Responses to Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

January 2015

Responses to Survey of Primary Dealers
Distributed: 01/15/2015 – Received by: 01/20/2015

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 January FOMC statement. Limit your responses to changes you consider most likely.

Current economic conditions and the economic outlook:

Many dealers expected that the FOMC would not make any significant changes to the language referencing economic conditions and the economic outlook, while several dealers expected the Committee would note increased downside risks to inflation. Some dealers anticipated that the FOMC would cite declines in business fixed investment since the last meeting.

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

Most dealers reported that they did not anticipate significant changes to the Committee's policy of reinvesting principal payments on Treasury and agency securities at the January meeting.

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

Many dealers expected that the Committee would alter or drop the forward guidance language referencing "considerable time" at the January meeting, while some dealers reported that they anticipate that the Committee would not make any material changes to the forward guidance at the January meeting.

Other:

Dealers did not provide substantial commentary in this section.

b) How do you expect the January FOMC statement 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	3
Median	3
75th Pctl	3

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

Please explain:

Many dealers indicated that they anticipate that the January FOMC statement would not materially alter the market's perceptions of the stance of monetary policy.

2. How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on December 8? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

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

Please explain:

Some dealers reported that the intermeeting communication from the Federal Reserve was clear and effective, while several other dealers noted that they felt there could have been more communication from the Fed during the intermeeting period.

3. 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.

	Jan. 27-28	Mar. 17-18	Apr. 28-29	Jun. 16-17	Jul. 28-29	Sep. 16-17	Oct. 27-28	Dec. 15-16	≥ Jan. 2016
Average	0%	1%	6%	26%	10%	21%	7%	14%	15%

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

	Probability of Not Returning to ZLB within 2 Years Following Liftoff
25th Pctl	80%
Median	80%
75th Pctl	85%

	First Year Following Liftoff				
	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
Average	11%	31%	29%	23%	6%

	Second Year Following Liftoff				
	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
Average	9%	23%	26%	26%	16%

Please rate the importance of the following factors in determining your assessment of the probability of returning to the zero lower bound during the 2 years following liftoff, if applicable (5 = very important, 1 = not important).

	Adverse future shocks to the U.S. economy	Adverse future shocks to foreign economies	Premature increase in target rate or range	Adverse future changes in financial stability	Other (3 responses)
Average	4.5	2.7	3.0	3.0	2.0

If “Other”, please explain.

Dealers did not provide substantial commentary in this section.

c) 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 each 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.

	Top of Target Range									
	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1	2018 H2
25th Pctl	0.25%	0.25%	0.50%	0.75%	1.25%	1.75%	2.25%	2.80%	3.25%	3.30%
Median	0.25%	0.38%	0.65%	0.90%	1.50%	2.25%	2.75%	3.25%	3.50%	3.63%
75th Pctl	0.25%	0.50%	0.75%	1.00%	1.75%	2.50%	3.25%	3.50%	4.00%	4.00%
# of Responses	22	22	22	22	19	18	15	15	14	14

	Bottom of Target Range									
	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1	2018 H2
25th Pctl	0.00%	0.00%	0.25%	0.50%	1.00%	1.50%	2.00%	2.70%	3.00%	3.20%
Median	0.00%	0.13%	0.48%	0.73%	1.25%	2.00%	2.50%	3.00%	3.25%	3.38%
75th Pctl	0.00%	0.25%	0.50%	0.75%	1.50%	2.25%	3.00%	3.25%	3.75%	3.75%
# of Responses	22	22	22	22	19	18	15	15	14	14

	Target Rate									
	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1	2018 H2
25th Pctl					0.75%	1.63%	2.50%	2.50%	2.50%	2.50%
Median					1.50%	2.00%	2.75%	3.13%	3.50%	3.50%
75th Pctl					1.75%	2.25%	3.00%	3.50%	3.75%	4.25%
# of Responses	0	0	0	0	3	4	6	6	6	6

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	3.50%	2.50%
Median	3.50%	2.90%
75th Pctl	4.00%	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.
(21 complete responses)

	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	16%	25%	37%	18%	4%	1%	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	5%	10%	17%	23%	26%	15%	4%

	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	15%	17%	19%	23%	15%	9%	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):

Some dealers noted that they did not make any material changes to their expectations for the timing of liftoff, while several dealers indicated that they felt that the risks had shifted toward a later liftoff over the intermeeting period.

