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US Economics | North America

Ahead of the June 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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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. Questions from the survey are released [publicly ahead of the meeting](#), and in this note we provide a snapshot of our responses. **Our views are the most current, taking into account our [latest economic outlook](#) and data through May 31.**

A First Look at Our Expectations for the June FOMC Statement, Summary of Economic Projections & Press Conference

FOMC policy statement

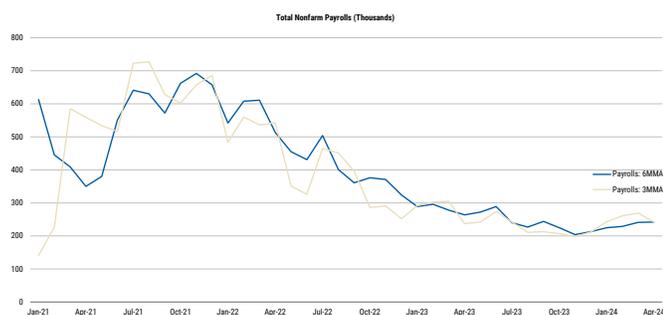
Current conditions - we look for an important change to the characterization of inflation that is an acknowledgement of improvement in inflation data through April, though still not enough improvement to be convincing.

"Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. In recent months, ~~there has been a lack of further~~ progress toward the Committee's 2 percent inflation objective **has slowed.**"

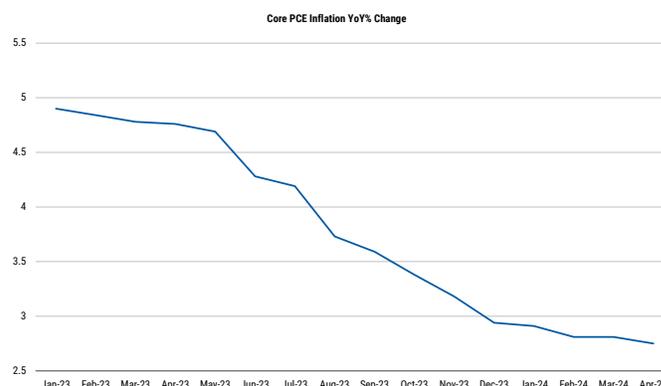
GDP continues to grow at a "solid pace". We published our [mid-year outlook](#) on May 19 where we forecast GDP growth at 2.1% 4Q/4Q this year and next. The economy expanded by 1.3% Q/Q annualized in the first quarter and **we are tracking 2Q GDP growth at a solid 2.5% annualized pace (as of May 31)** vs Atlanta Fed's GDPNow at 2.7% and NY Fed Nowcast at 1.8%.

Job gains "have remained strong". As of April, the 3-month and 6-month average of monthly net new jobs was 242k ([Exhibit 1](#)). **We are forecasting 220k total nonfarm payrolls in May (released June 7)**. Since the start of the year the unemployment rate has moved up two-tenths to 3.9% and is likely to remain there in May (though in our forecast it edges up on an unrounded basis).

Core PCE inflation has eased significantly over the past year ([Exhibit 2](#)), but progress flattened out in 1Q24, and we think progress resumed with the recently released [April data](#). The lack of convincing progress has emboldened the Fed to stay on hold for longer, and we expect the first 25bp cut in September, followed by cuts at every meeting through mid-2025. Our conviction inflation will head toward target remains high. We expect faster deceleration ahead, with monthly readings moving below 0.20%—a 2 ½% annual rate which we believe to be a comfortable pace for the Fed to begin cutting as inflation continues to fall.

Exhibit 1: Job gains "have remained strong"

Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

Exhibit 2: Progress toward the Fed's 2% inflation goal has slowed

Source: Bureau of Economic Analysis, Morgan Stanley Research forecasts

Risk to the statement:

Since the last FOMC meeting, there has been a single improved inflation print in April. The risk is that FOMC officials have not yet gained enough conviction and that they pair unchanged inflation language with a more concentrated move in the dot plot to fewer cuts this year.

We think there is no need to alter any of the language around the stance on rates. For example, we expect the Committee remains "highly attentive" to inflation risks, and that it will not adjust the policy rate until it "has gained greater confidence" inflation is moving toward target.

Summary of Economic Projections

At this meeting, Fed participants will update their projections for the economy and monetary policy. Our preliminary expectation is that incoming data suggests no change to GDP growth forecasts (2.1% 4Q/4Q in 2024 and 2.0% in 2025) and 0.1 point upward revisions to this year's unemployment (4.1%) and core PCE inflation (2.7%) projections.

