RESPONSES TO SURVEY OF MARKET PARTICIPANTS

Markets Group, Federal Reserve Bank of New York

MARCH 2017

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The **Survey of Market Participants** is formulated by the Trading Desk at the Federal Reserve Bank of New York to enhance policymakers' understanding of market expectations on a variety of topics related to the economy, monetary policy and financial markets. The questions involve only topics that are widely discussed in the public domain and never presume any particular policy action. FOMC members are not involved in the survey's design.

For most questions, median responses across respondents, along with the 25th and 75th percentiles, are reported.[1] For questions that ask respondents to give a probability distribution, the average response across respondents for each potential outcome is reported. Brief summaries of the comments received in free response form are also provided.

Responses were received from 30 respondents. Except where noted, all 30 respondents responded to each question. In some cases, respondents may not have provided forecasts extending to the same time horizon as requested in the survey. In these instances, the number of respondents who answered all parts of the question is indicated.

[1] Answers may not sum to 100 percent due to rounding.

List of Market Participants:
www.newyorkfed.org/markets/survey_market_participants.html

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1a) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the March FOMC statement.

Current economic conditions:
(29 responses)

Some respondents indicated that they expected no or few significant changes to the Committee's assessment of current economic conditions in the March FOMC statement. Several other respondents indicated that they expected the Committee to acknowledge that measures of consumer and business sentiment had remained elevated or had continued to improve. Lastly, several respondents suggested that the Committee could continue to reference increases in inflation in recent quarters and/or acknowledge that inflation had moved closer to the Committee's longer-run objective of 2 percent.

Economic outlook:
(29 responses)

Some respondents noted that they expected no or few significant changes to the Committee's language on the economic outlook, while several respondents suggested that the Committee could upgrade its assessment of the economic outlook or characterize risks to the outlook as being "balanced."

Communication on the expected path of policy rates and forward guidance on the target federal funds rate:
(28 responses)

Some respondents expected no or few significant changes in the Committee's communication on the expected path of policy rates and forward guidance on the target range for the federal funds rate, and several respondents specified that they expected the Committee to continue to emphasize that further increases in the target range would likely be gradual and data-dependent. Additionally, several noted their expectations for the Committee to announce an increase in the target range for the federal funds rate at the current meeting.

Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:
(27 responses)

Many respondents indicated that they expected no change in the Committee's communication on its policy of reinvesting principal payments on Treasury and agency securities.

Other:
(7 responses)

Respondents did not provide substantial commentary in this section.

1b) What are your expectations for the medians of FOMC participants' economic projections in the Summary of Economic Projections (SEP)?
(27 responses)

Some respondents reported that they expected no or few significant changes to the medians of FOMC participants' economic projections in the March SEP. Several respondents expected that the medians of FOMC participants' projections for headline and/or core PCE inflation in 2017 and/or 2018 could increase slightly, and several respondents expected that the medians of FOMC participants' projections for GDP growth in 2017 and/or 2018 could increase slightly.

1c) What are your expectations for the medians of FOMC participants' target federal funds rate projections in the SEP?

	Year-end 2017	Year-end 2018	Year-end 2019	Longer Run
25th Pctl	**1.38%**	**2.13%**	**2.88%**	**3.00%**
Median	**1.38%**	**2.13%**	**2.88%**	**3.00%**
75th Pctl	**1.38%**	**2.38%**	**2.94%**	**3.00%**

Please explain any assumptions underlying your expectations.
(26 responses)

Some respondents indicated that they expected no or few significant changes to the medians of FOMC participants' projections for the target federal funds rate. However, several other respondents noted the potential for the medians of FOMC participants' year-end target rate projections to increase or to signal a steeper expected path of the policy rate. Additionally, several other respondents specified that while they did not expect any changes to the medians of FOMC participants' projections, they expected that some individual FOMC participants could raise their projections and/or that the average of participants' year-end projections could increase.

1d) What are your expectations for the Chair's press conference?
(28 responses)

Several respondents indicated that they expected the Chair's press conference remarks would be similar in tone to her recent communications, including her speech on March 3rd. Several respondents expected that the Chair would explain the Committee's rationale for increasing the target range, with several expecting her to note that that the economy had moved closer to the Committee's dual mandate. Lastly, several expected that the Chair would offer greater insight regarding the likely future path of the policy rate, and anticipated that she would continue to highlight that further increases in the target range would likely be gradual.

