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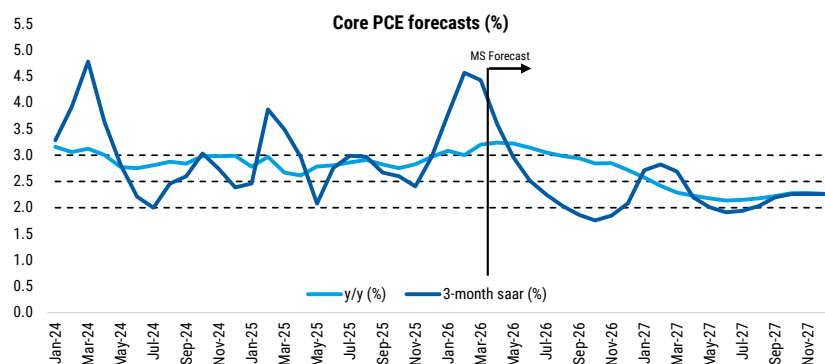
# Hawkish data, hawkish Fed

The FOMC statement and press conference showed the Committee is moving from an easing bias toward a more neutral stance. Solid growth, resilient labor data, and high inflation in 1Q support a longer hold.

## Key Takeaways

- The April FOMC signaled a shift toward neutrality and a higher bar for rate cuts. We now expect no easing until early 2027.
- Policymakers want disinflation before cutting rates.
- Core inflation should cool, with cuts likely once the y/y pace of core PCE drifts lower in 1Q27.
- The Fed's patience reflects a resilient economy, with 2.0% GDP growth in 1Q26, firm demand, and stable labor markets supporting a prolonged hold.
- Non-residential investment surged in 1Q26, broadening somewhat beyond AI.

Exhibit 1: Core inflation forecasts



Source: Morgan Stanley Research

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For important disclosures, refer to the Disclosure Section, located at the end of this report.

## Hawkish data, hawkish Fed

**The April FOMC meeting marked a clear shift in the Fed's reaction function, toward patience and a higher bar for easing.** The Committee signaled movement away from an explicit easing bias toward a more neutral stance, even as formal guidance remains unchanged for now. Policymakers emphasized that inflation remains elevated and has not yet provided sufficient evidence of sustained disinflation, while growth and labor market conditions remain resilient.

Chair Powell underscored that the “center” of the Committee is moving toward neutrality, with multiple participants expressing openness to removing easing bias language. This shift reflects both concern about inflation and recognition that the economy can withstand a longer period of somewhat restrictive policy. Indeed, real GDP growth around 2% and firm private domestic demand suggest underlying strength, while labor market conditions appear stable rather than deteriorating.

Importantly, the Fed now requires clearer realized evidence—not just forecasts—that inflation pressures are easing. Tariff-related price effects must prove transitory, and energy-driven inflation must show a clear reversal before cuts are considered. With policy already near neutral by the Fed's own assessment, the urgency to ease has diminished materially. **As a result, we now expect the Fed to remain on hold through 2026, with rate cuts delayed until early 2027.**

**Overall, the message is one of optionality: the Fed is prepared to wait, monitor incoming data, and respond only when inflation convincingly turns lower.** The combination of resilient growth and uncertain inflation dynamics supports a prolonged pause.

**The path for inflation will ultimately be the key determinant of the Fed's policy trajectory. Inflation data in 1Q reinforced the Fed's cautious stance.** Core PCE rose 0.29% m/m in March, with the quarterly pace accelerating to roughly 4.3% saar, reflecting both seasonal distortions and tariff-related pressures earlier in the year. While some of this strength was driven by methodological changes and temporary factors, underlying inflation remains elevated. However, forward-looking indicators suggest improvement ahead: tariff pass-through is largely complete, goods inflation is already showing signs of moderation, and shelter inflation is expected to soften. As these forces unwind, sequential inflation should decelerate through the remainder of the year.

**The focus on the inflation side of the mandate reflected the economy's resilience, and this week's GDP release provided another signal that activity remains on solid footing.** Real GDP growth in 1Q came in at 2.0%, with a stronger-than-expected composition. Private domestic final demand rose 2.5%, supported by solid business investment.

