

Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

November 2016

Policy Expectations Survey

Please respond by **Monday, October 24 at 2:00 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:

1) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the November FOMC statement.

Language Changes Expected

Current economic conditions:	<input style="width: 100%; height: 15px;" type="text"/>
Economic outlook:	<input style="width: 100%; height: 15px;" type="text"/>
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	<input style="width: 100%; height: 15px;" type="text"/>
Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:	<input style="width: 100%; height: 15px;" type="text"/>
Other:	<input style="width: 100%; height: 15px;" type="text"/>

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

Rating: Please Explain:

3) a) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range, as applicable, immediately following the FOMC meetings and at the end of each quarter or half-year period below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	2016			2017			
	November 1-2	December 13-14	January 31 - February 1	March 14-15	May 2-3	June 13-14	July 25-26
Target rate / midpoint of target range:	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>
	Quarters			Half Years			
	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 H2	2019 H1	2019 H2
Target rate / midpoint of target range:	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>

b) 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:

c) Please indicate the percent chance* that you attach to the following possible outcomes for the Committee's next policy action between now and the end of 2017.

Next Change is Increase in Target Rate or Range	Next Change is Decrease in Target Rate or Range	No Change in Target Rate or Range Through the End of 2017
<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>

**Responses should add up to 100 percent.*

d) Conditional on the Committee's next policy action between now and the end of 2017 being an increase in the target federal funds rate or range, please indicate the percent chance* that you attach to the following possible outcomes for the timing of such a change. Only fill out this conditional probability distribution if you assigned a non-zero probability to the Committee's next policy action between now and the end of 2017 being an increase.

Increase Occurs at November FOMC meeting	Increase Occurs at December FOMC meeting	Increase Occurs in 2017
<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>

**Responses should add up to 100 percent.*

e) Please indicate the percent chance* that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2017, conditional on the following possible scenarios for the direction and timing of the Committee's next policy action between now and the end of 2017. Only fill out the conditional probability distributions for which you assigned a non-zero probability to the conditioning event occurring. If you expect a target range, please use the midpoint of that range in providing your response.

	< 0.0%	0.00 - 0.25%	0.26 - 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	≥ 1.51%
Next change is an increase, occurs by the end of 2016:	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>
Next change is an increase, occurs in 2017:	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>
Next change is a decrease:	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>	<input style="width: 80px; height: 15px;" type="text"/>

**Responses across each row should add up to 100 percent.*

f) i) Please indicate the percent chance* that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2018 and 2019, conditional on not moving to the zero lower bound (ZLB) at any point during 2016-2019. If you expect a target range, please use the midpoint of that range in providing your response.

	≤1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	≥3.51%
Year-end 2018:							
Year-end 2019:							

*Responses across each row should add up to 100 percent.

ii) Please indicate the percent chance that you attach to moving to the ZLB at some point in 2016-2019.

Probability of moving to the ZLB at some point in 2016-2019:

If you placed a non-zero probability on moving to the ZLB at some point in 2016-2019 above, please indicate your estimate for the most likely timing of such an event.

Most likely timing of moving to the ZLB at some point in 2016-2019 (in half years):

iii) Please indicate the percent chance* that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2018 and 2019, conditional on moving to the ZLB at some point in 2016-2019. Only fill out these conditional probability distributions if you assigned a non-zero probability to moving to the ZLB at some point in 2016-2019. If you expect a target range, please use the midpoint of that range in providing your response.

	<0.00%	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 2018:								
Year-end 2019:								

*Responses across each row should add up to 100 percent.

iv) What is your estimate of the target federal funds rate or range at the effective lower bound?

Level of the target federal funds rate or range at the effective lower bound (in percent):

For parts a-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.

4) Previous FOMC communication has indicated that the economy's neutral real federal funds rate, which can be understood as the level of the real federal funds rate that would be neither expansionary nor contractionary if the economy were operating near its potential, is currently low by historical standards. Please provide your estimate for the current level of the neutral real federal funds rate and at each of the time periods below.

Estimated level of neutral real federal funds rate:

Current level:	<input type="text"/>
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Year-end 2017:	<input type="text"/>
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Year-end 2018:	<input type="text"/>
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Year-end 2019:	<input type="text"/>
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If you expect the neutral real federal funds rate to change over time, please provide the major factors underlying your expectation.

