Responses to Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

March 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.

Except where noted, all primary 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 March FOMC statement. Limit your responses to changes you consider most likely.

Current economic conditions and the economic outlook:

Many dealers expected the statement to reference weaker economic data over the period. Most dealers also expected the Committee to note that inclement weather had a negative and temporary impact on the data. Several dealers expected no material changes to the language on current economic conditions and the economic outlook.

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.

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

Most dealers expected the Committee to revise its forward rate guidance at the March meeting. Many dealers expected the FOMC to remove the quantitative unemployment rate threshold and emphasize the need to see improvement in a broad range of labor market indicators before raising the target rate. Some dealers expected additional emphasis to be placed on the target rate remaining low so long as inflation is projected to run below the Committee's 2 percent objective. Several dealers also expected the quantitative inflation thresholds to be removed, and several expected the Committee to emphasize a gradual pace of increase in the target rate following the first increase. Several dealers expected no substantive changes to the forward rate guidance at the March meeting.

Other: ***(4 responses)***

Dealers did not provide substantial commentary in this section.

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

b) What are your expectations for the release of FOMC participants' projections in the advanced materials of the Summary of Economic Projections (SEP)?

Many dealers expected FOMC participants to downwardly revise their GDP and unemployment rate projections for 2014. Several dealers noted the possibility that participants' projections for the appropriate level of the target rate could shift slightly. Most of the dealers did not anticipate material changes to the longer run projections.

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

Many dealers expected the Chair to comment on any revisions to the forward rate guidance on the path of the target rate. Several dealers expected the Chair to comment on the outlook for economic growth and inflation, and to reference the Summary of Economic Projections. Several dealers also expected the Chair to discuss the negative impact of inclement weather on recent economic data. Several dealers anticipated the Chair's tone to be similar to the tone of her recent appearances before Congress.

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	
25th Pctl	2
Median	3
75th Pctl	3

Please Explain:

Many dealers expressed an expectation for the FOMC events to be perceived as neutral by the market; however, several other dealers expected the events to be perceived as slightly less-accommodative. Some dealers noted their expectation for the Committee to continue to reduce the pace of its asset purchases, which they expected would be viewed by the market as neutral.

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?

Monthly Pace Resulting in No Change in 10-year Treasury Yield

	Treasuries	Agency MBS
25th Pctl	30	25
Median	30	25
75th Pctl	30	25

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**
Average	1%	6%	24%	30%	22%	11%	4%	2%	2%

	Most Likely Quarter and Year of First Target Rate Increase
25th Pctl	Q3 2015
Median*	Q3 2015
75th Pctl	Q1 2016

Median falls between Q3 and 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 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	10-yr Average FF Rate
25th Pctl	0-.25%	0-.25%	0-.25%	0.22%	1.00%	1.50%	2.00%	2.50%	3.00%	3.75%	2.59%
Median	0-.25%	0-.25%	0-.25%	0.63%	1.25%	2.00%	2.75%	3.25%	3.75%	3.75%	2.75%
75th Pctl	0-.25%	0-.25%	0-.25%	0.75%	1.50%	2.44%	3.25%	3.94%	4.00%	4.00%	3.05%

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).

(17 responses)

Several dealers noted a lowering of their forecast for the longer run federal funds rate.

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%
Average	60%	36%	4%

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	4%	19%	46%	25%	6%

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 NFP*	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.6%	140.9	1.7%	1.9%
Median	5.8%	141.2	1.8%	2.0%
75th Pctl	6.0%	142.0	2.0%	2.2%

**In millions*

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.

Year-end 2014

	≤2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	>4.50%
Average	3%	9%	22%	32%	23%	9%	2%

Year-end 2015

	≤2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	4.51 - 5.00%	>5.00%
Average	6%	11%	19%	29%	22%	10%	3%

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.

	Option 1	Option 2	Option 3	Option 4
25th Pctl	10%	67%	25%	0%
Median	20%	78%	40%	5%
75th Pctl	29%	84%	58%	30%

Option 1: Provide quantitative guidance on appropriate timing of the first rate hike that modifies or replaces current threshold-based guidance.

