Responses to Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

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Responses to the Primary Dealer Policy Expectations Survey
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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] For multiple choice questions, the number of responses for each option is reported. Brief summaries of the comments received in free response form have also been provided.

Except where noted, all primary dealers responded to each question. In some cases, dealers may not have forecasts extending to the same time horizon as requested in the survey. In these instances, the number of respondents who fully answered all parts of the question is provided.

Monetary Policy Expectations

1. Of the possible outcomes below, please indicate the percent chance you attach to the indicated federal funds target range or target rate following each of the next 3 FOMC meetings:

	Policy Target Range or Rate						
	0 - .25%	**0.25%**	**0.50%**	**0.75%**	**1.00%**	**1.25%**	**>1.25%**
Average:							
One Meeting Ahead (March)	99%	1%	0%	0%	0%	0%	0%
Two Meetings Ahead (April)	99%	1%	0%	0%	0%	0%	0%
Three Meetings Ahead (June)	99%	1%	0%	0%	0%	0%	0%

2. Do you expect any changes in the FOMC statement and, if so, what changes?

Many dealers expected the March FOMC statement to contain upgraded language regarding the Committee's assessment of economic conditions. Several dealers specifically cited expectations for an acknowledgement of improved labor market conditions and declines in the unemployment rate. Several dealers also expected the statement to reference the recent increases in crude oil and gasoline prices, with a few anticipating modifications to the inflation language. Expectations that elevated levels of inflation would be characterized as temporary, that the statement would acknowledge higher oil prices as affecting consumer spending, and that economic growth would continue to be modest were each cited by a couple of dealers. Several dealers expressed the expectation that there would be no change to the monetary policy-relevant portions of the statement, while a couple of others expected no change to the economic assessment.

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

	H1 2012	**H2 2012**	**H1 2013**	**H2 2013**	**H1 2014**	**H2 2014**	**H1 2015**	**H2 2015**	**H1 2016**	**≥ H2 2016**
Average	0%	1%	4%	12%	19%	26%	15%	10%	8%	6%

	Most likely quarter and year of first target rate increase:
25th Pctl	*Q2 2014*
Median	Q3 2014
75th Pctl	*Q4 2014*

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

4. **Provide your firm's 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:**

(20 complete primary dealer responses)

	H1 2012	**H2 2012**	**H1 2013**	**H2 2013**	**H1 2014**	**H2 2014**	**H1 2015**	**H2 2015**	**H1 2016**	**H2 2016**
25th Pctl	*0-.25%*	*0-.25%*	*0-.25%*	*0-.25%*	*0-.25%*	*0.50%*	*0.75%*	*1.00%*	*1.88%*	*2.25%*
Median	0-.25%	0-.25%	0-.25%	0-.25%	0-.25%	0.75%	1.25%	1.63%	2.25%	2.63%
75th Pctl	*0-.25%*	*0-.25%*	*0-.25%*	*0-.25%*	*0.50%*	*1.00%*	*1.63%*	*2.31%*	*2.63%*	*3.81%*

5. **Of the possible outcomes below, please indicate the percent chance you attach to the federal funds target rate or range 12 months from now:**

	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	93%	5%	1%	0%	0%	0%	0%

6. **How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 1/17/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.**

	Number of Respondents
1 - Very Ineffective	0
2	2
3	12
4	7
5 - Very Effective	0

In their commentary on Federal Reserve communications, some dealers focused on what they believed to be a discrepancy between the forward guidance on the path of the federal funds rate and participants' projections of the appropriate level of the federal funds rate in the advance materials of the Summary of Economic Projections (SEP). Some dealers also highlighted that there was a lack of clarity on future policy action. A few contacts viewed the release of the longer-term goals and policy strategy document as a positive development, and characterized the Chairman's comments at the press conference following the January meeting as clear. A few other dealers felt that the Chairman's comments at the press conference were unclear, with a couple viewing the Chairman's characterization of the potential for future asset purchases as inconsistent with the tone of other Federal Reserve communications. A few dealers also noted the Chairman's semiannual monetary policy testimony, with a couple citing the testimony as clarifying levels for the federal funds rate that the FOMC considers "exceptionally low", and a couple of others citing that it served to dampen expectations for additional accommodative policy action in the near term. A few dealers also noted that the wide array of public remarks made by Federal Reserve officials over the intermeeting period contributed to a lack of clarity.

7. a) Recent FOMC communication has discussed several different ways monetary policy could be altered to provide either less or more accommodation. For each listed policy tool, please indicate the probability the tool will be used to signal future policy tightening or to tighten policy at the next FOMC meeting and within the next 1 and 2 years. Please comment.

