8 November 2024

ECONOMIC REVIEW | November 2024 US FOMC Meeting

Further Easing by the Fed as the FFR Slashed by -25bps to 4.50-4.75%

- *FFR reduced by -25bps as widely anticipated. After the Nov-24 policy meeting, the Fed's FOMC reduced the fed funds rate (FFR) by -25bps to 4.50-4.75% as widely predicted by the market consensus. The additional easing will reduce the level of policy restraint despite the continued resilience of the US economy.*
- *Inflation moves closer to the Fed's target. In the FOMC statement, the Fed reiterated the same assessment on the inflation trend, having moved closer to its target but remained "somewhat elevated". The FOMC statement no longer mentioned about having "greater confidence" that inflation moving sustainbly to +2%.*
- *Still strong economic growth. There was no update to the FOMC projection but the FOMC continued to indicate the expansion in the US economic activity remained "solid". The economic resilience can be seen in the US GDP growth which grew at annualised +2.8%qoq in 3QCY24 (2QCY24: +3.0%qoq).*
- *Expect another cut in Dec-24. We continue to expect the Fed will carry out more policy easing at the next FOMC meetings, projecting the fed funds rate to be slashed further by -25bps at the Dec-24 meeting. We believe the policy easing is feasible as long as inflation continues to moderate and move closer to the Fed's longer-term target.*

FFR reduced by -25bps as widely anticipated. After the Nov-24 policy meeting, the Fed's FOMC reduced the fed funds rate (FFR) by -25bps to 4.50-4.75%. The decision was widely predicted by the market consensus looking at the continued moderation in the US inflation, moving closer to the Fed's +2% target. The additional easing will reduce the level of policy restraint (and towards more neutral level) despite the continued resilience of the US economy. In the FOMC statement, the Fed also stated that its holdings of treasury and mortgage-backed securities (MBS) will be further reduced, where the overall size of the Fed's balance sheet thus far has decreased by -USD1.97t from the peak in Apr-22. As of 6 November 2024, the Fed's balance sheet shrank to USD6.99t, the lowest level since late Aug-20.

Inflation moves closer to the Fed's target. In the FOMC statement, the Fed reiterated the same assessment on the inflation trend, having moved closer to its target but remained "somewhat elevated". The FOMC statement no longer mentioned about having "greater confidence" (as stated in the previous statement in Sep-24) that inflation moving sustainbly to +2%. Looking at the inflation data, the headline PCE inflation eased to +2.1%yoy in Sep-24, returning to the lowest level last seen early 2021. The core PCE inflation, however, remained at +2.7%yoy for the third straight month, hovering around more than 3-year lows but still indicating a broad moderation in underlying inflationary pressures.

Still strong economic growth. There was no update to the FOMC projection but the FOMC continued to indicate the expansion in the US economic activity remained "solid". The economic resilience can be seen in the US GDP growth which grew at annualised +2.8%qoq in 3QCY24 (2QCY24: +3.0%qoq), based on the advance estimate. The growth was mainly driven by the sustained rise in private consumption expenditure which surged by +3.7%qoq (2QCY24: +2.8%qoq), marking the fastest growth since 1QCY23. From the year-on-year perspective, the US economy expanded by average +2.9%yoy in the first three quarters of 2024, higher than +2.0% predicted by the FOMC members in Sep-24. This indicates that the US economy will be able to avert a soft landing, despite the high level of interest rates.

Easing job market conditions. In the FOMC statement the Fed concluded that conditions in the US job market have eased, with job creation having slowed. Although the rebalancing after the policy tightening has caused the unemployment rate to increase, with the latest reading remaining at 4.1% in Oct-24, but the rate is still deemed to be at low level. The job market is no longer experiencing labour shortages like in the early part of post-pandemic recovery, and by now it is not contributing to inflation because wage growth has moderated. The average hourly earnings has eased to +3.8%yoy in 3QCY24, the slowest since mid-2021. On one hand, the cooling labour market condition, with the latest nonfarm payrolls only increased by +12K in Oct-24 impacted by the hurricanes and labour strikes, supports for the Fed to continue its policy easing. On the other hand, we view no clear sign of significant deterioration in the US job market to be a major cause of concern. In other words, the current labour marke situation still remains supportive of growth, where the stronger rise in consumer spending in remains a major contributor to the US GDP growth in 3QCY24.

