Responses to Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

April 2014

Responses to Survey of Primary Dealers
Distributed: 4/17/2014 – Received by: 4/22/2014

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 21 primary dealers. Except where noted, all 21 dealers responded to each question. In some cases, dealers 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.

Monetary Policy Expectations

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

Current economic conditions and the economic outlook:

Many dealers expected the April FOMC statement to continue to note that weak economic data over the winter months was in part attributable to adverse weather conditions, and that activity has recently shown signs of picking up. Some dealers expected the statement to reflect a more positive interpretation of the economic outlook based on data prints in April that were stronger than expected. Several dealers noted that they anticipated no significant changes.

Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:

All of the dealers expected the statement to announce a reduction in the pace of asset purchases by $10 billion.

Communication on the expected path of policy rates and forward guidance on the target federal funds rate: *(20 responses)*

Many dealers noted that they expected no change to communication on the expected path of the policy rate or the forward guidance on the target federal funds rate. Several dealers expected the Committee to amend or remove the language from the March statement indicating that the change in the forward guidance was not a change in policy intentions.

Other: *(8 responses)*

Dealers did not provide substantial commentary in this section

2. a) Taken together, how do you expect the release of the April FOMC statement to influence market perceptions of the stance of monetary policy, if at all? (1 = less accommodative, 3 = neutral, 5 = more accommodative)?

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

Perceived Stance of Monetary Policy	
25th Pctl	3
Median	3
75th Pctl	3

Please Explain:

Most dealers expressed an expectation for the April FOMC statement to be perceived as neutral by the market.

b) 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?

Monthly Pace Resulting in No Change in 10-year Treasury Yield

	Treasuries	Agency MBS
25th Pctl	25	20
Median	25	20
75th Pctl	25	20

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

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	≥2018 H1
Average	0%	5%	29%	32%	19%	9%	3%	2%	2%

b) Provide your estimate for the most likely quarter and year of the first target rate increase. Also, provide your estimate for the most likely target rate following the first increase.

	Most Likely Quarter and Year of First Target Rate Increase
25th Pctl	Q2 2015
Median	Q3 2015
75th Pctl	Q4 2015

	Most Likely Target Rate Following First Increase
25th Pctl	0.25%
Median	0.50%
75th Pctl	0.50%

c) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range at the end of each period below. 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.

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1	Longer Run	10-yr Average FF Rate
25th Pctl	0-.25%	0-.25%	0-.25%	0.50%	1.00%	1.75%	2.25%	2.75%	3.00%	3.50%	2.59%
Median	0-.25%	0-.25%	0-.25%	0.75%	1.25%	2.00%	2.75%	3.25%	3.75%	3.75%	2.75%
75th Pctl	0-.25%	0-.25%	0.25%	1.00%	1.75%	2.50%	3.25%	4.00%	4.00%	4.00%	3.10%

d) If you changed your expectations for questions 3a), 3b), and/or 3c) since the last time the questions were asked, explain the factors that motivated you to make the change(s).

(18 responses)

Some dealers noted that they made no material changes relative to the last survey.

4) Of the possible outcomes below, please indicate the percent chance you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2014, 2015, and 2016.

Year End 2014

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	≥ 2.51%
Average	95%	4%	1%	0%	0%	0%	0%

Year End 2015

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	≥ 2.51%
Average	24%	25%	33%	15%	3%	0%	0%

Year End 2016

	≤ 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	≥ 3.01%
Average	6%	8%	16%	24%	25%	14%	6%

5. How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on March 10? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

	Fed Communication Grade Number of Respondents:
1 - Very Ineffective	1
2	9
3	10
4	1
5 - Very Effective	0

Please Explain:

Some dealers expressed the view that the changes to FOMC participants' projections of the appropriate level of the target rate in the advance materials of the Summary of Economic Projections, in addition to Chair Yellen's comments during the March press conference, caused some confusion. Several dealers stated that the Chair's appearances following the March FOMC helped to clarify the Committee's view on policy.

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.**

	< 5.5%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	16%	47%	33%	4%

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.**

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	3%	19%	47%	24%	7%

c) **Provide your estimate for the most likely value for the following indicators at the time of the first increase in the target federal funds rate. 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 March, seasonally adjusted, was 137.9 million.**

	Unemployment Rate	Labor Force Participation Rate	Total NFP*	12-Month Change in Average Hourly Earnings	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.6%	63.0%	141.0	2.5%	1.7%	1.9%
Median	5.9%	63.2%	141.1	2.5%	1.8%	2.0%
75th Pctl	6.0%	63.5%	141.9	3.0%	2.0%	2.2%

**In millions*

7. a) **The 5-year nominal Treasury yield 5 years forward has declined from 4.60 percent on December 31, 2013 to 3.86 percent on April 17, 2014. Provide your estimate of the decomposition of this forward rate at the two dates cited.**

(20 complete responses)

Dec. 31, 2013

	Expected Average Real Policy Rate	Expected Average Inflation Rate	Term Premium
Average	1.50%	2.25%	0.85%

Apr. 17, 2014

	Expected Average Real Policy Rate	Expected Average Inflation Rate	Term Premium
Average	1.28%	2.13%	0.45%

b) Rate the importance of the factors below in explaining the change in each of the components of the 5-year/5-year nominal Treasury yield. (5 = very important, 1 = not important)

(19 complete responses)

Expected Average Real Policy Rate (Number of respondents)

	Change in the outlook for economic growth	Change in the outlook for inflation	Change in perception of future FOMC reaction function	Market-related factors	Other factors not noted above
1 - Not Important	4	6	4	7	7
2	1	5	1	5	0
3	4	6	7	5	1
4	9	3	4	0	0
5 - Very Important	2	0	4	2	0

