RESPONSES TO SURVEY OF PRIMARY DEALERS

Markets Group, Federal Reserve Bank of New York

OCTOBER/NOVEMBER 2017

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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.[1] For questions that ask respondents to give a probability distribution, the average response across dealers for each potential outcome is reported. Brief summaries of the comments received in free response form are also provided.

Responses were received from 23 primary dealers. Except where noted, all 23 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.

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

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

Table of Contents

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

Current economic conditions:

Several dealers indicated that they expected no or few significant changes to the Committee's characterization of current economic conditions. Some indicated that the Committee could note the impact of recent hurricanes on labor market or other economic data, and some suggested the Committee could note that the economic impact of these hurricanes would likely be transitory. Several dealers also specified that the Committee could note continued strengthening of the labor market, such as the solid pace of job gains, and several suggested that the Committee could acknowledge that the unemployment rate is low or has declined further.

Economic outlook:

Many dealers noted that they expected no or few significant changes to the Committee's language on the economic outlook. Several dealers noted that the Committee could reiterate that hurricane-related disruptions are unlikely to materially alter the course of the economy.

Communication on the expected path of the target fed funds rate:
(22 responses)

Most dealers indicated that they expected no or few significant changes to the Committee's communication on the expected path of the target federal funds rate. Meanwhile, several dealers suggested that the Committee could signal a higher likelihood of an increase in the target range occurring relatively soon.

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

Some dealers expected no or few significant changes to the Committee's communication on its policy of reinvesting principal payments on Treasury and agency securities. Several dealers suggested the Committee could indicate that the normalization program started in October will continue.

Other:
(4 responses)

Dealers did not provide substantial commentary in this section.

2) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on September 11? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

	Number of Respondents
1 - Ineffective	0
2	2
3	6
4	14
5 - Effective	1

Please explain:
(22 responses)

Several dealers indicated that communication from Federal Reserve officials regarding balance sheet normalization had generally been clear. Several dealers also suggested that communication around the prospect of a rate increase by year-end was clear. Additionally, several dealers indicated that communication surrounding policymakers' views on recent inflation data or the inflation outlook had been clear, while several other dealers suggested communication on this topic had not been consistent or clear.

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

	Oct. 31 - Nov. 1 2017	Dec. 12-13 2017	Jan. 30-31 2018	Mar. 20-21 2018	May 1-2 2018	Jun. 12-13 2018	Jul. 31 - Aug. 1 2018	
25th Pctl	1.13%	1.38%	1.38%	1.38%	1.38%	1.63%	1.63%	
Median	1.13%	1.38%	1.38%	1.63%	1.63%	1.63%	1.63%	
75th Pctl	1.13%	1.38%	1.38%	1.63%	1.63%	1.88%	1.88%	
# of Responses	23	23	23	23	23	23	23	
	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 H1	2020 H2
25th Pctl	1.63%	1.88%	1.88%	2.13%	2.13%	2.19%	2.38%	2.38%
Median	1.88%	2.13%	2.13%	2.38%	2.50%	2.56%	2.63%	2.75%
75th Pctl	2.13%	2.13%	2.38%	2.63%	2.88%	2.88%	2.88%	2.88%
# of Responses	23	23	21	20	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	2.50%	2.00%
Median	2.75%	2.50%
75th Pctl	3.00%	2.65%

3c) Please indicate the percent chance that you attach to the following possible outcomes for the Committee's next policy action between now and the end of 2018.

	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 Through the End of 2018
Average	**81%**	**5%**	**13%**

3d) Conditional on the Committee's next policy action between now and the end of 2018 being an increase 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 between now and the end of 2018 being an increase.

	Increase Occurs at Oct./Nov. FOMC meeting	Increase Occurs at December FOMC meeting	Increase Occurs in 2018
Average	**2%**	**71%**	**27%**

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 2018, conditional on the following possible scenarios for the direction and timing of the Committee's next policy action between now and the end of 2018. 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.

