

Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York
June, 2012

Policy Expectations Survey

Please respond by **Monday, June 11 at 5 p.m.** 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) Of the possible outcomes below, please indicate the percent chance* you attach to the indicated federal funds target range or target rate following each of the next 3 FOMC meetings:

	Level of Target Range or Rate						
	0.00% - 0.25%	0.25%	0.50%	0.75%	1.00%	1.25%	>1.25%
June 19-20:							
July 31-August 1:							
September 12-13:							

* Percentages should add up to 100 percent.

2) a) Do you expect any changes in the FOMC statement and, if so, what changes?

b) Do you expect any revisions to FOMC participants' projections provided in the advanced materials of the Summary of Economic Projections (SEP) and, if so, what changes?

3) Of the possible outcomes below, please indicate the percent chance* you attach to the timing of the first federal funds target rate increase.

Timing of First Increase :

2012 H1	2012 H2	2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	≥2016 H2

* Percentages should add up to 100 percent.

Estimate for most likely quarter and year of first target rate increase:

Dropdown

4) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the federal funds target rate or range at the end of each half-year period and over the longer run:

Federal Funds Target Rate or Range :

2012 H1	2012 H2	2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2
Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown	Dropdown

Longer run:

5) Of the possible outcomes below, please indicate the percent chance* you attach to the fed funds target rate or range 1 year from now and at the end of 2014.

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.5%	≥2.51%
June 2013 :							
Year-end 2014 :							

* Percentages should add up to 100 percent.

6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 4/16/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rank:

Dropdown

Please explain:

7) FOMC communications have discussed several different ways monetary policy could be altered to provide either less or more accommodation.

a) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy tightening or to tighten policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	Probability within 1 year	Probability within 2 years
Raise interest on excess reserves			
Drain reserves through temporary tools			
Halt reinvestments			
Reduce size of SOMA portfolio through selling securities			
Reduce duration of portfolio*			
Change the forward guidance in the FOMC statement on the path of the federal funds rate			
Provide additional guidance on the likely path for the size and composition of the balance sheet			

*i.e. a deliberate action to decrease the duration of the SOMA portfolio, independent of other policy changes.

Please explain:

b) For each listed policy tool, please indicate the probability the tool will be used to **signal future policy easing or to ease policy at the next FOMC meeting and within the next 1 and 2 years.**

	Probability at next FOMC meeting	Probability within 1 year	Probability within 2 years
Lower interest on excess reserves			
Expand SOMA portfolio through securities purchases			
Increase duration of portfolio*			
Change the forward guidance in the FOMC statement on the path of the federal funds rate			
Provide additional guidance on the likely path for the size and composition of the balance sheet			

*i.e. a deliberate action to increase the duration of the SOMA portfolio beyond the currently announced maturity extension program, independent of other policy changes.

Please explain:

c) Because respondents could see some of the choices from part b as overlapping, the answers to that part do not necessarily reveal the combined probability of various choices. We are interested in the probability you assign to any easing policy action that uses the SOMA portfolio -- that is, those actions described in either row 2 or row 3 from part b above. Please indicate the probability these tools will be used at the next FOMC meeting and within the next 1 and 2 years.

	Probability at next FOMC meeting	Probability within 1 year	Probability within 2 years	Please explain:
Ease with any method that utilizes the size or composition of the SOMA portfolio				

8) Please provide your **most likely expectation (i.e. the mode)** for the amount of domestic securities held outright in the SOMA portfolio and for the expected level of reserves at year-end for each of the next five years.

	Current Level*	Year End 2012	Year End 2013	Year End 2014	Year End 2015	Year End 2016
Expected amount of U.S. Treasury securities in SOMA (\$ Billions)	1,657					
Expected amount of agency debt and agency MBS securities in SOMA (\$ Billions)	945					
Expected amount of domestic assets in SOMA (\$ Billions)	2,602					
Expected level of reserves (\$ Billions)	1,524					

* Taken from the 5/31/2012 Federal Reserve H.4.1.

Please explain:

9) a) According to the April FOMC meeting minutes, "it was noted that the forward guidance is conditional on economic developments and that the date given in the statement would be subject to revision should there be a significant change in the economic outlook." We are interested in your view on the minimum increment of time by which the guidance could be changed, if the Committee were to alter it. Please enter below what language you believe could be used to shorten or lengthen the forward guidance by this minimum time increment.

