RESPONSES TO SURVEY OF PRIMARY DEALERS

Markets Group, Federal Reserve Bank of New York

JULY 2019

Distributed: 7/17/2019 – Received by: 7/22/2019

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.[1] For questions that ask respondents to give a probability distribution, the average response across dealers for each potential outcome is reported. 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.

Current economic conditions:
(23 responses)

Several dealers indicated that they expected no material changes to this portion of the statement. Several dealers indicated that they expected the Committee to continue to characterize economic activity growth as moderate, and several indicated that they expected the Committee to characterize the labor market as robust or strong. Additionally, several dealers indicated that they expected the Committee to continue to characterize business fixed investment as soft, and several indicated that they expected the Committee to upgrade its characterization of, or continue to note an increase in, household spending. Finally, several dealers indicated that they expected the Committee to note that inflation measures remained below 2 percent.

Economic outlook:
(23 responses)

Several dealers indicated that they expected the Committee to note that uncertainties remain elevated or continue to weigh on the outlook, and several indicated that they expected the Committee to reiterate that uncertainties surrounding the outlook have increased. Several dealers indicated that they expected the Committee to reference uncertainty surrounding international trade developments, and several indicated that they expected the Committee to continue to characterize sustained economic expansion as the most likely outcome. Finally, several dealers indicated that they expected no material changes to this portion of the statement.

Communication on the expected path of the target federal funds rate:

Several dealers indicated that they expected the Committee to continue to indicate that it would "closely monitor" the implications of incoming information, and some dealers indicated that they expected the Committee to reiterate that it would "act as appropriate" to sustain the economic expansion. Finally, several dealers indicated that they expected no material changes to this portion of the statement.

Other:
(11 responses)

Dealers did not provide substantial commentary in this section.

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

Many dealers indicated that they expected the Chair to comment on the rationale for the Committee's decision to decrease the

target range for the federal funds rate. In particular, some dealers indicated that they expected the Chair to note global uncertainty or risks to growth as a rationale for decreasing the target range, some indicated that they expected him to cite low inflation as a rationale for the decrease in the target range, and several indicated that they expected him to cite uncertainty surrounding international trade as a rationale. Some dealers indicated that they expected the Chair to describe the decrease in the target range as precautionary, to describe it in the context of risk management, or to note that U.S. economic conditions had not materially deteriorated. Several dealers indicated that they expected the Chair to indicate that future decreases in the target range are possible or likely, and several indicated that they expected him to adopt a tone similar to his July semi-annual Congressional testimony.

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	4
2	11
3	8
4	1
5 - Effective	0

Please explain.

Several dealers indicated that they found communication confusing, and several characterized communication from various Fed officials as inconsistent. In addition, some dealers cited communications toward the end of the intermeeting period as informing their ratings. Finally, several dealers indicated that a readiness to lower the target range was effectively signaled, and several suggested that communication was generally consistent.

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 and half years below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	Jul 30-31 2019	Sep 17-18 2019	Oct 29-30 2019	Dec 10-11 2019	Jan 28-29 2020	Mar 17-18 2020	Apr 28-29 2020
25th Pctl	**2.13%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.63%**	**1.63%**
Median	**2.13%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**
75th Pctl	**2.13%**	**2.13%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**
# of Responses	**24**	**24**	**24**	**24**	**24**	**24**	**24**
	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
25th Pctl	**1.63%**	**1.63%**	**1.63%**	**1.63%**	**1.63%**	**1.63%**	**1.63%**
Median	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**
75th Pctl	**1.88%**	**1.88%**	**1.88%**	**2.13%**	**2.38%**	**2.38%**	**2.38%**
# of Responses	**24**	**24**	**24**	**19**	**19**	**19**	**19**

3b) 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	**2.31%**	**2.00%**
Median	**2.50%**	**2.20%**
75th Pctl	**2.75%**	**2.43%**

3c) Please indicate the percent chance that you attach to the following possible outcomes for the Committee's next policy action between now and the end of 2019.

	Next Change is Increase in Target Rate or Range	Next Change is Decrease in Target Rate or Range	No Change in Target Rate or Range Through the End of 2019
Average	**1%**	**93%**	**7%**

3d) Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges immediately following the July FOMC meeting. If you expect a target range, please use the midpoint of that range in providing your response.