Next change is an increase, occurs by the end of 2017								
	≤ 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%
Average	**3%**	**2%**	**7%**	**17%**	**29%**	**28%**	**11%**	**4%**

Next change is an increase, occurs in 2018								
	≤ 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%
Average	**3%**	**4%**	**12%**	**28%**	**31%**	**14%**	**6%**	**2%**

Next change is a decrease								
	< 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%
Average	**6%**	**24%**	**25%**	**22%**	**17%**	**3%**	**1%**	**1%**

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 2019 and 2020, conditional on **not** moving to the zero lower

bound (ZLB) at any point between now and the end of 2020. If you expect a target range, please use the midpoint of that range in providing your response.
(22 responses)

Year-end 2019							
	≤ 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	**4%**	**7%**	**17%**	**31%**	**24%**	**12%**	**5%**

Year-end 2020							
	≤ 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	**7%**	**9%**	**12%**	**24%**	**27%**	**14%**	**7%**

3f-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2020.

	Probability of Moving to ZLB at Some Point between Now and the End of 2020
25th Pctl	**15%**
Median	**20%**
75th Pctl	**30%**

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 2019 and 2020, conditional on moving to the ZLB at some point between now and the end of 2020. 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 2020. If you expect a target range, please use the midpoint of that range in providing your response.
(19 responses)

Year-end 2019								
	< 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%
Average	**12%**	**42%**	**19%**	**11%**	**7%**	**3%**	**5%**	**1%**

Year-end 2020								
	< 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%
Average	**15%**	**40%**	**21%**	**13%**	**7%**	**3%**	**1%**	**0%**

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

	Level of Target Fed Funds Rate or Range at ELB
25th Pctl	**-0.35%**
Median	**0.00%**
75th Pctl	**0.13%**

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

Several dealers reported that there were no or few significant changes to their expectations since the last policy survey.

4) As of October 18th, 2017, the 2-year U.S. Dollar Overnight Indexed Swap (OIS) rate was about 1.60 percent. Please decompose this rate into market expectations for the geometric average of the effective federal funds rate over the next two years and the market-implied nominal term premium. Please ensure that your sum matches 1.60 percent. Please also ensure that your signs are correct.
(22 responses)

	Market Expectations for the Average Effective Federal Funds Rate	Market-Implied Nominal Term Premium
Average	**1.70%**	**-0.10%**

Please comment on your estimates.
(20 responses)

Several dealers indicated that they estimated there to be little term premium in the 2-year U.S. dollar OIS rate.

5a) Previous FOMC communication has indicated that the economy's neutral real federal funds rate, which can be understood as the level of the real federal funds rate that would be neither expansionary nor contractionary if the economy were operating at or near its potential, is currently low by historical standards. Please provide your estimate for the level of the neutral real federal funds rate at each of the time periods below.
(21 responses)

	Current Level	Year-end 2018	Year-end 2019	Year-end 2020
25th Pctl	**0.00%**	**0.20%**	**0.50%**	**0.50%**
Median	**0.00%**	**0.50%**	**0.75%**	**1.00%**
75th Pctl	**0.50%**	**0.88%**	**1.00%**	**1.13%**

Please explain the factors behind any changes to your estimates since the policy survey on July 17.
(20 responses)

Several dealers reported that there were no or few significant changes to their estimates since the policy survey on July 17.

5b) Please indicate the percent chance that you attach to the economy's neutral real federal funds rate falling in each of the following ranges at the end of 2018.
(21 responses)

	Year-end 2018			
	≤ 0.00%	0.01 - 1.00%	1.01 - 2.00%	≥ 2.01%
Average	**15%**	**49%**	**25%**	**11%**

6) 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.

	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%
Average	**3%**	**11%**	**49%**	**29%**	**6%**	**1%**	**0%**

	Year-end 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%
Average	**4%**	**11%**	**23%**	**34%**	**20%**	**6%**	**2%**

7a) 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 2020, conditional on **not** moving to the ZLB at any point between now and the end of 2020. For reference, the level of the SOMA portfolio on October 12th, 2017 was $4276 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
Average	**24%**	**50%**	**20%**	**6%**	**1%**

7b) 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 2020, conditional on moving to the ZLB at any point between now and the end of 2020. 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 2020 in question 3. Levels referenced below are in $ billions.
(21 responses)

	≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501
Average	**20%**	**41%**	**24%**	**11%**	**5%**

8a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.
(15 responses)

		Q4/Q4 2017	Q4/Q4 2018	Q4/Q4 2019	Q4/Q4 2020	Longer Run
GDP	25th Pctl	**2.20%**	**2.00%**	**1.70%**	**1.70%**	**1.70%**
	Median	**2.30%**	**2.20%**	**1.95%**	**1.80%**	**1.80%**
	75th Pctl	**2.40%**	**2.50%**	**2.40%**	**2.20%**	**2.00%**
Core PCE Deflator	25th Pctl	**1.40%**	**1.80%**	**1.90%**	**2.00%**	**-**
	Median	**1.40%**	**1.80%**	**2.00%**	**2.00%**	**-**
	75th Pctl	**1.50%**	**2.00%**	**2.10%**	**2.10%**	**-**
Headline PCE Deflator	25th Pctl	**1.50%**	**1.60%**	**2.00%**	**2.00%**	**2.00%**
	Median	**1.60%**	**1.80%**	**2.00%**	**2.00%**	**2.00%**
	75th Pctl	**1.70%**	**2.00%**	**2.10%**	**2.10%**	**2.00%**
Unemployment Rate*	25th Pctl	**4.20%**	**3.90%**	**3.80%**	**3.90%**	**4.45%**
	Median	**4.20%**	**4.00%**	**3.95%**	**4.20%**	**4.50%**
	75th Pctl	**4.30%**	**4.20%**	**4.30%**	**4.35%**	**4.90%**

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

8b) Provide your estimate of the most likely outcome for the U.S. federal fiscal deficit (as a percent of GDP) for fiscal years 2018, 2019 and 2020.
(19 responses)

	FY 2018	FY 2019	FY 2020
25th Pctl	**3.10%**	**3.30%**	**3.49%**
Median	**3.40%**	**3.75%**	**3.80%**
75th Pctl	**3.60%**	**4.00%**	**4.40%**

8c) Please explain changes to your estimates in parts a and b since the policy survey on September 11, where applicable.
(19 responses)

Several dealers indicated they had made no material changes to their estimates since the policy survey on September 11. Several others noted that they had updated their economic forecasts to reflect economic data published since the last survey. For instance, several dealers noted that they increased their GDP estimates for 2017 and/or 2018. Finally, several dealers indicated that their economic forecasts or fiscal deficit expectations were revised to reflect expectations for an increase in fiscal spending as a result of recent hurricanes.

9a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from October 1, 2017 – September 30, 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%
Average	**3%**	**11%**	**27%**	**41%**	**14%**	**4%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.20%**
75th Pctl	**2.20%**

9b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from October 1, 2022 – September 30, 2027 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%
Average	**4%**	**10%**	**26%**	**40%**	**15%**	**6%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.20%**
75th Pctl	**2.30%**

9c) For the outcomes below, provide the percent chance you attach to the PCE inflation rate from October 1, 2019 – September 30, 2020 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%
Average	**4%**	**17%**	**38%**	**29%**	**10%**	**3%**

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

Please comment on any changes to your PCE distribution since the policy survey on July 17.
(15 responses)

Several dealers reported that there were no or few significant changes to their probability distribution for PCE inflation since the policy survey on July 17.

10a) What percent chance do you attach to the U.S. economy **currently** being in a recession*?

10b) What percent chance do you attach to the U.S. economy being in a recession* **in 6 months**?

10c) What percent chance do you attach to the global economy being in a recession** **in 6 months**?

	Currently in U.S. Recession		U.S. Recession in 6 Months		Global Recession in 6 Months
25th Pctl	**2%**	25th Pctl	**8%**	25th Pctl	**8%**
Median	**5%**	Median	**10%**	Median	**10%**
75th Pctl	**5%**	75th Pctl	**15%**	75th Pctl	**13%**

**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.*

10d) Please explain the factors behind any change to your expectations in parts a-c since the last policy survey.

(13 responses)

Some dealers noted that there had been no material changes to their expectations regarding the probability of either the U.S. or the global economy entering a recession since the last survey.