Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York
November, 2011

Policy Expectations Survey

Please respond by **Monday, October 24 at 5:00 p.m.** 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 only involve 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. This survey should not be distributed, or its contents disclosed or discussed, beyond those directly involved in its completion.

Dealer:

Monetary Policy Expectations

1) Of the possible outcomes below, please indicate the percent chance* you attach to the indicated policy 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%**
November 1-2:							
December 13:							
January 24-25:							

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

2) a) Do you expect any changes in the FOMC statement and if so, what changes?

b) What additional information do you expect Chairman Bernanke to provide in his post-FOMC meeting press conference on November 2nd?

3) Of the possible outcomes below, please indicate the percent chance* you attach to the timing of the first fed funds target rate increase:

Timing of First Increase :

2011 Q4	**2012 Q1**	**2012 Q2**	**2012 Q3**	**2012 Q4**	**2013 Q1**	**2013 Q2**	**2013 Q3**	**2013 Q4**	**2014 Q1**	**≥2014 Q2**

** 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 fed funds target rate or range at the end of each quarter:

Fed Funds Target Rate or Range :

2011 Q4	**2012 Q1**	**2012 Q2**	**2012 Q3**	**2012 Q4**	**2013 Q1**	**2013 Q2**	**2013 Q3**	**2013 Q4**	**2014 Q1**
Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown

5) Of the possible outcomes below, please indicate the percent chance* you attach to the fed funds target rate or range 12 months from now:

	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%**
November 2012 :							

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

*** Distribution of probability buckets scaled to rates implied by September 2012 Eurodollar futures contracts.*

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 9/12/11? Please provide a rating between 1 and 5, with 1 indicating **in**effectiveness and 5 indicating effectiveness.

Rank: Dropdown **Please explain:**

7) Recent FOMC communication has 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 guidance on the period over which the target rate will remain in effect			

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 Security Purchases			
Increase Duration of Portfolio*			
Change the forward guidance on the path of the federal funds rate			
Provide guidance on the period over which the SOMA portfolio will remain at the current level			

Please Explain:

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

8) What are your expectations 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 2011	Year End 2012	Year End 2013	Year End 2014	Year End 2015
Expected Amount of U.S. Treasury Securities in SOMA ($ Billions)	1,669					
Expected Amount of Agency Debt and Agency MBS Securities in SOMA ($	979					
Expected Amount of Domestic Assets in SOMA ($ Billions)	2,648					
Expected Level of Reserves ($ Billions)	1,633					

* Taken from the 10/13/2011 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 (y.o.y.)	Headline PCE (y.o.y.)
2011 Q3 :			
2011 Q4 :			
2012 Q1 :			
2012 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 (Q4/Q4 Growth)		Headline PCE (Q4/Q4 Growth)		Unemployment Rate (Q4 Average Level)	
	Estimate	*Balance of Risk*	*Estimate*	*Balance of Risk*	*Estimate*	*Balance of Risk*	*Estimate*	*Balance of Risk*
2011 :		Dropdown	Fill from 9a	Dropdown	Fill from 9a	Dropdown		Dropdown
2012 :		Dropdown		Dropdown		Dropdown		Dropdown
2013 :		Dropdown		Dropdown		Dropdown		Dropdown

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 9/12/11?

GDP Uncertainty: Dropdown **Core PCE 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 Q4 2012?

11) For the outcomes below, please indicate the percent chance* you attach for the annual average CPI inflation rate from 2016 - 2021. 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***?

** NBER-defined recession.*

Recession currently:

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

** NBER-defined recession.*

Recession in 6 months:

13) Please quantify the net impact that the maturity extenstion program and the change in reinvestment policy announced in the September FOMC statement has had on the following yields.

In your responses, the impact should be in basis points and should be estimated as the difference between the current level of yields (which includes any maturity extension and reinvestment program effects) and what the level of yields would be today if the maturity extension program and the change to the reinvestment policy had not been enacted (and was not expected to be enacted in the near term), but the financial and economic environment was otherwise identical.

	2-Year Treasury Yield	10-Year Treasury Yield	30-Year Treasury Yield	Current Coupon MBS Yield
Current Level (bps):	27	217	316	324
Impact (bps):				

Note: Please ensure that the signs of your answers are correct.

Please explain :

14) 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:

Q4 2011
Q1 2012
Q2 2012
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

4) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the fed funds target rate or range at the end of each quarter:
Fed 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%
> 5.00%

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 9/12/11? 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:
Downside
Balanced
Upside

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 9/12/11?

Uncertainty:
More Uncertain
Equally Uncertain
Less Uncertain