

**ECONOMIC REVIEW | September 2018 US FOMC Meeting****Fed Raises Rate, Hints More to Come Amid Optimistic Outlook for US Economy**

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- *Robust macroeconomic activity and upbeat business confidence. The US economy is predicted to expand at solid pace this year underpinned by sound industrial production, external trade, business investment and upbeat domestic spending. GDP growth of 2Q18 stood at annualised 4.2%, hitting near 4-year high.*
- *We expect another one rate hike in 2018. In tandem with forward guidance by the Fed, we foresee continuous upbeat momentum in the US economy boosted by 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.*

**Third rate hike for the year and another one on the card.** The just concluded 6<sup>th</sup> FOMC meeting decided to raise its interest rate to the range of 2.00-2.25%. The move is widely expected by market analysts. Amid solid pick up in the US economy, the Fed remains hawkish. Fed estimates US GDP to rise 3.1% in 2018, an upward revision from the 2.8% projection in June. The forecast for 2019 also moved higher by 0.1 percentage points to 2.5%. The FOMC also projects another rate hike before end of the year and three more in 2019. We anticipate the next FOMC meeting in Dec-18 will see Fed increasing the rate by another 25 basis points.

**Robust macroeconomic activity and upbeat business confidence.** The US economy is predicted to expand at solid pace this year underpinned by sound industrial production, external trade, business investment and upbeat domestic spending. GDP growth of 2Q18 stood at annualised 4.2%, hitting near 4-year high. In Aug-18, IPI growth hit 4.9%yoy, fastest since Dec-10. Despite trade tension, average exports and imports growths of 2018 registered higher than previous year's performance, 10.4% vs 6.4% and 11.9% vs 7.1% respectively. Looking business confidence indicator, the US economy is expected to expand at solid pace in 2H18 given that manufacturing and services PMI remain above 50 points expansionary line.

**Inflationary pressure starting to get traction.** The US headline inflation up by 2.7% in Aug-18, slightly below 6-year high rate of 2.9%. The rise in inflation is mainly due to rising global commodity prices and stable pick-up in domestic demand. In the same month, transport price increases by 6.3%yoy. On top of that, core inflation reaches 2.2%, recording 6-consecutive months above 2% level. Based on the Fed's preferred inflation indicator, core PCE inflation hover the Fed's 2% target since May-18. The steady uptrend in the inflation data would provide strong cue for the Fed to raise its monetary wall in the upcoming meetings.

**The labour markets remain solid.** Labour market remain solid in Aug-18 which non-farm payroll (NFP) added 201K jobs. Comparatively, average monthly jobs added for the first eight month is 207K against 2017's 182K. Among others, the solid increase in job market is partly due to upbeat business activity, consumer confidence and effects of expansionary fiscal policy. In addition, unemployment rate in the US recorded at 3.9% in Aug-18, slightly higher than 18-year low of 3.8% in May-18. Consequently, wage growth as reflected by private average hourly earnings rose steadily by 2.9%yoy during the month, fastest since Jul-17. Moving forward, we foresee the steady labour market in the US will persist until the end of the year and thus supporting the Fed's moves to raise interest rate as guided.

**Growing pressure on other central banks.** Normalisation in the US's would put pressure on other central banks to follow the same step. Economies such as South Korea and Taiwan which are highly dependent on the greenback and capital investment are likely to follow suit in regards to their monetary stance. On the other hand, currency-led crisis economy such as Turkey, Indonesia and Argentina are raising interest rate in order to protect their currencies and domestic economy.

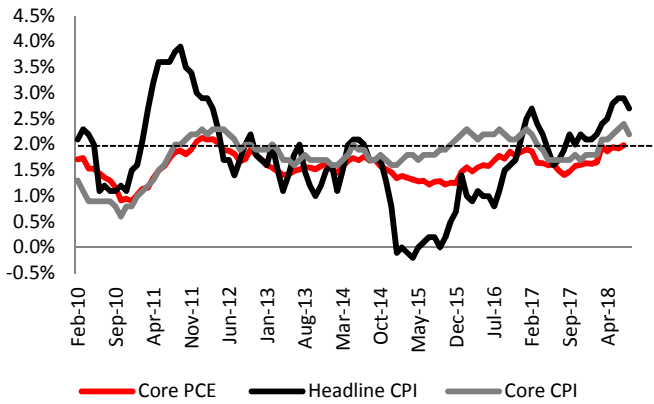
**We expect another one rate hike in 2018.** In tandem with forward guidance by the Fed, we foresee continuous upbeat momentum in the US economy boosted by expansionary fiscal policy, optimistic business environment, pick up in household spending, gradual rise in global commodity prices, build up inflationary pressure and tightening labour market. 📈

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

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.75	5.25	5.25	5.50	5.50
Philippines	3.50	3.50	3.50	3.50	3.75	4.00	4.00	4.50	4.50
Vietnam	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Korea	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	1.75	1.75	2.00	2.00	2.00	2.25	2.25	2.25	2.25
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	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	1.25	1.25	1.75	1.75	1.75	2.00	2.00	2.00	2.25

