Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

October 2015

Policy Expectations Survey

Please respond by **Monday, October 19, at 5:00 pm** to the questions below. Your time and input are greatly appreciated.

This survey 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 members are not involved in the survey's design.

Dealer:

Monetary Policy Expectations

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

	Language Changes Expected
Current economic conditions and the economic outlook:	
Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Other:	

b) How do you expect the October 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: **Please Explain:**

2) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on September 8? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: **Please Explain:**

3) a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first increase in the federal funds target rate or range. Also, provide your estimate for the most likely meeting for the first increase.

2015 FOMC Meetings		2016 FOMC Meetings					
October 27-28	**December 15-16**	**January 26-27**	**March 15-16**	**April 26-27**	**June 14-15**	**July 26-27**	**≥ September 20-21**

** Percentages across row should add to 100 percent.*

Estimate for most likely meeting for first increase in target rate or range:

b) Provide the percent chance you attach to the target federal funds rate or range **not** returning to the zero lower bound during the 2 years following liftoff.

Probability of not returning to ZLB during the 2 years following liftoff:

Conditional on the target **not** returning to the zero lower bound, provide the percent chance* you attach to the net change in the target rate or range in each of the two years following liftoff.

	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
First year following liftoff:					
Second year following liftoff:					

** Percentages across rows should add to 100 percent.*

Please rate the importance of the following factors in determining your assessment of the probability of returning to the zero lower bound during the 2 years following liftoff, if applicable (5 = very important, 1 = not important).

Adverse future shocks to the U.S. economy	*Adverse future shocks to foreign economies*	*Premature increase in target rate or range*	*Adverse future changes in financial stability*	*Other (please explain)*	If "Other", please explain

c) 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 quarter or half-year period below. If you expect a range, please provide both the top and bottom of the range in the specified fields below. If you expect a target rate, provide your response in the "Target rate" field only.

	2015 FOMC meetings		2016 FOMC Meetings				
	October 27-28	**December 15-16**	**January 26-27**	**March 15-16**	**April 26-27**	**June 14-15**	**July 26-27**
Top of range:							
Bottom of range:							
Target rate:							

	Quarters				Half Years		
	2016 Q3	**2016 Q4**	**2017 Q1**	**2017 Q2**	**2017 H2**	**2018 H1**	**2018 H2**
Top of range:							
Bottom of range:							
Target rate:							

d) 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: **Expectation for average federal funds rate over next 10 years:**

e) 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 2015, 2016, 2017 and 2018. If you expect a target range please use the midpoint of the range in providing your response.

	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%**
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%**
Year-end 2016:							
	≤1.00%	**1.01 - 1.50%**	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**≥3.51%**
Year-end 2017:							
	≤1.50%	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**≥4.01%**
Year-end 2018:							

** Percentages across rows should add to 100 percent. Bins were generally centered around updated median responses to question 2c in the September SPD.*

If you changed your responses to parts a and/or c since the last policy survey, please explain the factors that motivated you to make the change(s):

f) In a March speech, Chair Yellen indicated that the "equilibrium real federal funds rate, the real rate consistent with the economy achieving maximum employment and price stability in the medium term, is currently quite low by historical standards." Conditioned on your expectations for the economy, what is your forecast for the level of the equilibrium real federal funds rate at each of the time periods below? Please also provide your estimate of the current level of the equilibrium real federal funds rate.

	Current Level:	**Year-end 2016:**	**Year-end 2017:**	**Year-end 2018:**
Level of equilibrium real federal funds rate:				

If you expect **future** levels of the equilibrium real federal funds rate to be different than its current level, please provide the major factors underlying your expectation.

Please explain any changes to your estimates since the last time the question was asked on July 20.

4) a) 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 2015 and 2016.

	≤1.50%	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**>4.00%**
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%**
Year-end 2016:							

** Percentages across rows should add to 100 percent.*

If you changed your expectations since the last policy survey on September 8, please explain the factors that motivated you to make the change(s).

b) The 10-year Treasury yield decreased 31 basis points between September 16 and October 14. Please decompose this change into changes in the market's expected average real policy rate, expected average inflation rate, and the market-implied nominal term premium. Please ensure that your sum matches the change.