Increased spending as confidence improved with easing inflation. The surge in the private consumption expenditures was underpinned by increased spending on goods, such as motor vehicles & parts and food & beverages. The growth in retail sales was also sustained at +2.3%yoy in 3QCY24 (2QCY24: +2.4%yoy, 1QCY24: +2.0%yoy). Apart from the still steady job market, consumers also indicated improved views on the economy and inflation expectations. This was reflected by the rise in the Conference Board consumer confidence to 108.7 in Oct-24, the highest in 9 months. The University of Michigan survey also reported a better reading in the Consumer Sentiment Index which increased to 6-month high of 70.5 in Oct-24. With improved confidence and easing inflation expectations, we expect consumer spending will continue to grow and therefore sustaining growth in the US economy going forward. This explains why the Fed still maintains that the US economic growth remains solid.

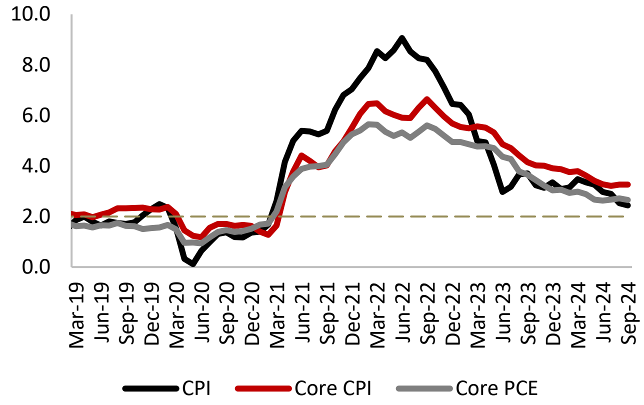
Expect another cut in Dec-24. We continue to expect the Fed will carry out more policy easing at the next FOMC meetings, projecting the fed funds rate to be slashed further by -25bps at the Dec-24 meeting. Reading from the Fed's economic projection, the policy interest rate will be cut to 3.4% (or additional 4 rate cuts) next year. We believe the policy easing is feasible as long as inflation continues to moderate and move closer to the Fed's longer-term target. However, the Fed is expected not to be aggressive in reducing the policy restrictiveness to avoid re-acceleration in inflation given the continued resilience in the US economy and job market.

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

	Apr-24	May-24	Jun-24	Jul-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.00	6.00
Philippines	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.00	6.00
Thailand	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25
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	3.25	3.25
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Japan	0.00-0.10	0.00-0.10	0.00-0.10	0.25	0.25	0.25	0.25	0.25	0.25
UK	5.25	5.25	5.25	5.25	5.00	5.00	5.00	5.00	4.75
Euro area	4.50	4.50	4.25	4.25	4.25	4.25	3.65	3.40	3.40
4US	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	4.75-5.00	4.50-4.75

