19 September 2024

ECONOMIC REVIEW | September 2024 US FOMC Meeting

The Fed Finally Shifted to Policy Easing, Slashing FFR by -50bps

- *Fed made a jumbo cut of -50bps but it was within market expectations. After the FOMC meeting on 18 September 2024, the Fed's FOMC decided to cut the fed funds rate (FFR) by -50bps bringing the range to 4.75-5.00%. The FOMC move is within recent market expectations*
- *More progress in inflation moving towards +2% target. In the FOMC statement, the Fed reiterated that inflation has made "further progress but remains somewhat elevated" which was a shift in tone from the "eased but remained somewhat elevated" statement made at the end July-24 meeting. Furthermore, the pace of price increases will show inflation fell to a +2.2%yoy rate in August, Fed Chair Jerome Powell said during his press conference.*
- *Further cuts can be expected. The Fed Chairman said in his opening statement that the cut was a "recalibration". The "dot plot" indicated that 19 FOMC members, both voters and nonvoters, see the benchmark FFR at 4.4% by the end of this year, equivalent to a target range of 4.25% to 4.50%.*
- *Fed to continue cutting rates for the remainder of the year. At this juncture, we foresee a policy easing to continue for the remainder of this year as inflation moving closer to the Fed's 2% target.*

Fed made a jumbo cut of -50bps but it was within market expectations. After the FOMC meeting on 18 September 2024, the Fed's FOMC decided to cut the fed funds rate (FFR) by -50bps bringing the range to 4.75-5.00%. The decision was not unanimous as there was one dissenting vote for a -25bps cut. The FOMC move is within recent market expectations as highlighted by the FFR futures and bond markets, which shifted from a -25bps cut expectation to -50bps cut expectation as recently as last Friday. Nevertheless, there was speculation that the central bank would choose a more conservative -25bps reduction instead. This comes in the heel of slower gains in the jobs market and further progress in inflation. The FOMC stated that "job gains have slowed, and the unemployment rate has moved up but remains low. Inflation has made further progress toward the Committee's 2 percent objective but remains somewhat elevated".

Further progress in inflation moving towards +2% target. In the FOMC statement, the Fed reiterated that inflation has made "further progress but remains somewhat elevated" which was a shift in tone from the "eased but remained somewhat elevated" statement made at the end July-24 meeting. It also stated that the FOMC "gained greater confidence that inflation is moving sustainably toward 2%". Looking at the inflation data, the headline PCE inflation was unchanged at +2.5%yoy in July-24 (Jun-24: +2.5%yoy), back to the same level in Jan-Feb-24 and also the lowest since 2021. The core PCE inflation, despite remaining at +2.6%yoy in July-24 which was also the lowest in more than 3 years, still indicated a broad moderation in underlying inflationary pressures. Furthermore, the pace of price increases will show inflation fell to a +2.2%yoy rate in August, Fed Chair Jerome Powell said during his press conference.

Further cuts can be expected. The Fed Chairman said in his opening statement that the cut was a "recalibration" for the central bank and did not commit to similar moves at each upcoming meeting. He also stated that it should not be assumed that "this is the new pace" and "we will continue to make our decisions meeting by meeting." Nevertheless, the "dot plot" indicated that 19 FOMC members, both voters and nonvoters, see the benchmark FFR at 4.4% by the end of this year, equivalent to a target range of 4.25% to 4.50%. This suggest another -50bps by end of the year. With the FOMC having two remaining meetings for the year (scheduled on Nov. 6-7 and Dec. 17-18) suggest -25bps cut each way. Meawnhile, further cuts can be expected in 2025 and 2026. The fed forecasts interest rates landing at 3.4%, indicating another -100bps in cuts. Through 2026, rates are expected to fall to 2.9% with another -50bps reduction.

No statement growth projection, economy "in good shape". While the Sept-24 does not come with an update to the FOMC's economic projection, the Fed Chair stated that the US economy is "in good shape". The stronger-than-expected GDP growth at annualized +3.0%qoq in 2QCY24 (1QCY24: +1.4%qoq) pointed to continued resilience in the US economy backed by rebound in consumer spending on goods and more robust investment in the non-residential sector. With the US economy growing at around +3%yoy in 1HCY24, this supports the outlook that the GDP growth could expand above +2% in 2024, and could surpass the +2.1% projected by the FOMC members if job market remains robust.

Job market has returned to better balance, not a cause of inflation. The labour market is in solid condition as stated by the Fed Chair. However, Meanwhile, the unemployment rate forecast has been revised higher for this year (4.4% vs 4%) and next (4.4% vs 4.2%). Job gowth remains healthy although the latest data nonfarm payrolls rose slower than expected at +142K jobs added in Aug-24, more than a downwardly revised +89K in July-24 but below forecasts of +160K. Meanwnwhile, the unemployment rate eased to 4.2% in Aug-24 from the 4.3% in the prior month, aligning with market expectations. The cooling labour market also supports for the Fed to begin easing its monetary policy as the US economy is not overheating with more balanced job market, not as tight as previously. In other words, we believe the Fed will balance between its existing goal to push inflation lower and to avoid a sharp deterioration in the job market.

