Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

March 2015

Policy Expectations Survey

Please respond by **Monday, March 9, 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 March FOMC statement. Limit your responses to changes you consider most likely.

	Language Changes Expected
Current economic conditions and the economic outlook:	
Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:	
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)?

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

e) How do you expect the March 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) 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 meeting for the first increase.

2015 FOMC Meetings

March 17-18	**April 28-29**	**June 16-17**	**July 28-29**	**September 16-17**	**October 27-28**	**December 15-16**	**≥ January 2016**

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

Estimate for most likely meeting for 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, immediately following the FOMC meetings and at the end of each quarter or half-year 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.

	2015 FOMC meetings						
	March 17-18	**April 28-29**	**June 16-17**	**July 28-29**	**September 16-17**	**October 27-28**	**December 15-16**
Top of range:							
Bottom of range:							
Target rate:							

	Quarters				Half Years			
	2016 Q1	**2016 Q2**	**2016 Q3**	**2016 Q4**	**2017 H1**	**2017 H2**	**2018 H1**	**2018 H2**
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:**

e) 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 2015, 2016, and 2017. If you expect a target range for federal funds please use the midpoint of the range in providing your response.

	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%**
Year-end 2015:							
	≤0.50%	**0.51 - 1.00%**	**1.01 - 1.50%**	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**≥3.01%**
Year-end 2016:							
	≤2.00%	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**≥4.51%**
Year-end 2017:							

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

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):

3) a) 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 2015 and 2016.

	≤1.50%	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**>4.00%**
Year-end 2015:							
	≤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 2016:							

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

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

b) The 10-year Treasury yield increased 29 basis points between January 27 and March 4. Please decompose this change into changes in the market's expected average real policy rate, expected average inflation rate, and the market-implied nominal term premium. Please ensure that your sum matches the change.

	Change in Market's Expected Average Real Policy Rate	Change in Market's Expected Average Inflation Rate	Change in Market-Implied Nominal Term Premium	Your Sum	Change in 10-year Treasury Yield
Change in 10-year Treasury yield (bps):				0	29

Please explain which factor or factors motivated your decomposition.

4) **a)** Please describe any modifications to the "patient" language in the FOMC statement you expect prior to liftoff, including what modifications would be made and when it would be modified or removed.

Conditional on the Committee first modifying or removing the "patient" language, over the potential outcomes below please provide the percent chance* you attach to the Committee first increasing the federal funds rate or range, expressed in terms of the number of FOMC meetings relative to the meeting at which the Committee modifies or removes "patient."

	≤ 0 meetings	+1 meeting	+2 meetings	+3 meetings	+4 meetings	> +4 meetings
Liftoff relative to modification or removal of "patient":						

**Percentages across row should add to 100 percent*

b) Conditional on the "patient" language being modified or removed at the time(s) and in the way(s) you consider most likely, how do you expect this to impact financial conditions?

5) **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 row 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 row 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 January, seasonally adjusted, was 140.8 million. For your calculations, please take into account the February data to be released on March 6.

Unemployment rate:	
Labor force participation rate:	
Total U.S. employees on nonfarm payrolls (millions):	
12-month change in average hourly earnings:	
Core 12-month PCE Inflation:	
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, 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.

6) 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 time the question was asked:

Economic Indicator Forecasts

7) **a)** 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)**
2015:				
2016:				
2017:				
Longer run:				

b) How would you characterize the overall balance of U.S. economic data over the intermeeting period? (5= significantly stronger than expected, 3= neutral/mixed, 1= significantly weaker than expected).

Characterization of overall balance of economic data:

How do you think market participants' outlook for the U.S. economy has changed over the intermeeting period? Which factor or factors were most important in altering this outlook?

8) **a)** For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from March 1, 2015 - February 28, 2019. 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%**		
						Point estimate for most likely outcome:	

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

b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from March 1, 2020 - February 29, 2024. 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%**		
						Point estimate for most likely outcome:	

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

c) By how much has your point estimate for the five-year annual average CPI inflation rate, five years forward, changed since July 2014, and which factors were most important in changing your expectations?

Change in forecast (bps): **Most important factors:**

9) **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. **Recession in 6 months:**

c) What percent chance do you attach to the U.S. economy being in a recession* **sometime over the next 3 years**? **Recession over next 3 years:**

**NBER-defined recession*

Dropdown Selections

1) e) How do you expect the March 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

2) 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 meeting for the first increase.

Estimate for most likely meeting for first increase in target rate or range:	March 2015
	April 2015
	June 2015
	July 2015
	September 2015
	October 2015
	December 2015
	>=2016

6) 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:	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) b) How would you characterize the overall balance of U.S. economic data over the intermeeting period? (5= significantly stronger than expected, 3= neutral/mixed, 1= significantly weaker than expected).

Characterization of overall balance of economic data:	1 -- Significantly weaker than expected
	2 -- Moderately weaker than expected
	3 -- Neutral/mixed
	4 -- Moderately stronger than expected
	5 -- Significantly stronger than expected