Survey Measures of Expectations for the Policy Rate

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Second in a two-part series

Market prices provide timely information on policy expectations. But as we emphasized in our previous post, they can deviate from investors’ expectations of the most likely path because they embed risk premiums and represent probability-weighted averages over different possible paths. In contrast, surveys explicitly ask respondents for their views on the likely path of economic variables. In this post, we highlight two surveys conducted by the Federal Reserve Bank of New York that provide information about expectations that can complement market-based measures.

Ahead of each meeting of the Federal Open Market Committee (FOMC), the Trading Desk of the New York Fed (the Desk) conducts the Survey of Primary Dealers (SPD) and the Pilot Survey of Market Participants (SMP), the results of which are available here. Similar to other surveys, the SPD and the SMP ask respondents for their views on a range of economic and financial variables, including the target federal funds rate. In addition to soliciting these regular forecasts, the Desk’s surveys also ask timely and in-depth questions on the economic and policy outlook that are relevant to policymakers. Unlike most other surveys, the SPD and the SMP focus on forecast distributions in addition to respondents’ views of most likely outcomes.

A Peek into the Details
In the Desk’s October surveys, the median of respondents’ projections of the most likely level of the federal funds rate over the next several years is somewhat higher than the market-implied path over the next two years and is much higher three years out, as illustrated in the chart below (note that the SPD and SMP median values are the same in 2017).