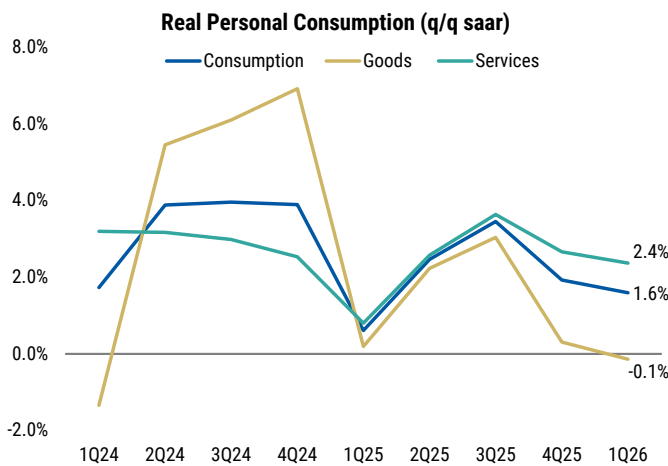
Personal consumption grew at a decent 1.6% in 1Q despite tariff-driven price pressures at the start of the year. Goods consumption stalled as prices weighed on spending, while services spending retained momentum, rising at about the same pace as last year. The tariff drag on goods spending is likely to fade, but there is a new drag from the oil shock. Our models show oil supply shocks lower real consumption entirely through lower goods

spending, as opposed to services. With these cross currents, we expect goods spending to reaccelerate to only a 1.2% annual rate in 2H. Services spending remains close to the recent trend.

Nonresidential fixed investment was a key upside driver, rising 10.4% and broadening somewhat beyond AI-related spending. Equipment investment surged, driven by both information processing equipment and a rebound in industrial equipment, while intellectual property investment remained strong (though exaggerated by price volatility). Structures investment continued to drag notwithstanding booming spending on data center structures.

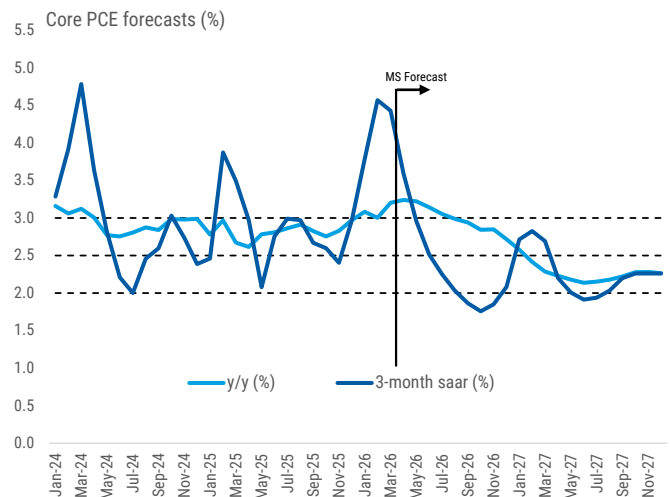
The recent GDP and employment data emphasize resilience: strength in private final domestic demand in 1Q in the face of tariff- and oil-price pressures; plus labor market re-acceleration from last year's lows.

**Exhibit 2:** Consumption decelerated due to tariff-driven price pressures



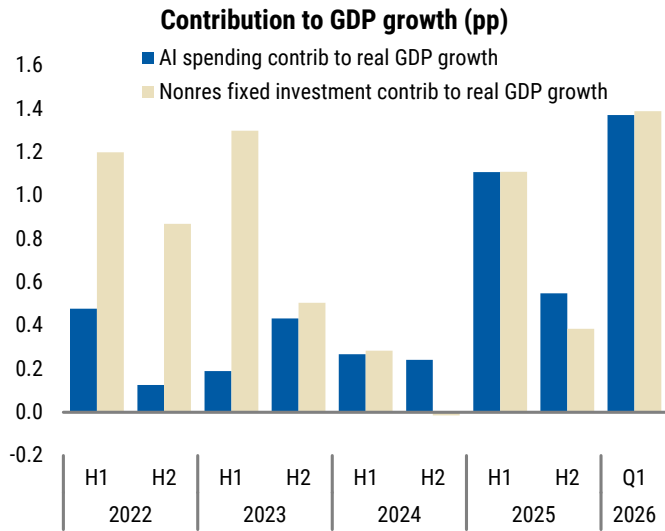
Source: BEA, Morgan Stanley Research.

**Exhibit 3:** 1Q26 inflation strength, but we expect deceleration ahead



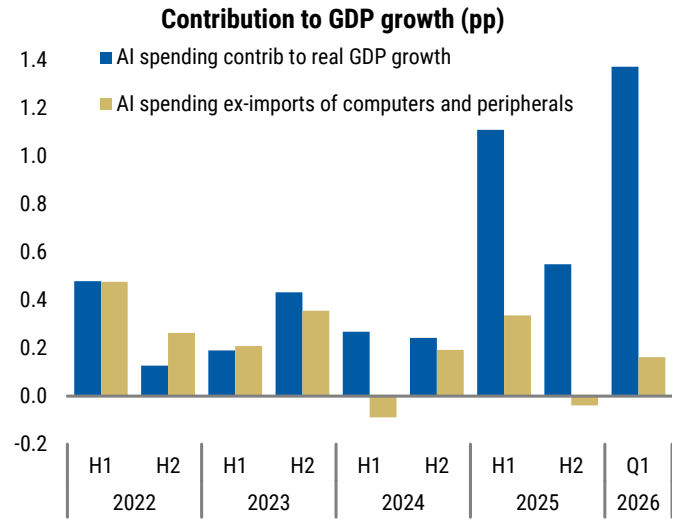
Source: BEA, Morgan Stanley Research forecasts.

