Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

January, 2012

Policy Expectations Survey

Please respond by **Tuesday, January 17 at 12 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.

Dealer:

Monetary Policy Expectations

1) Of the possible outcomes below, please indicate the percent chance* you attach to the indicated federal funds 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%**
January 24-25:							
March 13:							
April 24-25:							

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

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

b) What additional information do you expect Chairman Bernanke to provide in his post-FOMC meeting press conference on January 25th?

3) Of the possible outcomes below, please indicate the percent chance* you attach to the timing of the first federal funds target rate increase. Note: The probability buckets were increased to half-year increments, as much of the distribution of aggregate dealer responses to the December survey fell in Q2 2014 or later.

Timing of First Increase :

2012 H1	**2012 H2**	**2013 H1**	**2013 H2**	**2014 H1**	**2014 H2**	**2015 H1**	**2015 H2**	**2016 H1**	**≥2016 H2**

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

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

4) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the federal funds target rate or range at the end of each half-year period:*

Federal Funds Target Rate or Range :

2012 H1	**2012 H2**	**2013 H1**	**2013 H2**	**2014 H1**	**2014 H2**	**2015 H1**	**2015 H2**	**2016 H1**	**2016 H2**
Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown

** Distribution of buckets scaled to Question 3.*

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

	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%**
January 2013 :**							

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

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

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 12/5/11? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank: Dropdown

Please explain:

7) Recent FOMC communication has discussed several different ways monetary policy could be altered to provide either less or more accommodation.

a) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy tightening or to tighten policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	*Probability within 1 year*	*Probability within 2 years*
Raise interest on excess reserves			
Drain reserves through temporary tools			
Halt reinvestments			
Reduce size of SOMA portfolio through selling securities			
Reduce duration of portfolio*			
Change the forward guidance on the path of the federal funds rate			

Please explain:

*i.e. a deliberate action to decrease the duration of the SOMA portfolio, independent of other policy changes.

b) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy easing or to ease policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	*Probability within 1 year*	*Probability within 2 years*
Lower interest on excess reserves			
Expand SOMA portfolio through security purchases			
Increase duration of portfolio*			
Change the forward guidance on the path of the federal funds rate			
Provide guidance on the period over which the SOMA portfolio will remain at the current level			

Please explain:

*i.e. a deliberate action to increase the duration of the SOMA portfolio beyond the currently announced maturity extension program, independent of other policy changes.

8) What are your expectations for the amount of domestic securities held outright in the SOMA portfolio and for the expected level of reserves at year-end for each of the next five years?

	Current Level*	**Year End 2012**	**Year End 2013**	**Year End 2014**	**Year End 2015**	**Year End 2016**
Expected amount of U.S. Treasury securities in SOMA ($ Billions)	**1,663**					
Expected amount of agency debt and agency MBS securities in SOMA ($ Billions)	**942**					
Expected amount of domestic assets in SOMA ($ Billions)	**2,605**					
Expected level of reserves ($ Billions)	**1,579**					

* Taken from the 1/5/2012 Federal Reserve H.4.1.

Please explain:

Economic Indicator Forecasts

9) **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 Deflator (y.o.y.)**	**Headline PCE Deflator (y.o.y.)**
2011 Q4 :			
2012 Q1 :			
2012 Q2 :			
2012 Q3 :			

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 Deflator (Q4/Q4 Growth)**		**Headline PCE Deflator (Q4/Q4 Growth)**		**Unemployment Rate (Q4 Average Level)**	
	Estimate	*Balance of Risk*	*Estimate*	*Balance of Risk*	*Estimate*	*Balance of Risk*	*Estimate*	*Balance of Risk*
2011 :		Dropdown	Fill from 9a	Dropdown	Fill from 9a	Dropdown		Dropdown
2012 :		Dropdown		Dropdown		Dropdown		Dropdown
2013 :		Dropdown		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 12/5/11?

GDP Uncertainty: Dropdown

Core PCE Deflator Uncertainty: Dropdown

10) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q1 2013?

11) For the outcomes below, please indicate the percent chance* you attach for the annual average CPI inflation rate from 2017 - 2022. 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%**

Percentages should add up to **100 percent.*

Point estimate for most likely outcome:

12) **a)** What percent chance do you attach to the US economy **currently** being in a recession*?
** NBER-defined recession.*

Recession currently:

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

Recession in 6 months:

13) Please provide the total contribution to your Q4/Q4 forecasts for real GDP growth in 2012 and 2013 from U.S. federal fiscal policy, combining your assessment of the direct and indirect effects. Please explain, including describing your expectations for U.S. fiscal policy actions over this period. **Please ensure that your signs are correct.**

	Contribution of U.S. Fiscal Policy to U.S. GDP Forecast	
	2012	*2013*
Percentage points		

Please explain:

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

Dropdown Selections

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

Q1 2012
Q2 2012
Q3 2012
Q4 2012
Q1 2013
Q2 2013
Q3 2013
Q4 2013
Q1 2014
Q2 2014
Q3 2014
Q4 2014
Q1 2015
Q2 2015
Q3 2015
Q4 2015
Q1 2016
Q2 2016
Q3 2016
Q4 2016
>=Q1 2017

4) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the federal funds target rate or range at the end of each quarter:
Federal 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 12/5/11? 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

9) 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 12/5/11?

Uncertainty:
More Uncertain
Equally Uncertain
Less Uncertain