Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

December 2013

Policy Expectations Survey

Please respond by **Monday, December 9, 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) The October FOMC statement contained information outlining the Committee's view on the economy as well as discussion of policy actions with regard to asset purchases and forward rate guidance. Provide below your expectations for changes, if any, to the language referencing each of these topics in the December FOMC statement. Limit your responses to changes you consider most likely.

	Language Changes Expected
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) What are your expectations for the release of FOMC participants' projections in the advanced materials of the Summary of Economic Projections (SEP)?

c) What are your expectations for the Chairman's post-FOMC press conference?

d) Taken together, how do you expect the FOMC events on December 18th (statement, SEP, press conference) 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: dropdown **Please Explain:**

2) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first target federal funds rate increase.

2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	≥2017 H2

** Percentages should add up to 100 percent.*

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

b) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range at the end of each half-year period. 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.

2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2
dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown

Longer run: **Expectation for average federal funds rate over next 10 years:**

c) If you changed your expectations for the most likely timing of the first target rate increase or the most likely path of the target rate since the last survey on October 22, explain the factors that motivated you to make the change(s).

3) 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, as well as your estimate for the most likely value. Assume that the rate of inflation between one and two years ahead remains below 2.5 percent and longer-term inflation expectations remain well anchored prior to the first increase. Consider all possible conditions that may be associated with these scenarios in formulating your responses.

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

**Percentages should add to 100 percent. Bins are scaled to responses from October SPD.*

Most likely value for the unemployment rate:

4) a) The minutes of the October 2013 FOMC meeting noted that the Committee discussed, "the potential for clarifying or strengthening the Committee's forward guidance for the federal funds rate," and cited the options listed below. Provide the percent chance you attach to the Committee clarifying or strengthening its current forward guidance for the target federal funds rate in any of the following ways at some point in the future.

	Probability
Lowering the unemployment rate threshold:	
Stating that the target for the federal funds rate would not be raised so long as the inflation rate is expected to run below a given level:	
Providing further guidance on information relevant to determining the appropriate timing of the first rate hike after the UNR threshold is reached:	
Indicating in the statement that the Committee anticipates keeping target rate below its longer-run equilibrium value for some time after the first rate hike:	
Other:	

If 'Other', please explain:

b) If you see any possibility of the FOMC statement clarifying or strengthening the forward guidance for the federal funds rate as described above, provide your estimate of the most likely meeting at which the change would occur. If you expect multiple changes, provide the timing of the first change only.

Most likely meeting: dropdown

c) The minutes of the October FOMC meeting noted that most FOMC participants thought that a reduction in the interest rate paid on excess reserves (IOER) could be, "worth considering at some stage…" Provide the probability you assign to the Board of Governors cutting the IOER rate from its current level.

	Probability
Reduction in the IOER rate:	

5) Of the possible outcomes below, provide the percent chance* you attach to the 10-year Treasury yield** falling in each of the following ranges at the end of 2014 and 2015.

	≤2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	>4.50%
Year-end 2014:							
	≤2.50%	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**4.51 - 5.00%**	**>5.00%**
Year-end 2015:							

** Percentages across rows should add to 100 percent.*
*** Bins for 2014 and 2015 are centered on the range assigned the highest average probability from the September SPD.*

6) In the October FOMC statement, the Committee announced it will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month, and also stated that decisions about the pace, "will remain contingent on the Committee's economic outlook as well as its assessment of the likely efficacy and costs of such purchases."

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*
2013	**December 17-18:**		
	January 28-29:		
	March 18-19:		
	April 29-30:		
2014	**June 17-18:**		
	July 29-30:		
	September 16-17:		
	October 28-29:		
	December 16-17 (1 year ahead):		

Please explain any changes to your assumptions behind the increments of pace reduction and any changes in the expected composition of Treasury and agency MBS purchases since the last survey on October 22.

b) Provide the percent chance* you attach to the first reduction in pace being announced at each of the FOMC meetings below.

		Treasuries	*Agency MBS*
2013	**December 17-18:**		
	January 28-29:		
2014	**March 18-19:**		
	April 29-30:		
	Later than April 2014:		

**Percentages in each column should add to 100 percent.*

c) What is your estimate for the realized values of the following economic indicators at the time you expect the FOMC to announce the first reduction in the pace of asset purchases and at the time you expect asset purchases to be completed? When specifying values below, provide your estimate consistent with the last published value prior to the announcement of the two events.

