RESPONSES TO SURVEY OF PRIMARY DEALERS

Markets Group, Federal Reserve Bank of New York

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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 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

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

Current economic conditions:
(20 responses)

Some dealers indicated that they expected no or few significant changes to the Committee's characterization of current economic conditions. Several indicated that they expected the Committee to continue to acknowledge that headline and/or core inflation have declined or are running below 2 percent. Lastly, several dealers indicated that they expected the Committee could note the potential effects of recent hurricanes, with several suggesting the Committee could note that the impact of recent weather events would likely be transitory.

Economic outlook:
(21 responses)

Several dealers indicated that they expected no or few significant changes to the Committee's characterization of the economic outlook. Some indicated that they expected the Committee could note the potential effects of recent hurricanes, with several suggesting the Committee could make explicit reference to their impact on economic data. Some dealers also noted that the Committee could suggest that the impact of recent weather events would likely be transitory.

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

Many 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.

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

All dealers indicated that they expected the Committee to announce a change to its policy of reinvesting principal payments on Treasury and agency securities at the September FOMC meeting. Some dealers also suggested the Committee might signal that a change to reinvestment policy would begin in October, and several dealers suggested that the Committee could indicate that the normalization process would be consistent with the Addendum to the Policy Normalization Principles and Plans published in June.

Other:
(7 responses)

Several dealers indicated that they expected there would be no dissents at the September FOMC meeting.

1b) What are your expectations for the medians of FOMC participants' economic projections in the Summary of Economic Projections (SEP)?

Many dealers reported that the medians of FOMC participants' projections for 2017 headline and/or core PCE inflation could shift lower, and several also indicated that the medians for 2018 inflation could decline. Meanwhile, several dealers indicated that the median of FOMC participants' projections for 2017 headline PCE inflation could shift higher. Additionally, several dealers suggested that the median of FOMC participants' projections for 2017 GDP growth could move up, and several expected that the median of participants' long-run unemployment rate projections could decrease.

1c) What are your expectations for the most likely levels of the medians of FOMC participants' target federal funds rate projections in the SEP?

	Year-end 2017	Year-end 2018	Year-end 2019	Year-end 2020	Longer Run
25th Pctl	**1.38%**	**2.10%**	**2.63%**	**2.75%**	**2.75%**
Median	**1.38%**	**2.13%**	**2.88%**	**3.00%**	**3.00%**
75th Pctl	**1.38%**	**2.13%**	**2.90%**	**3.00%**	**3.00%**

Please comment on the balance of risks around your expectations.

Many dealers suggested that there were downside risks to the medians of FOMC participants' target federal funds rate projections for year-ends 2017-2019 and/or for the longer-run, which several attributed to uncertainty surrounding the inflation outlook.

1d) Additionally, please describe any expected changes to the distributions of FOMC participants' target rate projections, if applicable.
(20 responses)

Some dealers suggested that the distributions of FOMC participants' target federal funds rate projections for year-ends 2017-2019 and/or for the longer run could shift lower, and several suggested that the averages of participants' projections could decrease more than the medians.

1e) What are your expectations for the Chair's press conference?

Many dealers indicated that they expected the Chair to explain the decision to announce a change to balance sheet policy and/or to discuss the new policy in greater detail, and several expected her to suggest that the market impact of balance sheet normalization is likely to be limited. Additionally, some dealers noted that the Chair could discuss recent softness in inflation

data, which several expected her to attribute to transitory factors. Several dealers also suggested that the Chair would note the possible impact of recent hurricanes on economic data, with several expecting her to indicate that any economic impact is likely to be transitory. Lastly, several dealers expected that the Chair might indicate that financial conditions remained accommodative, and several suggested that she might reemphasize that the gradual removal of monetary policy accommodation remained appropriate.

2a) 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.

