

RESPONSES TO SURVEY OF MARKET PARTICIPANTS

Markets Group, Federal Reserve Bank of New York



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The **Survey of Market Participants** 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 participants are not involved in the survey's design.

For most questions, median responses across dealers, along with the 25th and 75th percentiles, are reported.¹ For questions that ask respondents to give a probability distribution, the average response across dealers for each potential outcome is reported. Brief summaries of the comments received in free response form are also provided.

Responses were received from 27 market participants. Except where noted, all 27 dealers responded to each question. In some cases, dealers may not have provided forecasts extending to the same time horizon as requested in the survey. In these instances, the number of respondents who answered all parts of the question is indicated.

¹ Answers may not sum to 100 percent due to rounding.

List of Market Participants:

https://www.newyorkfed.org/markets/survey_market_participants.html

Table of Contents

Q-1) FOMC Meeting Expectations

Q-2) Target Federal Funds Rate/Range and Lower Bound Expectations

Q-3) Treasury and Mortgage Rate Modal Expectations

Q-4) Reinvestment Policy Expectations

Q-5) SOMA Value Probability Distributions

Q-6) Fiscal Deficit Expectations

Q-7) Inflation Probability Distributions

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

Current economic conditions:

Some respondents indicated that they expected no or few significant changes to the Committee's characterization of current economic conditions. Several indicated that they expected the Committee to continue to acknowledge that headline and/or core inflation have declined or are running below 2 percent. Lastly, several respondents indicated that they expected the Committee could note the potential effects of recent hurricanes.

Economic outlook:

Some respondents indicated that they expected no or few significant changes to the Committee's characterization of the economic outlook. Several indicated that they expected the Committee could note the potential effects of recent hurricanes, with several suggesting the Committee could make explicit reference to their impact on economic data.

Communication on the expected path of the target fed funds rate:
(25 responses)

Many respondents indicated that they expected no or few significant changes to the Committee's communication on the expected path of the target federal funds rate.

Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:

Many respondents indicated that they expected the Committee to announce a change to its policy of reinvesting principal payments on Treasury and agency securities at the September FOMC meeting. Several respondents also suggested the Committee might signal that a change to reinvestment policy would begin in October, and several suggested that the Committee could indicate that the normalization process would be consistent with the Addendum to the Policy Normalization Principles and Plans published in June. Lastly, several respondents indicated that they expected no change in the Committee's communication on this topic.

Other:
(5 responses)

Respondents did not provide substantial commentary in this section.

- 1b)** What are your expectations for the medians of FOMC participants' economic projections in the Summary of Economic Projections (SEP)?
(25 responses)

Several respondents reported that they expected no or few significant changes to the medians of FOMC participants' economic projections in the September SEP. Several respondents reported that the medians of FOMC participants' projections for 2017 headline and/or core PCE inflation could shift lower.

- 1c)** What are your expectations for the most likely levels of the medians of FOMC participants' target federal funds rate projections in the SEP?

	Year-end 2017	Year-end 2018	Year-end 2019	Year-end 2020	Longer Run
25th Pctl	1.38%	1.88%	2.63%	2.88%	2.88%
Median	1.38%	2.13%	2.88%	3.00%	3.00%
75th Pctl	1.38%	2.13%	2.88%	3.00%	3.00%

Please comment on the balance of risks around your expectations.
(24 responses)

Many respondents suggested that there were downside risks to the medians of FOMC participants' target federal funds rate projections for year-ends 2017-2019 and/or for the longer-run.

- 1d)** Additionally, please describe any expected changes to the distributions of FOMC participants' target rate projections, if applicable.
(22 responses)

Several respondents suggested that the distributions of FOMC participants' target federal funds rate projections for year-ends 2017-2019 and/or for the longer run could shift lower, and several suggested that the averages of participants' projections could decrease more than the medians.

- 1e)** What are your expectations for the Chair's press conference?
(24 responses)

Some respondents indicated that they expected the Chair to explain the decision to announce a change to balance sheet policy and/or to discuss the new policy in greater detail. Additionally, some respondents indicated that the Chair could discuss recent softness in inflation data, which several expected her to attribute to transitory factors. Lastly, several respondents suggested that the Chair would note the possible impact of recent hurricanes on economic data or the economic outlook.

