Responses to Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

January 2014

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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. Brief summaries of the comments received in free response form have also been provided.

Except where noted, all primary dealers responded to each question. In some cases, dealers may not have forecasts extending to the same time horizon as requested in the survey. In these instances, the number of respondents who fully answered all parts of the question is provided.

Monetary Policy Expectations

1. 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:

Some dealers expected little to no change to the assessment of economic conditions or the economic outlook in the January FOMC statement. Several dealers noted that the statement might contain a more positive assessment of recent economic activity, while several others anticipated the statement could acknowledge possible weather-related distortions in recent data.

Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:

All of the dealers expected the statement to announce a reduction in the pace of asset purchases by $10 billion.

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

Most dealers noted that they expected no change to communication on the expected path of policy rates or forward guidance on the target federal funds rate.

Other: (6 responses)

Dealers did not provide substantial commentary in this section.

2. a) How do you expect the FOMC statement on January 29 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

Some dealers noted that they expected the outcome of the January FOMC meeting to be in line with market expectations. Many dealers reiterated their own expectations for a reduction in the pace of purchases at the January FOMC meeting, with several of those dealers also noting that they anticipated no change in forward rate guidance. Several dealers stated that they expected no change to the January FOMC statement.

b) **What announced purchase pace, effective following the upcoming FOMC meeting, do you believe would result in roughly no change in the price of the 10-year Treasury note, assuming no other policy action?**

Monthly Pace Resulting in No Change in 10-year Treasury Yield

	Treasuries	Agency MBS
25th Pctl	35	30
Median	35	30
75th Pctl	35	30

3. **How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on December 9? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.**

Fed Communication Grade

	Number of Respondents:
1 - Very Ineffective	0
2	2
3	8
4	10
5 - Very Effective	1

(20 responses)

Several dealers noted that Chairman Bernanke provided clear communication around the policy actions taken in December during his post-meeting press conference. Several dealers described the additional qualitative guidance on the target federal funds rate provided in the December FOMC statement as vague.

4. a) **Of the possible outcomes below, provide the percent chance you attach to the timing of the first target federal funds rate increase.**

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	≥2018 H1
Average	0%	6%	23%	31%	23%	10%	4%	2%	2%

	Most Likely Quarter and Year of First Target Rate Increase:
25th Pctl	Q3 2015
Median	Q4 2015
75th Pctl	Q1 2016

b) **Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range at the end of each half-year period. 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.**

	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017	H1 2018	Longer Run	10-yr Average FF Rate
25th Pctl	0-.25%	0-.25%	0-.25%	0-.25%	1.00%	1.50%	2.00%	2.50%	3.00%	3.75%	2.50%
Median	0-.25%	0-.25%	0-.25%	0.75%	1.25%	2.00%	2.75%	3.25%	3.75%	4.00%	2.80%
75th Pctl	0-.25%	0-.25%	0-.25%	0.75%	1.50%	2.25%	3.00%	4.00%	4.00%	4.00%	2.90%

c) Provide your estimate of the neutral nominal federal funds rate—that is, the rate that would be consistent with no unemployment gap and inflation at the FOMC's objective—at year-end 2016 given the financial and economic conditions you expect to prevail at that time.

	End-2016 Neutral Rate
25th Pctl	2.25%
Median	3.50%
75th Pctl	4.00%

d) If you changed your expectations for questions 4a), 4b), and/or 4c) since the last time the questions were asked, explain the factors that motivated you to make the change(s).

(17 responses)

Several dealers stated that an improved economic outlook led them to change their forecast for the path of the target federal funds rate. Several dealers expected an earlier first increase in the target rate and several expected a faster pace of rate increases thereafter. Several dealers noted they made no change to their expectation for the future path of the target rate.

e) 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, as well as your estimate for the most likely value. Assume that the rate of inflation between one and two years ahead remains below 2.5 percent and longer-term inflation expectations remain well anchored prior to the first increase. Consider all possible conditions that may be associated with these scenarios in formulating your responses.

