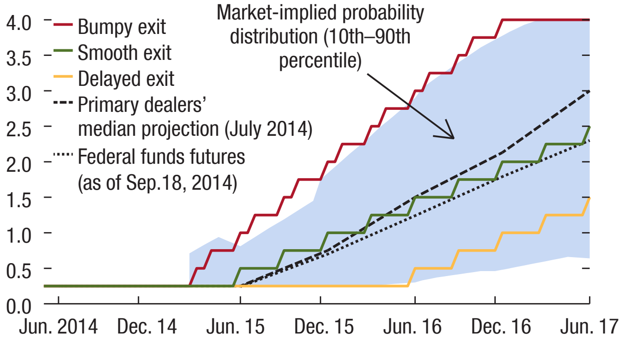
Figure 1.3. United States: How Far along the Exit Process?

Both market- and survey-based expectations of the liftoff date still center around the middle of 2015...

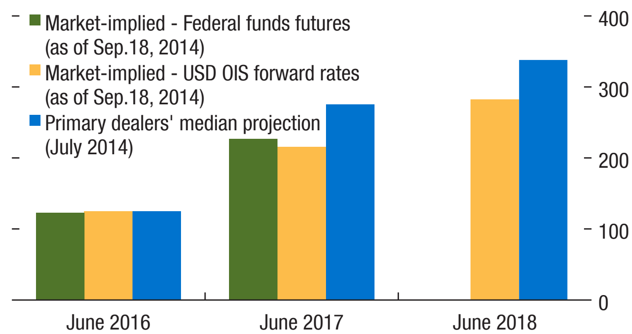
1. Federal Reserve Policy Rate
(Percent)



Sources: Bloomberg L.P.; Federal Reserve Bank of New York; and IMF staff calculations.
Note: Market implied probability distribution is derived from eurodollar options as of September 18, 2014.

...while the pace of rate hikes is still expected to be about 300 basis points over a three-year period.

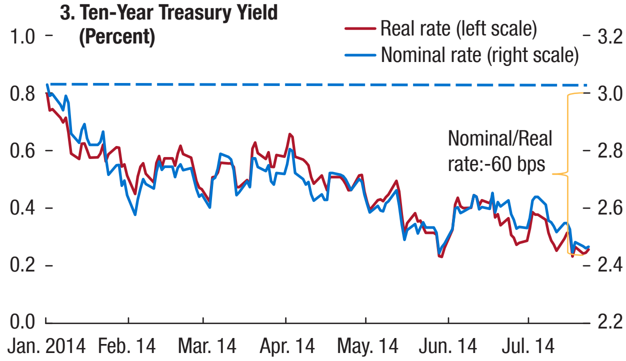
2. Expected Cumulative Changes in the Federal Funds Rate
(Basis points, after June 2015)



Sources: Bloomberg L.P.; and Federal Reserve Bank of New York.
Note: Federal funds futures are not available beyond July 2017. USD OIS = U.S. dollar overnight indexed swap.

The 10-year rate has declined in the first half of the year due equally to two factors...

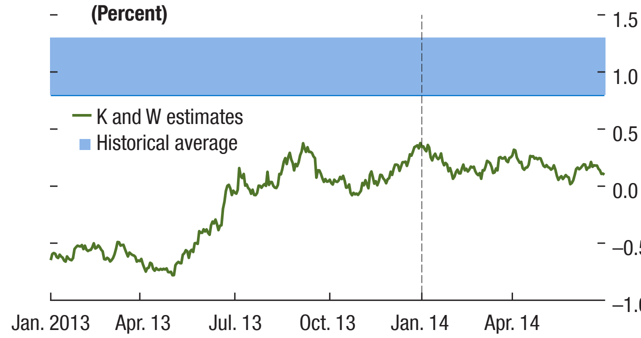
3. Ten-Year Treasury Yield
(Percent)



Sources: Bloomberg L.P.

...a decline in the term premium...

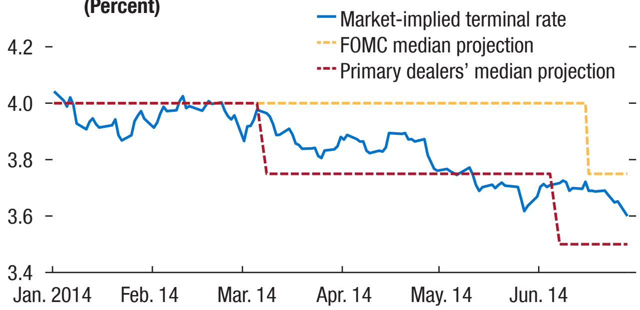
4. Ten-Year Term Premium
(Percent)



Sources: Kim and Wright (K and W) (2005, updated); and IMF staff estimates.
Note: The upper bound of the blue bar indicates the average K and W term premium from 1990 to 2007, while the lower bound indicates the average term premium from 2000 to 2007.

...and a decline in the expected terminal Federal funds rate to about 3.50–3.75 percent.

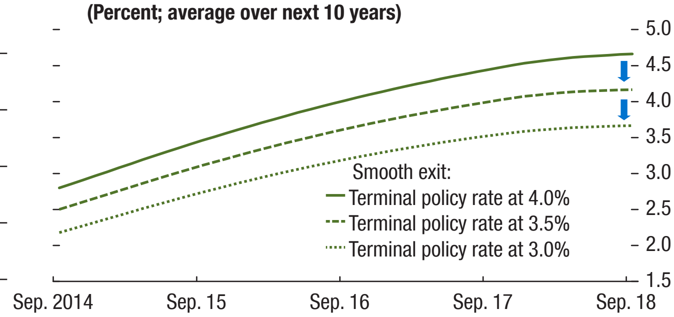
5. Terminal Federal Funds Rate
(Percent)



Sources: Bloomberg L.P.; Kim and Wright (K&W) (2005, updated); and IMF staff estimates.
Note: The market-implied terminal rate is derived from the 10-year Treasury rate, the 10-year term premium (Kim and Wright, 2005), and the expected months to liftoff in the federal funds rate. The pace of rate hikes is assumed to be 100 basis points per year until the terminal rate is reached. FOMC = Federal Open Markets Committee.

The second factor could be structural and may depress 10-year rates and prolong the search for yield.

6. Ten-Year Treasury Rate Projection
(Percent; average over next 10 years)



Source: IMF staff projections