Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

July 2014

Policy Expectations Survey

Please respond by **Monday, July 21, 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) a) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the July 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:	

b) How do you expect the release of the July 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: | **Please Explain:**

2) 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 the upcoming FOMC meeting ($ billions):		

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

Rating: | **Please Explain:**

4) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first target federal funds rate increase. Also, provide your estimate for the most likely quarter and year of the first target rate increase.

≤2014 Q4	**2015 Q1**	**2015 Q2**	**2015 Q3**	**2015 Q4**	**2016 Q1**	**2016 Q2**	**≥2016 Q3**

** Percentages should add up to 100 percent, bins are centered around highest average probability from June SPD.*

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

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 period below. 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.

Quarters					*Half Years*				
2014 Q4	**2015 Q1**	**2015 Q2**	**2015 Q3**	**2015 Q4**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**2018 H1**

Longer run: | **Expectation for average federal funds rate over next 10 years:**

If you changed your expectations for the most likely timing of first target federal funds rate increase and/or the most likely path of the target rate since the last time the questions were asked, explain the factors that motivated you to make the change(s):

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.

	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:							
	≤0.50%	**0.51 - 1.00%**	**1.01 - 1.50%**	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**≥3.01%**
Year-end 2016:							

** Percentages across rows should add to 100 percent.*

6) 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.

	< 5.5 %	**5.5 - 5.9%**	**6.0 - 6.5%**	**> 6.5%**
Unemployment rate:				

**Percentages across rows should add up to 100 percent.*

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.

	< 1.25%	**1.25 - 1.74%**	**1.75 - 2.24%**	**2.25 - 2.74%**	**≥ 2.75%**
Inflation between 1 and 2 years ahead at liftoff:					

**Percentages across rows should add up to 100 percent.*

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. 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 June, seasonally adjusted, was 138.8 million.

Unemployment rate:	
Labor force participation rate:	
Total U.S. employees on non-farm payrolls (millions):	
12-month change in average hourly earnings:	
Headline 12-month PCE Inflation:	
Inflation between 1 and 2 years ahead (at liftoff):	

d) The minutes of the June FOMC meeting noted that, as part of prudent planning, "Meeting participants continued their discussion of issues associated with the eventual normalization of the stance and conduct of monetary policy." Please detail your expectations for the Committee's approach to monetary policy normalization and the combination of policy tools that might be used to accomplish those objectives.

Provide your forecast for the most likely levels of the following indicators immediately following liftoff in the target federal funds rate. If you do not believe a particular tool will be used in the context of monetary policy normalization, please enter "N/A". If you expect a target range, please enter the range. If you expect the Term Deposit Facility and Term Treasury RRP will be used in normalization, please specify the term that you believe will be most heavily used and provide the expected rate for that term.

Administered Rates and Policy Tools:	*in percent*	*term (days)*
Target Federal Funds Rate:		
Rate of Interest on Excess Reserves:		
O/N RRP Rate:		
Term Deposit Facility Rate:		
Term Treasury RRP Rate:		

Market Rates:	*in percent*
Federal Funds Effective Rate:	
Overnight Treasury GCF Repo Rate:	
4-Week T-Bill Rate:	
3-Month LIBOR Rate:	

Federal Reserve Balance Sheet:	*in $billions*
Expected usage of O/N RRP, as applicable:	
Expected usage of term RRPs and TDF, as applicable:	

7) 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	July 29-30:		
	September 16-17:		
	October 28-29:		
	December 16-17:		
2015	January 27-28:		
	March 17-18:		
	April 28-29:		
	June 16-17:		
	July 28-29:		

Please explain any changes to your expectations for the increments of pace reduction and/or any changes in the expected composition of Treasury and agency MBS purchases since the last survey on June 9:

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

	Percent Chance of Reduction
July 29-30:	

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.

	Half Years					*Full Year*
	2014 H2	**2015 H1**	**2015 H2**	**2016 H1**	**2016 H2**	**2017**
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):						

d) 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. 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.

	Quarter & Year	*Number of months relative to liftoff*
Treasuries:		
Agency debt and MBS:		

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 survey on June 9:

8) 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.

Level of SOMA Portfolio ($ billions)

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Year-end 2014:								
Year-end 2015:								

** Percentages should add up to 100 percent.*

Economic Indicator Forecasts

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

	GDP (Q4/Q4 Growth) *Estimate*	**Core PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Headline PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Unemployment Rate (Q4 Average Level)** *Estimate*
2014:				
2015:				
2016:				
Longer run:				

10) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from 2019 - 2024. 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%**

** Percentages should add up to 100 percent.*

Point estimate for most likely outcome:

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

** NBER-defined recession.*

Recession currently:

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

** NBER-defined recession.*

Recession in 6 months:

Dropdown Selections

1) b) How do you expect the release of the July 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:	1 -- Less Accommodative
	2
	3 -- Neutral
	4
	5 -- More Accommodative

3) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on June 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

4) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first target federal funds rate increase. Also, provide your estimate for the most likely quarter and year of the first target rate increase.

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

4) 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 period below. 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.

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) d) 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. 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.

Quarter & Year:	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