Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

December, 2012

Policy Expectations Survey

Please respond by **Monday, December 3 at 5pm** 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) Do you expect any changes in the FOMC statement and, if so, what changes?

b) Do you expect any revisions to FOMC participants' projections provided in the advanced materials of the Summary of Economic Projections (SEP) and, if so, what changes?

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

Timing of First Increase:

2012 H2	2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	≥2017 H1

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

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

3) Provide your firm's estimate of the most likely outcome (i.e., the mode) for the federal funds target rate or range at the end of each half-year period and over the longer run:

Federal Funds Target Rate or Range:

2012 H2	2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1
Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown

Longer run:

4) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 10/15/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank: Dropdown **Please explain:**

5) In the September FOMC statement, the Committee announced a new asset purchase program. In the statement, the Committee said "These actions...together will increase the Committee's holdings of longer-term securities by about $85 billion each month through the end of the year."

a) Please provide your expectation for the 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*
December 11-12		
January 29-30		
March 19-20		
1 Year Ahead (December 17-18)		

Please explain:

b) Please indicate the quarter and year you expect purchases associated with the flow-based asset purchase program to end. Please explain, including a description of why you expect the purchase program to end at the quarter and year indicated.

Expected End of Flow-Based Purchase Program

Quarter and Year

Dropdown

Please explain:

6) Please provide your **expectation for the change** in the amount of domestic securities held outright in the SOMA portfolio by year-end, and then the half-year changes for the following 4 years. For your reference, as of the November 23 H.4.1 release the current level of Treasury holdings including inflation accretion is $1650 billion and the current level of agency debt and settled and unsettled agency MBS holdings is $1074 billion.

	Current through year-end 2012	*December 2012 to June 2013*	*June 2013 to December 2013*	*December 2013 to June 2014*	*June 2014 to December 2014*	*December 2014 to June 2015*	*June 2015 to December 2015*	*December 2015 to June 2016*	*June 2016 to December 2016*
Expected change in amount of U.S. Treasury securities in SOMA ($ Billions)									
Expected change in amount of agency debt and agency MBS securities in SOMA ($ Billions)									

Please explain, including the reason for any changes to the pace of flow-based purchases:

7) Of the possible outcomes below, please indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2013 and year-end 2014. For your reference, the current level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the November 23 H.4.1 is $2725 billion.

Level of SOMA Portfolio ($Billions)

	<3000	3000-3250	3250-3500	3500-3750	3750-4000	4000-4250	>4250
2013							

	<2500	2500-3000	3000-3500	3500-4000	4000-4500	4500-5000	>5000
2014							

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

8) The October FOMC minutes included the phrase "Participants generally favored the use of economic variables, in place of or in conjunction with a calendar date, in the Committee's forward guidance, but they offered different views on whether quantitative or qualitative thresholds would be most effective."

a) Please provide the likelihood you place on the FOMC adopting quantitative or qualitative thresholds to provide forward guidance on the target rate at each of the next FOMC meetings. Additionally, please provide the likelihood you place on the FOMC not adopting these thresholds within the next 2 years.

	Probability of Quantitative Thresholds	*Probability of Qualitative Thresholds*
December 11-12		
January 29-30		
March 19-20		
Not within the following 2 years		

b) If the FOMC were to adopt either qualitative or quantitative thresholds, what thresholds would you expect it to adopt?

c) If the FOMC were to adopt the thresholds you described above, would this adoption change financial conditions? If yes, how so?

Economic Indicator Forecasts

9) Provide your firm's estimate of the most likely outcome (i.e., the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast?

	GDP (Q4/Q4 Growth)		**Core PCE Deflator (Q4/Q4 Growth)**		**Headline PCE Deflator (Q4/Q4 Growth)**		**Unemployment Rate (Q4 Average Level)**	
	Estimate	*Balance of Risk*	*Estimate*	*Balance of Risk*	*Estimate*	*Balance of Risk*	*Estimate*	*Balance of Risk*
2012 :		Dropdown		Dropdown		Dropdown		Dropdown
2013 :		Dropdown		Dropdown		Dropdown		Dropdown
2014 :		Dropdown		Dropdown		Dropdown		Dropdown
2015 :		Dropdown		Dropdown		Dropdown		Dropdown
Longer run:								

Please comment on any risks you see to your forecast :

10) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q4 2013?

11) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2017 - 2022. Please also indicate your point estimate for the most likely outcome (i.e., the mode).

≤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:

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 would you attach to the US economy being in a recession* **in 6 months**? **Recession in 6 months:**

** NBER-defined recession.*

13) The Congressional Budget Office has estimated the growth of inflation-adjusted GDP in 2013 under 3 fiscal policy scenarios. Please indicate the probabilities you place on each fiscal policy scenario occurring and the basis point impact you believe each fiscal policy scenario would have on the 10-year Treasury yield.

For more information on these estimates, see *Economic Effects of Policies Contributing to Fiscal Tightening in 2013, CBO November 2012*

Policy Scenarios	**Probability of Policy Scenario Occurring** *Percent*	**Effect on 10-Year Treasury Yield** *Basis Points*
Under Current-Law Fiscal Policy (-0.5% Q4/Q4 2013 GDP)		
With No Fiscal Restraint (2.4% Q4/Q4 2013 GDP)		
Alternative Fiscal Scenario (1.7% Q4/Q4 2013 GDP)		

Please explain:

14) Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

Dropdown Selections

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

Q4 2012
Q1 2013
Q2 2013
Q3 2013
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

3) Provide your firm's estimate of the most likely outcome (i.e., the mode) for the federal funds target rate or range at the end of each half-year period and over the longer run:

Federal Funds Target 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) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 10/15/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank:

5 -- Very effective
4
3
2
1 -- Very ineffective

5) b) Please indicate the quarter and year you expect purchases associated with the flow-based asset purchase program to end. Please explain, including a description of why you expect the purchase program to end at the quarter and year indicated.

Expected End of Flow-Based Purchase Program:

Q4 2012
Q1 2013
Q2 2013
Q3 2013
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

9) Provide your firm's estimate of the most likely outcome (i.e., the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast?

Balance of Risk:	Lower GDP	**Balance of Risk:**	Lower Inflation	**Balance of Risk:**	Lower Inflation	**Balance of Risk:**	Higher UR
	Balanced		Balanced		Balanced		Balanced
	Higher GDP		Higher Inflation		Higher Inflation		Lower UR