RESPONSES TO SURVEY OF MARKET PARTICIPANTS

Markets Group, Federal Reserve Bank of New York

DECEMBER 2020

Distributed: 12/2/2020 – Received by: 12/7/2020

The **Survey of Market Participants** 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 participants, along with the 25th and 75th percentiles, are reported. For questions that ask respondents to give a probability distribution, the average response across participants for each potential outcome is reported.[1] Brief summaries of the comments received in free response form are also provided.

Responses were received from 29 market participants. Except where noted, all 29 participants responded to each question. In some cases, participants may not have provided complete responses (e.g. 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 Market Participants:
www.newyorkfed.org/markets/survey_market_participants.html

Table of Contents

1a) Provide below your expectations for **changes**, if any, to the language referencing each of the following topics in the December FOMC statement. **Please write N/A if you do not expect any changes.**

Current economic conditions:

Many respondents indicated that they did not expect material changes to the Committee's characterization of current economic conditions. Several respondents indicated that they expected the Committee to note that the pace of economic growth has recently moderated and several indicated that they expected the Committee to highlight concern over slowing near-term growth prospects due to the recent rise in virus cases in the U.S. Finally, several respondents indicated that they expected the Committee to note a softening in recent economic data.

Economic outlook and communication on the expected path of the target federal funds rate:

Most respondents indicated that they expected no material changes to this section of the statement, while several indicated that they expected the Committee to highlight positive medium- to longer-term growth prospects based on expectations for a COVID-19 vaccine.

Communication on tools other than the target federal funds rate:

Some respondents indicated that they expected the Committee to announce changes to its guidance for asset purchases, with several specifying that they expected this guidance to be qualitative and outcome-based and several specifying that they expected it to be tied to outcomes for inflation and employment. In addition, some respondents indicated that they expected no material changes to this section of the statement. Finally, several respondents indicated that they expected the Committee to repeat language from the November statement that the Federal Reserve is committed to using its full range of tools to support the economy.

Other:
(12 responses)

Respondents did not provide significant commentary in this section.

1b) What are your expectations for the medians of FOMC participants' <u>economic</u> projections in the Summary of Economic Projections (SEP)?
(28 responses)

Relative to the previous (September) SEP, several respondents indicated that they expected participants' median GDP growth projection for 2020 to increase, and several indicated that they expected the median for 2021 to increase. With respect to participants' unemployment rate projections, some respondents indicated that they expected the median projection for 2020 to decline, and several indicated that they expected the medians for

2021 and 2022 to decline. With respect to participants' inflation projections, several respondents indicated that they expected the median projection for 2022 to increase. In addition, several respondents indicated that they expected no material changes to participants' median economic projections, while several others noted that they expected changes to reflect better-than-expected economic data.

1c) What are your expectations for the most likely levels of the medians of FOMC participants' target federal funds rate projections in the SEP? Please provide your responses out to three decimal places.
(28 responses)

	Year-End 2020	Year-End 2021	Year-End 2022	Year-End 2023	Longer Run
25th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**2.50%**
Median	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**2.50%**
75th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**2.50%**

1d) What are your expectations for the Chair's press conference?
(28 responses)

Many respondents indicated that they expected the Chair to reiterate the importance of further fiscal stimulus. Some respondents indicated that they expected the Chair to discuss asset purchases, including several who indicated that they expected him to discuss new guidance on purchases. In addition, several respondents indicated that they expected the Chair to emphasize downside risks to the economic outlook and/or note the recent rise in virus cases, several indicated that they expected him to reiterate that monetary policy will remain accommodative, and several indicated that they expected him to note uncertainty around the outlook.

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.

	Dec. 15-16	Jan. 26-27	Mar. 16-17	Apr. 27-28	Jun. 15-16	Jul. 27-28	Sep. 21-22
25th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
Median	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
75th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
# of Responses	**29**	**29**	**29**	**29**	**29**	**29**	**29**
	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 H1	2023 H2
25th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
Median	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
75th Pctl	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.38%**
# of Responses	**29**	**29**	**29**	**29**	**29**	**29**	**29**

If your responses above do not reflect an increase from the current target range at any point, please provide the earliest half-year period in which your modal expectation for the level of the target range is higher than the current level.

