RESPONSES TO SURVEY OF PRIMARY DEALERS

Markets Group, Federal Reserve Bank of New York

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The **Survey of Primary Dealers** 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 24 primary dealers. Except where noted, all 24 dealers responded to each question. In some cases, dealers may not have provided complete responses (e.g. 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 Primary Dealers:
www.newyorkfed.org/markets/primarydealers

Table of Contents

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

Current economic conditions:

Some dealers indicated that they expected the Committee to downgrade its characterization of or note slowing growth in economic activity and some indicated that they expected the Committee to note slower job growth and/or weakness in the labor market. Several other dealers indicated that they expected the Committee to note firmness in job gains, and several indicated that they expected the Committee to continue to characterize the unemployment rate as low. Finally, several dealers indicated that they expected the Committee to note softness in business investment, and several indicated that they expected it to note firmness in household or consumer spending.

Economic outlook:

Many dealers indicated that they expected or saw a possibility that the Committee would highlight risks to and/or uncertainty around the outlook, including several who indicated that they expected the Committee to highlight risks and/or uncertainty due to international trade policy developments in particular.

Communication on the expected path of the target federal funds rate:

Several dealers indicated that they expected the Committee to state that it will take action if warranted, while several others indicated that they expected no material changes to this portion of the statement. Several dealers indicated that they expected the Committee to remove language that it will be "patient", and several indicated that they thought the Committee could add language that states that it will "closely monitor" developments.

Other:
(6 responses)

Dealers 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)?

Some dealers indicated that they expected the median of participants' projections for 2019 headline or core PCE inflation to decline, and several dealers indicated that they expected the median of participants' projections for 2019 GDP growth to decline. In addition, several dealers indicated that they expected the median of participants' projections for the 2019 unemployment rate to decrease, and several indicated that they expected the median of participants' projections for the longer run unemployment rate to decline.

1c) What are your expectations for the most likely levels of the medians of FOMC participants' target federal funds rate projections in the SEP? Please provide your responses out to three decimal places.

	Year-End 2019	Year-End 2020	Year-End 2021	Longer Run
25th Pctl	**2.38%**	**2.38%**	**2.38%**	**2.50%**
Median	**2.38%**	**2.38%**	**2.38%**	**2.75%**
75th Pctl	**2.38%**	**2.38%**	**2.63%**	**2.75%**

Please comment on the balance of risks around your own expectations for the median projections.

Some dealers indicated that they viewed the balance of risks to their expectations for participants' median projections as tilted to the downside.

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

Many dealers indicated that they expected one or more FOMC participants' target rate projections would imply a decrease in the target range from its current level at year-end 2019 and/or year-end 2020. In addition, some dealers expected the distribution of participants' target rate projections would shift lower for 2019, and some dealers expected the distribution of participants' projections would shift lower for 2020 and/or 2021.

1e) What are your expectations for the Chair's press conference?

Many dealers indicated that they expected the Chair to discuss headwinds to the economy, risks to the economic outlook, and/or uncertainty related to the economic outlook, including several who expected him to discuss international trade policy developments in particular. In addition, some dealers indicated that they expected the Chair to emphasize that the Committee would take action if warranted, including several who expected him to signal openness to decreases in the target range in the event of a deterioration in incoming economic data or other developments. Several dealers indicated that they expected the Chair to offer an upbeat baseline economic outlook. Finally, several dealers indicated that they expected the Chair's comments to be consistent with his remarks at the Fed Listens event at the Federal Reserve Bank of Chicago.

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

	Number of Respondents
1 - Ineffective	**0**
2	**2**
3	**12**
4	**10**
5 - Effective	**0**

Please explain.

Several dealers indicated that they thought Fed communication had been clear and/or consistent, while several others indicated that they thought communication had been unclear and/or inconsistent across various officials. In addition, several dealers discussed the relationship between Fed communication on the likely path of policy and market-implied rates for the path of policy.

3a) 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.

