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## US Economics | North America

# Ahead of the November FOMC: Our Monetary Forecasts

We participate in the NY Fed's Survey of Primary Dealers, which collects expectations about monetary policy and economic indicators in advance of each FOMC meeting. In this note we provide a snapshot of our responses to the survey.

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## A First Look at Our Expectations for the November FOMC Statement and Press Conference

### FOMC policy statement

**We expect the Fed to upgrade its assessment of the labor market.**

Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have ~~slowed~~ **been strong**, and ~~and~~ **while** the unemployment rate has moved up it remains low. Inflation has made further progress toward the Committee's 2 percent objective but remains somewhat elevated.

**GDP continues to grow at a "solid pace".** We forecast [GDP growth](#) at 2.4% 4Q/4Q this year and 2.1% 4Q/4Q next year. The economy expanded by 3.0% Q/Q annualized in the second quarter and **we are tracking 3Q GDP growth at a solid 2.9% pace** vs Atlanta Fed's GDPNow at 3.3% and NY Fed Nowcast at 2.9%.

**The labor market remains healthy "but it has cooled".** Last year, payrolls average 243k per month, this year they have averaged 200k.

**Core PCE inflation has eased considerably over the past year.** The last CPI/PCE prints were well aligned with our long-standing view that the Fed would deliver 25bp cuts in November and December. Four additional cuts through mid-2025 bring the mid-point of the federal funds rate target range to 3.375%. On a 4Q/4Q basis, we forecast core PCE inflation slows from 3.2% last year to 2.7% this year and 2.2% in 2025.

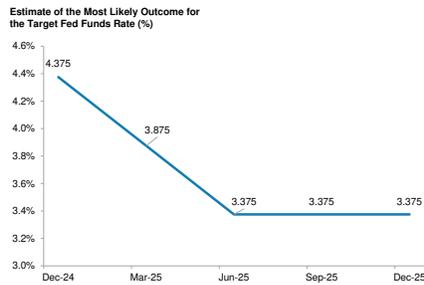
### Press conference

We think Chair Powell will have to recognize strength in 3Q24 GDP growth and payrolls, putting less emphasis than the last meeting on slowing.

## Our Expectations

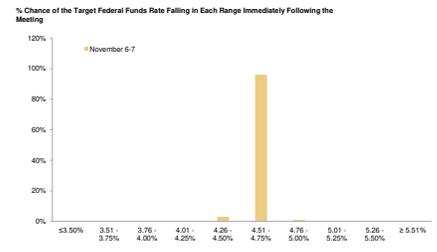
*Exhibit 1, Exhibit 2, Exhibit 3, and Exhibit 4 depict our modal expectations for the policy rate. Our baseline views are indicated through 2025 (see [US Economics Mid-Year Outlook: Fast Growth, More Slack \(19 May 2024\)](#)). We provide guidelines for probabilities of longer-term outcomes as well.*

**Exhibit 1:** Expected path for the fed funds rate



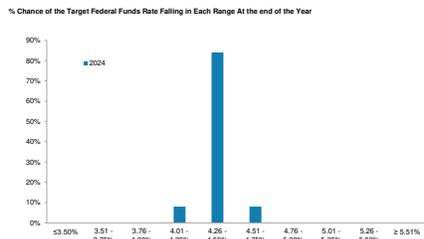
Source: Morgan Stanley Research forecasts

**Exhibit 2:** Estimates of likely outcomes for the federal funds rate for the November 6-7 FOMC meeting



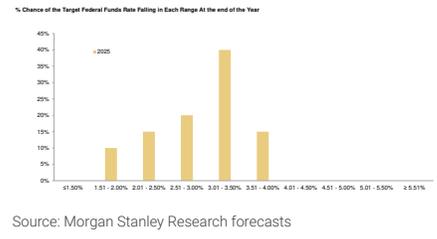
Source: Morgan Stanley Research forecasts

