RESPONSES TO SURVEY OF PRIMARY DEALERS

Markets Group, Federal Reserve Bank of New York

JULY 2020

Distributed: 7/15/2020 – Received by: 7/20/2020

The **Survey of Primary Dealers** 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 participants are not involved in the survey's design.

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 24 primary dealers. Except where noted, all 24 dealers responded to each question. In some cases, dealers may not have provided complete responses (e.g. 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.

---

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

List of Primary Dealers:
www.newyorkfed.org/markets/primarydealers

Table of Contents

1a) Provide below your expectations for **changes**, if any, to the language referencing each of the following topics in the July FOMC statement. **Please write N/A if you do not expect any changes.**

Current economic conditions:

Many dealers indicated that they expected the Committee to note a recovery in economic activity, and some indicated that they expected the Committee to note an improvement in labor market conditions. Several dealers indicated that they expected the Committee to mention the coronavirus outbreak, and several indicated that they expected the Committee to adopt a cautious stance regarding the economic recovery or to note that activity remained below its pre-pandemic level. Finally, several dealers indicated that they expected this section of the statement to note an improvement in consumption or household spending.

Economic outlook and communication on the expected path of the target federal funds rate:

Many dealers indicated that they expected no material changes to both elements of the statement. Several dealers indicated that they expected the Committee to note uncertainty around and/or risks to the economic outlook.

Communication on tools other than the target federal funds rate:
(23 responses)

Most dealers indicated that they expected no material changes to this section of the statement.

Other:
(7 responses)

Dealers did not provide significant commentary in this section.

1b) What are your expectations for the Chair's press conference?

Some dealers indicated that they expected the Chair to mention the economic impact of the coronavirus, and some indicated that they expected him to reiterate that the Federal Reserve is committed to using its full range of tools to support the U.S. economy and/or that it will do more if needed. Several dealers indicated that they expected him to express a cautious stance regarding the economic outlook and several indicated that they expected him to reiterate the importance of more fiscal support. Finally, several dealers indicated that they expected the Chair to comment on progress on the monetary policy framework review.

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

	Number of Respondents
1 - Ineffective	**0**
2	**1**
3	**3**
4	**14**
5 - Effective	**6**
# of Responses	**24**

Please explain.

In explaining their rating, most dealers noted messaging from Committee members since the last policy survey has been clear and consistent, with several specifically citing communications on the path of policy, forward guidance and/or yield curve caps or targets. In addition, several dealers suggested more clarity is needed on the future of asset purchases.

3a) 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 of the following quarters below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	Jul. 28-29	Sep. 15-16	Nov. 4-5	Dec. 15-16	Jan. 26-27	Mar. 16-17	Apr. 27-28
25th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
Median	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
75th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
# of Responses	**24**	**24**	**24**	**24**	**24**	**24**	**24**
	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
25th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
Median	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
75th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
# of Responses	**24**	**24**	**24**	**21**	**21**	**21**	**21**

If your responses above do not reflect an increase from the current target range at any point, please provide the earliest half-year period in which your modal expectation for the level of the target range is higher than the current level.

	Earliest half-year period*
25th Pctl	**H1 2024**
Median	**H1 2024**
75th Pctl	**H2 2024**
# of Responses	**17**

** Dropdown selections: H1 2023, H2 2023, H1 2024, H2 2024, H1 2025, H2 2025, H1 2026 or later.*

3b) Provide your estimate for the most likely value for the following indicators at the time of the next increase in the target range for the federal funds rate.
(22 responses)

Most Likely Value of Economic Indicator at Time of First Increase in Target Range				
	Unemployment rate (%)	Labor force participation rate (%)	Total change in the level of real GDP since 2019 Q4 (%)	Headline 12-month PCE inflation (%)
25th Pctl	**3.8%**	**62.0%**	**1.6%**	**2.0%**
Median	**4.5%**	**62.9%**	**3.7%**	**2.2%**
75th Pctl	**5.3%**	**63.0%**	**7.5%**	**2.5%**

3c) 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	**2.00%**	**1.00%**
Median	**2.25%**	**1.23%**
75th Pctl	**2.50%**	**1.83%**

3d) 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 2020, 2021, and 2022. If you expect a target range, please use the midpoint of that range in providing your response.
(22 responses)

