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US Economics | North America

Ahead of the December 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 December FOMC Statement & Press Conference

For the FOMC policy statement: Regarding current conditions, **we expect the FOMC statement to acknowledge that economic activity has slowed** (in line with the [Beige Book](#), which indicated "economic activity has slowed since the previous report.", but in contrast to the last FOMC statement, which stated "that economic activity expanded at a strong pace in the third quarter"). Elsewhere we expect a small change regarding the labor market to reflect the slowdown in job gains, e.g. job gains have slowed, but remain strong; unemployment has remained low. **We expect little change to the description of inflation e.g. inflation remains elevated.**

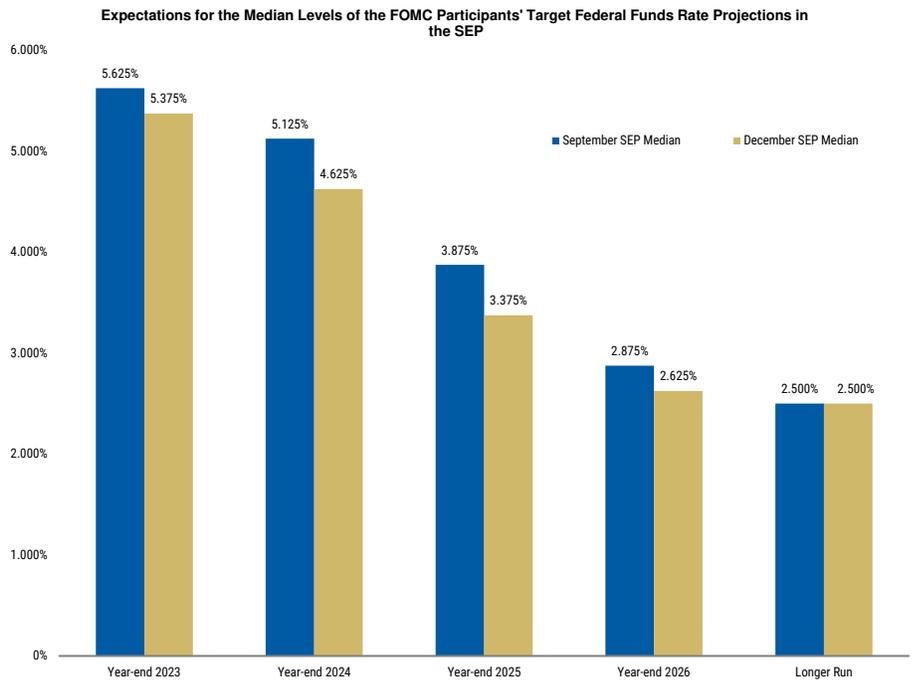
Regarding forward guidance we expect little-to-no change. The Committee likely maintains that, "**In determining the extent of additional policy firming that may be appropriate**"... the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments". We also expect the statement to repeat that **the Committee will stand ready to adjust the policy rate as necessary to bring inflation to the 2% target over time.** Finally, we expect no change to the Fed's balance sheet normalization plans.

For the press conference: We expect Chair Powell to strike a similar tone conveyed at his address at [Spelman College](#) last week, and continue to describe balanced risks to the outlook. He will maintain that the Fed is "prepared to tighten policy further if it becomes appropriate to do so", even as we believe there is little appetite among Fed officials to hike further. We have stressed for some time that the Fed is finished hiking, but it's taken until now for that to crystallize among a broad range of policymakers. Should the data evolve in line with [our outlook](#), the question will remain how long to hold rates steady as opposed to how high. **The courage for the Fed to remain on hold for such a lengthy period will be challenged, but bumpy disinflation ahead holds policy action until June.**

Our Expectations

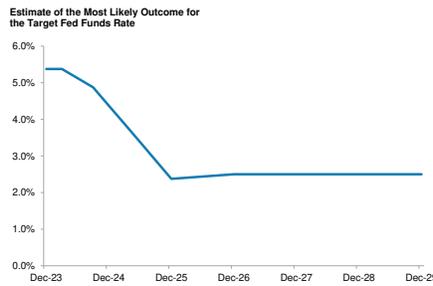
Exhibit 1, Exhibit 2, Exhibit 3, Exhibit 4, and Exhibit 5 depict our modal expectation for the policy rate. Our baseline views are indicated through 2025 (see [2024 US Economics Outlook: Slowing Growth, Easing Policy \(12 Nov 2023\)](#)). We provide guidelines for probabilities of longer-term outcomes as well.