	Change in Market's Expected Average Real Policy Rate	Change in Market's Expected Average Inflation Rate	Change in Market-Implied Nominal Term Premium	Your Sum	Change in 10-year Treasury Yield
Change in 10-year Treasury yield (bps):				0	-31

What factor or factors were most material in driving your estimate of the intermeeting change in the each of the subcomponents listed above?

c) In the September press conference, Chair Yellen stated that "Survey-based measures of longer-term inflation expectations have remained stable. However, the Committee has taken note of recent declines in market-based measures of inflation compensation and will continue to monitor inflation developments carefully." Please rate the importance of each of the following factors in explaining the difference between survey-based measures of longer-term inflation expectations and market-based measures of longer-term inflation compensation (1 = not important, 5 = very important).

Market-Based Measures Incorporate Liquidity and Risk Premia	*The Two Measures Reflect Differing Views on Future Expected Inflation*	*Survey-Based Measures May Be Inertial*

5) 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 or range.

	< 4.5 %	4.5 - 4.9%	5.0-5.4%	5.5-5.9%	≥ 6.0%
Unemployment rate:					

Percentages across row should add up to 100 percent.

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 or range.

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Inflation between 1 and 2 years ahead at liftoff:					

Percentages across row should add up to 100 percent.

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 or range. 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 September, seasonally adjusted, was 142.4 million.

Unemployment rate:	
Labor force participation rate:	
Total U.S. employees on nonfarm payrolls (millions):	
12-month change in average hourly earnings:	
Core 12-month PCE Inflation:	
Headline 12-month PCE Inflation:	
Inflation between 1 and 2 years ahead (at liftoff):	

d) Provide your forecast for the expected levels of the following indicators at the time periods provided below. If you expect a target range, please enter the range. If you do not believe a particular tool will be used during one or more of the time periods below, please enter "N/A". If you do not believe a cap on the O/N RRP will be employed at a particular time period, please write "No cap".

	1 Quarter Prior to Liftoff	Immediately Following Liftoff	1 Year Following Liftoff	3 Years Following Liftoff
Rate of interest on excess reserves (in percent):				
Target federal funds rate or range (in percent):				
Effective federal funds rate (in percent):				
O/N RRP rate (in percent):				
Overnight Treasury GCF repo rate (in percent):				
3-month U.S. Treasury bill rate (in percent):				
Expected demand for O/N RRP ($ billions):				
Expected cap on O/N RRP ($ billions):				

Please note how you expect the Committee's approach to policy normalization to evolve over time. Additionally, comment on any changes you expect over time in the relative levels of money market rates and the expected amount of O/N RRP usage.

e) Please provide the percent chance* you attach to the average effective federal funds rate, excluding month- or quarter-end dates, falling within the following subsets relative to the 25 basis point target range in the first month immediately following liftoff.

	Below the range	Bottom 8 basis points of range	Middle 9 basis points of range	Top 8 basis points of range	Above the range
Expected level of average effective federal funds rate relative to 25 basis point target range:					

Percentages across row should add up to 100 percent.

Please explain which factor or factors were most relevant in formulating your expectations and any assumptions made.

6) a) 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 or range. If you do not expect the FOMC to cease reinvestments for either or both asset classes during the process of policy normalization, please select "N/A". Please ensure your signs are correct.

	Quarter & Year	Number of months relative to liftoff
Treasuries:		
Agency debt and MBS:		

b) In its Policy Normalization Principles and Plans, the Committee indicated that it "expects to cease or commence phasing out reinvestments" after liftoff. For Treasuries and agency debt and MBS, please indicate the percent chance* you attach to the Committee during the process of policy normalization ceasing its reinvestments all at once, phasing out its reinvestments over time, or not changing its reinvestments.

	No Change to Reinvestments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Treasuries:			
Agency debt and MBS:			

** Percentages across rows should add to 100 percent.*

c) If you placed a non-zero probability on reinvestments being phased out over time, please indicate the number of months over which you expect this to occur.

Treasuries:	
Agency debt and MBS:	

Please explain the factors behind any change to your expectations in parts a, b, and/or c since the policy survey on September 8.

Economic Indicator Forecasts

7) a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.