**Exhibit 4:** AI-related investment was the bulk of investment growth. Non-AI spending was no longer the drag it had been late last year.



Source: BEA, Morgan Stanley Research

**Exhibit 5:** Much of the AI-related investment is on imported goods and therefore does not boost domestic output growth by much



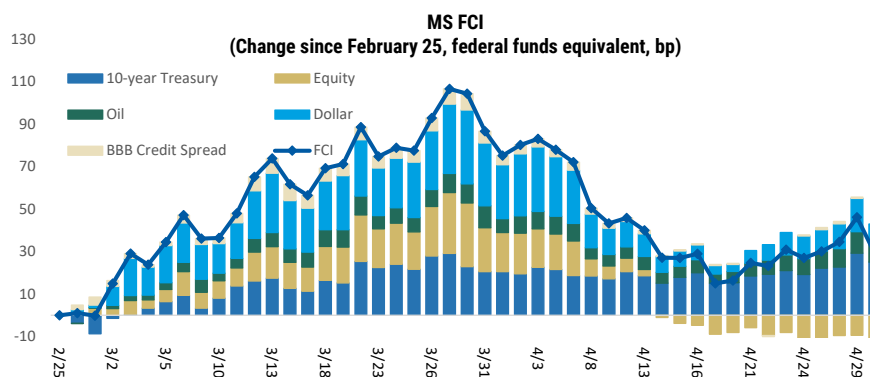
Source: BEA, Morgan Stanley Research

# Financial Conditions: The market is doing the Fed's work so far

Following the conflict in the Middle East and the uncertainty it brings to the next steps for monetary policy, we include the evolution of our FRB/US-based model of financial conditions, which aims to capture how changes in asset prices weigh on future economic activity. The index includes five daily variables: the 10-year Treasury yield, S&P 500 returns, the corporate BBB credit spread, the valuation of the U.S. dollar, and the price of oil. These are aggregated based on their estimated growth elasticities relative to the federal funds rate, using the Federal Reserve's FRB/US model. As a result, the index can be interpreted as the equivalent change in the federal funds rate, expressed in basis points, required to generate a similar effect on economic activity.

**Since hostilities in the Middle East began on February 28, the tightening in financial conditions is equivalent to about a 29bp rise in the federal funds rate.** Since the April 7 ceasefire announcement, however, financial conditions have eased by 43bps. The tightening reversed all of the easing seen earlier this year, most of which occurred between the December and January FOMC meetings, and was primarily driven by a weaker U.S. dollar. The net tightening since February 28 has been driven mainly by higher 10-year U.S. Treasury yields, with higher oil prices and dollar appreciation playing a secondary role.

**Exhibit 6:** Financial conditions have tightened following the conflict in the Middle East



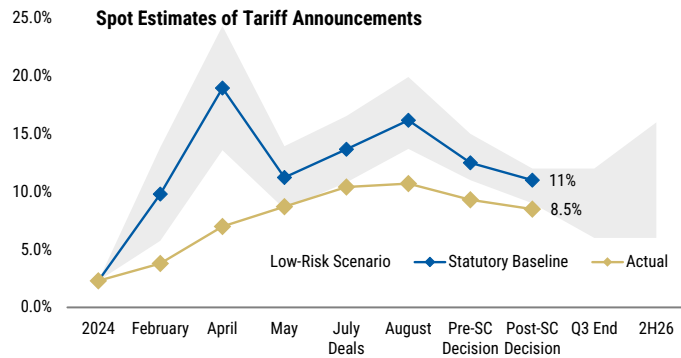
Source: Bloomberg, Morgan Stanley Research

# The effective tariff rate and tariff receipts

## The tariff rate on US imports fell to 8.5% in the February 2026 data

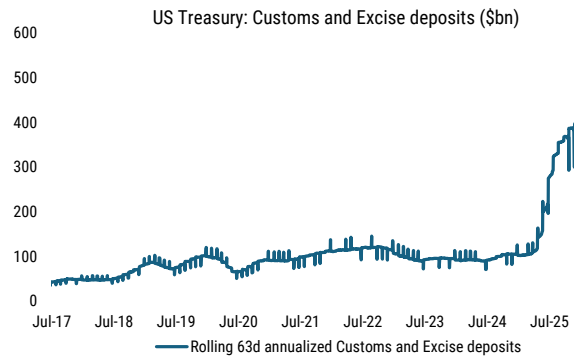
On February 20, 2026, the Supreme Court **struck down** the President's authority to impose tariffs under IEEPA. Section 122 tariffs will replace IEEPA tariffs in the short term, though uncertainty rises after the 150-day period when Congress would need to extend those tariffs. Replacing IEEPA with Section 122 tariffs of 15% and considering composition effects of US imports, **we estimate baseline** tariffs near 11%. Our estimate of "core" tariffs (ex fuels, gold and AI-related imports) remains closer to 13-14%. In our view, near-term tariffs are likely capped below 'Liberation Day' levels—at least until Section 232 and 301 investigations are complete. In the February 2026 data, the effective tariff rate is estimated at ~8.5%.