Exhibit 1: Expectations for the Median Levels of the FOMC Participants' Target Federal Funds Rate Projections in the SEP



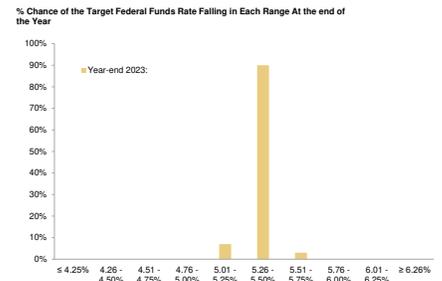
Source: Federal Reserve Board, Morgan Stanley Research

Exhibit 2: Modal Expected Path for the Fed Funds Rate



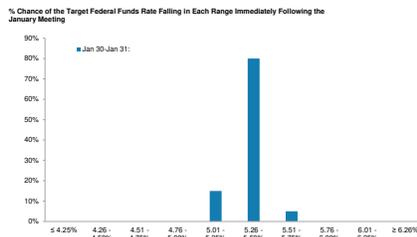
Source: Morgan Stanley Research forecasts

Exhibit 3: Estimates of Likely Outcomes for the Federal Funds Rate by end 2023



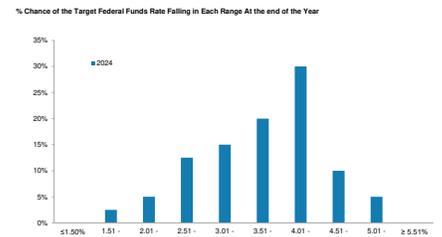
Source: Morgan Stanley Research forecasts

Exhibit 4: Estimates of Likely Outcomes for the Federal Funds Rate in January 2024



Source: Morgan Stanley Research forecasts

Exhibit 5: Estimates of Likely Outcomes for the Federal Funds Rate by end 2024



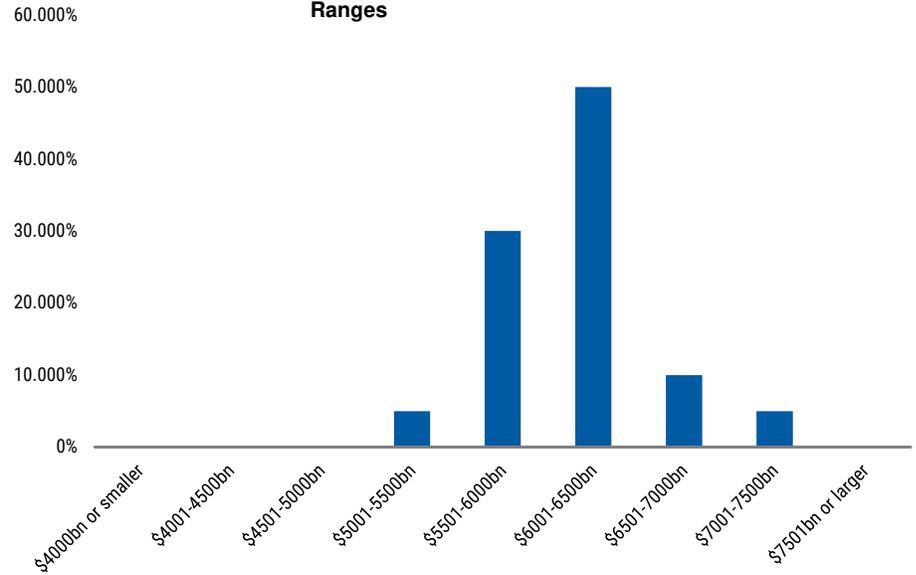
Source: Morgan Stanley Research forecasts

Expectations for the SOMA Portfolio

Exhibit 6 shows our modal expectations for the Fed's SOMA portfolio. **For a detailed review of the Fed's balance sheet, see: [Global Macro Strategy, US Economics, US Large Cap Banks: A \\$6.5tr SOMA Portfolio \(22 Apr 2022\)](#), [2024 Global Macro Strategy Outlook: Land of Confusion \(18 Nov 2023\)](#), and [Global Macro Strategist: Third Time's a Charm \(2 Dec 2023\)](#).**