2a) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range, as applicable, immediately following the FOMC meetings and at the end of each quarter or half-year period below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	Mar. 14-15 2017	May 2-3 2017	Jun. 13-14 2017	Jul. 25-26 2017	Sep. 19-20 2017	Oct. 31 - Nov. 1 2017	Dec 12-13 2017
25th Pctl	**0.88%**	**0.88%**	**0.88%**	**0.88%**	**1.13%**	**1.13%**	**1.38%**
Median	**0.88%**	**0.88%**	**1.13%**	**1.13%**	**1.13%**	**1.13%**	**1.38%**
75th Pctl	**0.88%**	**0.88%**	**1.13%**	**1.13%**	**1.38%**	**1.38%**	**1.38%**
# of Responses	**30**	**30**	**30**	**30**	**30**	**30**	**30**
	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 H2
25th Pctl	**1.38%**	**1.63%**	**1.63%**	**1.88%**	**2.13%**	**2.13%**	**2.38%**
Median	**1.63%**	**1.88%**	**1.94%**	**2.13%**	**2.38%**	**2.63%**	**2.81%**
75th Pctl	**1.75%**	**2.00%**	**2.38%**	**2.63%**	**2.63%**	**2.88%**	**3.13%**
# of Responses	**30**	**30**	**30**	**30**	**30**	**30**	**30**

2b) In addition, provide your estimate of the longer-run target federal funds rate and your expectation for the average federal funds rate over the next 10 years.

	Longer Run	10-yr Average FF Rate
25th Pctl	**2.50%**	**1.88%**
Median	**2.75%**	**2.50%**
75th Pctl	**3.25%**	**2.75%**

2c) Please indicate the percent chance that you attach to the following possible outcomes for the Committee's next policy action in 2017.

	Next Change is Increase in Target Rate or Range	Next Change is Decrease in Target Rate or Range	No Change in Target Rate or Range in 2017
Average	**94%**	**1%**	**5%**

2d) Conditional on the Committee's next policy action in 2017 being an increase in the target federal funds rate or range, please indicate the percent chance that you attach to the following possible outcomes for the timing of such a change. Only fill out this conditional probability distribution if you assigned a non-zero probability to the Committee's next policy action in 2017 being an increase.

	Increase Occurs at March FOMC meeting	Increase Occurs at May FOMC meeting	Increase Occurs at June FOMC meeting or later
Average	**86%**	**6%**	**8%**

2e) Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2017, conditional on the following possible scenarios for the direction and timing of the Committee's next poicy action in 2017. Only fill out the conditional probability distributions for which you assigned a non-zero probability to the conditioning event occurring. If you expect a target range, please use the midpoint of that range in providing your response.
(29 responses)

Next change is an increase, occurs at May meeting or earlier								
	≤ 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**1%**	**3%**	**10%**	**22%**	**33%**	**22%**	**7%**	**2%**

Next change is an increase, occurs at Jun. meeting or later								
	≤ 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**2%**	**5%**	**20%**	**33%**	**25%**	**11%**	**3%**	**1%**

Next change is a decrease								
	< 0.0%	0.00 - 0.25%	0.26 - 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	≥ 1.51%
Average	**12%**	**43%**	**37%**	**5%**	**1%**	**1%**	**0%**	**0%**

2f-i) Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2018 and 2019, conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2019. If you expect a target range, please use the midpoint of that range in providing your response.
(29 responses)

Year-end 2018							
	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥ 3.51%
Average	**5%**	**11%**	**26%**	**30%**	**18%**	**7%**	**2%**

Year-end 2019							
	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥ 3.51%
Average	**5%**	**9%**	**15%**	**22%**	**24%**	**15%**	**10%**

2f-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2019.

