Responses to Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

June 2015

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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 22 primary dealers. Except where noted, all 22 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 June FOMC statement. Limit your responses to changes you consider most likely.

Current economic conditions and the economic outlook:

Many dealers expected the statement to reflect a modestly more optimistic tone regarding current economic conditions and the strength of the labor market. Several dealers anticipated that the statement would note that weaker than expected economic growth in the first quarter of 2015 was largely transitory in nature, while several other dealers expected the statement to reflect a modest upgrade to the Committee's characterization of domestic housing activity. Several dealers expected that the Committee would note a less optimistic tone regarding current economic conditions, and several dealers expected the Committee to note continued softness in business fixed investment.

Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:

Most dealers did not expect a significant change to the Committee's policy of reinvesting Treasury and agency securities.

Communication on the expected path of policy rates and forward guidance on the target federal funds rate:

Many dealers did not expect a significant change in the Committee's communication regarding the expected path of policy rates and forward guidance on the target federal funds rate.

Other:
(10 responses)

Dealers did not provide substantial commentary in this section.

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

Most dealers expected that FOMC participants' economic projections would reflect lower forecasts for economic growth in 2015.

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

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)?**

Many dealers expected FOMC participants' year-end target federal funds rate projections for 2015 to be revised lower and for the dispersion of projections to narrow. Some dealers expected lower projections for 2016 and several dealers expected lower projections for 2017. Several dealers expected lower projections for the longer run target federal funds rate. Several dealers anticipated no material change to the target federal funds rate projections in the SEP.

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

Some dealers expected the Chair to emphasize that the path of policy is data dependent, and that normalization of the stance of policy was likely to be gradual if the economy evolved as expected. Some dealers expected the Chair to note that the beginning of policy normalization could begin later this year, and that it could occur at any future meeting. Lastly, several dealers expected the Chair to address the degree to which the weakness in Q1 growth may have been due to transitory factors.

e) **How do you expect the June 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	
25th Pctl	2
Median	3
75th Pctl	3

Please explain:
(21 responses)

Some dealers explained that their view was driven by the expectation that the June FOMC events would be interpreted by market participants as signaling that the Committee was closer to the start of monetary policy normalization. Several dealers noted that their view was driven by expected changes in FOMC participants' target rate projections. Several dealers explained that their view was driven by the expectation that the June FOMC events would not provide substantially new information with regard to the Committee's views on the policy stance.

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.**

	Jun. 16-17	Jul. 28-29	Sep. 16-17	Oct. 27-28	Dec. 15-16	Jan. 26-27	Mar. 15-16	≥ Apr. 26-27
Average	2%	5%	44%	9%	21%	8%	9%	4%

	Most Likely Meeting of First Increase in Target Rate or Range
25th Pctl	September 2015
Median	September 2015
75th Pctl	September 2015

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 within 2 Years Following Liftoff	
25th Pctl	75%
Median	80%
75th Pctl	85%

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.

First Year Following Liftoff

	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
Average	15%	44%	27%	12%	3%

Second Year Following Liftoff

	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
Average	12%	30%	29%	21%	8%

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.**
(21 complete responses)

Top of Target Range

	June 16-17	July 28-29	September 16-17	October 27-28	December 15-16	January 26-27	March 15-16	2016 Q2	2016 Q3	2016 Q4	2017 H1	2017 H2	2018 H1	2018 H2
25th Pctl	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	1.00%	1.00%	1.25%	1.50%	2.00%	2.50%	2.75%	3.00%
Median	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.88%	3.25%	3.38%
75th Pctl	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.75%	2.00%	2.63%	3.13%	3.50%	3.75%
# of Responses	22	22	22	22	22	22	21	20	19	19	16	16	16	14

Bottom of Target Range

	June 16-17	July 28-29	September 16-17	October 27-28	December 15-16	January 26-27	March 15-16	2016 Q2	2016 Q3	2016 Q4	2017 H1	2017 H2	2018 H1	2018 H2
25th Pctl	0.00%	0.00%	0.25%	0.25%	0.25%	0.25%	0.75%	0.75%	1.00%	1.25%	1.75%	2.25%	2.50%	2.75%
Median	0.00%	0.00%	0.25%	0.25%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.63%	3.00%	3.13%
75th Pctl	0.00%	0.00%	0.25%	0.25%	0.50%	0.50%	0.75%	1.00%	1.50%	1.75%	2.38%	2.88%	3.25%	3.50%
# of Responses	22	22	22	22	22	22	21	20	19	19	16	16	16	14

Target Rate

	June 16-17	July 28-29	September 16-17	October 27-28	December 15-16	January 26-27	March 15-16	2016 Q2	2016 Q3	2016 Q4	2017 H1	2017 H2	2018 H1	2018 H2
25th Pctl							0.25%	0.50%	0.75%	1.00%	2.25%	2.50%	2.75%	2.75%
Median							0.25%	0.88%	1.50%	1.75%	2.25%	2.75%	2.75%	3.25%
75th Pctl							0.25%	1.25%	1.50%	1.75%	2.50%	2.75%	3.25%	3.75%
# of Responses	0	0	0	0	0	0	1	2	3	3	5	5	5	7