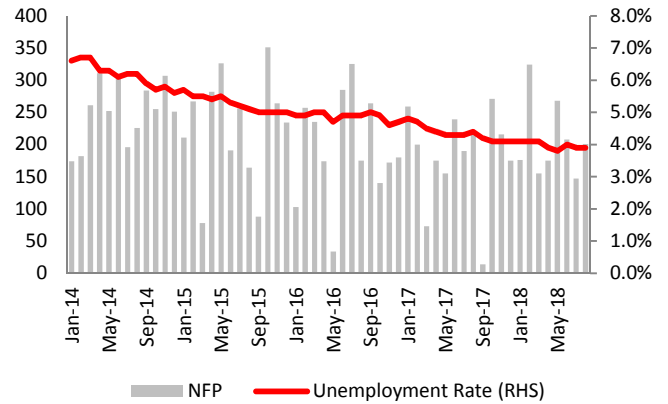
Source: CEIC; MIDFR

**Chart 1: Headline vs Core PCE Inflation (%)**



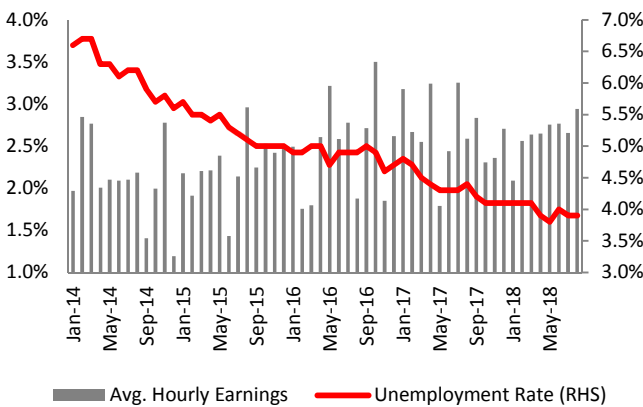
Source: CEIC; MIDFR

**Chart 2: Unemployment Rate vs Non-Farm Payroll**



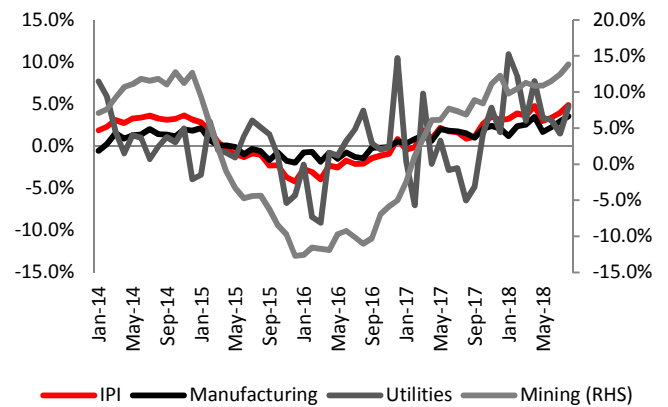
Source: CEIC; MIDFR

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



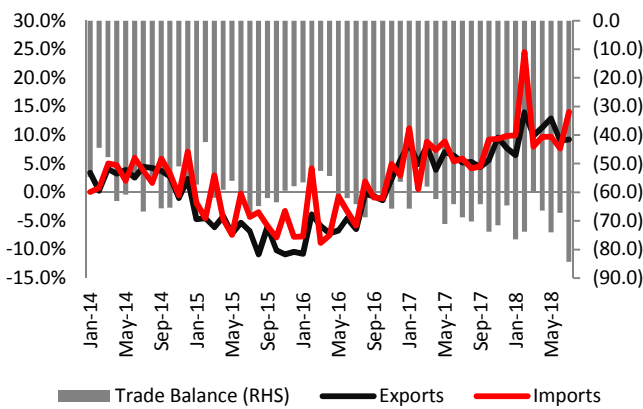
Source: CEIC; MIDFR

**Chart 4: IPI Performances (YoY%)**



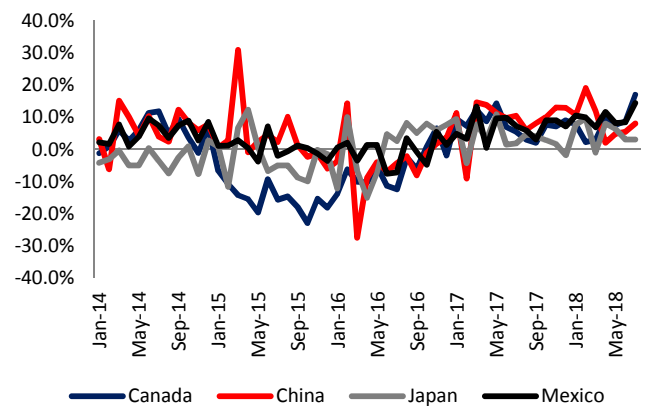
Source: CEIC; MIDFR

**Chart 5: External Trade Performance (YoY%)**



Source: CEIC; MIDFR

**Chart 6: Imports by Country (YoY%)**



Source: CEIC; MIDFR

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