

# Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York  
March, 2011

## Policy Expectations Survey

Please respond by **Monday, March 7th at 5:00 p.m.** to the questions below. Your time and input are greatly appreciated.

This survey 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 only involve 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. This survey should not be distributed beyond those directly involved in its completion.

Dealer:

### Monetary Policy Expectations

- 1) Of the possible outcomes below, please indicate the percent chance\* you attach to the indicated policy target range or target rate following each of the next 3 FOMC meetings:

	Level of Target Range or Rate						
	0.00% - 0.25%	0.25%	0.50%	0.75%	1.00%	1.25%	>1.25%
March 15:							
April 26-27:							
June 21-22:							

\* Percentages should add up to **100 percent**.

- 2) a) Do you expect any changes in the FOMC statement and if so, what changes?

- b) Of the possible outcomes below, please indicate the percent chance\* you attach to the timing of the first fed funds target rate increase:

Timing of First Increase :	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	≥2013 Q1

\* Percentages should add up to **100 percent**.

Estimate for most likely quarter and year of first target rate increase:

- 3) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the fed funds target rate or range at the end of each quarter:

Fed Funds Target Rate or Range :	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown

- 4) Of the possible outcomes below, please indicate the percent chance\* you attach to the fed funds target rate or range 12 months from now:

March 2012 :	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.5%	≥2.51%

\* Percentages should add up to **100 percent**.

\*\* Distribution of probability buckets scaled to rates implied by March 2012 Eurodollar futures contracts.

- 5) If you have changed your fed funds forecasts from the prior survey, what were the main drivers of that change? Please note in particular how these changes relate to your economic forecasts, FOMC communications, or other factors.

- 6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 1/18/11? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank: Dropdown      Please explain:

- 7) In the November 2010 FOMC statement, the Committee announced the following: "The Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability." What is your current expectation for the total cumulative size of the asset purchase program, and when do you expect the program to be completed? In your estimate of total cumulative size, please include securities already purchased under this program since November 3, but exclude purchases associated with agency and agency MBS reinvestment.

Total Cumulative Size of Asset Purchase Program \$ Billions

Asset Purchase Program Completion Date Month Year

Please explain:

- 8) What is your expectation for the amount of domestic securities held outright in the SOMA portfolio at year-end for each of the next five years?

Year	2010*	2011	2012	2013	2014	2015
Expected Amount of Domestic Assets in SOMA (\$ Billions)	2,156					

\* Taken from the 12/30/2010 Federal Reserve H4.1, Table 9, "Securities Held Outright."

Please explain:

- 9) The size of the SOMA portfolio can be influenced by several factors, including asset purchases, changes to the reinvestment strategy, and asset sales. Please indicate the likelihood of these outcomes over the next **two and five years**. Specifically, please indicate the percent chance you assign to: 1) the Federal Reserve **expanding its securities portfolio through additional purchases** in the given asset class, 2) the Federal Reserve **halting the reinvestment of principal payments** from its holdings of the given asset class, and 3) the Federal Reserve **conducting sales** of the given asset class. For each, please indicate the **cumulative probabilities** over horizons of within two years and within five years.

	Additional Purchases		Halting Reinvestment		Sales	
	Probability within 2 years	Probability within 5 years	Probability within 2 years	Probability within 5 years	Probability within 2 years	Probability within 5 years
Treasuries :	N/A	N/A				
Agencies :						
Agency MBS :						

Please explain:

**Economic Indicator Forecasts**

10 a) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output and inflation:

	GDP (q.o.q.)	Core PCE (y.o.y.)
2011 Q1 :		
2011 Q2 :		
2011 Q3 :		
2011 Q4 :		

b) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast?

	GDP (Q4/Q4 Growth)		Core PCE (Q4/Q4 Growth)		Unemployment Rate (Q4 Average Level)	
	Estimate	Balance of Risk	Estimate	Balance of Risk	Estimate	Balance of Risk
2011 :		Dropdown		Dropdown		Dropdown
2012 :		Dropdown		Dropdown		Dropdown
2013 :		Dropdown		Dropdown		Dropdown

Please comment on any risks you see to your forecast :

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 1/18/11?

GDP Uncertainty:	Dropdown	Core PCE Uncertainty:	Dropdown
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11) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q1 2012?

12) For the outcomes below, please indicate the percent chance\* you attach for the annual average CPI inflation rate from 2016 - 2021. Please also indicate your point estimate for the most likely outcome (i.e. the mode).

≤1.0%	1.01-1.5%	1.51-2.0%	2.01-2.5%	2.51-3.0%	≥3.01%	Point estimate for most likely outcome:
						<input type="text"/>

\*Percentages should add up to 100 percent.

13) a) What percent chance do you attach to the US economy currently being in a RECESSION\*? Recession currently:   
\* NBER-defined recession.

b) What percent chance would you attach to the US economy being in a RECESSION\* in 6 months? Recession in 6 months:   
\* NBER-defined recession.

14) Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

**Dropdown Selections**

3) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the fed funds target rate or range at the end of each quarter:

- Fed Funds Target Rate or Range :
- 0 - .25%
  - 0.25%
  - 0.50%
  - 0.75%
  - 1.00%
  - 1.25%
  - 1.50%
  - 1.75%
  - 2.00%
  - 2.25%
  - 2.50%
  - 2.75%
  - 3.00%
  - 3.25%
  - 3.50%
  - 3.75%
  - 4.00%
  - 4.25%
  - 4.50%
  - 4.75%
  - 5.00%
  - > 5.00%

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 1/18/11? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

- Rank:
- 5 -- Very effective
  - 4
  - 3
  - 2
  - 1 -- Very ineffective

10) b) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast?

- Balance of Risk:
- Downside
  - Balanced
  - Upside

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 1/18/11?

- Uncertainty:
- More Uncertain
  - Equally Uncertain
  - Less Uncertain