Responses to Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

September 2014

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

Responses were received from 22 primary dealers. Except where noted, all 22 dealers responded to each question. In some cases, dealers 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.

Monetary Policy Expectations

1. a) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the September FOMC statement. Limit your responses to changes you consider most likely.

Current economic conditions and the economic outlook:

Some dealers expected the September FOMC statement to acknowledge an improvement in economic conditions, though several of these dealers also anticipated the reference to "significant underutilization of labor resources" to remain in the statement. Several other dealers noted their expectations for no substantial changes to the language referencing current economic conditions and the economic outlook.

Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:

All dealers expected the statement to announce a reduction in the pace of asset purchases by $10 billion. Several dealers expected the statement to make reference to the likely end of asset purchases following the October FOMC meeting, provided the economic outlook continues to evolve as expected.

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

Many dealers expected no material change to the forward guidance on the target federal funds rate in the September statement. Several dealers expected the reference to "considerable time" to be adjusted or removed from the statement, or viewed the risk of it being modified as elevated.

Other: (*6 responses*)

Dealers did not provide substantial commentary in this section.

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

Many dealers expected FOMC participants to lower their projections for the unemployment rate. Several dealers expected participants to lower their near-term projections for GDP growth, while several others expected participants to raise their projections. Several dealers noted that they did not expect any significant changes to FOMC participants' projections.

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

c) What are your expectations for the release of FOMC participants' year-end target federal funds rate projections in the advance materials of the Summary of Economic Projections (SEP)? Please also comment on your expectations for FOMC participants' target federal funds rate projections for 2017.

Some dealers expected that there would be a shift upward in the median of FOMC participants' year-end target federal funds rate projections for 2015 and 2016. Several dealers anticipated that the median of year-end 2017 projections would be similar to the median of the longer-run projections. Several others expected that there would be no significant changes to the projections.

d) What are your expectations for the Chair's post-FOMC press conference?

Some dealers expected additional information surrounding the process of monetary policy normalization. Several dealers anticipated additional detail on the Committee's interpretation of recent labor market data. Several dealers anticipated the Chair to highlight that FOMC policy remains data dependent, and several expected additional information regarding any potential changes to the "considerable time" language in the statement.

e) How do you expect the September FOMC events 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	
25th Pctl	2
Median	3
75th Pctl	3

Please explain:

(20 responses)

Some dealers expected the September FOMC events to have a slightly less accommodative influence on market perceptions of the stance of monetary policy, while several others expected that they would not materially influence market views.

2. 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?

Monthly Pace Resulting in No Change in 10-year Treasury Yield ($ billions)

	Treasuries	Agency MBS
25th Pctl	10	5
Median	10	5
75th Pctl	10	5

3. a) **Of the possible outcomes below, provide the percent chance you attach to the timing of the first increase in the federal funds target rate or range. Also, provide your estimate for the most likely quarter and year of the first increase.**

	≤2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	≥2016 Q3
Average	2%	13%	28%	23%	16%	10%	5%	4%

	Most Likely Quarter and Year of First Increase in Target Rate or Range
25th Pctl	Q2 2015
Median	Q2 2015/Q3 2015*
75th Pctl	Q3 2015

** Median is between Q2 2015 and Q3 2015*

b) **Provide the percent chance you attach to the target federal funds rate or range not returning to the zero lower bound during the 2 years following liftoff. Conditional on the target not returning to the zero lower bound, provide the percent chance you attach to the net change in the target rate or range in each of the two years following liftoff.**

Probability of Not Returning to ZLB within 2 Years Following Liftoff

25th Pctl	80%
Median	80%
75th Pctl	89%

First Year Following Liftoff*

	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
Average	10%	32%	31%	21%	6%

**Conditional on not returning to ZLB*

Second Year Following Liftoff*

	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
Average	10%	24%	27%	27%	12%

**Conditional on not returning to ZLB*

c) **Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range, as applicable, at the end of each period below. If you expect a range, please provide both the top and**

bottom of the range in the specified fields below. If you expect a target rate, provide your response in the "Target rate" field only.

