Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York
April, 2012

Policy Expectations Survey

Please respond by **Monday, April 16 at 5 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 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) Of the possible outcomes below, please indicate the percent chance* you attach to the indicated federal funds 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 24-25:							
June 19-20:							
July 31:							

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

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

b) Do you expect any revisions to FOMC participants' forecasts provided in the advanced materials of the Summary of Economic Projections (SEP) and, if so, what changes?

c) What additional information do you expect Chairman Bernanke to provide in his post-FOMC meeting press conference on April 25th?

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

Timing of First Increase :

2012 H1	**2012 H2**	**2013 H1**	**2013 H2**	**2014 H1**	**2014 H2**	**2015 H1**	**2015 H2**	**2016 H1**	**≥2016 H2**

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

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

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

Federal Funds Target Rate or Range :

2012 H1	**2012 H2**	**2013 H1**	**2013 H2**	**2014 H1**	**2014 H2**	**2015 H1**	**2015 H2**	**2016 H1**	**2016 H2**
Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown

5) Of the possible outcomes below, please indicate the percent chance* you attach to the fed funds target rate or range 1 year from now and at the end of 2014.

	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%**
April 2013 :							
Year-end 2014 :							

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

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 3/5/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank: Dropdown **Please explain:**

7) FOMC communications have discussed several different ways monetary policy could be altered to provide either less or more accommodation.

a) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy tightening or to tighten policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	*Probability within 1 year*	*Probability within 2 years*
Raise interest on excess reserves			
Drain reserves through temporary tools			
Halt reinvestments			
Reduce size of SOMA portfolio through selling securities			
Reduce duration of portfolio*			
Change the forward guidance in the FOMC statement on the path of the federal funds rate			
Provide additional guidance on the likely path for the size and composition of the balance sheet			

Please explain:

*i.e. a deliberate action to decrease the duration of the SOMA portfolio, independent of other policy changes.

b) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy easing or to ease policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	*Probability within 1 year*	*Probability within 2 years*
Lower interest on excess reserves			
Expand SOMA portfolio through securities purchases			
Increase duration of portfolio*			
Change the forward guidance in the FOMC statement on the path of the federal funds rate			
Provide additional guidance on the likely path for the size and composition of the balance sheet			

Please explain:

*i.e. a deliberate action to increase the duration of the SOMA portfolio beyond the currently announced maturity extension program, independent of other policy changes.

The following two questions ask about the changes to the economic outlook that would be expected to lead to either a change in the forward guidance in the FOMC statement or to additional balance sheet policy action. We measure these changes in terms of the shift in the midpoint of the central tendency projections for 2014 from the SEP. **In the January SEP, the midpoints of the central tendency projection ranges for 2014 PCE inflation and Q4 2014 average unemployment were 1.8% and 7.15%, respectively.**

8) The March FOMC Minutes stated "the Committee's forward guidance is conditional on economic developments, and members concurred that the date given in the statement would be subject to revision in response to significant changes in the economic outlook."

a) Holding the 2014 inflation projection listed above constant, in your view how much would the Q4 2014 unemployment projection listed above have to change for the Committee to **shorten the forward guidance's timeframe**? Similarly, how much would the Q4 2014 unemployment projection have to change for the Committee to **lengthen the forward guidance's timeframe**? Assume that this unemployment projection would appear in the SEP before the end of 2012. ***Please ensure that your signs are correct.***

Change to Q4 2014 Average Unemployment Rate Projection

	Shorten Forward Guidance Timeframe	*Lengthen Forward Guidance Timeframe*
Percentage Points		

b) Holding the Q4 2014 average unemployment rate projection listed above constant, in your view how much would the 2014 inflation projection listed above have to change for the Committee to **shorten the forward guidance's timeframe**? Similarly, how much would the 2014 inflation projection have to change for the Committee to **lengthen the forward guidance's timeframe**? Assume that this inflation projection would appear in the SEP before the end of 2012. ***Please ensure that your signs are correct.***

Change to 2014 PCE Inflation Projection

	Shorten Forward Guidance Timeframe	*Lengthen Forward Guidance Timeframe*
Percentage Points		

Please explain:

9) In the January post-meeting press conference, Chairman Bernanke stated that expanding the Federal Reserve's balance sheet would be considered if progress toward full employment was "inadequate" or if inflation remained "exceptionally low."

a) Holding the 2014 inflation projection listed above constant, in your view how much would the Q4 2014 unemployment projection listed above have to change to prompt **additional accommodative balance sheet policy action** before the end of 2012? Assume that this unemployment projection would appear in the SEP before the end of 2012. ***Please ensure that your signs are correct.***

	Change to Q4 2014 Average Unemployment Rate Projection *Prompt Additional Accommodation*
Percentage Points	

b) Holding the Q4 2014 average unemployment rate projection listed above constant, in your view how much would the 2014 inflation projection listed above have to change to prompt **additional accommodative balance sheet policy action** before the end of 2012? Assume that this inflation projection would appear in the SEP before the end of 2012. ***Please ensure that your signs are correct.***

	Change to 2014 PCE Inflation Projection *Prompt Additional Accommodation*
Percentage Points	

Please explain, listing any other economic factors you deem important in warranting additional balance sheet policy action:

Economic Indicator Forecasts

10) **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 Deflator (y.o.y.)	Headline PCE Deflator (y.o.y.)
2012 Q1 :			
2012 Q2 :			
2012 Q3 :			
2012 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 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*
2012 :		Dropdown	Fill from 8a	Dropdown	Fill from 8a	Dropdown		Dropdown
2013 :		Dropdown		Dropdown		Dropdown		Dropdown
2014 :		Dropdown		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 3/5/12?

GDP Uncertainty: Dropdown

Core PCE Deflator Uncertainty: Dropdown

11) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q2 2013?

12) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2017 - 2022. 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%

Percentages should add up to **100 percent.*

Point estimate for most likely outcome:

13) **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:

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

Dropdown Selections

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

Q1 2012
Q2 2012
Q3 2012
Q4 2012
Q1 2013
Q2 2013
Q3 2013
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

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

Federal 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 1/17/12? Please provide a rating between 1 and 5,

Rank:

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

10) 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,

Balance of Risk:

Downside
Balanced
Upside

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 1/17/12?

Uncertainty:

More Uncertain
Equally Uncertain
Less Uncertain