**Exhibit 3:** Estimates of likely outcomes for the federal funds rate for end 2024



Source: Morgan Stanley Research forecasts

**Exhibit 4:** Estimates of likely outcomes for the federal funds rate for end 2025



Source: Morgan Stanley Research forecasts

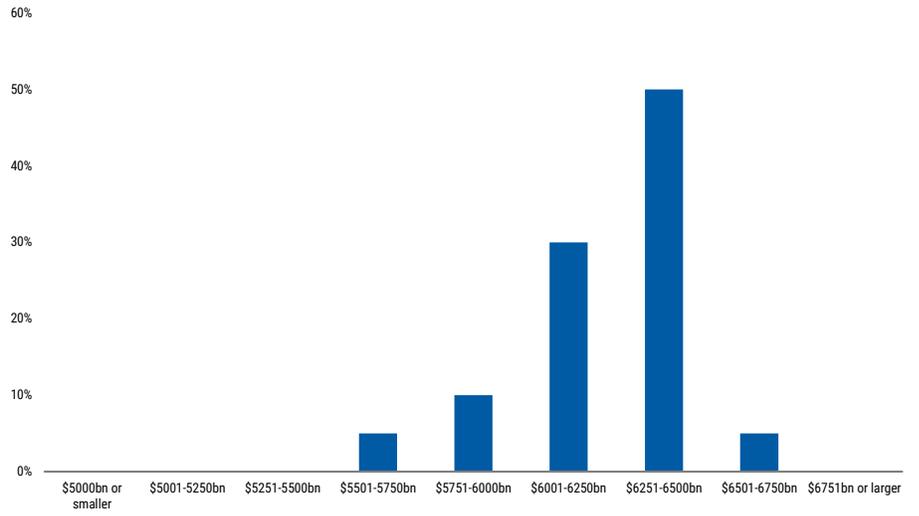
## Expectations for the SOMA Portfolio

*Exhibit 5* shows our modal expectations for the Fed's SOMA portfolio. For a detailed review of the Fed's balance sheet, see: [Friday Finish – US Economics: Quantitative Frightening? \(25 Oct 2024\)](#)

Also, [Global Economics & Short Duration Strategy: Whither QT and the RRP? \(7 Aug 2024\)](#), [Global Macro Strategy Mid-Year Outlook: Voting With Your Wallet \(31 May 2024\)](#), [US Economics Mid-Year Outlook: Fast Growth, More Slack \(19 May 2024\)](#), [Global Macro Strategy, US Economics, US Large Cap Banks: A \\$6.5tr SOMA Portfolio \(22 Apr 2022\)](#), [Global Economics and Macro Strategy: Earlier Start, Slower Taper \(19 Jan 2024\)](#).

**Exhibit 5:** Estimates of the SOMA portfolio

**% Chance Attached to the Size of the SOMA Portfolio Falling in Each of the Ranges**



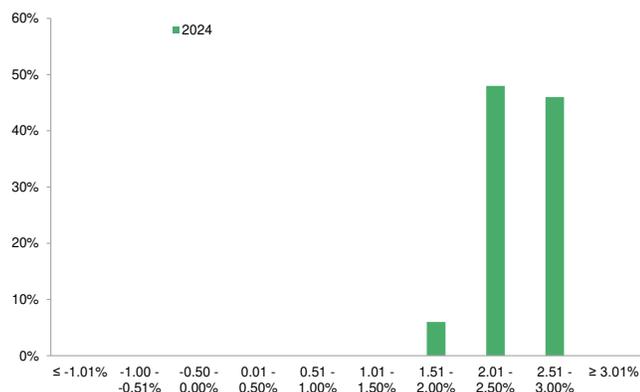
Source: Morgan Stanley Research forecasts

## Expectations for Growth and Inflation

*Exhibit 6, Exhibit 7, Exhibit 8, Exhibit 9, Exhibit 10 and Exhibit 11 show our modal expectations for growth and inflation. For a detailed review of our year-ahead growth and inflation forecasts, see: [US Economics Mid-Year Outlook: Fast Growth, More Slack \(19 May 2024\)](#).*

