Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

April 2016

Policy Expectations Survey

Please respond by **Monday, April 18, at 2:00 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*:**

1) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the April FOMC statement.

	Language Changes Expected
Current economic conditions:	
Economic outlook:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:	
Other:	

2) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on March 7? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: 　　**Please Explain:**

3) a) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range, as applicable, immediately following the FOMC meetings and at the end of each quarter or half-year period below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	2016					
	April 26-27	**June 14-15**	**July 26-27**	**September 20-21**	**November 1-2**	**December 13-14**
Target rate/midpoint of target range:						

	Quarters				Half Years		
	2017 Q1	**2017 Q2**	**2017 Q3**	**2017 Q4**	**2018 H1**	**2018 H2**	**2019 H1**
Target rate/midpoint of target range:							

b) 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:**

c) The following questions relate to your expectations for the Committee's next policy action in 2016 and some associated conditional outcomes for the year-end 2016 target federal funds rate or range. Only fill out the conditional probability distributions in parts (ii), (iii), and (iv) if you assign a non-zero probability to the conditioning event occurring.

i) Please indicate the percent chance* that you attach to the following possible outcomes for the Committee's next policy action in 2016.

Next Change is Increase in Target Rate or Range	**Next Change is Decrease in Target Rate or Range**	**No Change in Target Rate or Range in 2016**

**Responses should add up to 100 percent.*

ii) Conditional on the Committee's next policy action in 2016 being an increase in the target federal funds rate or range, please indicate the percent chance* that you attach to the following possible outcomes for the timing of such a change. Only fill out this conditional probability distribution if you assigned a non-zero probability to the next change in the target rate or range being an increase.

Increase Occurs at April FOMC meeting	**Increase Occurs at June FOMC meeting**	**Increase Occurs at July FOMC meeting or later**

**Responses should add up to 100 percent.*

iii) Conditional on the Committee's next policy action in 2016 being a decrease in the target federal funds rate or range, please indicate the percent chance* that you attach to the following possible outcomes for the timing of such a change. Only fill out this conditional probability distribution if you assigned a non-zero probability to the next change in the target rate or range being a decrease.

Decrease Occurs at April FOMC meeting	**Decrease Occurs at June FOMC Meeting**	**Decrease Occurs at July FOMC Meeting or Later**

**Responses should add up to 100 percent.*

iv) Of the possible outcomes below, please indicate the percent chance* that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2016, conditional on the following possible scenarios for the direction and timing of the Committee's next policy action in 2016. Only fill out the conditional probability distributions for which you assigned a non-zero probability to the conditioning event occurring. If you expect a target range, please use the midpoint of that range in providing your response.

				Year-end 2016				
	<0.0%	**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%**
Next change is increase, occurs at Jun. meeting or earlier:								
Next change is increase, occurs at Jul. meeting or later:								
Next change is decrease:								

**Responses across each row should add up to 100 percent.*

d) i) Of the possible outcomes below, please indicate the percent chance* that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2017 and 2018, conditional on **not** moving to the zero lower bound (ZLB) at any point during 2016-2018. If you expect a target range, please use the midpoint of that range in providing your response.

	≤1.00%	**1.01 - 1.50%**	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**≥3.51%**
Year-end 2017:							
Year-end 2018:							

**Responses across each row should add up to 100 percent.*

ii) Please indicate the percent chance that you attach to moving to the ZLB at some point in 2016-2018.

Probability of moving to the ZLB at some point in 2016-2018:

If you placed a non-zero probability on moving to the ZLB at some point in 2016-2018 above, please indicate your estimate for the most likely timing of such an event.

Most likely timing of moving to the ZLB at some point in 2016-2018 (in half years):

iii) Of the possible outcomes below, please indicate the percent chance* that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2017 and 2018, conditional on moving to the ZLB at some point in 2016-2018. Only fill out these conditional probability distributions if you assigned a non-zero probability to moving to the ZLB at some point in 2016-2018. If you expect a target range, please use the midpoint of that range in providing your response.

	<0.00%	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 2017:								
Year-end 2018:								

**Responses across each row should add up to 100 percent.*

iv) What is your estimate of the target federal funds rate or range at the effective lower bound?

Level of the target federal funds rate or range at the effective lower bound (in percent):

For parts a-d, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.

4) **a)** The following matrix lays out hypothetical scenarios in which the realized levels of the 2016 unemployment rate (Q4 average level) and/or the 2016 core PCE deflator (Q4/Q4 growth) are either 50 basis points above, below, or equal to the medians of FOMC participants' projections for these indicators in the March Summary of Economic Projections (SEP). For example, the upper left box represents a scenario in which the unemployment rate and core PCE deflator are both 50 basis points below the current SEP medians. The upper right box represents a scenario in which the unemployment rate is 50 basis points above the current SEP median while the core PCE deflator is 50 basis points below the current SEP median.

For each of the following hypothetical scenarios below, please indicate the level of the target federal funds rate or range that you expect would prevail at the end of 2016. If you expect a target range, please indicate the midpoint of that range in providing your response.

