

# BIE | February 2012

Atlanta Fed Survey of Business Inflation Expectations




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RESERVE  
BANK  
of ATLANTA

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In the Federal Reserve Bank of Atlanta's monthly business inflation survey of firms in the Sixth Federal Reserve District, respondents indicated their inflation expectations for the coming year are 1.9 percent. That number, which is measured by the rise firms anticipate in their year-ahead unit costs, is up from 1.8 percent in January. The survey was conducted February 13–17 with 168 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>1.9%</b>  from 1.8% in January	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 1.8 percent in January and comparable to recent year-ahead inflation forecasts of private economists. Firms also reported that their unit costs had risen 1.8 percent compared to this time last year, which is 0.3 percentage point higher than their assessment in January.

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 anticipate labor costs will put little or only moderate upward pressure on prices in the year ahead. Expectations for non-labor costs rose in February, with 74 percent of panelists predicting a moderate or strong upward influence on prices coming from materials and other non-labor inputs. 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
This month the Atlanta Fed asked businesses a special question aimed at measuring firms' inflation expectations and inflation uncertainty over the longer term. On average, survey respondents project unit costs to rise by 2.9 percent per year over the next five to 10 years. Firms' uncertainty about the future path of inflation was 2.8 percent (measured by calculating a variance for each respondent, then taking the average among all respondents). That figure matches the uncertainty in the distribution of firms' year-ahead inflation predictions (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*
December	21%	39%	22%	16%	2%	-31
January	18%	38%	28%	16%	1%	-27
February	18%	37%	31%	14%	1%	-28

**How do your current PROFIT MARGINS compare with "normal" times?**

	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion Index*
December	21%	42%	25%	11%	1%	-36
January	20%	36%	34%	10%	0%	-34
February	17%	44%	32%	8%	0%	-35

**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
December	8%	25%	41%	18%	7%	1.8%
January	9%	27%	47%	14%	3%	1.5%
February	7%	21%	52%	16%	4%	1.8%

**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>						
December	0%	5%	45%	47%	3%	24
January	0%	5%	41%	51%	3%	26
February	0%	1%	48%	49%	2%	26
<b>Non-Labor Costs</b>						
December	2%	5%	27%	52%	14%	36
January	1%	4%	30%	51%	14%	36
February	0%	2%	24%	62%	12%	42
<b>Productivity</b>						
December	0%	14%	70%	16%	1%	1
January	1%	15%	62%	22%	0%	3
February	0%	15%	67%	18%	1%	2
<b>Margin Adjustments</b>						
December	1%	14%	61%	22%	2%	5
January	2%	12%	66%	20%	1%	3
February	0%	17%	56%	27%	0%	5
<b>Sales Levels</b>						
December	1%	22%	44%	29%	4%	6
January	4%	13%	45%	34%	3%	9
February	2%	18%	45%	32%	4%	9

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
December	9%	28%	35%	18%	10%	1.9%	1.8%	1.7%	2.8
January	6%	31%	37%	18%	8%	1.8%	1.8%	1.8%	2.6
February	7%	29%	38%	16%	10%	1.9%	1.8%	1.8%	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.

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
89	4%	11%	38%	29%	17%	2.9%	2.9%	2.9%	2.8

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.

‡Responses to the special question are limited to those that were submitted after 5:30 p.m. Monday, February 13, due to a variation in the question text.