Top of Target Range

	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1
25th Pctl	0.25%	0.25%	0.25%	0.50%	0.75%	1.25%	1.76%	2.26%	2.76%	3.25%
Median	0.25%	0.25%	0.50%	0.65%	1.00%	1.50%	2.13%	2.75%	3.25%	3.50%
75th Pctl	0.25%	0.25%	0.50%	0.75%	1.00%	1.63%	2.50%	3.25%	4.00%	4.00%
# of Responses	20	20	20	18	18	15	14	14	14	14

Bottom of Target Range

	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1
25th Pctl	0.00%	0.00%	0.00%	0.25%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%
Median	0.00%	0.00%	0.23%	0.35%	0.73%	1.20%	1.88%	2.50%	3.00%	3.23%
75th Pctl	0.00%	0.00%	0.25%	0.50%	0.75%	1.38%	2.25%	3.00%	3.75%	3.75%
# of Responses	20	20	20	18	18	15	14	14	14	14

Target Rate

	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1
25th Pctl	0.16%	0.16%	0.22%	0.69%	0.94%	1.50%	2.00%	2.69%	3.19%	3.50%
Median	0.19%	0.19%	0.31%	0.75%	1.00%	1.75%	2.25%	3.00%	3.38%	3.88%
75th Pctl	0.22%	0.22%	0.41%	0.75%	1.06%	1.88%	2.63%	3.31%	3.50%	4.00%
# of Responses	2	2	2	4	4	7	8	8	8	8

d) 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	3.50%	2.76%
Median	3.50%	2.86%
75th Pctl	4.00%	3.20%

If you changed your expectations for the most likely timing of liftoff and/or the most likely path of the target rate or range since the last time the questions were asked, explain the factors that motivated you to make the change(s):

(18 responses)

Several dealers noted an increased probability of earlier liftoff, with improving economic data and Federal Reserve communications each cited by several dealers as influencing their views. Several dealers noted that there was no change to their expectations.

4. Of the possible outcomes below, provide 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.

Year-End 2014

	≤2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	>4.50%
Average	4%	28%	46%	18%	4%	1%	0%

Year-End 2015

	≤2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	4.51 - 5.00%	>5.00%
Average	11%	22%	29%	24%	10%	3%	1%

If you changed your expectations for question 4 since the last time the question was asked on June 9, explain the factors that motivated you to make the change(s).

Several dealers noted that changes to their expectations for the 10-year Treasury yield were driven by global geo-political developments. Several dealers indicated that their changes were driven by economic weakness in the euro area, while several noted the continued low level of yields as leading them to change their forecasts.

5. **The 5-year nominal Treasury yield 5 years forward has declined from 3.92 percent on April 17, 2014 to 3.24 percent on September 3, 2014. Provide your estimate of the decomposition of this forward rate at the two dates cited.**

(21 Responses)

April 17, 2014

	Expected Average Real Policy Rate	Expected Average Inflation Rate	Term Premium	Sum
Average	1.27%	2.12%	0.53%	3.92%

September 3, 2014

	Expected Average Real Policy Rate	Expected Average Inflation Rate	Term Premium	Sum
Average	1.03%	2.07%	0.15%	3.24%

Please explain the factors contributing to any change in your estimate of the expected average real policy rate:

(19 Responses)

Some dealers cited market expectations for a lower long-run neutral real rate. Several dealers noted no significant change in their estimate of the expected average real policy rate.

Please explain the factors contributing to any change in your estimate of the expected average inflation rate:

(18 Responses)

Several dealers noted that changes in measures of inflation compensation over the period suggested a modest decline in inflation expectations. Several others indicated that there was no change to their estimate.

Please explain the factors contributing to any change in your estimate of the term premium:

(19 Responses)

Several dealers noted that risk aversion due to geopolitical events contributed to the change in their estimates of the term premium. Several dealers noted the impact of lower sovereign yields in the euro area, which they attributed to deterioration in euro-area economic data and heightened expectations for ECB asset purchases.

Is your current assessment of the drivers of the year-to-date change in the 5-year/5 year forward materially different than your assessment of the drivers of the year-to-date change as of the last time this question was asked on April 17? If so, please explain.

Several dealers noted their view that lower sovereign yields in the euro area were exerting a greater impact on the 5-year/5 year forward relative to when this question was last asked. Several other dealers noted no material change in their assessment.