**Exhibit 6:** Percent chance of 2024 real GDP growth (4Q/4Q) falling in the following ranges

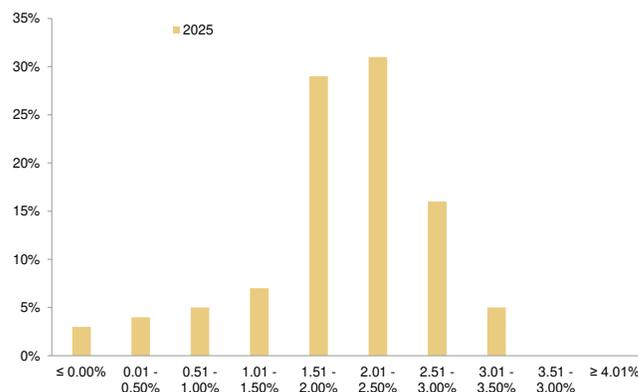
% Chance for Real GDP Growth to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

**Exhibit 7:** Percent chance of 2025 real GDP growth (4Q/4Q) falling in the following ranges

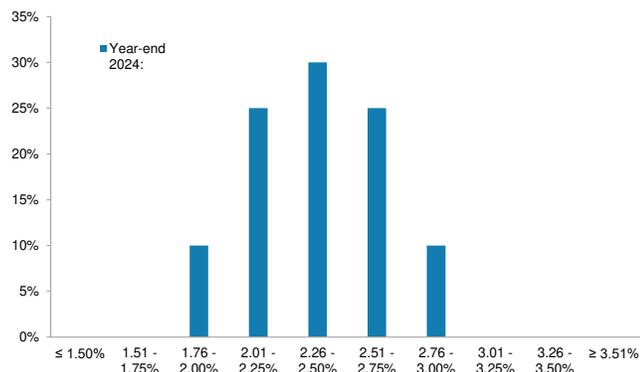
% Chance for Real GDP Growth to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

**Exhibit 8:** Percent Chance of 2024 PCE Inflation (4Q/4Q) Falling in the Following Ranges

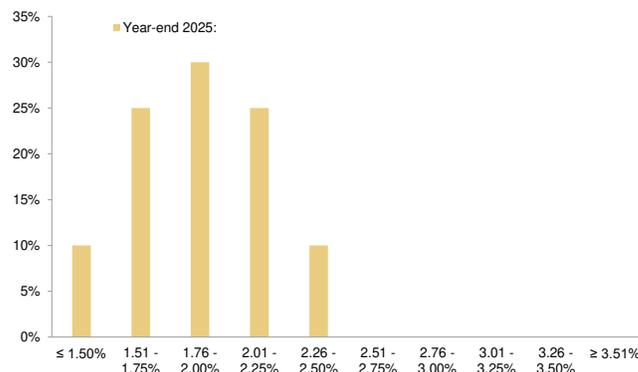
% Chance for Headline PCE Inflation to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

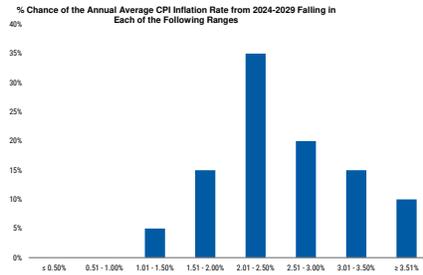
**Exhibit 9:** Percent Chance of 2025 PCE Inflation (4Q/4Q) Falling in the Following Ranges

% Chance for Headline PCE Inflation to Fall in the Following Ranges



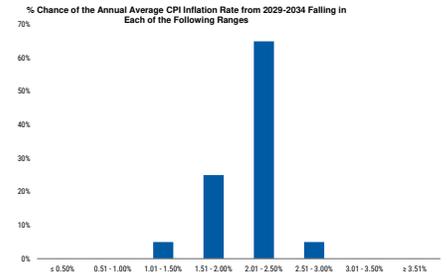
Source: Morgan Stanley Research forecasts

