

# Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

December 2014

## Responses to Survey of Market Participants

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The New York Fed is conducting a pilot survey of market participants in an effort to better understand the expectations of active investment decision makers. The pilot surveys consist of a subset of questions taken directly from the Survey of Primary Dealers. Further information on the pilot, including a list of current participants, can be found on the New York Fed website.

Responses were received from 27 market participants. Except where noted, all 27 participants responded to each question. In some cases, participants may not have provided forecasts extending to the same time horizon as requested in the survey. In these instances, the number of respondents who answered all parts of the question is indicated.

For most questions, median responses across participants, along with the 25<sup>th</sup> and 75<sup>th</sup> percentiles, are reported. For questions that ask respondents to give a probability distribution, the average response across participants for each potential outcome is reported.<sup>1</sup>

#### Monetary Policy Expectations

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1. How do you expect the December FOMC events 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	
25th Pctl	2
Median	3
75th Pctl	3

2. 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.

	Dec. 16-17, 2014	Jan. 27-28, 2015	Mar. 17-18, 2015	Apr. 28-29, 2015	Jun. 16-17, 2015	Jul. 28-29, 2015	Sep. 16-17, 2015	Oct. 27-28, 2015	Dec. 15-16, 2015	≥2016
Average	0%	1%	5%	5%	29%	14%	21%	6%	8%	11%

Most Likely Meeting of First Increase in Target Rate or Range	
25th Pctl	June 2015
Median	June 2015
75th Pctl	September 2015

- 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.

<sup>1</sup> Answers may not sum to 100 percent due to rounding.

**Probability of Not Returning to  
ZLB within 2 Years Following  
Liftoff**

25th Pctl	70%
Median	80%
75th Pctl	85%

**First Year Following Liftoff\***

	<b>0 - 50 basis points</b>	<b>51 - 100 basis points</b>	<b>101 - 150 basis points</b>	<b>151 - 200 basis points</b>	<b>&gt;200 basis points</b>
Average	13%	39%	29%	16%	3%

*\*Conditional on not returning to ZLB*

**Second Year Following Liftoff\***

	<b>0 - 50 basis points</b>	<b>51 - 100 basis points</b>	<b>101 - 150 basis points</b>	<b>151 - 200 basis points</b>	<b>&gt;200 basis points</b>
Average	10%	32%	30%	21%	7%

*\*Conditional on not returning to ZLB*

- 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.

**Top of Target Range**

	<b>2014 Q4</b>	<b>2015 Q1</b>	<b>2015 Q2</b>	<b>2015 Q3</b>	<b>2015 Q4</b>	<b>2016 H1</b>	<b>2016 H2</b>	<b>2017 H1</b>	<b>2017 H2</b>	<b>2018 H1</b>
25th Pctl	0.25%	0.25%	0.25%	0.50%	0.75%	1.00%	1.50%	2.25%	2.50%	2.75%
Median	0.25%	0.25%	0.50%	0.75%	1.00%	1.50%	2.00%	2.75%	3.25%	3.25%
75th Pctl	0.25%	0.25%	0.50%	0.75%	1.00%	1.75%	2.50%	3.00%	3.75%	3.75%
# of Responses	24	24	24	23	22	19	19	19	19	15

**Bottom of Target Range**

	<b>2014 Q4</b>	<b>2015 Q1</b>	<b>2015 Q2</b>	<b>2015 Q3</b>	<b>2015 Q4</b>	<b>2016 H1</b>	<b>2016 H2</b>	<b>2017 H1</b>	<b>2017 H2</b>	<b>2018 H1</b>
25th Pctl	0.00%	0.00%	0.00%	0.25%	0.50%	0.75%	1.25%	2.00%	2.25%	2.50%
Median	0.00%	0.00%	0.25%	0.30%	0.65%	1.25%	1.75%	2.50%	3.00%	3.00%
75th Pctl	0.00%	0.00%	0.25%	0.50%	0.75%	1.50%	2.25%	2.75%	3.50%	3.35%
# of Responses	24	24	24	23	22	19	19	19	19	15

	Target Rate									
	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1
25th Pctl	0.25%	0.25%	0.25%	0.38%	0.75%	1.25%	1.75%	2.25%	2.75%	3.00%
Median	0.25%	0.25%	0.25%	0.50%	0.75%	1.50%	2.00%	2.50%	3.00%	3.38%
75th Pctl	0.25%	0.25%	0.50%	0.63%	1.00%	1.75%	2.63%	3.38%	3.75%	3.63%
# of Responses	3	3	3	4	5	8	8	8	8	12

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	10-yr Average FF Rate
25th Pctl	3.00%	2.30%
Median	3.50%	2.85%
75th Pctl	3.75%	3.00%

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 2015, 2016, and 2017. If you expect a target range for federal funds please use the midpoint of the range in providing your response.