4. 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	7%	17%	31%	27%	12%	4%	2%

	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	19%	32%	27%	14%	6%	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).

Several dealers noted that they expect that recent quantitative easing and interest rate cuts by foreign central banks will put downward pressure on longer-term U.S. interest rates, while several other dealers noted that continued global growth concerns drove the change in their expectations.

5. a) Provide the percent chance you attach to the Committee making a material modification to the forward-guidance language on the path of the policy rate prior to liftoff, as appropriate, over the time periods below. If you expect multiple changes to the forward-guidance language prior to liftoff, please provide your probabilities for the first change only.

	No Change Prior to Liftoff	January 2015 FOMC	March 2015 FOMC	April 2015 FOMC	> April 2015 FOMC
Average	1%	6%	33%	21%	39%

b) Please describe any material change or changes to the forward-guidance language you expect prior to liftoff, including what changes would be made and when.

Some dealers indicated that they expect the language referencing "patient" to be dropped at some point prior to liftoff, while several other dealers noted that they expect that language to be dropped exactly 2 meetings prior to liftoff.

c) Conditional on the forward-guidance language being changed at the time(s) and in the way(s) you consider most likely, how do you expect this to impact financial conditions?

Many dealers indicated that they expect that the forward guidance change would result in a tightening of financial conditions.

6. a) The price on the front-month WTI futures contract has declined more than 50 percent since July to reach roughly $45 per barrel. Please rate the importance of the following factors in motivating the declines in oil seen over the past six months (5 = very important, 1 = not important).

	Supply-related factors	Demand-related factors	Technical factors	Other (6 Responses)
Average	4.7	3.2	2.1	4.0

If "Other", please explain.

Dealers did not provide substantial commentary in this section.

b) **Please provide the percent chance you attach to the front-month WTI futures contract price at year-end 2015 falling within the following ranges. Please also provide your point estimate for the most likely price of the front-month contract at year-end 2015. For reference, the front-month contract at year-end 2015 is the February 2016 contract.**
(20 responses)

	Year-End 2015 WTI Price/barrel				
	<$40	$40-49	$50-59	$60-69	≥$70
Average	9%	17%	30%	29%	15%

	Most Likely Outcome ($/barrel)
25th Pctl	$ 55
Median	$ 60
75th Pctl	$ 65

c) **Please provide an estimate of how the change in energy futures prices since July has impacted your forecasts for average real GDP growth for 2015 (Q4/Q4) and the change in the core PCE deflator for 2016 (Q4/Q4), if applicable. Please ensure your signs are correct.**

	Impact on 2015 Real GDP (bps)
25th Pctl	20
Median	40
75th Pctl	50

	Impact on 2016 Core PCE (bps)
25th Pctl	-20
Median	-10
75th Pctl	0

Please also discuss which other factors, if any, motivated a change in your forecasts for real GDP growth and core inflation.

Other Factors:

2015 Real GDP Growth

Several dealers noted that the appreciation of the U.S. dollar had impacted their forecasts for economic growth.

2016 Core PCE

Dealers did not provide substantial commentary in this section.

7. 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%
Average	65%	30%	4%	1%

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%	22%	48%	22%	4%

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 December, seasonally adjusted, was 140.3 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	5.2%	62.7%	141.6	2.2%	0.2%	1.9%
Median	5.3%	62.8%	141.8	2.4%	0.5%	2.0%
75th Pctl	5.4%	62.9%	142.1	2.6%	1.1%	2.1%

**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"*.**
(18 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 Usage ($ bn)
25th Pctl	0.25%	0.13%	0.12%	0.05%	0.25%	0.09%	150
Median	0.25%	0.13%	0.13%	0.05%	0.25%	0.13%	150
75th Pctl	0.25%	0.13%	0.13%	0.05%	0.30%	0.15%	175

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 Usage ($ bn)
25th Pctl	0.50%	0.38%	0.30%	0.25%	0.50%	0.30%	150
Median	0.50%	0.38%	0.35%	0.25%	0.55%	0.33%	275
75th Pctl	0.50%	0.38%	0.38%	0.30%	0.64%	0.38%	300

