Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

September 2014

Policy Expectations Survey

Please respond by **Monday, September 8, at 5:00 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:

Monetary Policy Expectations

1) a) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the September FOMC statement. Limit your responses to changes you consider most likely.

	Language Changes Expected
Current economic conditions and the economic outlook:	
Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Other:	

b) What are your expectations for the release of FOMC participants' **economic** projections in the advance materials of the Summary of Economic Projections (SEP)?

c) What are your expectations for the release of FOMC participants' year-end **target federal funds rate** projections in the advance materials of the Summary of Economic Projections (SEP)? Please also comment on your expectations for FOMC participants' target federal funds rate projections for 2017.

d) What are your expectations for the Chair's post-FOMC press conference?

e) How do you expect the September FOMC events to influence market perceptions of the stance of monetary policy, if at all? (1 = less accommodative, 3 = neutral, 5 = more accommodative)

Perceived stance of monetary policy: **Please Explain:**

2) What announced purchase pace, effective following the upcoming FOMC meeting, do you believe would result in roughly no change in the price of the 10-year Treasury note, assuming no other policy action?

	Treasuries	*Agency MBS*
Pace of purchases following the upcoming FOMC meeting ($ billions):		

3) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first increase in the federal funds target rate or range. Also, provide your estimate for the most likely quarter and year of the first increase.

≤2014 Q4	**2015 Q1**	**2015 Q2**	**2015 Q3**	**2015 Q4**	**2016 Q1**	**2016 Q2**	**≥2016 Q3**

** Percentages should add up to 100 percent*

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

b) Provide the percent chance you attach to the target federal funds rate or range **not** returning to the zero lower bound during the 2 years following liftoff.

Probability of not returning to ZLB during the 2 years following liftoff:

Conditional on the target **not** returning to the zero lower bound, provide the percent chance* you attach to the net change in the target rate or range in each of the two years following liftoff.

	0 - 50 basis points	*51 - 100 basis points*	*101 - 150 basis points*	*151 - 200 basis points*	*>200 basis points*
First year following liftoff:					
Second year following liftoff:					

** Percentages across rows should add to 100 percent.*

c) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range, as applicable, at the end of each period below. If you expect a range, please provide both the top and bottom of the range in the specified fields below. If you expect a target rate, provide your response in the *"Target rate"* field only.

	Quarters					*Half Years*				
	2014 Q4	**2015 Q1**	**2015 Q2**	**2015 Q3**	**2015 Q4**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**2018 H1**
Top of range:										
Bottom of range:										
Target rate:										

d) 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:**

If you changed your expectations for the most likely timing of liftoff and/or the most likely path of the target rate or range since the last time the questions were asked, explain the factors that motivated you to make the change(s):

4) Of the possible outcomes below, provide the percent chance* you attach to the 10-year Treasury yield falling in each of the following ranges at the end of 2014 and 2015.

	≤2.00%	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**>4.50%**
Year-end 2014:							
	≤2.50%	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**4.51 - 5.00%**	**>5.00%**
Year-end 2015:							

** Percentages across rows should add to 100 percent.*

If you changed your expectations for question 4 since the last time the question was asked on June 9, explain the factors that motivated you to make the change(s).

5) The 5-year nominal Treasury yield 5 years forward has declined from 3.92 percent on April 17, 2014 to 3.24 percent on September 3, 2014. Provide your estimate of the decomposition of this forward rate at the two dates cited.

	Expected Average Real Policy Rate	*Expected Average Inflation Rate*	*Term Premium*	*Your Sum**	*5y/5y Forward*
April 17, 2014:				0.00%	3.92%
September 3, 2014:				0.00%	3.24%

**Please ensure the sum of your individual components is equal to the level of the 5y5y forward on the date specified.*

Please explain the factors contributing to any change in your estimate of the expected average real policy rate:

Please explain the factors contributing to any change in your estimate of the expected average inflation rate:

Please explain the factors contributing to any change in your estimate of the term premium:

Is your current assessment of the drivers of the year-to-date change in the 5-year/5 year forward materially different than your assessment of the drivers of the year-to-date change as of the last time this question was asked on April 17? If so, please explain.

6) **a)** Provide the percent chance* you attach to the unemployment rate falling within the following ranges at the time of the first increase in the target federal funds rate or range.

	< 5.5 %	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Unemployment rate:				

Percentages across rows should add up to 100 percent.

b) Provide the percent chance* you attach to inflation between 1 and 2 years ahead falling within the following ranges at the time of the first increase in the target federal funds rate or range.

