Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

July 2013

Policy Expectations Survey

Please respond by **Monday, July 22 at 12pm** 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) Do you expect any changes in the FOMC statement and, if so, what changes?

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

2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	≥2017 H2

** Percentages should add up to 100 percent.*

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

b) If you made any changes to your expectations for the most likely timing of the first target rate increase since the last survey update on June 24, please explain the factors that motivated you to make the change(s).

c) Assuming inflation between one and two years ahead is projected to be no more than 2.5 percent and longer-term inflation expectations continue to be well anchored, please provide the percent chance you attach to the timing of the 6.5 percent unemployment rate threshold being reached.

2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	≥2015 Q3

d) Please provide your estimate of the most likely joint outcome for the unemployment rate and headline 12-month PCE inflation at the time of the first federal funds target rate increase.

Unemployment Rate:
Headline 12-month PCE Inflation:

3) Provide your 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:

2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2

Longer run:

4) Of the possible outcomes below, please indicate the percent chance* you attach to the fed funds target rate or range falling in each of the following ranges at the end of 2014 and 2015.

	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%
Year-end 2014:							
Year-end 2015:							

** Percentages should add up to 100 percent.*

5) The path of expected policy rates, as measured by the overnight index swap and federal funds futures curves, has shifted appreciably higher since the release of the June FOMC statement. Please rate the importance of the following factors below in explaining this increase. (5 = very important, 1 = not important)

Improved economic outlook	Change in perception of FOMC's view of appropriate policy rate path	Higher uncertainty around path of policy rates	Change in perception of FOMC's view of appropriate asset purchase path	Other / technical factors	(if "Other", please specify)

Please Explain:

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on 6/10/2013? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: **Please Explain:**

7) In the June FOMC statement, the Committee announced it will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month, and also stated that it would take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives in determining the size, pace, and composition of its asset purchases.

a) Please provide your expectation for the 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*
2013	**July 30-31:**		
	September 17-18:		
	October 29-30:		
	December 17-18:		
2014	**January 28-29:**		
	March 18-19:		
	April 29-30:		
	June 17-18:		
	July 29-30 (1 year ahead):		

Please explain the drivers of your assumptions behind the increments of pace reduction and any changes in the composition of Treasury and agency MBS purchases, if applicable.

b) At the Chairman's press conference on June 19, he indicated that, "If the incoming data are broadly consistent with [the Committee's] forecast, the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year." Please provide your distribution of probabilities* for the timing of the first reduction in pace, given the FOMC meetings below.

	Treasuries	*Agency MBS*
July 30-31:		
September 17-18:		
October 29-30:		
December 17-18:		
Later than 2013:		

**Percentages for each column should add to 100 percent*

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

	Half-Years			*Full Years*		
	2014 H2	**2015 H1**	**2015 H2**	**2016 - Full Year**	**2017 - Full Year**	**2018 - Full Year**
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 H2 2014 as prior periods are obtained from part a).*

Please describe your assumptions for the monthly pace of asset purchases for Treasury and agency MBS, if not clear from the above:	
Please explain your assumptions behind your projections for the size and pace of passive redemption and sales of securities, if applicable:	

d) Please indicate the month and year during which you expect asset purchases in Treasuries and agency MBS to be completed.

Expected End of Treasury Purchases	**Expected End of Agency MBS Purchases**
Month and Year	*Month and Year*

Please explain the factors that motivated you to make changes to your expectations for the overall size, pace, and/or composition of asset purchases relative to your responses since the last survey update on June 24, if applicable.

8) Of the possible outcomes below, please indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2013 and year-end 2014. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 3 H.4.1 was $2,785 billion (the H.4.1 closest to the start of 2013).

Level of SOMA Portfolio ($ billions)

	<3000	**3000-3250**	**3250-3500**	**3500-3750**	**3750-4000**	**4000-4250**	**>4250**
year-end 2013:							

	<2500	**2500-3000**	**3000-3500**	**3500-4000**	**4000-4500**	**4500-5000**	**>5000**
year-end 2014:							

** Percentages should add up to 100 percent.*

9) a) How would you rate the current state of market functioning in longer-term Treasury and production coupon MBS today? (1 = worst conditions since 2009, 5 = best conditions since 2009)

	Market Functioning
Longer-term Treasury securities:	
Production coupon agency MBS:	

b) How would you rate the change in market functioning since prior to the announcement of outcome-based purchases at the September 2012 FOMC meeting? (1 = significantly worse, 3 = same, 5 = significantly better)

	Market Functioning
Longer-term Treasury securities:	
Production coupon agency MBS:	

Please explain, including discussion of any specific indicators that inform your views:

Economic Indicator Forecasts

10) Provide your 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*
2013:								
2014:								
2015:								
Longer run:								

11) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2018 - 2023. 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%**		
						Point estimate for most likely outcome:	

** Percentages should add up to 100 percent.*

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 and risks to your forecast since the last FOMC meeting. Please note whether and how a change in financial conditions has affected your forecasts or the balance of risks.

Dropdown Selections

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

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
Q4 2017
>= Q1 2018

3) Provide your 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:

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%

5) The path of expected policy rates, as measured by the overnight index swap and federal funds futures curves, has shifted appreciably higher since the release of the June FOMC statement. Please rate the importance of the following factors below in explaining this increase. (5 = very important, 1 = not important)

Rating:

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

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on 6/10/2013? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating:

5 -- Very Effective
4
3
2
1 -- Very Ineffective

7) d) Please indicate the month and year during which you expect asset purchases in Treasuries and agency MBS to be completed:

Jul-13
Aug-13
Sep-13
Oct-13
Nov-13
Dec-13
Jan-14
Feb-14
Mar-14
Apr-14
May-14
Jun-14
Jul-14
Aug-14
Sep-14
Oct-14
Nov-14
Dec-14
Jan-15
Feb-15
Mar-15
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15

9) a) How would you rate the current state of market functioning in longer-term Treasury and production coupon MBS today? (1 = worst conditions since 2009, 5 = best conditions since 2009)

Rating:

5 -- Best Conditions
4
3
2
1 -- Worst Conditions

b) How would you rate the change in market functioning since prior to the announcement of outcome-based purchases at the September 2012 FOMC meeting? (1 = significantly worse, 3 = same, 5 = significantly better)

Rating:

5 -- Significantly Better
4
3
2
1 -- Significantly Worse

10) Provide your 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:	Lower GDP	**Balance of Risk:**	Lower Inflation	**Balance of Risk:**	Lower Inflation	**Balance of Risk:**	Higher UR
	Balanced		Balanced		Balanced		Balanced
	Higher GDP		Higher Inflation		Higher Inflation		Lower UR