Federal Funds Rate or Range at the End of 2020										
	< 0.00%	0.00 - 0.25%	0.26 - 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**2%**	**93%**	**4%**	**1%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**

Federal Funds Rate or Range at the End of 2021										
	< 0.00%	0.00 - 0.25%	0.26 - 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**3%**	**74%**	**12%**	**5%**	**3%**	**3%**	**0%**	**0%**	**0%**	**0%**

Federal Funds Rate or Range at the End of 2022										
	< 0.00%	0.00 - 0.25%	0.26 - 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**4%**	**57%**	**14%**	**10%**	**5%**	**4%**	**2%**	**1%**	**1%**	**1%**

3e) What is your estimate of the target federal funds rate or range at the effective lower bound?

	Level of Target Federal Funds Rate or Range at ELB
25th Pctl	**0.00%**
Median	**0.13%**
75th Pctl	**0.13%**

3f) For parts a-e, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.
(21 responses)

Some dealers indicated that they had pushed back their expectations for the timing of the next increase in the target range for the federal funds rate, while several others indicated that there were no material changes to their expectations.

4) The neutral real federal funds rate can be understood as the level of the real federal funds rate that would be neither expansionary nor contractionary if the economy were operating at or near its potential. Please provide your estimate for the level of the neutral real federal funds rate at each of the time periods below.
(21 responses)

	Current Level	Year-end 2020	Year-end 2021	Year-end 2022
25th Pctl	**-0.25%**	**-0.25%**	**0.00%**	**0.13%**
Median	**0.00%**	**0.20%**	**0.25%**	**0.28%**
75th Pctl	**0.50%**	**0.50%**	**0.50%**	**0.50%**

Please explain the factors behind any changes to your estimates since the policy survey on January 21.
(22 responses)

Several dealers indicated that they lowered their estimates due to the coronavirus pandemic. In addition, several dealers noted that they had made no material changes to their estimates.

5) If you expect a change to forward guidance for the federal funds rate in the FOMC statement at any point in the future, please provide your estimate for the most likely timing of the next change. If you do not expect a change at any point in the future, select N/A.

	Most likely timing for change*
25th Pctl	**Sep 2020 FOMC**
Median	**Sep 2020 FOMC**
75th Pctl	**Sep 2020 FOMC**

** Dropdown selections: Jul 2020 FOMC, Sep 2020 FOMC, Nov 2020 FOMC, Dec 2020 FOMC, Jan 2021 FOMC, Mar 2021 FOMC, Apr 2021 FOMC, Jun 2021 FOMC, Jul 2021 FOMC, Sep 2021 FOMC, Nov 2021 FOMC, Dec 2021 FOMC, Jan 2022 FOMC or later, and N/A. The statistics do not include the selection of N/A.*

If applicable, please describe your expectations for the most likely change to forward guidance for the federal funds rate at the time you indicated above.

Most dealers indicated that they expected the result of any change to forward guidance for the federal funds rate to most likely be a form of outcome-based guidance. Many dealers indicated that they expected inflation-based guidance: some indicated that they expected forward guidance to be tied to inflation at or above 2 percent; several indicated that they expected guidance that the target inflation level would be sustainably achieved; and several indicated that they expected forward guidance tied to average inflation. In addition, several dealers indicated that they expected unemployment rate-based as well as inflation-based measures to be included in outcome-based forward guidance.

6a) Please provide your modal expectation for the amount of purchases, net of reinvestments, of U.S. Treasury securities, agency mortgage-backed securities (MBS), and agency commercial mortgage-backed securities (CMBS) the Desk will conduct for each month listed below through the end of the year and the total over each calendar year for 2021 and 2022. If you expect any of these amounts to be zero in a given period, please enter 0.
(20 responses)

Net purchases of U.S. Treasury securities ($ billions)								
	Jul. 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec. 2020	Total in 2021	Total in 2022
25th Pctl	**80**	**80**	**80**	**73**	**73**	**68**	**280**	**0**
Median	**80**	**80**	**80**	**80**	**80**	**80**	**550**	**265**
75th Pctl	**80**	**80**	**80**	**80**	**80**	**80**	**960**	**500**