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	10-yr Average FF Rate
25th Pctl	3.25%	2.50%
Median	3.50%	2.78%
75th Pctl	3.75%	3.20%

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.**

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	17%	36%	40%	5%	1%	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	7%	16%	26%	27%	18%	5%	1%

Year-End 2017

	≤2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	≥4.51%
Average	20%	22%	25%	18%	9%	4%	2%

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):
(16 responses)

Many dealers noted that they did not make any material changes to their expectation for the timing of liftoff and/or the most likely path of the target rate or range. In explaining changes in their expectations, several dealers cited their expectation for more gradual increases in the path of policy rates following liftoff, while several dealers noted lower GDP growth as increasing the risks of a later than expected liftoff or a shallower path of policy rates after liftoff.

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.**

Year-End 2015

	≤1.50%	1.51- 2.00%	2.01- 2.50%	2.51- 3.00%	3.01- 3.50%	3.51- 4.00%	>4.00%
Average	5%	14%	37%	29%	10%	3%	1%

	Year-End 2016						
	≤2.50%	2.51-3.00%	3.01-3.50%	3.51-4.00%	4.01-4.50%	4.51-5.00%	>5.00%
Average	18%	34%	27%	13%	5%	2%	1%

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

Several dealers explained that spillover from higher European sovereign debt yields led them to adjust their forecasts for the 10-year Treasury yield, while several other dealers cited increases in measures of term premiums when explaining the changes to their forecasts. Several dealers also cited higher market rates as motivating the changes to their forecasts. Several dealers cited no material change to their forecasts.

b) The 10-year Treasury yield increased 36 basis points between April 28 and June 3. 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
Average (bps)	9	3	24

What factor or factors were most material in driving your estimate of the intermeeting change in the each of the subcomponents listed above?
(20 responses)

Many dealers cited higher European sovereign debt yields as leading to changes in the market-implied nominal term premium. Several dealers explained that their decomposition was driven by an increase in market-implied measures of inflation compensation.

4. 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.

	< 5.0%	5.0 - 5.4%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	29%	58%	12%	2%	0%

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%
Average	4%	23%	50%	18%	5%

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 April, seasonally adjusted, was 141.4 million. For your calculations, please take into account the May data to be released on June 5.

	Unemployment Rate	Labor Force Participation Rate	Total NFP*	12-Month Change in Average Hourly Earnings	Core 12-Month PCE Inflation	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.2%	62.8%	142.4	2.3%	1.3%	0.4%	1.9%
Median	5.2%	62.9%	142.5	2.5%	1.4%	0.7%	2.0%
75th Pctl	5.3%	62.9%	142.7	2.5%	1.5%	1.0%	2.0%

**In millions*

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". If you do not believe a cap on the O/N RRP will be employed at a particular time period, please write "No cap".*
(19 complete responses)

One Quarter Prior to Liftoff

	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Demand ($ bn)	O/N RRP Cap ($ bn)**
25th Pctl	0.25%	0.13%	0.12%	0.05%	0.26%	0.15%	100	300
Median	0.25%	0.13%	0.13%	0.05%	0.29%	0.15%	150	300
75th Pctl	0.25%	0.13%	0.15%	0.05%	0.30%	0.20%	150	300

Immediately Following Liftoff

	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Demand ($ bn)	O/N RRP Cap ($ bn)**
25th Pctl	0.50%	0.38%	0.30%	0.25%	0.55%	0.31%	150	475
Median	0.50%	0.38%	0.35%	0.25%	0.55%	0.35%	200	500
75th Pctl	0.50%	0.38%	0.38%	0.25%	0.62%	0.40%	500	750

† 3 dealers expected no O/N RRP cap.

1 Year Following Liftoff

	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Demand ($ bn)	O/N RRP Cap ($ bn)**
25th Pctl	1.50%	1.38%	1.33%	1.25%	1.45%	1.30%	100	300
Median	1.50%	1.38%	1.38%	1.25%	1.64%	1.35%	300	400
75th Pctl	1.75%	1.63%	1.58%	1.50%	1.90%	1.55%	400	600

3 Years Following Liftoff

	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Demand ($ bn)	O/N RRP Cap ($ bn)**
25th Pctl	3.00%	2.88%	2.90%	2.75%	3.05%	2.88%	75	200
Median	3.25%	3.25%	3.25%	3.00%	3.50%	3.25%	150	300
75th Pctl	3.50%	3.50%	3.50%	3.25%	3.80%	3.50%	250	400

**For dealers that submitted ranges, midpoints of the ranges are used.*
***Only dealers who forecasted a cap were included in the calculation for the expected size of the O/N RRP cap.*

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.
(18 responses)

