# Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

April 2014

Please respond by **Tuesday, April 22, at 10:30 am** 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)** Provide below your expectations for changes, if any, to the language referencing each of the following topics in the April 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:** | |

**2) a)** How do you expect the release of the April 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:**

**b)** 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 the upcoming FOMC meeting ($ billions):** | | |

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

| 2014 H1 | 2014 H2 | 2015 H1 | 2015 H2 | 2016 H1 | 2016 H2 | 2017 H1 | 2017 H2 | ≥2018 H1 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

** Percentages should add up to 100 percent.*

**b)** Provide your estimate for the most likely quarter and year of the first target rate increase. Also, provide your estimate for the most likely target rate following the first increase.

**Estimate for most likely quarter and year of first target rate increase:**
**Estimate for most likely target rate following first increase (percent):**

**c)** 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 period below. 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.

| 2014 H1 | 2014 H2 | 2015 H1 | 2015 H2 | 2016 H1 | 2016 H2 | 2017 H1 | 2017 H2 | ≥2018 H1 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

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

**d)** If you changed your expectations for questions 3a), 3b), and/or 3c) since the last time the questions were asked, explain the factors that motivated you to make the change(s).

**4)** 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, and 2016.

| | 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% |
|---|---|---|---|---|---|---|---|
| **Year-end 2014:** | | | | | | | |
| **Year-end 2015:** | | | | | | | |
| | **≤0.50%** | **0.51 - 1.00%** | **1.01 - 1.50%** | **1.51 - 2.00%** | **2.01 - 2.50%** | **2.51 - 3.00%** | **≥3.01%** |
| ****Year-end 2016:** | | | | | | | |

** Percentages across rows should add to 100 percent.*
***Bins are centered around highest average probability from January SPD.*

**5)** How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on March 10? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

**Rating:** 　　**Please Explain:**

**6) 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.

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

**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.

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

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

**c)** Provide your estimate for the most likely value for the following indicators at the time of the first increase in the target federal funds rate. 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 March seasonally adjusted, was 137.9 million.

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

**7) a)** The 5-year nominal Treasury yield 5 years forward has declined from 4.60 percent on December 31, 2013 to 3.86 percent on April 17, 2014. Provide your estimate of the decomposition of this forward rate at the two dates cited.

| | *Expected Average Real Policy Rate* | *Expected Average Inflation Rate* | *Term Premium* | *Your Sum** | *5y/5y Forward* |
|---|---|---|---|---|---|
| **December 31, 2013:** | | | | 0.00% | 4.60% |
| **April 17, 2014:** | | | | 0.00% | 3.86% |

**Please ensure the sum of your individual components is equal to the level of the 5y5y forward on the date specified*

**b)** Rate the importance of the factors below in explaining the change in each of the components of the 5-year/5-year nominal Treasury yield. (5 = very important, 1 = not important)

| | *Expected Average Real Policy Rate* | *Expected Average Inflation Rate* | *Term Premium* |
|---|---|---|---|
| **Change in component of 5-year/5-year since 12/31/13:** | 0 bps | 0 bps | 0 bps |
| **Change in the outlook for economic growth:** | | | |
| **Change in the outlook for inflation:** | | | |
| **Change in perception of future FOMC reaction function:** | | | |
| **Market-related factors (e.g., portfolio reallocation, trading dynamics, safe haven flows):** | | | |
| **Other factors not noted above:** | | | |

**If Other, please explain:**

**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* |
| | **April 29-30:** | | |
| | **June 17-18:** | | |
| **2014** | **July 29-30:** | | |
| | **September 16-17:** | | |
| | **October 28-29:** | | |
| | **December 16-17:** | | |
| | **January 27-28:** | | |
| **2015** | **March 2015:** | | |
| | **April 2015:** | | |

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 March 10.