	Jun 18-19 2019	Jul 30-31 2019	Sep 17-18 2019	Oct 29-30 2019	Dec 10-11 2019	Jan 28-29 2020	Mar 17-18 2020
25th Pctl	**2.38%**	**2.13%**	**2.13%**	**2.00%**	**1.88%**	**1.88%**	**1.88%**
Median	**2.38%**	**2.38%**	**2.38%**	**2.38%**	**2.38%**	**2.38%**	**2.38%**
75th Pctl	**2.38%**	**2.38%**	**2.38%**	**2.38%**	**2.38%**	**2.38%**	**2.38%**
# of Responses	**24**	**24**	**24**	**24**	**24**	**24**	**24**
	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
25th Pctl	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**
Median	**2.38%**	**2.13%**	**2.00%**	**2.38%**	**2.38%**	**2.38%**	**2.38%**
75th Pctl	**2.38%**	**2.38%**	**2.38%**	**2.63%**	**2.88%**	**2.63%**	**2.63%**
# of Responses	**24**	**24**	**24**	**18**	**18**	**18**	**18**

3b) 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%**	**2.15%**
Median	**2.69%**	**2.26%**
75th Pctl	**2.81%**	**2.50%**

3c) Please indicate the percent chance that you attach to the following possible outcomes for the Committee's next policy action between now and the end of 2019.

	Next Change is Increase in Target Rate or Range	Next Change is Decrease in Target Rate or Range	No Change in Target Rate or Range Through the End of 2019
Average	**4%**	**54%**	**42%**

3d) 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 2019, conditional on the following possible scenarios for the direction of the Committee's next policy action between now and the end of 2019. Only fill out the conditional probability distributions for which you assigned a non-zero probability to the conditioning event occurring. If you expect a target range, please use the midpoint of that range in providing your response.

Next Change is an Increase								
	≤ 2.00%	2.01 - 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	3.01 - 3.25%	3.26 - 3.50%	≥ 3.51%
Average	**1%**	**3%**	**10%**	**71%**	**12%**	**1%**	**1%**	**0%**

Next Change is a Decrease								
	≤ 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	**3%**	**2%**	**2%**	**3%**	**6%**	**16%**	**38%**	**30%**

3e-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 2020 and 2021, conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2021. If you expect a target range, please use the midpoint of that range in providing your response.
(23 responses)

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%	3.51-4.00%	≥ 4.01%
Average	**7%**	**16%**	**27%**	**29%**	**15%**	**5%**	**1%**	**1%**

Year-End 2021								
	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	3.51-4.00%	≥ 4.01%
Average	**8%**	**16%**	**22%**	**26%**	**14%**	**9%**	**4%**	**1%**

3e-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2021.

	Probability of Moving to ZLB at Some Point between Now and the End of 2021
25th Pctl	**25%**
Median	**33%**
75th Pctl	**35%**

3e-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 2020 and 2021, conditional on moving to the ZLB at some point between now and the end of 2021. 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 2021. If you expect a target range, please use the midpoint of that range in providing your response.
(22 responses)

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	**9%**	**44%**	**15%**	**10%**	**9%**	**10%**	**2%**	**2%**

Year-End 2021								
	< 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	**9%**	**58%**	**14%**	**9%**	**6%**	**3%**	**1%**	**0%**

3e-iv) What is your estimate of the target federal funds rate or range at the effective lower bound?

	Level of Target Federal Funds Rate or Range at ELB
25th Pctl	**-0.19%**
Median	**0.00%**
75th Pctl	**0.13%**

3f) For parts a-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.

Some dealers indicated that they had assigned increased probability to lower target rate outcomes. In addition, several dealers noted a change to their modal expectations in that they now expected a decrease in the target range in 2019 and/or 2020, and several noted that they had assigned increased probability to the next policy action being a decrease in the target range. Several dealers noted that they had revised their policy expectations in response to international trade policy developments, and several

noted that they had revised their policy expectations in response to U.S. and/or global economic data.

4a) 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. For reference, as of June 4 the yield is roughly 2.10 percent.

