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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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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 data through the [September retail sales report](#).**

A First Look at Our Expectations for the Oct 31-Nov 1 FOMC Statement & Press Conference

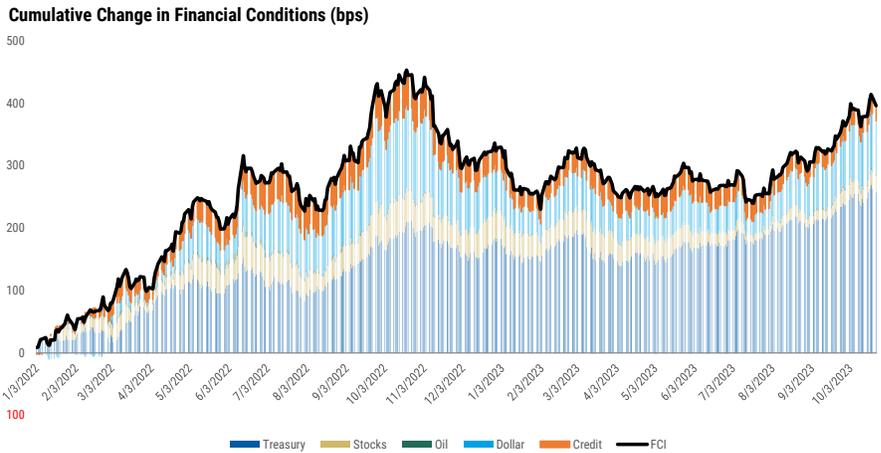
For the FOMC policy statement: Regarding current conditions, we expect the FOMC statement to acknowledge that economic activity continued to expand at a robust pace (in contrast to the last FOMC statement, which characterized growth as "solid", and to the [Beige Book](#), which indicated "little to no change in economic activity since the September report."). Elsewhere **we expect some change in current conditions** regarding the labor market to reflect recent strength, e.g. job gains remain strong, unemployment low. However, we expect little change on inflation e.g. inflation remains elevated. We also expect the statement to highlight the conflict between Israel and Hamas, and that "the implications for the U.S. economy are highly uncertain, but in the near term the conflict and related events may lead to additional upward pressure on energy prices that weigh on economic activity."

Regarding forward guidance, **we expect the Committee to soften the September guidance** from "In determining the extent of additional policy firming that may be appropriate" to **"In determining the extent of policy firming that could be appropriate" - taking out the word "additional"**. The statement may continue to note that "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", or capture it in a nutshell by borrowing language from Chair Powell that **the policy stance "will depend on the economic outlook as informed by the totality of the incoming data"**. 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 in the Economic Club of New York [speech](#) last week, and continue to describe balanced risks to the outlook. We believe Chair Powell belongs to a lengthening list of Fed officials that have shown waning appetite for near-term rate hikes in recent weeks. This comes as tighter financial conditions suggest that past monetary policy tightening is finally having more of an effect.

Since the September FOMC meeting, our FCI has tightened by ~65bps in fed funds equivalent since the September FOMC meeting - a little more than two 25bp hikes worth since then.

Exhibit 1: Since the September FOMC, our FCI has tightened by ~65bps in fed funds equivalent - a little more than two 25bp hikes worth since then



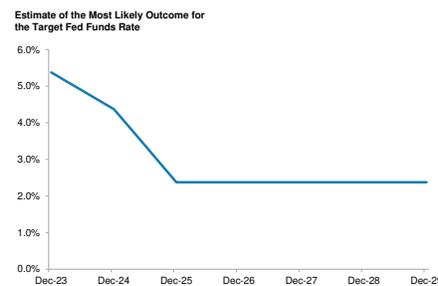
Source: Bloomberg, Morgan Stanley Research