		Probability at next FOMC meeting	Probability within 1 year	Probability within 2 years
	25th Pctl	*0%*	*0%*	*10%*
Raise interest on excess reserves	Median	0%	2%	15%
	75th Pctl	*0%*	*5%*	*40%*
	25th Pctl	*0%*	*5%*	*15%*
Drain reserves through temporary tools	Median	0%	6%	20%
	75th Pctl	*0%*	*18%*	*50%*
	25th Pctl	*0%*	*5%*	*15%*
Halt reinvestments	Median	0%	10%	40%
	75th Pctl	*0%*	*20%*	*60%*
	25th Pctl	*0%*	*0%*	*1%*
Reduce size of SOMA portfolio through selling securities	Median	0%	0%	5%
	75th Pctl	*0%*	*5%*	*15%*
	25th Pctl	*0%*	*0%*	*1%*
Reduce duration of portfolio*	Median	0%	0%	5%
	75th Pctl	*0%*	*5%*	*10%*
	25th Pctl	*0%*	*5%*	*20%*
Change the forward guidance in the FOMC statement on the path of the federal funds rate	Median	0%	15%	40%
	75th Pctl	*0%*	*25%*	*70%*
	25th Pctl	*0%*	*1%*	*15%*
Provide additional guidance on the likely path for the size and composition of the balance sheet	Median	0%	10%	50%
	75th Pctl	*0%*	*30%*	*60%*

*i.e. a deliberate action to decrease the duration of the SOMA portfolio, independent of other policy changes.

(20 primary dealer comments)

Several dealers commented on their expectations for the sequence of steps expected to be taken to tighten policy or to signal policy tightening in the future, with some dealers expecting a change to the forward guidance as the first step in the tightening cycle. Some dealers mentioned halting reinvestments in their commentary. Some dealers expected no policy tightening over the next two years.

b) For each listed policy tool, please indicate the probability the tool will be used to signal future policy easing or to ease policy at the next FOMC meeting and within the next 1 and 2 years. Please explain.

(20 complete primary dealer responses)

		Probability at next FOMC meeting	Probability within 1 year	Probability within 2 years
Lower interest on excess reserves	*25th Pctl*	*0%*	*5%*	*5%*
	Median	0%	5%	10%
	75th Pctl	*1%*	*10%*	*15%*
Expand SOMA portfolio through security purchases	*25th Pctl*	*0%*	*33%*	*45%*
	Median	5%	50%	51%
	75th Pctl	*5%*	*60%*	*70%*
Increase duration of portfolio*	*25th Pctl*	*0%*	*14%*	*15%*
	Median	1%	15%	20%
	75th Pctl	*5%*	*25%*	*28%*
Change the forward guidance in the FOMC statement on the path of the federal funds rate	*25th Pctl*	*0%*	*10%*	*20%*
	Median	5%	25%	35%
	75th Pctl	*5%*	*40%*	*50%*
Provide additional guidance on the likely path for the size and composition of the balance sheet	*25th Pctl*	*2%*	*30%*	*35%*
	Median	5%	50%	50%
	75th Pctl	*10%*	*65%*	*70%*

*i.e. a deliberate action to increase the duration of the SOMA portfolio beyond the currently announced maturity extension program, independent of other policy changes.

(19 primary dealer comments)

Many dealers described their expectations for future asset purchases. Some dealers expected a future asset purchase program, were it to occur, to be composed in whole or in part of agency-MBS securities. Several dealers also commented that a sterilized asset purchase program or an extension of the current Maturity Extension Program (MEP) were possible options. A few dealers expected that the forward guidance on the path of the federal funds rate could be further modified to ease policy or to signal future easing.

8. a and b) Provide your firm's 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? Please comment on any risks you see to your forecast.

(12 complete primary dealer responses)

		Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q4/Q4 2012*	Q4/Q4 2013*	Q4/Q4 2014*
GDP	*25th Pctl*	*1.70%*	*1.60%*	*1.70%*	*2.20%*	*1.80%*	*2.00%*	*2.79%*
	Median	1.90%	2.00%	2.30%	2.50%	2.20%	2.50%	2.95%
	75th Pctl	*2.20%*	*2.40%*	*2.60%*	*2.80%*	*2.40%*	*2.70%*	*3.00%*
Core PCE	*25th Pctl*	*1.80%*	*1.70%*	*1.50%*	*1.60%*	*1.60%*	*1.50%*	*1.80%*
	Median	1.90%	1.80%	1.70%	1.70%	1.70%	1.80%	1.95%
	75th Pctl	*1.90%*	*1.90%*	*1.90%*	*1.90%*	*1.90%*	*2.00%*	*2.02%*
Headline PCE	*25th Pctl*	*2.08%*	*1.70%*	*1.60%*	*1.65%*	*1.65%*	*1.50%*	*1.80%*
	Median	2.20%	1.80%	1.80%	2.00%	2.00%	1.90%	2.00%
	75th Pctl	*2.33%*	*2.05%*	*2.03%*	*2.20%*	*2.20%*	*2.33%*	*2.18%*
Unemployment Rate	*25th Pctl*					*7.90%*	*7.40%*	*7.00%*
	Median					8.00%	7.60%	7.00%
	75th Pctl					*8.20%*	*8.10%*	*7.55%*

