

Survey of Primary Dealers

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

Policy Expectations Survey

Please respond by **Monday, October 15 at 5pm** 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) Do you expect any changes in the FOMC statement and, if so, what changes?

2) 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

3) 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:

4) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 9/4/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank: Dropdown

Please explain:

5) In the September FOMC statement, the Committee announced a new asset purchase program. In the statement, the Committee said "These actions...together will increase the Committee's holdings of longer-term securities by about \$85 billion each month through the end of the year."

a) Please provide your expectation for the monthly pace of purchases that will be in effect after each of the below FOMC meetings.

Monthly Pace of Longer-Term Security Purchases (\$Billions)

| | Treasury | Agency MBS |
|----------------|----------|------------|
| October 23-24 | | |
| December 11-12 | | |
| January 29-30 | | |

b) For each option of monthly Treasury purchases listed below, relative to the monthly size of longer-term Treasury purchases in effect since the June 2012 FOMC meeting, please indicate the probability of that option being selected at the next FOMC meeting and within the next 6 months, 1 year, and 2 years.

| | Probability at next FOMC meeting | Probability within 6 months | Probability within 1 year | Probability within 2 years |
|--|----------------------------------|-----------------------------|---------------------------|----------------------------|
| Increase monthly size of Treasury purchases | | | | |
| Leave monthly size of Treasury purchases unchanged | | | | |
| Decrease monthly size of Treasury purchases | | | | |

Please explain:

c) For each option of monthly agency MBS purchases listed below, relative to the monthly size of agency MBS purchases in effect since the September 2012 FOMC meeting, please indicate the probability of that option being selected at the next FOMC meeting and within the next 6 months, 1 year, and 2 years.

| | Probability at next FOMC meeting | Probability within 6 months | Probability within 1 year | Probability within 2 years |
|--|----------------------------------|-----------------------------|---------------------------|----------------------------|
| Increase monthly size of agency MBS purchases | | | | |
| Leave monthly size of agency MBS purchases unchanged | | | | |
| Decrease monthly size of agency MBS purchases | | | | |

Please explain:

d) Please indicate the quarter and year you expect purchases associated with the flow-based asset purchase program to end. Please explain, including a description of why you expect the purchase program to end at the quarter and year indicated.

Expected End of Flow-Based Purchase Program

Quarter and Year

Dropdown

Please explain:

e) The September FOMC statement included the phrase "If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability." Please describe what you believe the FOMC would consider a substantial improvement in the labor market outlook.

6) Please provide your **expectation for the change** in the amount of domestic securities held outright in the SOMA portfolio by year-end, and then the half-year changes for the following 4 years. For your reference, as of the last H.4.1 release the current level of Treasury holdings including inflation accretion is \$1653 billion and the current level of agency debt and settled and unsettled agency MBS holdings is \$1009 billion.

| | October 2012 to December 2012 | December 2012 to June 2013 | June 2013 to December 2013 | December 2013 to June 2014 | June 2014 to December 2014 | December 2014 to June 2015 | June 2015 to December 2015 | December 2015 to June 2016 | June 2016 to December 2016 |
|--|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Expected change in amount of U.S. Treasury securities in SOMA (\$ Billions) | | | | | | | | | |
| Expected change in amount of agency debt and agency MBS securities in SOMA (\$ Billions) | | | | | | | | | |

Please explain, including your assumptions on the pace of flow-based purchases:

7) Of the possible outcomes below, please indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2013 and year-end 2014.** For your reference, the current level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the latest H.4.1 is \$2662 billion.

| | Level of SOMA Portfolio (\$Billions) | | | | | | |
|------|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-------|
| | <3000 | 3000-3250 | 3250-3500 | 3500-3750 | 3750-4000 | 4000-4250 | >4250 |
| 2013 | | | | | | | |
| | <2500 | 2500-3000 | 3000-3500 | 3500-4000 | 4000-4500 | 4500-5000 | >5000 |
| 2014 | | | | | | | |

