RESPONSES TO SURVEY OF PRIMARY DEALERS

Markets Group, Federal Reserve Bank of New York

MARCH 2018

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The **Survey of Primary Dealers** 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.

For most questions, median responses across dealers, along with the 25th and 75th percentiles, are reported.[1] 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 are also provided.

Responses were received from 23 primary dealers. Except where noted, all 23 dealers responded to each question. In some cases, dealers may not have provided complete responses (e.g. 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.

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

List of Primary Dealers:
www.newyorkfed.org/markets/primarydealers

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

Current economic conditions:
(22 responses)

Some dealers expected no change to the characterization of current economic conditions in the March FOMC statement, while several dealers expected the Committee to acknowledge strengthening in the labor market since the time of the January statement.

Economic outlook:
(22 responses)

Several dealers expected no change to the Committee's characterization of the economic outlook, and several expected the statement language to indicate an upgrade to the balance of risks.

Communication on the expected path of the target federal funds rate:
(22 responses)

Some dealers expected no change to this section of the statement.

Other:
(10 responses)

Dealers did not provide substantial commentary in this section.

1b) What are your expectations for the medians of FOMC participants' economic projections in the Summary of Economic Projections (SEP)?

Most dealers expected upward revisions to the medians of participants' GDP forecasts, many dealers expected downward revisions to the medians of participants' unemployment rate forecasts, and some dealers expected upward revisions to the medians of participants' inflation forecasts. Several dealers noted that recent changes to fiscal policy shaped their expectations.

1c) What are your expectations for the most likely levels of the medians of FOMC participants' target federal funds rate projections in the SEP?
(22 responses)

	Year-end 2018	Year-end 2019	Year-end 2020	Longer Run
25th Pctl	**2.13%**	**2.75%**	**3.13%**	**2.75%**
Median	**2.13%**	**2.88%**	**3.13%**	**2.75%**
75th Pctl	**2.38%**	**2.88%**	**3.25%**	**2.88%**

Please comment on the balance of risks around your expectations.

(22 responses)

Many dealers indicated that they viewed the balance of risks around median target federal funds rate projections as tilted to the upside, and several of these dealers noted that they perceived changes in fiscal policy as tilting risks to the upside. Also, several dealers expected no change to these medians.

1d) Additionally, please describe any expected changes to the distributions of FOMC participants' target rate projections, if applicable.
(21 responses)

Several dealers expected the average of participants' target federal funds rate projections to increase, and several anticipated that the dispersion of these projections would decline.

1e) What are your expectations for the Chairman's press conference?
(21 responses)

Some dealers expected the Chairman to adopt an optimistic tone in his characterization of the growth and inflation outlooks. Also, several dealers expected the Chairman remarks to be similar to his congressional testimony in February, and several expected that he would comment on the implications of recent changes to fiscal policy. Finally, several dealers expected the Chairman to emphasize that conditions are expected to warrant continued gradual removal of accommodation.

2a) 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.

	Mar. 20-21 2018	May 1-2 2018	Jun. 12-13 2018	Jul. 31 - Aug. 1 2018	Sep. 25-26 2018	Nov. 7-8 2018	Dec. 18-19 2018
25th Pctl	1.63%	1.63%	1.88%	1.88%	2.13%	2.13%	2.13%
Median	1.63%	1.63%	1.88%	1.88%	2.13%	2.13%	2.38%
75th Pctl	1.63%	1.63%	1.88%	1.88%	2.13%	2.13%	2.38%
# of Responses	23	23	23	23	23	23	23
	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 H2
25th Pctl	2.38%	2.63%	2.63%	2.63%	2.88%	2.88%	2.88%
Median	2.50%	2.63%	2.88%	2.88%	2.88%	3.13%	3.00%
75th Pctl	2.63%	2.88%	3.13%	3.13%	3.13%	3.13%	3.25%
# of Responses	22	22	22	22	18	18	18

2b) 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	**2.50%**	**2.00%**
Median	**2.75%**	**2.50%**
75th Pctl	**3.00%**	**2.75%**

2c) 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 2018.

	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 2018
Average	**95%**	**1%**	**4%**

2d) Conditional on the Committee's next policy action between now and the end of 2018 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 2018 being an increase.

	Increase Occurs at March FOMC meeting	Increase Occurs at May FOMC meeting	Increase Occurs at June FOMC Meeting or later
Average	**94%**	**2%**	**5%**

2e) 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 2018, conditional on the following possible scenarios for the direction and timing of the Committee's next policy action between now and the end of 2018. 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.