**Exhibit 7:** US effective tariff rate



Source: US Census, US HTS, USITC, Morgan Stanley Research

**Exhibit 8:** US Treasury: Customs and excise deposits from tariffs



Source: US Treasury, Bloomberg, Morgan Stanley Research

# Data review & preview

## Review of past week's data

### Exhibit 9:

Monday 20 Apr	Data	Period	Forecast	Consensus	Prev	Actual
	No scheduled data or Fedspeak					
Tuesday 21 Apr	Data	Period	Forecast	Consensus	Prev	Actual
8:15 AM	ADP Weekly Employment Change	4-Apr			39.3	54.8
8:30 AM	Philadelphia Fed Non-Manufacturing Activity	Apr			-23.9	-16.5
8:30 AM	Retail Sales Advance m/m	Mar	1.2	1.2	0.6	1.7
8:30 AM	Retail Sales Ex Auto m/m	Mar	1.4	1.3	0.5	1.9
8:30 AM	Retail Sales Control Group	Mar	0.3	0.2	0.5	0.7
10:00 AM	Business Inventories	Feb			-0.1	0.4
10:00 AM	Pending Home Sales m/m	Mar			1.8	1.5
10:00 AM	Pending Home Sales NSA y/y	Mar			-0.6	1.8
Wednesday 22 Apr	Data	Period	Forecast	Consensus	Prev	Actual
7:00 AM	MBA Mortgage Applications	17-Apr				7.9
Thursday 23 Apr	Data	Period	Forecast	Consensus	Prev	Actual
8:30 AM	Initial Jobless Claims	18-Apr	210		207	214
8:30 AM	Continuing Claims	11-Apr	1820		1818	1821
9:45 AM	S&P US Manufacturing PMI	Apr P			52.3	54.0
9:45 AM	S&P US Services PMI	Apr P			49.8	51.3
11:00 AM	Kansas City Fed Manf. Activity	Apr			11	10
4:30 PM	Fed balance sheet (H.4.1)	16-Apr				
Friday 24 Apr	Data	Period	Forecast	Consensus	Prev	Actual
10:00 AM	U. of Mich. Sentiment	Apr F			47.6	
10:00 AM	U. of Mich. 5-10 Yr Inflation	Apr F			3.4	
11:00 AM	Kansas City Fed Services Activity	Apr			15	
4:15 PM	Commercial bank balance sheets (H.8)	17-Apr				

Source: Bloomberg, Morgan Stanley Research forecasts

## Preview of upcoming data

### Exhibit 10: Monday

Monday 04 May	Data	Period	Forecast	Consensus	Prev
10:00 AM	Factory Orders	Mar	1.5	0.3	1.1
12:50 PM	Fed's Williams Delivers Keynote Remarks				

Source: Bloomberg, Morgan Stanley Research forecasts

**Factory orders.** Higher oil prices in March likely lead to a surge in nominal dollar factory orders: In our forecast, a 2% m/m rise in nondurables probably leads factory orders to a 1.5% gain.

### Exhibit 11: Tuesday

Tuesday 05 May	Data	Period	Forecast	Consensus	Prev
8:30 AM	Trade Balance	Mar	-61.5	-59.7	-57.3
9:45 AM	S&P US Services PMI	Apr F			51.3
10:00 AM	ISM Services Index	Apr		53.7	54.0
10:00 AM	JOLTS Job Openings	Mar		6700	6882
10:00 AM	New Home Sales	Mar	730	668	587
12:30 PM	Fed's Barr Participates in Moderated Conversation				

Source: Bloomberg, Morgan Stanley Research forecasts

**Trade balance.** The advance report on goods trade indicated a slight widening in the trade gap in goods, and we forecast similar for the overall balance: -\$4b to -\$61.5b.

**New home sales** fell short of our forecasts in January. We expect some underlying

increase, payback for the January shortfall, and a 730k per month average in February-March along with some upward revision to January.

**JOLTS.** Job openings fell in 4Q and continued to drop so far in 1Q. The vacancy rate (job openings/unemployed) has declined to 0.91 from 1.0 a year ago and 1.3 two years ago. The low rate raises the risk of faster increases in the unemployment rate, although the current, slow labor force growth lessens that chance somewhat.