	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2
25th Pctl	**2.10%**	**2.03%**	**2.00%**	**2.00%**	**2.05%**
Median	**2.15%**	**2.20%**	**2.25%**	**2.25%**	**2.30%**
75th Pctl	**2.25%**	**2.48%**	**2.60%**	**2.60%**	**2.60%**
# of Responses	**23**	**24**	**23**	**23**	**23**

	2020 H2	2021 H1	2021 H2	Longer Run
25th Pctl	**2.15%**	**2.25%**	**2.25%**	**2.40%**
Median	**2.25%**	**2.35%**	**2.43%**	**2.80%**
75th Pctl	**2.60%**	**2.68%**	**2.78%**	**3.50%**
# of Responses	**21**	**16**	**16**	**21**

4b) 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. For reference, as of June 4 the rate is roughly 4.00 percent

	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2
25th Pctl	**3.83%**	**3.75%**	**3.78%**	**3.78%**	**3.83%**
Median	**3.93%**	**4.00%**	**3.93%**	**3.95%**	**4.00%**
75th Pctl	**4.00%**	**4.00%**	**4.13%**	**4.30%**	**4.30%**
# of Responses	**20**	**21**	**20**	**20**	**20**

	2020 H2	2021 H1	2021 H2	Longer Run
25th Pctl	**3.95%**	**3.95%**	**3.95%**	**4.05%**
Median	**4.09%**	**4.10%**	**4.25%**	**4.38%**
75th Pctl	**4.40%**	**4.44%**	**4.60%**	**5.00%**
# of Responses	**18**	**15**	**15**	**18**

5a) During 2019 to date, the average size of the Federal Reserve System's balance sheet was $3964 billion, and was composed roughly as follows:

Assets*	Level ($Bn)	Share (%)	**Liabilities and Capital***	Level ($Bn)	Share (%)
US Treasuries	**2172**	**55%**	Federal Reserve Notes	**1673**	**42%**

Agency MBS	**1601**	**40%**	Reserves	**1601**	**40%**
All Other Assets**	**191**	**5%**	Deposits in Treasury General Account (TGA)	**324**	**8%**
Total Assets	**3964**	**100%**	Reverse Repos with Private Counterparties	**3**	**0%**
			Reverse Repos with Foreign Official Accounts	**252**	**6%**
			Other Deposits***	**66**	**2%**
			All Other Liabilities and Capital	**45**	**1%**
			Total Liabilities and Capital	**3964**	**100%**

*Individual categories rounded to the nearest $ billion.
**Includes net unamortized premiums and discounts on securities held outright, repos, and other assets.
***Includes balances held by designated financial market utilities (DFMUs), government sponsored entities (GSEs) and international and multilateral organizations.
The figures above refer to averages of Wednesday levels from 2019 H.4.1 releases through 5/30.

Please indicate your expectations for the composition of the Federal Reserve System's balance sheet, on average, in 2025, conditional on not moving to the ZLB at any point between now and the end of 2025. Please provide your responses in levels ($ billions); the total levels and shares will automatically populate so as to aid responding. Please ensure total assets are equal to total liabilities plus capital.
(23 responses)

Assets		Level	Share	Liabilities and Capital		Level	Share
US Treasuries	25th Pctl	3176	78%	Federal Reserve Notes	25th Pctl	2123	49%
	Median	3500	80%		Median	2300	54%
	75th Pctl	3712	84%		75th Pctl	2400	56%
Agency MBS	25th Pctl	500	12%	Reserves	25th Pctl	1200	28%
	Median	693	16%		Median	1251	30%
	75th Pctl	760	18%		75th Pctl	1450	34%
All Other Assets*	25th Pctl	155	3%	Deposits in Treasury General Account (TGA)	25th Pctl	300	7%
	Median	200	5%		Median	350	8%
	75th Pctl	241	5%		75th Pctl	400	9%
				Reverse Repos with Private Counterparties	25th Pctl	0	0%
					Median	10	0%
					75th Pctl	25	1%
				Reverse Repos with Foreign Official Accounts	25th Pctl	235	5%
					Median	250	6%
					75th Pctl	270	6%
				Other Deposits**	25th Pctl	58	1%
					Median	70	2%
					75th Pctl	81	2%
				All Other Liabilities and Capital	25th Pctl	45	1%
					Median	50	1%
					75th Pctl	50	1%