We expect Powell to reiterate that the range of uncertainties (both old and new) complicates the FOMC’s job of balancing the risk of tightening monetary policy too much against the risk of doing too little. We believe he will re-emphasize that doing too little could allow above-target inflation to become entrenched and ultimately require monetary policy to wring more persistent inflation from the economy at a high cost to employment. On the other hand, doing too much could also do unnecessary harm to the economy. **We think with those uncertainties comes caution, and that Powell will not sound in a rush to raise rates again.**

Our Expectations

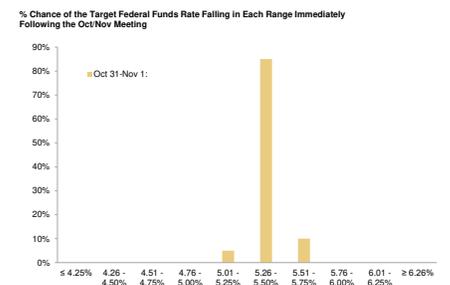
Exhibit 2, Exhibit 3, Exhibit 4, and Exhibit 5 depict our modal expectations for the policy rate. Our baseline views are indicated through 2024 (see: [Global Economics: Our Global View After the Summer \(10 Sep 2023\)](#)). We provide guidelines for probabilities of longer-term outcomes as well.

Exhibit 2: Modal Expected Path for the Fed Funds Rate



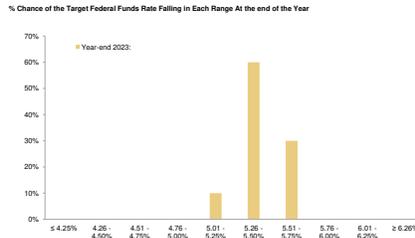
Source: Morgan Stanley Research forecasts

Exhibit 3: Estimates of Likely Outcomes for the Federal Funds Rate in Oct/Nov



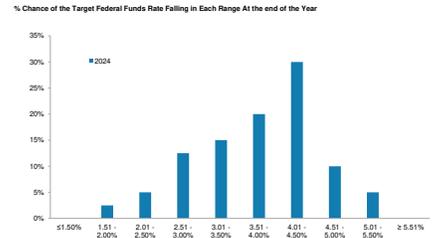
Source: Morgan Stanley Research forecasts

Exhibit 4: Estimates of Likely Outcomes for the Federal Funds Rate by end 2023



Source: Morgan Stanley Research forecasts

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



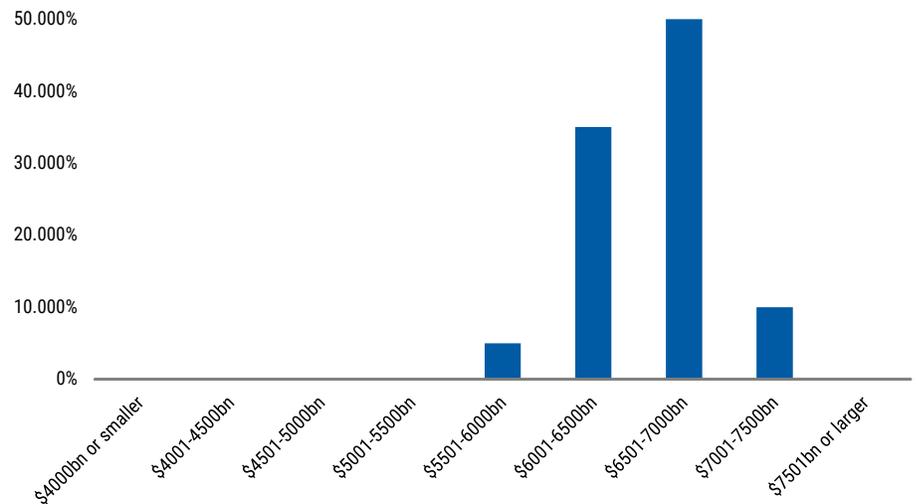
Source: Morgan Stanley Research forecasts

