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. 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 25 primary dealers. Except where noted, all 25 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.

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

List of Primary Dealers:
www.newyorkfed.org/markets/primarydealers

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1a) Provide below your expectations for <u>changes</u>, if any, to the language referencing each of the following topics in the July FOMC statement. <u>Please write N/A if you do not expect any changes</u>.

Current economic conditions:

Some dealers indicated they expected a reference to a slowdown of economic activity. Several dealers indicated they expected continued reference to elevated or increasing inflation, and several indicated they expected continued reference to low unemployment. Several dealers indicated they expected little or no change.

Economic outlook and communication on the expected path of the target federal funds rate:

Some dealers indicated they expected little or no change. Several dealers indicated they expected continued reference to ongoing rate increases being appropriate or some indication of further rate tightening.

Communication on tools other than the target federal funds rate:
(21 responses)

Most dealers indicated they expected little or no change.

Other:
(13 responses)

Dealers did not provide significant commentary in this section.

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

Some dealers indicated they expected the Chair to reaffirm the FOMC's commitment to returning inflation to its 2 percent objective. Several dealers expected the Chair to suggest the FOMC would maintain this commitment even if growth slows. Several dealers indicated they expected the Chair to reiterate that inflation remains elevated, and several expected a reference to low unemployment.

Several dealers indicated they expected the Chair to signal that the September FOMC rate increase would be either 50 or 75 basis points. Several dealers expected the Chair to note that policy rates are now around estimates of a longer-run neutral level, and several expected the Chair to indicate that the FOMC plans to increase policy rates into restrictive territory.

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	**1**
2	**6**
3	**10**
4	**6**
5 - Effective	**2**
# of Responses	**25**

Please explain:

Most dealers noted that FOMC participants were not as clear or consistent in their communications. Some dealers cited a perceived shift in forward guidance before the June FOMC, and several dealers suggested that the Committee appeared overly sensitive to individual data prints. Several dealers viewed FOMC communications favorably, citing a focus on inflation.

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 years below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	Jul. 26-27	Sep. 20-21	Nov. 1-2	Dec. 13-14	Jan. 31 - Feb. 1	Mar. 21-22	May 2-3	Jun. 13-14
25th Pctl	**2.38%**	**2.88%**	**3.13%**	**3.38%**	**3.38%**	**3.38%**	**3.38%**	**3.38%**
Median	**2.38%**	**2.88%**	**3.13%**	**3.38%**	**3.38%**	**3.63%**	**3.63%**	**3.63%**
75th Pctl	**2.38%**	**2.88%**	**3.38%**	**3.63%**	**3.88%**	**3.88%**	**3.88%**	**3.88%**
# of Responses	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**25**

	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
25th Pctl	**3.38%**	**3.13%**	**2.63%**	**2.63%**	**2.63%**	**2.38%**
Median	**3.63%**	**3.38%**	**3.13%**	**3.13%**	**2.88%**	**2.63%**
75th Pctl	**3.88%**	**3.88%**	**3.63%**	**3.38%**	**3.38%**	**3.38%**
# of Responses	**25**	**25**	**21**	**21**	**21**	**21**

	2025	2026	2027	2028
25th Pctl	**2.13%**	**2.13%**	**2.13%**	**2.13%**
Median	**2.38%**	**2.38%**	**2.38%**	**2.38%**
75th Pctl	**3.00%**	**2.63%**	**2.63%**	**2.63%**
# of Responses	**20**	**20**	**19**	**19**

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	**2.13%**	**2.20%**
Median	**2.38%**	**2.40%**
75th Pctl	**2.50%**	**2.70%**

3c) Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges immediately following the July and September FOMC meetings and at the end of 2022, 2023, and 2024. If you expect a target range, please use the midpoint of that range in providing your response.
(21 responses)