Next change is an increase, occurs at May FOMC meeting or earlier								
	≤ 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	2.01 - 2.25%	2.26 - 2.50%	≥ 2.51%
Average	**1%**	**1%**	**3%**	**6%**	**12%**	**37%**	**33%**	**7%**

Next change is an increase, occurs at Jun. FOMC meeting or later								
	≤ 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	2.01 - 2.25%	2.26 - 2.50%	≥ 2.51%
Average	**2%**	**2%**	**6%**	**16%**	**29%**	**33%**	**11%**	**2%**

Next change is a decrease								
	< 0.0%	0.00 - 0.25%	0.26 - 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	≥ 1.51%
Average	**2%**	**22%**	**21%**	**23%**	**16%**	**12%**	**3%**	**2%**

2f-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 2019 and 2020, conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2020. If you expect a target range, please use the midpoint of that range in providing your response.
(22 responses)

Year-end 2019							
	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥ 3.51%
Average	**3%**	**6%**	**10%**	**18%**	**33%**	**24%**	**7%**

Year-end 2020							
	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥ 3.51%
Average	**6%**	**8%**	**10%**	**14%**	**24%**	**28%**	**10%**

2f-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2020.

	Probability of Moving to ZLB at Some Point between Now and the End of 2020
25th Pctl	**15%**
Median	**20%**
75th Pctl	**35%**

2f-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 2019 and 2020, conditional on moving to the ZLB at some point between now and the end of 2020. 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 2020. If you expect a target range, please use the midpoint of that range in providing your response.
(21 responses)

Year-end 2019								
	< 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%
Average	**11%**	**44%**	**19%**	**12%**	**8%**	**4%**	**1%**	**0%**

Year-end 2020								
	< 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%
Average	**15%**	**48%**	**20%**	**11%**	**4%**	**1%**	**1%**	**0%**

2f-iv) What is your estimate of the target federal funds rate or range at the effective lower bound?
(22 responses)

	Level of Target Fed Funds Rate or Range at ELB
25th Pctl	**-0.35%**
Median	**0.00%**
75th Pctl	**0.13%**

2g) For parts a-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.
(17 responses)

Several dealers indicated that they placed a higher probability on four increases in the target federal funds range in 2018, and several expected a higher target range across various time horizons. Also, several dealers revised their forecast as a response to changes in fiscal policy.

3a) Provide your estimate of the most likely outcome for the 10-year Treasury yield at the end of each period below. In addition, provide your estimate of the longer-run level of the 10-year Treasury yield.

	2018 Q1	2018 Q2	2018 Q3	2018 Q4
25th Pctl	**2.80%**	**2.80%**	**2.90%**	**2.90%**
Median	**2.85%**	**2.93%**	**3.00%**	**3.05%**
75th Pctl	**2.90%**	**3.00%**	**3.15%**	**3.25%**
# of Responses	**22**	**22**	**22**	**22**
	2019 H1	2019 H2	2020 H1	2020 H2
25th Pctl	**3.00%**	**2.95%**	**3.00%**	**3.00%**
Median	**3.13%**	**3.23%**	**3.40%**	**3.28%**
75th Pctl	**3.30%**	**3.50%**	**3.60%**	**3.75%**
# of Responses	**21**	**20**	**18**	**18**

	Longer Run
25th Pctl	**3.00%**
Median	**3.25%**
75th Pctl	**3.75%**
# of Responses	**19**

3b) Provide your estimate of the most likely outcome for the 30-year fixed primary mortgage rate at the end of each period below. In addition, provide your estimate of the longer-run level of the 30-year fixed primary mortgage rate.

	2018 Q1	2018 Q2	2018 Q3	2018 Q4
25th Pctl	**4.35%**	**4.36%**	**4.45%**	**4.50%**
Median	**4.40%**	**4.45%**	**4.50%**	**4.60%**
75th Pctl	**4.45%**	**4.50%**	**4.63%**	**4.70%**
# of Responses	**17**	**17**	**17**	**17**
	2019 H1	2019 H2	2020 H1	2020 H2
25th Pctl	**4.53%**	**4.55%**	**4.60%**	**4.60%**
Median	**4.73%**	**4.80%**	**4.95%**	**4.95%**
75th Pctl	**4.86%**	**5.08%**	**5.26%**	**5.38%**
# of Responses	**16**	**16**	**15**	**15**

	Longer Run
25th Pctl	**4.55%**
Median	**5.05%**
75th Pctl	**5.43%**
# of Responses	**16**

4) The spread between 3-month USD LIBOR and the 3-month overnight index swap rate was about 42 basis points as of March 7, its highest level since October 2016. Please rate the importance of the following factors in influencing the current level of this spread (5=very important, 1=not important).

Factors Influencing the Current Level of the 3-Month USD LIBOR-OIS Spread				
	Treasury bill issuance	Bank credit risk	Repatriation of earnings by corporations	Other
1 - Not Important	0	13	3	2
2	2	6	1	2
3	6	1	8	2
4	5	0	5	2
5 - Very Important	8	1	4	1
# of Responses	21	21	21	9

If "Other", please explain:
(7 responses)

Dealers did not provide substantial commentary in this section.

5a) Equity market volatility increased in early February before largely retracing. Please rate the importance of the following factors in explaining this episode of heightened equity market volatility (5=very important, 1=not important).

