Fed Kept FFR at 4.25-4.50% Amid Heightened Uncertainties

ECONOMIC REVIEW:
May-25 US FOMC Meeting



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Economic Review

- No change to FFR target range as expected. In line with ours and market expectations, the Fed maintained the target range for fed funds rate (FFR) at 4.25-4.50%. The Fed reiterated that the US economic expansion remained on "solid pace" amid "somewhat elevated" inflation and still resilient job market.
- Fed not in a hurry to adjust policy setting. The Fed repeated its stance to wait for more incoming data to better analyse the impact of policy changes on the economy and inflation outlook. Current policy setting deemed "modestly restrictive."
- Inflation remained somewhat above target. Although inflation has broadly moderated over the past few years, the recent reading shows inflation remained "somewhat elevated." The headline and core PCE inflation both have eased in Mar-25, slowing to +2.3%yoy (Feb-25: +2.7%yoy) and +2.6%yoy (Feb-25: +3.0%yoy) respectively, but remained above the Fed's +2.0% target.
- Expect Fed to ease this year. We continue to expect the Fed will carry out 2-3 rate cuts this year to provide support to the economy. The pace of policy easing, however, will be complicated by the heightened inflationary pressures.

No change to FFR target range as expected. In line with ours and market expectations, the Fed maintained the target range for fed funds rate (FFR) at 4.25-4.50%. The Fed maintained its assessment that the US economic expansion remained on "solid pace" amid "somewhat elevated" inflation with continued resilience in the labour market as the unemployment rate "stabilized at low levels". In the FOMC statement, the Fed maintained the holding of treasury and agency securities will be further reduced, where until 30th April 2025 the Fed's balance sheet has declined by nearly -USD2.3t to USD6.71t from the peak in Apr-22.

The Fed is not in a hurry to adjust policy setting. The Fed repeated its stance to wait for more incoming data to better analyse the impact of recent policy changes on the economy and inflation outlook. In other words, the Fed is not in a hurry to adjust its policy interest rates with the current environment remaining uncertain and unclear particularly in terms of the effect of policy changes. At the current level, the current policy setting is believed to be "modestly restrictive" to contain inflation which remained above the Fed's +2% target.

The economy is still solid despite the indication of reduced growth in 1QCY25. The Fed concluded that the US economy thus far continued to show resilience and is still growing at a solid pace. Despite the annualised -0.3%qoq contraction of the US GDP in 1QCY25, this is not a clear indication of a weak economy as the Fed Chair stressed that the decline in GDP growth was mainly attributable to the surge in imports ahead of the implementation of higher tariffs. While the Fed did not publish its updated projection on the US economic outlook, the overall macroeconomic condition thus far remained supported with no significant deterioration in the labour market and consumer spending continued to grow during the quarter. In other words, the weaker sentiment has yet to have a significant negative effect on real economic activities.

Inflation remained somewhat above target. Although inflation has broadly moderated over the past few years, the recent reading shows inflation remained "somewhat elevated." The headline and core PCE inflation both have eased in Mar-25, slowing to +2.3%yoy (Feb-25: +2.7%yoy) and +2.6%yoy (Feb-25: +3.0%yoy) respectively, but remained above the Fed's +2.0% target. While inflation expectations have risen recently due to concerns of the effect of higher import tariffs, the Fed also indicated in the FOMC statement of the heightened risk of higher inflation.

Still positive job creation. The Fed kept its assessment that the US job market remained stable as the jobless rate remained low at 4.2% in recent months. More jobs were added into the economy with the non-farm payrolls rising by +177K in Apr-25 (Mar-25: +185K). In 4MCY25, nonfarm payrolls rose on average by +148K a month, still a decent job growth although slower than average monthly increase of +167.7K last year. Weekly filings for jobless benefits continued to hover around 200K to 225K this year. Nevertheless, the recent increase by +18K to 241K for the week ending 26th April 2025 signaled sign of softening. In the FOMC statement, the Fed also cited that there is a higher risk the unemployment rate would go higher.