Spending continued to increase. Consumer spending remained the key driver supporting the US economic growth. U.S. retail sales grew by +2.1%yoy in Aug-24, slowing from the +2.9%yoy growth in July-24, but still reflecting positive consumer spending trends. On a seasonally adjusted basis, retail sales edged up by +0.1%mom, following an upwardly revised +1.1%mom surge in Jul-24. The monthly increase in retail spending outperformed market forecasts of a -0.2%mom contraction. With sentiment does not show a sharp decline or a sharp increase, we foresee consumer spending will continue to grow and support the resilient economic growth this year.

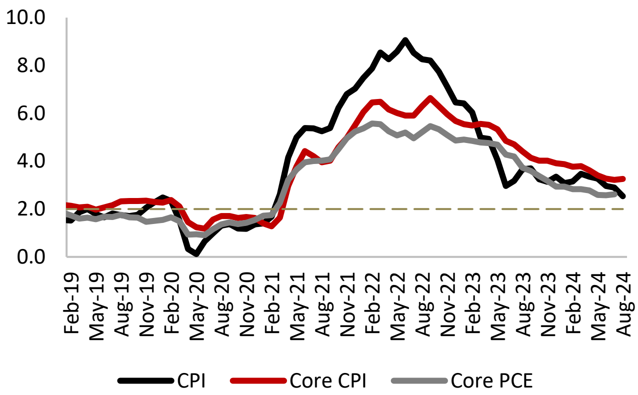
Fed to continue cutting rates for the remainder of the year. As we expected, the Fed have begun slashing its FFR. The broad moderation in the US inflation suggests the Fed continue to cut rates. However, the pace of the cuts will be much dependent on the the continue progess of pushing down the inflation rate and the robustness of the US labour market. At this juncture, we foresee a policy easing to continue for the remainder of this year as inflation moving closer to the Fed's 2% target.

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

	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Jul-24	Aug-24	Sep-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.25	6.25	6.25	6.25	6.25	6.25	6.00
Philippines	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Thailand	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
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	3.50	3.50	3.50	3.50	3.50	3.50
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25
Japan	(0.10)	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.25	0.25	0.25	0.25
UK	5.25	5.25	5.25	5.25	5.25	5.25	5.00	5.00	5.00
Euro area	4.50	4.50	4.50	4.50	4.25	4.25	4.25	4.25	3.65
US	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	4.75-5.00

