate has been hovering around 4.0% and 4.2% since May-24. At the press conference, the Fed Chairman described the labour market conditions are in balance despite relatively slower hirings and firings. He added that it is still early to see the effects of policy changes affecting the job market. We believe there has been no significant deterioration in the US job market as the recent weekly filings for unemployment benefits continued to hover around 200K to 220K. As the growth projection has been downgraded, the FOMC continues to forecast the US jobless rate will increase towards 4.4% this year (previous projection: 4.3%).

Inflation eased but remained above target. While the Fed maintained similar assessment that inflation in the US remained "somewhat elevated", the recent readings showed the core PCE inflation eased further to +2.6%yoy in Jan-25 (Dec-24: +2.9%yoy), the lowest since Mar-21. Meanwhile, the headline and core CPI inflation moderated further in Feb-25, slowing to +2.8%yoy (Jan-25: +3.0%yoy) and +3.1%yoy (Jan-25: +3.3%yoy), respectively. The slower inflation eased concerns about the renewed price pressures. However, the outlook for inflation in the coming months is expected to reflect the effect of tariff hikes.

Tariff adjustment will affect inflation in the short run. The Fed Chair believes the short-run inflation outlook will be influenced by the higher tariffs. However, he concluded the long-term inflation expectations so far remained well anchored, despite recent surveys indicating higher inflation expectations particularly for the short run. While the Fed faced challenges to gauge the exact impact of tariff hikes on the US inflation, the slower inflation reading in Feb-25, however, suggests no effect from the recent tariff increases thus far. Meanwhile, the broader economy also showed still solid performance despite sentiment weakening in the recent months.

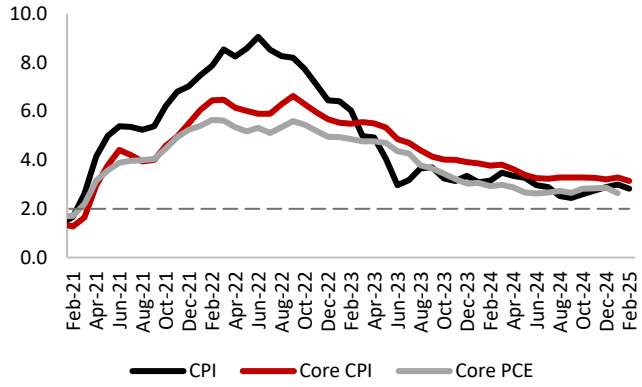
Anticipate more rate cuts this year. At this juncture, we expect the Fed will carry out 2 rate cuts later this year, reducing the policy restrictiveness as inflation moves closer to the Fed's longer-term price stability target. Although the higher tariffs could cause inflation to remain elevated, growing concerns about slower growth also supports for more rate cuts by the Fed. If the aggregate demand weakens significantly, we expect the Fed will switch to policy easing to support the economy to counter sharp slowdown. Nevertheless, given the continued resilience in the US economy and the job market, we believe the Fed will continue to maintain its cautious stance before considering for further policy adjustment.

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

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.25	6.25	6.00	6.00	6.00	6.00	5.75	5.75	5.75
Philippines	6.50	6.25	6.25	6.00	6.00	5.75	5.75	5.75	5.75
Thailand	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.00	2.00
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.50	3.50	3.50	3.25	3.00	3.00	3.00	2.75	2.75
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25
Japan	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50
UK	5.00	5.00	5.00	5.00	4.75	4.75	4.75	4.50	4.50
Euro area	4.25	4.25	3.65	3.40	3.40	3.15	2.90	2.90	2.65
USA	5.25-5.50	5.25-5.50	4.75-5.00	4.75-5.00	4.50-4.75	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50

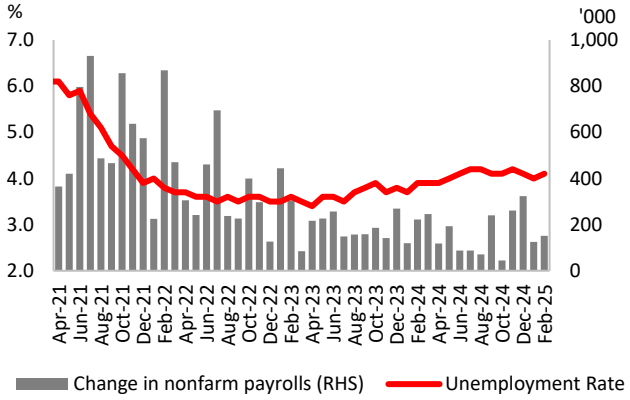
Source: Macrobond, MIDFR

Chart 1: US CPI vs Core PCE Inflation (YoY%)



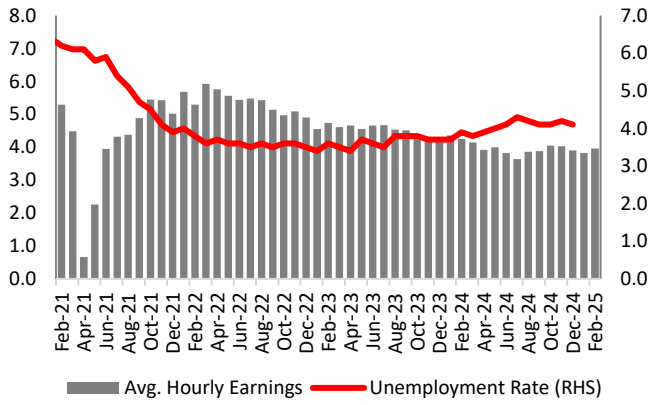
Source: DOSM, Macrobond, MIDFR

Chart 2: US Unemployment Rate (%) vs Change in Non-Farm Payrolls ('000)



