

RESPONSES TO SURVEY OF MARKET PARTICIPANTS

Markets Group, Federal Reserve Bank of New York



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The **Survey of Market Participants** 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 participants, along with the 25th and 75th percentiles, are reported.¹ For questions that ask respondents to give a probability distribution, the average response across participants for each potential outcome is reported. Brief summaries of the comments received in free response form are also provided.

Responses were received from 28 market participants. Except where noted, all 28 participants responded to each question. In some cases, participants 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.

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

Current economic conditions:

Some respondents indicated that they expected no material changes to this portion of the statement, and several respondents indicated that they expected the Committee to continue to characterize economic activity growth as moderate.

Economic outlook:

Some respondents indicated that they expected no or few material changes to this portion of the statement. Several respondents indicated that they expected the Committee to note that uncertainties remain elevated or continue to weigh on the outlook, and several indicated that they expected the Committee to reiterate that uncertainties surrounding the outlook have increased.

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

Several respondents indicated that they expected the Committee to continue to indicate that it would “closely monitor” the implications of incoming information, and several indicated that they expected the Committee to reiterate that it would “act as appropriate” to sustain the economic expansion. Finally, several respondents indicated that they expected no material changes to this portion of the statement.

Other:

(10 responses)

Respondents did not provide substantial commentary in this section.

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

Some respondents indicated that they expected the Chair to comment on the rationale for the Committee's decision to decrease the target range for the federal funds rate. In particular, several respondents indicated that they expected the Chair to note global uncertainty or risks to growth as a rationale for decreasing the target range, and several indicated that they expected him to cite uncertainty surrounding international trade as a rationale for the rate decrease. Several respondents indicated that they expected the Chair to describe the decrease in the target range as precautionary, to describe it in the context of risk management, or to note that U.S. economic conditions had not materially deteriorated. Finally, several respondents indicated that they expected the Chair to indicate that future decreases in the target range are possible or likely.

- 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.

Number of Respondents	
1 - Ineffective	7
2	7
3	5
4	8
5 - Effective	1

Please explain.

Several respondents characterized communication as consistent, and several respondents indicated that they found communication to be generally clear and/or suggested that a readiness to lower the target range was effectively signaled. In addition, some respondents cited communications toward the end of the intermeeting period as informing their ratings. Finally, several respondents indicated that they viewed communication as inconsistent or, at times, unclear.

- 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.

	Jul 30-31 2019	Sep 17-18 2019	Oct 29-30 2019	Dec 10-11 2019	Jan 28-29 2020	Mar 17-18 2020	Apr 28-29 2020
25th Pctl	2.13%	1.88%	1.88%	1.75%	1.63%	1.63%	1.63%
Median	2.13%	1.88%	1.88%	1.88%	1.88%	1.88%	1.88%
75th Pctl	2.13%	2.13%	2.00%	1.88%	1.88%	1.88%	1.88%
# of Responses	28	28	28	28	28	28	28
	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
25th Pctl	1.63%	1.63%	1.38%	1.25%	1.13%	1.13%	1.13%
Median	1.88%	1.88%	1.75%	1.63%	1.75%	1.75%	1.75%
75th Pctl	1.88%	1.88%	1.88%	2.00%	2.13%	2.13%	2.25%
# of Responses	28	28	28	28	28	28	28

- 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	10-yr Average FF Rate
25th Pctl	2.25%	1.70%
Median	2.50%	2.00%
75th Pctl	2.56%	2.06%

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
Average	1%	93%	6%

3d) Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges immediately following the July FOMC meeting. If you expect a target range, please use the midpoint of that range in providing your response.

Federal Funds Rate or Range Immediately Following the July FOMC Meeting								
$\leq 1.50\%$	1.51 - 1.75%	1.76 - 2.00%	2.01 - 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	$\geq 3.01\%$	
Average	0%	0%	25%	65%	10%	0%	0%	0%

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. If you expect a target range, please use the midpoint of that range in providing your response.

Federal Funds Rate or Range at the End of 2019								
$\leq 1.50\%$	1.51 - 1.75%	1.76 - 2.00%	2.01 - 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	$\geq 3.01\%$	
Average	7%	23%	40%	22%	6%	1%	0%	0%

3f) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range, as applicable, at the end of 2019, conditional on each of the following levels prevailing immediately following the July FOMC meeting. Only provide responses for July levels to which you assigned a non-zero probability.