#### Exhibit 12: Wednesday

Wednesday 06 May	Data	Period	Forecast	Consensus	Prev
7:00 AM	MBA Mortgage Applications	1-May			-1.6
8:15 AM	ADP Employment Change	Apr			62
8:30 AM	US Treasury Quarterly Refunding Announcement				
9:30 AM	Fed's Musalem Speaks at Mississippi Bankers Association				
1:00 PM	Fed's Goolsbee Speaks on Panel Event				

Source: Bloomberg, Morgan Stanley Research forecasts

#### Exhibit 13: Thursday

Thursday 07 May	Data	Period	Forecast	Consensus	Prev
7:30 AM	Challenger Job Cuts y/y	Apr			-78
7:30 AM	Challenger Job Cuts Total	Apr			60620
8:30 AM	Nonfarm Productivity	1Q P	0.5		1.8
8:30 AM	Unit Labor Costs	1Q P	2.5		4.4
8:30 AM	Initial Jobless Claims	2-May	220		189
8:30 AM	Continuing Claims	25-Apr	1800		1785
10:00 AM	Construction Spending m/m	Mar	0.2		-0.3
11:00 AM	NY Fed 1-Yr Inflation Expectations	Apr			3.4
2:05 PM	Fed's Hammack Speaks in Fireside Chat				
3:00 PM	Consumer Credit	Mar		12.5	9.5
3:30 PM	Fed's Williams in Moderated Discussion				
4:30 PM	Fed balance sheet (H.4.1)				

Source: Bloomberg, Morgan Stanley Research

**Nonfarm business productivity.** The re-acceleration in payroll growth in 1Q suggests slower productivity growth and faster unit labor cost growth than in recent quarters. For productivity, the 0.5% q/q a.r. rise that we forecast would put the 4-quarter change at a very strong 2.9%. For unit labor cost, the 2.5% q/q a.r. rise would put the 4-quarter change at 1.3%—well below the pace of price changes.

[AI appears to be boosting productivity growth, through faster output rather than slower employment.](#)

**Jobless claims.** An exaggerated decline in new jobless claims in NY led last week's decline.

**Challenger Grey announced layoffs** remain low. After seasonal adjustment, they are running below last year's levels.

**Construction spending** likely inched up in February and March, led by continued public sector spending, but with weak business spending despite data center building.

**Consumer credit.** Growth in consumer credit accelerated slightly in recent months due to pickups in nonrevolving credit. Higher auto sales in March may mean another boost. Revolving credit growth has stalled at 2.5-3% y/y for the past year.

## Exhibit 14: Friday

Friday 08 May	Data	Period	Forecast	Consensus	Prev
8:30 AM	Change in Nonfarm Payrolls	Apr	70	60	178
8:30 AM	Change in Private Payrolls	Apr	80	85	186
8:30 AM	Average Hourly Earnings m/m	Apr	0.3	0.3	0.2
8:30 AM	Average Hourly Earnings y/y	Apr	3.8	3.8	3.5
8:30 AM	Average Weekly Hours All Employees	Apr	34.2	34.2	34.2
8:30 AM	Unemployment Rate	Apr	4.3	4.3	4.3
8:30 AM	Labor Force Participation Rate	Apr	61.9	62.0	61.9
10:00 AM	U. of Mich. Sentiment	May P		49.3	49.8
10:00 AM	U. of Mich. 5-10 Yr Inflation	May P			3.5
10:00 AM	Wholesale Trade Sales m/m	Mar			2.7
4:15 PM	Commercial bank balance sheets (H.8)	1-May			
7:30 PM	Fed's Goolsbee Speaks at Hoover Monetary Policy Conference				

Source: Bloomberg, Morgan Stanley Research

**Employment situation.** Falling jobless claims signal even slower layoffs and a slightly faster reemployment rate at the start of April. We forecast payrolls rose 70k, with private payrolls rising 80k, about in line with the 1Q average pace. That employment growth is close to our estimate of the payroll pace consistent with a flat unemployment rate, and the unemployment rate moves sideways, 4.3% but on the cusp of a 4.2%.

We project average hourly earnings rise on trend 0.3% m/m. The y/y pace spikes, likely temporarily to 3.8% from 3.5% in March although it's still below the 3.9%/y/y at the end of 2025.

**University of Michigan consumer sentiment.** The sentiment index is at record lows. Long-run inflation expectations rose again in April, to 3.5% from 3.2% after running slower until about last year at this time. However, the University of Michigan changed survey methods in July 2024: it's unclear whether a break from the past reflects a change in survey methods or a change in inflation expectations.

