

Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York
April, 2011

Policy Expectations Survey

Please respond by **Monday, April 18th at 5:00 p.m.** 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 only involve 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. This survey should not be distributed beyond those directly involved in its completion.

Dealer:

Monetary Policy Expectations

- 1) Of the possible outcomes below, please indicate the percent chance* you attach to the indicated policy target range or target rate following each of the next 3 FOMC meetings:

	Level of Target Range or Rate						
	0.00% - 0.25%	0.25%	0.50%	0.75%	1.00%	1.25%	>1.25%
April 26-27:	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>
June 21-22:	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>
August 9:	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>

* Percentages should add up to 100 percent.

- 2) a) Do you expect any changes in the FOMC statement and if so, what changes?

- b) What additional information do you expect Chairman Bernanke to provide in his post-FOMC meeting press conference on April 27th?

- 3) Of the possible outcomes below, please indicate the percent chance* you attach to the timing of the first fed funds target rate increase:

Timing of First Increase :	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	≥2013 Q2
	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>

* Percentages should add up to 100 percent.

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

- 4) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the fed funds target rate or range at the end of each quarter:

Fed Funds Target Rate or Range :	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
	<input style="width: 50px; height: 15px;" type="text" value="Dropdown"/>	<input style="width: 50px; height: 15px;" type="text" value="Dropdown"/>	<input style="width: 50px; height: 15px;" type="text" value="Dropdown"/>	<input style="width: 50px; height: 15px;" type="text" value="Dropdown"/>	<input style="width: 50px; height: 15px;" type="text" value="Dropdown"/>	<input style="width: 50px; height: 15px;" type="text" value="Dropdown"/>	<input style="width: 50px; height: 15px;" type="text" value="Dropdown"/>	<input style="width: 50px; height: 15px;" type="text" value="Dropdown"/>

- 5) Of the possible outcomes below, please indicate the percent chance* you attach to the fed funds target rate or range 12 months from now:

April 2012 :	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.5%	≥2.51%
	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>

* Percentages should add up to 100 percent.

** Distribution of probability buckets scaled to rates implied by March 2012 Eurodollar futures contracts.

- 6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 3/7/11? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank:

Please explain:

- 7) In the November 2010 FOMC statement, the Committee announced the following: "The Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability." What is your current expectation for the total cumulative size of the asset purchase program, and when do you expect the program to be completed? In your estimate of total cumulative size, please include securities already purchased under this program since November 3, but exclude purchases associated with agency and agency MBS reinvestment.

Total Cumulative Size of Asset Purchase Program \$ Billions

Asset Purchase Program Completion Date Month Year

Please explain:

- 8) What is your expectation for the amount of domestic securities held outright in the SOMA portfolio at year-end for each of the next five years? For your reference, the current level of domestic assets in SOMA is \$2,428 billion, according to the latest H.4.1 release.

Year	2010*	2011	2012	2013	2014	2015
Expected Amount of Domestic Assets in SOMA (\$ Billions)	2,156	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>	<input style="width: 50px; height: 15px;" type="text"/>

* Taken from the 12/30/2010 Federal Reserve H.4.1, Table 9, "Securities Held Outright."

Please explain:

- 9) a) In question 3, you stated that you expect that the first increase in the fed funds target rate is most likely to occur in (Autofill from Question 3). What is your expectation for the level of reserves held with Federal Reserve Banks at the time of the first target rate increase? For your reference, the most recent H.4.1 lists reserve balances at \$1,503 billion.

Level of Reserves in (Autofill from Question 3) (\$ Billions):

b) Please indicate whether the measures listed below will most likely be used for the first time before, concurrent with, or after the first increase in the fed funds target rate, if at all (excluding any operational readiness exercises). Secondly, if you select "before" or "after," please indicate the number of FOMC meetings relative to the first increase in the fed funds target rate you expect each measure to be first utilized.

	# of Meetings	
	Before/Concurrent/ After/Never :	Before/After, or N/A :
Increase IOER*		
Change in "Extended Period" Language in FOMC Statement		
Reverse Repurchases Operations		
Term Deposits		
Halting Treasury Reinvestment		
Halting Agency Debt Reinvestment		
Halting Agency MBS Reinvestment		
Treasury Sales		
Agency Debt Sales		
Agency MBS Sales		

* IOER refers to the rate paid on excess reserves.

Please explain:

c) How do you expect the forward policy guidance (i.e. "exceptionally low levels for the federal funds rate for an extended period" language) could evolve in future FOMC statements?

10) What is the maximum dollar amount of reserves that could be drained over a six week period using temporary open market operations without creating market dislocations? Please answer by filling out the following table indicating the amount using only reverse repos, using only term deposits, and using reverse repos **and** term deposits. Please assume market conditions similar to current market conditions.

Maximum Amount Drained over 6 Week Period (\$bns)	Reverse Repos Only	Term Deposits Only	Reverse Repos & Term Deposits Combined

Please explain:

11) Currently, the level of excess reserves is \$1.5 trillion, the IOER rate is 25 basis points, and the average federal funds effective rate during the current maintenance period is 9 basis points. For each level of reserves and IOER rate given in the table below, please enter your expectation for the **level** of the fed funds effective rate that would result. Please assume market conditions similar to current market conditions.

Expected Level of the Federal Funds Effective Rate					
Level of Excess Reserves					
		\$1.5 Trillion	\$1 Trillion	\$500 Billion	\$0 - \$25 Billion
IOER Rate	0.25%	0.09%			
	1.00%				
	2.00%				

Please explain:

Economic Indicator Forecasts

12) a) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output and inflation:

	GDP (q.o.q.)	Core PCE (y.o.y.)
2011 Q1 :		
2011 Q2 :		
2011 Q3 :		
2011 Q4 :		

b) Provide your firm's estimate of the most likely outcome (i.e. the mode) 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 (Q4/Q4 Growth)		Unemployment Rate (Q4 Average Level)	
	Estimate	Balance of Risk	Estimate	Balance of Risk	Estimate	Balance of Risk
2011 :		Dropdown	Fill from 12a	Dropdown		Dropdown
2012 :		Dropdown		Dropdown		Dropdown
2013 :		Dropdown		Dropdown		Dropdown

Please comment on any risks you see to your forecast :

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 3/7/11?

GDP Uncertainty:	Dropdown	Core PCE Uncertainty:	Dropdown
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13) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q1 2012?

14) For the outcomes below, please indicate the percent chance* you attach for the annual average CPI inflation rate from 2016 - 2021. Please also indicate your point estimate for the most likely outcome (i.e. the mode).

≤1.0%	1.01-1.5%	1.51-2.0%	2.01-2.5%	2.51-3.0%	≥3.01%	
<i>*Percentages should add up to 100 percent.</i>						Point estimate for most likely outcome: <input style="width: 60px;" type="text"/>

15) 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 would you attach to the US economy being in a **RECESSION*** in 6 months?
** NBER-defined recession.*

Recession in 6 months:

16) Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

Dropdown Selections

4) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the fed funds target rate or range at the end of each quarter:

Fed Funds Target 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%
- > 5.00%

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 3/7/11? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank: 5 -- Very effective
4
3
2
1 -- Very ineffective

12) b) Provide your firm's estimate of the most likely outcome (i.e. the mode) 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: Downside
Balanced
Upside

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 3/7/11?

Uncertainty: More Uncertain
Equally Uncertain
Less Uncertain