Exhibit 6: Estimates of the SOMA Portfolio

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



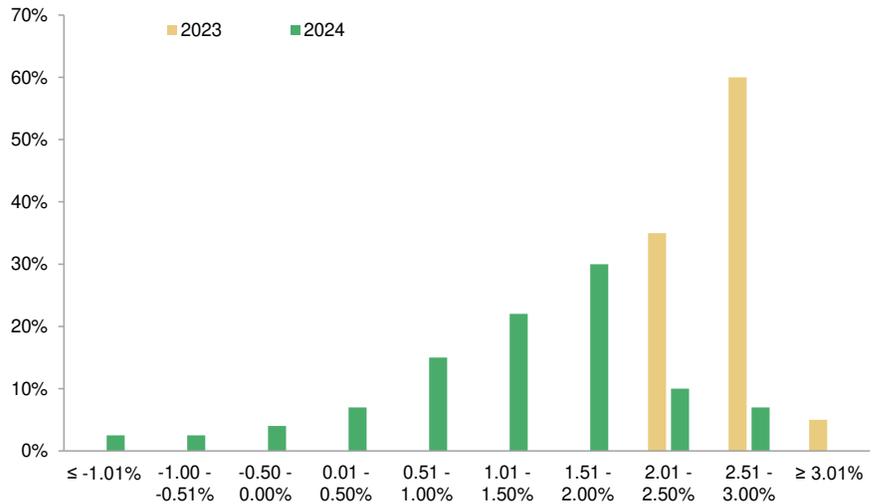
Source: Morgan Stanley Research forecasts

Expectations for Growth and Inflation

Exhibit 7, Exhibit 8, Exhibit 9, Exhibit 10, and Exhibit 11 show our modal expectations for growth and inflation, as well as an assessment of how policy might respond to changes in the labor market and inflation. For a detailed review of our year-ahead growth and inflation forecasts, see: [2024 US Economics Outlook: Slowing Growth, Easing Policy \(12 Nov 2023\)](#).

Exhibit 7: Percent Chance of Real GDP Growth (4Q/4Q) Falling in the Following Ranges

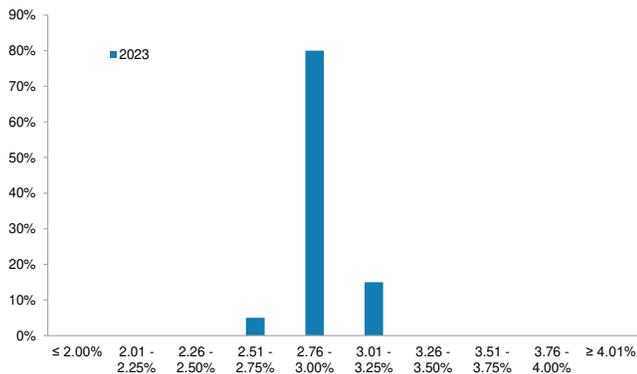
% Chance for Real GDP Growth to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

Exhibit 8: Percent Chance of PCE Inflation (4Q/4Q) Falling in the Following Ranges by end 2023

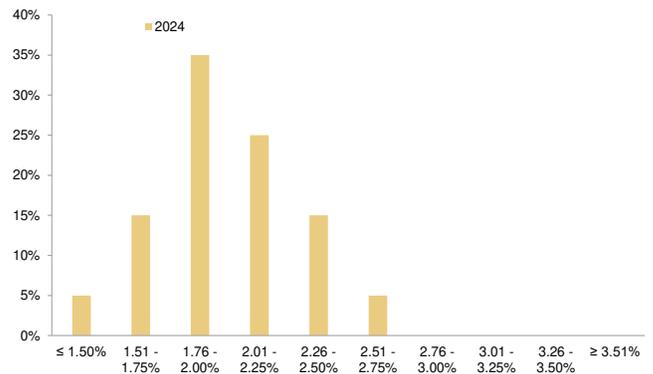
% Chance for Headline PCE Inflation to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