## Data calendar

Exhibit 15: May 4 - May 15

<i>Monday</i>	<i>TUESDAY</i>	<i>WEDNESDAY</i>	<i>THURSDAY</i>	<i>FRIDAY</i>
4	5	6	7	8
Factory Orders (Mar, 10 AM) Durable Goods Orders (Mar F, 10 AM) Fed's Williams Speaks (12:50 PM) Senior Loan Officer Survey (1Q, 3 PM)	Trade Balance (Mar, 8:30 AM) S&P Services PMI (Apr F, 9:45 AM) Census Releases February and March New Home Sales (10 AM) ISM Services (Apr, 10 AM) New Home Sales (Mar, 10 AM) JOLTS (Mar, 10 AM) Fed's Barr Speaks (12:30 PM)	MBA Mortgage Applications (Week of May 1, 7 AM) ADP Employment Change (Apr, 8:15 AM) Treasury Quarterly Refunding (8:30 AM) Fed's Musalem Speaks (9:30 AM) Fed's Goolsbee Speaks (1 PM) Manheim Used Vehicle (May, 9 AM)	Challenger Job Cuts (Apr, 7:30 AM) Productivity and Costs (1Q P, 8:30 AM) Jobless Claims (Week of May 2, 8:30 AM) Construction Spending (Feb & Mar, 10 AM) NY Fed 1-Yr Inflation Expectations (Apr, 11 AM) Fed's Hammack Speaks (2:05 PM) Consumer Credit (Mar, 3 PM) Fed's Williams Speaks (3:30 PM)	Employment Report (Apr, 8:30 AM) U. of Mich. Consumer Sentiment (May P, 10 AM) Wholesale Trade and Inventories (Mar, 10 AM) Fed's Goolsbee Speaks (7:30 PM)
11	12	13	14	15
Existing Home Sales (Apr, 10 AM) 3-Year Notes Auction (1 PM)	NFIB Small Business Optimism (Apr, 6 AM) ADP Weekly Employment Change (Week of Apr 25, 8:15 AM) CPI (Apr, 8:30 AM) 10-Year Notes Auction (1 PM) Fed's Goolsbee Speaks (1 PM) Federal Budget Balance (Apr, 2 PM)	MBA Mortgage Applications (Week of May 8, 7 AM) PPI (Apr, 8:30 AM) 30-Year Bonds Auction (1 PM)	Import & Export Prices (Apr, 8:30 AM) Jobless Claims (Week of May 9, 8:30 AM) Retail Sales (Apr, 8:30 AM) Business Inventories (Mar, 10 AM) Fed's Hammack Speaks (1 PM)	Empire Manufacturing (May, 8:30 AM) Industrial Production (Apr, 9:15 AM) Survey of Prof Forecasters (2Q, 10 AM)

Note: For updates post-publication of the Treasury Auction Schedule, see [here](#). Source: Bloomberg, Morgan Stanley Research