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 \(22 Apr 2022\)](#), [Global Macro Strategist: Staring Into The Abyss \(29 Sep 2023\)](#), and [Global Macro Strategist: A Phoenix from the Ashes? \(6 Oct 2023\)](#).**

Exhibit 6: Estimates of the SOMA Portfolio

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



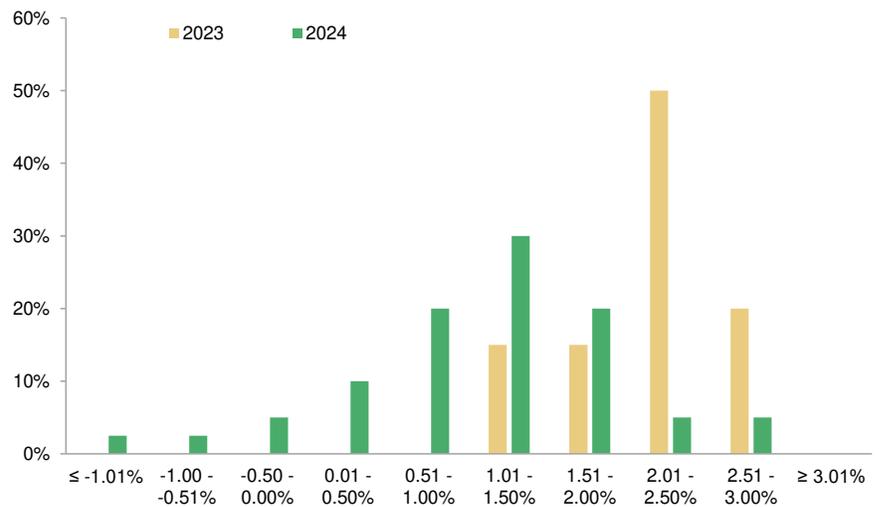
Source: Morgan Stanley Research forecasts

Expectations for Growth and Inflation

Exhibit 7, Exhibit 8, Exhibit 9, and Exhibit 10 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: [Global Economics: Our Global View After the Summer \(10 Sep 2023\)](#).

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

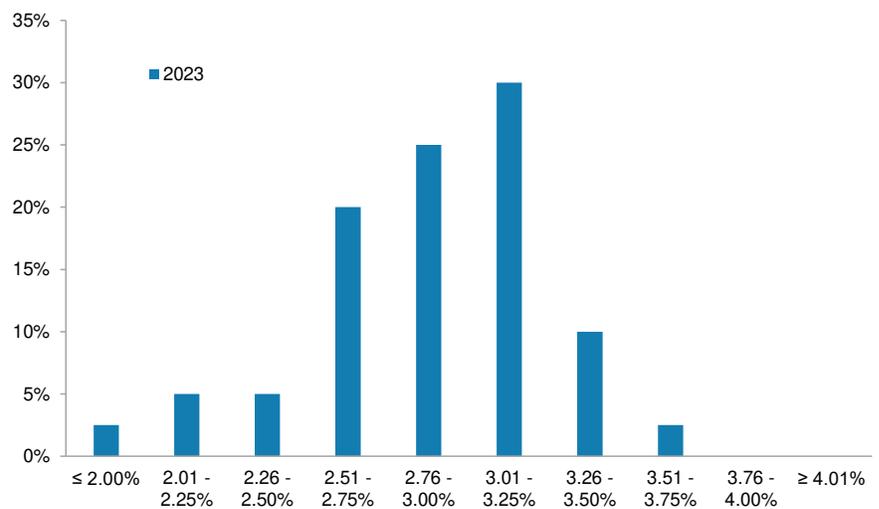
% Chance for Real GDP Growth to Fall in the Following Ranges