Though these are minor changes, we expect they could tilt the balance toward a median view of two cuts this year from three prior, and put upward pressure on the rates path in 2025.

Finally, the longer-run median rate of interest edged up in the March SEP. St. Louis President Musalem will first contribute his forecasts and dots at this meeting. We expect he could contribute a longer-run dot around 3% (with no particular special insight into his views), which would leave the median rounding to 2.6%.

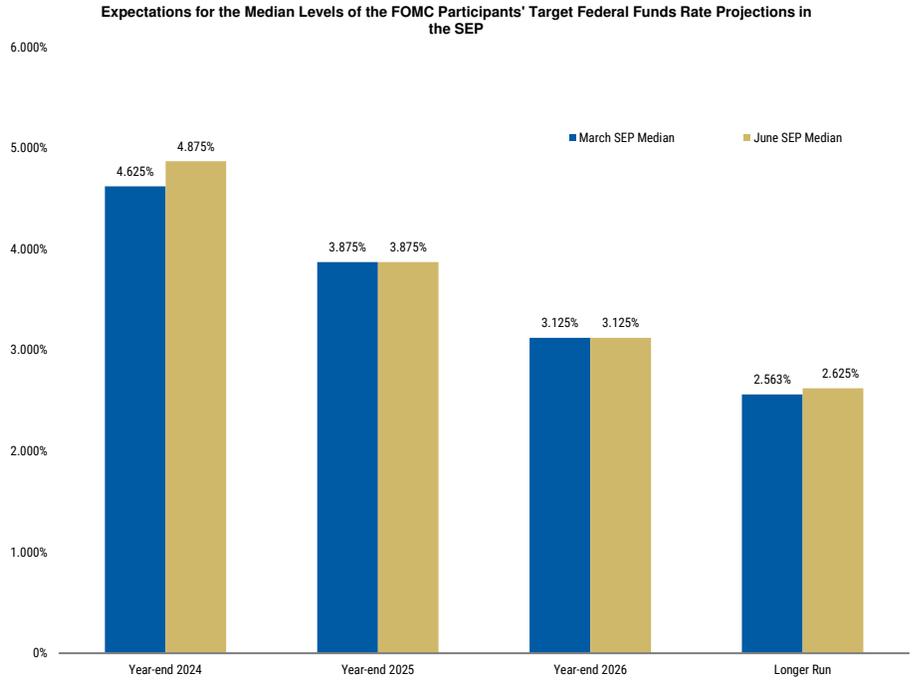
Press conference

We think Chair Powell will stress that monetary policy is sufficiently tight and it's appropriate to give restrictive policy further time to work. When asked about the latest round of inflation data, he is likely to caution against taking signal from the weaker print, say that continued patience is warranted, and again shift focus to sequential monthly prints and away from year-over-year comparisons.

Our Expectations

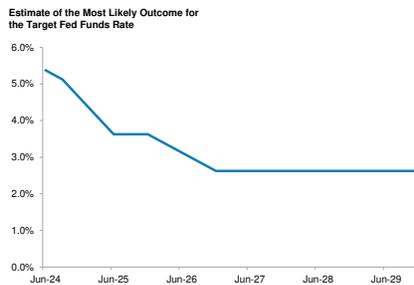
Exhibit 3, Exhibit 4, Exhibit 5, Exhibit 6, Exhibit 7 and Exhibit 8 depict our modal expectation for the policy rate. Our baseline views are indicated through 2025 (see [US Economics: Outlook Update: Near-Term Inflation Against a Positive Supply Shock \(14 Apr 2024\)](#)). We provide guidelines for probabilities of longer-term outcomes as well.

Exhibit 3: Expectations for the Median Levels of the FOMC Participants' Target Federal Funds Rate Projections in the SEP



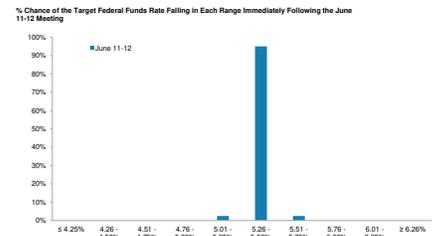
Source: Morgan Stanley Research forecasts

