Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

March 2014

Policy Expectations Survey

Please respond by **Monday, March 10, 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 March FOMC statement. Limit your responses to changes you consider most likely.

	Language Changes Expected
Current economic conditions and the economic outlook:	
Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:	
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' projections in the advanced materials of the Summary of Economic Projections (SEP)?

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

2) a) Taken together, how do you expect the events on March 19 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:**

b) What announced purchase pace, effective following the upcoming FOMC meeting, do you believe would result in roughly no change in the price of the 10-year Treasury note, assuming no other policy action?

	Treasuries	*Agency MBS*
Pace of purchases following the upcoming FOMC meeting ($ billions):		

3) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first target federal funds rate increase.

2014 H1	**2014 H2**	**2015 H1**	**2015 H2**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**≥2018 H1**

** Percentages should add up to 100 percent.*

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

b) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range at the end of each half-year period. 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.

2014 H1	**2014 H2**	**2015 H1**	**2015 H2**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**2018 H1**

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

c) If you changed your expectations for questions 3a) and/or 3b) since the last time the questions were asked, explain the factors that motivated you to make the change(s).

4) 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.

	< 6.0%	**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.

	< 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 for the following indicators at the time of the first increase in the target federal funds rate. 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 January, seasonally adjusted, was 137.5 million. For your calculation of total payrolls, please take into account the February level to be released on March 7th.

Unemployment rate:	
Total U.S. employees on non-farm payrolls (millions):	
Headline 12-month PCE Inflation:	
Inflation between 1 and 2 years ahead (at liftoff):	

5) 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.*
*** Bins are centered around highest probability bucket from December SPD.*

6) a) The January 2014 FOMC meeting minutes stated that, "Participants agreed that, with the unemployment rate approaching 6½ percent, it would soon be appropriate for the Committee to change its forward guidance in order to provide information about its decisions regarding the federal funds rate after that threshold was crossed," and summarized a range of views around the form that such forward guidance might take. Provide the percent chance you attach to the Committee changing its current forward guidance for the federal funds rate in any of the following ways, and the meeting at which you expect the most likely change to occur. Percentages do not have to add up to 100 percent.

	Probability		
Provide quantitative guidance on appropriate timing of the first rate hike that modifies or replaces current threshold-based guidance:		**Most likely meeting:**	
Provide qualitative guidance relevant to determining the appropriate timing of the first rate hike:			
Provide additional information on the path of the target rate after the first increase:			
Other changes:		**If "Other", note option:**	

b) Please comment on the form that you expect any change to the forward guidance to take, if not already stated in question 1.

c) How do you anticipate the change(s) you expect to the forward rate guidance to influence market expectations of the expected path of the target rate, if at all, relative to current expectations.

Impact on expected timing of liftoff: **Impact on expected path of target rate post-liftoff:**

7) The minutes of the January 2014 FOMC meeting stated, "It was remarked that the additional insights obtained from the [ON RRP] exercise could be useful in the context of the Committee's future discussions about monetary policy implementation over the medium and longer term." Please describe your expectations for the future of the ON RRP exercise.

8) a) Provide your estimate for the most likely 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*
2014	**March 18-19:**		
	April 29-30:		
	June 17-18:		
	July 29-30:		
	September 16-17:		
	October 28-29:		
	December 16-17:		
2015	**January 27-28:**		
	March 2015:		

Comment on what would cause a change to your forecast for the most likely path of asset purchases, including specific indicators for the labor market, inflation, financial conditions, or other measures, as well as levels for those indicators, where applicable.

More purchases relative to current forecast:

Fewer purchases relative to current forecast:

b) Provide the percent chance you attach to a further reduction in asset purchase pace being announced at the March FOMC meeting.

	Percent Chance of Reduction
March 18-19:	

c) Provide your expectation for the most likely change in the amount of domestic securities held in the SOMA portfolio during each of the periods below. In the case of purchases, include settled and unsettled amounts.

	Half Years				*Full Year*
	2015 H1	**2015 H2**	**2016 H1**	**2016 H2**	**2017**
Expected change in amount of U.S. Treasury securities in SOMA ($ billions):					
Expected change in amount of agency debt and agency MBS in SOMA ($ billions):					

**Note, expectations begin with H1 2015 as prior periods are obtained from part a).*

Please explain your assumptions for the timing, size, and pace of redemptions and sales of securities, if applicable:

d) Provide your expectation for the most likely level of reserves and currency in circulation at end 2014 as well as your forecast for the average growth rate of currency in circulation after 2014. Please also provide your estimate of the most likely change in reserves during each of the periods below. When estimating the level and change in reserves, please adjust for seasonal fluctuations. For your reference, the level of reserves according to the January 2, 2014 H.4.1 was $2,249 billion and the level of currency in curculation was $1,241 billion.

Expected level of reserves at end 2014 ($ billions):

Expected level of currency in circulation at end 2014 ($ billions):

Expected average annual growth rate of currency in circulation after 2014:

	Half Years				*Full Year*
	2015 H1	**2015 H2**	**2016 H1**	**2016 H2**	**2017**
Expected change in level of reserves ($ billions):					

Please explain your assumptions behind your estimates for changes in reserves and currency in circulation:

9) Of the possible outcomes below, indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2014 and year-end 2015. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 2, 2014 H.4.1 was $3,814 billion.

Level of SOMA Portfolio ($ billions)

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Year-end 2014:								
Year-end 2015:								

** Percentages should add up to 100 percent.*

Economic Indicator Forecasts

10) Provide your estimate of the most likely outcome for output, inflation, and unemployment.

	GDP (Q4/Q4 Growth) *Estimate*	**Core PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Headline PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Unemployment Rate (Q4 Average Level)** *Estimate*
2014:				
2015:				
2016:				
Longer run:				

11) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from 2019 - 2024. Please also provide your point estimate for the most likely outcome.

≤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*?

** NBER-defined recession.*

Recession currently:

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

** NBER-defined recession.*

Recession in 6 months:

Dropdown Selections

2) a) Taken together, how do you expect the events on March 19 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

3) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first target federal funds rate increase.

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

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
>= Q1 2018

6) a) The January 2014 FOMC meeting minutes stated that, "Participants agreed that, with the unemployment rate approaching 6½ percent, it would soon be appropriate for the Committee to change its forward guidance in order to provide information about its decisions regarding the federal funds rate after that threshold was crossed," and summarized a range of views around the form that such forward guidance might take. Provide the percent chance you attach to the Committee changing its current forward guidance for the federal funds rate in any of the following ways, and the meeting at which you expect the most likely change to occur. Percentages do not have to add up to 100 percent.

Most likely meeting:

March '14
April '14
June '14
July '14
September '14
October '14
December '14
Later than 2014

c) How do you anticipate the change(s) you expect to the forward rate guidance to influence market expectations of the expected path of the target rate, if at all, relative to current expectations.

Impact on expected timing of liftoff:

Earlier
No Change
Later

Impact on expected path of target rate post-liftoff:

Steeper
No Change
Flatter