

BIE | July 2012

Atlanta Fed Survey of Business Inflation Expectations




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The inflation expectations of businesses in the Southeast for the coming year were unchanged at 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 July 16–20 with 160 firms responding to questions about their business conditions, inflation outlook, and potential pricing pressures. The results are summarized below.

EXPECTED CHANGE IN UNIT COSTS	
1.7%  1.7% in June	Survey respondents indicated that, on average, they expect unit costs to rise 1.7 percent over the next 12 months. That number is unchanged from expectations in June and below recent year-ahead inflation forecasts of private economists. Inflation uncertainty declined by 0.1 percentage point to 2.8 percent in July. Firms reported that their unit costs rose 1.5 percent compared to this time last year, which is 0.1 percentage point lower than their assessment in June.

FACTORS INFLUENCING PRICE CHANGES
According to the businesses surveyed, firms continue to operate in an environment of below normal sales levels and profit margins—both of which deteriorated in July. Projecting ahead, firms continue to anticipate little or moderate upward pressure coming from input costs over the next 12 months. Businesses' expectations for labor costs over the next year declined for the second consecutive month in July while expectations for non-labor costs rose slightly. Just 28 percent of firms expect moderate or strong upward price influence from sales levels in the coming year, the smallest percentage in the 10-month history of the survey. Respondents also anticipate that margin adjustments are likely to have a modest upward influence on the prices they charge in the coming year. Alternatively, businesses anticipate that productivity may provide some pricing relief going forward.

SPECIAL QUESTION
The first month of each quarter, the Atlanta Fed asks businesses a special question aimed at measuring firms' inflation expectations and inflation uncertainty over the longer term. In July, survey respondents projected unit costs to rise by 2.9 percent per year over the next five to 10 years, which is down from 3.0 percent projected in April. Firms' uncertainty about the future path of inflation was 2.9 percent (measured by the average respondent's variance). That figure roughly mirrors the uncertainty (variance) in the distribution of firms' year-ahead inflation predictions.

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*
May	17%	37%	30%	14%	2%	-27
June	16%	34%	33%	16%	2%	-23
July	16%	39%	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*
May	18%	37%	32%	13%	0%	-30
June	12%	35%	42%	11%	1%	-23
July	15%	39%	39%	7%	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
May	8%	22%	54%	12%	4%	1.6%
June	8%	26%	51%	11%	4%	1.6%
July	6%	28%	54%	10%	3%	1.5%

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						
May	0%	1%	42%	49%	8%	32
June	0%	1%	42%	54%	4%	30
July	0%	3%	46%	46%	5%	27
Non-Labor Costs						
May	0%	3%	29%	60%	9%	38
June	0%	4%	29%	60%	7%	35
July	0%	3%	30%	54%	12%	38
Productivity						
May	1%	18%	64%	16%	1%	-1
June	1%	17%	68%	14%	1%	-2
July	0%	20%	69%	9%	1%	-4
Margin Adjustments						
May	1%	16%	52%	31%	1%	7
June	2%	14%	53%	30%	1%	7
July	1%	11%	62%	25%	2%	8
Sales Levels						
May	3%	13%	41%	38%	4%	14
June	3%	18%	48%	30%	2%	5
July	1%	21%	49%	26%	2%	3

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
May	8%	27%	39%	17%	8%	1.8%	1.8%	1.7%	2.9%
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%

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.								
Month (and 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%
July (153)	4%	15%	36%	26%	19%	2.8%	2.9%	3.0%	2.9%

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.