Federal Funds Rate or Range after July 2022 FOMC Meeting										
	≤ 1.00%	1.01 - 1.25%	1.26 - 1.50%	1.51 - 1.75%	1.76 - 2.00%	2.01 - 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	≥ 3.01%
Average	**0%**	**0%**	**0%**	**0%**	**0%**	**2%**	**79%**	**19%**	**0%**	**0%**

Federal Funds Rate or Range after September 2022 FOMC Meeting										
	≤ 1.50%	1.51 - 1.75%	1.76 - 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	**0%**	**0%**	**0%**	**1%**	**3%**	**7%**	**53%**	**28%**	**7%**	**2%**

Federal Funds Rate or Range at the End of 2022										
	≤ 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 - 3.75%	3.76 - 4.00%	≥ 4.01%
Average	**1%**	**1%**	**2%**	**2%**	**5%**	**16%**	**25%**	**25%**	**15%**	**9%**

Federal Funds Rate or Range at the End of 2023										
	≤ 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 - 3.75%	3.76 - 4.00%	≥ 4.01%
Average	**8%**	**3%**	**5%**	**8%**	**9%**	**12%**	**14%**	**15%**	**10%**	**17%**

Federal Funds Rate or Range at the End of 2024										
	≤ 1.75%	1.76 - 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 - 3.75%	≥ 3.76%
Average	**10%**	**8%**	**10%**	**12%**	**11%**	**10%**	**8%**	**9%**	**11%**	**11%**

3d) 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	**0.00%**
Median	**0.13%**
75th Pctl	**0.13%**

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

> **Some dealers indicated they changed their modal expectations for the target range for the federal funds rate compared with their prior survey response due to higher realized inflation. Several dealers attributed changes in their policy expectations to the June FOMC increase in the target range of 75-basis points being larger than they had expected at the time of their June survey responses. Several dealers cited greater recession concerns, and several cited communications by FOMC officials as influencing changes to their expectations.**

3f) Please indicate the percent chance that you attach to the highest level of the target range for the federal funds rate before the target range is next decreased falling in each of the following ranges.

	≤ 2.25%	2.26 - 2.50%	2.51 - 2.75%	2.76 - 3.00%	3.01 - 3.25%	3.26 - 3.50%	3.51 - 3.75%	3.76 - 4.00%	4.01 - 4.25%	≥ 4.26%
Average	**0%**	**1%**	**2%**	**4%**	**11%**	**19%**	**15%**	**17%**	**14%**	**17%**

4) The following matrix lays out hypothetical scenarios in which the realized levels of the 2022 unemployment rate (Q4 average level) and 2022 core PCE inflation (Q4/Q4 growth) are either 50 basis points above, below, or equal to the medians of FOMC participants' projections for these indicators in the current (June 2022) Summary of Economic Projections (SEP). For example, the upper left box represents a scenario in which the unemployment rate and core PCE inflation are both 50 basis points below the current SEP medians.

For each of the following scenarios, please indicate the level of the target federal funds rate or range that you expect would prevail at the end of Q1 2023. If you expect a target range, please indicate the midpoint of that range in providing your response.

25th Percentile Responses		**2022 Unemployment Rate (Q4 average level)**		
		- 50 bps	Current SEP median 3.7%	+ 50 bps
2022 Core PCE Inflation (Q4/Q4 growth)	- 50 bps	**3.38%**	**3.13%**	**2.88%**
	Current SEP median 4.3%	**3.63%**	**3.38%**	**3.25%**
	+ 50 bps	**4.13%**	**3.88%**	**3.63%**

Median Responses		2022 Unemployment Rate (Q4 average level)		
		- 50 bps	Current SEP median 3.7%	+ 50 bps
2022 Core PCE Inflation (Q4/Q4 growth)	- 50 bps	3.38%	3.13%	3.13%
	Current SEP median 4.3%	3.88%	3.38%	3.38%
	+ 50 bps	4.38%	4.00%	3.88%

75th Percentile Responses		2022 Unemployment Rate (Q4 average level)		
		- 50 bps	Current SEP median 3.7%	+ 50 bps
2022 Core PCE Inflation (Q4/Q4 growth)	- 50 bps	3.63%	3.38%	3.13%
	Current SEP median 4.3%	4.13%	3.75%	3.38%
	+ 50 bps	4.38%	4.13%	4.00%

Please explain any assumptions underlying your responses.
(20 responses)

Some dealers mentioned that they viewed the FOMC as more sensitive to inflation than unemployment for the purpose of setting policy rates at the time horizon specified in the question.