2a) 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 of the following quarters and half years below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	Sep. 19-20 2017	Oct. 31 - Nov. 1 2017	Dec. 12-13 2017	Jan. 30-31 2018	Mar. 20-21 2018	May 1-2 2018	Jun. 12-13 2018	
25th Pctl	1.13%	1.13%	1.38%	1.38%	1.38%	1.38%	1.38%	
Median	1.13%	1.13%	1.38%	1.38%	1.38%	1.38%	1.63%	
75th Pctl	1.13%	1.13%	1.38%	1.38%	1.63%	1.63%	1.75%	
# of Responses	27	27	27	27	27	27	27	
	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 H1	2020 H2
25th Pctl	1.63%	1.88%	1.88%	2.00%	2.13%	2.13%	2.13%	2.13%
Median	1.88%	2.00%	2.13%	2.38%	2.38%	2.63%	2.63%	2.75%
75th Pctl	2.00%	2.13%	2.38%	2.63%	2.88%	2.88%	2.88%	3.00%
# of Responses	27	27	27	27	27	27	27	27

2b) 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	10-yr Average FF Rate
25th Pctl	2.50%	2.00%
Median	2.75%	2.32%
75th Pctl	3.00%	2.75%

2c) Please indicate the percent chance that you attach to the following possible outcomes for the Committee's next policy action in 2017.

	Next Change is Increase in Target Rate or Range	Next Change is Decrease in Target Rate or Range	No Further Change in Target Rate or Range in 2017
Average	56%	2%	42%

2d) Conditional on the Committee's next policy action in 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 in 2017 being an increase.

	Increase Occurs at September FOMC meeting	Increase Occurs at Oct./Nov. FOMC meeting	Increase Occurs at December FOMC meeting
Average	4%	5%	91%

2e) 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. If you expect a target range, please use the midpoint of that range in providing your response.

FF Rate or Range at the End of 2017								
	≤ 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	0%	1%	1%	42%	53%	2%	0%	0%

2f-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, 2019 and 2020, conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2020. If you expect a target range, please use the midpoint of that range in providing your response.

Year-end 2018							
	≤ 1.00%	1.01- 1.50%	1.51- 2.00%	2.01- 2.50%	2.51- 3.00%	3.01- 3.50%	≥ 3.51%
Average	5%	15%	38%	28%	11%	3%	1%

Year-end 2019							
	≤ 1.00%	1.01- 1.50%	1.51- 2.00%	2.01- 2.50%	2.51- 3.00%	3.01- 3.50%	≥ 3.51%
Average	6%	9%	17%	27%	22%	13%	5%

Year-end 2020							
	≤ 1.00%	1.01- 1.50%	1.51- 2.00%	2.01- 2.50%	2.51- 3.00%	3.01- 3.50%	≥ 3.51%
Average	10%	10%	13%	21%	23%	15%	8%

2f-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2020.

Probability of Moving to ZLB at Some Point between Now and the End of 2020	
25th Pctl	10%
Median	23%
75th Pctl	35%

2f-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, 2019 and 2020, conditional on moving to the ZLB at some point between now and the end of 2020. Only fill out these conditional probability distributions if you assigned a non-zero probability to moving to the ZLB at some point between now and the end of 2020. If you expect a target range, please use the midpoint of that range in providing your response. (25 responses)

Year-end 2018								
	< 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%
Average	7%	42%	20%	10%	10%	5%	5%	2%

Year-end 2019								
	< 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%
Average	11%	56%	15%	8%	4%	1%	2%	2%

Year-end 2020								
	< 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%
Average	13%	60%	14%	8%	3%	1%	0%	0%

2f-iv) What is your estimate of the target federal funds rate or range at the effective lower bound? (25 responses)

Level of Target Fed Funds Rate or Range at ELB	
25th Pctl	-0.25%
Median	0.00%
75th Pctl	0.13%

2g) For parts a-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey. (26 responses)

Several respondents indicated that there had been no major changes to their expectations since the last survey. However, several indicated that they expected a slower pace of increases in the target fed funds range due to recent soft inflation data.