	< 6.0%	6.0 - 6.5%	> 6.5%
Average	58%	37%	4%

	Most Likely Value for UNR at Liftoff
25th Pctl	5.7%
Median	5.9%
75th Pctl	6.0%

5. 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 2014, 2015, and 2016.

(20 complete responses)

	Year End 2014						
	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	90%	8%	2%	0%	0%	0%	0%

	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	31%	21%	31%	14%	3%	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%	14%	19%	25%	19%	11%	5%

6. a) **Provide your estimate of the most likely outcome for the 10-year Treasury yield at the end of each half-year period. In addition, provide your estimate of the longer run level of the 10-year Treasury yield.**

(19 complete responses)

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1	Longer Run
25th Pctl	3.00%	3.25%	3.50%	3.75%	3.94%	4.10%	4.25%	4.25%	4.25%	4.44%
Median	3.15%	3.45%	3.65%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.75%
75th Pctl	3.25%	3.60%	3.85%	4.10%	4.28%	4.50%	4.65%	4.75%	4.83%	4.85%

b) **Provide your estimate of the most likely outcome for the 30-year fixed primary mortgage rate at the end of each half-year period. In addition, provide your estimate of the longer run level of the 30-year fixed primary mortgage rate.**

(19 complete responses)

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1	Longer Run
25th Pctl	4.50%	4.75%	5.00%	5.21%	5.45%	5.50%	5.60%	5.75%	5.75%	5.83%
Median	4.68%	4.99%	5.28%	5.59%	5.75%	5.90%	6.05%	6.20%	6.30%	6.25%
75th Pctl	4.88%	5.30%	5.56%	5.88%	6.08%	6.20%	6.33%	6.43%	6.50%	6.50%

7. a) **In its December statement, the FOMC modified its forward guidance on the target federal funds rate by stating that, "it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6-1/2 percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal." The minutes of the December 2013 FOMC meeting noted that the Committee discussed "the potential for clarifying or strengthening the Committee's forward guidance for the federal funds rate," and cited the options listed below. Provide the percent chance you attach to the Committee further clarifying or strengthening its current forward guidance for the target federal funds rate in any of the following ways at some point in the future. Percentages do not have to add up to 100 percent.**

	Option 1	Option 2	Option 3	Option 4	Other
25th Pctl	10%	40%	40%	30%	0%
Median	25%	60%	75%	50%	0%
75th Pctl	40%	75%	80%	60%	0%

Option 1:	Lowering the unemployment rate threshold.
Option 2:	More clearly conveying that inflation remains an important consideration in adjusting the federal funds rate.
Option 3:	Providing further guidance on information relevant to determining the appropriate timing of the first rate hike after the UNR threshold is reached.
Option 4:	Using medians of federal funds rate projections from the SEP to communicate the likely path of short-term interest rates.

b) If you see any possibility of the FOMC statement further clarifying or strengthening the forward guidance for the federal funds rate as described above, provide your estimate of the meeting at which the change you consider most likely would occur.

	Most Likely Meeting:
25th Pctl	March 2014
Median	March 2014
75th Pctl	June 2014

8. a) Provide your estimate for the most likely 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
2014	January 28-29:	25th Pctl	35	30
		Median	35	30
		75th Pctl	35	30
	March 18-19:	25th Pctl	30	25
		Median	30	25
		75th Pctl	30	25
	April 29-30:	25th Pctl	25	20
		Median	25	20
		75th Pctl	25	20
	June 17-18:	25th Pctl	20	15
		Median	20	15
		75th Pctl	20	15
	July 29-30:	25th Pctl	15	10
		Median	15	10
		75th Pctl	15	10
	September 16-17:	25th Pctl	10	5
		Median	10	5
		75th Pctl	10	5
	October 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	3	0
	December 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
2015	January 27-28:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0