Several dealers noted their expectation that the cap for overnight RRP operations will be temporarily raised at liftoff. Several dealers noted that the impact of regulatory reform on money markets will likely influence how demand for overnight RRP operations evolves after liftoff.

e) Please provide the percent chance you attach to the average federal funds effective rate, excluding month- or quarter-end dates, falling within the following subsets relative to the 25 basis point target range in the first month immediately following liftoff.
(21 complete responses)

	Below the Range	Bottom 8 Basis Points of Range	Middle 9 Basis Points of Range	Top 8 Basis Points of Range	Above the Range
Average	5%	36%	43%	13%	2%

Please explain which factor or factors were most relevant in formulating your expectations and any assumptions made.
(19 responses)

Several dealers noted their expectation that the federal funds effective rate will trade near the middle of the range after liftoff, similar to current trading dynamics. Several dealers noted their expectation that the federal funds effective rate would likely be supported by the overnight RRP rate after liftoff.

5. a) 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 select "N/A". Please ensure your signs are correct.

	Most Likely Quarter and Year of End to Reinvestments	
	Treasuries*	Agency Debt and MBS**
25th Pctl	Q1 2016	Q1 2016
Median	Q2 2016	Q1 2016
75th Pctl	Q3 2016	Q2 2016

	Number of Months Relative to Liftoff	
	Treasuries*	Agency Debt and MBS**
25th Pctl	6	5
Median	6	6
75th Pctl	12	7

**Two dealers expect no end to reinvestments of Treasury securities.
**One dealer expects no end to reinvestments of Agency Debt and MBS securities.

b) In its Policy Normalization Principles and Plans, the Committee indicated that it "expects to cease or commence phasing out reinvestments" after liftoff. For Treasuries and agency debt and MBS, please indicate the percent chance you attach to the Committee during the process of policy normalization ceasing its reinvestments all at once, phasing out its reinvestments over time, or not changing its reinvestments.

Treasuries

	No Change to Reinvesments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Average	14%	30%	56%

Agency Debt and MBS

	No Change to Reinvesments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Average	10%	33%	57%

Please explain your assumptions for the timing, size, and pace of redemptions, initially and over time, and sales of securities, if applicable.

Some dealers indicated that they do not expect any near-term sales of securities, while several dealers noted that they expect the Committee will take a gradual approach to reducing the size of the SOMA portfolio. Several dealers indicated that they expect reinvestments for Treasury and agency MBS securities to be ceased simultaneously.

Please also explain the factors behind any change in your expectations since the last time the question was asked in the April 2015 survey.
(15 responses)

Dealers did not provide substantial commentary in this section.

6. a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.
(17 complete responses)

		Q4/Q4 2015	Q4/Q4 2016	Q4/Q4 2017	Longer Run
GDP:	25th Pctl	1.80%	2.50%	2.30%	2.00%
	Median	2.00%	2.65%	2.50%	2.25%
	75th Pctl	2.10%	2.90%	2.70%	2.30%
Core PCE Deflator:	25th Pctl	1.30%	1.80%	1.90%	
	Median	1.40%	1.90%	2.00%	
	75th Pctl	1.60%	2.00%	2.10%	
Headline PCE Deflator:	25th Pctl	0.80%	1.80%	2.00%	2.00%
	Median	1.05%	1.90%	2.10%	2.00%
	75th Pctl	1.20%	2.20%	2.10%	2.00%
Unemployment Rate*:	25th Pctl	5.00%	4.60%	4.60%	5.00%
	Median	5.15%	4.80%	4.80%	5.20%
	75th Pctl	5.20%	4.90%	5.00%	5.50%

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

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). Please explain which data were most relevant in formulating your characterization.

Characterization of Balance of U.S. Economic Data over Intermeeting Period	
25th Pctl	3
Median	3
75th Pctl	3

Please explain:
(21 responses)

Several dealers characterized the Q2 rebound in economic growth indicators as weaker than expected when explaining their characterization of economic data over the intermeeting period. In addition, several dealers noted stronger than expected labor market and housing data as balancing out weaker than expected consumer spending and a variety of other perceived weak data when explaining their view.

7. a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from June 1, 2015 - May 31, 2020. 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%	2.51-3.0%	≥3.01%
Average	4%	12%	32%	32%	14%	6%

Point estimate for most likely outcome:

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

b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from June 1, 2020 - May 31, 2025. 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	3%	9%	23%	40%	18%	7%

Point estimate for most likely outcome:

	Most Likely Outcome
25th Pctl	2.00%
Median	2.25%
75th Pctl	2.40%

9. a) What percent chance do you attach to the U.S. economy currently being in a recession?
b) What percent chance do you attach to the U.S. economy being in a 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?

	Currently in NBER Recession
25th Pctl	2%
Median	5%
75th Pctl	5%

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

	NBER Recession in 3 Years
25th Pctl	20%
Median	28%
75th Pctl	35%