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 Usage ($ bn)
25th Pctl	1.50%	1.38%	1.35%	1.25%	1.50%	1.35%	150
Median	1.75%	1.50%	1.50%	1.40%	1.83%	1.45%	213
75th Pctl	2.00%	1.88%	1.85%	1.75%	2.15%	1.80%	300

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 Usage ($ bn)
25th Pctl	3.25%	3.13%	3.15%	3.20%	3.15%	3.10%	50
Median	3.50%	3.38%	3.35%	3.25%	3.50%	3.35%	150
75th Pctl	4.00%	3.88%	3.95%	3.75%	4.05%	3.90%	250

**For dealers that submitted ranges, midpoints of the ranges are used. (Complete responses only include responses that were specific numbers or ranges.)*

Please note how you expect the Committee's approach to policy normalization to evolve over time. Additionally, please 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.

Several dealers indicated that they expect O/N RRP usage to increase after the normalization process begins, while several other dealers noted that they expect O/N RRP usage to decline as the policy rate increases.

e) **Please discuss your expectations for the usage of other supplementary tools, such as term RRPs or the TDF, in the normalization process.**

Most dealers noted that they had made no changes since the last survey.

8. a) **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.**
(21 responses)

		2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*	2018 CY*
		($ billions)					
Change in the estimated amount of Treasuries:	25th Pctl	0	0	-140	-82	-200	-372
	Median	0	0	-54	-72	-194	-368
	75th Pctl	0	0	0	-50	-190	-200
Change in the estimated amount of agency debt and MBS:	25th Pctl	0	-7	-100	-100	-192	-198
	Median	0	0	-66	-76	-160	-156
	75th Pctl	0	0	-34	-60	-140	-118

**Calendar Year*

b) **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.**
(21 responses)

	Most Likely Quarter and Year of End to Reinvestments	
	Treasuries*	Agency Debt and MBS
25th Pctl	Q1 2016	Q4 2015
Median	Q1 2016	Q1 2016
75th Pctl	Q3 2016	Q1 2016

**One dealer expects no end to reinvestments of Treasury securities*

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

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:

Many dealers indicated that their expectations regarding the timing, size, and pace of redemptions and sales of securities had not changed since the last survey.

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

		Q4/Q4 2014	**Q4/Q4 2015**	**Q4/Q4 2016**	**Q4/Q4 2017**	**Longer Run**
	25th Pctl	2.50%	2.70%	2.50%	2.25%	2.00%
GDP:	Median	2.60%	3.00%	2.80%	2.50%	2.25%
	75th Pctl	2.70%	3.10%	3.00%	2.80%	2.45%
	25th Pctl	1.40%	1.40%	1.80%	1.90%	
Core PCE Deflator:	Median	1.40%	1.65%	1.90%	2.00%	
	75th Pctl	1.40%	1.80%	2.10%	2.10%	
	25th Pctl	1.10%	0.70%	1.90%	2.00%	2.00%
Headline PCE Deflator:	Median	1.10%	1.48%	2.05%	2.05%	2.00%
	75th Pctl	1.20%	1.70%	2.30%	2.20%	2.00%
	25th Pctl	5.70%	5.00%	4.80%	4.70%	5.00%
Unemployment Rate*:	Median	5.70%	5.15%	4.95%	4.80%	5.20%
	75th Pctl	5.70%	5.30%	5.10%	5.20%	5.50%

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

10. a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from January 1, 2015 - December 31, 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%**	**2.51-3.0%**	**≥3.01%**
Average	4%	13%	32%	31%	13%	7%

	Most Likely Outcome
25th Pctl	1.90%
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 January 1, 2020 - December 31, 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%
Average	3%	10%	26%	37%	17%	7%

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

11. a and b) What percent chance do you attach to the U.S. economy currently being in a recession? What percent chance do you attach to the U.S. economy being in a recession in 6 months? (NBER-defined)

	Currently in NBER Recession
25th Pctl	0%
Median	2%
75th Pctl	5%

	NBER Recession in 6 Months
25th Pctl	7%
Median	10%
75th Pctl	10%