5a) Please provide your modal expectation for the total net change in SOMA holdings of U.S. Treasury securities and agency mortgage-backed securities (MBS) over each of the periods below.

If you expect SOMA holdings to increase on net in a given period, for example through net asset purchases, please enter a positive number. If you expect SOMA holdings to be unchanged on net in a given period, for example through reinvestments that result in no net change in holdings, please enter 0. If you expect SOMA holdings to decline on net in a given period, for example through maturities or paydowns that exceed any reinvestments or through sales, please enter a negative number.
(23 responses)

Net Change in U.S. Treasury Securities ($ billions)					
	Aug. 2022	Sep. 2022	Oct. 2022	Nov. 2022	Dec. 2022
25th Pctl	-30	-60	-60	-60	-60
Median	-30	-60	-60	-60	-60
75th Pctl	-30	-60	-60	-60	-60

Net Change in U.S. Treasury Securities ($ billions)								
	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
25th Pctl	**-180**	**-180**	**-180**	**-180**	**-180**	**-180**	**-175**	**-104**
Median	**-180**	**-180**	**-180**	**-180**	**-162**	**-90**	**0**	**0**
75th Pctl	**-180**	**-180**	**-180**	**0**	**0**	**0**	**0**	**0**

Net Change in U.S. Treasury Securities ($ billions)				
	2025 Q1	2025 Q2	2025 Q3	2025 Q4
25th Pctl	**-75**	**0**	**0**	**0**
Median	**0**	**0**	**0**	**0**
75th Pctl	**50**	**56**	**49**	**48**

Net Change in Agency MBS ($ billions)					
	Aug. 2022	Sep. 2022	Oct. 2022	Nov. 2022	Dec. 2022
25th Pctl	**-18**	**-30**	**-30**	**-30**	**-33**
Median	**-18**	**-25**	**-25**	**-24**	**-24**
75th Pctl	**-18**	**-23**	**-21**	**-21**	**-20**

Net Change in Agency MBS ($ billions)								
	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
25th Pctl	**-103**	**-103**	**-103**	**-103**	**-105**	**-93**	**-93**	**-89**
Median	**-74**	**-78**	**-77**	**-75**	**-75**	**-68**	**-70**	**-53**
75th Pctl	**-58**	**-61**	**-59**	**-41**	**-15**	**0**	**0**	**0**

Net Change in Agency MBS ($ billions)				
	2025 Q1	2025 Q2	2025 Q3	2025 Q4
25th Pctl	**-75**	**-75**	**-75**	**-75**
Median	**-50**	**-54**	**-42**	**-45**
75th Pctl	**0**	**0**	**0**	**0**

5b) Please indicate the period in which you expect the SOMA portfolio will cease to decline as well as the size of the SOMA portfolio when it ceases to decline. For reference, Securities Held Outright in the SOMA portfolio on July 6, 2022 was $8,456 billion according to the most recent H.4.1 release.