Please explain any changes to your assumptions behind the increments of pace reduction and any changes in the expected composition of Treasury and agency MBS purchases since the last survey on December 9:

(20 responses)

Some dealers noted their expectation for the FOMC to steadily reduce the pace of purchases by $10 billion at upcoming meetings, with several noting that the decision to reduce the pace of asset purchases in December caused them to modify their forecasts. Several dealers pointed to Chairman Bernanke's guidance at the December press conference as a reason behind the changes to their expected pace of asset purchases.

b) Provide the percent chance you attach to the next reduction in asset purchase pace being announced at the January FOMC meeting.

	Percent Chance of Reduction:
25th Pctl	80%
Median	85%
75th Pctl	90%

c) 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.

(18 complete responses)

		2015 H1	2015 H2	2016 CY*	2017 CY*	2018 CY*
				($ billions)		
Change in the estimated amount of Treasuries:	25th Pctl portfolio	-3	-7	-230	-208	-359
	Median portfolio	0	0	-216	-194	-342
	75th Pctl portfolio	0	-6	-146	-198	-335
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	-9	-86	-173	-183	-181
	Median portfolio	0	-62	-158	-135	-135
	75th Pctl portfolio	0	0	-117	-164	-105

**Calendar Year*

Please explain your assumptions behind your projections for the timing, size, and pace of redemptions and sales of securities, if applicable. Please note if your assumptions have changed since the last survey:

(20 responses)

Several dealers expected the level of the SOMA portfolio to start declining in 2015, while several others expected declines to begin in 2016. Some dealers also provided details regarding their assumptions behind the pace and magnitude of portfolio declines. Some dealers stated that they believed asset sales were unlikely during the process of balance sheet normalization. Some dealers noted no changes from their prior survey.

9. **Of the possible outcomes below, indicate the percent chance you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2014 and year-end 2015. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 2, 2014 H.4.1 was $3,814 billion (the H.4.1 closest to the start of 2014).**

Year-end 2014

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Average	0%	0%	7%	44%	39%	7%	1%	1%

Year-end 2015

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Average	0%	1%	12%	45%	31%	7%	2%	1%

10. Provide your estimate of the most likely outcome for output, inflation, and unemployment.

(15 complete responses)

		Q4/Q4 2014	Q4/Q4 2015	Q4/Q4 2016	Longer Run
	25th Pctl	2.50%	2.60%	2.65%	2.15%
GDP:	Median	2.70%	2.80%	2.80%	2.25%
	75th Pctl	3.00%	3.20%	3.00%	2.50%
	25th Pctl	1.50%	1.70%	1.85%	
Core PCE:	Median	1.60%	1.80%	2.00%	
	75th Pctl	1.80%	1.90%	2.05%	
	25th Pctl	1.40%	1.70%	1.85%	2.00%
Headline PCE:	Median	1.70%	1.80%	2.00%	2.00%
	75th Pctl	1.80%	2.00%	2.20%	2.00%
	25th Pctl	6.20%	5.60%	5.50%	5.40%
Unemployment Rate*:	Median	6.30%	5.80%	5.60%	5.50%
	75th Pctl	6.40%	5.90%	5.78%	5.78%

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

11. For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from 2018 - 2023. Please also provide your point estimate for the most likely outcome.

	≤1.0%	1.01-1.5%	1.51-2.0%	2.01-2.5%	2.51-3.0%	≥3.01%
Average	4%	10%	25%	33%	19%	9%

	Point Estimate
25th Pctl	2.00%
Median	2.20%
75th Pctl	2.40%

12. a) What percent chance do you attach to the US economy currently being in a recession?

	Currently in NBER Recession
25th Pctl	1%
Median	5%
75th Pctl	5%

b) What percent chance do you attach to the US economy being in a recession in 6 months?

	NBER Recession in 6 Months
25th Pctl	7%
Median	10%
75th Pctl	15%