Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

June 2015

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For most questions, median responses across respondents, along with the 25th and 75th percentiles, are reported. For questions that ask respondents to give a probability distribution, the average response across respondents for each potential outcome is reported. Brief summaries of the comments received in free response form are also provided.

Responses were received from 31 respondents. Except where noted, all respondents responded to each question. In some cases, respondents 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 June FOMC statement. Limit your responses to changes you consider most likely.

Current economic conditions and the economic outlook:
(28 responses)

Many respondents expected a modest upgrade to the Committee's assessment of the current economic growth outlook. Several respondents expected a modest upgrade to the Committee's assessment of the labor market outlook.

Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:
(27 responses)

Most respondents noted that they did not expect a material change to the Committee's policy of reinvesting the proceeds from maturing Treasury and agency securities.

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

Many respondents reported that they expected no significant changes in the Committee's communication regarding the expected path of policy rates and forward guidance on the target federal funds rate.

Other:
(3 responses)

Respondents did not provide substantial commentary in this section.

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

Many respondents expected that FOMC participants' economic projections would reflect lower forecasts for economic growth in 2015. In addition, several respondents expected that headline PCE for 2015 would be revised higher and several respondents expected that core PCE for 2015 would be revised lower. Several respondents expected that forecasts for the longer run unemployment rate would be lowered. Several respondents also expected that medium and longer run growth forecasts would be revised downward. Lastly, several respondents expected no major changes to the economic projections.

c) **What are your expectations for the release of FOMC participants' year-end target federal funds rate projections in the advance materials of the Summary of Economic Projections (SEP)?**
(29 responses)

Some respondents expected a narrower dispersion of FOMC participants' year-end target federal funds rate projections for 2015. Several respondents expected slightly lower median projections for 2016 and 2017. Several respondents anticipated no material change to FOMC participants' rate projections. Lastly, several respondents expected a lower longer run target federal funds rate.

d) **What are your expectations for the Chair's post-FOMC press conference?**
(29 responses)

Some respondents expected that the Chair would reiterate that the path of policy is data dependent. Several respondents expected that the Chair would emphasize that liftoff could occur later this year, and that policy normalization could begin at any future meeting. Several respondents expected the Chair to address the degree to which the weakness in Q1 growth may have been due to transitory factors.

e) **How do you expect the June FOMC events 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:
(26 responses)

Several respondents expected that the June FOMC events would not change market perceptions of the stance of policy. Several respondents noted that the Chair's likely emphasis on data dependency would be perceived by the market as neutral. Several respondents explained that their view was driven by the expectation that the June FOMC events would be interpreted to signal that monetary policy normalization could occur at the September FOMC meeting.

2. 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.**

	Jun. 16-17	Jul. 28-29	Sep. 16-17	Oct. 27-28	Dec. 15-16	Jan. 26-27	Mar. 15-16	≥ Apr. 26-27
Average	2%	5%	46%	10%	20%	6%	6%	5%

	Most Likely Meeting of First Increase in Target Rate or Range
25th Pctl	September 2015
Median	September 2015
75th Pctl	September 2015

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 within 2 Years Following Liftoff	
25th Pctl	75%
Median	80%
75th Pctl	85%

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.
(30 complete responses)

First Year Following Liftoff

	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
Average	21%	45%	25%	8%	2%

Second Year Following Liftoff

	0 - 50 basis points	51 - 100 basis points	101 - 150 basis points	151 - 200 basis points	>200 basis points
Average	18%	37%	28%	12%	5%

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.**
(29 complete responses)

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.**

	Top of Target Range													
	June 16-17	**July 28-29**	**September 16-17**	**October 27-28**	**December 15-16**	**January 26-27**	**March 15-16**	**2016 Q2**	**2016 Q3**	**2016 Q4**	**2017 H1**	**2017 H2**	**2018 H1**	**2018 H2**
25th Pctl	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%
Median	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%	2.50%	2.75%
75th Pctl	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	2.50%	3.00%	3.50%	3.50%
# of Responses	26	26	26	26	25	24	24	24	24	24	22	21	17	17