	Probability of Moving to ZLB at Some Point between now and the end of 2019
25th Pctl	**5%**
Median	**15%**
75th Pctl	**30%**

2f-iii) Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2018 and 2019, conditional on moving to the ZLB at some point between now and the end of 2019. Only fill out these conditional probability distributions if you assigned a non-zero probability to moving to the ZLB at some point between now and the end of 2019. If you expect a target range, please use the midpoint of that range in providing your response.
(28 responses)

Year-end 2018								
	< 0.00%	0.00-0.25%	0.26-0.50%	0.51-1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	≥ 2.51%
Average	**10%**	**49%**	**18%**	**9%**	**6%**	**4%**	**3%**	**1%**

Year-end 2019								
	< 0.00%	0.00-0.25%	0.26-0.50%	0.51-1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	≥ 2.51%
Average	**13%**	**61%**	**15%**	**7%**	**2%**	**1%**	**0%**	**0%**

2f-iv) What is your estimate of the target federal funds rate or range at the effective lower bound?
(29 responses)

	Level of Target Fed Funds Rate or Range at ELB
25th Pctl	**-0.25%**
Median	**0.00%**
75th Pctl	**0.13%**

2g) For parts a-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.
(26 responses)

Some respondents noted that they shifted earlier their modal forecast for the timing of the next rate hike to the March meeting. Additionally, several respondents indicated that they had either adjusted their modal forecasts to reflect a greater number of rate hikes occurring in 2017, 2018 and/or 2019 compared to the prior survey or had assigned higher probabilities to higher rate outcomes for these years. Several respondents pointed to recent FOMC communication and/or recent economic data releases as having informed the change(s) in their expectations.

3) Please indicate the percent chance that you attach to the 10-year Treasury yield falling in each of the following ranges at the end of 2017 and 2018.

Year-end 2017							
	≤ 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	≥ 4.01%
Average	**6%**	**11%**	**23%**	**32%**	**19%**	**7%**	**2%**

Year-end 2018							
	≤ 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	≥ 4.01%
Average	**7%**	**9%**	**16%**	**27%**	**23%**	**12%**	**7%**

4) How would you assess your uncertainty regarding the outlook for each of the below? Please measure relative to your assessment at the time of the policy survey on October 24. Provide a rating between 1 and 5 (i.e. 1=much lower, 2=lower, 3=about the same, 4=higher, 5=much higher).

	U.S. Economic Policies	U.S. Macroeconomic Fundamentals	U.S. Financial Asset Prices	Global Economic and Financial Market Developments
1 - Much Lower	**0**	**2**	**0**	**1**
2	**1**	**11**	**3**	**5**
3	**1**	**10**	**7**	**14**
4	**11**	**7**	**13**	**9**
5 - Much Higher	**17**	**0**	**7**	**1**
# of Responses	**30**	**30**	**30**	**30**

For each of the above, what factors do you view as most important in explaining the change, if any, in your assessment of uncertainty since the policy survey on October 24?

Some respondents indicated that uncertainty regarding the timing and nature of fiscal and other government policies under the new administration contributed to an increase in their level of uncertainty regarding the outlook for U.S. economic policies since the time of the policy survey on October 24. Additionally, several respondents indicated that positive U.S. economic data had reduced their uncertainty regarding the outlook for U.S. macroeconomic fundamentals. Lastly, several respondents noted increased uncertainty regarding the outcomes of European elections in 2017.

Additionally, do you view levels of uncertainty as reflected in financial asset prices as consistent with levels of investor uncertainty regarding the above factors? If not, please explain.
(27 responses)

Some respondents noted an apparent inconsistency between levels of uncertainty reflected in financial asset prices and perceived investor uncertainty, while several others indicated that financial asset prices reflected investors' optimism regarding the outlook for economic policies of the new administration and their likely impact on the U.S. economy and asset valuations.

5a) In its Policy Normalization Principles and Plans, the Committee indicated that it "expects to cease or commence phasing out reinvestments" after liftoff. Please indicate the percent chance that you attach to the Committee ceasing its reinvestments all at once, phasing out its reinvestments over time, or not changing its reinvestments.
(29 responses)

Treasuries			
	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time	No Change to Reinvestments
Average	**12%**	**67%**	**21%**

Agency Debt and MBS			
	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time	No Change to Reinvestments
Average	**17%**	**73%**	**10%**

5b) In its most recent FOMC statement, the Committee indicated that it anticipates continuing its current reinvestment policy until normalization of the level of the federal funds rate is "well under way."