	Total Assets	Total Liabilities and Capital
25th Pctl	4100	4100
Median	4296	4296
75th Pctl	4500	4500

5b) Please indicate the lowest average weekly level ($ billions) you expect reserve balances to reach between now and the end of 2025, conditional on **not** moving to the ZLB at any point between now and the end of 2025, as reported in the weekly H.4.1 release. For reference, the average level of reserve balances for the week ended May 29, 2019 was $1545 billion according to the most recent H.4.1 release.
(23 responses)

Lowest Average Weekly Level of Reserve Balances Between Now and the End of 2025 Conditional on Not Moving to the Zero Lower Bound	
25th Pctl	**1100**
Median	**1200**
75th Pctl	**1250**

5c) Please describe any assumptions that underlie your expectations in parts a-b.
(23 responses)

Several dealers indicated that they had made various assumptions related to the growth rate of Federal Reserve notes, and several indicated that they had made various assumptions regarding the treatment of principal payments from mortgage-backed securities.

6a) Please describe your modal expectation and the balance of risks around your modal expectation for international trade policy developments from now until the end of 2019.

Most dealers described their expectations for the outcome of trade negotiations between the U.S. and China. Several dealers indicated that their modal expectation was a U.S.-China trade agreement sometime in the second half of 2019, several indicated that their modal expectation was for current trade policies between the U.S. and China to remain in place through the end of 2019, and several indicated that their modal expectation was the implementation of tariffs on the remainder of U.S. imports of Chinese goods by the end of 2019. Some dealers indicated that the risks around their modal expectations were tilted toward higher tariffs.

6b) Please comment on the channels through which you expect international trade policy developments to impact the U.S. economy and financial conditions, if any. Please also comment on the relative importance of these channels.

Most dealers discussed reduced business confidence and a subsequent reduction in business capital expenditures as a channel through which they expected international trade policy to impact the U.S. economy and financial conditions, and several of these dealers saw this channel as one of the most important channels. In addition, some dealers cited tightening financial conditions, including through lower equities prices and a stronger dollar, as a channel, and several saw it as one of the most important channels. Finally, some dealers noted lower consumer spending as a channel.

6c) Please comment on your estimate of the impact of various potential outcomes in international trade policy from now until the end of 2019 on the U.S. economy and financial conditions, if any.

In providing estimates of the impact of different potential outcomes of U.S.-China trade negotiations, several dealers indicated that they estimated larger negative impacts on U.S. GDP

growth in the event of the implementation of additional tariffs compared to current policy.

7a) As of June 4, the 10-year nominal Treasury yield has declined by roughly 40 basis points since the April/May FOMC meeting. Please rate the importance of the following factors in explaining the change in the 10-year nominal Treasury yield over this period. **(5=very important, 1=not important)**

Factors Explaining the Change in the 10-Year Treasury Yield

	Realized U.S. economic activity data	Realized U.S. inflation data	Realized foreign economic data	Changes in perception of the FOMC's reaction function	Changes in outlook for international trade policy	Changes in uncertainty around outlook for international trade policy	Changes in global political uncertainty	Other (please explain)
1-Not Important	0	0	1	0	0	0	3	0
2	12	11	5	1	0	0	4	0
3	8	7	11	9	2	3	10	1
4	4	5	6	8	5	7	5	1
5-Very Important	0	1	1	6	17	14	2	2
# of Responses	24	24	24	24	24	24	24	4

If "Other", please explain:
(5 responses)

Dealers did not provide substantial commentary in this section.

7b) Please comment on the factors driving changes in U.S. equity prices and the trade-weighted dollar as well as the relative importance of these factors since the April/May FOMC meeting, if different from your response above.
(23 responses)

Many dealers cited a rise in expectations for a decrease in the federal funds target range as a factor contributing to changes in U.S. equity prices and the trade-weighted dollar. Several dealers cited international trade policy developments, while several others cited uncertainties around international trade policy developments.