	GDP (Q4/Q4 Growth)	Core PCE Deflator (Q4/Q4 Growth)	Headline PCE Deflator (Q4/Q4 Growth)	Unemployment Rate (Q4 Average Level)
2015:				
2016:				
2017:				
2018:				
Longer run:				

b) Please comment on how global financial market and economic developments in the second half of 2015 have impacted your expectations for real GDP growth for 2016 (Q4/Q4) and PCE inflation for 2016 (Q4/Q4), if applicable.

c) How would you characterize the overall balance of U.S. economic data over the intermeeting period? (5= significantly stronger than expected, 3= neutral/mixed, 1= significantly weaker than expected). Please explain which data were most relevant in formulating your characterization.

Characterization of overall balance of economic data:		**Please Explain:**	

8) a) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from October 1, 2015 - September 30, 2020. 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%		
						Point estimate for most likely outcome:	

** Percentages across row should add up to 100 percent.*

b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from October 1, 2020 - September 30, 2025. 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%		
						Point estimate for most likely outcome:	

** Percentages across row should add up to 100 percent.*

9) a) What percent chance do you attach to the U.S. economy currently being in a recession*? **Recession currently:**

b) What percent chance do you attach to the U.S. economy being in a recession* **in 6 months**? **Recession in 6 months:**

c) What percent chance do you attach to the global economy being in a recession** **in 6 months**? **Global recession in 6 months:**

Please comment on any changes to your expectations over the intermeeting period, if applicable.

*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.

Dropdown Selections

1) b) How do you expect the October 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:

1 -- Less Accommodative
2
3 -- Neutral
4
5 -- More Accommodative

2) a) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on September 8? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Communication grade:

5 -- Very Effective
4
3
2
1 -- Very Ineffective

3) a) Of the possible outcomes below, provide the percent chance you attach to the timing of the first increase in the federal funds target rate or range. Also, provide your estimate for the most likely meeting for the first increase.

Estimate for most likely meeting for first increase in target rate or range:

October 2015
December 2015
January 2016
March 2016
April 2016
June 2016
July 2016
September 2016
November 2016
December 2016

b) Please rate the importance of the following factors in determining your assessment of the probability of returning to the zero lower bound during the 2 years following liftoff, if applicable (5 = very important, 1 = not important).

Adverse future shocks to the U.S. economy:

5 -- Very Important
4
3
2
1 -- Not Important

Adverse future shocks to foreign economies:

5 -- Very Important
4
3
2
1 -- Not Important

Premature increase in target rate or range:

5 -- Very Important
4
3
2
1 -- Not Important

Adverse future changes in financial stability:

5 -- Very Important
4
3
2
1 -- Not Important

Other (please explain):

5 -- Very Important
4
3
2
1 -- Not Important

4) c) In the September press conference, Chair Yellen stated that "Survey-based measures of longer-term inflation expectations have remained stable. However, the Committee has taken note of recent declines in market-based measures of inflation compensation and will continue to monitor inflation developments carefully." Please rate the importance of each of the following factors in explaining the difference between survey-based measures of longer-term inflation expectations and market-based measures of longer-term inflation compensation (1 = not important, 5 = very important).

Market-Based Measures Incorporate Liquidity and Risk Premia:

5 -- Very Important
4
3
2
1 -- Not Important

The Two Measures Reflect Differing Views on Future Expected Inflation:

5 -- Very Important
4
3
2
1 -- Not Important

Survey-Based Measures May Be Inertial:

5 -- Very Important
4
3
2
1 -- Not Important

6) a) 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 or range. If you do not expect the FOMC to cease reinvestments for either or both asset classes during the process of policy normalization, please select "N/A". Please ensure your signs are correct.

Quarter & Year:

Q4 2015
Q1 2016
Q2 2016
Q3 2016
Q4 2016
Q1 2017
Q2 2017
Q3 2017
Q4 2017
>=Q1 2018
N/A

7) c) How would you characterize the overall balance of U.S. economic data over the intermeeting period? (5= significantly stronger than expected, 3= neutral/mixed, 1= significantly weaker than expected). Please explain which data were most relevant in formulating your characteriza

Characterization of overall balance of economic data:

1 -- Significantly weaker than expected
2 -- Moderately weaker than expected
3 -- Neutral/mixed
4 -- Moderately stronger than expected
5 -- Significantly stronger than expected