Responses to Survey of Primary Dealers

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July 2014

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

Responses were received from 22 primary dealers. Except where noted, all 22 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.

Monetary Policy Expectations

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

Current economic conditions and the economic outlook:

Many dealers expected the July FOMC statement to acknowledge an improvement in economic conditions. Some dealers noted improvements in the labor market and several dealers emphasized the pickup in second quarter economic growth as well as inflation moving closer to mandate consistent levels. Several dealers expected no substantial changes.

Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:

All of the dealers expected the statement to announce a reduction in the pace of asset purchases by $10 billion. Several dealers expected the statement to announce the end of purchases following the October meeting.

Communication on the expected path of policy rates and forward guidance on the target federal funds rate:

Most dealers expected no change in the forward guidance on the target federal funds rate.

Other: ***(8 responses)***

Dealers did not provide substantial commentary in this section.

b) How do you expect the release of the July FOMC statement 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
25th Pctl	2
Median	3
75th Pctl	3

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

Please explain: ***(21 responses)***

Some dealers noted their expectation that the July statement would not materially influence market perceptions of the stance of monetary policy, while several dealers expected the July statement to be perceived as slightly less accommodative.

2. 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?

Monthly Pace Resulting in No Change in 10-year Treasury Yield ($ billions)

	Treasuries	Agency MBS
25th Pctl	15	10
Median	15	10
75th Pctl	15	10

3. How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on June 9? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Fed Communication Grade

	Number of Respondents:
1 - Ineffective	0
2	4
3	7
4	11
5 - Effective	0

Please explain: ***(19 responses)***

Some dealers expressed the view that perceived disagreement among FOMC participants on policy normalization and the economic outlook has contributed to uncertainty about the policy outlook. Several dealers viewed communication as being effective, citing the discussion of monetary policy normalization released in the June FOMC minutes as well as Chair Yellen's recent testimony in the Semiannual Monetary Policy Report to Congress.

4. a) Of the possible outcomes below, provide the percent chance you attach to the timing of the first target federal funds rate increase. Also, provide your estimate for the most likely quarter and year of the first target rate increase.

	≤2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	≥2016 Q3
Average	3%	11%	23%	24%	18%	11%	5%	6%

	Most Likely Quarter and Year of First Target Rate Increase
25th Pctl	Q2 2015
Median	Q3 2015
75th Pctl	Q4 2015

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 period below. 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 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1	Longer Run	10-yr Average FF Rate
25th Pctl	0-.25%	0-.25%	0-.25%	0-.25%	0.50%	1.25%	2.00%	2.50%	3.00%	3.31%	3.50%	2.66%
Median	0-.25%	0-.25%	0-.25%	0.50%	0.75%	1.50%	2.13%	3.00%	3.50%	3.63%	3.50%	2.84%
75th Pctl	0-.25%	0-.25%	0.25%	0.75%	1.00%	1.75%	2.50%	3.25%	3.94%	4.00%	4.00%	3.08%

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

(18 responses)

Several dealers noted the increased probability of earlier liftoff in the target rate due to labor market improvements and inflation moving closer to the Committee's objective. Several dealers noted no change in their expectations.

5. 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 2014, 2015, and 2016.

Year End 2014

	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	95%	4%	1%	0%	0%	0%	0%

Year End 2015

	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	17%	24%	34%	20%	5%	1%	0%

Year End 2016

	≤0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	≥3.01%
Average	4%	8%	16%	23%	25%	16%	8%

6. 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.

	< 5.5%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	32%	53%	13%	2%

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%
Average	3%	16%	48%	27%	7%

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. 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 June, seasonally adjusted, was 138.8 million.

(21 complete responses)

	Unemployment Rate	Labor Force Participation Rate	Total NFP*	12-Month Change in Average Hourly Earnings	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.5%	62.7%	141.1	2.4%	1.8%	2.0%
Median	5.6%	62.9%	141.5	2.8%	1.9%	2.2%
75th Pctl	5.7%	63.0%	141.8	3.0%	2.0%	2.3%

**In millions*

d) The minutes of the June FOMC meeting noted that, as part of prudent planning, "Meeting participants continued their discussion of issues associated with the eventual normalization of the stance and conduct of monetary policy." Please detail your expectations for the Committee's approach to monetary policy normalization and the combination of policy tools that might be used to accomplish those objectives.

(21 responses)

Many dealers noted their expectation that the Committee will target a range for the federal funds rate rather than a point target. Many dealers expressed the view that the primary policy tool will be the IOER rate with the O/N RRP rate in a supporting role. Several dealers expect a mixture of overnight and term tools to be used in the normalization process, though several dealers did not expect the Term Deposit Facility and Term Treasury RRP to play a prevalent role.

Provide your forecast for the most likely levels of the following indicators immediately following liftoff in the target federal funds rate. If you do not believe a particular tool will be used in the context of monetary policy normalization, please enter "N/A". If you expect a target range, please enter the range. If you expect the Term Deposit Facility and Term Treasury RRP will be used in normalization, please specify the term that you believe will be most heavily used and provide the expected rate for that term.