	Sep. 19-20 2017	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	
25th Pctl	1.13%	1.13%	1.38%	1.38%	1.38%	1.38%	1.63%	
Median	1.13%	1.13%	1.38%	1.38%	1.63%	1.63%	1.63%	
75th Pctl	1.13%	1.13%	1.38%	1.38%	1.63%	1.63%	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	1.88%	1.88%	1.88%	2.13%	2.13%	2.13%	2.13%	2.13%
Median	1.88%	2.13%	2.13%	2.25%	2.31%	2.38%	2.63%	2.88%
75th Pctl	2.13%	2.13%	2.38%	2.63%	2.88%	2.88%	3.00%	3.00%
# of Responses	23	23	20	20	20	20	19	19

2b) 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%	2.70%

2c) 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 Further Change in Target Rate or Range in 2017
Average	57%	3%	40%

2d) Conditional on the Committee's next policy action in 2017 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 in 2017 being an increase.
(22 responses)

	Increase Occurs at September FOMC meeting	Increase Occurs at Oct./Nov. FOMC meeting	Increase Occurs at December FOMC meeting
Average	**2%**	**6%**	**92%**

2e) 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. If you expect a target range, please use the midpoint of that range in providing your response.

FF Rate or Range at the End of 2017								
	≤ 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%
Average	**0%**	**0%**	**3%**	**40%**	**55%**	**1%**	**0%**	**0%**

2f-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, 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.
(20 responses)

Year-end 2018							
	≤ 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%**	**12%**	**35%**	**36%**	**10%**	**2%**	**1%**

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%**	**8%**	**17%**	**31%**	**25%**	**10%**	**4%**

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%**	**23%**	**30%**	**13%**	**6%**

2f-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	**27%**

2f-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, 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 2018								
	< 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	**6%**	**34%**	**15%**	**13%**	**13%**	**11%**	**7%**	**1%**

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	**13%**	**44%**	**17%**	**11%**	**7%**	**3%**	**5%**	**0%**

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%**	**43%**	**19%**	**11%**	**7%**	**3%**	**2%**	**0%**

2f-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%**

2g) For parts a-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.
(21 responses)

Several dealers indicated that there had been no major changes to their expectations since the last survey. However, several indicated that they expected a slower pace of increases in the target fed funds range due to recent soft inflation data.

Consistent with this, several respondents noted that they decreased the probability they assigned to a rate increase in December of this year and several indicated that they expected fewer increases in the target range in 2018 and beyond. Finally, several respondents noted that their forecasts were modified to correspond to the time horizon of various survey questions being extended to include 2020.

3a) Provide your estimate of the most likely outcome for the 10-year Treasury yield at the end of each period below. In addition, provide your estimate of the longer-run level of the 10-year Treasury yield.

	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 H2
25th Pctl	2.13%	2.30%	2.40%	2.45%	2.60%
Median	2.20%	2.40%	2.50%	2.60%	2.75%
75th Pctl	2.30%	2.50%	2.75%	2.85%	3.00%
# of Responses	23	23	23	23	22
	2019 H1	2019 H2	2020 H1	2020 H2	Longer Run
25th Pctl	2.75%	2.75%	2.85%	2.90%	2.80%
Median	2.95%	3.05%	3.10%	3.15%	3.18%
75th Pctl	3.13%	3.25%	3.30%	3.50%	3.50%
# of Responses	18	18	17	17	20

3b) Provide your estimate of the most likely outcome for the 30-year fixed primary mortgage rate at the end of each period below. In addition, provide your estimate of the longer-run level of the 30-year fixed primary mortgage rate.

	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 H2
25th Pctl	3.80%	3.98%	4.05%	4.11%	4.25%
Median	3.91%	4.18%	4.22%	4.33%	4.50%
75th Pctl	4.05%	4.23%	4.40%	4.53%	4.85%
# of Responses	20	20	20	20	19
	2019 H1	2019 H2	2020 H1	2020 H2	Longer Run
25th Pctl	4.25%	4.50%	4.58%	4.60%	4.40%
Median	4.70%	4.75%	4.78%	4.80%	4.78%
75th Pctl	4.85%	5.10%	5.25%	5.38%	5.23%
# of Responses	17	17	16	16	16

4a) The July FOMC statement indicated that the Committee "expects to begin implementing its balance sheet normalization program relatively soon, provided that the economy evolves broadly as anticipated..." Please indicate the percent chance that you attach to the following possible outcomes for when the Committee first announces a change to its reinvestment policy. Additionally, please indicate the probability that you assign to "no change" to reinvestments occuring.