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

2012 Forecasts
Number of Respondents Citing:

	Downside Risk	Balanced Risk	Upside Risk
GDP	6	13	2
Core PCE	3	9	9
Headline PCE	1	8	11
Unemployment Rate	8	10	3

2013 Forecasts
Number of Respondents Citing:

	Downside Risk	Balanced Risk	Upside Risk
GDP	8	10	3
Core PCE	0	15	6
Headline PCE	0	13	7
Unemployment Rate	6	12	3

2014 Forecasts

Number of Respondents Citing:

	Downside Risk	**Balanced Risk**	**Upside Risk**
GDP	2	9	1
Core PCE	1	9	2
Headline PCE	1	9	2
Unemployment Rate	3	8	1

(19 primary dealer comments)

Many dealers cited tensions in Iran and the impact of potentially higher oil prices, with some dealers citing risks posed to their inflation forecasts, and a few others focusing on risks to consumer spending and growth. Several dealers also noted continued downside risk from the ongoing sovereign debt and banking crisis in Europe. Several dealers identified anticipated U.S. fiscal consolidation as an additional source of downside risk to growth; however, a few others cited upside fiscal risks should the expected consolidation ultimately not materialize. A few dealers cited possible increases in the unemployment rate—based on increasing labor force participation—as posing risks to their unemployment rate forecasts, while some expected that the unemployment rate could continue to decline faster than expected. A couple of dealers noted the downside risk that slowing global growth could pose to their forecasts.

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 1/17/12?

Number of Dealers:

	Less Uncertain	**Equally Uncertain**	**More Uncertain**
GDP Uncertainty	3	15	3
Core PCE Uncertainty	0	14	7

9. What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q1 2013?

	Probability
25th Pctl	*5%*
Median	5%
75th Pctl	*10%*

10. For the outcomes below, please indicate the percent chance you attach to the annual average CPI inflation rate from 2017 - 2022. Please also indicate your point estimate for the most likely outcome (i.e. the mode).

(20 complete primary dealer responses)

	≤1.0%	**1.01-1.5%**	**1.51-2.0%**	**2.01-2.5%**	**2.51-3.0%**	**≥3.01%**
Average	4%	11%	23%	33%	19%	10%

	Point Estimate
25th Pctl	*2.00%*
Median	2.23%
75th Pctl	*2.50%*

11. a and b) What percent chance do you attach to the U.S. economy currently being in a recession (NBER-defined)? What percent chance would you attach to the U.S. 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	*15%*
Median	20%
75th Pctl	*25%*

12. a) Please provide your firm's estimate of the most likely outcome (i.e., the mode) for the unemployment rate and headline 12-month PCE inflation at the time of your estimate for the first federal funds target rate increase.

	Most likely quarter and year of first target rate increase	Unemployment Rate	Headline 12-month PCE Inflation
25th Pctl	*Q2 2014*	*7.00%*	*2.00%*
Median	Q3 2014	7.20%	2.00%
75th Pctl	*Q4 2014*	*7.50%*	*2.10%*

b) Given the levels of headline 12-month PCE inflation listed below, at what level of the unemployment rate would you expect the Committee to increase its target for the federal funds rate? Please explain, listing any other factors you deem important in determining the timing of the first increase to the target federal funds rate.

(20 primary dealer responses)

Headline 12-month PCE Inflation:

	1.00%	2.00%	3.00%
25th Pctl	*6.00%*	*7.00%*	*7.45%*
Median	6.50%	7.00%	7.65%
75th Pctl	*7.00%*	*7.50%*	*8.00%*

(19 primary dealer comments)

Some dealers indicated that inflation expectations would be an important factor in determining the timing of the first increase to the target federal funds rate. Some suggested that core PCE inflation would be an important factor in addition to headline PCE inflation. Several dealers indicated that the pace of change in inflation and employment rates would also be important factors in determining the timing of the first increase to the target federal funds rate. A *few dealers considered fiscal policy as an important determinant. The state of the housing market, changes in the labor force participation rate, and the outlook for global growth were also each mentioned by a couple of dealers.*

13. Please indicate your view of the level of the unemployment rate that would currently be consistent with full (i.e. maximum non-inflationary) employment.

	Unemployment Rate Consistent with Full Employment
25th Pctl	*5.75%*
Median	6.20%
75th Pctl	*6.50%*

(19 primary dealer comments)

Some dealers commented that skill mismatches supported higher estimates of the unemployment rate consistent with full employment, while some also believed that geographic mismatches exacerbated by limited labor mobility, and the effects of long-term unemployment, were driving factors. A couple of dealers specified that they used a Beveridge Curve framework to produce estimates.

14. Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

(18 primary dealer comments)

Some dealers reported essentially no change to their macroeconomic forecasts. While a few dealers upgraded their forecasts for GDP growth in one or more quarters, a couple lowered their forecasts in one or more quarters. A few dealers lowered their forecasts for the unemployment rate, and a couple noted that they had increased their forecasts for inflation based on higher oil prices. A couple of dealers continued to view evolving sovereign debt and banking concerns in Europe as posing downside risks to their economic forecasts.