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 participants are not involved in the survey's design.

Please respond by **Monday, January 22nd at 5:00 pm** to the questions below. Your time and input are greatly appreciated.

Dealer:

---

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 the target fed funds rate:

Other:

---

2) How would you grade the Federal Reserve System's communication with the markets and with the public since the policy survey on December 4? 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 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.

	2018 FOMC meetings						
	Jan 30-31	Mar 20-21	May 1-2	Jun 12-13	Jul 31 - Aug 1	Sep 25-26	Nov 7-8
Target rate / midpoint of target range:							

	Quarters					Half Years	
	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 H1	2020 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 <u>between now and the end of 2018</u>.

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

**Responses should add up to 100 percent.*

3d) Conditional on the Committee's next policy action <u>between now and the end of 2018</u> 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 between now and the end of 2018 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 <u>at the end of 2018,</u> conditional on the following possible scenarios for the direction and timing of the Committee's next policy action <u>between now and the end of 2018</u>**.** 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.

	≤ 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%
Next change is an increase, occurs at Mar. FOMC meeting or earlier:								
Next change is an increase, occurs at May FOMC 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 <u>at the end of 2019 and 2020</u>, <u>conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2020</u>. 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 2019:							
Year-end 2020:							

**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 <u>now and the end of 2020</u>.

Probability of moving to the ZLB at some point between <u>now and the end of 2020</u>:	

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.

	< 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 2019:								
Year-end 2020:								

**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.

---

4) 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.

Current level: | Year-end 2018: | Year-end 2019: | Year-end 2020:

Please explain the factors behind any changes to your estimates since the policy survey on October 23.

---

5) The following matrix lays out hypothetical scenarios in which the realized levels of the 2018 unemployment rate (Q4 average level) and 2018 core PCE inflation (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 inflation 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 core PCE inflation 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 Q1 2019. If you expect a target range, please indicate the midpoint of that range in providing your response.

		2018 Unemployment rate (Q4 average level)		
		- 50 bps	Current median 3.9%	+ 50 bps
2018 Core PCE inflation (Q4/Q4 growth)	- 50 bps			
	Current median 1.9%			
	+ 50 bps			

Please explain any assumptions underlying your responses.

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 2018 and 2019.

	≤ 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 2018:							
Year-end 2019:							

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

7a) The minutes of the December 2017 FOMC meeting noted that participants "discussed the recent narrowing of the gap between the yields on long- and short-maturity nominal Treasury securities." Please indicate the percent chance* that you attach to the spread between 3-month and 10-year U.S. Treasury yields falling in each of the following ranges at its narrowest point between now and the end of 2018. For reference, the current spread between 3-month and 10-year U.S. Treasury yields is around 115 bps.

Additionally, conditional on the narrowest spread falling in each range, please indicate the probability that you attach to the U.S. economy being in a recession** at any point in the 12 months subsequent to when the spread first reaches this level.

	< 0 bps	0-40 bps	41-80 bps	81-115 bps (last observed)
Probability of narrowest 3m-10y spread falling in range:				
Probability of recession in subsequent 12 months conditional on spread falling in range:				

Point estimate for most likely outcome (in bps):

**Responses should add up to 100 percent.*

***NBER-defined recession.*

7b) If you expect the spread between 3-month and 10-year U.S. Treasury yields to narrow further at some point between now and the end of 2018, please discuss what factors you expect to drive this narrowing.

7c) Please comment on your assumptions in arriving at the recession probabilities you provided in question 7a.

8a) 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 January 10th, 2018 was $4246 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.

8b) 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.

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

Responses should add up to 100 percent.

9a) 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)
2018:				
2019:				
2020:				
Longer run:				

9b) 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.

	FY 2018	FY 2019	FY 2020
Estimate for U.S. federal fiscal deficit:			

9c) Please explain changes to your estimates in parts a and b since the policy survey on December 4, where applicable.

9d-i) Please indicate any changes (combining direct and indirect effects) to your estimates of the U.S. federal fiscal deficit (as a percent of GDP) for fiscal years 2018, 2019, and 2020 resulting from the passage of the Tax Cuts and Jobs Act, compared to previously existing law.

	FY 2018	FY 2019	FY 2020
Estimate for change in U.S. federal fiscal deficit:			

9d-ii) Additionally, please indicate any changes (combining direct and indirect effects) to your estimates of GDP (Q4/Q4 growth) and the core PCE deflator (Q4/Q4 growth) in 2018, 2019, and 2020 resulting from the passage of the Tax Cuts and Jobs Act, compared to previously existing law.

	2018	2019	2020
Estimate for change in GDP (Q4/Q4 growth):			
Estimate for change in core PCE deflator (Q4/Q4 growth):			

9d-iii) Other than the Tax Cuts and Jobs Act, please provide your expectations for further changes to U.S. federal fiscal policy between now and the end of 2020, if any.

10a) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from January 1, 2018 - 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 to 100 percent.*

10b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from January 1, 2023 - December 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%

Point estimate for most likely outcome:

**Responses should add up to 100 percent.*

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

Recession currently:

11b) What percent chance do you attach to the U.S. economy being in a recession* **in 6 months**?

Recession in 6 months:

11c) What percent chance do you attach to the global economy being in a recession** **in 6 months**?

Global recession in 6 months:

11d) 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**