Option 2: Provide qualitative guidance relevant to determining the appropriate timing of the first rate hike.

Option 3: Provide additional information on the path of the target rate after the first increase.

Option 4: Other changes.

	Most Likely Meeting
25th Pctl	March 2014
Median	March 2014
75th Pctl	March 2014

If "Other", note option: ***(4 responses)***

Dealers did not provide substantial commentary in this section.

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

(14 responses)

Some dealers anticipated that the Committee would shift to a more qualitative form of forward guidance. Several dealers anticipated that the Committee would de-emphasize or remove quantitative thresholds, and several expected the Committee to provide qualitative guidance similar to that employed prior to the introduction of calendar- and outcome-based guidance. Several dealers expected the Committee to emphasize a broader set of labor market indicators and to emphasize the importance of inflation in determining the timing of the first increase in the target rate.

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	1
No Change	21
Later	0

	Impact on Expected Path of Target Rate Post-Liftoff
Flatter	5
No Change	16
Steeper	1

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.

Many dealers expected ON RRPs to become a key tool with which the Committee could control short-term interest rates, and several of these dealers also expected ON RRPs would be used in conjunction with the interest rate paid on excess reserves. Several dealers expected the Committee to eventually increase the cap of the allotment in the testing phase, and several also expected an eventual move to full allotment. Several dealers expected that the Committee would eventually increase the number of counterparties and increase the offered rate.

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:	25th Pctl	30	25
		Median	30	25
		75th Pctl	30	25
	April 29-30:	25th Pctl	25	20
		Median	25	20
		75th Pctl	25	20
	June 17-18:	25th Pctl	20	15
		Median	20	15
		75th Pctl	20	15
	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	5	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 2015:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0

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:

Some dealers noted that weaker-than-expected payroll growth would be necessary for them to raise their forecast for the most likely path of purchases, with several of those dealers noting monthly payroll growth below 100 thousand as a potential threshold. Several dealers discussed increases in the unemployment rate as leading to a larger purchase program. Several dealers discussed slower GDP growth and continued declines in realized inflation as other potential drivers of an increase in their forecast for purchases. Tighter financial conditions were also noted by several dealers as a factor that would lead to more asset purchases. However, several dealers noted a high threshold for any change to the current expected path of purchases.

Fewer purchases relative to current forecast:

Some dealers noted that substantial increases in inflation would be required for them to lower their forecast for the most likely path of purchases. Some dealers cited a rapid acceleration in GDP growth, while several noted strong payroll growth as factors that would lead to fewer expected purchases. A faster-than-expected decline in the *unemployment rate was also a factor noted by several dealers as likely to lead to a reduction in the overall size of asset purchases relative to current modal expectations.*

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
25th Pctl	86%
Median	95%
75th Pctl	99%

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]

(19 complete responses)

		2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*
		($ billions)				
Change in the estimated amount of Treasuries:	25th Pctl portfolio	0	-8	-142	-87	-201
	Median portfolio	0	0	-138	-74	-196
	75th Pctl portfolio	0	-4	-107	-86	-199
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	-6	-79	-81	-108	-177
	Median portfolio	0	-41	-108	-77	-126
	75th Pctl portfolio	0	0	-70	-70	-149

**Calendar Year*

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

Some dealers expected the level of the SOMA portfolio to start declining in 2015, while several others expected declines to begin in 2016. Some dealers also provided details regarding their assumptions behind the pace and magnitude of portfolio declines. Several dealers stated their belief that asset sales from the SOMA portfolio were unlikely, while several others noted that they did not expect asset sales within the specified forecast period.

[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.

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 circulation was $1,241 billion.