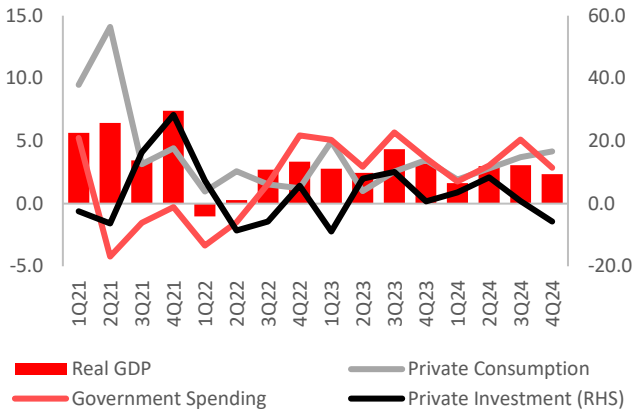
Source: DOSM, Macrobond, MIDFR

Chart 3: Wage growth (YoY%) vs Unempl. Rate (%)



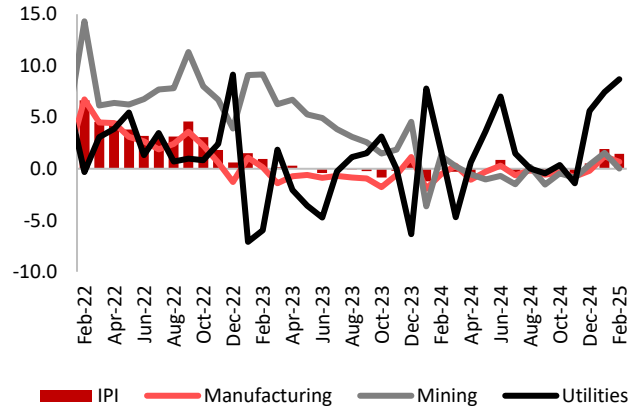
Source: Macrobond, MIDFR

Chart 4: US GDP Growth (Annualised QoQ%)



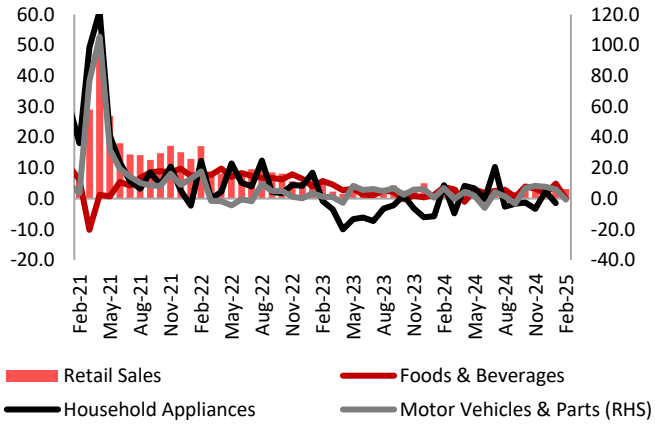
Source: Macrobond, MIDFR

Chart 5: US IPI Performances (YoY%)



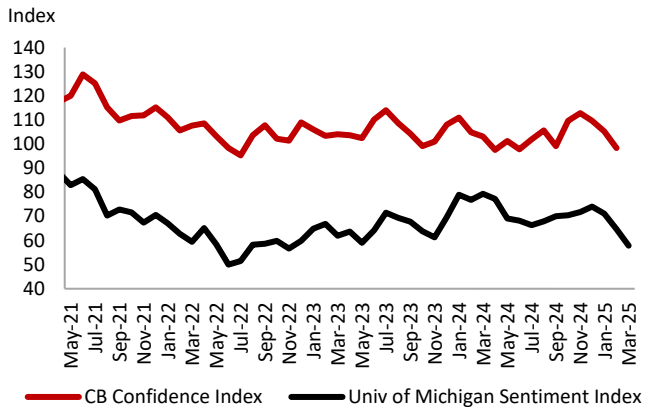
Source: DOSM, Macrobond, MIDFR

Chart 6: US Retail Sales (YoY%)



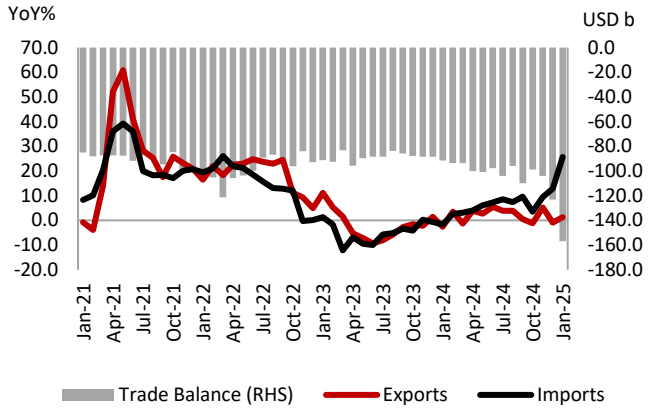
Source: DOSM, Macrobond, MIDFR

Chart 7: US Consumer Sentiment & Confidence



Source: DOSM, Macrobond, MIDFR

Chart 8: US Exports & Imports (YoY%) vs Goods Trade Balance (USD b)



Source: DOSM, Macrobond, MIDFR

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