		Year-End 2015						
		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%
Average		12%	25%	39%	19%	5%	1%	0%
		Year-End 2016						
		≤0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	≥3.01%
Average		6%	12%	19%	25%	18%	13%	6%
		Year-End 2017						
		≤2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	≥4.51%
Average		22%	17%	20%	17%	14%	6%	2%

3. Following the release of the advance materials of the September Summary of Economic Projections, the path of the federal funds rate as implied by futures contracts was below the median target rates (or midpoints of the target ranges) provided in the overview of FOMC participants' assessments of appropriate monetary policy.

Please rate the importance of each of the following factors in explaining the difference between the medians in the SEP and the market-implied rate path (1 = not important, 5 = very important).

	Possibility of Target Rate Remaining at the Zero Lower Bound	Market Rates Incorporate Negative Term Premia	The SEP Median Does Not Necessarily Reflect the Committee's Forecast	Differences in the Outlook for the U.S. Economy	Technical Factors	Other (7 Responses)
Average	3.3	2.6	3.6	3.3	2.2	3.4

4. Provide the percent chance you attach to the Committee further modifying the forward-guidance language on the path of the policy rate prior to liftoff, as appropriate, 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 Liftoff	December 2014 FOMC	January 2015 FOMC	March 2015 FOMC	> March 2015 FOMC
Average	5%	37%	26%	23%	10%

5. Since September 2, various measures of the 5-year/5 year forward breakeven rate of inflation have declined roughly 35 basis points. Provide your estimate of the decomposition of this decline. Please ensure your signs are correct.

	Expected Average CPI Inflation	Inflation Risk Premium	Other Risk Premia	Sum
Average	-18	-7	-10	-35

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 or range.

	< 5.5%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	40%	54%	5%	0%

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.

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	7%	22%	51%	15%	5%

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 October seasonally adjusted, was 139.7 million. For your calculations, please take into account the November data to be released on December 5.

	Unemployment Rate	Labor Force Participation Rate	Total NFP*	12-Month Change in Average Hourly Earnings	Headline 12- Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.3%	62.8%	141.3	2.3%	1.5%	1.9%
Median	5.5%	63.0%	141.6	2.6%	1.7%	2.0%
75th Pctl	5.6%	63.0%	141.9	2.8%	2.0%	2.1%

\*In millions

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"\*.

(19 complete responses)

	One Quarter Prior to Liftoff						
	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Usage (\$ bn)
	25th Pctl	0.25%	0.13%	0.10%	0.05%	0.24%	0.09%
Median	0.25%	0.13%	0.10%	0.05%	0.25%	0.10%	213
75th Pctl	0.25%	0.13%	0.13%	0.10%	0.30%	0.15%	288

	Immediately Following Liftoff						
	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Usage (\$ bn)
	25th Pctl	0.50%	0.38%	0.30%	0.25%	0.45%	0.28%
Median	0.50%	0.38%	0.35%	0.25%	0.50%	0.35%	350
75th Pctl	0.50%	0.38%	0.38%	0.30%	0.56%	0.45%	650

	1 Year Following Liftoff						
	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Usage (\$ bn)
	25th Pctl	1.40%	1.25%	1.25%	1.25%	1.40%	1.25%
Median	1.50%	1.38%	1.45%	1.35%	1.65%	1.40%	390
75th Pctl	1.75%	1.63%	1.65%	1.55%	1.90%	1.60%	850

	3 Years Following Liftoff						
	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Usage (\$ bn)
	25th Pctl	3.00%	3.00%	3.00%	2.75%	3.00%	2.88%
Median	3.50%	3.38%	3.45%	3.30%	3.55%	3.35%	390
75th Pctl	3.75%	3.63%	3.63%	3.50%	3.87%	3.58%	750

\*For respondents that submitted ranges, midpoints of the ranges are used. (Complete responses only include responses that were specific numbers or ranges.)

7. 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.

	Most Likely Quarter and Year of End to Reinvestments			Number of Months Relative to Liftoff	
	Treasuries	Agency Debt and MBS*		Treasuries	Agency Debt and MBS
25th Pctl	Q3 2015	Q3 2015	25th Pctl	3	3
Median	Q4 2015/Q1 2016**	Q1 2016	Median	6	6
75th Pctl	Q2 2016	Q2 2016	75th Pctl	8	7

\*One respondent expects no end to reinvestments of Agency Debt and MBS securities

\*\* Median is between Q4 2015 and Q1 2016.