Exhibit 4: Expected path for the fed funds rate



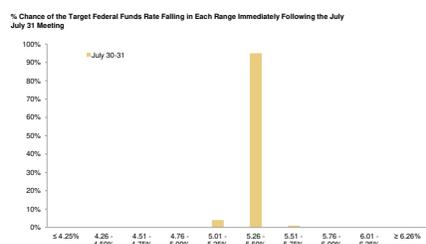
Source: Morgan Stanley Research forecasts

Exhibit 5: Estimates of likely outcomes for the federal funds rate for the June 11-12 FOMC meeting



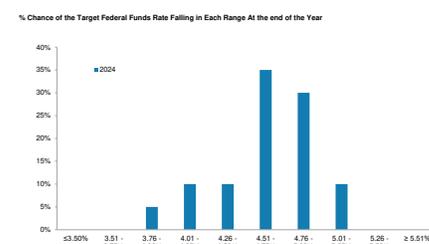
Source: Morgan Stanley Research forecasts

Exhibit 6: Estimates of likely outcomes for the federal funds rate for the July 30 - July 31 FOMC meeting



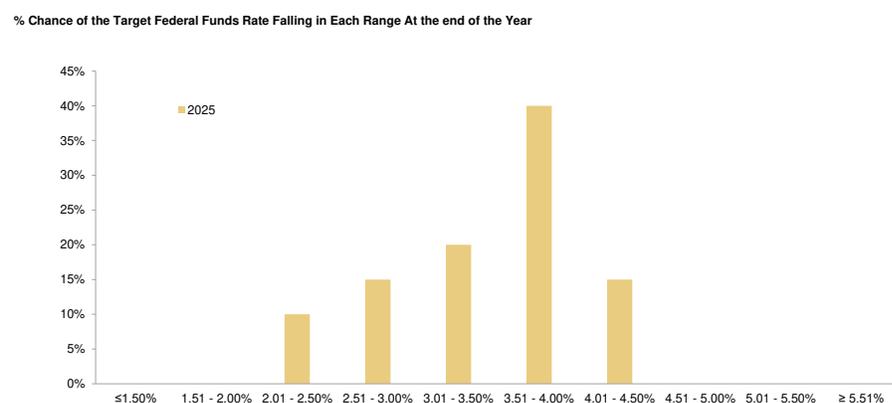
Source: Morgan Stanley Research forecasts

Exhibit 7: Estimates of likely outcomes for the federal funds rate by end 2024



Source: Morgan Stanley Research forecasts

Exhibit 8: Estimates of Likely Outcomes for the Federal Funds Rate by end 2025



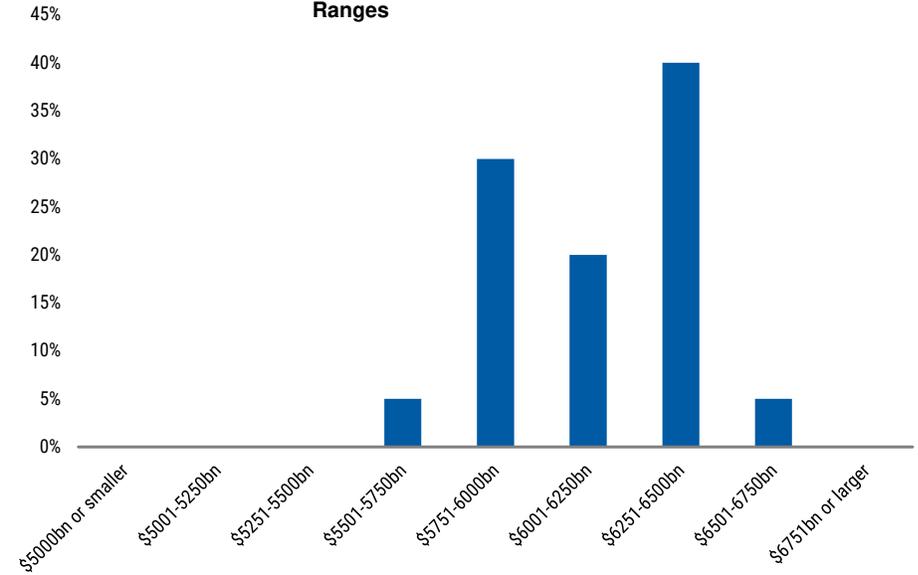
Source: Morgan Stanley Research forecasts

Expectations for the SOMA Portfolio

Exhibit 9 shows our modal expectations for the Fed's SOMA portfolio. **For a detailed review of the Fed's balance sheet, see: [Global Macro Strategy Mid-Year Outlook: Voting With Your Wallet \(31 May 2024\)](#), and [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 9: Estimates of the SOMA portfolio

