Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

December 2014

Policy Expectations Survey

Please respond by **Monday, December 8, at 5:00 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 **:**

Monetary Policy Expectations

1) a) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the December FOMC statement. Limit your responses to changes you consider most likely.

	Language Changes Expected
Current economic conditions and the economic outlook:	
Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Other:	

b) What are your expectations for the release of FOMC participants' **economic** projections in the advance materials of the Summary of Economic Projections (SEP)?

c) What are your expectations for the release of FOMC participants' year-end **target federal funds rate** projections in the advance materials of the Summary of Economic Projections (SEP)?

d) What are your expectations for the Chair's post-FOMC press conference?

e) 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: **Please Explain:**

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.

2014	*2015*								
December 16-17	**January 27-28**	**March 17-18**	**April 28-29**	**June 16-17**	**July 28-29**	**September 16-17**	**October 27-28**	**December 15-16**	**≥2016**

** Percentages across rows should add to 100 percent. Bins are centered around the median response to the most likely meeting for the first increase in the target rate or range in question 4a from the October SPD.*

Estimate for most likely meeting for first increase in target rate or range:

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.

Probability of not returning to ZLB during the 2 years following liftoff:

Conditional on the target **not** returning to the zero lower bound, provide the percent chance* you attach to the net change in the target rate or range in each of the two years following liftoff.

	0 - 50 basis points	*51 - 100 basis points*	*101 - 150 basis points*	*151 - 200 basis points*	*>200 basis points*
First year following liftoff:					
Second year following liftoff:					

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

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.

	Quarters					*Half Years*				
	2014 Q4	**2015 Q1**	**2015 Q2**	**2015 Q3**	**2015 Q4**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**2018 H1**
Top of range:										
Bottom of range:										
Target rate:										

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

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.

	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 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:							
	≤2.00%	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**≥4.51%**
Year-end 2017:							

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

If you changed your expectations for the most likely timing of liftoff and/or the most likely path of the target rate or range since the last time the questions were asked, explain the factors that motivated you to make the change(s):

3) Of the possible outcomes below, provide the percent chance* you attach to the 10-year Treasury yield falling in each of the following ranges at the end of 2014 and 2015.

	≤2.00%	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**>4.50%**
Year-end 2014:							
	≤2.50%	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**4.51 - 5.00%**	**>5.00%**
Year-end 2015:							

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

If you changed your expectations for question 3 since the last time the question was asked on September 4, explain the factors that motivated you to make the change(s).

4) a) Provide your estimate of the most likely outcome for the 10-year Treasury yield at the end of each period below. In addition, provive your estimate of the longer-run level of the 10-year Treasury yield.

Quarters					*Half Years*				
2014 Q4	**2015 Q1**	**2015 Q2**	**2015 Q3**	**2015 Q4**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**2018 H1**

Longer Run:

b) Provide your estimate of the most likely outcome for the 30-year fixed primary mortgage rate at the end of each period below. In addition, provive your estimate of the longer-run level of the 30-year fixed primary mortgage rate.

Quarters					*Half Years*				
2014 Q4	**2015 Q1**	**2015 Q2**	**2015 Q3**	**2015 Q4**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**2018 H1**

Longer Run:

5) 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 (please explain)*	If "Other", please explain

6) a) 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*

Percentages across rows should add to 100 percent

b) If you see any possibility of further changes to the forward-guidance language prior to liftoff, please describe the changes you believe most likely:

c) Conditional on the forward-guidance language being changed at the time and in the way you consider most likely, how do you expect this change to impact financial conditions?

7) 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.

Change in Expected Average CPI Inflation (bps)	*Change in Inflation Risk Premium (bps)*	*Change in Other Risk Premia (bps)*	*Sum of Changes (bps)*	*Change in 5y/5y Breakevens (bps)*
			0	-35

Please explain the factors contributing to any change in your estimate of the expected average CPI Inflation rate:

Please explain the factors contributing to any change in your estimate of the inflation risk premium:

Please explain the factors contributing to any change in your estimate of the other risk premia:

8) 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%**
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 or range.

	< 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 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 U.S. employees on nonfarm payrolls (millions):	
12-month change in average hourly earnings:	
Headline 12-month PCE Inflation:	
Inflation between 1 and 2 years ahead (at liftoff):	

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".

	1 Quarter Prior to Liftoff	*Immediately Following Liftoff*	*1 Year Following Liftoff*	*3 Years Following Liftoff*
Rate of interest on excess reserves (in percent):				
Target federal funds rate or range (in percent):				
Federal funds effective rate (in percent):				
O/N RRP rate (in percent):				
3-month LIBOR (in percent):				
Overnight Treasury GCF repo rate (in percent):				
Usage of O/N RRP ($ billions):				

Please note how you expect the Committee's approach to policy normalization to evolve over time. Additionally, please comment on any changes you expect over time in the relative levels of money market rates and the expected amount of O/N RRP usage.

e) On December 1, the Desk released a statement indicating that it would conduct a series of term RRP operations maturing on January 5, 2015, in order to examine how term RRP operations might work as a supplementary tool to help control the federal funds rate. Please discuss how you expect these operations to impact money market functioning and your expectations for various money market rates at year-end.

9) 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.

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

Please explain your assumptions for the timing, size, and pace of redemptions and sales of securities, if applicable. Please also explain the factors behind any change in your expectations since the last survey on October 20:

Economic Indicator Forecasts

10) 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)**
2014:				
2015:				
2016:				
2017:				
Longer run:				

11) a) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from January 1, 2015 - December 31, 2019. Please also provide your point estimate for the most likely outcome.

≤1.00%	**1.01-1.50%**	**1.51-2.00%**	**2.01-2.50%**	**2.51-3.00%**	**≥3.01%**	**Point estimate for most likely outcome:**

** Percentages 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 January 1, 2020 - December 31, 2024. Please also provide your point estimate for the most likely outcome.

≤1.00%	**1.01-1.50%**	**1.51-2.00%**	**2.01-2.50%**	**2.51-3.00%**	**≥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 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 U.S. economy being in a recession* **sometime over the next 3 years**? **Recession over next 3 years:**

**NBER-defined recession*

Dropdown Selections

1) e) 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:

1 -- Less Accommodative
2
3 -- Neutral
4
5 -- More Accommodative

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.

Estimate for most likely meeting for first increase in target rate or range:

December 2014
January 2015
March 2015
April 2015
June 2015
July 2015
September 2015
October 2015
December 2015
>= 2016

5) 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).

Importance of Factor:

5 -- Very Important
4
3
2
1 -- Not Important

9) 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.

Quarter & Year:

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
>= Q1 2018