

# BIE | April 2012

Atlanta Fed Survey of Business Inflation Expectations




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of ATLANTA

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The inflation expectations of businesses in the Southeast for the coming year rose to 2.1 percent in April, up from 2.0 percent in March, according to the Federal Reserve Bank of Atlanta's most recent business inflation survey. The survey was conducted April 9–13 with 165 firms responding to questions about their business conditions, inflation outlook, and potential pricing pressures. The results are summarized below.

EXPECTED CHANGE IN UNIT COSTS	
<b>2.1%</b>  from 2.0% in March	Survey respondents indicated that, on average, they expect unit costs to rise 2.1 percent over the next 12 months. That number is up from 2.0 percent in March and comparable to recent year-ahead inflation forecasts of private economists. Inflation uncertainty rose from 2.4 percent in March to 2.7 percent in April. Firms also reported that their unit costs had risen 1.9 percent compared to this time last year, which is 0.1 percentage point higher than their assessment in March.

FACTORS INFLUENCING PRICE CHANGES
According to the businesses surveyed, firms are still operating in an environment of below normal sales and depressed margins. Looking forward, firms' expectations for non-labor costs rose in April, with 57 percent predicting a moderate upward influence on prices coming from materials and other non-labor costs over the next year. Eighteen percent predicted a strong upward influence from those costs—the highest percentage since the survey was launched in October 2011. Firms anticipate labor costs will put little or only moderate upward pressure on prices in the year ahead. Respondents also anticipate that their sales, margin adjustments, and productivity are likely to have a small, though positive, influence on prices in the coming year.

SPECIAL QUESTION
During the first month of each quarter, the Atlanta Fed will ask a special question aimed at measuring firms' inflation expectations and inflation uncertainty over the longer term. On average, survey respondents in April project unit costs to rise by 3.0 percent per year over the next five to 10 years, which is 0.1 percentage point higher in February, the previous time the question was asked. Firms' uncertainty about the future path of inflation declined to 2.6 percent from 2.8 percent in February (measured by the average respondent's variance).

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*
February	18%	37%	31%	14%	1%	-28
March	18%	29%	31%	21%	1%	-21
April	17%	36%	27%	18%	2%	-23

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion Index*
February	17%	44%	32%	8%	0%	-35
March	14%	42%	32%	11%	0%	-30
April	19%	36%	36%	9%	0%	-32

Looking back, how do your UNIT COSTS compare with this time last year?						
	Down	About	Up somewhat	Up moderately	Up a lot	Average
February	7%	21%	52%	16%	4%	1.8%
March	6%	23%	55%	12%	5%	1.8%
April	3%	24%	56%	12%	6%	1.9%

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>						
February	0%	1%	48%	49%	2%	26
March	0%	4%	37%	53%	6%	30
April	0%	1%	43%	52%	4%	29
<b>Non-Labor Costs</b>						
February	0%	2%	24%	62%	12%	42
March	0%	3%	27%	57%	13%	39
April	0%	0%	24%	57%	18%	47
<b>Productivity</b>						
February	0%	15%	67%	18%	1%	2
March	0%	20%	64%	14%	2%	-1
April	0%	15%	66%	16%	2%	2
<b>Margin Adjustments</b>						
February	0%	17%	56%	27%	0%	5
March	1%	11%	63%	26%	0%	7
April	2%	13%	57%	26%	2%	6
<b>Sales Levels</b>						
February	2%	18%	45%	32%	4%	9
March	1%	15%	45%	36%	2%	11
April	1%	19%	46%	32%	2%	7

**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
February	7%	29%	38%	16%	10%	1.9	1.8	1.8	2.8
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

**Special Question: Projecting ahead, to the best of your ability, please assign a percent likelihood to the following changes to unit costs per year over the next FIVE TO 10 years.**

Number of responses	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
February (89)	4%	11%	38%	29%	17%	2.9	2.9	2.9	2.8
April (152)	4%	12%	36%	30%	18%	3.0	3.0	2.9	2.6

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.