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



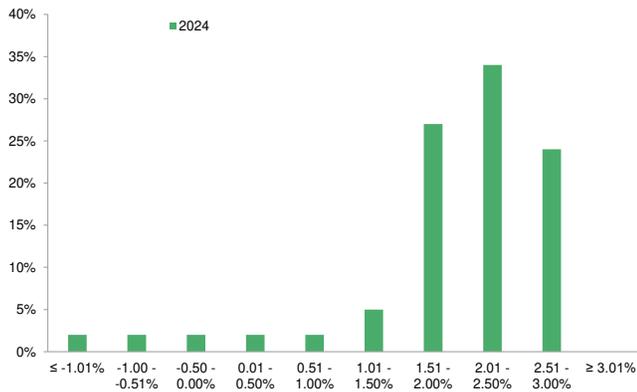
Source: Morgan Stanley Research forecasts

Expectations for Growth and Inflation

Exhibit 10, Exhibit 11, Exhibit 12, Exhibit 13, Exhibit 14, and Exhibit 15 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 10: Percent chance of real GDP growth (4Q/4Q) falling in the following ranges end 2024

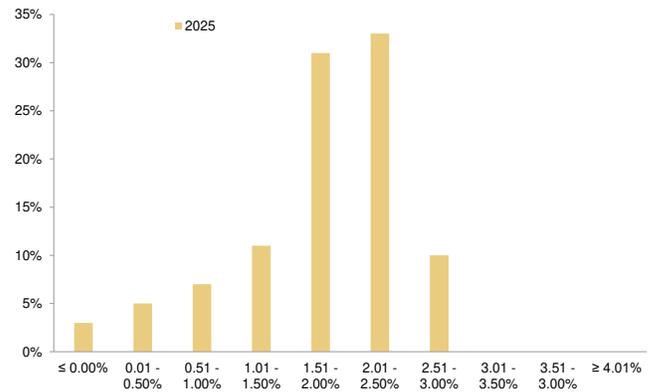
% Chance for Real GDP Growth to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

Exhibit 11: Percent chance of real GDP growth (4Q/4Q) falling in the following ranges end 2025

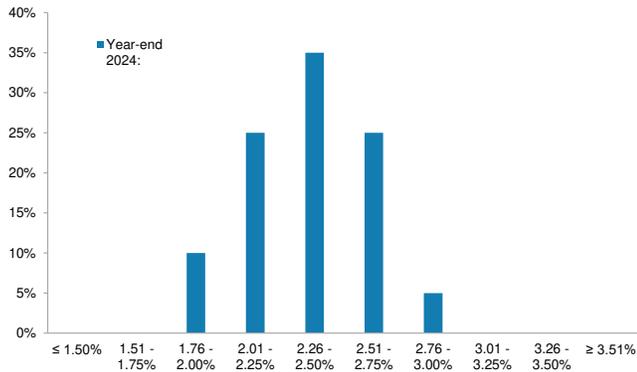
% Chance for Real GDP Growth to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

Exhibit 12: Percent Chance of PCE Inflation (4Q/4Q) Falling in the Following Ranges by end 2024

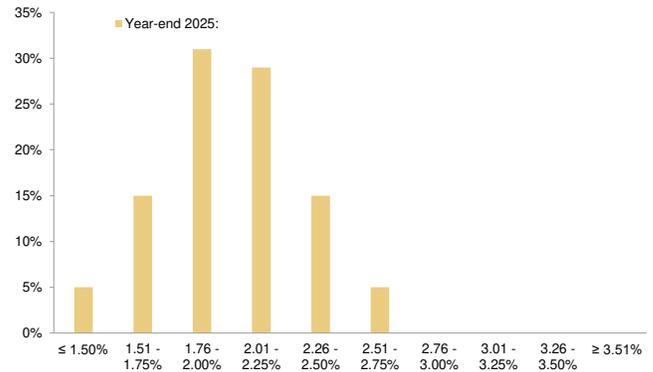
% Chance for Headline PCE Inflation to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

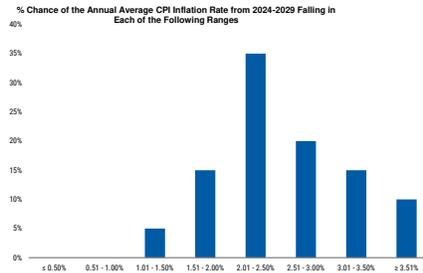
Exhibit 13: Percent Chance of PCE Inflation (4Q/4Q) Falling in the Following Ranges by end 2025