	Earliest half-year period*
25th Pctl	**H1 2024**
Median	**H1 2024**
75th Pctl	**H1 2025**
# of Responses	**21**

** Dropdown selections: H1 2024, H2 2024, H1 2025, H2 2025, H1 2026, H2 2026, H1 2027 or later.*

2b) Provide your estimate for the most likely value for the following indicators at the time of the next increase in the target range for the federal funds rate.
(24 responses)

Most Likely Value of Economic Indicator at Time of First Increase in Target Range				
	Unemployment rate (%)	Labor force participation rate (%)	Total change in the level of real GDP since 2019 Q4 (%)	Headline 12-month PCE inflation (%)
25th Pctl	**3.5%**	**62.5%**	**7.0%**	**2.2%**
Median	**4.0%**	**63.0%**	**9.0%**	**2.3%**
75th Pctl	**4.2%**	**63.2%**	**11.0%**	**2.5%**

2c) 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	**1.63%**	**0.85%**
Median	**2.00%**	**1.00%**
75th Pctl	**2.25%**	**1.30%**

2d) 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 2020, 2021, 2022, and 2023. If you expect a target range, please use the midpoint of that range in providing your response.

Federal Funds Rate or Range at the End of 2020										
	< 0.00%	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 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**1%**	**98%**	**1%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**

Federal Funds Rate or Range at the End of 2021										
	< 0.00%	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 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**4%**	**82%**	**9%**	**4%**	**1%**	**0%**	**0%**	**0%**	**0%**	**0%**

Federal Funds Rate or Range at the End of 2022										
	< 0.00%	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 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**4%**	**63%**	**18%**	**8%**	**4%**	**1%**	**1%**	**0%**	**0%**	**0%**

Federal Funds Rate or Range at the End of 2023										
	< 0.00%	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 - 1.75%	1.76 - 2.00%	≥ 2.01%
Average	**4%**	**50%**	**20%**	**10%**	**8%**	**5%**	**2%**	**1%**	**1%**	**0%**

2e) What is your estimate of the target federal funds rate or range at the effective lower bound?
(28 responses)

	Level of Target Federal Funds Rate or Range at ELB
25th Pctl	**-0.50%**
Median	**0.00%**
75th Pctl	**0.13%**

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

Some respondents indicated that there were no material changes to their expectations for the target range for the federal funds rate, while several others cited recent vaccine-related developments in explaining changes to their expectations.

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. For reference, as of December 1 the yield was roughly 0.92 percent.

	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
25th Pctl	**0.90%**	**1.00%**	**1.03%**	**1.10%**	**1.15%**
Median	**0.95%**	**1.02%**	**1.15%**	**1.25%**	**1.25%**
75th Pctl	**1.00%**	**1.15%**	**1.25%**	**1.40%**	**1.50%**
# of Responses	**28**	**28**	**28**	**28**	**28**
	2022 H1	2022 H2	2023 H1	2023 H2	Longer Run
25th Pctl	**1.25%**	**1.30%**	**1.40%**	**1.50%**	**1.75%**
Median	**1.50%**	**1.50%**	**1.60%**	**1.75%**	**2.00%**
75th Pctl	**1.50%**	**1.65%**	**1.85%**	**2.00%**	**2.75%**
# of Responses	**27**	**27**	**27**	**27**	**27**

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. For reference, as of December 1 the rate was roughly 2.75 percent.

	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
25th Pctl	**2.71%**	**2.70%**	**2.75%**	**2.80%**	**2.88%**
Median	**2.75%**	**2.80%**	**2.88%**	**2.95%**	**3.00%**
75th Pctl	**2.78%**	**2.90%**	**3.00%**	**3.00%**	**3.00%**
# of Responses	**25**	**25**	**25**	**25**	**25**
	2022 H1	2022 H2	2023 H1	2023 H2	Longer Run
25th Pctl	**2.97%**	**3.00%**	**3.04%**	**3.10%**	**3.50%**
Median	**3.08%**	**3.20%**	**3.25%**	**3.38%**	**3.90%**
75th Pctl	**3.25%**	**3.40%**	**3.50%**	**3.70%**	**4.50%**
# of Responses	**25**	**25**	**25**	**25**	**25**