Consumer spending continued to increase. The GDP data shows that American consumers continued to increase spending in 1QCY25 although the pace of growth moderated to annualised +1.8%qoq (4QCY24: + 4.0%yoy). Retail sales data also show consumer spending grew sustainably at +4.1%yoy in 1QCY25 (4QCY24: +3.8%yoy), despite deterioration in the US consumer confidence in the recent months. The Conference Board Consumer Confidence Index dropped further to 86.0 in Apr-25, reaching the lowest level since May-20. Meanwhile, the University of Michigan's Consumer Sentimen Index fell to 52.2 in the same month, the lowest reading since Jul-22. Consumers generally became more anxious about the future economic and inflation outlook.

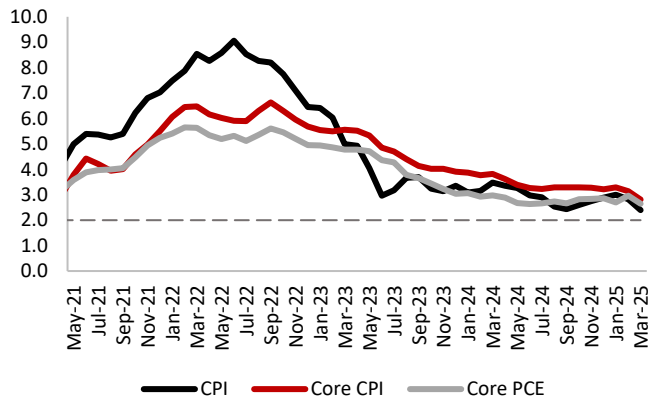
Expect Fed to ease this year. We continue to expect the Fed will carry out 2-3 rate cuts at the upcoming meetings this year to provide support to the economy as aggregate demand is expected to weaken in the coming period. Spending activity could slow as consumer sentiment has been weakening over the past few months. The pace of the rate cuts, however, will be complicated by the heightened inflationary pressures stemmed from the higher tariffs as businesses will pass on the cost increases to the consumers. Nevertheless, if the broader economy and the job market remain resilient, this will allow the Fed to maintain its wait-and-see and cautious approach before making further adjustments to the fed funds rate target.

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

	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	5.75	5.75	5.75	5.75	5.75
Philippines	6.25	6.00	6.00	5.75	5.75	5.75	5.75	5.50	5.50
Thailand	2.50	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.50	3.25	3.00	3.00	3.00	2.75	2.75	2.75	2.75
India	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.00	6.00
Japan	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
UK	5.00	5.00	4.75	4.75	4.75	4.50	4.50	4.50	4.50
Euro area	3.65	3.40	3.40	3.15	2.90	2.90	2.65	2.40	2.40
USA	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	4.25-4.50	4.25-4.50

