Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

January 2015

Policy Expectations Survey

Please respond by **Tuesday, January 20, at 12:00 pm** 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) 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 Committee's policy of reinvesting principal payments on Treasury and agency securities:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Other:	

b) How do you expect the January FOMC statement 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:**

2) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on December 8? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: 　　**Please Explain:**

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 meeting for the first increase.

2015 FOMC Meetings								
January 27-28	**March 17-18**	**April 28-29**	**June 16-17**	**July 28-29**	**September 16-17**	**October 27-28**	**December 15-16**	**≥January 2016**

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

Estimate for most likely meeting for first increase in target rate or range:

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.

Probability of not returning to ZLB 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.

	0 - 50 basis points	*51 - 100 basis points*	*101 - 150 basis points*	*151 - 200 basis points*	*>200 basis points*
First year following liftoff:					
Second year following liftoff:					

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

Please rate the importance of the following factors in determining your assessment of the probability of returning to the zero lower bound during the 2 years following liftoff, if applicable (5 = very important, 1 = not important).

Adverse future shocks to the U.S. economy	*Adverse future shocks to foreign economies*	*Premature increase in target rate or range*	*Adverse future changes in financial stability*	*Other (please explain)*	If "Other", please explain

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.

	Quarters				*Half Years*					
	2015 Q1	**2015 Q2**	**2015 Q3**	**2015 Q4**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**2018 H1**	**2018 H2**
Top of range:										
Bottom of range:										
Target rate:										

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

e) 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 2015, 2016, and 2017. If you expect a target range for federal funds please use the midpoint of the range in providing your response.

	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 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:							
	≤2.00%	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**≥4.51%**
Year-end 2017:							

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

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):

4) a) 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 2015 and 2016.

	≤1.50%	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**>4.00%**
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%**
Year-end 2016:							

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

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

5) a) Provide the percent chance* you attach to the Committee making a **material** modification to the forward-guidance language on the path of the policy rate prior to liftoff, as appropriate, over the time periods below. If you expect multiple changes to the forward-guidance language prior to liftoff, please provide your probabilities for the first change only.

No Change Prior to Liftoff	*January 2015 FOMC*	*March 2015 FOMC*	*April 2015 FOMC*	*> April 2015 FOMC*

**Percentages across rows should add to 100 percent*

b) Please describe any **material** change or changes to the forward-guidance language you expect prior to liftoff, including what changes would be made and when.

c) Conditional on the forward-guidance language being changed at the time(s) and in the way(s) you consider most likely, how do you expect this to impact financial conditions?

6) **a)** The price on the front-month WTI futures contract has declined more than 50 percent since July to reach roughly $45 per barrel. Please rate the importance of the following factors in motivating the declines in oil seen over the past six months (5 = very important, 1 = not important).

Supply-related factors	*Demand-related factors*	*Technical factors*	*Other (please explain)*	If "Other", please explain

b) Please provide the percent chance* you attach to the front-month WTI futures contract price at year-end 2015 falling within the following ranges. Please also provide your point estimate for the most likely price of the front-month contract at year-end 2015. For reference, the front-month contract at year-end 2015 is the February 2016 contract.

	<$40/bbl	**$40-49/bbl**	**$50-59/bbl**	**$60-69/bbl**	**≥$70/bbl**	**Point estimate ($/bbl)**
Futures price at year-end 2015:						

**Percentages across rows should add to 100 percent. Bins are centered around the futures-implied price for year-end 2015.*

c) Please provide an estimate of how the change in energy futures prices since July has impacted your forecasts for average real GDP growth for **2015** (Q4/Q4) and the change in the core PCE deflator for **2016** (Q4/Q4), if applicable. Please also discuss which other factors, if any, motivated a change in your forecasts for real GDP growth and core inflation. Please ensure your signs are correct.