4a) Please provide your modal expectation for the amount of purchases, net of reinvestments, of U.S. Treasury securities, agency mortgage-backed securities (MBS), and agency commercial mortgage-backed securities (CMBS) the Desk will conduct for each month listed below and the total over each of the half-years below. If you expect any of these amounts to be zero in a given period, please enter 0.
(21 responses)

Net purchases of U.S. Treasury securities ($ billions)												
	Dec. 2020	Jan. 2021	Feb. 2021	Mar. 2021	Apr. 2021	May 2021	Jun. 2021	2021 H2	2022 H1	2022 H2	2023 H1	2023 H2
25th Pctl	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**480**	**300**	**213**	**45**	**0**
Median	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**480**	**360**	**270**	**150**	**95**
75th Pctl	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**480**	**480**	**480**	**440**	**330**

Net purchases of agency MBS ($ billions)												
	Dec. 2020	Jan. 2021	Feb. 2021	Mar. 2021	Apr. 2021	May 2021	Jun. 2021	2021 H2	2022 H1	2022 H2	2023 H1	2023 H2
25th Pctl	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**190**	**115**	**60**	**0**	**0**
Median	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**240**	**150**	**105**	**38**	**0**
75th Pctl	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**240**	**240**	**180**	**90**	**60**

Net purchases of agency CMBS ($ millions)												
	Dec. 2020	Jan. 2021	Feb. 2021	Mar. 2021	Apr. 2021	May 2021	Jun. 2021	2021 H2	2022 H1	2022 H2	2023 H1	2023 H2
25th Pctl	**50**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Median	**100**	**80**	**75**	**75**	**50**	**50**	**50**	**80**	**0**	**0**	**0**	**0**
75th Pctl	**400**	**135**	**100**	**100**	**100**	**100**	**100**	**300**	**200**	**200**	**0**	**0**

If applicable, please describe your expectations for any changes to key elements of and/or the communications regarding asset purchases going forward.
(23 responses)

Several respondents indicated that they expected changes to the Committee's guidance for asset purchases to be announced at the December FOMC meeting. Several respondents indicated that they expected the Committee to eventually extend the weighted average maturity of Treasury purchases, and several indicated that they expected that increases in securities holdings would taper at some point. Finally, several respondents indicated that they did not expect any changes.

4b) Please indicate the percent chance that you attach to the following possible outcomes* for total purchases, net of reinvestments, of U.S. Treasury securities and agency mortgage-backed securities (MBS) that the Desk will conduct from the beginning of 2021 until year-end 2023.
(24 responses)

Net purchases of U.S. Treasury securities ($ billions)								
	≤ 500	501 - 1000	1001 - 1500	1501 - 2000	2001 - 2500	2501 - 3000	3001 - 3500	≥ 3501
Average	**1%**	**6%**	**19%**	**23%**	**19%**	**18%**	**9%**	**5%**

Net purchases of agency MBS ($ billions)								
	≤ 250	251 - 500	501 - 750	751 - 1000	1001 - 1250	1251 - 1500	1501 - 1750	≥ 1751
Average	**4%**	**9%**	**27%**	**24%**	**20%**	**9%**	**4%**	**4%**

** Range determined by the levels implied by median estimates for the 10th and 90th percentiles of respondents' subjective distribution over the range of possible values for net asset purchases in the November Survey of Primary Dealers and Survey of Market Participants.*

4c) If you have formed expectations for the most likely level ($ billions) of Federal Reserve assets associated with any of the following, please provide your expectations for their levels on December 30, 2020 below. If you expect any of these amounts to be zero on this date, please enter 0.

Level on December 30, 2020 ($ billions)								
	Discount Window	PDCF	MMLF	CPFF	MSNLF	MSELF	MSPLF	MLF
25th Pctl	**0**	**0**	**4**	**0**	**2**	**0**	**0**	**3**
Median	**2**	**0**	**5**	**8**	**11**	**2**	**2**	**15**
75th Pctl	**4**	**0**	**5**	**9**	**15**	**15**	**15**	**20**
# of Responses	**13**	**13**	**14**	**13**	**13**	**13**	**12**	**15**

	TALF	PMCCF	SMCCF	PPPLF	Central bank liquidity swaps	FIMA repo	Repo agreements with primary dealers	Any additional programs
25th Pctl	**4**	**0**	**15**	**50**	**7**	**0**	**0**	**0**
Median	**10**	**0**	**20**	**55**	**10**	**0**	**0**	**0**
75th Pctl	**12**	**10**	**46**	**60**	**10**	**1**	**0**	**0**
# of Responses	**14**	**13**	**13**	**15**	**13**	**12**	**12**	**8**

5) Beyond your responses provided in the questions above, please describe your expectations for any additional actions or monetary policy measures, or modifications to those previously announced, by the Federal Reserve through year-end 2020 and over 2021.
(21 responses)

Several respondents indicated that they expected or saw a possibility that the Committee would eventually extend the weighted average maturity of Treasury purchases, and several indicated that they did not expect substantial further actions or measures to be implemented this year or over 2021 beyond what was reported in responses to previous questions.

