Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

September, 2012

Policy Expectations Survey

Please respond by **Tuesday September 4th at noon** 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) Of the possible outcomes below, please indicate the percent chance* you attach to the indicated federal funds target range or target rate following each of the next 3 FOMC meetings:

Level of Target Range or Rate

	0.00% - 0.25%	0.25%	0.50%	0.75%	1.00%	1.25%	>1.25%
September 12-13:							
October 23-24:							
December 11-12:							

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

2) 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?

c) Please explain how your expectations for the economy or Federal Reserve policy have changed following the Jackson Hole Economic Policy Symposium, if at all.

3) 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

4) 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:

5) Of the possible outcomes below, please indicate the percent chance* you attach to the fed funds target rate or range 1 year from now and at the end of 2014.

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.5%	≥2.51%
September 2013 :							
Year-end 2014 :							

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

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 7/23/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank: Dropdown **Please explain:**

7) FOMC communications have discussed several different ways monetary policy could be altered to provide either less or more accommodation.

a) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy tightening or to tighten policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	*Probability within 1 year*	*Probability within 2 years*
Raise interest on excess reserves			
Drain reserves through temporary tools			
Halt reinvestments			
Reduce size of SOMA portfolio through selling securities			
Reduce duration of portfolio*			
Change the forward guidance in the FOMC statement on the path of the federal funds rate			
Provide additional guidance on the likely path for the size and composition of the balance sheet			

Please explain:

*i.e. a deliberate action to decrease the duration of the SOMA portfolio, independent of other policy changes.

b) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy easing or to ease policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	*Probability within 1 year*	*Probability within 2 years*
Lower interest on excess reserves			
Expand SOMA portfolio through securities purchases			
Increase duration of portfolio*			
Change the forward guidance in the FOMC statement on the path of the federal funds rate			
Provide additional guidance on the likely path for the size and composition of the balance sheet			
Introduce new tools to promote more accommodative financial conditions			

Please explain:

Please describe what new tools might be introduced:

*i.e. a deliberate action to increase the duration of the SOMA portfolio beyond the currently announced maturity extension program, independent of other policy changes.

c) Because respondents could see some of the choices from part b as overlapping, the answers to that part do not necessarily reveal the combined probability of various choices. Please indicate the probability that the FOMC will **add *any* type of policy accommodation,** including any of the actions listed in part b above. Please indicate the probability that any of these tools will be used at the next FOMC meeting and within the next 1 and 2 years.

	Probability at next FOMC meeting	*Probability within 1 year*	*Probability within 2 years*		
Add any type of policy accommodation				**Please explain:**	

8) Please provide your **most likely expectation (i.e. the mode)** for the amount of domestic securities held outright in the SOMA portfolio and for the expected level of reserves at year-end for each of the next five years.

	Current Level*	*Year End 2012*	*Year End 2013*	*Year End 2014*	*Year End 2015*	*Year End 2016*
Expected amount of U.S. Treasury securities in SOMA ($ Billions)	**1,639**					
Expected amount of agency debt and agency MBS securities in SOMA ($ Billions)	**931**					
Expected amount of domestic assets in SOMA ($ Billions)	**2,570**					
Expected level of reserves ($ Billions)	**1,531**					

* Taken from the 8/30/2012 Federal Reserve H.4.1.

Please explain:

Economic Indicator Forecasts

9) a) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output and inflation:

	GDP (q.o.q.)	**Core PCE Deflator (y.o.y.)**	**Headline PCE Deflator (y.o.y.)**
2012 Q3 :			
2012 Q4 :			
2013 Q1 :			
2013 Q2 :			

b) 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	Fill from 9a	Dropdown	Fill from 9a	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 :

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 7/23/12?

GDP Uncertainty: Dropdown **Core PCE Deflator Uncertainty:** Dropdown

10) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q3 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) Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

Dropdown Selections

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

Q3 2012
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

4) 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 quarter:

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%

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 7/23/12? 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

9) b) 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:	**Balance of Risk:**	**Balance of Risk:**	**Balance of Risk:**
Lower GDP	Lower Inflation	Lower Inflation	Higher UR
Balanced	Balanced	Balanced	Balanced
Higher GDP	Higher Inflation	Higher Inflation	Lower UR

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 7/23/12?

Uncertainty:

More Uncertain
Equally Uncertain
Less Uncertain