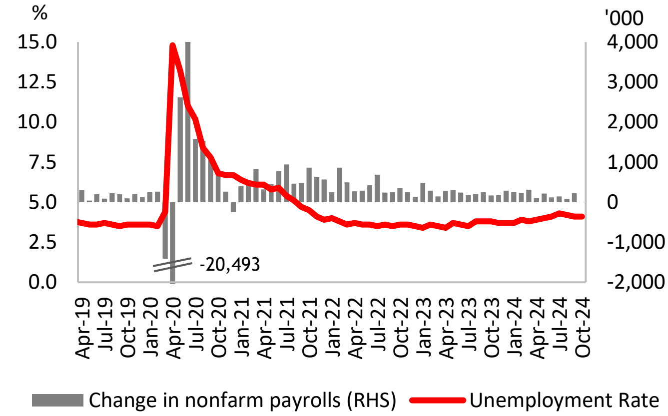
Source: Bloomberg; MIDFR

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



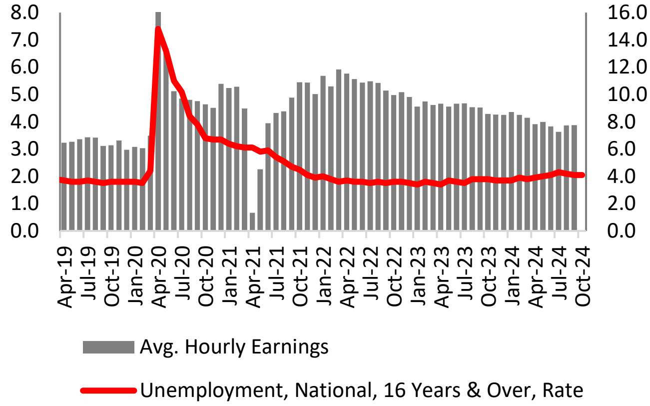
Source: Macrobond, MIDFR

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



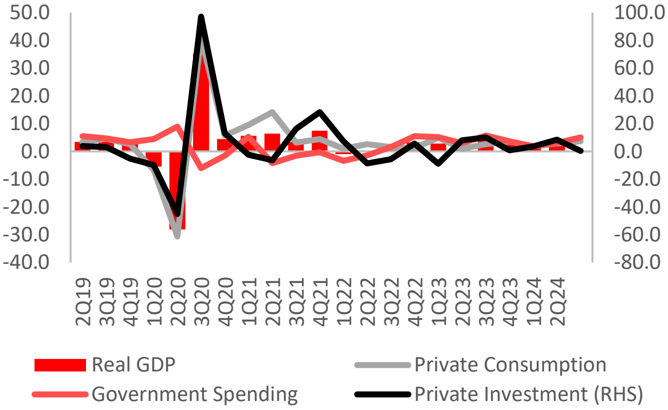
Source: Macrobond, MIDFR

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



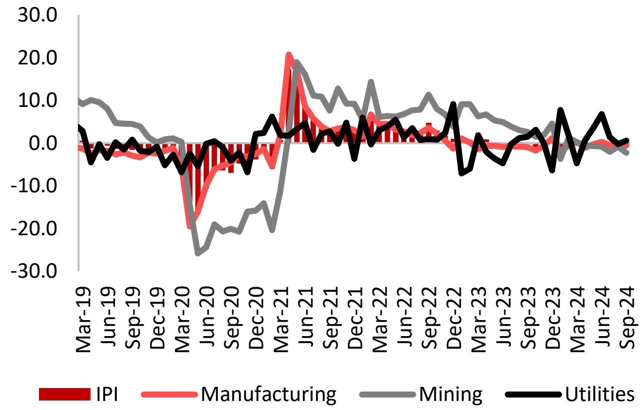
Source: Macrobond, MIDFR

Chart 4: US GDP Growth (Annualised QoQ%)



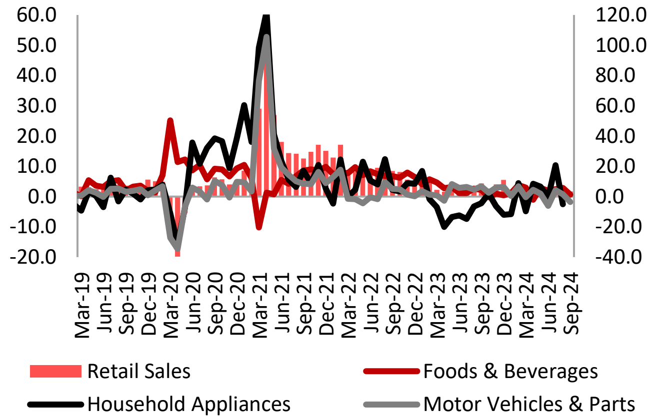
Source: Macrobond, MIDFR

Chart 5: US IPI Performances (YoY%)



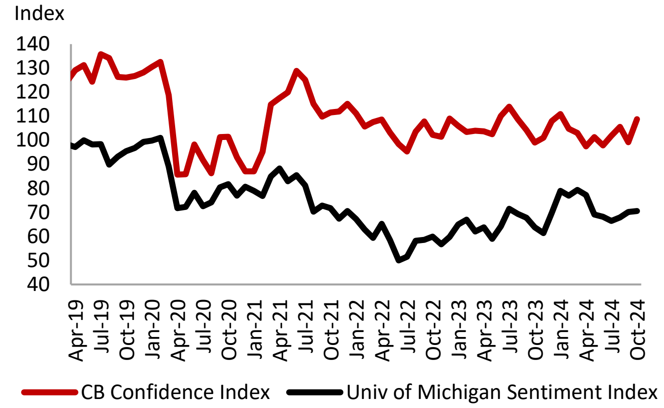
Source: Macrobond, MIDFR

Chart 6: US Retail Sales (YoY%)



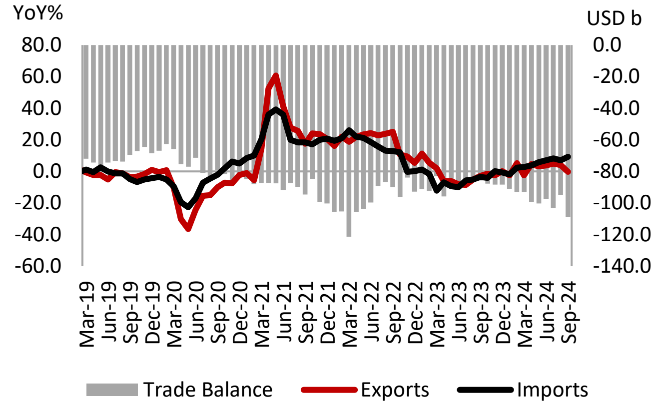
Source: Macrobond, MIDFR

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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