	Bottom of Target Range													
	June 16-17	**July 28-29**	**September 16-17**	**October 27-28**	**December 15-16**	**January 26-27**	**March 15-16**	**2016 Q2**	**2016 Q3**	**2016 Q4**	**2017 H1**	**2017 H2**	**2018 H1**	**2018 H2**
25th Pctl	0.00%	0.00%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	1.75%	1.75%
Median	0.00%	0.00%	0.25%	0.25%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.25%	2.50%
75th Pctl	0.00%	0.00%	0.25%	0.25%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.25%	2.50%	3.00%	3.25%
# of Responses	26	26	26	26	25	24	24	24	24	24	22	21	17	17

	Target Rate													
	June 16-17	**July 28-29**	**September 16-17**	**October 27-28**	**December 15-16**	**January 26-27**	**March 15-16**	**2016 Q2**	**2016 Q3**	**2016 Q4**	**2017 H1**	**2017 H2**	**2018 H1**	**2018 H2**
25th Pctl	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	2.00%	2.00%	2.50%	3.00%
Median	0.25%	0.25%	0.25%	0.25%	0.63%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.63%	3.00%	3.25%
75th Pctl	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.50%	1.75%	2.00%	2.50%	3.25%	3.50%	3.50%
# of Responses	3	3	5	5	6	7	7	7	7	7	9	10	14	14

	Longer Run	**10-yr Average FF Rate**
25th Pctl	3.00%	2.12%
Median	3.50%	2.75%
75th Pctl	3.75%	3.00%

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, and 2017. If you expect a target range for federal funds please use the midpoint of the range in providing your response.

	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%**
Average	15%	37%	42%	6%	0%	0%	0%

	Year-End 2016						
	≤0.50%	**0.51 - 1.00%**	**1.01 - 1.50%**	**1.51 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**≥3.01%**
Average	7%	16%	29%	29%	13%	4%	1%

	Year-End 2017						
	≤2.00%	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**≥4.51%**
Average	27%	24%	22%	16%	8%	3%	1%

If you changed your expectations for the most likely timing of liftoff and/or the most likely path of the target rate or range since the last time the questions were asked, explain the factors that motivated you to make the change(s):
(21 responses)

Several respondents cited perceived recent weak economic data as a factor that motivated changes in their assigned probabilities.

3. 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.

Year-End 2015

	≤1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	3.51-4.00%	>4.00%
Average	7%	19%	34%	27%	9%	2%	1%

Year-End 2016

	≤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	26%	30%	25%	12%	5%	2%	1%

If you changed your expectations since the last time the question was asked, explain the factors that motivated you to make the change(s):
(22 responses)

Several respondents highlighted the recent increases in longer-dated U.S. Treasury yields as a factor that motivated changes in their assigned probabilities. In addition, several respondents cited recent higher realized inflation data as a factor that motivated changes to their assigned probabilities.

b) The 10-year Treasury yield increased 36 basis points between April 28 and June 3. 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.
(30 complete responses)

	Change in Market's Expected Average Real Policy Rate	Change in Market's Expected Average Inflation Rate	Change in Market-Implied Nominal Term Premium
Average (bps)	9	5	22

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

Some respondents highlighted the recent sell-off in global rates as a factor that motivated their responses. In addition, several respondents cited recent higher realized inflation as shaping their views. Lastly, several respondents cited improving U.S. economic data as informing their response.

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 or range.

	< 5.0%	5.0 - 5.4%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	24%	60%	15%	1%	0%

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%
Average	10%	30%	46%	12%	3%

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 April, seasonally adjusted, was 141.4 million. For your calculations, please take into account the May data to be released on June 5.
(30 complete responses)

	Unemployment Rate	Labor Force Participation Rate	Total NFP*	12-Month Change in Average Hourly Earnings	Core 12-Month PCE Inflation	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.2%	62.8%	142.2	2.3%	1.4%	0.4%	1.8%
Median	5.3%	62.9%	142.3	2.4%	1.5%	0.5%	2.0%
75th Pctl	5.3%	63.0%	142.4	2.5%	1.5%	0.6%	2.0%

**In millions*

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".*
(21 complete responses)

One Quarter Prior to Liftoff

	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Demand ($ bn)	O/N RRP Cap ($ bn)**
25th Pctl	0.25%	0.13%	0.10%	0.05%	0.25%	0.10%	140	300
Median	0.25%	0.13%	0.12%	0.05%	0.28%	0.14%	175	300
75th Pctl	0.25%	0.13%	0.13%	0.10%	0.30%	0.15%	200	300

† 1 participant expected no O/N RRP cap.

