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 members 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

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

Current economic conditions:
(21 responses)

Several dealers indicated that they expected no or few significant changes to the Committee's assessment of current economic conditions in the January/February FOMC statement. Several also indicated that they expected the Committee to acknowledge an improvement in measures of consumer and business sentiment. Finally, several dealers indicated that they expected some modest adjustments to language characterizing inflation and market-based measures of inflation compensation consistent with the passage of time and recent data.

Economic outlook:
(20 responses)

Many dealers noted that they expected no or few significant changes to the Committee's language on the economic outlook.

Communication on the expected path of policy rates and forward guidance on the target federal funds rate:
(21 responses)

Most dealers expected no change in the Committee's communication on the expected path of policy rates and forward guidance on the target federal funds rate.

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

All dealers that submitted responses to this question expected no change in the Committee's communication on its policy of reinvesting principal payments on Treasury and agency securities.

Other:
(5 responses)

Dealers did not provide substantial commentary in this section.

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

	Fed Communication Grade Number of Respondents:
1 - Ineffective	**0**
2	**2**
3	**5**
4	**16**
5 - Effective	**0**

Please explain.
(22 responses)

In explaining their rating, several dealers indicated that Federal Reserve System communications since the December surveys had generally been clear and effective. However, several dealers cited some difficulty in interpreting the variety of views expressed by FOMC participants, and several suggested that Federal Reserve System communications increased uncertainty over the extent to which FOMC participants had incorporated possible changes in fiscal and other government policies into their views of the policy outlook. In addition, several noted that discussions pertaining to the Federal Reserve's reinvestment policy increased uncertainty surrounding the possible timing and nature of changes to the Federal Reserve's balance sheet.

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

	Jan. 31 - Feb. 1 2017	Mar. 14-15 2017	May 2-3 2017	Jun. 13-14 2017	Jul. 25-26 2017	Sep. 19-20 2017	Oct. 31 - Nov. 1 2017
25th Pctl	**0.63%**	**0.63%**	**0.63%**	**0.88%**	**0.88%**	**0.88%**	**0.88%**
Median	**0.63%**	**0.63%**	**0.63%**	**0.88%**	**0.88%**	**0.88%**	**0.88%**
75th Pctl	**0.63%**	**0.63%**	**0.63%**	**0.88%**	**0.88%**	**1.13%**	**1.13%**
# of Responses	**23**	**23**	**23**	**23**	**23**	**23**	**23**
	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 H1	2019 H2
25th Pctl	**1.13%**	**1.13%**	**1.38%**	**1.63%**	**1.63%**	**1.88%**	**2.13%**
Median	**1.13%**	**1.38%**	**1.38%**	**1.63%**	**1.88%**	**2.13%**	**2.38%**
75th Pctl	**1.13%**	**1.38%**	**1.63%**	**1.88%**	**2.13%**	**2.38%**	**2.88%**
# of Responses	**23**	**23**	**23**	**23**	**23**	**21**	**21**

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.
(22 responses)

	Longer Run	10-yr Average FF Rate
25th Pctl	**2.50%**	**2.10%**
Median	**3.00%**	**2.31%**
75th Pctl	**3.00%**	**2.70%**

3c) 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 Change in Target Rate or Range in 2017
Average	**85%**	**5%**	**10%**

3d) Conditional on the Committee's next policy action in 2017 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 in 2017 being an increase.

	Increase Occurs at January FOMC meeting	Increase Occurs at March FOMC meeting	Increase Occurs at May FOMC meeting or later
Average	**3%**	**20%**	**78%**

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 2017, conditional on the following possible scenarios for the direction and timing of the Committee's next poicy action in 2017. 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 at Mar. meeting or earlier								
	≤ 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	**2%**	**8%**	**10%**	**27%**	**33%**	**16%**	**4%**	**1%**

Next change is an increase, occurs at May meeting or later								
	≤ 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	**2%**	**4%**	**17%**	**41%**	**26%**	**9%**	**2%**	**0%**

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	**10%**	**53%**	**34%**	**3%**	**0%**	**0%**	**0%**	**0%**

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 2018 and 2019, conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2019. If you expect a target range, please use the midpoint of that range in providing your response.
(22 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	**8%**	**16%**	**40%**	**23%**	**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	**8%**	**11%**	**18%**	**28%**	**21%**	**10%**	**4%**

3f-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2019.