(18 complete responses)

	Currency in Circulation at End-2014 ($ billions)
25th Pctl	1,300
Median	1,315
75th Pctl	1,325

	Expected Currency Growth Rate After 2014
25th Pctl	5.0%
Median	5.0%
75th Pctl	6.3%

	Expected Reserves Level at Year-End 2014 ($ billions)
25th Pctl	2,600
Median	2,675
75th Pctl	2,900

Expected change in level of reserves ($ billions)[3]:

(19 complete responses)

		2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*
				($ billions)		
Change in the estimated amount of Reserves:	25th Pctl level	-60	-264	-307	-318	-495
	Median level	-75	-136	-264	-200	-330
	75th Pctl level	-166	-97	-239	-186	-380

**Calendar Year*

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

(20 responses)

Many dealers noted that their forecasts for changes in reserves were informed by their expectations for the path of asset purchases and the eventual redemption of securities during the policy normalization process. Some dealers noted that reverse repurchase operations by the Federal Reserve would lower reserve levels, and several of these dealers stated that term deposits might be used to drain reserves. Some dealers detailed their assumptions for currency growth.

[3] Respondents provided their expected level of reserves at year-end 2014 in part d) and their expected change in the level of reserves at each time horizon. The data is constructed by creating a reserve level for each respondent at each time horizon based upon their responses. The 25th percentile, median, and 75th percentile level are then sampled at each time horizon. The above data represent the changes in these levels at each time horizon.

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.**

Year-end 2014

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Average	0%	0%	5%	35%	50%	7%	1%	1%

Year-end 2015

	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Average	0%	2%	13%	43%	34%	7%	2%	1%

10) 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	2.40%	2.63%	2.68%	2.20%
GDP:	Median	2.70%	3.00%	2.80%	2.25%
	75th Pctl	2.90%	3.10%	3.00%	2.40%
	25th Pctl	1.43%	1.70%	1.88%	
Core PCE:	Median	1.60%	1.80%	2.00%	
	75th Pctl	1.70%	1.90%	2.13%	
	25th Pctl	1.43%	1.70%	1.88%	2.00%
Headline PCE:	Median	1.65%	1.80%	2.00%	2.00%
	75th Pctl	1.80%	1.98%	2.20%	2.00%
	25th Pctl	6.10%	5.50%	5.38%	5.48%
Unemployment Rate*:	Median	6.15%	5.75%	5.55%	5.50%
	75th Pctl	6.30%	5.88%	5.71%	5.64%

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

11) For the outcomes below, please indicate the percent chance you attach to the annual average CPI inflation rate from 2019 - 2024. Please also indicate 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%	25%	34%	19%	9%

	Most Likely Outcome
25th Pctl	2.05%
Median	2.20%
75th Pctl	2.38%

12) 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	6%
Median	10%
75th Pctl	15%

Appendix: Updates to the Survey

Updated as of March 24, 2014

Following the March FOMC Meeting (March 18-19), primary dealers were asked to update their responses to questions 3 and 4.

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

(21 complete responses)

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	≥2018 H1
Average	0%	5%	29%	30%	19%	9%	4%	2%	2%

	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 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	10-yr Average FF Rate
25th Pctl	0-.25%	0-.25%	0-.25%	0.50%	1.06%	2.00%	2.31%	3.00%	3.31%	3.56%	2.61%
Median	0-.25%	0-.25%	0-.25%	0.75%	1.38%	2.13%	2.75%	3.38%	3.75%	3.75%	2.75%
75th Pctl	0-.25%	0-.25%	0.44%	1.00%	1.75%	2.44%	3.25%	3.94%	4.00%	4.00%	3.06%

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).

(19 responses)

Several dealers noted that they pulled forward their expected timing of liftoff, while several others stated that they shifted their expected target rate path higher. Several dealers pointed to the changes in FOMC participants' projections of the appropriate level of the target rate in the Summary of Economic Projections, and several pointed to comments made by the Chair during her press conference, as influencing their decision to revise their target rate forecasts. Several dealers stated that they had made no changes to their expectations for the path of the target rate.

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.**

(21 complete responses)

	< 6.0%	6.0 - 6.5%	> 6.5%
Average	60%	36%	4%

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.**

(21 complete responses)

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	5%	20%	44%	25%	6%

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.**

(21 complete responses)

	Unemployment Rate	Total NFP*	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.6%	140.9	1.8%	1.9%
Median	5.8%	141.2	1.8%	2.0%
75th Pctl	6.0%	141.9	2.0%	2.1%

**In millions*