Federal Funds Rate or Range Immediately Following the July FOMC Meeting								
	≤ 1.50%	1.51 - 1.75%	1.76 - 2.00%	2.01 - 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	≥ 3.01%
Average	**0%**	**0%**	**17%**	**74%**	**8%**	**0%**	**0%**	**0%**

3e) 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 2019. If you expect a target range, please use the midpoint of that range in providing your response.

Federal Funds Rate or Range at the End of 2019								
	≤ 1.50%	1.51 - 1.75%	1.76 - 2.00%	2.01 - 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	≥ 3.01%
Average	**4%**	**18%**	**45%**	**24%**	**8%**	**0%**	**0%**	**0%**

3f) 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 2019, conditional on each of the following levels prevailing immediately following the July FOMC meeting. Only provide responses for July levels to which you assigned a non-zero probability.

Year-End 2019 Federal Funds Rate Estimate Conditional on July FOMC Outcomes								
	≤ 1.50%	1.51-1.75%	1.76-2.00%	2.01 - 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	≥ 3.01%
25th Pctl	**0.13%**	**1.13%**	**1.63%**	**1.75%**	**1.88%**	**2.63%**	**2.88%**	**3.13%**
Median	**0.75%**	**1.38%**	**1.63%**	**1.88%**	**2.13%**	**2.63%**	**2.88%**	**3.13%**
75th Pctl	**1.38%**	**1.63%**	**1.88%**	**1.88%**	**2.38%**	**2.63%**	**2.88%**	**3.13%**
# of Responses	**2**	**2**	**20**	**23**	**17**	**2**	**1**	**1**

3g-i) 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 and 2021, conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2021. If you expect a target range, please use the midpoint of that range in providing your response.
(23 responses)

Year-End 2020								
	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	3.51-4.00%	≥ 4.01%
Average	**10%**	**22%**	**33%**	**22%**	**7%**	**3%**	**3%**	**1%**

Year-End 2021								
	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	3.51-4.00%	≥ 4.01%
Average	**11%**	**18%**	**27%**	**22%**	**11%**	**5%**	**3%**	**3%**

3g-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2021.

	Probability of Moving to ZLB at Some Point between Now and the End of 2021
25th Pctl	**25%**
Median	**35%**
75th Pctl	**40%**

3g-iii) 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 and 2021, conditional on moving to the ZLB at some point between now and the end of 2021. Only fill out these conditional probability distributions if you assigned a non-zero probability to moving to the ZLB at some point between now and the end of 2021. If you expect a target range, please use the midpoint of that range in providing your response.
(22 responses)

Year-End 2020								
	< 0.00%	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	**8%**	**40%**	**19%**	**14%**	**9%**	**7%**	**2%**	**1%**

Year-End 2021								
	< 0.00%	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	**7%**	**56%**	**20%**	**10%**	**4%**	**1%**	**1%**	**0%**

3g-iv) What is your estimate of the target federal funds rate or range at the effective lower bound?
(23 responses)

	Level of Target Federal Funds Rate or Range at ELB
25th Pctl	**-0.06%**
Median	**0.00%**
75th Pctl	**0.13%**

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

Several dealers noted that they had revised their policy expectations in response to communication by Fed officials, and several dealers indicated that they did not necessarily see the need for immediate policy easing. In addition, several dealers indicated that they had made no material changes to their policy expectations.

4) Please indicate the percent chance that you attach to the 10-year Treasury yield falling in each of the following ranges at the end of 2019 and 2020.
(23 responses)

Year-end 2019							
	≤ 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	≥ 4.01%
Average	**12%**	**34%**	**36%**	**14%**	**2%**	**1%**	**1%**

Year-end 2020							
	≤ 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	≥ 4.01%
Average	**16%**	**25%**	**31%**	**19%**	**7%**	**2%**	**1%**

5) 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.
(23 responses)

	Current Level	Year-end 2019	Year-end 2020	Year-end 2021
25th Pctl	**0.23%**	**0.19%**	**0.25%**	**0.50%**
Median	**0.51%**	**0.57%**	**0.66%**	**0.51%**
75th Pctl	**1.00%**	**1.00%**	**1.00%**	**1.00%**

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

Several dealers noted that they had lowered their neutral real federal funds rate estimates, and several cited perceived subdued inflationary pressures as factors behind decreases in their estimates.

6) What are your expectations regarding the path of the par value of the SOMA portfolio over the remainder of 2019 and 2020?