	Period in which SOMA Portfolio Ceases to Decline*:	Size of SOMA Portfolio when it Ceases to Decline**:
25th Pctl	**Q4 2023**	**5750**
Median	**Q4 2024**	**6250**
75th Pctl	**Q2 2025**	**7250**

**Dropdown selections: Q3 2022, Q4 2022, Q1 2023, Q2 2023, Q3 2023, Q4 2023, Q1 2024, Q2 2024, Q3 2024, Q4 2024, Q1 2025, Q2 2025, Q3 2025, Q4 2025, Q1 2026, Q2 2026, Q3 2026, Q4 2026, Q1 2027, Q2 2027, Q3 2027, Q4 2027, Q1 2028 or later.*
***Dropdown selections: $0-500bn, $501-1000bn, $1001-1500bn, $1501-2000bn, $2001-2500bn, $2501-3000bn, $3001-3500bn, $3501-4000bn, $4001-4500bn, $4501-5000bn, $5001-5500bn, $5501-6000bn, $6001-6500bn, $6501-7000bn, $7001-7500bn, $7501-8000bn, $8001bn or larger*

5c) Please indicate the percent chance that you attach to the size of the SOMA portfolio falling in each of the following ranges when it ceases to decline. For reference, Securities Held Outright in the SOMA portfolio on July 6, 2022 was $8,456 billion according to the most recent H.4.1 release.

	$4000bn or smaller	$4001-4500bn	$4501-5000bn	$5001-5500bn	$5501-6000bn	$6001-6500bn	$6501-7000bn	$7001-7500bn	$7501bn or larger
Average	**1%**	**2%**	**4%**	**11%**	**17%**	**18%**	**19%**	**17%**	**11%**

5d) Please provide any additional information on your expectations for balance sheet reduction, including any factors that influenced the probability that you assigned to the distribution of outcomes in part c above.
(22 responses)

Some dealers indicated they expected an earlier end to balance sheet reduction or saw risks of an earlier end relative to their prior expectation due to expectations for policy rate cuts or a slowdown in growth.

6) Please provide the percent chance you attach to the following outcomes for U.S. real GDP growth in 2022, 2023, and 2024 (Q4/Q4).
(20 responses)

Probability Distribution of U.S. Real GDP Growth in 2022 (Q4/Q4)										
	< 0.00%	0.00 - 0.50%	0.51 - 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	**18%**	**25%**	**24%**	**16%**	**11%**	**4%**	**1%**	**0%**	**0%**	**0%**

Probability Distribution of U.S. Real GDP Growth in 2023 (Q4/Q4)										
	< 0.00%	0.00 - 0.50%	0.51 - 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	**19%**	**16%**	**17%**	**20%**	**14%**	**9%**	**3%**	**1%**	**1%**	**0%**

Probability Distribution of U.S. Real GDP Growth in 2024 (Q4/Q4)										
	< 0.00%	0.00 - 0.50%	0.51 - 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	**10%**	**8%**	**13%**	**17%**	**23%**	**13%**	**8%**	**4%**	**2%**	**1%**

Please also provide your point estimate for the most likely outcome.

(20 responses)

U.S. Real GDP Modal Point Estimates (Q4/Q4)			
	2022	2023	2024
25th Pctl	**0.20%**	**0.20%**	**1.55%**
Median	**0.50%**	**1.00%**	**1.80%**
75th Pctl	**0.90%**	**1.60%**	**1.90%**

7a) Please provide the percent chance you attach to the following outcomes for <u>headline PCE inflation</u> in 2022, 2023, and 2024 (Q4/Q4).
(20 responses)

Headline PCE Inflation 2022 (Q4/Q4)										
	≤ 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	4.51 - 5.00%	5.01 - 5.50%	5.51 - 6.00%	6.01 - 6.50%	6.51 - 7.00%	≥ 7.01%
Average	**2%**	**1%**	**2%**	**4%**	**12%**	**26%**	**23%**	**16%**	**8%**	**6%**

Headline PCE Inflation 2023 (Q4/Q4)										
	≤ 1.50%	1.51 - 1.75%	1.76 - 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	**5%**	**5%**	**8%**	**11%**	**16%**	**12%**	**12%**	**11%**	**9%**	**10%**

Headline PCE Inflation 2024 (Q4/Q4)										
	≤ 1.50%	1.51 - 1.75%	1.76 - 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	**6%**	**8%**	**16%**	**16%**	**15%**	**13%**	**11%**	**8%**	**4%**	**3%**

Please also provide your point estimate for the most likely outcome.
(20 responses)

Headline PCE Inflation Modal Point Estimates (Q4/Q4)			
	2022	2023	2024
25th Pctl	**5.20%**	**2.20%**	**2.00%**
Median	**5.70%**	**2.50%**	**2.20%**
75th Pctl	**6.00%**	**3.00%**	**2.45%**

7b) For the outcomes below, provide the percent chance you attach to the annual average <u>CPI inflation</u> rate from July 1, 2022 - June 30, 2027 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.