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



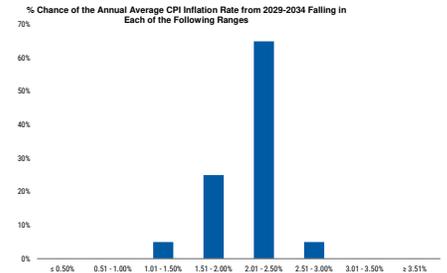
Source: Morgan Stanley Research forecasts

Exhibit 14: Probabilities of Average Annual CPI Inflation Falling in the Following Ranges, 2024-2029



Source: Morgan Stanley Research forecasts

Exhibit 15: Probabilities of Average Annual CPI Inflation Falling in the Following Ranges, 2029-2034



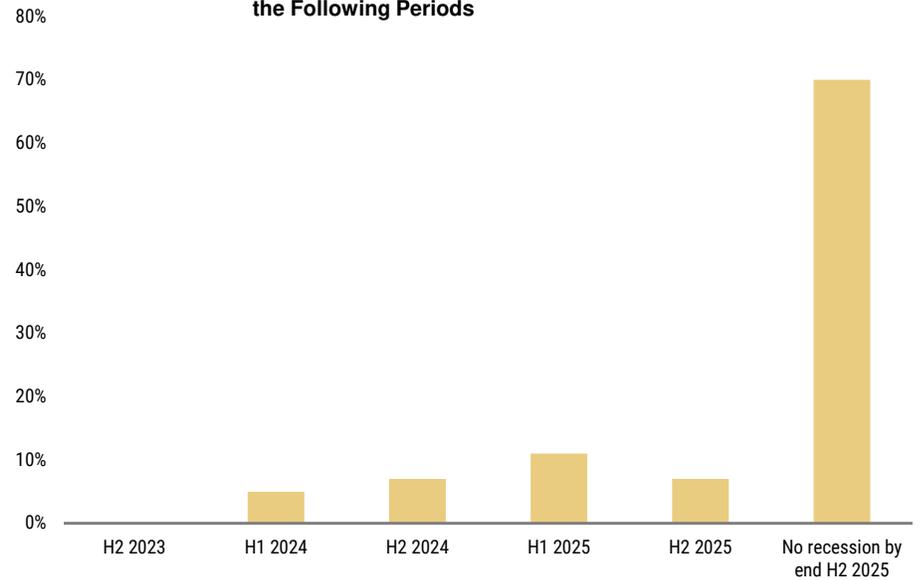
Source: Morgan Stanley Research forecasts

How We See Recession Probabilities

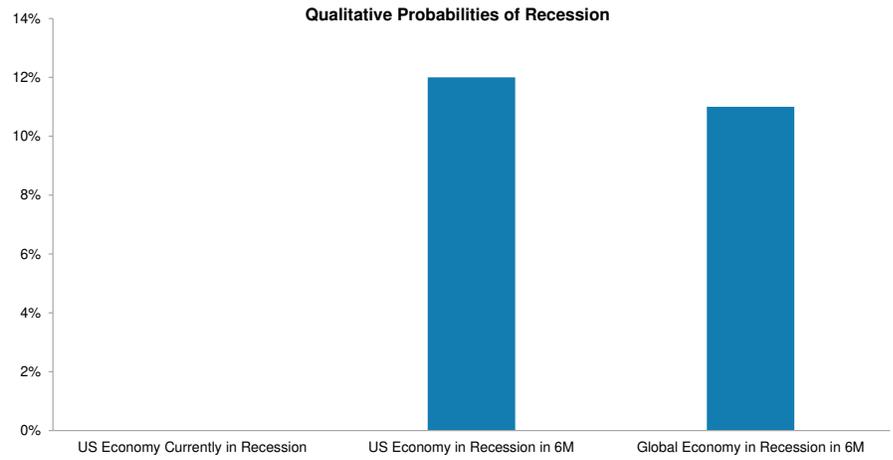
Exhibit 16 and Exhibit 17 show our recession probabilities for the US economy.

Exhibit 16: 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 17: 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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	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1742	46%	342	46%	20%	774	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	573	15%	70	9%	12%	223	13%
Total	3,773		750			1681	

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