	Probability of Moving to ZLB at Some Point between now and the end of 2019
25th Pctl	**15%**
Median	**20%**
75th Pctl	**25%**

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 2018 and 2019, conditional on moving to the ZLB at some point between now and the end of 2019. 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 2019. If you expect a target range, please use the midpoint of that range in providing your response.
(22 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%**	**37%**	**16%**	**14%**	**11%**	**11%**	**4%**	**2%**

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	**7%**	**47%**	**20%**	**12%**	**7%**	**4%**	**2%**	**1%**

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	**-0.25%**
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.
(16 responses)

Several dealers reported that they had made few or no significant changes to their responses since the last survey. Several indicated that changes to their expectations for fiscal policy under the new administration led them to adjust their policy rate expectations since the last survey.

4) The following matrix lays out hypothetical scenarios in which the realized levels of the 2017 unemployment rate (Q4 average level) and/or the 2017 core PCE deflator (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 2016 Summary of Economic Projections (SEP). For example, the upper left box represents a scenario in which the unemployment rate and core PCE deflator 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 the core PCE deflator 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 2017. If you expect a target range, please indicate the midpoint of that range in providing your response.

Median across Respondents		2017 Unemployment rate (Q4 average level)		
		- 50 bps	Current median 4.5%	+ 50 bps
2017 Core PCE deflator (Q4/Q4 growth)	- 50 bps	0.88%	0.88%	0.63%
	Current median 1.8%	1.38%	1.13%	0.88%
	+ 50 bps	1.88%	1.63%	1.13%

Please explain any assumptions underlying your responses.
(21 responses)

In explaining their responses, several dealers noted that they assumed a larger response in the level of the target federal funds rate or range to a 50 basis point shock to core PCE inflation than to a 50 basis point shock to the unemployment rate. Additionally, several dealers indicated that they assumed a base scenario of two 25-basis-point rate increases taking place in 2017.

How would you assess the clarity of Federal Reserve system communications regarding the specific factors that FOMC participants consider in determining the appropriate stance of policy? Please explain.
(22 responses)

Several dealers noted that communications regarding the specific factors that FOMC participants consider in determining the appropriate stance of policy is generally clear or has become clearer over time. Meanwhile, several dealers noted that communications have only provided limited clarity on the factors that FOMC participants consider and the relative importance that they assign to the various factors affecting policy.

5) 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.
(22 responses)

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	**4%**	**9%**	**21%**	**37%**	**22%**	**6%**	**1%**

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%**	**7%**	**16%**	**28%**	**26%**	**15%**	**7%**

6a) In its most recent FOMC statement, the Committee indicated that it anticipates continuing its existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS, and of rolling over maturing Treasury securities at auction, until normalization of the level of the federal funds rate is "well under way."

What is your estimate for the most likely level of the target federal funds rate or range if and when the Committee first changes its reinvestment policy?

	Level of Target Fed Funds Rate/Range
25th Pctl	**1.13%**
Median	**1.38%**
75th Pctl	**1.38%**

6b) What is your estimate for the most likely timing (in months forward) of a change to the Committee's policy of reinvesting payments of principal on Treasuries and/or agency debt and MBS? If you do not expect the FOMC to change its policy on reinvestments for either or both asset classes during the process of policy normalization, please enter "N/A."

Months Forward		
	Treasuries*	Agency Debt and MBS
25th Pctl	**12**	**12**
Median	**17**	**17**
75th Pctl	**18**	**18**

**Two dealers expect no end to reinvestments of Treasury securities.*

6c) In its Policy Normalization Principles and Plans, the Committee indicated that it "expects to cease or commence phasing out reinvestments" after liftoff. Of the possible outcomes below, please indicate the percent chance that you attach to the Committee during the process of policy normalization ceasing its reinvestments all at once, phasing out its reinvestments over time, or not changing its reinvestments.

Treasuries			
	No Change to Reinvestments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over
Average	**19%**	**13%**	**67%**

Agency Debt and MBS			
	No Change to Reinvestments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over
Average	**17%**	**14%**	**70%**

6d-i) 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 2019, conditional on not moving to the ZLB at any point between now and the end of 2019. For reference, the level of the SOMA portfolio on January 11, 2017 was $4273 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	**8%**	**22%**	**42%**	**26%**	**3%**

6d-ii) 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 2019, conditional on moving to the ZLB at any point between now and the end of 2019. 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 2019 in question 3. Levels referenced below are in $ billions.

	≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501
Average	**12%**	**39%**	**24%**	**16%**	**9%**

6e) Please explain the factors behind any change to your expectations in parts a-d, where applicable, since the last policy survey
(14 responses)

Several dealers highlighted increased discussion of reinvestment policy in recent communications of Federal Reserve officials as informing changes to their responses.