* Percentages should add up to 100 percent.
 **Buckets scaled based on answers to the September Survey of Primary Dealers

Please explain:

8) 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 | | | | |
| Change the forward guidance on the path of the federal funds rate | | | | |
| Other | | | | |
| | | | | Other explain: |

b) Because respondents could see some of the choices from part a) as overlapping, the answers to that part do not necessarily reveal the combined probability of various choices. Please indicate the probability that the FOMC will **take any of the policy actions listed in part a) above.** Please indicate the probability that any of these tools will be used 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 | |
|--|----------------------------------|---------------------------|----------------------------|-----------------|
| Add any type of policy tightening from part a) | | | | Please explain: |

c) 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: |
| Change the forward guidance on the path of the federal funds rate | | | | |
| Introduce new tools to promote more accommodative financial conditions | | | | Please describe what new tools might be introduced: |
| Other | | | | |
| | | | | Other explain: |

d) Because respondents could see some of the choices from part c) as overlapping, the answers to that part do not necessarily reveal the combined probability of various choices. Please indicate the probability that the FOMC will **take any of the policy actions listed in part c) above.** Please indicate the probability that any of these tools will be used 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 | |
|---|----------------------------------|---------------------------|----------------------------|-----------------|
| Add any type of policy accommodation from part c) | | | | Please explain: |

Economic Indicator Forecasts

9) a) 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 : | | Dropdown | | Dropdown | | Dropdown | | Dropdown |
| 2013 : | | Dropdown | | Dropdown | | Dropdown | | Dropdown |
| 2014 : | | Dropdown | | Dropdown | | Dropdown | | Dropdown |
| 2015 : | | Dropdown | | Dropdown | | Dropdown | | Dropdown |
| Longer run: | | | | | | | | |

Please comment on any risks you see to your forecast :

b) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 9/4/12?

GDP
Uncertainty:

Dropdown

Core PCE Deflator
Uncertainty:

Dropdown

10) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q4 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).

| ≤1.0% | 1.01-1.5% | 1.51-2.0% | 2.01-2.5% | 2.51-3.0% | ≥3.01% | Point estimate for most likely outcome: |
|-------|-----------|-----------|-----------|-----------|--------|---|
| | | | | | | |

*Percentages should add up to 100 percent.

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 would you attach to the US economy being in a recession* in 6 months?
* NBER-defined recession.

Recession in 6 months:

13) a) Please provide your firm's estimate of the most likely joint outcome (i.e., the mode) for the unemployment rate and headline 12-month PCE inflation at the time of your estimate for the first federal funds target rate increase.

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

Unemployment Rate:

Headline 12-month PCE Inflation:

b) Given the levels of headline 12-month PCE inflation listed below, at what level of the unemployment rate would you expect the Committee to increase its target for the federal funds rate?

| Headline 12-month PCE Inflation | Unemployment Rate |
|---------------------------------|---|
| 1.00% | <input style="width: 80px;" type="text"/> |
| 2.00% | <input style="width: 80px;" type="text"/> |
| 3.00% | <input style="width: 80px;" type="text"/> |

Please explain, listing any other factors you deem important in determining the timing of the first increase to the target federal funds rate :

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

Dropdown Selections

- 2) Estimate for most likely quarter and year of first target rate increase:
- 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
 - Q3 2017
 - >=Q4 2017

- 3) 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%

- 4) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 9/04/12? 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

- 5) d) Please indicate the quarter and year you expect purchases associated with the flow-based asset purchase program to end. Please explain, including a description of why you expect the purchase program to end at the quarter and year indicated.

- Expected End of Flow-Based Purchase Program:
- 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
 - Q3 2017
 - >=Q4 2017

- 9) a) 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 Balanced Higher GDP | Balance of Risk: Lower Inflation Balanced Higher Inflation | Balance of Risk: Lower Inflation Balanced Higher Inflation | Balance of Risk: Higher UR Balanced Lower UR |
|---|---|---|---|

- b) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 9/04/12?

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