

Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York
August, 2012

Policy Expectations Survey

Please respond by **Monday, July 23 at 5 p.m.** 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) Of the possible outcomes below, please indicate the percent chance* you attach to the indicated federal funds target range or target rate following each of the next 3 FOMC meetings:

	Level of Target Range or Rate						
	0.00% - 0.25%	0.25%	0.50%	0.75%	1.00%	1.25%	>1.25%
July 31-August 1:							
September 12-13:							
October 23-24:							

* Percentages should add up to 100 percent.

2) Do you expect any changes in the FOMC statement and, if so, what changes?

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

Timing of First Increase :

2012 H2	2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	≥2017 H1

* Percentages should add up to 100 percent.

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

Dropdown

4) Provide your firm's 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 :

2012 H2	2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1
Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown

Longer run:

5) Of the possible outcomes below, please indicate the percent chance* you attach to the fed funds target rate or range 1 year from now and at the end of 2014.

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.5%	≥2.51%
July 2013 :							
Year-end 2014 :							

* Percentages should add up to 100 percent.

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 6/11/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank: Dropdown

Please explain:

7) FOMC communications have discussed several different ways monetary policy could be altered to provide either less or more accommodation.

a) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy tightening or to tighten policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	Probability within 1 year	Probability within 2 years	
Raise interest on excess reserves				Please explain:
Drain reserves through temporary tools				
Halt reinvestments				
Reduce size of SOMA portfolio through selling securities				
Reduce duration of portfolio*				
Change the forward guidance in the FOMC statement on the path of the federal funds rate				
Provide additional guidance on the likely path for the size and composition of the balance sheet				

*i.e. a deliberate action to decrease the duration of the SOMA portfolio, independent of other policy changes.

b) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy easing or to ease policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	Probability within 1 year	Probability within 2 years	
Lower interest on excess reserves				Please explain:
Expand SOMA portfolio through securities purchases				
Increase duration of portfolio*				
Change the forward guidance in the FOMC statement on the path of the federal funds rate				
Provide additional guidance on the likely path for the size and composition of the balance sheet				Please describe what new tools might be introduced:
Introduce new tools to promote more accommodative financial conditions				

*i.e. a deliberate action to increase the duration of the SOMA portfolio beyond the currently announced maturity extension program, independent of other policy changes.

c) Because respondents could see some of the choices from part b as overlapping, the answers to that part do not necessarily reveal the combined probability of various choices. We are interested in the probability you assign to any easing policy action that uses the SOMA portfolio -- that is, those actions described in either row 2 or row 3 from part b above. Please indicate the probability these tools will be used at the next FOMC meeting and within the next 1 and 2 years.

Ease with any method that utilizes the size or composition of the SOMA portfolio	Probability at next FOMC meeting	Probability within 1 year	Probability within 2 years	Please explain:
	<input type="text"/>	<input type="text"/>	<input type="text"/>	

8) Please provide your **most likely expectation (i.e. the mode)** for the amount of domestic securities held outright in the SOMA portfolio and for the expected level of reserves at year-end for each of the next five years.

	Current Level*	Year End 2012	Year End 2013	Year End 2014	Year End 2015	Year End 2016
Expected amount of U.S. Treasury securities in SOMA (\$ Billions)	1,663					
Expected amount of agency debt and agency MBS securities in SOMA (\$ Billions)	946					
Expected amount of domestic assets in SOMA (\$ Billions)	2,609					
Expected level of reserves (\$ Billions)	1,526					

* Taken from the 7/12/2012 Federal Reserve H.4.1.

Please explain:

Economic Indicator Forecasts

9) a) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output and inflation:

	GDP (q.o.q.)	Core PCE Deflator (y.o.y.)	Headline PCE Deflator (y.o.y.)
2012 Q2 :	<input type="text"/>	<input type="text"/>	<input type="text"/>
2012 Q3 :	<input type="text"/>	<input type="text"/>	<input type="text"/>
2012 Q4 :	<input type="text"/>	<input type="text"/>	<input type="text"/>
2013 Q1 :	<input type="text"/>	<input type="text"/>	<input type="text"/>

b) Provide your firm's 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?

	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
2012 :	<input type="text"/>	Dropdown	Fill from 9a	Dropdown	Fill from 9a	Dropdown	<input type="text"/>	Dropdown
2013 :	<input type="text"/>	Dropdown	<input type="text"/>	Dropdown	<input type="text"/>	Dropdown	<input type="text"/>	Dropdown
2014 :	<input type="text"/>	Dropdown	<input type="text"/>	Dropdown	<input type="text"/>	Dropdown	<input type="text"/>	Dropdown
Longer run:	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Please comment on any risks you see to your forecast :

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 6/11/12?

GDP Uncertainty:	<input type="text" value="Dropdown"/>	Core PCE Deflator Uncertainty:	<input type="text" value="Dropdown"/>
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10) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q3 2013?

11) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2017 - 2022. Please also indicate your point estimate for the most likely outcome (i.e. the mode).

<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	Point estimate for most likely outcome: <input type="text"/>
≤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.

12) a) What percent chance do you attach to the US economy **currently** being in a recession*?

Recession currently:

* NBER-defined recession.

b) What percent chance would you attach to the US economy being in a recession* in 6 months?

Recession in 6 months:

* NBER-defined recession.

13) Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

Dropdown Selections

- 3) Estimate for most likely quarter and year of first target rate increase:
- Q2 2012
 - Q3 2012
 - Q4 2012
 - Q1 2013
 - Q2 2013
 - 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

- 4) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the federal funds target rate or range at the end of each quarter:

- 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%

- 6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 6/11/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

- Rank:
- 5 -- Very effective
 - 4
 - 3
 - 2
 - 1 -- Very ineffective

- 9) b) Provide your firm's 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 |

- c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 6/11/12?

- Uncertainty:
- More Uncertain
 - Equally Uncertain
 - Less Uncertain