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Inflation between 1 and 2 years ahead at liftoff:					

Percentages across rows should add up to 100 percent.

c) Provide your estimate for the most likely value of the following indicators at the time of the first increase in the target federal funds rate or range. When specifying values below, where appropriate, provide your estimate consistent with the last published value prior to the announcement of liftoff. For reference, the level of total U.S. employees on nonfarm payrolls for July, seasonally adjusted, was 139.0 million. For your calculations, please take into account the August data to be released on September 5.

Unemployment rate:	
Labor force participation rate:	
Total U.S. employees on nonfarm payrolls (millions):	
12-month change in average hourly earnings:	
Headline 12-month PCE Inflation:	
Inflation between 1 and 2 years ahead (at liftoff):	

d) Provide your forecast for the expected levels of the following indicators at the time periods provided below. If you expect a target range, please enter the range. If you do not believe a particular tool will be used during one or more of the time periods below, please enter "N/A".

	1 Quarter Prior to Liftoff	*Immediately Following Liftoff*	*1 Year Following Liftoff*	*3 Years Following Liftoff*
Rate of interest on excess reserves (in percent):				
Target federal funds rate or range (in percent):				
Federal funds effective rate (in percent):				
O/N RRP rate (in percent):				
3-month LIBOR (in percent):				
Overnight Treasury GCF repo rate (in percent):				
Usage of O/N RRP ($ billions):				

Please note how you expect the Committee's approach to policy normalization to evolve over time. Additionally, please comment on any changes you expect over time in the relative levels of money market rates and the expected amount of O/N RRP usage.

7) **a)** Provide your estimate for the most likely 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*
2014	**September 16-17:**		
	October 28-29:		
	December 16-17:		
2015	**January 27-28:**		
	March 17-18:		
	April 28-29:		
	June 16-17:		
	July 28-29:		
	September 16-17:		

Please explain any changes to your expectations for the increments of pace reduction and/or any changes in the expected composition of Treasury and agency MBS purchases since the last survey on July 21:

b) Provide the percent chance you attach to a reduction in asset purchase pace being announced at the September FOMC meeting.

	Percent Chance of Reduction
September 16-17:	

c) Provide your expectation for the most likely change in the amount of domestic securities held in the SOMA portfolio during each of the periods below. In the case of purchases, include settled and unsettled amounts.

	Half Years					*Full Year*
	2014 H2	**2015 H1**	**2015 H2**	**2016 H1**	**2016 H2**	**2017**
Expected change in amount of U.S. Treasury securities in SOMA ($ billions):						
Expected change in amount of agency debt and agency MBS in SOMA ($ billions):						

d) Provide your estimate of the most likely quarter and year during which the FOMC will first cease reinvesting some or all payments of principal on Treasuries and/or agency debt and MBS. In addition, please provide your expectation for the timing, in months, relative to the first increase in the target rate or range. If you do not expect the FOMC to cease reinvestments for either or both asset classes during the process of policy normalization, please leave the fields blank. Please ensure your signs are correct.

	Quarter & Year	*Number of months relative to liftoff*
Treasuries:		
Agency debt and MBS:		

Please explain your assumptions for the timing, size, and pace of redemptions and sales of securities, if applicable. Please also explain the factors behind any change in your expectations since the last survey on July 21:

Economic Indicator Forecasts

8) 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)**
2014:				
2015:				
2016:				
2017:				
Longer run:				

9) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from 2019 - 2024. Please also provide your point estimate for the most likely outcome.

≤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:

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 U.S. economy entering a recession* **at some point over the next 3 years**? **Recession over next 3 years:**

**NBER-defined recession*

Dropdown Selections

1) e) How do you expect the September FOMC events to influence market perceptions of the stance of monetary policy, if at all? (1 = less accommodative, 3 = neutral, 5 = more accommodative)

Perceived stance of monetary policy:

1 -- Less Accommodative
2
3 -- Neutral
4
5 -- More Accommodative

3) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first increase in the federal funds target rate or range. Also, provide your estimate for the most likely quarter and year of the first increase.

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

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

7) d) Provide your estimate of the most likely quarter and year during which the FOMC will first cease reinvesting some or all payments of principal on Treasuries and/or agency debt and MBS. In addition, please provide your expectation for the timing, in months, relative to the first increase in the target rate or range. If you do not expect the FOMC to cease reinvestments for either or both asset classes during the process of policy normalization, please leave the fields blank. Please ensure your signs are correct.

Quarter & Year:

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