

ECONOMIC REVIEW | January 2019 US FOMC Meeting**The Fed Keeps Interest Rate Unchanged - Signaling Slower Pace of Normalization in 2019**

- *Fed's funds rate unchanged. The Fed maintains its interest rate at 2.25-2.50% during the first FOMC meeting in 2019. Based on the FOMC statement, the central bank will be in no rush to further normalise its interest rate.*
- *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 220K, highest in 3-year. In the final month of last year, it reached 10-month high at 312K. In addition, unemployment rate in the US recorded at 3.9% in Dec-18, reflects full-employment condition.*
- *We expect two rate hikes in 2019. In tandem with the normalization plan by the Fed, we foresee continuous solid momentum in the US economy amid expansionary fiscal policy, optimistic business environment, pick up in household spending, gradual rise in global commodity prices, build up inflationary pressure and tightening labour market. We anticipate Fed will raise its interest rate twice in 2019.*

Fed's funds rate unchanged. The Fed maintains its interest rate at 2.25-2.50% during the first FOMC meeting in 2019. Based on the FOMC statement, the central bank will be in no rush to further normalise its interest rate. Solid economic activity, stable job market, moderating business investment and market uncertainties on trade war are among reasons for the Fed to be patient with its normalisation plan. The slower pace of monetary normalisation is in tandem with the expected moderation in economic growth this year and indirectly provides supportive environment for businesses and consumers in the US.

Slight deterioration in consumer confidences. Consumer sentiments in the US are on declining trends reflecting worries over the direction of the economy and current market conditions. Apart from the Conference Board survey, in the first month of 2019, The University of Michigan's consumer sentiment fell to 90.7 points, lowest since Oct-16 and the IBD/TIPP Economic Optimism Index went down to 52.3 points, more than 1-year low. Among others, market uncertainties over trade war, government shutdown and US fiscal budget 2020 are key factors for the slowdown in the consumer sentiments. Nevertheless, fundamentally the domestic spending in the US is still strong given that inflationary pressure is moderating and jobless rate is at low level.

Stable inflationary pressure. The US's headline inflation rate went down to 1.9% in Dec-18, lowest in 17-month. The tepid pace was mainly driven by transport price which slowed to 0.8% amid declining global energy prices. Despite the slowdown in headline prices, core inflation maintains above 2% level for 10-consecutive months since Feb-18. Based on the Fed's preferred inflation indicator, core PCE inflation hovers below the target line of 2% since Aug-18. Latest in Nov-18, the rate is 1.9%.

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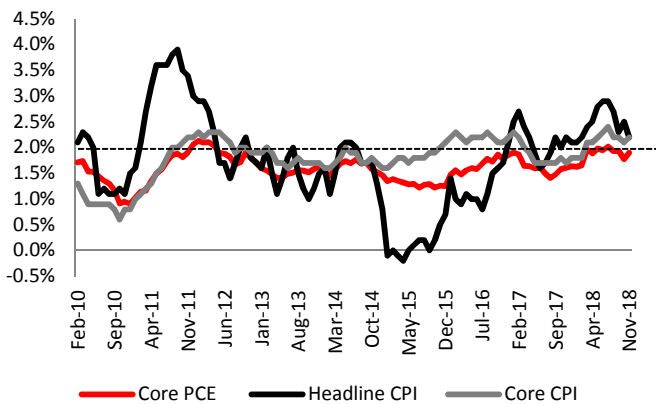
We expect two rate hikes in 2019. In tandem with the normalization plan by the Fed, we foresee continuous solid momentum in the US economy amid expansionary fiscal policy, optimistic business environment, pick up in household spending, gradual rise in global commodity prices, build up inflationary pressure and tightening labour market. We anticipate Fed will raise its interest rate twice in 2019. 

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

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.75	5.25	5.25	5.50	5.75	5.75	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.25	3.25	4.00	4.50	4.50	4.75	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	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	1.50	1.50	1.50	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
United Kingdom	0.50	0.50	0.50	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
United States	1.75	2.00	2.00	2.00	2.25	2.25	2.25	2.50	2.50

