Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York
January 2013

Policy Expectations Survey

Please respond by **Tuesday, January 22 at 12pm** 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:

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

** 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:

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

Longer run:

4) Of the possible outcomes below, please indicate the percent chance* you attach to the fed funds target rate or range at the end of 2013, 2014, and 2015.

	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%
Year-end 2013 :							
Year-end 2014 :							
Year-end 2015 :							

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

5) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 12/3/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: Dropdown

Please explain:

6) In the December FOMC statement, the Committee announced it will purchase longer-term Treasury securities following the conclusion of the MEP, initially at a pace of $45 billion per month. The Committee also announced that it will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month.

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)	
	Treasuries	*Agency MBS*
January 29-30:		
March 19-20:		
April/May 30-1:		
1 Year ahead (January 28-29, 2014):		

Please explain:

b) Please indicate the quarter and year during which you expect flow-based purchases in Treasury and agency MBS securities to be completed.

Expected End of Flow-Based Purchase Program

Quarter and Year

Dropdown

c) The December FOMC statement included the phrase, "If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of Treasury and agency mortgage-backed securities, 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.

d) In the December FOMC statement and meeting minutes, the FOMC discussed the benefits of additional asset purchases. Please rate the potential benefits cited according to your current assessment of the efficacy of the ongoing asset purchase program in supporting the labor market and overall economic activity. (5 = very effective 1 = not effective).

Putting downward pressure on longer-term interest rates:	Dropdown
Promoting more accommodative financial conditions:	Dropdown
Supporting mortgage markets:	Dropdown

Please explain:

e) The minutes of the December FOMC meeting stated that while almost all members viewed the asset purchase program begun in September as having been effective and supportive of growth, they also generally saw that, "The potential costs could rise as the size of the balance sheet increased." Please rate the potential costs cited according to your current assessment of their importance in determining the size, pace, and composition of asset purchases going forward. (5 = very important, 1 = not important).

Increase in inflation expectations:	Dropdown
Impairment of future implementation of monetary policy:	Dropdown
Effect on Federal Reserve net income:	Dropdown
Effects on market functioning:	Dropdown
Effects on financial stability:	Dropdown

Please explain:

f) Given your responses above, do you expect that the end of asset purchases will primarily be the result of developments described in **part c)**, **part d)**, **part e)**, or some other factor? Please explain below.

7) Please provide your expectation for the change in the amount of domestic securities held in the SOMA portfolio during each of the periods below. In the case of purchases, please include settled and unsettled amounts.

	2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1
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 the reason for any changes to the pace of flow-based purchases:

8) 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 January 10 H.4.1 is $2817 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**.*

Economic Indicator Forecasts

9) 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*
2013 :		Dropdown		Dropdown		Dropdown		Dropdown
2014 :		Dropdown		Dropdown		Dropdown		Dropdown
Longer run:								

Please comment on any risks you see to your forecast :

10) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2018 - 2023. 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%

Percentages should add up to **100 percent.*

Point estimate for most likely outcome:

11) 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:

12) 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:	Dropdown
Unemployment Rate:	
Headline 12-month PCE Inflation:	

At its December meeting, the FOMC introduced economic thresholds to provide forward guidance on the target rate, stating that it currently anticipates that the current range of the federal funds rate, "Will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored."

b) Provided that longer-term inflation expectations continue to be well anchored, and given a rate of inflation 1 to 2 years ahead below (as measured by the PCE deflator), what is the maximum level of the unemployment rate at which you would expect the Committee to increase its target for the federal funds rate or range?

Inflation Rate 1-2 Years Ahead	*Unemployment Rate*
2.50%	
2.75%	
3.00%	

c) Provided longer-term inflation expectations continue to be well anchored, and given a rate of unemployment below, what is the minimum level of the inflation rate 1 to 2 years ahead (as measured by the PCE deflator) at which you would expect the Committee to increase its target for the federal funds rate or range?

Unemployment Rate	*Inflation Rate 1-2 Years Ahead*
6.50%	
6.25%	
6.00%	

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

13) 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:

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
>=Q1 2018

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:

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%

5) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 12/3/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating:

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

6) b) Please indicate the quarter and year during which you expect flow-based purchases in Treasury and agency MBS securities to be completed.

Expected End of Flow-Based Purchase Program:

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
>=Q1 2018

d) In the December FOMC statement and meeting minutes, the FOMC discussed the benefits of additional asset purchases. Please rate the potential benefits cited according to your current assessment of the efficacy of the ongoing asset purchase program in supporting the labor market and overall economic activity. (5 = very effective 1 = not effective).

Rating: 5 -- Very effective
4
3
2
1 -- Not effective

e) The minutes of the December FOMC meeting stated that while almost all members viewed the asset purchase program begun in September as having been effective and supportive of growth, they also generally saw that, "The potential costs could rise as the size of the balance sheet increased." Please rate the potential costs cited according to your current assessment of their importance in determining the size, pace, and composition of asset purchases going forward. (5 = very important, 1 = not important).

Rating: 5 -- Very important
4
3
2
1 -- Not important

9) 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