	Sep. 19-20 FOMC	Oct. 31-Nov. 1 FOMC	Dec. 12-13 FOMC	Q1 2018	Q2 2018	≥ H2 2018	No Change
Average	**87%**	**4%**	**5%**	**1%**	**1%**	**0%**	**2%**

4b) Please explain any changes to your views in part a since the last policy survey, where applicable.
(21 responses)

Some respondents indicated that they increased the probability assigned to an announcement of a change to reinvestment policy occurring at the September meeting. Furthermore, some noted that they perceived communication from Fed officials as signaling that a September announcement was likely.

5a) 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 August 30th, 2017 was $4265 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	**22%**	**49%**	**22%**	**6%**	**2%**

5b) 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 2. Levels referenced below are in $ billions.
(22 responses)

	≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501
Average	**17%**	**40%**	**27%**	**12%**	**5%**

6a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.
(13 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	**2.25%**	**2.22%**	**1.90%**	**1.85%**	**1.80%**
	75th Pctl	**2.30%**	**2.50%**	**2.30%**	**2.10%**	**2.00%**
Core PCE Deflator	25th Pctl	**1.40%**	**1.80%**	**2.00%**	**2.00%**	**-**
	Median	**1.50%**	**1.90%**	**2.00%**	**2.00%**	**-**
	75th Pctl	**1.60%**	**2.00%**	**2.20%**	**2.20%**	**-**
Headline PCE Deflator	25th Pctl	**1.50%**	**1.80%**	**2.00%**	**2.00%**	**2.00%**
	Median	**1.60%**	**1.90%**	**2.00%**	**2.00%**	**2.00%**
	75th Pctl	**1.70%**	**2.10%**	**2.10%**	**2.10%**	**2.00%**
Unemployment Rate*	25th Pctl	**4.10%**	**3.90%**	**3.80%**	**3.90%**	**4.50%**
	Median	**4.30%**	**4.00%**	**4.05%**	**4.30%**	**4.50%**
	75th Pctl	**4.30%**	**4.20%**	**4.30%**	**4.50%**	**5.00%**

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

6b) 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.
(17 responses)

	FY 2018	FY 2019	FY 2020
25th Pctl	**3.20%**	**3.41%**	**3.50%**
Median	**3.40%**	**3.80%**	**4.20%**
75th Pctl	**3.60%**	**4.00%**	**4.42%**

6c) Please explain changes to your estimates in parts a and b since the policy survey on July 17, where applicable.
(22 responses)

Several dealers indicated they had made no material change to their forecasts, and several noted that they had updated their forecasts to reflect economic data published since the last survey. Finally, several dealers indicated that their forecasts were modified to reflect expectations for an increase in fiscal spending as a result of recent hurricanes.

7a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from September 1, 2017 - August 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%
Average	**3%**	**11%**	**27%**	**41%**	**13%**	**4%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.10%**
75th Pctl	**2.20%**

7b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from September 1, 2022 - August 31, 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%**	**29%**	**37%**	**14%**	**6%**

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

8a) What percent chance do you attach to the U.S. economy **currently** being in a recession*?
8b) What percent chance do you attach to the U.S. economy being in a recession* **in 6 months**?
8c) What percent chance do you attach to the global economy being in a recession** **in 6 months**?

	Currently in U.S. Recession
25th Pctl	**2%**
Median	**5%**
75th Pctl	**5%**

	U.S. Recession in 6 Months
25th Pctl	**10%**
Median	**10%**
75th Pctl	**15%**

	Global Recession in 6 Months
25th Pctl	**10%**
Median	**10%**
75th Pctl	**15%**

**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.*

8d) Please explain the factors behind any change to your expectations in parts a-c since the last policy survey.
(15 responses)

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