Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

October 2013

Policy Expectations Survey

Please respond by **Tuesday, October 22, at 5:00 pm** 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) The September FOMC statement contained information outlining the Committee's view on the economy as well as discussion of policy actions with regard to asset purchases and forward rate guidance. Provide below your expectations for changes, if any, to the language referencing each of these topics in the October FOMC statement. Limit your responses to changes you consider most likely.

	Language Changes Expected
Current economic conditions and the economic outlook:	
Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Other:	

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

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

b) If you made any changes to your expectations for the most likely timing of the first target rate increase since the last survey update on September 23, explain the factors that motivated you to make the change(s).

3) a) 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.

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

Longer run:

Expectation for average federal funds rate over next 10 years:

b) As noted in the minutes to the September FOMC meeting, a number of participants expected that, "if economic headwinds died away only slowly…the achievement of the Committee's employment and price stability objectives would likely require keeping the federal funds rate below its longer-run equilibrium value for some time even as economic conditions improved."

We are interested in the degree to which economic headwinds are impacting your estimate of the neutral nominal federal funds rate over the next several years—that is, the rate that would be consistent with no unemployment gap and inflation at the FOMC's objective. Please provide your estimate of the neutral nominal federal funds rate at end-2016, given the financial and economic conditions you expect to prevail at that time.

Estimate for neutral nominal federal funds rate at end-2016:

Please comment on any difference between this estimate and your longer run estimate provided in Part a) above:

4) Provide the probability you assign to the unemployment rate falling within the following ranges at the time of the first increase in the target federal funds rate. Please 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%
Unemployment rate:			

Bins are scaled to responses from September SPD. Percentages should add to 100 percent.

5) The minutes of the September 2013 meeting noted that the Committee discussed "the potential for clarifying or strengthening the Committee's forward guidance for the federal funds rate." Provide the probability you assign to the Committee clarifying or strengthening its current forward guidance for the target federal funds rate at some point in the future?

Probability of clarifying or strengthening forward guidance on target federal funds rate:

Please comment on any changes to your expectations for the likelihood, timing, or type of guidance since the prior survey on September 9:

6) 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.

	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 2014:							
Year-end 2015:							
	≤1.00%	**1.01 - 1.50%**	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**≥3.51%**
****Year-end 2016:**							

** Percentages across rows should add up to 100 percent.*
*** Bins scaled to median dealer response from Question 3 in September SPD update.*

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

Rating: dropdown **Please Explain:**

8) In the September 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 decisions about the pace, "will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases."

a) Provide your expectation 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*
2013	**October 29-30:**		
	December 17-18:		
2014	**January 28-29:**		
	March 18-19:		
	April 29-30:		
	June 17-18:		
	July 29-30:		
	September 16-17:		
	October 28-29 (1 year ahead):		

Please explain any changes to your assumptions behind the increments of pace reduction and any changes in the composition of Treasury and agency MBS purchases since the last survey update on September 23.

b) Provide your distribution of probabilities* for the timing of the announcement of the first reduction in pace, given the FOMC meetings below.

		Treasuries	*Agency MBS*
2013	**October 29-30:**		
	December 17-18:		
2014	**January 28-29:**		
	March 18-19:		
	Later than Q1:		

**Percentages for each column should add to 100 percent*

c) In his September press conference, Chairman Bernanke noted that in judging when to moderate the pace of asset purchases, "the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectations of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective." 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?

	Treasuries	*Agency MBS*
Pace of purchases following upcoming FOMC meeting ($ billions):		

Please Explain:

d) 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, please include settled and unsettled amounts.

	Half-Years			*Full Years*		
	2014 H2	**2015 H1**	**2015 H2**	**2016 - Full Year**	**2017 - Full Year**	**2018 - Full Year**
Expected change in amount of U.S. Treasury securities in SOMA ($ billions)						
Expected change in amount of agency debt and agency MBS in SOMA ($ billions)						

**Note, expectations begin with H2 2014 as prior periods are obtained from part a).*

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:

9) 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 2014. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 3, 2013 H.4.1 was $2,785 billion (the H.4.1 closest to the start of 2013).

Level of SOMA Portfolio ($ billions)**

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Year-end 2014:								

** Percentages should add up to 100 percent.*
*** Central bins are based on highest probability bucket in September SPD update.*

Economic Indicator Forecasts

10) Provide your estimate of the most likely outcome 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:								

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.

≤1.0%	**1.01-1.5%**	**1.51-2.0%**	**2.01-2.5%**	**2.51-3.0%**	**≥3.01%**

** Percentages should add up to 100 percent.*

Point estimate for most likely outcome:

12) a) What percent chance do you attach to the US economy currently being in a recession*? **Recession currently:**
** NBER-defined recession.*

b) What percent chance would you attach to the US economy being in a recession* **in 6 months**? **Recession in 6 months:**
** NBER-defined recession.*

Dropdown Selections

2) a) Estimate for most likely quarter and year of first target rate increase:

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) a) 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 and over the longer run:

Target Federal Funds 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%

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

Rating:

5 -- Very Effective
4
3
2
1 -- Very Ineffective

10) Provide your estimate of the most likely outcome 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