**Exhibit 10:** Probabilities of Average Annual CPI Inflation Falling in the Following Ranges, 2024-2029



Source: Morgan Stanley Research forecasts

**Exhibit 11:** Probabilities of Average Annual CPI Inflation Falling in the Following Ranges, 2029-2034



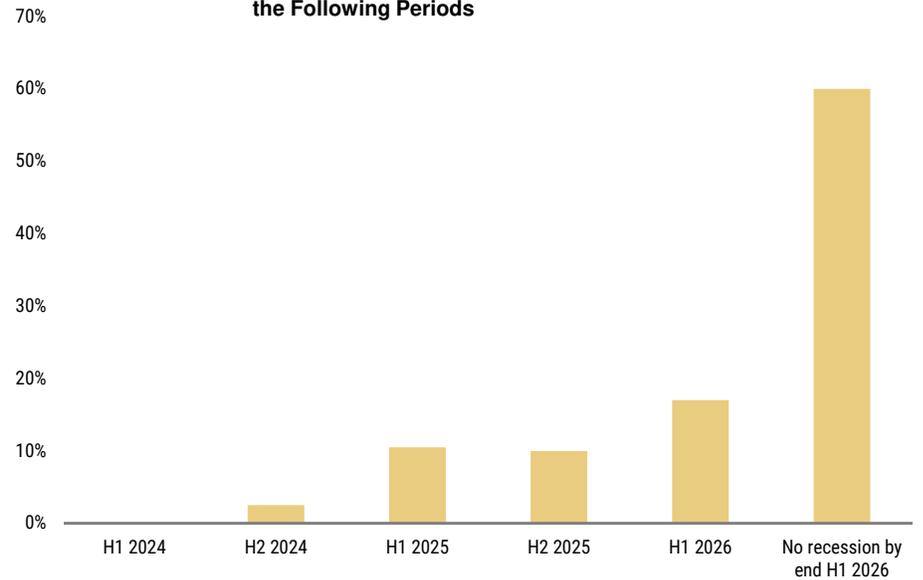
Source: Morgan Stanley Research forecasts

## How We See Recession Probabilities

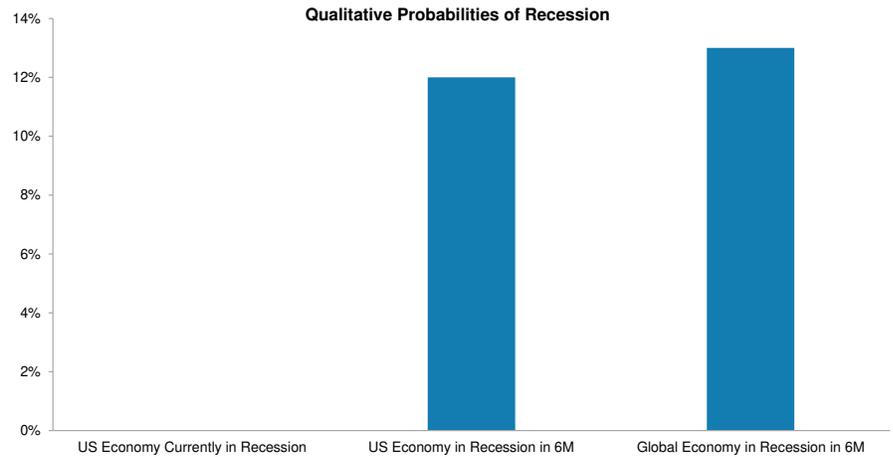
*Exhibit 12 and Exhibit 13 show our recession probabilities for the US economy.*

**Exhibit 12:** Probabilities of the US Economy First Entering a Recession in the Following Periods

**% Chance Attached to the US Economy First Entering a Recession in the Following Periods**



Source: Morgan Stanley Research forecasts

**Exhibit 13:** Probabilities of Recession

Source: Morgan Stanley Research forecasts

*The probabilities shown are only illustrative. They do not forecast a precise series of events and do not account for all possible outcomes but instead illustrate our sense of the relative plausibility of selected scenarios, based on our underlying recession probability index for the US.*

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(as of September 30, 2024)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1425	38%	332	43%	23%	656	39%
Equal-weight/Hold	1724	46%	358	46%	21%	792	47%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	588	16%	81	11%	14%	238	14%
Total	3,740		771			1687	

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