2016 Unemployment rate (Q4 average level)

		- 50 bps	Current Median 4.7%	+ 50 bps
2016 Core PCE deflator (Q4/Q4 growth)	**- 50 bps**			
	Current Median 1.6%			
	+ 50 bps			

Please explain any assumptions behind your response.

b) Previous FOMC communication has indicated that the economy's neutral (i.e. equilibrium) real federal funds rate, which can be understood as the level of the real federal funds rate that would be neither expansionary nor contractionary if the economy were operating near its potential, is currently low by historical standards and is likely to rise only gradually over time. Please provide your estimate for the level of the neutral real federal funds rate at the end of 2016.

Estimated level of neutral real fed funds rate at year-end 2016:

Please explain any assumptions behind your response.

Does your estimate for the level of the neutral real federal funds rate at end of 2016 vary across the hypothetical scenarios given in part a? If so, please explain.

5) In the March press conference, Chair Yellen indicated that concerns about global economic prospects led to "increased volatility and somewhat tighter financial conditions in the United States, although financial conditions have improved notably more recently." Please rate the importance of the following factors that may explain decreased financial market volatility and the rebound in some risk asset prices since mid-February **(5=very important, 1=not important)**.

Changes to outlook on U.S. growth/inflation	Changes to outlook on foreign growth/inflation	Chinese FX developments	Volatility in oil markets	Recent Fed policy actions and communications	Recent foreign central bank policy actions and communications	Other (please explain)	If "Other", please explain

Please explain your responses, including any assumptions or underlying views. Reflecting on the recent drivers of financial markets, how do you expect financial market conditions to evolve going forward? Do you expect the recent improvement in financial conditions to sustain?

6) What are your expectations for the ON RRP facility over the next year?

7) In its most recent FOMC statement, the Committee indicated that it anticipates continuing reinvestments "until normalization of the level of the federal funds rate is well under way."

a) Provide your estimate for the most likely timing (in months forward) of a change to the Committee's policy on reinvesting payments of principal on Treasuries and/or agency debt and MBS. If you do not expect the FOMC to change its policy on reinvestments for either or both asset classes during the process of policy normalization, please enter "N/A."

	Months forward
Treasuries:	
Agency debt and MBS:	

b) What is your estimate for the most likely level of the target federal funds rate or range if and when the Committee first changes its reinvestment policy?

Level of target federal funds rate or range (in percent):

c) In its Policy Normalization Principles and Plans, the Committee indicated that it "expects to cease or commence phasing out reinvestments" after liftoff. Of the possible outcomes below, please indicate the percent chance* that you attach to the Committee during the process of policy normalization ceasing its reinvestments all at once, phasing out its reinvestments over time, or not changing its reinvestments.

	No Change to Reinvestments	**Reinvestments Ceased All at Once**	**Reinvestments Phased Out Over Time**
Treasuries:			
Agency debt and MBS:			

**Responses across each row should add up to 100 percent.*

d) i) Conditional on **not** moving to the ZLB at any point in 2016-2018, what is your mean expectation for the par value of the SOMA portfolio at the end of 2018? For reference, the current level of the SOMA portfolio, including inflation compensation and settled and unsettled agency MBS according to the April 6, 2016, H.4.1, was $4271 billion.*

Expected value of SOMA at year-end 2018, Conditional on Not Moving to the ZLB ($ billions): [ ]

ii) Conditional on moving to the ZLB at some point in 2016-2018, what is your mean expectation for the par value of the SOMA portfolio at the end of 2018?

Expected value of SOMA at year-end 2018, Conditional on Moving to the ZLB ($ billions): [ ]

Please explain the factors behind any change to your expectations in parts a-d since the last policy survey.

*This level references the most recent H.4.1 release at the time this survey was sent out to respondents.

8) a) 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)**
2016:				
2017:				
2018:				
Longer run:				

9) a) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from April 1, 2016 - March 31, 2021. 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%**

**Responses should add up to 100 percent.*

Point estimate for most likely outcome: [ ]

b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from April 1, 2021 - March 31, 2026. 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%**

** Responses should add up to 100 percent.*

Point estimate for most likely outcome: [ ]

10) 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:** [ ]

c) What percent chance do you attach to the global economy being in a recession** **in 6 months**? **Global recession in 6 months:** [ ]

Please explain the factors behind any change to your expectations in parts a-c since the last policy survey.

**Previous IMF staff work has suggested that a "global recession" can be characterized as a period during which there is a decline in annual per-capita real global GDP, backed up by a decline or worsening in one or more of the following global macroeconomic indicators: industrial production, trade, capital flows, oil consumption and unemployment.

Dropdown Selections

2) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on March 7? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating:	5
	4
	3
	2
	1

3) **d)** ii) If you placed a non-zero probability on moving to the ZLB at some point in 2016-2018 above, please indicate your estimate for the most likely timing of such an event.

Most likely timing of moving to the ZLB at some point in 2016-2018 (in half years):	H1 2016
	H2 2016
	H1 2017
	H2 2017
	H1 2018
	H2 2018

5) In the March press conference, Chair Yellen indicated that concerns about global economic prospects led to "increased volatility and somewhat tighter financial conditions in the United States, although financial conditions have improved notably more recently." Please rate the importance of the following factors that may explain decreased financial market volatility and the rebound in some risk asset prices since mid-February **(5=very important, 1=not important)**.

Rating:	5
	4
	3
	2
	1