6) What percent chance do you attach to any additional U.S. federal fiscal policy measures being enacted over the next six months to support the economy?

	Probability
25th Pctl	**75%**
Median	**90%**
75th Pctl	**95%**

If you assigned a non-zero probability above, please provide your estimate of the most likely total amount of additional U.S. federal fiscal policy measures to be enacted over the next six months to support the economy, conditional on there being such additional measures.

	Estimate of most likely total amount ($ billions)
25th Pctl	**900**
Median	**1000**
75th Pctl	**1000**

Please describe any assumptions underlying your estimates above.
(28 responses)

Several respondents indicated that they assumed split control of Congress in forming their expectations, and several indicated that they assumed that additional measures would be enacted in the fourth quarter of 2020 or during the remainder of the current session of Congress.

7a) Please indicate your modal projections for U.S. real GDP growth for each of the following quarters (seasonally adjusted annual rate).
(28 responses)

Modal Projection for U.S. Real GDP Growth (percent)					
	Q4 2020 (saar)	Q1 2021 (saar)	Q2 2021 (saar)	Q3 2021 (saar)	Q4 2021 (saar)
25th Pctl	**2.8%**	**1.0%**	**3.8%**	**3.9%**	**3.1%**
Median	**4.0%**	**2.5%**	**4.9%**	**5.5%**	**4.0%**
75th Pctl	**4.3%**	**3.7%**	**7.1%**	**6.4%**	**5.0%**

7b) Please provide the percent chance you attach to the following outcomes for U.S. real GDP growth in 2020 and 2021 (Q4/Q4).
(28 responses)

Probability Distribution of U.S. Real GDP Growth in 2020 (Q4/Q4)						
	≤ -8.01%	-8.00 - -6.01%	-6.00 - -4.01%	-4.00 - -2.01%	-2.00 - -0.01%	≥ 0 %
Average	**0%**	**3%**	**16%**	**60%**	**17%**	**4%**

Probability Distribution of U.S. Real GDP Growth in 2021 (Q4/Q4)						
	< 0%	0.00 - 2.00%	2.01 - 4.00%	4.01 - 6.00%	6.01 - 8.00%	≥ 8.01%
Average	**4%**	**12%**	**34%**	**35%**	**14%**	**2%**

8a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from December 1, 2020 - November 30, 2025 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	**6%**	**18%**	**35%**	**24%**	**12%**	**5%**

	Most Likely Outcome
25th Pctl	**1.75%**
Median	**1.85%**
75th Pctl	**2.05%**

8b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from December 1, 2025 – November 30, 2030 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.
(28 responses)

	≤ 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	≥ 3.01%
Average	**5%**	**13%**	**29%**	**32%**	**14%**	**8%**

	Most Likely Outcome
25th Pctl	**2.00%**
Median	**2.10%**
75th Pctl	**2.28%**

9a) What percent chance do you attach to:

the U.S. economy currently being in a recession*?
the U.S. economy being in a recession* **in 6 months**?
the global economy being in a recession** **in 6 months**?

	Currently in U.S. Recession		U.S. Recession in 6 Months		Global Recession in 6 Months
25th Pctl	**0%**	25th Pctl	**10%**	25th Pctl	**10%**
Median	**6%**	Median	**10%**	Median	**15%**
75th Pctl	**15%**	75th Pctl	**25%**	75th Pctl	**30%**

**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.*

9b) Please explain the factors behind any change to your expectations in part a since the last policy survey. (26 responses)

In explaining changes to their recession probabilities, some respondents cited vaccine-related developments and several cited the recent rise in virus cases in the U.S. In addition, several respondents indicated that there were no significant changes to their recession probabilities.