	Change in forecast due to energy price changes (bps)	**Other factors (if applicable):**
2015 real GDP growth:		
2016 core PCE:		

7) **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%**
Unemployment rate:				

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

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%**
Inflation between 1 and 2 years ahead at liftoff:					

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

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 December, seasonally adjusted, was 140.3 million.

Unemployment rate:	
Labor force participation rate:	
Total U.S. employees on nonfarm payrolls (millions):	
12-month change in average hourly earnings:	
Headline 12-month PCE Inflation:	
Inflation between 1 and 2 years ahead (at liftoff):	

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".

	1 Quarter Prior to Liftoff	*Immediately Following Liftoff*	*1 Year Following Liftoff*	*3 Years Following Liftoff*
Rate of interest on excess reserves (in percent):				
Target federal funds rate or range (in percent):				
Federal funds effective rate (in percent):				
O/N RRP rate (in percent):				
3-month LIBOR (in percent):				
Overnight Treasury GCF repo rate (in percent):				
Usage of O/N RRP ($ billions):				

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.

e) Please discuss your expectations for the usage of other supplementary tools, such as term RRPs or the TDF, in the normalization process.

8) **a)** 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 H1**	**2016 H2**	**2017**	**2018**
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):						

b) 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 or range. 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.

	Quarter & Year	*Number of months relative to liftoff*
Treasuries:		
Agency debt and MBS:		

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 time the question was asked:

Economic Indicator Forecasts

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

	GDP (Q4/Q4 Growth)	**Core PCE Deflator (Q4/Q4 Growth)**	**Headline PCE Deflator (Q4/Q4 Growth)**	**Unemployment Rate (Q4 Average Level)**
2014:				
2015:				
2016:				
2017:				
Longer run:				

10) **a)** For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from January 1, 2015 - December 31, 2019. Please also provide your point estimate for the most likely outcome.

≤1.00%	**1.01-1.50%**	**1.51-2.00%**	**2.01-2.50%**	**2.51-3.00%**	**≥3.01%**	**Point estimate for most likely outcome:**

** Percentages should add up to 100 percent.*

b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from January 1, 2020 - December 31, 2024. Please also provide your point estimate for the most likely outcome.

≤1.00%	**1.01-1.50%**	**1.51-2.00%**	**2.01-2.50%**	**2.51-3.00%**	**≥3.01%**	**Point estimate for most likely outcome:**

** Percentages should add up to 100 percent.*

11) **a)** What percent chance do you attach to the U.S. economy currently being in a recession*? **Recession currently:**

b) What percent chance do you attach to the U.S. economy being in a recession* **in 6 months**? **Recession in 6 months:**

**NBER-defined recession*

Dropdown Selections

1) b) How do you expect the January FOMC statement 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:	1 -- Less Accommodative
	2
	3 -- Neutral
	4
	5 -- More Accommodative

2) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on December 8? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Communication Score:	5 -- Very Effective
	4
	3
	2
	1 -- Very Ineffective

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 meeting for the first increase.

Estimate for most likely meeting for first increase in target rate or range:	January 2015
	March 2015
	April 2015
	June 2015
	July 2015
	September 2015
	October 2015
	December 2015
	January 2016
	March 2016
	April 2016
	June 2016
	July 2016
	September 2016
	October 2016
	December 2016
	>=2017

3) b) Please rate the importance of the following factors in determining your assessment of the probability of returning to the zero lower bound during the 2 years following liftoff, if applicable (5 = very important, 1 = not important).

Importance of Factor:	5 -- Very Important
	4
	3
	2
	1 -- Not Important

6) a) The price on the front-month WTI futures contract has declined more than 50 percent since July to reach roughly $45 per barrel. Please rate the importance of the following factors in motivating the declines in oil seen over the past six months (5 = very important, 1 = not important).

Importance of Factor:	5 -- Very Important
	4
	3
	2
	1 -- Not Important

8) b) 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 or range. 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.

Quarter & Year:	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