

Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

October 2014

Policy Expectations Survey

Please respond by **Monday, October 20, 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 October FOMC statement. Limit your responses to changes you consider most likely.

	<i>Language Changes Expected</i>
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 October 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) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on September 8? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: **Please Explain:**

3) 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?

Pace of purchases following the upcoming FOMC meeting (\$ billions):

<i>Treasuries</i>	<i>Agency MBS</i>

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

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

* Percentages should add up to 100 percent

Estimate for most likely meeting for first increase in target rate or range:

b) Provide the percent chance you attach to the target federal funds rate or range not returning to the zero lower bound during the 2 years following liftoff.

Probability of not returning to ZLB during the 2 years following liftoff:

Conditional on the target not returning to the zero lower bound, provide the percent chance* you attach to the net change in the target rate or range in each of the two years following liftoff.

	0 - 50 <i>basis points</i>	51 - 100 <i>basis points</i>	101 - 150 <i>basis points</i>	151 - 200 <i>basis points</i>	>200 <i>basis points</i>
First year following liftoff:					
Second year following liftoff:					

* Percentages across rows should add to 100 percent.

c) 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 each period below. If you expect a range, please provide both the top and bottom of the range in the specified fields below. If you expect a target rate, provide your response in the "Target rate" field only.

	<i>Quarters</i>					<i>Half Years</i>				
	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1
Top of range:										
Bottom of range:										
Target rate:										

d) 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: **Expectation for average federal funds rate over next 10 years:**

e) 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, 2016, and 2017. If you expect a target range for federal funds please use the midpoint of the range in providing your response.

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	$\geq 2.51\%$
Year-end 2014:							
Year-end 2015:							
Year-end 2016:							
Year-end 2017:							

* Percentages across rows should add to 100 percent. Bins for year-end 2017 centered around median response to question 3c from September SPD.

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

5) The minutes of the September FOMC meeting indicated that, "Participants also discussed how the forward-guidance language might evolve once the Committee decides that the current formulation no longer appropriately conveys its intentions about the future stance of policy."

a) Provide the percent chance* you attach to the Committee modifying the forward-guidance language prior to liftoff, over the time periods below. If you expect multiple changes to the forward-guidance language prior to liftoff, please provide your response for the first change only.

	No Change Prior to <i>Liftoff</i>	October 2014 <i>FOMC</i>	December 2014 <i>FOMC</i>	January 2015 <i>FOMC</i>	> January 2015 <i>FOMC</i>

* Percentages across rows should add to 100 percent

b) If you see any possibility of changes to the forward-guidance language prior to liftoff, please describe the changes you believe most likely:

c) Conditional on the forward-guidance language being changed at the time and in the way you consider most likely, how do you expect this change to impact financial conditions?

6) Since the beginning of September, the Bloomberg measure of the 5-year/5 year forward breakeven rate of inflation has declined by roughly 20 basis points. Provide your estimate of the decomposition of this forward rate at the two dates cited.

	Expected Average CPI Inflation	Inflation Risk Premium	Other Risk Premia	Your Sum*	5y/5y Forward
September 2, 2014:				0.00%	2.53%
October 15, 2014:				0.00%	2.37%

*Please ensure the sum of your individual components is equal to the level of the 5y/5y forward on the date specified

Please explain the factors contributing to any change in your estimate of the expected average inflation rate: _____
 Please explain the factors contributing to any change in your estimate of the inflation risk premium: _____
 Please explain the factors contributing to any change in your estimate of other risk premia: _____

7) 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 or range.

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

*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 or range.

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

*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 or range. 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 September seasonally adjusted, was 139.4 million.

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

d) Provide your forecast for the expected levels of the following indicators at the time periods provided below. If you expect a target range, please enter the range. If you do not believe a particular tool will be used during one or more of the time periods below, please enter "N/A".

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
Rate of interest on excess reserves (in percent):				
Target federal funds rate or range (in percent):				
Federal funds effective rate (in percent):				
O/N RRP rate (in percent):				
3-month LIBOR (in percent):				
Overnight Treasury GCF repo rate (in percent):				
Usage of O/N RRP (\$ billions):				

Please comment on your reaction to the release of the FOMC's Policy Normalization Principles and Plans.

Please note how you expect the Committee's approach to policy normalization to evolve over time. Additionally, please comment on any changes you expect over time in the relative levels of money market rates and the expected amount of O/N RRP usage.

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

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 September 8:

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

October 28-29:	Percent Chance of Reduction

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 or range. 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 September 8:

Economic Indicator Forecasts

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

	GDP (Q4/Q4 Growth)	Core PCE Deflator (Q4/Q4 Growth)	Headline PCE Deflator (Q4/Q4 Growth)	Unemployment Rate (Q4 Average Level)
2014:				
2015:				
2016:				
2017:				
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.

≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥3.01%	Point estimate for most likely outcome:

* Percentages should add up to 100 percent.

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

Recession currently:

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

Recession in 6 months:

*NBER-defined recession

Dropdown Selections

1) b) How do you expect the October 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

2) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on September 8? 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 increase in the federal funds target rate or range. Also, provide your estimate for the most likely meeting for the first increase.

Estimate for most likely meeting for first increase in target rate or range:

- October 2014
- December 2014
- January 2015
- March 2015
- April 2015
- June 2015
- July 2015
- September 2015
- October 2015
- December 2015
- >= 2016

8) 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 or range. 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:

- 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