Expected Average Inflation Rate (Number of respondents)

	Change in the outlook for economic growth	Change in the outlook for inflation	Change in perception of future FOMC reaction function	Market-related factors	Other factors not noted above
1 - Not Important	6	6	8	8	6
2	5	0	1	4	0
3	3	4	8	4	1
4	5	6	2	1	0
5 - Very Important	1	4	1	2	0

Term Premium (Number of respondents)

	Change in the outlook for economic growth	Change in the outlook for inflation	Change in perception of future FOMC reaction function	Market-related factors	Other factors not noted above
1 - Not Important	8	8	2	1	4
2	7	4	3	3	0
3	3	4	6	1	2
4	2	3	6	6	1
5 - Very Important	0	1	3	8	0

If Other, please explain:

(6 responses)

Dealers did not provide substantial commentary in this section.

8) 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	April 29-30:	25th Pctl	25	20
		Median	25	20
		75th Pctl	25	20
	June 17-18:	25th Pctl	20	15
		Median	20	15
		75th Pctl	20	15
	July 29-30:	25th Pctl	15	10
		Median	15	10
		75th Pctl	15	10
	September 16-17:	25th Pctl	10	5
		Median	10	5
		75th Pctl	10	5
	October 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	5	0
	December 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
2015	January 27-28:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	March 2015:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	April 2015:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0

Please explain any changes to your assumptions behind the increments of pace reduction and any changes in the expected composition of Treasury and agency MBS purchases since the last survey on March 10.

(17 responses)

Many dealers noted that they did not change their forecasts for the expected path of asset purchases.

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

	Percent Chance of Reduction
25th Pctl	95%
Median	98%
75th Pctl	99%

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.

(19 complete responses)

		2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*
		($ billions)				
Change in the estimated amount of Treasuries:	25th Pctl portfolio	0	-3	-143	-73	-194
	Median portfolio	0	0	-137	-70	-193
	75th Pctl portfolio	0	-8	-85	-89	-194
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	-20	-77	-75	-90	-183
	Median portfolio	0	-46	-99	-60	-125
	75th Pctl portfolio	0	0	-68	-70	-141

**Calendar Year*

d) Provide your estimate of the most likely quarter and year during which the FOMC will 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. 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.

	Most Likely Quarter and Year of End to Reinvestments	
	Treasuries*	Agency Debt and MBS
25th Pctl	Q2 2015	Q1 2015
Median	Q2 2015**	Q2 2015
75th Pctl	Q1 2016	Q1 2016

**One dealer expects no end to reinvestments of Treasury securities*
***Median falls between Q2 and Q3*

	Number of Months Relative to Liftoff*	
	Treasuries	Agency Debt and MBS
25th Pctl	-4	-5
Median	-1	-3
75th Pctl	1	0

**Negative values signify reinvestments ending prior to liftoff*

Please explain your assumptions for the size and pace of redemptions and sales of securities, if applicable:

Many dealers expressed that they did not expect any sale of assets from the SOMA portfolio. Many dealers noted that they expected a slow reduction in the size of the portfolio through a cessation of reinvestments. Additionally, several dealers provided details regarding their specific MBS prepayment assumptions.

9) Of the possible outcomes below, indicate the percent chance you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2014 and year-end 2015. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 2, 2014 H.4.1 was $3,814 billion.

Year-end 2014

	<3500	3500-3750	3750-4000	4000-4250	4250-4500	4500-4750	4750-5000	>5000
Average	0%	0%	6%	36%	49%	7%	2%	1%

Year-end 2015

	<3500	3500-3750	3750-4000	4000-4250	4250-4500	4500-4750	4750-5000	>5000
Average	0%	3%	14%	44%	31%	6%	2%	1%

10) Provide your estimate of the most likely outcome for output, inflation, and unemployment.

(15 complete responses)

		Q4/Q4 2014	Q4/Q4 2015	Q4/Q4 2016	Longer Run
	25th Pctl	2.30%	2.60%	2.65%	2.05%
GDP:	Median	2.60%	3.00%	2.80%	2.25%
	75th Pctl	2.90%	3.10%	3.00%	2.50%
	25th Pctl	1.40%	1.70%	1.90%	
Core PCE:	Median	1.50%	1.80%	2.00%	
	75th Pctl	1.60%	1.90%	2.05%	
	25th Pctl	1.50%	1.60%	1.85%	2.00%
Headline PCE:	Median	1.70%	1.90%	2.00%	2.00%
	75th Pctl	1.80%	2.20%	2.20%	2.20%
	25th Pctl	6.10%	5.50%	5.30%	5.50%
Unemployment Rate*:	Median	6.20%	5.80%	5.60%	5.50%
	75th Pctl	6.30%	5.90%	5.70%	5.80%

**Average level of the unemployment rate over Q4.*

11) For the outcomes below, please indicate the percent chance you attach to the annual average CPI inflation rate from 2019 - 2024. Please also indicate 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%
Average	3%	11%	25%	32%	20%	9%

	Most Likely Outcome
25th Pctl	2.10%
Median	2.20%
75th Pctl	2.40%

12) a *and* b) What percent chance do you attach to the US economy currently being in a recession (NBER-defined)? What percent chance would you attach to the US economy being in a recession in 6 months (NBER-defined)?

	Currently in NBER Recession
25th Pctl	1%
Median	5%
75th Pctl	5%

	NBER Recession in 6 Months
25th Pctl	5%
Median	10%
75th Pctl	15%