	First reduction in monthly pace of asset purchases	*Completion of asset purchases*
Total U.S. employees on nonfarm payrolls (in millions)*:		
Level of the unemployment rate (in ppt):		
Annual rate of change in PCE deflator (in ppt):		

**For reference, the level of total U.S. employees on nonfarm payrolls for October, seasonally adjusted, was 136.6 million. For your calculation of total payrolls, please take into account the November level to be released on December 6th.*

d) 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?

	Treasuries	*Agency MBS*
Pace of purchases following upcoming FOMC meeting ($ billions):		

Please Explain:

e) 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 Years*		
	2015 H1	**2015 H2**	**2016 - Full Year**	**2017 - Full Year**	**2018 - Full Year**
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)					

**Note, expectations begin with H1 2015 as prior periods are obtained from part a).*

Please explain your assumptions behind your projections for the timing, size, and pace of redemptions and sales of securities, if applicable. Please note if your assumptions have changed since the last survey:

7) a) The FOMC's September 2013 Summary of Economic Projections shows the central tendency of expectations for the unemployment rate at the end of 2014 ranging from 6.4 to 6.8 percent. Provide the percent chance you attach* to the unemployment rate corresponding to the following hypothetical scenarios at **year-end 2014**: 1) it declines to less than 6.4 percent; 2) it falls within the 6.4 to 6.8 percent range; and 3) it remains above 6.8 percent. Consider all possible conditions that may be associated with these scenarios in providing your responses.

Unemployment rate scenarios at year-end 2014	**Probability of realizing scenario at year-end 2014***
1) Less than 6.4%:	
2) Between 6.4 and 6.8%:	
3) Greater than 6.8%:	

**Percentages should add up to 100 percent.*

b) Provide the percent chance* you attach to the dollar level of the SOMA portfolio falling within the following ranges at **year-end 2015** for each of three hypothetical unemployment rate scenarios described in part a). For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the October 3, 2013 H.4.1 release was $3,567 billion (the H.4.1 closest to the end of Q3 2013).

Unemployment rate scenarios at year-end 2014	**Level of SOMA Portfolio ($ billions) at year-end 2015***							
	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
1) Less than 6.4%:								
	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
2) Between 6.4 and 6.8%:								
	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
3) Greater than 6.8%:								

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

c) Of the possible outcomes below, provide the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2014. Probabilities for the year-end 2015 level of the SOMA portfolio are automatically calculated using the responses you provided in parts a) and b) and the rules of conditional probability. These probabilities should be consistent with your views; if they are not, verify your responses from parts a) and b).

	Level of SOMA Portfolio ($ billions)							
	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Year-end 2014:								
Year-end 2015:	autofill	autofill	autofill	autofill	autofill	autofill	autofill	autofill

** Percentages should add up to 100 percent.*

Economic Indicator Forecasts

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

	GDP (Q4/Q4 Growth) *Estimate*	**Core PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Headline PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Unemployment Rate (Q4 Average Level)** *Estimate*
2013:				
2014:				
2015:				
2016:				
Longer run:				

9) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from 2018 - 2023. Please also provide your point estimate for the most likely outcome.

≤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:

10) 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 do you attach to the US economy being in a recession* **in 6 months**?

** NBER-defined recession.*

Recession in 6 months:

Dropdown Selections

1) d) Taken together, how do you expect the FOMC events on December 18th (statement, SEP, press conference) 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) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first target federal funds rate increase.

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

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
Q2 2017
Q3 2017
Q4 2017
>= Q1 2018

b) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range at the end of each half-year period.

Target Federal Funds 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%
5.25%
5.50%
5.75%
6.00%
> 6.00%

4) b) If you see any possibility of the FOMC statement clarifying or strengthening the forward guidance for the federal funds rate as described above, provide your estimate of the most likely meeting at which the change would occur. If you expect multiple changes, provide the timing of the first change only.

Timing of first change:

December '13
January '14
March '14
April '14
June '14
July '14
September '14
October '14
December '14
Later than 2014