6. a) **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 or range.**

	< 5.5%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	33%	53%	13%	1%

b) **Provide the percent chance you attach to inflation between 1 and 2 years ahead falling within the following ranges at the time of the first increase in the target federal funds rate or range.**

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	2%	15%	49%	28%	6%

c) **Provide your estimate for the most likely value of the following indicators at the time of the first increase in the target federal funds rate or range. When specifying values below, where appropriate, provide your estimate consistent with the last published value prior to the announcement of liftoff. For reference, the level of total U.S. employees on nonfarm payrolls for July, seasonally adjusted, was 139.0 million. For your calculations, please take into account the August data to be released on September 5.**

	Unemployment Rate	Labor Force Participation Rate	Total NFP*	12-Month Change in Average Hourly Earnings	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.5%	62.7%	141.1	2.4%	1.7%	2.0%
Median	5.6%	62.8%	141.5	2.6%	1.8%	2.1%
75th Pctl	5.7%	63.0%	141.7	3.0%	2.1%	2.3%

**In millions*

d) **Provide your forecast for the expected levels of the following indicators at the time periods provided below. If you expect a target range, please enter the range. If you do not believe a particular tool will be used during one or more of the time periods below, please enter "N/A".***

(21 complete responses)

IOER Rate

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
25th Pctl	0.25%	0.50%	1.50%	3.50%
Median	0.25%	0.50%	1.50%	3.50%
75th Pctl	0.25%	0.50%	2.00%	4.00%

(19 complete responses)

Target Federal Funds Rate or Range

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
25th Pctl	0.13%	0.38%	1.38%	3.31%
Median	0.13%	0.38%	1.50%	3.50%
75th Pctl	0.13%	0.38%	1.94%	3.94%

(21 complete responses)

Federal Funds Effective Rate

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
25th Pctl	0.10%	0.30%	1.30%	3.30%
Median	0.10%	0.35%	1.50%	3.50%
75th Pctl	0.13%	0.38%	1.85%	4.00%

(18 complete responses)

O/N RRP Rate

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
25th Pctl	0.05%	0.25%	1.24%	3.25%
Median	0.05%	0.25%	1.33%	3.25%
75th Pctl	0.05%	0.25%	1.75%	3.75%

(20 complete responses)

3M LIBOR Rate

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
25th Pctl	0.25%	0.45%	1.49%	3.50%
Median	0.25%	0.55%	1.75%	3.80%
75th Pctl	0.30%	0.65%	2.09%	4.11%

(21 complete responses)

O/N Treasury GCF Repo Rate

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
25th Pctl	0.08%	0.29%	1.28%	3.30%
Median	0.09%	0.30%	1.45%	3.55%
75th Pctl	0.12%	0.35%	1.85%	3.90%

(17 complete responses)

O/N RRP Usage

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
25th Pctl	150	200	150	50
Median	175	288	320	175
75th Pctl	200	400	500	350

**For dealers that submitted ranges, midpoints of the ranges are used. (Complete responses only include responses that were specific numbers or ranges.)*

Please note how you expect the Committee's approach to policy normalization to evolve over time. Additionally, please comment on any changes you expect over time in the relative levels of money market rates and the expected amount of O/N RRP usage.

(20 responses)

Several dealers noted their expectations for the IOER rate and the O/N RRP rate to be set at the top and bottom, respectively, of the range within which federal funds would be expected to trade. Several dealers referenced FOMC communications surrounding the intention to keep an O/N RRP facility as small as possible and to eventually phase it out as influencing their expectations for usage of the facility. Several others noted their view that the facility will need to be large to provide adequate interest rate support and the size will need to increase as the normalization process progresses in order to maintain sufficient control over short-term interest rates.

7. 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)

Year	Meeting		Treasuries	Agency MBS
2014	September 16-17:	25th Pctl	10	5
		Median	10	5
		75th Pctl	10	5
	October 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	December 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
2015	January 27-28:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	March 17-18:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	April 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	June 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	July 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	September 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0

Please explain any changes to your expectations for the increments of pace reduction and/or any changes in the expected composition of Treasury and agency MBS purchases since the last survey on July 21:

(16 responses)

Many dealers noted that they did not change their expectations for the path of asset purchases.