Factors Explaining the Feb. 2018 Episode of Heightened Equity Market Volatility							
	Changes to outlook on U.S. growth	Changes to outlook on U.S. inflation	Recent Fed policy actions and communications	Equity valuation levels	Increases in long-term interest rates	Volatility-linked products or strategies	Other
1 - Not Important	9	1	7	2	1	1	0
2	6	4	5	3	5	4	0
3	3	4	2	8	7	3	1
4	4	10	7	6	6	6	1
5 - Very Important	0	3	1	3	3	8	0
# of Responses	22	22	22	22	22	22	2

If "Other", please explain:
(2 responses)

Dealers did not provide substantial commentary in this section.

5b) Please provide your view on how heightened equity market volatility has affected other asset classes, if at all.
(18 responses)

Several dealers noted that equity market volatility has influenced the actual or expected level, slope and/or curvature of the U.S. Treasury yield curve.

6a) 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 2020, conditional on **not** moving to the ZLB at any point between now and the end of 2020. For reference, the level of the SOMA portfolio on February 28th, 2018 was $4202 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.
(22 responses)

	≤ 3000	3001 - 3500	3501 - 4000	4001 - 4500	≥ 4501
Average	**24%**	**51%**	**18%**	**6%**	**1%**

6b) 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 2020, conditional on moving to the ZLB at any point between now and the end of 2020. 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 2020 in question 3. Levels referenced below are in $ billions.
(21 responses)

	≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501
Average	**24%**	**37%**	**22%**	**12%**	**6%**

7a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.
(17 responses)

		Q4/Q4 2018	Q4/Q4 2019	Q4/Q4 2020	Longer Run
GDP	25th Pctl	**2.40%**	**1.90%**	**1.60%**	**1.70%**
	Median	**2.69%**	**2.30%**	**1.80%**	**1.80%**
	75th Pctl	**2.90%**	**2.60%**	**2.20%**	**2.10%**
Core PCE Deflator	25th Pctl	**1.80%**	**1.90%**	**2.00%**	-
	Median	**2.00%**	**2.10%**	**2.00%**	-
	75th Pctl	**2.00%**	**2.20%**	**2.06%**	-
Headline PCE Deflator	25th Pctl	**1.80%**	**1.90%**	**2.00%**	**2.00%**
	Median	**1.93%**	**2.10%**	**2.00%**	**2.00%**
	75th Pctl	**2.10%**	**2.10%**	**2.10%**	**2.00%**
Unemployment Rate*	25th Pctl	**3.60%**	**3.30%**	**3.50%**	**4.25%**
	Median	**3.70%**	**3.55%**	**3.90%**	**4.50%**
	75th Pctl	**3.80%**	**3.80%**	**4.00%**	**4.90%**

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

7b) Provide your estimate of the most likely outcome for the U.S. federal fiscal deficit (as a percent of GDP) for fiscal years 2018, 2019 and 2020.
(20 responses)

	FY 2018	FY 2019	FY 2020
25th Pctl	**3.50%**	**4.80%**	**4.90%**
Median	**3.86%**	**5.10%**	**5.15%**
75th Pctl	**4.16%**	**5.30%**	**5.30%**

7c) Please explain changes to your estimates in parts a and b since the last policy survey, where applicable.
(22 responses)

Many dealers expected wider fiscal deficits compared to the last policy survey due to the passage of the Bipartisan Budget Act of 2018. Some dealers expected higher economic growth, several revised higher their estimates for inflation outcomes, and several revised lower their estimates for the unemployment rate; in explaining these changes, some dealers indicated that revisions to their forecasts in part (a) also resulted from the passage of the Bipartisan Budget Act of 2018.

8a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from March 1, 2018 – February 28, 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%
Average	**3%**	**11%**	**29%**	**39%**	**14%**	**5%**

	Most Likely Outcome
25th Pctl	**2.01%**
Median	**2.20%**
75th Pctl	**2.30%**

8b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from March 1, 2023 – February 29, 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%
Average	**4%**	**10%**	**32%**	**37%**	**13%**	**5%**

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

9a) What percent chance do you attach to the U.S. economy **currently** being in a recession**?

9b) What percent chance do you attach to the U.S. economy being in a recession** **in 6 months**?

9c) What percent chance do you attach to the global economy being in a recession*** **in 6 months**?

	Currently in U.S. Recession		U.S. Recession in 6 Months		Global Recession in 6 Months
25th Pctl	**0%**	25th Pctl	**5%**	25th Pctl	**8%**
Median	**2%**	Median	**10%**	Median	**10%**
75th Pctl	**5%**	75th Pctl	**10%**	75th Pctl	**10%**

***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.*

9d) Please explain the factors behind any change to your expectations in parts a-c since the last policy survey.
(14 responses)

Several dealers noted that they made no change to their recession probabilities.