8a) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from June 1, 2019 - May 31, 2024 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	4%	11%	30%	36%	14%	5%

	Most Likely Outcome
25th Pctl	2.00%
Median	2.13%
75th Pctl	2.25%

8b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from June 1, 2024 - May 31, 2029 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	**4%**	**11%**	**27%**	**40%**	**14%**	**5%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.20%**
75th Pctl	**2.30%**

9a) What percent chance do you attach to:

the U.S. economy currently being in a recession*?
the U.S. economy being in a recession* **in 6 months**?
the global economy being in a recession** **in 6 months**?

	Currently in U.S. Recession
25th Pctl	**5%**
Median	**5%**
75th Pctl	**9%**

	U.S. Recession in 6 Months
25th Pctl	**15%**
Median	**18%**
75th Pctl	**20%**

	Global Recession in 6 Months
25th Pctl	**18%**
Median	**20%**
75th Pctl	**25%**

**NBER-defined recession*
***Previous IMF staff work has suggested that a "global recession" can be characterized as a period during which there is a decline in annual per-capita real global GDP, backed up by a decline or worsening in one or more of the following global macroeconomic indicators: industrial production, trade, capital flows, oil consumption and unemployment.*

9b) What percent chance do you attach to the U.S. economy first entering a recession* in each of the following periods?

	2019 or earlier	2020	2021	2022	2023 or later
Average	**18%**	**26%**	**24%**	**14%**	**17%**

**NBER-defined recession*

9c) Please explain the factors behind any change to your expectations in parts a-b since the last policy survey.

In explaining increases to one or more of their recession probabilities, some dealers cited international trade policy developments, and several cited incoming economic data. Several other dealers indicated that they had made no material changes to their recession probabilities.

10a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.
(18 responses)

		2019	2020	2021	Longer Run
Real GDP (Q4/Q4 Growth)	25th Pctl	**1.95%**	**1.60%**	**1.60%**	**1.70%**
	Median	**2.10%**	**1.85%**	**1.80%**	**1.90%**
	75th Pctl	**2.35%**	**2.10%**	**2.10%**	**2.10%**
Core PCE Inflation (Q4/Q4)	25th Pctl	**1.80%**	**1.95%**	**1.90%**	**-**
	Median	**1.80%**	**2.00%**	**2.00%**	**-**
	75th Pctl	**1.88%**	**2.10%**	**2.20%**	**-**
Headline PCE Inflation (Q4/Q4)	25th Pctl	**1.60%**	**1.80%**	**1.90%**	**2.00%**
	Median	**1.78%**	**1.90%**	**2.00%**	**2.00%**
	75th Pctl	**1.80%**	**2.10%**	**2.10%**	**2.00%**
Unemployment Rate (Q4 Average Level)	25th Pctl	**3.50%**	**3.35%**	**3.40%**	**4.10%**
	Median	**3.60%**	**3.65%**	**4.00%**	**4.40%**
	75th Pctl	**3.70%**	**3.85%**	**4.20%**	**4.50%**

10b) Please explain changes, if any, to your estimates in part a since the last time this question was asked.

Several dealers indicated that they had revised their estimates of real GDP growth lower for 2019 and/or 2020, and several noted that they had revised lower their growth forecasts as a result of international trade policy developments. In addition, several dealers noted that they had revised lower their estimates for core and/or headline PCE inflation, with several specifically lowering their core and/or headline PCE inflation estimates for 2019. Several other dealers indicated that they had made no material changes to their estimates.

10c) Please describe and comment on changes, if any, to the balance of risks around your estimates in part a since the last policy survey, as well as the factors behind any changes to the balance of risks.
(23 responses)

Many dealers noted that they had assigned increased downside risk to their estimates, with several specifically citing downside risks to their GDP growth estimates. Some dealers cited international trade policy developments as contributing to these downside risks, and several noted global and/or U.S. economic data as contributing to these downside risks.