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

	Percent Chance of Reduction
25th Pctl	99%
Median	99%
75th Pctl	100%

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.[2]

		2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*
		($ billions)					
Change in the estimated amount of Treasuries:	25th Pctl portfolio	60	0	0	-143	-73	-194
	Median portfolio	60	0	0	-50	-60	-190
	75th Pctl portfolio	60	0	0	0	-100	-105
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	40	0	0	-95	-85	-180
	Median portfolio	40	0	0	-55	-82	-133
	75th Pctl portfolio	40	0	0	-36	-54	-125

**Calendar Year*

d) Provide your estimate of the most likely quarter and year during which the FOMC will first cease reinvesting some or all payments of principal on Treasuries and/or agency debt and MBS. In addition, please provide your expectation for the timing, in months, relative to the first increase in the target rate. If you do not expect the FOMC to cease reinvestments for either or both asset classes during the process of policy normalization, please leave the fields blank. Please ensure your signs are correct.

	Most Likely Quarter and Year of End to Reinvestments	
	Treasuries*	Agency Debt and MBS
25th Pctl	Q4 2015	Q4 2015
Median	Q1 2016	Q1 2016
75th Pctl	Q2 2016	Q1 2016

**Two dealers expect no end to reinvestments of Treasury securities*

	Number of Months Relative to Liftoff	
	Treasuries	Agency Debt and MBS
25th Pctl	5	4
Median	6	6
75th Pctl	10	6

Please explain your assumptions for the timing, size, and pace of redemptions and sales of securities, if applicable. Please also explain the factors behind any change in your expectations since the last survey on July 21:

(20 responses)

Several dealers noted their expectation that reinvestments will end after liftoff, and several noted that their expectation for the number of months between liftoff and the end of reinvestments changed due to revisions in the expected timing of liftoff. Several dealers noted that they view outright asset sales as unlikely. Several dealers specifically described the assumptions behind their expected pace of declines in the agency MBS portfolio.

[2] Respondents provided their expected change in the SOMA portfolio of Treasuries and agency debt and MBS at each time horizon. The data is constructed by creating a portfolio level for each respondent at each time horizon based upon their responses. The 25th percentile, median, and 75th percentile portfolio level are then sampled at each time horizon. The data represent the changes in these portfolios at each time horizon.

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

(13 complete responses)

		Q4/Q4 2014	Q4/Q4 2015	Q4/Q4 2016	Q4/Q4 2017	Longer Run
	25th Pctl	1.90%	2.73%	2.70%	2.55%	2.11%
GDP:	Median	2.00%	3.00%	2.80%	2.70%	2.25%
	75th Pctl	2.10%	3.18%	3.20%	2.85%	2.35%
	25th Pctl	1.60%	1.80%	1.90%	2.00%	
Core PCE:	Median	1.60%	1.90%	2.00%	2.00%	
	75th Pctl	1.70%	2.00%	2.10%	2.28%	
	25th Pctl	1.60%	1.73%	2.00%	2.00%	2.00%
Headline PCE:	Median	1.80%	1.90%	2.00%	2.15%	2.00%
	75th Pctl	1.88%	2.08%	2.20%	2.24%	2.00%
	25th Pctl	5.90%	5.40%	5.10%	5.00%	5.50%
Unemployment Rate*:	Median	5.90%	5.50%	5.20%	5.30%	5.50%
	75th Pctl	6.00%	5.60%	5.40%	5.50%	5.70%

**Average level of the unemployment rate over Q4.*

9. For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from 2019 - 2024. 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%
Average	3%	10%	24%	34%	19%	9%

	Most Likely Outcome
25th Pctl	2.20%
Median	2.30%
75th Pctl	2.39%

10. a, b and c) What percent chance do you attach to the US economy currently being in a recession? What percent chance do you attach to the US economy being in a recession in 6 months? What percent chance do you attach to the U.S. economy entering a recession at some point over the next 3 years? (NBER-defined)

	Currently in NBER Recession
25th Pctl	1%
Median	5%
75th Pctl	5%

	NBER Recession in 6 Months
25th Pctl	5%
Median	10%
75th Pctl	10%

	NBER Recession in 3 Years
25th Pctl	20%
Median	25%
75th Pctl	30%