Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

June 2013

Policy Expectations Survey

Please respond by **Monday, June 10 at 5pm** 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) Do you expect any changes in the FOMC statement and, if so, what changes?

2) 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:

2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	≥2017 H2

** Percentages should add up to 100 percent.*

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

3) 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:

2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2
dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown

Longer run:

4) Of the possible outcomes below, please indicate the percent chance* you attach to the **10-year Treasury yield** falling in each of the following ranges** at the end of 2013 and 2014.

	<1.00%	1.00 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	>3.50%
Year-end 2013:							
	<1.50%	**1.50 - 2.00%**	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**>4.00%**
Year-end 2014:							

** Percentages should add up to 100 percent.*
*** Bins for each year are centered on the range assigned the highest average probability from the March Primary Dealer Survey.*

5) The 10-year Treasury yield has increased by approximately 46 basis points since the release of the May FOMC statement. Please rate the importance of the factors below in explaining this increase. (5 = very important, 1 = not important)

dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	
Stronger growth prospects	**Higher inflation outlook**	**Global factors**	**Change in perception of FOMC's view of appropriate policy**	**Heightened uncertainty on FOMC's view of appropriate policy**	**Other / technical factors**	**(if "Other", please specify)**

Please Explain:

6) In the May FOMC statement, the Committee announced it will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month, and also stated that it would take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives in determining the size, pace, and composition of its asset purchases.

a) Please provide your expectation for the monthly pace of purchases that will be in effect after each of the below FOMC meetings.

Monthly Pace of Longer-Term Security Purchases ($ billions)

		Treasuries	*Agency MBS*
2013	**June 18-19:**		
	July 30-31:		
	September 17-18:		
	October 29-30:		
	December 17-18:		
2014	**January 28-29:**		
	March 18-19:		
	April 29-30:		
	June 17-18 (1 year ahead):		

b) Please provide your expectation for the change in the amount of domestic securities held in the SOMA portfolio during each of the periods below. In the case of purchases, please include settled and unsettled amounts.

	Half-Years			*Full Years*		
	2014 H2	**2015 H1**	**2015 H2**	**2016 - Full Year**	**2017 - Full Year**	**2018 - Full Year**
Expected change in amount of U.S. Treasury securities in SOMA ($ billions)						
Expected change in amount of agency debt and agency MBS securities in SOMA ($ billions)						

**Note, expectations begin with H2 2014 as prior periods are obtained from part a).*

Please describe your assumptions for the monthly pace of asset purchases for Treasury and agency MBS securities, if not clear from the above:

Please explain your assumptions behind your projections for the size and pace of passive redemption and sales of securities, if applicable:

c) If you made any changes to your expectations for the overall size, pace, and/or composition of asset purchases relative to your responses since the last survey on April 22, please explain the factors that motivated you to make the change(s).

7) If you expect a change in the monthly pace of asset purchases prior to the end of the program, and assuming that the economy progresses according to the scenario you judge most likely, please address the following:

a) At the time you expect an initial change in the monthly pace of asset purchases, what is your best estimate for the realized values of the following economic indicators? If you project the monthly pace of Treasury and agency MBS purchases to change at different times, please provide estimates as of the **earlier of the two dates**. For reference, as of 4/30/13 the level of total U.S. employees on nonfarm payrolls, seasonally adjusted, was 135.5 million.

Total U.S. employees on nonfarm payrolls (in millions):	
Level of the unemployment rate (in ppt):	
Annual rate of change in PCE deflator (in ppt):	

b) At the time you expect asset purchases to be completed, what is your best estimate for the realized values of the following economic indicators? If you expect Treasury and agency MBS purchases to be completed at different times, please provide estimates as of the **later of the two dates**. For reference, as of 4/30/13 the level of total U.S. employees on nonfarm payrolls, seasonally adjusted, was 135.5 million.

Total U.S. employees on nonfarm payrolls (in millions):	
Level of the unemployment rate (in ppt):	
Annual rate of change in PCE deflator (in ppt):	

8) The April/May 2013 FOMC statement noted, " The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability... In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.

a) The FOMC's March 2013 Summary of Economic Projections shows the expected central tendency for the unemployment rate at the end of 2013 falling between 7.3 and 7.5 percent. Please indicate the percent chance you attach to the unemployment rate corresponding to the following hypothetical scenarios **at year-end 2013**: 1) it declines to less than 7.3 percent; 2) it falls within the 7.3 to 7.5 percent range; and 3) it rises above 7.5 percent. Please consider all possible conditions that may be associated with these scenarios in providing your responses.

Unemployment rate scenarios at year-end 2013	Probability of realizing scenario at year-end 2013*
1) Less than 7.3%:	
2) Between 7.3 and 7.5%:	
3) Greater than 7.5%:	

**Percentages should add up to 100 percent.*

b) Please indicate the percent chance* you attach to the dollar level of the SOMA portfolio falling within the following ranges **at year-end 2014** for each of three hypothetical unemployment rate scenarios described in part a). For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 3, 2013 H.4.1 release was $2,785 billion (the H.4.1 closest to the start of 2013).

Unemployment rate scenarios at year-end 2013	Level of SOMA Portfolio ($ billions) at year-end 2014*						
	<2500	2500-3000	3000-3500	3500-4000	4000-4500	4500-5000	>5000
1) Less than 7.3%:							
	<2500	2500-3000	3000-3500	3500-4000	4000-4500	4500-5000	>5000
2) Between 7.3 and 7.5%:							
	<2500	2500-3000	3000-3500	3500-4000	4000-4500	4500-5000	>5000
3) Greater than 7.5%:							

** Percentages across rows should add up to 100 percent.*

c) Of the possible outcomes below, please indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2013. Probabilities for the year-end 2014 level of the SOMA portfolio are automatically calculated using the responses you provided in parts a) and b) and the rules of conditional probability. These probabilities should be consistent with your views; if they are not, please verify your responses from parts a) and b).

	Level of SOMA Portfolio ($ billions)*						
	<3000	3000-3250	3250-3500	3500-3750	3750-4000	4000-4250	>4250
year-end 2013:							
	<2500	2500-3000	3000-3500	3500-4000	4000-4500	4500-5000	>5000
year-end 2014:	autofill	autofill	autofill	autofill	autofill	autofill	autofill

** Percentages should add up to 100 percent.*

Economic Indicator Forecasts

9) 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*
2013:		dropdown		dropdown		dropdown		dropdown
2014:		dropdown		dropdown		dropdown		dropdown
2015:		dropdown		dropdown		dropdown		dropdown
Longer run:								

10) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2018 - 2023. 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:

** Percentages should add up to* ***100 percent****.*

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

** NBER-defined recession.*

Recession currently:

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

** NBER-defined recession.*

Recession in 6 months:

12) Please comment on any changes to your macroeconomic assessments and risks to your forecast since the last FOMC meeting.

Dropdown Selections

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

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
Q3 2017
Q4 2017
>= Q1 2018

3) 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:

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%
5.25%
5.50%
5.75%
6.00%
 > 6.00%

5) The 10-year Treasury yield has increased by approximately 46 basis points since the release of the May FOMC statement. Please rate the importance of the factors below in explaining this increase. (5 = very important, 1 = not important)

Rating:

5 -- Very Important
4
3
2
1 -- Not Important

9) 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:		**Balance of Risk:**		**Balance of Risk:**		**Balance of Risk:**	
	Lower GDP		Lower Inflation		Lower Inflation		Higher UR
	Balanced		Balanced		Balanced		Balanced
	Higher GDP		Higher Inflation		Higher Inflation		Lower UR