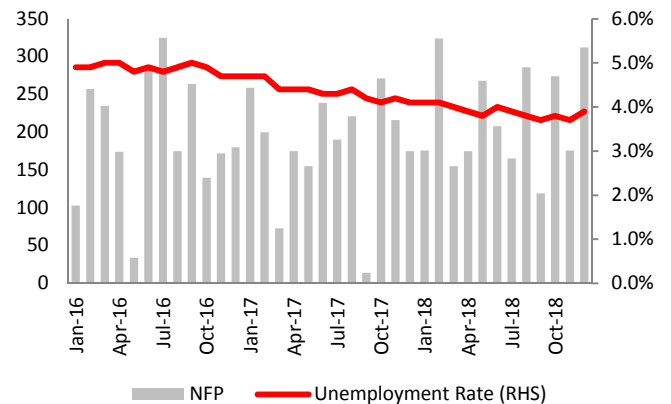
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



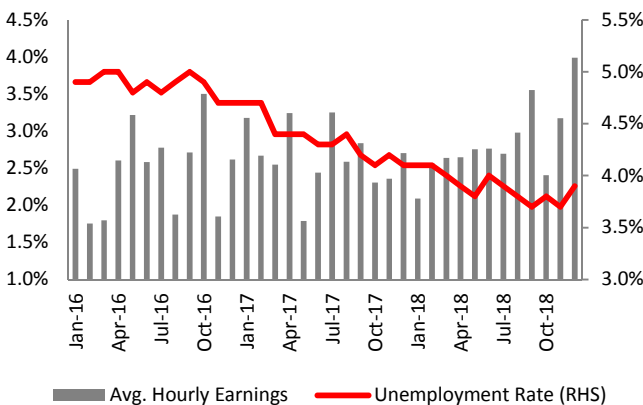
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



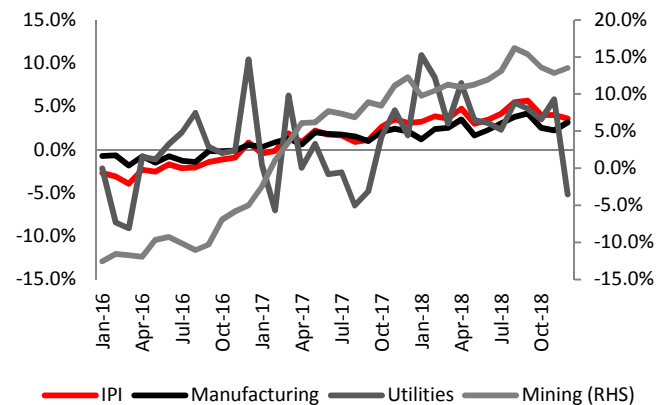
Source: CEIC; MIDFR

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



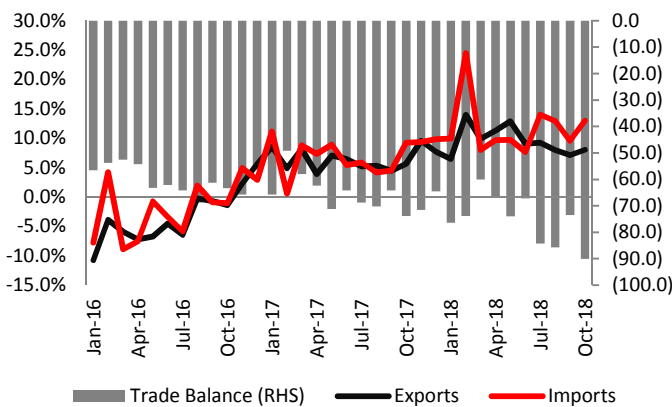
Source: CEIC; MIDFR

Chart 4: IPI Performances (YoY%)



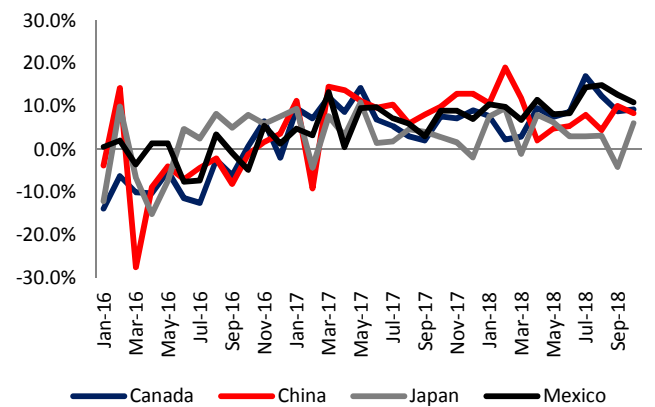
Source: CEIC; MIDFR

Chart 5: External Trade Performance (YoY%)



Source: CEIC; MIDFR

Chart 6: Imports by Country (YoY%)



Source: CEIC; MIDFR

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