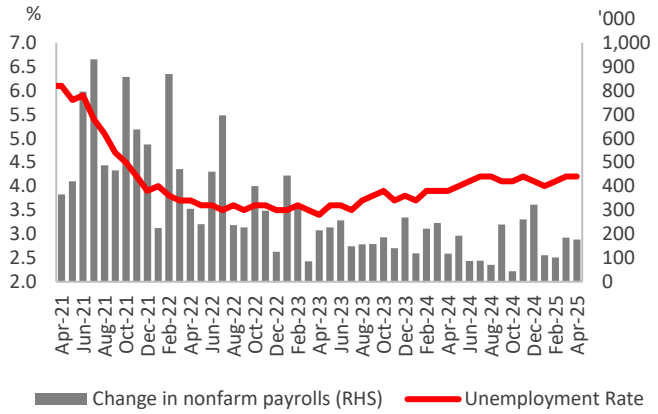
Source: Macrobond, MIDFR

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



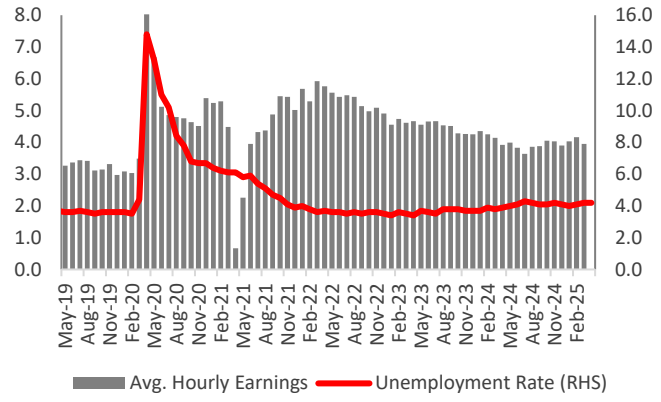
Source: Macrobond, MIDFR

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



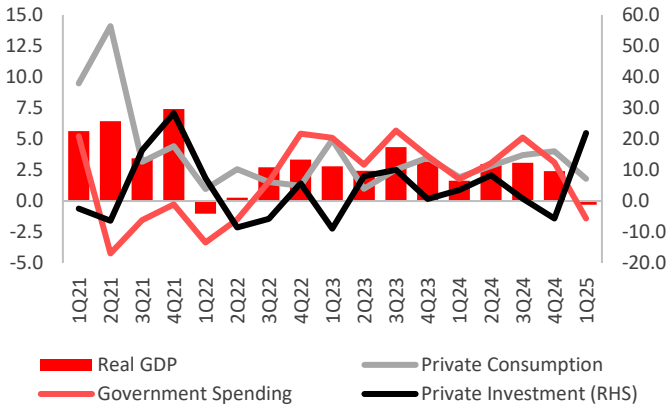
Source: Macrobond, MIDFR

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



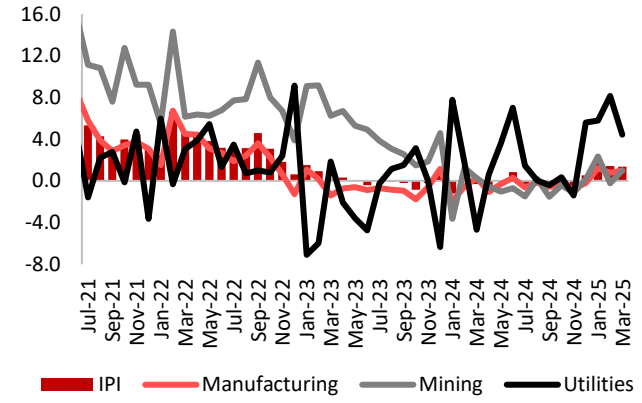
Source: Macrobond, MIDFR

Chart 4: US GDP Growth (Annualised QoQ%)



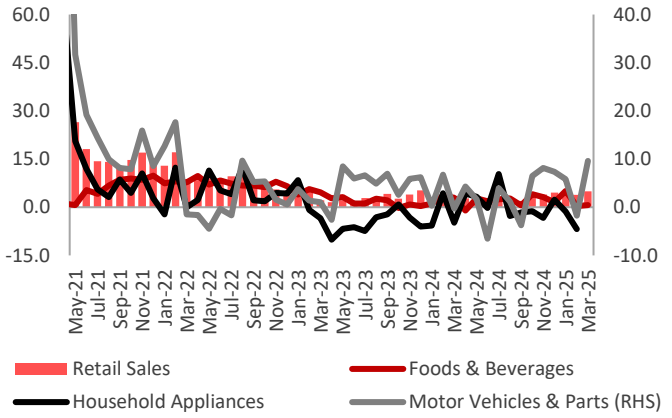
Source: Macrobond, MIDFR

Chart 5: US IPI Performances (YoY%)



Source: Macrobond, MIDFR

Chart 6: US Retail Sales (YoY%)



Source: Macrobond, MIDFR

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