3a) Provide your estimate of the most likely outcome for the 10-year Treasury yield at the end of each period below. In addition, provide your estimate of the longer-run level of the 10-year Treasury yield.

	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 H2
25th Pctl	2.10%	2.24%	2.25%	2.37%	2.50%
Median	2.17%	2.30%	2.45%	2.50%	2.65%
75th Pctl	2.25%	2.40%	2.60%	2.75%	2.90%
# of Responses	27	27	27	27	27

	2019 H1	2019 H2	2020 H1	2020 H2	Longer Run
25th Pctl	2.50%	2.50%	2.50%	2.50%	2.75%
Median	2.75%	2.80%	2.90%	2.95%	3.00%
75th Pctl	3.00%	3.25%	3.38%	3.50%	3.35%
# of Responses	27	27	27	27	27

3b) 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, provide your estimate of the longer-run level of the 30-year fixed primary mortgage rate.

	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 H2
25th Pctl	3.68%	3.78%	3.88%	3.93%	3.95%
Median	3.80%	3.96%	4.10%	4.20%	4.34%
75th Pctl	3.91%	4.05%	4.24%	4.44%	4.71%
# of Responses	24	24	24	24	24

	2019 H1	2019 H2	2020 H1	2020 H2	Longer Run
25th Pctl	4.03%	4.03%	3.83%	3.70%	4.08%
Median	4.50%	4.51%	4.55%	4.56%	4.63%
75th Pctl	4.71%	4.88%	4.93%	5.16%	5.08%
# of Responses	24	24	24	24	24

4a) The July FOMC statement indicated that the Committee "expects to begin implementing its balance sheet normalization program relatively soon, provided that the economy evolves broadly as anticipated..." Please indicate the percent chance that you attach to the following possible outcomes for when the Committee first announces a change to its reinvestment policy. Additionally, please indicate the probability that you assign to "no change" to reinvestments occurring.

	Sep. 19-20 FOMC	Oct. 31-Nov. 1 FOMC	Dec. 12-13 FOMC	Q1 2018	Q2 2018	≥ H2 2018	No Change
Average	77%	6%	8%	3%	1%	3%	2%

4b) Please explain any changes to your views in part a since the last policy survey, where applicable. (24 responses)

Some respondents indicated that they had increased the probability assigned to an announcement of a change to reinvestment policy occurring at the September meeting. Furthermore, several noted that they perceived communication

from Fed officials as signaling that a September announcement was likely.

5a) 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 2020, conditional on not moving to the ZLB at any point between now and the end of 2020. For reference, the level of the SOMA portfolio on August 30th, 2017 was \$4265 billion, including inflation compensation and settled and unsettled agency MBS, according to the most recent H.4.1 release. Levels referenced below are in \$ billions.

(24 responses)

	≤ 3000	3001 - 3500	3501 - 4000	4001 - 4500	≥ 4501
Average	20%	43%	28%	7%	2%

5b) 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 2020, conditional on moving to the ZLB at any point between now and the end of 2020. Only fill out this conditional probability distribution if you assigned a non-zero probability to moving to the ZLB at some point between now and the end of 2020 in question 2. Levels referenced below are in \$ billions.

(24 responses)

	≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501
Average	19%	21%	23%	24%	14%

6a) Provide your estimate of the most likely outcome for the U.S. federal fiscal deficit (as a percent of GDP) for fiscal years 2018, 2019 and 2020.

(25 responses)

	FY 2018	FY 2019	FY 2020
25th Pctl	3.00%	3.50%	3.50%
Median	3.50%	3.70%	3.75%
75th Pctl	3.50%	4.00%	4.40%

6b) Please explain changes to your estimates in part a since the policy survey on July 17, where applicable.

(17 responses)

Several respondents indicated they had made no material change to their forecasts.

7a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from September 1, 2017 - August 31, 2022 falling in each of the following ranges. 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%
Average	5%	14%	33%	29%	14%	6%

	Most Likely Outcome
25th Pctl	1.90%
Median	2.00%
75th Pctl	2.10%

7b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from September 1, 2022 - August 31, 2027 falling in each of the following ranges. 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%
Average	5%	13%	30%	30%	15%	6%

	Most Likely Outcome
25th Pctl	2.00%
Median	2.00%
75th Pctl	2.20%