

SURVEY OF PRIMARY DEALERS

JANUARY 2019

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 participants are not involved in the survey's design.



Please respond by **Tuesday, January 22nd at 2:00 pm Eastern time** to the questions below. Your time and input are greatly appreciated.

Type of Respondent:

Primary Dealer

Respondent Name:

- 1a)** Provide below your expectations for changes, if any, to the language referencing each of the following topics in the January FOMC statement.

Current economic conditions:

Economic outlook:

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

Other:

- 1b)** What are your expectations for the Chairman's press conference?

- 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.

Rating:

Please Explain:

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.

2019 FOMC meetings							
	Jan 29-30	Mar 19-20	Apr 30 - May 1	Jun 18-19	Jul 30-31	Sep 17-18	Oct 29-30
Target rate / midpoint of target range:							

Quarters					Half Years		
	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 H1	2021 H2
Target rate / midpoint of target range:							

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:

Expectation for average federal funds rate over next 10 years:

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
<input type="text"/>	<input type="text"/>	<input type="text"/>

**Responses should add up to 100 percent.*

3d) Conditional on the Committee's next policy action between now and the end of 2019 being an increase in the target federal funds rate or range, please indicate the percent chance* that you attach to the following possible outcomes for the timing of such a change. Only fill out this conditional probability distribution if you assigned a non-zero probability to the Committee's next policy action between now and the end of 2019 being an increase.

Increase Occurs at January 2019 FOMC meeting	Increase Occurs at March 2019 FOMC meeting	Increase Occurs at April/May 2019 FOMC meeting or later
<input type="text"/>	<input type="text"/>	<input type="text"/>

**Responses should add up to 100 percent.*

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, conditional on the following possible scenarios for the direction and timing of the Committee's next policy action between now and the end of 2019. Only fill out the conditional probability distributions for which you assigned a non-zero probability to the conditioning event occurring. If you expect a target range, please use the midpoint of that range in providing your response.

	≤ 2.00%	2.01 - 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	3.01 - 3.25%	3.26 - 3.50%	≥ 3.51%
Next change is an increase, occurs at Mar. 2019 FOMC meeting or earlier:								
Next change is an increase, occurs at Apr./May 2019 FOMC meeting or later:								

	≤ 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	≥ 2.01%
Next change is a decrease:								

**Responses across each row should add up to 100 percent.*

3f-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.

	≤ 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%
Year-end 2020:								
Year-end 2021:								

**Responses across each row should add up to 100 percent.*

3f-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 the ZLB at some point between now and the end of 2021:

3f-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.

	< 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%
Year-end 2020:								
Year-end 2021:								

*Responses across each row should add up to 100 percent.

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

Level of the target federal funds rate or range at the effective lower bound (in percent):

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

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.

	≤ 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	≥ 4.01%
Year-end 2019:							
Year-end 2020:							

*Responses across each row should add up to 100 percent.

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.

Current level: Year-end 2019: Year-end 2020: Year-end 2021:

Please explain the factors behind any changes to your estimates since the policy survey on July 23.

- 6) Various measures of interest rate and equity market volatility increased in the fourth quarter of 2018. Please rate the importance of the following factors in driving the increase in volatility in the fourth quarter of 2018, as well as in late December in particular. (5=very important, 1=not important)

	2018 Q4	Late December 2018
Changes in outlook for U.S. economy:		
Changes in <u>uncertainty</u> around outlook for U.S. economy:		
Changes in outlook for foreign economies:		
Changes in <u>uncertainty</u> around outlook for foreign economies:		
Changes in perception of the FOMC's reaction function for <u>interest rate policy</u> :		
Changes in perception of the FOMC's reaction function for <u>balance sheet policy</u> :		
Realized change in aggregate size of global central banks' balance sheets:		
Changes in global political uncertainty:		
Automated/quantitative trading strategies:		
Seasonal factors (e.g., reduced market liquidity):		
Other (please explain):		

If "Other", please explain:

- 7) In the June 2017 addendum to the 2014 Policy Normalization Principles and Plans, the Committee outlined its approach for reducing the Federal Reserve's holdings of Treasury and agency securities. Please provide your estimates for the effects, if any, on the following indicators from the implementation of reinvestment caps on maturing securities over calendar years 2018 and 2019.

	10-year Treasury yield (bps)	30-year production coupon MBS option-adjusted spread (bps)	S&P 500 Index (percent)	10-year ACM term premium* (bps)
Estimated effect over calendar year 2018:				
Estimated effect over calendar year 2019:				

**For more information, please see https://www.newyorkfed.org/research/data_indicators/term_premia.html*

Please explain the factors behind differences, if any, in the effects you estimate over calendar year 2019 compared to calendar year 2018.

8a) In the June 2017 addendum to the 2014 Policy Normalization Principles and Plans, the Committee outlined its approach for reducing the Federal Reserve's holdings of Treasury and agency securities. Please provide your estimate for the level of the par value of the SOMA portfolio at the end of 2019, conditional on the target federal funds rate or range at the end of 2019 falling in each of the ranges below. If you expect a range for the federal funds target, please use the midpoint of that range in providing your response. For reference, the level of the SOMA portfolio on January 9, 2019 was \$3862 billion, including inflation compensation and settled and unsettled agency MBS, according to the most recent H.4.1 release.

Federal funds target rate or range at year-end 2019					
	1.76 - ≤ 1.75%	2.26 - 2.25%	2.76 - 2.75%	3.26 - 3.25%	≥ 3.26%
Par value of SOMA portfolio (\$ billions):					

8b) Please indicate the percent chance* that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2021, conditional on **not** moving to the ZLB at any point between now and the end of 2021. For reference, the level of the SOMA portfolio on January 9, 2019 was \$3862 billion, including inflation compensation and settled and unsettled agency MBS, according to the most recent H.4.1 release. Levels referenced below are in \$ billions.

≤ 2500	2501 - 3000	3001 - 3500	3501 - 4000	≥ 4001

**Responses should add up to 100 percent.*

8c) Please indicate the percent chance* that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2021, conditional on moving to the ZLB at any point between now and the end of 2021. Only fill out this conditional probability distribution if you assigned a non-zero probability to moving to the ZLB at some point between now and the end of 2021 in question 3. Levels referenced below are in \$ billions.

≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501

**Responses should add up to 100 percent.*

8d) Please explain how your view of balance sheet normalization has changed, if at all, since the policy survey on December 10.

9a) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from January 1, 2019 - December 31, 2023 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%

Point estimate for most likely outcome:

**Responses should add up to 100 percent.*

9b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from January 1, 2024 - December 31, 2028 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%

Point estimate for most likely outcome:

**Responses should add up to 100 percent.*

10a) 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?

**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.*

10b) 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

**Responses should add up to 100 percent.*

***NBER-defined recession*

10c) Please explain the factors behind any change to your expectations in parts a and b since the last policy survey.

11a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.

	Real GDP (Q4/Q4 Growth)	Core PCE Inflation (Q4/Q4)	Headline PCE Inflation (Q4/Q4)	Unemployment Rate (Q4 Average Level)
2019:				
2020:				
2021:				
Longer run:				

11b) Please explain changes, if any, to your estimate in part a since the last policy survey.

Thank you for your time and input. Please send survey results to ny.mktpolicysurvey@ny.frb.org