Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

March 2013

Policy Expectations Survey

Please respond by **Monday, March 11 at 5pm** 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)** Do you expect any changes in the FOMC statement and, if so, what changes?

b) Do you expect any revisions to FOMC participants' projections provided in the advance materials of the Summary of Economic Projections (SEP) 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 **10-year Treasury yield** falling in each of the following ranges** at the end of 2013, 2014, and 2015.

	<1.00%	1.00 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	>3.50%
Year-end 2013 :							
Year-end 2014 :							
Year-end 2015 :							

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

*** Center bins reflect the median respondent's end-2013 forecast from the Philadelphia Fed Survey of Professional Forecasters.*

5) In the January FOMC statement, the Committee announced it will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month, and also stated that it would take appropriate account of the likely efficacy and costs of such purchases in determining the size, pace, and composition of its asset purchases.

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*
March 19-20:		
April/May 30-1:		
June 18-19:		
December 17-18:		
March 2014:		

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

6) **a)** How would you rate market functioning in longer-term Treasury and agency MBS securities markets today relative to the worst and best conditions you have seen since the beginning of 2009? (1 = worst conditions since 2009, 5 = best conditions since 2009)

	Market Functioning
Treasury market:	Dropdown
Agency MBS market:	Dropdown

b) How has market functioning in longer-term Treasury and agency MBS securities markets changed since September 2012? (1 = significantly worse, 3 = same, 5= significantly better)

	Market Functioning
Treasury market:	Dropdown
Agency MBS market:	Dropdown

Please explain, with reference to the impact of Federal Reserve asset purchases on market functioning, if applicable.

7) a) 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.

	*Quarters**		*Half-Years*						
	2013 Q3	**2013 Q4**	**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)									

**Note, expectations begin with Q3 2013, as Q1 and Q2 are obtained from question 5.*

Please explain any assumptions underlying changes in the pace and/or composition of asset purchases:

Please explain any assumptions underlying any declines in SOMA portfolio levels:

b) Please describe your expectations for the pace and extent of sales of securities held in the SOMA portfolio, if any, during the exit from accommodative monetary policy.

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 level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 10 H.4.1 was $2817 billion.

Level of SOMA Portfolio ($ billions)

	<3000	**3000-3250**	**3250-3500**	**3500-3750**	**3750-4000**	**4000-4250**	**>4250**
year-end 2013							

	<2500	**2500-3000**	**3000-3500**	**3500-4000**	**4000-4500**	**4500-5000**	**>5000**
year-end 2014							

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

9) The January 2013 FOMC statement noted, "If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of Treasury and agency mortgage-backed securities... until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will... take appropriate account of the likely efficacy and costs."

The FOMC's December 2012 Summary of Economic Projections shows the expected central tendency for the unemployment rate at the end of 2013 falling between 7.4 and 7.7 percent. Please indicate the percent chance* you attach to the dollar level of the SOMA portfolio falling within the following ranges at **year-end 2014** for each of three following *hypothetical* scenarios. First, assume the unemployment rate declines to less than 7.4 percent by the end of 2013; second, assume it remains within the 7.4 to 7.7 percent range at the end of 2013; and third, assume it remains greater than 7.7 percent at the end of 2013. Please consider all possible conditions that may be associated with these scenarios in providing your responses.

Level of SOMA Portfolio ($ billions) at year-end 2014*

Unemployment rate at year-end 2013	**<2500**	**2500-3000**	**3000-3500**	**3500-4000**	**4000-4500**	**4500-5000**	**>5000**
Less than 7.4 percent:							
Between 7.4 and 7.7 percent:							
Greater than 7.7 percent:							

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

Economic Indicator Forecasts

10) 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
2015 :		Dropdown		Dropdown		Dropdown		Dropdown
Longer run:								

Please comment on any risks you see to your forecast :

11) 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%**

Point estimate for most likely outcome:

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

12) 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:

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) 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

6) a) How would you rate market functioning in longer-term Treasury and agency MBS securities markets today relative to the worst and best conditions you have seen since the beginning of 2009?

Market Functioning:
5 -- Best conditions since 2009
4
3
2
1 -- Worst conditions since 2009

b) How has market functioning in longer-term Treasury and agency MBS securities markets changed since September 2012?

Market Functioning:
5 -- Significantly better
4
3
2
1 -- Significantly worse

10) 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