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The inflation expectations of businesses in the Southeast for the coming year moderated to 1.8 percent in May, down from 2.1 percent in April, according to the Federal Reserve Bank of Atlanta's most recent business inflation survey. The survey was conducted May 14–18 with 164 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><b>1.8%</b></p>  <p>from 2.1% in April</p>	<p>Survey respondents indicated that, on average, they expect unit costs to rise 1.8 percent over the next 12 months. That number is down from 2.1 percent in April and a bit below recent year-ahead inflation forecasts of private economists. Inflation uncertainty rose from 2.7 percent in April to 2.9 percent in May. Firms also reported that their unit costs had risen 1.6 percent compared to this time last year, which is 0.3 percentage point lower than their assessment in April.</p>

FACTORS INFLUENCING PRICE CHANGES
<p>According to the businesses surveyed, firms are still operating in an environment of below normal sales and depressed margins. Looking forward, firms continue to anticipate little or only moderate upward pressure coming from input costs over the coming 12 months. However, businesses' expectations for non-labor costs over the next year subsided in May, retracing the April increase. Respondents also anticipate that their sales levels and margin adjustments are likely to have a small upward influence on the prices they charge in the coming year.</p>

SPECIAL QUESTION
<p>Each month the Atlanta Fed's BIE survey asks businesses to evaluate current sales levels and profit margins relative to "normal" times, where the definition of normal is at the discretion of the respondent. This month's special question is aimed at assessing whether estimations of normal sales levels have been changing over time. Some 55 percent of businesses indicated that their estimation of normal sales had indeed changed over the past 12 months. Thirty percent of respondents have decreased their estimate, and 25 percent have increased it. Forty-five percent indicated that their assessment is the same as it was a year ago.</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*
March	18%	29%	31%	21%	1%	-21
April	17%	36%	27%	18%	2%	-23
May	17%	37%	30%	14%	2%	-27

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion Index*
March	14%	42%	32%	11%	0%	-30
April	19%	36%	36%	9%	0%	-32
May	18%	37%	32%	13%	0%	-30

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
March	6%	23%	55%	12%	5%	1.8%
April	3%	24%	56%	12%	6%	1.9%
May	8%	22%	54%	12%	4%	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†
<b>Labor Costs</b>						
March	0%	4%	37%	53%	6%	30
April	0%	1%	43%	52%	4%	29
May	0%	1%	42%	49%	8%	32
<b>Non-Labor Costs</b>						
March	0%	3%	27%	57%	13%	39
April	0%	0%	24%	57%	18%	47
May	0%	3%	29%	60%	9%	38
<b>Productivity</b>						
March	0%	20%	64%	14%	2%	-1
April	0%	15%	66%	16%	2%	2
May	1%	18%	64%	16%	1%	-1
<b>Margin Adjustments</b>						
March	1%	11%	63%	26%	0%	7
April	2%	13%	57%	26%	2%	6
May	1%	16%	52%	31%	1%	7
<b>Sales Levels</b>						
March	1%	15%	45%	36%	2%	11
April	1%	19%	46%	32%	2%	7
May	3%	13%	41%	38%	4%	14

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
March	6%	25%	42%	17%	9%	2.0	2.0	1.9	2.4
April	5%	27%	37%	20%	10%	2.1	2.0	2.0	2.7
May	8%	27%	39%	17%	8%	1.8	1.8	1.7	2.9

Special Question:	Compared to one year ago, how has your estimation of "normal" sales levels changed?		
Number of responses	Decreased	Stayed the same	Increased
155	30%	45%	25%

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.