Net purchases of agency MBS ($ billions)								
	Jul. 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec. 2020	Total in 2021	Total in 2022
25th Pctl	**40**	**40**	**40**	**38**	**38**	**35**	**145**	**0**
Median	**40**	**40**	**40**	**40**	**40**	**40**	**250**	**73**
75th Pctl	**43**	**40**	**40**	**40**	**40**	**40**	**480**	**180**

Net purchases of agency CMBS ($ millions)								
	Jul. 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec. 2020	Total in 2021	Total in 2022
25th Pctl	**100**	**100**	**50**	**0**	**0**	**0**	**0**	**0**
Median	**250**	**200**	**100**	**100**	**100**	**100**	**1200**	**0**
75th Pctl	**2000**	**2000**	**1500**	**1000**	**1000**	**1000**	**5000**	**475**

** For MBS, in June reinvestments were approximately $56 billion.*

6b) If you have formed expectations for the most likely level ($ billions) of Federal Reserve assets associated with any of the following, please provide your expectations for their levels on September 30, 2020 below. If you expect any of these amounts to be zero on this date, please enter 0.

Level on September 30, 2020 ($ billions)								
	Discount Window	PDCF	MMLF	CPFF	MSNLF	MSELF	MSPLF	MLF
25th Pctl	**0**	**0**	**0**	**3**	**25**	**15**	**10**	**20**
Median	**0**	**1**	**10**	**7**	**50**	**38**	**27**	**30**
75th Pctl	**5**	**3**	**15**	**15**	**100**	**85**	**55**	**150**
# of Responses	**19**	**19**	**19**	**19**	**17**	**16**	**16**	**17**

	TALF	PMCCF	SMCCF	PPPLF	Central bank liquidity swaps	FIMA repo	Repo agreements with primary dealers	Any additional programs
25th Pctl	**10**	**0**	**45**	**75**	**75**	**0**	**0**	**0**
Median	**15**	**10**	**53**	**90**	**100**	**0**	**0**	**0**
75th Pctl	**25**	**20**	**80**	**100**	**150**	**0**	**50**	**0**
# of Responses	**18**	**19**	**18**	**17**	**19**	**18**	**19**	**9**

7) Beyond your responses provided in the questions above, please describe your expectations for any additional actions or monetary policy measures, or modifications to those previously announced, by the Federal Reserve through year-end 2020.
(22 responses)

In describing their expectations through year-end 2020, many dealers indicated that they expected various credit and liquidity programs to be adjusted, with some specifying that they expected these programs to be extended. Several dealers indicated that they expected adjustments to the Federal Reserve's current asset purchase program, with several specifying that they expected the Committee to extend the average maturity of their Treasury purchases to help reduce longer-term rates. Several dealers indicated that they expected or saw a possibility that the Federal Reserve would adopt some form of yield caps or targets. Finally, several others indicated that they did not expect substantial further actions or measures to be implemented this year.

8) Please describe your expectations for any additional U.S. federal fiscal policy measures through year-end 2020 to support the economy, if applicable.

Most dealers indicated that they expected at least some additional U.S. federal fiscal policy measures through year-end 2020 to support the economy, with some expecting these measures before the Congressional recess in August. Some dealers indicated that they expected the size of additional fiscal policy measures would be between $1 trillion and $2 trillion, while some others suggested the size could be $1 trillion or less. Many dealers indicated that they expected a new spending package to include an extension of unemployment benefits, and some indicated that they expected additional funding to support state and local governments. Several dealers indicated that they expected additional funding for small business lending.

9) Please provide your expectations for the outcome of the Federal Reserve's ongoing review of its monetary policy framework related to: i) monetary policy strategy; ii) tools; and iii) communication practices.

With respect to strategy, most dealers indicated that they expected or saw the possibility of the Federal Reserve adopting some form of an average inflation target as a result of the review.

With respect to tools, several dealers indicated that they expected the addition of yield caps or targets to the Federal Reserve's toolkit as a result of the review. Several dealers also noted that they expected the Federal Reserve to reaffirm the roles of existing tools, such as forward guidance and asset purchases.

With respect to communications, several dealers indicated that they expected or saw the possibility of the Federal Reserve modifying the SEP "dot plot."