If you assigned a non-zero probability either to reinvestments being ceased all at once or to reinvestments being phased out over time in question 5a, please indicate the percent chance that you attach to the following outcomes for the level of the target federal funds rate or range when the Committee first announces a change to its reinvestment policy. If you expect a target range, please use the midpoint of that range in providing your response.
(29 responses)

	≤ 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**0%**	**2%**	**12%**	**28%**	**32%**	**15%**	**11%**

Additionally, please provide your point estimate for the most likely outcome of the level of the target federal funds rate or range when the Committee first announces a change to its reinvestment policy. If you expect a target range, please use the midpoint of that range in providing your response.
(29 responses)

	Level of Target Fed Funds Rate/Range
25th Pctl	**1.38%**
Median	**1.63%**
75th Pctl	**1.63%**

5c) If you assigned a non-zero probability either to reinvestments being ceased all at once or reinvestments being phased out over time in question 5a, please indicate the percent chance that you attach to the following possible outcomes for the timing of when the Committee first announces a change to its reinvestment policy.
(27 responses)

	Mar. 14-15 FOMC meeting	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	H2 2018	≥ 2019
Average	**1%**	**4%**	**11%**	**27%**	**21%**	**17%**	**10%**	**9%**

5d) If you placed a non-zero probability on reinvestments being phased out over time, please indicate the most likely number of months over which you expect this to occur.
(26 responses)

# Months		
	Treasuries	Agency Debt and MBS
25th Pctl	**12**	**6**
Median	**12**	**12**
75th Pctl	**24**	**18**

Please describe the specific strategy or strategies that you think would be most likely should the Committee phase reinvestments out over time.
(27 responses)

Several respondents indicated that the Committee could phase out reinvestments by lowering the proportion of principal payments reinvested each month, while several others indicated that they expect the amount of principal payments reinvested to be reduced by a fixed dollar amount each month. Lastly, several indicated that they expect the Committee to pursue the same strategy of phasing out reinvestments for both Treasury and agency securities, while several indicated that the Committee could pursue different strategies.

5e-i) Please indicate the percent chance that you attach to the following possible outcomes for the par value of the SOMA portfolio <u>at the end of 2019, conditional on **not** moving to the ZLB at any point between now and the end of 2019</u>. For reference, the level of the SOMA portfolio on February 22, 2017 was $4270 billion, including inflation compensation and settled and unsettled agency MBS, according to the most recent H.4.1 release. Levels referenced below are in $ billions.
(26 responses)

	≤ 3000	3001 - 3500	3501 - 4000	4001 - 4500	≥ 4501
Average	**13%**	**25%**	**39%**	**20%**	**3%**

5e-ii) Please indicate the percent chance that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2019, conditional on moving to the ZLB at any point between now and the end of 2019. Only fill out this conditional probability distribution if you assigned a non-zero probability to moving to the ZLB at some point between now and the end of 2019 in question 2. Levels referenced below are in $ billions.
(25 responses)

	≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501
Average	**9%**	**26%**	**24%**	**27%**	**15%**

5f) Please explain the factors behind any change to your views, where applicable, since the last policy survey.
(27 responses)

Several respondents indicated that they had made no or few significant revisions to their expectations for changes to reinvestment policy.

6) Provide your estimate of the most likely outcome for the U.S. federal fiscal deficit (as a percent of GDP) for fiscal years 2017, 2018 and 2019.
(26 responses)

	Percent of GDP		
	FY 2017	FY 2018	FY 2019
25th Pctl	**3.00%**	**3.38%**	**3.50%**
Median	**3.20%**	**3.65%**	**4.10%**
75th Pctl	**3.60%**	**4.50%**	**5.00%**

Please explain any changes to your estimates since the policy survey on January 23.
(15 responses)

Several respondents indicated that they had made no or few significant changes to their responses since the policy survey on January 23.

7a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from March 1, 2017 - February 28, 2022 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.
(29 responses)

	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥ 3.01%
Average	**5%**	**12%**	**27%**	**33%**	**16%**	**8%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.10%**
75th Pctl	**2.30%**

7b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from March 1, 2022 - February 28, 2027 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.
(29 responses)

	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥ 3.01%
Average	**5%**	**12%**	**23%**	**32%**	**18%**	**10%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.20%**
75th Pctl	**2.30%**