	Shorten Forward Guidance	Lengthen Forward Guidance
Wording Change:	<input style="width: 100%;" type="text"/>	

b) If your wording in part a) was qualitative, please convert your minimum time increment into number of months.

	Shorten Forward Guidance	Lengthen Forward Guidance
Months:	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>

Economic Indicator Forecasts

10) a) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output and inflation:

	GDP (q.o.q.)	Core PCE Deflator (y.o.y.)	Headline PCE Deflator (y.o.y.)
2012 Q2 :			
2012 Q3 :			
2012 Q4 :			
2013 Q1 :			

b) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast?

	GDP (Q4/Q4 Growth)		Core PCE Deflator (Q4/Q4 Growth)		Headline PCE Deflator (Q4/Q4 Growth)		Unemployment Rate (Q4 Average Level)	
	Estimate	Balance of Risk	Estimate	Balance of Risk	Estimate	Balance of Risk	Estimate	Balance of Risk
2012 :		Dropdown	Fill from 8a	Dropdown	Fill from 8a	Dropdown		Dropdown
2013 :		Dropdown		Dropdown		Dropdown		Dropdown
2014 :		Dropdown		Dropdown		Dropdown		Dropdown

Please comment on any risks you see to your forecast :

c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 4/16/12?

GDP Uncertainty:	Dropdown	Core PCE Deflator Uncertainty:	Dropdown
---------------------	----------	-----------------------------------	----------

11) What percent chance do you attach to the 4-quarter change in the core PCE deflator falling below zero by the end of Q2 2013?

12) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2017 - 2022. Please also indicate your point estimate for the most likely outcome (i.e. the mode).

≤1.0%	1.01-1.5%	1.51-2.0%	2.01-2.5%	2.51-3.0%	≥3.01%	Point estimate for most likely outcome:
<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 50px;" type="text"/>	<input style="width: 100px;" type="text"/>

*Percentages should add up to 100 percent.

13) a) What percent chance do you attach to the US economy **currently** being in a recession*?

Recession currently:

* NBER-defined recession.

b) What percent chance would you attach to the US economy being in a recession* in 6 months?

Recession in 6 months:

* NBER-defined recession.

14) The 10-year Treasury yield has decreased by approximately 30 basis points since the release of the April FOMC statement. Please rate the importance of the factors below in explaining this decrease.

<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Weaker growth prospects	Lower inflation outlook	Safe haven investor flows	Expectations for additional Fed balance sheet easing	Other	(If "Other," please state above)

Please explain :

15) Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

Dropdown Selections

- 3) Estimate for most likely quarter and year of first target rate increase:
- Q2 2012
 - Q3 2012
 - Q4 2012
 - Q1 2013
 - Q2 2013
 - Q3 2013
 - Q4 2013
 - Q1 2014
 - Q2 2014
 - Q3 2014
 - Q4 2014
 - Q1 2015
 - Q2 2015
 - Q3 2015
 - Q4 2015
 - Q1 2016
 - Q2 2016
 - Q3 2016
 - Q4 2016
 - Q1 2017
 - >=Q2 2017

- 4) Provide your firm's estimate of the most likely outcome (i.e. the mode) for the federal funds target rate or range at the end of each quarter:

- Federal Funds Target Rate or Range :
- 0 - .25%
 - 0.25%
 - 0.50%
 - 0.75%
 - 1.00%
 - 1.25%
 - 1.50%
 - 1.75%
 - 2.00%
 - 2.25%
 - 2.50%
 - 2.75%
 - 3.00%
 - 3.25%
 - 3.50%
 - 3.75%
 - 4.00%
 - 4.25%
 - 4.50%
 - 4.75%
 - 5.00%
 - > 5.00%

- 6) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 4/16/12? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

- Rank:
- 5 -- Very effective
 - 4
 - 3
 - 2
 - 1 -- Very ineffective

- 10) b) Provide your firm's estimate of the most likely outcome (i.e. the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast?

Balance of Risk: Lower GDP
Balanced
Higher GDP

Balance of Risk: Lower Inflation
Balanced
Higher Inflation

Balance of Risk: Lower Inflation
Balanced
Higher Inflation

Balance of Risk: Higher UR
Balanced
Lower UR

- c) Do you feel more, less or equally uncertain regarding your economic forecasts since the last survey on 4/16/12?

- Uncertainty:
- More Uncertain
 - Equally Uncertain
 - Less Uncertain