7a) Provide your estimate of the most likely outcome for output, inflation, and unemployment.
(16 responses)

		Q4/Q4 2017	Q4/Q4 2018	Q4/Q4 2019	Longer Run
GDP	25th Pctl	2.10%	2.00%	1.70%	1.70%
	Median	2.30%	2.50%	2.05%	1.90%
	75th Pctl	2.40%	2.90%	2.20%	2.00%
Core PCE Deflator	25th Pctl	1.80%	2.00%	2.00%	-
	Median	1.90%	2.00%	2.05%	-
	75th Pctl	2.00%	2.20%	2.15%	-
Headline PCE Deflator	25th Pctl	1.80%	2.00%	2.00%	2.00%
	Median	2.00%	2.10%	2.05%	2.00%
	75th Pctl	2.20%	2.30%	2.20%	2.00%
Unemployment Rate*	25th Pctl	4.40%	4.20%	4.30%	4.50%
	Median	4.50%	4.30%	4.45%	4.80%
	75th Pctl	4.60%	4.40%	4.60%	5.00%

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

7b) Provide your estimate of the most likely outcome for the U.S. federal fiscal deficit (as a percent of GDP) for fiscal years 2017, 2018 and 2019.
(18 responses)

Current Estimate for U.S. Fiscal Deficit (Percent of GDP)			
	2017	2018	2019
25th Pctl	3.15%	3.52%	3.80%
Median	3.30%	3.70%	4.00%
75th Pctl	3.40%	4.20%	4.40%

7c) Please indicate how much these estimates have changed since the policy survey on October 24, if at all. Please provide your responses in percentage points.
(16 responses)

Change in Estimate for U.S. Federal Fiscal Deficit (Percentage Points)			
	2017	2018	2019
25th Pctl	0.00	0.32	0.30
Median	0.15	0.75	0.40
75th Pctl	0.30	1.20	0.90

7d/e) Please indicate the overall effect, if any, of the change to your estimates for the federal fiscal deficit in part c on your forecasts for GDP growth (Q4/Q4) in 2017, 2018 and 2019 and over the longer run, combining direct and indirect effects. Please provide your responses in percentage points.

Please indicate how much of the overall effect on GDP growth provided in part d you attribute to changes to your estimate for federal spending versus changes to your estimate for federal tax revenues. Please provide your responses in percentage points.
(11 responses)

	2017			2018		
	Impact on GDP Growth Forecast	From Federal Spending	From Federal Tax Revenues	Impact on GDP Growth Forecast	From Federal Spending	From Federal Tax Revenues
Average	**0.24**	**0.04**	**0.21**	**0.54**	**0.13**	**0.41**

	2019			Longer Run		
	Impact on GDP Growth Forecast	From Federal Spending	From Federal Tax Revenues	Impact on GDP Growth Forecast	From Federal Spending	From Federal Tax Revenues
Average	**0.33**	**0.04**	**0.29**	**0.16**	**0.03**	**0.12**

7f) How would your answers to parts d and e change, if at all, if these questions were asked at the start of 2013, when the target range for the federal funds rate was 0.0 - 0.25% and the unemployment rate averaged 8.1 percent during the prior year?
(22 responses)

Many dealers indicated that their responses to parts d and e would have reflected a larger expected impact on GDP growth from changes to their estimates for the federal fiscal deficit had those questions been asked at the start of 2013. In explaining their response, several dealers indicated their view that fiscal stimulus measures would have been more effective in increasing GDP growth at a time when there was greater slack in the economy than they currently perceive exists. Similarly, several dealers indicated their view that monetary policy would have been less likely to offset any GDP growth impact from fiscal stimulus, given their perception that the economy was further away from full employment. However, several other dealers suggested that their forecasted impact on growth in parts d and e would have been the same had those questions been asked at the start of 2013.

8a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from January 1, 2017 - December 31, 2021 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%**	**11%**	**29%**	**37%**	**15%**	**5%**

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

8b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from January 1, 2022 - December 31, 2026 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%**	**9%**	**27%**	**39%**	**16%**	**6%**

	Most Likely Outcome
25th Pctl	**2.10%**
Median	**2.25%**
75th Pctl	**2.30%**

9a) What percent chance do you attach to the U.S. economy currently being in a recession*?

9b) What percent chance do you attach to the U.S. economy being in a recession* in 6 months?

9c) What percent chance do you attach to the global economy being in a recession** in 6 months?

	Currently in NBER Recession
25th Pctl	**3%**
Median	**5%**
75th Pctl	**5%**

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

	Global Recession in 6 Months
25th Pctl	**10%**
Median	**10%**
75th Pctl	**18%**

**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.*

9d) Please explain the factors behind any change to your expectations in parts a-c since the last policy survey.
(16 responses)

Several dealers indicated that they made no or few significant changes to their responses since the last policy survey. However, several other dealers indicated that improved economic data and global sentiment had led them to reduce the probabilities they assigned to either the U.S. and/or global economy being in a recession in 6 months.