Please explain any changes to your estimates, where applicable, since the last time this set of questions was asked on July 18.

5) Please indicate the percent chance* that you attach to the 10-year Treasury yield falling in each of the following ranges at the end of 2016 and 2017.

	≤1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	≥3.51%
Year-end 2016:							
Year-end 2017:							

*Responses across each row should add up to 100 percent.

6) In 2014, the Securities and Exchange Commission (SEC) adopted amendments to Rule 2a-7, which governs money market mutual funds (MMMFs) under the Investment Company Act. The deadline to implement these reforms occurred on October 14, 2016. With consideration to any recent changes in money markets that may have happened as a result of these reforms, please indicate your expectations for the most likely levels of total prime and government MMMF assets under management (AUM), as well as the 3-month USD LIBOR-OIS spread and aggregate ON RRP demand, at each of the two timeframes below.

	Prime MMMF AUM (\$ billions):	Government MMMF AUM (\$ billions):	3-Month USD LIBOR-OIS Spread (bps):	Aggregate ON RRP Demand (\$ billions):
Current level:	413*	2109*	41**	166**
In the first few weeks of December 2016:				
In the first few weeks of December 2017:				

*Refers to levels as of October 12, 2016 according to data from the Investment Company Institute (ICI).

**Refers to one-week average as of October 19, 2016.

If your expectations for any of the above indicators differ across these two timeframes, please explain.

7) In its most recent FOMC statement, the Committee indicated that it anticipates continuing its existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS, and of rolling over maturing Treasury securities at auction, until normalization of the level of the federal funds rate is "well under way."

a) What is your estimate for the most likely level of the target federal funds rate or range if and when the Committee first changes its reinvestment policy?

**Level of target
federal funds rate
or range
(in percent):**

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b) What is your estimate for the most likely timing (in months forward) of a change to the Committee's policy of reinvesting payments of principal on Treasuries and/or agency debt and MBS? If you do not expect the FOMC to change its policy on reinvestments for either or both asset classes during the process of policy normalization, please enter "N/A."

Months forward:

Treasuries:
Agency debt and MBS:

Please explain the factors behind any change to your expectations in parts a and b since the last policy survey.

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c) i) Please indicate the percent chance* that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2019, conditional on not moving to the ZLB at any point in 2016-2019. For reference, the current level of the SOMA portfolio, including inflation compensation and settled and unsettled agency MBS, according to the October 12, 2016 H.4.1, was \$4275 billion. Levels referenced below are in \$ billions.

≤ 3000	3001 - 3500	3501 - 4000	4001 - 4500	≥ 4501

*Responses should add up to 100 percent. Bins were centered around median responses to question 7d, part i from the September SPD and SMP.

ii) Please indicate the percent chance* that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2019, conditional on moving to the ZLB at any point in 2016-2019. Levels referenced below are in \$ billions.

≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501

*Responses should add up to 100 percent. Bins were centered around median responses to question 7d, part ii from the September SPD and SMP.

8) 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)
2016:				
2017:				
2018:				
2019:				
Longer run:				

9) a) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from November 1, 2016 - October 31, 2021 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.

$\leq 1.00\%$	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	$\geq 3.01\%$

Point estimate for most likely outcome:

*Responses should add up to 100 percent.

b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from November 1, 2021 - October 31, 2026 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.

$\leq 1.00\%$	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	$\geq 3.01\%$

Point estimate for most likely outcome:

* Responses should add up to 100 percent.

10) 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:

c) What percent chance do you attach to the global economy being in a recession** **in 6 months**?

Global recession in 6 months:

Please explain the factors behind any change to your expectations in parts a-c since the last policy survey.

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*NBER-defined recession

**Previous IMF staff work has suggested that a "global recession" can be characterized as a period during which there is a decline in annual per-capita real global GDP, backed up by a decline or worsening in one or more of the following global macroeconomic indicators: industrial production, trade, capital flows, oil consumption and unemployment.

2) **Dropdown Selections**
How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on September 12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: 5
4
3
2
1

3) f) ii) If you placed a non-zero probability on moving to the ZLB at some point in 2016-2019 above, please indicate your estimate for the most likely timing of such an event.

Most likely timing of moving to the ZLB at some point in 2016-2019 (in half years): H2 2016
H1 2017
H2 2017
H1 2018
H2 2018
H1 2019
H2 2019