Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

September 2013

Policy Expectations Survey

Please respond by **Monday, September 9, at 5pm** 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 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.

***Dealer*:**

Monetary Policy Expectations

1) **a)** The July FOMC statement contained information outlining the Committee's view on the economy as well as discussion of policy actions with regard to asset purchases and forward rate guidance. Provide below your expectations for changes, if any, to the language referencing each of these topics in the September FOMC statement. Limit your responses to changes you consider most likely.

	Language Changes Expected
Current economic conditions and the economic outlook:	
Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Other:	

b) What are your expectations for the release of FOMC participants' projections in the advanced materials of the Summary of Economic Projections (SEP) ?

2) **a)** Of the possible outcomes below, please indicate the percent chance* you attach to the timing of the first federal funds target rate increase.

2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	≥2017 H2

** Percentages should add up to 100 percent.*

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

b) If you made any changes to your expectations for the most likely timing of the first target rate increase since the last survey on July 22, explain the factors that motivated you to make the change(s).

3) Provide your 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 and over the longer run:

2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2
dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown

Longer run:

4) **a)** Provide your estimate of the most likely joint outcome for the unemployment rate and headline 12-month PCE inflation at the time of the first federal funds target rate increase.

Unemployment Rate:

Headline 12-month PCE Inflation:

b) Of the possible outcomes below, provide the probability you attach to the timing of the 6.5 percent unemployment rate threshold being reached. Please assume that inflation between one and two years ahead is projected to be no more than 2.5 percent and longer-term inflation expectations continue to be well anchored.

2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	≥2015 Q3

c) Provide the probability you assign to the unemployment rate falling within the following ranges at the time of the first increase in the federal funds target rate. Please assume that the rate of inflation between one and two years ahead remains below 2.5 percent and longer-term inflation expectations remain well anchored prior to the first increase. Consider all possible conditions that may be associated with these scenarios in formulating your responses.

	< 6.0%	6.0% - 6.5%	> 6.5%
Unemployment rate:			

Bins are scaled to responses from July Survey of Primary Dealers. Percentages should add to 100 percent.

5) The minutes of the July 2013 meeting noted that the Committee discussed "the potential for clarifying or strengthening the Committee's forward guidance for the federal funds rate."

Provide the probability you assign to the Committee clarifying or strengthening its current forward guidance for the federal funds target rate at some point in the future?

Probability of clarifying or strengthening forward guidance on federal funds target rate:

If you see any possibility of changes to the forward guidance as described above, explain the specific changes you believe most likely and the most likely timing of those changes:

6) Of the possible outcomes below, indicate the percent chance* you attach to the 10-year Treasury yield** falling in each of the following ranges at the end of 2014 and 2015.

	<1.50%	1.50 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	>4.00%
Year-end 2014:							

	<2.00%	2.00 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	>4.50%
Year-end 2015:							

** Percentages should add up to 100 percent.*

*** Bins for 2014 are centered on the range assigned the highest average probability from the June Survey of Primary Dealers; bins for 2015 are centered on median 2015 forecast from Philadelphia Fed Survey of Professional Forecasters.*

7) As of September 5th, the 10-year Treasury yield increased approximately 40 basis points since the release of the July FOMC statement. Rate the importance of the factors below in explaining these moves (5 = very important, 1 = not important)

dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	
Change in economic outlook	**Uncertainty over Federal Reserve leadership succession**	**Change in market perception of appropriate policy rate path**	**Change in market perception of appropriate asset purchase path**	**Uncertainty over monetary policy**	**Other**	**(if "Other", please specify)**

Please Explain:

8) In the July FOMC statement, the Committee announced it will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month, and also stated that it would take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives in determining the size, pace, and composition of its asset purchases.

a) Provide your most likely expectation for the monthly pace of purchases that will be in effect after each of the below FOMC meetings.

		Monthly Pace of Longer-Term Security Purchases ($ billions)	
		Treasuries	*Agency MBS*
2013	**September 17-18:**		
	October 29-30:		
	December 17-18:		
2014	**January 28-29:**		
	March 18-19:		
	April 29-30:		
	June 17-18:		
	July 29-30:		
	September 16-17 (1 year ahead):		

Please explain any changes to your assumptions behind the increments of pace reduction and any changes in the composition of Treasury and agency MBS purchases since the last survey on July 22.

b) Provide your distribution of probabilities* for the timing of the announcement of the first reduction in pace, given the FOMC meetings below.