Many dealers indicated that they expected the level of the par value of the SOMA portfolio to continue to decline through September, while several others indicated that they expected these declines to end after the July FOMC meeting. Some dealers indicated that they expected the level of the par value of the SOMA portfolio to remain steady through the end of 2019 after the end of balance sheet reduction, and several also indicated that they expected it to remain unchanged through the end of 2020. However, several other dealers indicated that they expected the par value of the SOMA portfolio to begin increasing in 2020. Finally, several dealers indicated that when the par value of the SOMA portfolio begins to grow, they expected it to grow in line with increases in non-reserve liabilities.

7) Please describe your modal expectation and the balance of risks around your modal expectation for international trade developments from now until the end of 2019. In addition, please explain the factors behind any change to your modal expectation since the last policy survey.

Most dealers described their expectations for the outcome of trade negotiations between the U.S. and China. Many dealers indicated that their modal expectation was for current trade policies between the U.S. and China to remain in place through the end of 2019 while several other dealers indicated that their modal expectation was a U.S.-China trade agreement sometime in the second half of 2019. Some dealers indicated that the risks around their modal expectations were tilted toward greater trade friction. In addition, with respect to broader trade developments, several dealers indicated that they expected uncertainty to continue and several indicated that they did not expect resolution of trade disagreements in the near term. Several dealers indicated that their modal expectation was not for tariffs to be imposed on imports from Europe, imports from Japan, and/or auto imports. In addition, several dealers indicated that they expected the U.S.-Mexico-Canada Agreement to be ratified.

8a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from July 1, 2019 - June 30, 2024 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	**4%**	**12%**	**29%**	**36%**	**14%**	**5%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.10%**
75th Pctl	**2.23%**

8b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from July 1, 2024 - June 30, 2029 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	**4%**	**10%**	**27%**	**41%**	**13%**	**5%**

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

9a) 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**?

	Currently in U.S. Recession		U.S. Recession in 6 Months		Global Recession in 6 Months
25th Pctl	**3%**	25th Pctl	**12%**	25th Pctl	**18%**
Median	**5%**	Median	**20%**	Median	**20%**
75th Pctl	**5%**	75th Pctl	**20%**	75th Pctl	**28%**

**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.*

9b) What percent chance do you attach to the U.S. economy first entering a recession* in each of the following periods?

	2019 or earlier	2020	2021	2022	2023 or later
Average	**16%**	**26%**	**25%**	**16%**	**18%**

**NBER-defined recession*

9c) Please explain the factors behind any change to your expectations in parts a-b since the last policy survey.
(20 responses)

In explaining decreases in one or more of their near-term recession probabilities, several dealers cited changes to their expectations for monetary policy and several cited recent economic data. In addition, several dealers indicated that they had made no material changes to their recession probabilities.

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

		2019	2020	2021	Longer Run
Real GDP (Q4/Q4 Growth)	25th Pctl	**1.90%**	**1.60%**	**1.70%**	**1.70%**
	Median	**2.10%**	**1.85%**	**2.00%**	**1.90%**
	75th Pctl	**2.25%**	**2.10%**	**2.10%**	**2.10%**
Core PCE Inflation (Q4/Q4)	25th Pctl	**1.80%**	**1.90%**	**1.90%**	**-**
	Median	**1.80%**	**2.00%**	**2.00%**	**-**
	75th Pctl	**1.90%**	**2.10%**	**2.10%**	**-**
Headline PCE Inflation (Q4/Q4)	25th Pctl	**1.60%**	**1.70%**	**1.80%**	**2.00%**
	Median	**1.75%**	**1.85%**	**2.00%**	**2.00%**
	75th Pctl	**1.85%**	**2.00%**	**2.10%**	**2.00%**
Unemployment Rate (Q4 Average Level)	25th Pctl	**3.50%**	**3.40%**	**3.50%**	**4.00%**
	Median	**3.60%**	**3.65%**	**3.80%**	**4.30%**
	75th Pctl	**3.70%**	**3.85%**	**4.00%**	**4.50%**

10b) Please explain changes, if any, to your estimates in part a since the last time this question was asked.
(22 responses)

Several dealers indicated that they had revised lower their growth estimates, including several who cited uncertainty surrounding international trade as a factor in their forecasts. Several dealers noted that they had revised higher their growth estimates. Finally, several dealers indicated that they had revised higher their core PCE inflation estimates for year-end 2019, citing economic data, while several dealers indicated that they had revised lower their inflation estimates.