Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

January 2014

Policy Expectations Survey

Please respond by **Tuesday, January 21, at 10:00 am** 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) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the January 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:	

2) a) How do you expect the FOMC statement on January 29 to influence market perceptions of the stance of monetary policy, if at all. (1 = less accommodative, 3 = neutral, 5 = more accommodative)

Perceived stance of monetary policy: **Please Explain:**

b) What announced purchase pace, effective following the upcoming FOMC meeting, do you believe would result in roughly no change in the price of the 10-year Treasury note, assuming no other policy action?

	Treasuries	*Agency MBS*
Pace of purchases following upcoming FOMC meeting ($ billions):		

3) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on December 9? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: **Please Explain:**

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

2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	≥2018 H1

** Percentages should add up to 100 percent.*

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

b) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range at the end of each half-year period. 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.

2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1

Longer run: **Expectation for average federal funds rate over next 10 years:**

c) Provide your estimate of the neutral nominal federal funds rate—that is, the rate that would be consistent with no unemployment gap and inflation at the FOMC's objective—at year-end 2016 given the financial and economic conditions you expect to prevail at that time.

Estimate for neutral nominal federal funds rate at year-end 2016:

d) If you changed your expectations for questions 4a), 4b), and/or 4c) since the last time the questions were asked, explain the factors that motivated you to make the change(s).

e) Provide the percent chance* you attach to the unemployment rate falling within the following ranges at the time of the first increase in the target federal funds rate, as well as your estimate for the most likely value. 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:			

**Percentages should add to 100 percent.*

Most likely value for the unemployment rate:

5) Of the possible outcomes below, please indicate the percent chance* you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2014, 2015, and 2016.

	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%
Year-end 2014:							
Year-end 2015:							
	≤0.50%	**0.51 - 1.00%**	**1.01 - 1.50%**	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**≥3.01%**
****Year-end 2016:**							

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

*** Bins scaled to mean dealer response from Question 6 in the October SPD.*

6) a) Provide your estimate of the most likely outcome for the 10-year Treasury yield at the end of each half-year period. In addition, provide your estimate of the longer run level of the 10-year Treasury yield.

2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1

Longer run:

b) Provide your estimate of the most likely outcome for the 30-year fixed primary mortgage rate at the end of each half-year period. In addition, provide your estimate of the longer run level of the 30-year fixed primary mortgage rate.

2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1

Longer run:

7) a) In its December statement, the FOMC modified its forward guidance on the target federal funds rate by stating that, "it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6-1/2 percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal." The minutes of the December 2013 FOMC meeting noted that the Committee discussed "the potential for clarifying or strengthening the Committee's forward guidance for the federal funds rate," and cited the options listed below. Provide the percent chance you attach to the Committee *further* clarifying or strengthening its current forward guidance for the target federal funds rate in any of the following ways at some point in the future. *Percentages do not have to add up to 100 percent.*

	Probability
Lowering the unemployment rate threshold:	
More clearly conveying that inflation remains an important consideration in adjusting the federal funds rate:	
Providing further guidance on information relevant to determining the appropriate timing of the first rate hike after the UNR threshold is reached:	
Using medians of federal funds rate projections from the SEP to communicate the likely path of short-term interest rates:	
Other:	

If 'Other', note option:

b) If you see any possibility of the FOMC statement further clarifying or strengthening the forward guidance for the federal funds rate as described above, provide your estimate of meeting at which *the change you consider most likely* would occur.

Most likely meeting:

8) a) Provide your estimate for the most likely 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*
	January 28-29:		
	March 18-19:		
	April 29-30:		
2014	**June 17-18:**		
	July 29-30:		
	September 16-17:		
	October 28-29:		
	December 16-17:		
2015	**January 27-28:**		

Please explain any changes to your assumptions behind the increments of pace reduction and any changes in the expected composition of Treasury and agency MBS purchases since the last survey on December 9.

b) Provide the percent chance you attach to the next reduction in asset purchase pace being announced at the January FOMC meeting.

	Percent Chance of Reduction
January 28-29:	

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

	Half-Years		*Full Years*		
	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 H1 2015 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) 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 2014 and year-end 2015. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 2, 2014 H.4.1 was $3,814 billion (the H.4.1 closest to the start of 2014).

Level of SOMA Portfolio ($ billions)

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Year-end 2014:								
Year-end 2015:								

** Percentages should add up to 100 percent.*

Economic Indicator Forecasts

10) Provide your estimate of the most likely outcome for output, inflation, and unemployment.

	GDP (Q4/Q4 Growth) *Estimate*	**Core PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Headline PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Unemployment Rate (Q4 Average Level)** *Estimate*
2014:				
2015:				
2016:				
Longer run:				

11) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from 2018 - 2023. Please also provide 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 do you attach to the US economy being in a recession* **in 6 months**?
** NBER-defined recession.*

Recession in 6 months:

Dropdown Selections

2) a) How do you expect the FOMC statement on January 29 to influence market perceptions of the stance of monetary policy, if at all. (1 = less accommodative, 3 = neutral, 5 = more accommodative)

Perceived stance of monetary policy:

5 -- More Accommodative
4
3 -- Neutral
2
1 -- Less Accommodative

3) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on December 9? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating:

5 -- Very Effective
4
3
2
1 -- Very Ineffective

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

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

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

b) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range at the end of each half-year period. 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.

Target Federal Funds 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) b) If you see any possibility of the FOMC statement further clarifying or strengthening the forward guidance for the federal funds rate as described above, provide your estimate of meeting at which the change you consider most likely would occur.

Most likely meeting:

January '14
March '14
April '14
June '14
July '14
September '14
October '14
December '14
Later than 2014