	Treasuries	*Agency MBS*
September 17-18:		
October 29-30:		
December 17-18:		
Later than 2013:		

**Percentages for each column should add to 100 percent*

c) Provide your most likely expectation for the change in the amount of domestic securities held in the SOMA portfolio during each of the periods below. In the case of purchases, please include settled and unsettled amounts.

	Half-Years			*Full Years*		
	2014 H2	**2015 H1**	**2015 H2**	**2016 - Full Year**	**2017 - Full Year**	**2018 - Full Year**
Expected change in amount of U.S. Treasury securities in SOMA ($ billions)						
Expected change in amount of agency debt and agency MBS in SOMA ($ billions)						

**Note, expectations begin with H2 2014 as prior periods are obtained from part a).*

Please explain your assumptions behind your projections for the timing, size, and pace of redemptions and sales of securities, if applicable. Please note if your assumptions have changed since the last survey:

9) a) The FOMC's June 2013 Summary of Economic Projections shows the expected central tendency for the unemployment rate at the end of 2013 falling between 7.2 and 7.3 percent. Please indicate the percent chance you attach to the unemployment rate corresponding to the following hypothetical scenarios at **year-end 2013**: 1) it declines to less than 7.2 percent; 2) it falls within the 7.2 to 7.3 percent range; and 3) it rises above 7.3 percent. Consider all possible conditions that may be associated with these scenarios in providing your responses.

Unemployment rate scenarios at year-end 2013	**Probability of realizing scenario at year-end 2013***
1) Less than 7.2.%:	
2) Between 7.2 and 7.3%:	
3) Greater than 7.3%:	

**Percentages should add up to 100 percent.*

b) Indicate the percent chance* you attach to the dollar level of the SOMA portfolio falling within the following ranges at **year-end 2014** for each of three hypothetical unemployment rate scenarios described in part a). For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 3, 2013 H.4.1 release was $2,785 billion (the H.4.1 closest to the start of 2013).

Unemployment rate scenarios at year-end 2013	Level of SOMA Portfolio ($ billions) at year-end 2014*						
	<2500	**2500-3000**	**3000-3500**	**3500-4000**	**4000-4500**	**4500-5000**	**>5000**
1) Less than 7.2%:							
	<2500	**2500-3000**	**3000-3500**	**3500-4000**	**4000-4500**	**4500-5000**	**>5000**
2) Between 7.2 and 7.3%:							
	<2500	**2500-3000**	**3000-3500**	**3500-4000**	**4000-4500**	**4500-5000**	**>5000**
3) Greater than 7.3%:							

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

c) Of the possible outcomes below, indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2013. Probabilities for the year-end 2014 level of the SOMA portfolio are automatically calculated using the responses you provided in parts a) and b) and the rules of conditional probability. These probabilities should be consistent with your views; if they are not, verify your responses from parts a) and b).

Level of SOMA Portfolio ($ billions)

	<3000	**3000-3250**	**3250-3500**	**3500-3750**	**3750-4000**	**4000-4250**	**>4250**
Year-end 2013:							
	<2500	**2500-3000**	**3000-3500**	**3500-4000**	**4000-4500**	**4500-5000**	**>5000**
Year-end 2014:	autofill	autofill	autofill	autofill	autofill	autofill	autofill

** Percentages should add up to 100 percent.*

Economic Indicator Forecasts

10) Provide your estimate of the most likely outcome 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*
2013:		dropdown		dropdown		dropdown		dropdown
2014:		dropdown		dropdown		dropdown		dropdown
2015:		dropdown		dropdown		dropdown		dropdown
Longer run:								

11) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2018 - 2023. Please also indicate your point estimate for the most likely outcome.

≤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 comment on any changes to your macroeconomic assessments and risks to your forecast since the last FOMC meeting. Please note whether and how a change in financial conditions has affected your forecasts or the balance of risks.

Dropdown Selections

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

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
Q2 2017
Q3 2017
Q4 2017
>= Q1 2018

3) Provide your 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 and over the longer run:

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%
5.25%
5.50%
5.75%
6.00%
> 6.00%

7) As of September 5th, the 10-year Treasury yield increased approximately 40 basis points since the release of the July FOMC statement. Rate the importance of the factors below in explaining these moves (5 = very important, 1 = not important)

Rating:

5 -- Very Important
4
3
2
1 -- Not Important

10) Provide your 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:	Lower GDP	**Balance of Risk:**	Lower Inflation	**Balance of Risk:**	Lower Inflation	**Balance of Risk:**	Higher UR
	Balanced		Balanced		Balanced		Balanced
	Higher GDP		Higher Inflation		Higher Inflation		Lower UR