Year-End 2019 Federal Funds Rate Estimate Conditional on July FOMC Outcomes								
	≤ 1.50%	1.51-1.75%	1.76-2.00%	2.01-2.25%	2.26-2.50%	2.51-2.75%	2.76-3.00%	≥ 3.01%
25th Pctl	0.25%	0.50%	1.63%	1.75%	1.88%	2.63%	3.25%	
Median	0.25%	0.94%	1.63%	1.88%	2.13%	2.63%	3.25%	
75th Pctl	0.25%	1.38%	1.88%	1.88%	2.38%	2.63%	3.25%	
# of Responses	1	2	26	28	20	1	1	0

3g-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.

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%	3.51-4.00%	≥ 4.01%
Average	11%	21%	34%	22%	10%	2%	1%	0%

Year-End 2021								
	≤ 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%
Average	16%	18%	23%	22%	13%	5%	3%	1%

3g-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 ZLB at Some Point between Now and the End of 2021	
25th Pctl	25%
Median	30%
75th Pctl	40%

3g-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.

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	6%	42%	16%	13%	10%	8%	2%	3%

Year-End 2021								
	< 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	10%	59%	15%	9%	4%	1%	1%	0%

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

Level of Target Federal Funds Rate or Range at ELB	
25th Pctl	-0.38%
Median	0.00%
75th Pctl	0.13%

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

Several respondents noted that they had revised their policy expectations in response to communication by Fed officials. Several respondents indicated that they had lowered their near-term modal expectations for the target range and/or that they had assigned increased probability to lower target range outcomes. In addition, several respondents indicated that they had brought forward their expectations for easing, and several noted that they had revised their policy expectations in response to international trade developments.

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.

Year-end 2019							
	≤ 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	≥ 4.01%
Average	12%	31%	36%	16%	3%	1%	1%

Year-end 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%
Average	15%	25%	32%	16%	8%	3%	1%

- 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
25th Pctl	0.50%	0.50%	0.50%	0.50%
Median	0.50%	0.50%	0.50%	0.50%
75th Pctl	0.66%	0.75%	0.81%	0.81%

Please explain the factors behind any changes to your estimates since the policy survey on January 22. (24 responses)

Several respondents noted they had made no material changes to their estimates.

- 6) What are your expectations regarding the path of the par value of the SOMA portfolio over the remainder of 2019 and 2020? (25 responses)

Several respondents indicated that they expected the level of the par value of the SOMA portfolio to continue to decline through September, while several others indicated that they expected these declines to end after the July FOMC meeting. Several respondents indicated that they expected the level of the par value of the SOMA portfolio to remain steady through the end of 2019 after the end of balance sheet runoff, and several indicated that they expected this level to begin increasing in 2020. Finally, several respondents indicated that when the par value of the SOMA portfolio begins to grow, they expected it to grow in line with increases in non-reserve liabilities.

- 7) Please describe your modal expectation and the balance of risks around your modal expectation for international trade developments from now until the end of 2019. In addition, please explain the factors behind any change to your modal expectation since the last policy survey.

Most respondents described their expectations for the outcome of trade negotiations between the U.S. and China, with many

respondents indicating that their modal expectation was for current trade policies between the U.S. and China to remain in place through the end of 2019. Most respondents indicated that the risks around their modal expectations were tilted toward greater trade friction. In addition, with respect to broader trade developments, several respondents indicated that they expected neither escalation nor resolution of trade disagreements in the near term. Several respondents indicated that they expected uncertainty related to future trade developments to continue, and several indicated that the risks around their modal expectations were tilted toward greater trade friction. Finally, several respondents indicated that they expected or saw a possibility of trade friction between the U.S. and Europe.

8a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from July 1, 2019 - June 30, 2024 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%	13%	32%	30%	16%	5%

	Most Likely Outcome
25th Pctl	2.00%
Median	2.00%
75th Pctl	2.23%

8b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from July 1, 2024 - June 30, 2029 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%	12%	26%	32%	19%	7%

	Most Likely Outcome
25th Pctl	2.00%
Median	2.13%
75th Pctl	2.28%

9a) 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**?

	Currently in U.S. Recession		U.S. Recession in 6 Months		Global Recession in 6 Months
25th Pctl	0%	25th Pctl	10%	25th Pctl	12%
Median	1%	Median	15%	Median	20%
75th Pctl	5%	75th Pctl	20%	75th Pctl	28%

**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.*

9b) 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
Average	15%	29%	25%	15%	16%

**NBER-defined recession*

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

In explaining decreases in one or more of their near-term recession probabilities, several respondents cited changes to their expectations for monetary policy, and several cited a perceived easing of risks related to international trade developments. In addition, several respondents indicated that they had made no material changes to their recession probabilities.