

BIE | August 2012

Atlanta Fed Survey of Business Inflation Expectations




FEDERAL
RESERVE
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of ATLANTA

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The inflation expectation of businesses in the Southeast for the coming year was 1.9 percent in August, up from 1.7 percent in July, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted August 13–17 with 169 firms responding to questions about their business conditions, inflation outlook, and potential pricing pressures. The results are summarized below.

EXPECTED CHANGE IN UNIT COSTS	
<p>1.9%</p>  <p>1.7% in July</p>	<p>Survey respondents indicated that, on average, they expect unit costs to rise 1.9 percent over the next 12 months. That number is up from 1.7 percent in July and roughly on par with recent year-ahead inflation forecasts of private economists. Inflation uncertainty was unchanged at 2.8 percent in August. Firms reported that their unit costs rose 1.6 percent compared to this time last year, which is 0.1 percentage point higher than their assessment in July.</p>

FACTORS INFLUENCING PRICE CHANGES
<p>According to the businesses surveyed, firms continue to operate in an environment of below normal sales levels and profit margins—both of which deteriorated slightly in August. Projecting ahead, firms continue to anticipate little or moderate upward pressure coming from input costs over the next 12 months. Businesses' expectations for non-labor costs over the next year rose for the second consecutive month in August. Expectations for labor costs also rose slightly. Respondents also anticipate that sales levels and margin adjustments are both likely to have a modest upward influence on the prices they charge in the coming year.</p>

SPECIAL QUESTION
<p>This month the Atlanta Fed asked businesses a special question aimed at gauging how firms perceive their pricing power, a variation of a question put to the panel last October. Specifically, respondents were presented with a hypothetical, unanticipated rise in unit costs and asked how much of that cost hike they would likely pass along to their customers. The panel was randomly divided into two groups—one was given a 2 percent unit cost increase and the other a 6 percent unit cost increase. According to respondents, most of the unanticipated cost increase would translate to higher prices for customers. On average, firms facing a 2 percent cost increase said they would pass about 1.3 percentage points on to their customers. For those facing a 6 percent cost hike, the pass-through, on average, was a relatively comparable 3.8 percentage points.</p>

How do your SALES LEVELS compare with sales levels during what you consider to be "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion Index*
June	16%	34%	33%	16%	2%	-23
July	16%	39%	30%	14%	2%	-27
August	17%	38%	31%	13%	2%	-28

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion Index*
June	12%	35%	42%	11%	1%	-23
July	15%	39%	39%	7%	0%	-30
August	17%	42%	31%	10%	0%	-33

Looking back, how do your UNIT COSTS compare with this time last year?						
	Down (<-1%)	About unchanged (-1% to 1%)	Up somewhat (1.1% to 3%)	Up moderately (3.1% to 5%)	Up a lot (>5%)	Average
June	8%	26%	51%	11%	4%	1.6%
July	6%	28%	54%	10%	3%	1.5%
August	5%	26%	57%	8%	5%	1.6%

Projecting ahead over the next 12 months, how do you think the following five common influences will affect the prices of your products and/or services?						
	Strong downward influence	Moderate downward influence	Little/no influence	Moderate upward influence	Strong upward influence	Diffusion Index†
Labor Costs						
June	0%	1%	42%	54%	4%	30
July	0%	3%	46%	46%	5%	27
August	2%	0%	40%	54%	4%	29
Non-Labor Costs						
June	0%	4%	29%	60%	7%	35
July	0%	3%	30%	54%	12%	38
August	0%	2%	26%	58%	14%	42
Productivity						
June	1%	17%	68%	14%	1%	-2
July	0%	20%	69%	9%	1%	-4
August	0%	19%	64%	16%	1%	-1
Margin Adjustments						
June	2%	14%	53%	30%	1%	7
July	1%	11%	62%	25%	2%	8
August	2%	15%	55%	26%	1%	5
power, a variation of a question put to the panel last October. Specifically, respondents were presented with a						
June	3%	18%	48%	30%	2%	5
July	1%	21%	49%	26%	2%	3
August	4%	21%	42%	29%	4%	5

Projecting ahead, to the best of your ability, please assign a percent likelihood to the following changes to unit costs over the next 12 months.

	Down (<-1%)	About unchanged (-1% to 1%)	Up somewhat (1.1% to 3%)	Up moderately (3.1% to 5%)	Up a lot (>5%)	Average	Median	Mode	Variance
June	9%	30%	37%	16%	8%	1.7%	1.6%	1.5%	2.9%
July	8%	31%	38%	14%	9%	1.7%	1.6%	1.5%	2.8%
August	8%	27%	38%	18%	9%	1.9%	1.8%	1.8%	2.8%

Special Question: Survey respondents were randomly assigned one of the following questions.

	Industry	Number of responses	Average	Median	Mode	Variance
What effect would an unanticipated <u>2 percent</u> rise in unit costs have on your prices?	Total	87	1.3%	1.5%	2.0%	0.8%
	Retail and wholesale trade	15	1.7%	2.0%	2.5%	1.0%
	Manufacturing	18	1.2%	1.3%	1.5%	0.7%
	Other	54	1.3%	1.0%	2.0%	0.8%
What effect would an unanticipated <u>6 percent</u> rise in unit costs have on your prices?	Total	82	3.8%	4.0%	3.0%	4.4%
	Retail and wholesale trade	14	4.3%	4.0%	4.0%	3.4%
	Manufacturing	17	4.1%	4.0%	4.0%	2.8%
	Other	51	3.6%	3.5%	0.0%	5.2%

Note: Percentages may not sum to 100% due to rounding.

*The diffusion index is calculated as an average response such that each response of much less is assigned a value of -100, somewhat less is assigned a value of -50, about normal 0, somewhat greater 50, and much greater 100. Therefore, a positive index value implies that the indicator is greater, on average, and a negative index value implies that the indicator is lower, on average.

†The diffusion index is calculated such that each response of *strong downward influence* is assigned a value of -100, *moderate downward influence* is assigned a value of -50, *little/no influence* 0, *moderate upward influence* 50, and *strong upward influence* 100. Therefore, a positive index value indicates that overall prices are being influenced upwards, on average, and a negative index value indicates that prices are being influenced downwards, on average.