	≤ 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	≥ 3.51%
Average	**1%**	**2%**	**5%**	**12%**	**20%**	**23%**	**22%**	**14%**

	Most Likely Outcome
25th Pctl	**2.50%**
Median	**2.80%**
75th Pctl	**3.20%**

7c) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from July 1, 2027 - June 30, 2032 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.

	≤ 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	≥ 3.51%
Average	**1%**	**2%**	**7%**	**19%**	**36%**	**23%**	**9%**	**4%**

	Most Likely Outcome
25th Pctl	**2.20%**
Median	**2.30%**
75th Pctl	**2.50%**

8a) 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?
(23 responses)

	Currently in U.S. Recession		U.S. Recession in 6 Months		Global Recession in 6 Months
25th Pctl	**5%**	25th Pctl	**23%**	25th Pctl	**35%**
Median	**11%**	Median	**33%**	Median	**40%**
75th Pctl	**20%**	75th Pctl	**45%**	75th Pctl	**50%**

**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.*

8b) What percent chance do you attach to the U.S. economy first entering a recession* in each of the following periods?
(24 responses)

	2022**	H1 2023	H2 2023	H1 2024	H2 2024	No recession by end 2024
Average	**28%**	**21%**	**17%**	**9%**	**5%**	**21%**

**NBER-defined recession*

***Includes the possibility that the economy may currently be in an NBER-defined recession.*

8c) Please explain the factors behind any change to your expectations in parts a and b since the last policy survey.
(24 responses)

In explaining changes to their recession probabilities, many dealers cited the tightening of monetary policy or financial conditions, and some mentioned the softening of economic activity data during the first half of 2022. Several dealers noted inflationary pressures or realized inflation as a driver of their assessed higher recession probability, and several dealers cited international factors.

9a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.
(20 responses)

		2022	2023	2024	Longer Run
Real GDP (Q4/Q4 Growth)	25th Pctl	**0.20%**	**0.20%**	**1.55%**	**1.80%**
	Median	**0.50%**	**1.00%**	**1.80%**	**1.90%**
	75th Pctl	**0.90%**	**1.60%**	**1.90%**	**2.00%**
Core PCE Inflation (Q4/Q4)	25th Pctl	**4.30%**	**2.60%**	**2.00%**	**-**
	Median	**4.50%**	**2.80%**	**2.30%**	**-**
	75th Pctl	**4.80%**	**3.10%**	**2.45%**	**-**
Headline PCE Inflation (Q4/Q4)	25th Pctl	**5.20%**	**2.20%**	**2.00%**	**2.00%**
	Median	**5.70%**	**2.60%**	**2.20%**	**2.00%**
	75th Pctl	**6.00%**	**3.00%**	**2.45%**	**2.00%**
Unemployment Rate (Q4 Average Level)	25th Pctl	**3.50%**	**3.80%**	**3.80%**	**4.00%**
	Median	**3.60%**	**4.40%**	**4.45%**	**4.00%**
	75th Pctl	**3.80%**	**4.60%**	**4.70%**	**4.00%**

9b) Please explain changes, if any, to your estimates in part a since the last policy survey.

In describing the factors underlying changes to their estimates, most dealers indicated they revised down their GDP growth estimates, with some dealers citing policy tightening, some citing incoming economic data, and several citing persistent inflation. Several dealers noted they revised their inflation projections upwards, citing rent and shelter prices.