# US economic outlook

**Exhibit 16:** Morgan Stanley forecasts

	4Q/4Q % change			Quarterly % change, annual rate (unless otherwise noted)									
	2025A	2026E	2027E	3Q25A	4Q25A	1Q26A	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
<b>Real GDP</b>	<b>2.0</b>	<b>2.2</b>	<b>2.0</b>	<b>4.4</b>	<b>0.5</b>	<b>2.0</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
Final Sales <sup>1</sup>	2.2	2.2	2.0	4.5	0.3	1.6	2.4	2.4	2.5	2.0	2.0	2.0	2.0
<b>Final Domestic Demand<sup>2</sup></b>	<b>1.8</b>	<b>2.3</b>	<b>2.2</b>	<b>2.8</b>	<b>0.6</b>	<b>2.8</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
Final Private Domestic Demand <sup>3</sup>	2.4	2.4	2.4	2.9	1.8	2.5	2.1	2.4	2.5	2.3	2.4	2.4	2.4
Personal Consumption Expenditures	2.1	1.8	1.8	3.5	1.9	1.6	1.6	1.9	2.0	1.8	1.8	1.8	1.8
– Goods	1.4	0.8	1.8	3.0	0.3	-0.1	0.8	1.2	1.2	1.8	1.8	1.8	1.8
– Services	2.4	2.2	1.8	3.6	2.7	2.4	2.0	2.2	2.3	1.8	1.8	1.8	1.8
Nonresidential Fixed Investment	5.6	6.1	4.9	3.2	2.4	10.4	4.5	4.8	4.8	4.9	4.9	4.9	4.9
– Structures	-5.5	0.1	3.0	-5.0	-6.5	-6.7	1.8	2.8	2.9	3.0	3.0	3.0	3.0
– Equipment	9.6	8.3	5.3	5.2	4.3	17.2	5.5	5.5	5.5	5.3	5.3	5.3	5.3
– IPP	8.0	6.9	5.5	5.6	5.4	13.0	4.8	5.0	5.0	5.5	5.5	5.5	5.5
Residential Investment	-3.8	-0.5	2.5	-7.1	-1.7	-8.0	1.0	2.5	2.7	2.5	2.5	2.5	2.5
Exports	1.1	5.6	1.5	9.6	-3.2	12.9	3.0	3.0	3.5	1.5	1.5	1.5	1.5
Imports	-1.9	6.3	2.9	-4.4	-1.0	21.4	-0.1	2.0	2.0	2.9	2.9	2.9	2.9
Government	-1.2	2.2	1.6	2.2	-5.6	4.4	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Inventory contribution (pct pts, a.r.)	-0.2	0.0	0.0	-0.1	0.1	0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Trade contribution (pct pts, a.r.)	0.4	-0.2	-0.2	1.6	-0.2	-1.3	0.3	0.1	0.0	-0.2	-0.2	-0.3	0.0
<b>Nominal GDP (Current \$)</b>	<b>5.4</b>	<b>5.3</b>	<b>4.1</b>	<b>8.3</b>	<b>4.2</b>	<b>5.6</b>	<b>7.4</b>	<b>4.2</b>	<b>4.2</b>	<b>4.4</b>	<b>3.9</b>	<b>3.9</b>	<b>4.2</b>
Nominal Consumption	5.0	5.0	3.8	6.3	4.9	6.1	6.9	3.7	3.5	4.2	3.5	3.5	3.9
<b>Employment &amp; Personal Income</b>													
<b>Civilian Unemployment Rate (%)</b>	<b>4.5</b>	<b>4.6</b>	<b>4.5</b>	<b>4.3</b>	<b>4.5</b>	<b>4.3</b>	<b>4.4</b>	<b>4.5</b>	<b>4.6</b>	<b>4.6</b>	<b>4.6</b>	<b>4.5</b>	<b>4.5</b>
Civilian Labor Force Participation Rate (%)	62.5	62.0	61.9	62.3	62.5	62.0	61.9	61.9	62.0	62.0	61.9	61.9	61.9
Employment to Population Ratio (%)	59.7	59.1	59.1	59.6	59.7	59.3	59.2	59.1	59.1	59.1	59.1	59.1	59.1
Average Monthly Change in Nonfarm Payrolls (Thous.)	10	34	60	23	-39	68	17	20	30	60	60	60	60
Real DPI	1.3	1.2	1.2	1.0	0.2	2.4	-1.3	1.6	2.0	2.6	1.7	1.8	1.5
Saving rate (%)	4.0	3.5	3.7	4.4	4.0	4.3	3.9	3.7	3.5	3.7	3.7	3.7	3.7
<b>Business Indicators</b>													
Industrial Production	1.6	2.6	1.2	2.1	-1.7	7.4	0.7	1.2	1.3	1.2	1.2	1.2	1.2
Productivity	2.6	1.6	1.4	5.2	1.8	0.6	2.0	1.9	1.9	1.4	1.4	1.4	1.5
<b>Inflation (quarterly % change, a.r.)</b>													
Consumer Price Index				3.1	2.5	3.6	6.7	1.8	1.6	2.6	1.6	1.7	2.5
CPI ex Food & Energy				3.2	2.0	2.8	3.0	2.4	2.3	3.2	2.2	2.4	2.8
PCE Price Index				2.8	2.9	4.5	5.1	1.7	1.5	2.4	1.7	1.6	2.1
PCE ex Food & Energy				2.9	2.7	4.3	3.0	2.0	1.9	2.7	2.0	2.1	2.3
<b>Inflation (4-quarter % change)</b>													
Consumer Price Index	2.7	3.4	2.1	2.9	2.7	2.7	4.0	3.6	3.4	3.2	1.9	1.9	2.1
CPI ex Food & Energy	2.7	2.6	2.6	3.1	2.7	2.5	2.8	2.5	2.6	2.7	2.5	2.5	2.6
PCE Price Index	2.8	3.2	2.0	2.7	2.8	3.1	3.8	3.5	3.2	2.7	1.8	1.8	2.0
<b>PCE ex Food &amp; Energy</b>	<b>2.9</b>	<b>2.8</b>	<b>2.3</b>	<b>2.9</b>	<b>2.9</b>	<b>3.1</b>	<b>3.2</b>	<b>3.0</b>	<b>2.8</b>	<b>2.4</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>
<b>Monetary Policy</b>													
<b>Fed Funds Target (% midpoint of target range)</b>	<b>3.625</b>	<b>3.625</b>	<b>3.125</b>	<b>4.125</b>	<b>3.625</b>	<b>3.625</b>	<b>3.625</b>	<b>3.625</b>	<b>3.625</b>	<b>3.125</b>	<b>3.125</b>	<b>3.125</b>	<b>3.125</b>
<b>Fiscal Policy</b>													
<b>Federal Budget balance (% of GDP)</b>	<b>-5.4</b>	<b>-6.3</b>	<b>-6.2</b>										

1) GDP less contribution from inventory investment

2) GDP less contributions from inventory investment and trade

3) GDP less contributions from inventory investment, trade, and the government sector. (Private final consumption plus investment.)

