SURVEY OF PRIMARY DEALERS

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.

Please respond by **Monday, January 23 at 5:00 pm** to the questions below. Your time and input are greatly appreciated.

Dealer:

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

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

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

Rating:

Please Explain:

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 quarter or half-year period below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	2017						
	Jan 31 - Feb 1	Mar 14-15	May 2-3	Jun 13-14	Jul 25-26	Sep 19-20	Oct 31 - Nov 1
Target rate / midpoint of target range:							

	Quarters					Half Years	
	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 H1	2019 H2
Target rate / midpoint of target range:							

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:		Expectation for average federal funds rate over next 10 years:	

3c) Please indicate the percent chance* that you attach to the following possible outcomes for the Committee's next policy action in 2017.

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 in 2017

**Responses should add up to 100 percent.*

3d) Conditional on the Committee's next policy action in 2017 being an <u>increase</u> in the target federal funds rate or range, please indicate the percent chance* that you attach to the following possible outcomes for the timing of such a change. Only fill out this conditional probability distribution if you assigned a non-zero probability to the Committee's next policy action in 2017 being an increase.

Increase Occurs at January FOMC meeting	Increase Occurs at March FOMC meeting	Increase Occurs at May FOMC meeting or later

**Responses should add up to 100 percent.*

3e) 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 2017**,** conditional on the following possible scenarios for the direction and timing of the Committee's next policy action in 2017**.** 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.

	≤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%
Next change is an increase, occurs at Mar. meeting or earlier:								
Next change is an increase, occurs at May meeting or later:								

	< 0.0%	0.00 - 0.25%	0.26 - 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	≥ 1.51%
Next change is a decrease:								

**Responses across each row should add up to 100 percent.*

3f-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 2018 and 2019, conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2019. If you expect a target range, please use the midpoint of that range in providing your response.

	≤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 2018:							
Year-end 2019:							

**Responses across each row should add up to 100 percent.*

3f-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2019.

Probability of moving to the ZLB at some point between now and the end of 2019:	

3f-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 2018 and 2019, conditional on moving to the ZLB at some point between now and the end of 2019. 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 2019. If you expect a target range, please use the midpoint of that range in providing your response.

	<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%
Year-end 2018:								
Year-end 2019:								

**Responses across each row should add up to 100 percent.*

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

Level of the target federal funds rate or range at the effective lower bound (in percent):	

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

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4) The following matrix lays out hypothetical scenarios in which the realized levels of the 2017 unemployment rate (Q4 average level) and/or the 2017 core PCE deflator (Q4/Q4 growth) are either 50 basis points above, below, or equal to the medians of FOMC participants' projections for these indicators in the December Summary of Economic Projections (SEP). For example, the upper left box represents a scenario in which the unemployment rate and core PCE deflator are both 50 basis points below the current SEP medians. The upper right box represents a scenario in which the unemployment rate is 50 basis points above the current SEP median, while the core PCE deflator is 50 basis points below the current median.

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 2017. If you expect a target range, please indicate the midpoint of that range in providing your response.

2017 Core PCE deflator (Q4/Q4 growth)	2017 Unemployment rate (Q4 average level)		
	- 50 bps	Current median 4.5%	+ 50 bps
- 50 bps			
Current median 1.8%			
+ 50 bps			

Please explain any assumptions underlying your responses.

How would you assess the clarity of Federal Reserve system communications regarding the specific factors that FOMC participants consider in determining the appropriate stance of policy? Please explain.

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5) Please indicate the percent chance* that you attach to the 10-year Treasury yield falling in each of the following ranges at the end of 2017 and 2018.

	≤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 2017:							
Year-end 2018:							

**Responses across each row should add up to 100 percent.*

6a) In its most recent FOMC statement, the Committee indicated that it anticipates continuing its existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS, and of rolling over maturing Treasury securities at auction, until normalization of the level of the federal funds rate is "well under way."