Immediately Following Liftoff

	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Demand ($ bn)	O/N RRP Cap ($ bn)**
25th Pctl	0.50%	0.38%	0.32%	0.25%	0.50%	0.28%	300	300
Median	0.50%	0.38%	0.35%	0.25%	0.52%	0.35%	400	600
75th Pctl	0.50%	0.38%	0.38%	0.30%	0.61%	0.38%	600	800

† 8 participants expected no O/N RRP cap.

1 Year Following Liftoff

	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Demand ($ bn)	O/N RRP Cap ($ bn)**
25th Pctl	1.25%	1.13%	1.30%	1.25%	1.25%	1.25%	250	300
Median	1.50%	1.38%	1.38%	1.25%	1.54%	1.35%	415	600
75th Pctl	1.50%	1.38%	1.45%	1.30%	1.65%	1.40%	650	1000

† 6 participants expected no O/N RRP cap.

3 Years Following Liftoff

	IOER Rate	Target Federal Funds Rate or Range	Federal Funds Effective Rate	O/N RRP Rate	3M LIBOR Rate	Overnight Treasury GCF Repo Rate	O/N RRP Demand ($ bn)	O/N RRP Cap ($ bn)**
25th Pctl	2.25%	2.13%	2.20%	2.00%	2.30%	2.30%	150	300
Median	3.25%	3.25%	3.20%	3.00%	3.35%	3.20%	250	300
75th Pctl	3.50%	3.50%	3.45%	3.38%	3.55%	3.38%	480	500

† 3 participants expected no O/N RRP cap.

**For respondents that submitted ranges, midpoints of the ranges are used.*

***Only respondents who forecasted a cap were included in the calculation for the expected size of the O/N RRP cap.*

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.
(22 responses)

Several respondents expected that the cap for overnight RRP operations will be temporarily elevated at the time of liftoff. Several respondents noted that they expect that overnight RRP operations will be gradually phased out as a policy tool.

e) **Please provide the percent chance you attach to the average federal funds effective 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.**
(28 complete responses)

	Below the Range	Bottom 8 Basis Points of Range	Middle 9 Basis Points of Range	Top 8 Basis Points of Range	Above the Range
Average	9%	31%	38%	18%	4%

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

Several respondents noted that they are confident that the Fed will effectively employ its policy tools at the time of monetary policy normalization. Several respondents noted that some reluctance on the part of the Committee to substantially increase the cap on overnight RRP operations could lead the federal funds effective rate to trade in the low end of the target range. Several respondents cited potential changes to GSE participation in the federal funds market and the impact of recent regulatory reform as factors most relevant to their expectations for the average federal funds effective rate relative to the target range following liftoff.

5. 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.
(27 complete responses)

	Number of Months Relative to Liftoff	
	Treasuries	Agency Debt and MBS
25th Pctl	5	6
Median	6	7
75th Pctl	9	9

	Most Likely Quarter and Year of End to Reinvestments	
	Treasuries	Agency Debt and MBS
25th Pctl	Q1 2016	Q1 2016
Median	Q2 2016	Q2 2016
75th Pctl	Q2 2016	Q2 2016

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.
(27 complete responses)

Treasuries

	No Change to Reinvesments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Average	8%	24%	68%

Agency Debt and MBS

	No Change to Reinvesments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Average	7%	24%	69%

Please explain your assumptions for the timing, size, and pace of redemptions, initially and over time, and sales of securities, if applicable.
(25 responses)

Several respondents noted that they do not expect sales of securities to take place in the near-term. Several respondents noted that they expect the Committee to take a gradual approach to reducing the size of the SOMA portfolio.

Please also explain the factors behind any change in your expectations since the last time the question was asked in the April 2015 survey.
(5 responses)

Respondents did not provide substantial commentary in this section.

6. a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from June 1, 2015 - May 31, 2020. Please also provide your point estimate for the most likely outcome.
(30 complete responses)

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.0%	≥3.01%
Average	6%	17%	35%	28%	10%	4%

Point estimate for most likely outcome:

	Most Likely Outcome
25th Pctl	1.75%
Median	1.90%
75th Pctl	2.00%

b) **For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from June 1, 2020 - May 31, 2025. Please also provide your point estimate for the most likely outcome. (30 complete responses)**

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥3.01%
Average	4%	12%	28%	35%	14%	7%

Point estimate for most likely outcome:

	Most Likely Outcome
25th Pctl	2.00%
Median	2.10%
75th Pctl	2.30%