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Census Bureau, Treasury Dep't, Morgan Stanley Research forecasts

Exhibit 17: Monthly inflation forecasts

	% Change - Year-over-Year				% Change - Month-over-Month				Headline CPI NSA Index	
	Headline PCE	Core PCE	Headline CPI	Core CPI	Headline PCE	Core PCE	Headline CPI	Core CPI		
Jan-25	2.6	2.8	3.0	3.3	Jan-25	0.37	0.31	0.43	0.43	317.671
Feb-25	2.7	3.0	2.8	3.1	Feb-25	0.40	0.45	0.23	0.25	319.082
Mar-25	2.4	2.7	2.4	2.8	Mar-25	0.02	0.10	0.03	0.07	319.799
Apr-25	2.3	2.6	2.3	2.8	Apr-25	0.17	0.19	0.16	0.24	320.795
May-25	2.5	2.8	2.4	2.8	May-25	0.18	0.23	0.10	0.13	321.465
Jun-25	2.6	2.8	2.7	2.9	Jun-25	0.29	0.26	0.25	0.23	322.561
Jul-25	2.6	2.9	2.7	3.1	Jul-25	0.17	0.25	0.23	0.31	323.048
Aug-25	2.7	2.9	2.9	3.1	Aug-25	0.26	0.22	0.35	0.31	323.976
Sep-25	2.8	2.8	3.0	3.0	Sep-25	0.26	0.19	0.30	0.22	324.800
Oct-25	2.7	2.8	2.9	2.8	Oct-25	0.19	0.23	0.13	0.09	#N/A
Nov-25	2.8	2.8	2.7	2.6	Nov-25	0.22	0.18	0.13	0.09	324.122
Dec-25	2.9	3.0	2.7	2.6	Dec-25	0.33	0.33	0.30	0.23	324.054
Jan-26	2.9	3.1	2.4	2.5	Jan-26	0.33	0.42	0.17	0.30	325.252
Feb-26	2.8	3.0	2.4	2.5	Feb-26	0.38	0.37	0.27	0.22	326.785
Mar-26	3.5	3.2	3.3	2.6	Mar-26	0.66	0.29	0.87	0.20	330.213
Apr-26	3.7	3.2	3.8	2.7	Apr-26	0.40	0.22	0.62	0.34	332.744
May-26	3.9	3.2	4.1	2.8	May-26	0.35	0.21	0.45	0.22	334.610
Jun-26	3.8	3.1	4.0	2.8	Jun-26	0.15	0.19	0.14	0.19	335.357
Jul-26	3.7	3.1	3.8	2.6	Jul-26	0.07	0.16	0.03	0.19	335.201
Aug-26	3.5	3.0	3.6	2.5	Aug-26	0.15	0.16	0.17	0.20	335.583
Sep-26	3.4	2.9	3.5	2.5	Sep-26	0.16	0.14	0.20	0.18	336.132
Oct-26	3.3	2.8	3.4	2.6	Oct-26	0.03	0.13	-0.02	0.17	335.538
Nov-26	3.2	2.8	3.4	2.7	Nov-26	0.16	0.18	0.17	0.21	335.105
Dec-26	3.1	2.7	3.4	2.7	Dec-26	0.23	0.20	0.28	0.23	334.991
Jan-27	3.0	2.6	3.5	2.7	Jan-27	0.23	0.29	0.24	0.34	336.447
Feb-27	2.7	2.4	3.3	2.7	Feb-27	0.13	0.21	0.11	0.25	337.517
Mar-27	2.3	2.3	2.7	2.7	Mar-27	0.22	0.17	0.27	0.18	339.045
Apr-27	2.0	2.2	2.2	2.6	Apr-27	0.11	0.17	0.08	0.17	339.839
May-27	1.8	2.2	1.8	2.5	May-27	0.12	0.16	0.10	0.16	340.552
Jun-27	1.7	2.1	1.8	2.4	Jun-27	0.12	0.14	0.10	0.14	341.190
Jul-27	1.8	2.2	1.8	2.5	Jul-27	0.10	0.17	0.08	0.20	341.196
Aug-27	1.8	2.2	1.9	2.5	Aug-27	0.18	0.19	0.22	0.23	341.744
Sep-27	1.8	2.2	1.9	2.5	Sep-27	0.20	0.19	0.26	0.23	342.493
Oct-27	1.9	2.3	2.1	2.6	Oct-27	0.12	0.19	0.12	0.24	342.339
Nov-27	2.0	2.3	2.1	2.6	Nov-27	0.18	0.19	0.23	0.23	342.081
Dec-27	2.0	2.3	2.1	2.6	Dec-27	0.24	0.19	0.32	0.23	342.074

Source: BLS, BEA, Morgan Stanley Research forecasts

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