What is your estimate for the most likely level of the target federal funds rate or range if and when the Committee first changes its reinvestment policy? If you expect a target range, please use the midpoint of that range in providing your response.

Level of target federal funds rate or range (in percent):	

6b) What is your estimate for the most likely timing (in months forward) of a change to the Committee's policy of reinvesting payments of principal on Treasuries and/or agency debt and MBS? If you do not expect the FOMC to change its policy on reinvestments for either or both asset classes during the process of policy normalization, please enter "N/A."

Treasuries:	
Agency debt and MBS:	

6c) In its Policy Normalization Plans and Principles, the Committee indicated that it "expects to cease or commence phasing out reinvestments" after liftoff. Of the possible outcomes below, please indicate the percent chance* that 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:			

**Responses across each row should add up to 100 percent.*

6d-i) Please indicate the percent chance* that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2019, conditional on **not** moving to the ZLB at any point between now and the end of 2019. For reference, the level of the SOMA portfolio on January 11, 2017 was $4273 billion, including inflation compensation and settled and unsettled agency MBS, according to the most recent H.4.1 release. Levels referenced below are in $ billions.

≤ 3000	3001 - 3500	3501 - 4000	4001 - 4500	≥ 4501

**Responses should add up to 100 percent.*

6d-ii) Please indicate the percent chance* that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2019, conditional on moving to the ZLB at any point between now and the end of 2019. Only fill out this conditional probability distribution if you assigned a non-zero probability to moving to the ZLB at some point between now and the end of 2019 in question 3. Levels referenced below are in $ billions.

≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501

**Responses should add up to 100 percent.*

6e) Please explain the factors behind any change to your expectations in parts a-d, where applicable, since the last policy survey.

7a) 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)
2017:				
2018:				
2019:				
Longer run:				

7b) Provide your estimate of the most likely outcome for the U.S. federal fiscal deficit (as a percent of GDP) for fiscal years 2017, 2018 and 2019.

	2017	2018	2019
Current estimate for U.S. federal fiscal deficit:			

7c) Please indicate how much these estimates have <u>changed</u> since the policy survey on October 24, if at all. Please provide your responses in percentage points.

	2017	2018	2019
Change in estimate for U.S. federal fiscal deficit:			

7d) Please indicate the overall effect, if any, of the change to your estimates for the federal fiscal deficit in part c on your forecasts for GDP growth (Q4/Q4) in 2017, 2018 and 2019 and over the longer run, combining direct and indirect effects. Please provide your responses in percentage points.

	2017	2018	2019	Longer run
Impact on GDP growth forecasts from change in estimate of federal fiscal deficit:				

7e) Please indicate how much of the overall effect on GDP growth provided in part d you attribute to changes to your estimate for federal spending versus changes to your estimate for federal tax revenues. Please provide your responses in percentage points.

	2017	2018	2019	Longer run
Impact on GDP growth forecasts from change in estimate of federal spending:				
Impact on GDP growth forecasts from change in estimate of federal tax revenues:				

7f) How would your answers to parts d and e change, if at all, if these questions were asked at the start of 2013, when the target range for the federal funds rate was 0.0 - 0.25% and the unemployment rate averaged 8.1 percent during the prior year?

8a) For the outcomes below, provide the percent chance* you attach to the annual average <u>CPI inflation</u> rate from January 1, 2017 - December 31, 2022 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%

Point estimate for most likely outcome:

**Responses should add up to100 percent.*

8b) For the outcomes below, provide the percent chance* you attach to the annual average <u>CPI inflation</u> rate from January 1, 2023 - December 31, 2028 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%

Point estimate for most likely outcome:

** Responses should add up to100 percent.*

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

Recession currently:

9b) What percent chance do you attach to the U.S. economy being in a recession* **in 6 months**?

Recession in 6 months:

9c) What percent chance do you attach to the global economy being in a recession** **in 6 months**?

Global recession in 6 months:

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

**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.*

Thank you for your time and input. Please send survey results to **ny.mktpolicysurvey@ny.frb.org**