Source: Morgan Stanley Research forecasts

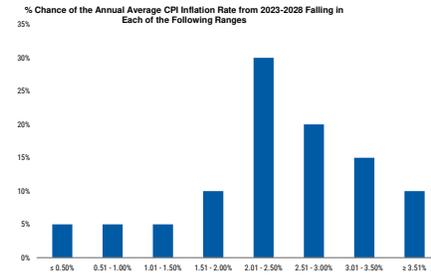
Exhibit 8: Percent Chance of PCE Inflation (4Q/4Q) Falling in the Following Ranges

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



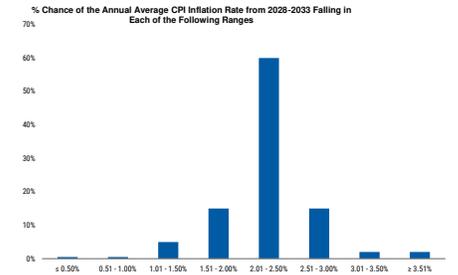
Source: Morgan Stanley Research forecasts

Exhibit 9: Probabilities of Average Annual CPI Inflation Falling in the Following Ranges, 2023-2028



Source: Morgan Stanley Research forecasts

Exhibit 10: Probabilities of Average Annual CPI Inflation Falling in the Following Ranges, 2028-2033



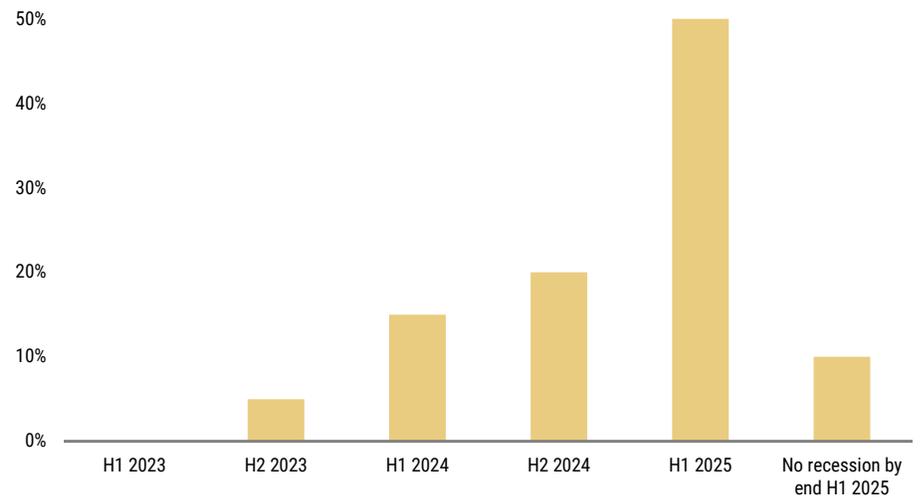
Source: Morgan Stanley Research forecasts

How We See Recession Probabilities

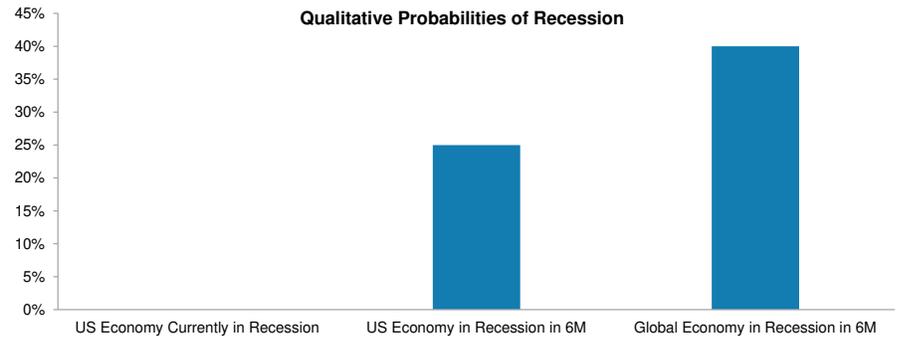
Exhibit 11 and Exhibit 12 show our recession probabilities for the US economy.

Exhibit 11: 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 12: 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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