(13 complete responses)*

Administered Rates and Policy Tools

	Target Federal Funds Rate	Rate of Interest on Excess Reserves	O/N RRP Rate	Term Deposit Facility Rate	Term Deposit Facility Term (Days)	Term Treasury RRP Rate	Term Treasury RRP Term (Days)
25th Pctl	0.38%	0.50%	0.25%	0.40%	7	0.33%	7
Median	0.38%	0.50%	0.30%	0.53%	7	0.35%	7
75th Pctl	0.50%	0.50%	0.30%	0.57%	12	0.40%	18

Market Rates

	Federal Funds Effective Rate	Overnight Treasury GCF Repo Rate	4-Week T-Bill Rate	3-Month LIBOR Rate
25th Pctl	0.35%	0.30%	0.23%	0.45%
Median	0.38%	0.35%	0.28%	0.65%
75th Pctl	0.45%	0.45%	0.40%	0.70%

Federal Reserve Balance Sheet

	Expected Usage of O/N RRP ($ billions)	Expected Usage of Term RRPs and TDF ($ billions)
25th Pctl	219	125
Median	350	200
75th Pctl	500	450

**For dealers that submitted ranges, midpoints of the ranges are used. (Complete responses only include responses that were specific numbers or ranges.)*

7. 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	July 29-30:	25th Pctl	15	10
		Median	15	10
		75th Pctl	15	10
	September 16-17:	25th Pctl	10	5
		Median	10	5
		75th Pctl	10	5
	October 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	December 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
2015	January 27-28:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	March 17-18:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	April 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	June 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	July 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0

Please explain any changes to your expectations for the increments of pace reduction and/or any changes in the expected composition of Treasury and agency MBS purchases since the last survey on June 9:
(18 responses)

Many dealers noted that they did not change their forecasts for the expected path of asset purchases. Several dealers noted that they now expect purchases to end following the October meeting.

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

	Percent Chance of Reduction
25th Pctl	99%
Median	99%
75th Pctl	100%

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.[2]

		2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*
		($ billions)					
Change in the estimated amount of Treasuries:	25th Pctl portfolio	60	0	0	-142	-71	-196
	Median portfolio	60	0	0	-41	-67	-192
	75th Pctl portfolio	60	0	0	0	-63	-141
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	40	0	-15	-82	-96	-165
	Median portfolio	40	0	0	-50	-67	-151
	75th Pctl portfolio	40	0	0	-32	-45	-127

**Calendar Year*

d) 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. 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.

	Most Likely Quarter and Year of End to Reinvestments	
	Treasuries*	Agency Debt and MBS
25th Pctl	Q4 2015	Q4 2015
Median	Q1 2016	Q1 2016
75th Pctl	Q2 2016	Q1 2016

**Two dealers expect no end to reinvestments of Treasury securities*

	Number of Months Relative to Liftoff	
	Treasuries	Agency Debt and MBS
25th Pctl	3	0
Median	6	5
75th Pctl	9	6

[2] Respondents provided their expected change in the SOMA portfolio of Treasuries and agency debt and MBS at each time horizon. The data is constructed by creating a portfolio level for each respondent at each time horizon based upon their responses. The 25th percentile, median, and 75th percentile portfolio level are then sampled at each time horizon. The data represent the changes in these portfolios at each time horizon.

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 June 9:

(20 responses)

Some dealers expressed the view that reinvestments will end after liftoff, while several dealers expect reinvestments to end at the same time as liftoff. Several dealers noted that they view outright asset sales as unlikely.

8. **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.**

Year-end 2014

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Average	0%	0%	3%	29%	62%	5%	1%	0%

Year-end 2015

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Average	0%	2%	7%	37%	46%	6%	1%	0%

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

(16 complete responses)

		Q4/Q4 2014	Q4/Q4 2015	Q4/Q4 2016	Longer Run
	25th Pctl	1.50%	2.70%	2.70%	2.03%
GDP:	Median	1.50%	3.00%	3.00%	2.25%
	75th Pctl	1.70%	3.10%	3.05%	2.48%
	25th Pctl	1.60%	1.80%	1.90%	
Core PCE:	Median	1.70%	1.90%	2.00%	
	75th Pctl	1.80%	2.00%	2.10%	
	25th Pctl	1.76%	1.80%	1.98%	2.00%
Headline PCE:	Median	1.90%	1.90%	2.00%	2.00%
	75th Pctl	2.08%	2.08%	2.20%	2.00%
	25th Pctl	5.90%	5.33%	5.15%	5.40%
Unemployment Rate*:	Median	5.95%	5.50%	5.35%	5.50%
	75th Pctl	6.00%	5.60%	5.50%	5.70%

**Average level of the unemployment rate over Q4.*

10. 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%
Average	3%	10%	24%	34%	20%	9%

	Most Likely Outcome
25th Pctl	2.20%
Median	2.30%
75th Pctl	2.44%

11. a *and* b) What percent chance do you attach to the US economy currently being in a recession (NBER-defined)? What percent chance would you attach to the US economy being in a recession in 6 months (NBER-defined)?

	Currently in NBER Recession
25th Pctl	1%
Median	5%
75th Pctl	5%

	NBER Recession in 6 Months
25th Pctl	5%
Median	10%
75th Pctl	14%