10a) Please indicate your modal projections for U.S. real GDP growth for each quarter (seasonally adjusted annual rate).

Modal Projection for U.S. Real GDP Growth (percent)			
	Q2 2020 (saar)	Q3 2020 (saar)	Q4 2020 (saar)
25th Pctl	**-35.8%**	**12.3%**	**5.4%**
Median	**-33.5%**	**17.7%**	**6.8%**
75th Pctl	**-31.0%**	**25.5%**	**9.1%**

10b) Please provide the percent chance you attach to the following outcomes for U.S. real GDP growth in 2020 and 2021 (Q4/Q4).

Probability Distribution of U.S. Real GDP Growth in 2020 (Q4/Q4)						
	≤ -8.01%	-8.00 - -6.01%	-6.00 - -4.01%	-4.00 - -2.01%	-2.00 - -0.01%	≥ 0 %
Average	**11%**	**27%**	**31%**	**21%**	**9%**	**1%**

Probability Distribution of U.S. Real GDP Growth in 2021 (Q4/Q4)						
	< 0%	0.00 - 2.00%	2.01 - 4.00%	4.01 - 6.00%	6.01 - 8.00%	≥ 8.01%
Average	**4%**	**14%**	**34%**	**30%**	**15%**	**3%**

11a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from July 1, 2020 - June 30, 2025 falling in each of the following ranges. 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%
Average	**7%**	**18%**	**38%**	**24%**	**10%**	**3%**

	Most Likely Outcome
25th Pctl	**1.78%**
Median	**1.85%**
75th Pctl	**2.05%**

11b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from July 1, 2025 – June 30, 2030 falling in each of the following ranges. 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%
Average	**5%**	**12%**	**30%**	**35%**	**14%**	**4%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.20%**
75th Pctl	**2.30%**

12a) What percent chance do you attach to:

the U.S. economy currently being in a recession*?
the U.S. economy being in a recession* **in 6 months**?
the global economy being in a recession** **in 6 months**?

(23 responses)

	Currently in U.S. Recession		U.S. Recession in 6 Months		Global Recession in 6 Months
25th Pctl	**10%**	25th Pctl	**23%**	25th Pctl	**30%**
Median	**25%**	Median	**32%**	Median	**30%**
75th Pctl	**48%**	75th Pctl	**40%**	75th Pctl	**40%**

**NBER-defined recession*
***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.*

12b) Please explain the factors behind any change to your expectations in part a since the last policy survey.
(22 responses)

Many dealers pointed to an improvement in economic data. Some suggested that economic growth reached a trough in April or May. Some dealers highlighted the risk of another recession stemming from rising coronavirus cases and stalled reopenings in the U.S.

13a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.
(15 responses)

		2020	2021	2022	Longer Run
Real GDP (Q4/Q4 Growth)	25th Pctl	**-6.35%**	**3.70%**	**2.15%**	**1.75%**
	Median	**-5.40%**	**4.55%**	**2.75%**	**1.90%**
	75th Pctl	**-4.05%**	**5.10%**	**3.00%**	**2.00%**
Core PCE Inflation (Q4/Q4)	25th Pctl	**0.80%**	**1.25%**	**1.50%**	**-**
	Median	**0.90%**	**1.50%**	**1.70%**	**-**
	75th Pctl	**1.10%**	**1.80%**	**2.00%**	**-**
Headline PCE Inflation (Q4/Q4)	25th Pctl	**0.50%**	**1.35%**	**1.65%**	**2.00%**
	Median	**0.75%**	**1.55%**	**1.80%**	**2.00%**
	75th Pctl	**1.00%**	**1.95%**	**2.00%**	**2.00%**
Unemployment Rate (Q4 Average Level)	25th Pctl	**8.35%**	**6.20%**	**4.50%**	**4.00%**
	Median	**9.15%**	**6.70%**	**5.10%**	**4.10%**
	75th Pctl	**9.85%**	**7.45%**	**6.00%**	**4.50%**

13b) Please explain changes, if any, to your estimates in part a since the last policy survey.
(23 responses)

Many dealers noted recent economic data releases as a factor behind slight revisions to their economic forecasts, with several citing above expectations economic data. Several dealers specifically cited the June Employment Situation Report as a factor behind revisions to their unemployment rate forecasts.