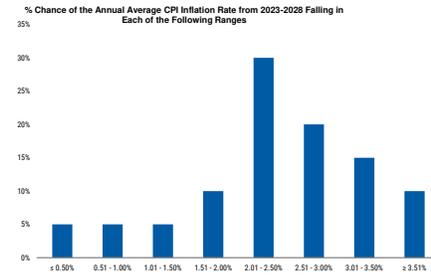
Exhibit 9: Percent Chance of PCE Inflation (4Q/4Q) Falling in the Following Ranges by end 2024

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



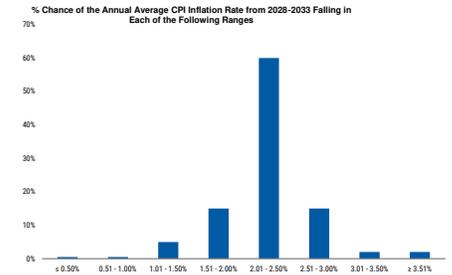
Source: Morgan Stanley Research forecasts

Exhibit 10: Probabilities of Average Annual CPI Inflation Falling in the Following Ranges, 2023-2028



Source: Morgan Stanley Research forecasts

Exhibit 11: Probabilities of Average Annual CPI Inflation Falling in the Following Ranges, 2028-2033



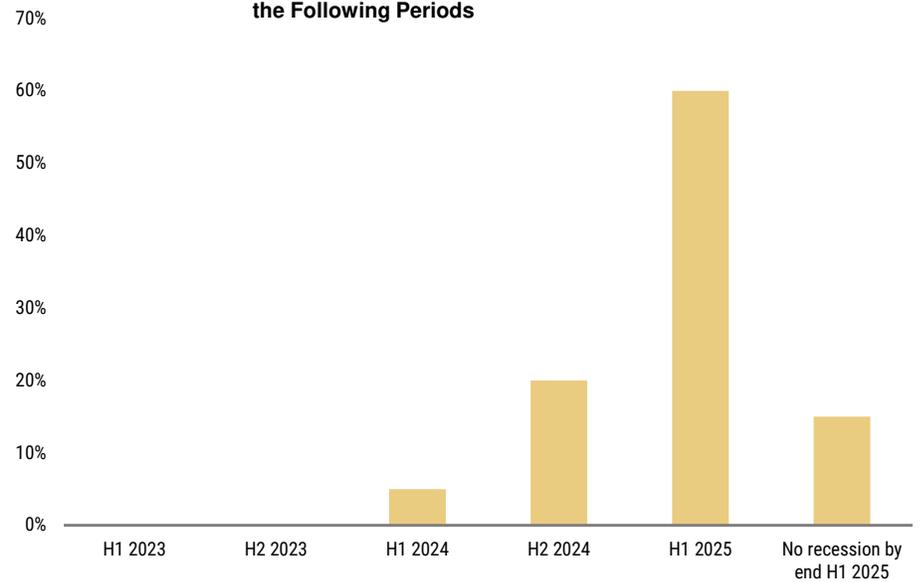
Source: Morgan Stanley Research forecasts

How We See Recession Probabilities

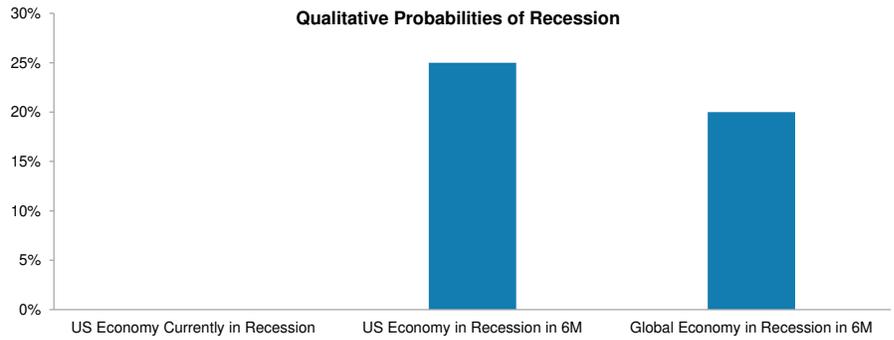
Exhibit 12 and Exhibit 13 show our recession probabilities for the US economy.

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: Qualitative 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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