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

| | *Percent Chance of Reduction* |
|---|---|
| **April 29-30:** | |

**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* |
|---|---|---|---|---|---|
| | **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):** | | | | | |

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

**d)** Provide your estimate of the most likely quarter and year during which the FOMC will cease reinvesting some or all payments of principal on Tresuries 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. 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.

| | *Quarter & Year* | *Number of months relative to liftoff* |
|---|---|---|
| **Treasuries:** | | |
| **Agency debt and MBS:** | | |

**Please explain your assumptions for the size and pace of redemptions and sales of securities, if applicable:**

**9)** Of the possible outcomes below, indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2014 and year-end 2015. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 2, 2014 H.4.1 was $3,814 billion.

| | **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:** | | | | | | | | |

** Percentages should add up to 100 percent.*

***Economic Indicator Forecasts***

**10)** 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* |
|---|---|---|---|---|
| **2014:** | | | | |
| **2015:** | | | | |
| **2016:** | | | | |
| **Longer run:** | | | | |

**11)** 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.

| **≤1.0%** | **1.01-1.5%** | **1.51-2.0%** | **2.01-2.5%** | **2.51-3.0%** | **≥3.01%** | **Point estimate for most likely outcome:** |
|---|---|---|---|---|---|---|
| | | | | | | |

** Percentages should add up to 100 percent.*

**12) a)** What percent chance do you attach to the US economy currently being in a recession*? **Recession currently:**

** NBER-defined recession.*

**b)** What percent chance do you attach to the US economy being in a recession* **in 6 months**? **Recession in 6 months:**

** NBER-defined recession.*

***Dropdown Selections***

**2) a)** How do you expect the release of the April 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<br>2<br>3 -- Neutral<br>4<br>5 -- More Accommodative |

**3) b)** Provide your estimate for the most likely quarter and year of the first target rate increase. Also, provide your estimate for the most likely target rate following the first increase.

| | |
|---|---|
| **Estimate for most likely quarter and year of first target rate increase:** | Q2 2014<br>Q3 2014<br>Q4 2014<br>Q1 2015<br>Q2 2015<br>Q3 2015<br>Q4 2015<br>Q1 2016<br>Q2 2016<br>Q3 2016<br>Q4 2016<br>Q1 2017<br>Q2 2017<br>Q3 2017<br>Q4 2017<br>>= Q1 2018 |

**c)** 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 period below. 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.

| | |
|---|---|
| **Target Federal Funds Rate or Range:** | 0 - .25%<br>0.25%<br>0.50%<br>0.75%<br>1.00%<br>1.25%<br>1.50%<br>1.75%<br>2.00%<br>2.25%<br>2.50%<br>2.75%<br>3.00%<br>3.25%<br>3.50%<br>3.75%<br>4.00%<br>4.25%<br>4.50%<br>4.75%<br>5.00%<br>5.25%<br>5.50%<br>5.75%<br>6.00%<br>> 6.00% |

**5)** How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on March 10? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

| | |
|---|---|
| **Rating:** | 5 -- Very Effective<br>4<br>3<br>2<br>1 -- Very Ineffective |

**7) b)** Rate the importance of the factors below in explaining the change in each of the components of the 5-year/5-year nominal Treasury yield. (5 = very important, 1 = not important)

| | |
|---|---|
| **Rating:** | 5 -- Very Important<br>4<br>3<br>2<br>1 -- Not Important |

**8) d)** Provide your estimate of the most likely quarter and year during which the FOMC will cease reinvesting some or all payments of principal on Tresuries 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. 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.

| | |
|---|---|
| **Quarter & Year:** | Q2 2014<br>Q3 2014<br>Q4 2014<br>Q1 2015<br>Q2 2015<br>Q3 2015<br>Q4 2015<br>Q1 2016<br>Q2 2016<br>Q3 2016<br>Q4 2016<br>Q1 2017<br>Q2 2017<br>Q3 2017<br>Q4 2017<br>>= Q1 2018 |