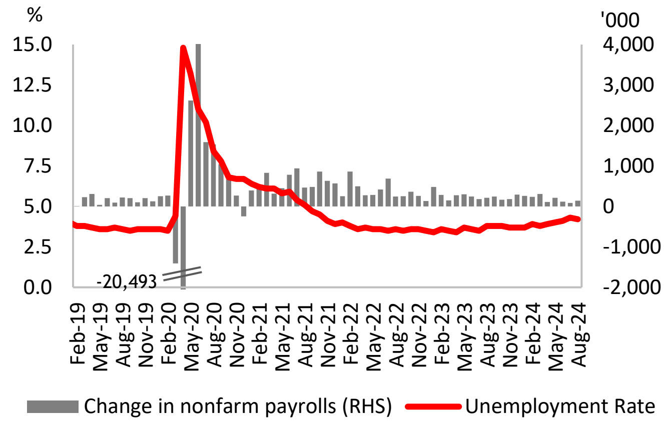
Source: Bloomberg; MIDFR

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



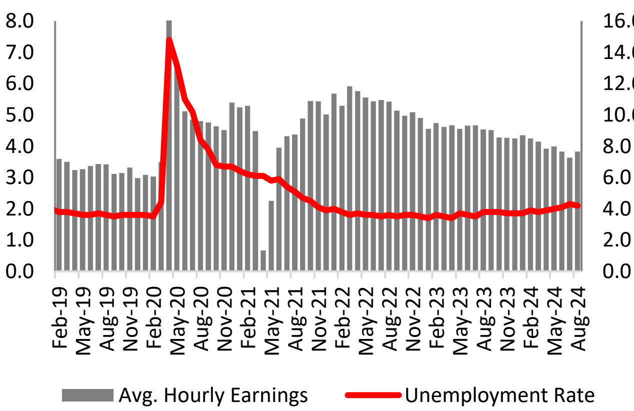
Source: Macrobond, MIDFR

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



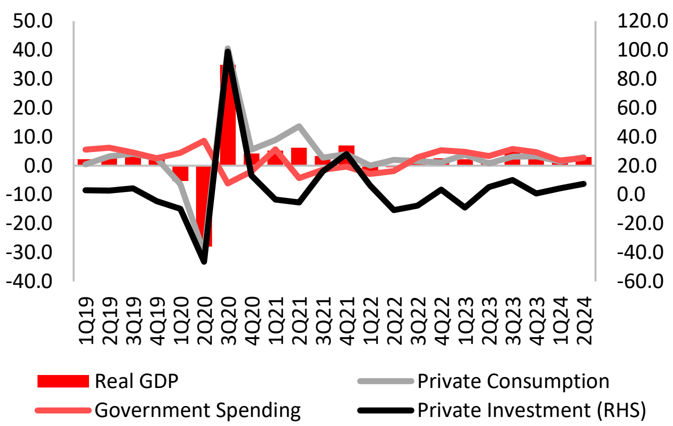
Source: Macrobond, MIDFR

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



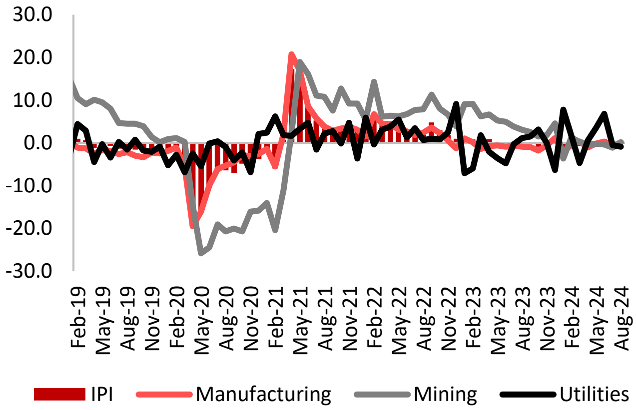
Source: Macrobond, MIDFR

Chart 4: US GDP Growth (Annualised QoQ%)



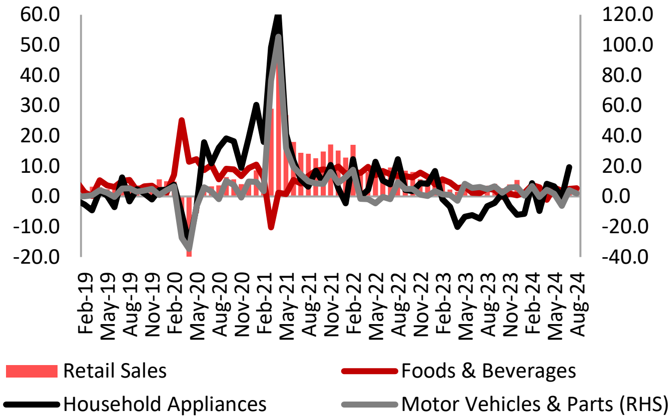
Source: Macrobond, MIDFR

Chart 5: US IPI Performances (YoY%)



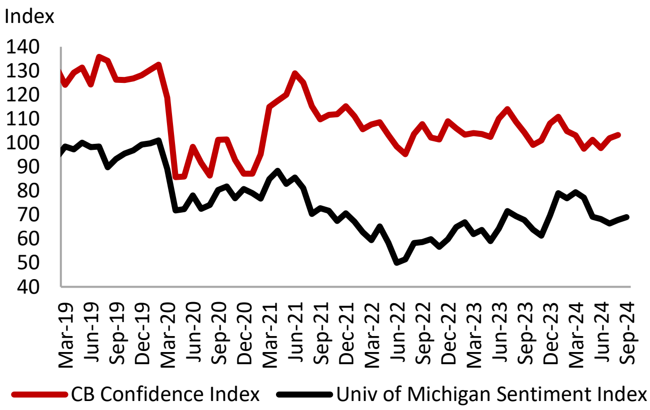
Source: Macrobond, MIDFR

Chart 6: US Retail Sales (YoY%)



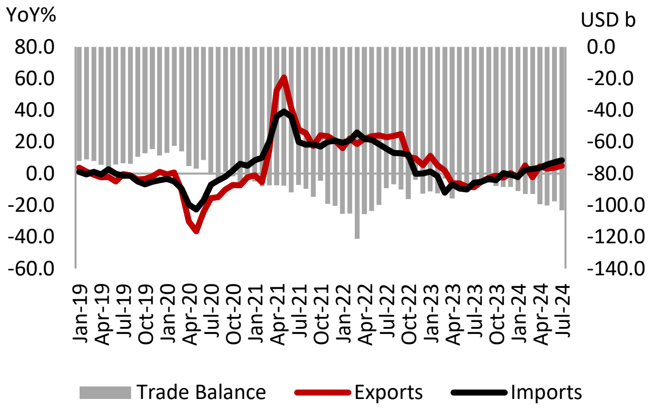
Source: Macrobond, MIDFR

Chart 7: US Consumer Sentiment & Confidence



Source: Macrobond, MIDFR

Chart 8: US Export & Import (YoY%) vs Goods Trade Balance (USD billion)



Source: Macrobond, MIDFR

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