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Survey of Business Inflation Expectations

FEDERAL RESERVE BANK of ATLANTA

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Contact: Jean Tate, 404-498-8035 or jean.tate@atl.frb.org

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 1.8 percent. That number, which is measured by the rise firms anticipate in their year-ahead unit costs, is down slightly from December. The survey was conducted January 16–20 with 170 firms responding to questions about their business conditions, inflation outlook, and potential pricing pressures. The results are summarized below.

EXPECTED CHANGE IN UNIT COSTS

1.8%

⬇

from 1.9% in December

Survey respondents indicated that, on average, they expect unit costs to rise 1.8 percent over the next 12 months. That number is down slightly from 1.9 percent in December and comparable to recent year-ahead inflation forecasts of private economists. Firms also reported that their unit costs had risen 1.5 percent compared to this time last year.

FACTORS INFLUENCING PRICE CHANGES

According to the businesses surveyed, firms are still operating in an environment of below normal sales and depressed margins, although both have been slowly improving since October. 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 are similar, though 14 percent of panelists predict a strong upward influence on prices coming from materials and other non-labor inputs. Respondents also anticipate that their sales, productivity, and margin adjustments are likely to have a very small, though positive, influence on prices in the coming year.

SPECIAL QUESTION

This month the Atlanta Fed asked businesses a special question to gauge how frequently firms make small adjustments to their prices. The results were mixed. A significant share of firms indicated that they do not make very small price adjustments. Specifically, 35 percent responded that they don't make price adjustments of less than 1 percent (zero out of every 20 adjustments). Another 14 percent indicated that very small price adjustments are rather rare (either one or two of every 20 price changes). However, for a small number of businesses, very small price adjustments were common. Fifteen percent indicated that at least half their price changes were very small.

Question 1: 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***
November	26%	32%	25%	15%	2%	-32
December	21%	39%	22%	16%	2%	-31
January	18%	38%	28%	16%	1%	-27

Question 2: How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	**Somewhat less**	**About normal**	**Somewhat greater**	**Much greater**	**Diffusion Index***
November	24%	41%	24%	11%	0%	-39
December	21%	42%	25%	11%	1%	-36
January	20%	36%	34%	10%	0%	-34

Question 3: Looking back, how do your UNIT COSTS compare with this time last year?						
	Down (<-1%)	**About un-changed (-1% to 1%)**	**Up somewhat (1.1% to 3%)**	**Up moder-ately (3.1% to 5%)**	**Up a lot (>5%)**	**Average**
November	8%	19%	55%	12%	5%	1.7
December	8%	25%	41%	18%	7%	1.8
January	9%	27%	47%	14%	3%	1.5

Question 4: 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 un-changed (-1% to 1%)**	**Up some-what (1.1% to 3%)**	**Up moder-ately (3.1% to 5%)**	**Up a lot (>5%)**	**Average**	**Median**	**Mode**	**Variance**
November	7%	24%	39%	22%	8%	2.0	2.0	1.9	2.6
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

Note: Percentages may not add up to 100 percent because of 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.

Question 5: Projecting ahead <u>over the next 12 months,</u> 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						
November	0%	3%	41%	51%	5%	29
December	0%	5%	45%	47%	3%	24
January	0%	5%	41%	51%	3%	26
Non-Labor Costs						
November	0%	2%	30%	52%	15%	40
December	2%	5%	27%	52%	14%	36
January	1%	4%	30%	51%	14%	36
Productivity						
November	1%	16%	69%	13%	1%	-1
December	0%	14%	70%	16%	1%	1
January	1%	15%	62%	22%	0%	3
Margin Adjustments						
November	3%	19%	63%	16%	0%	-4
December	1%	14%	61%	22%	2%	5
January	2%	12%	66%	20%	1%	3
Sales Levels						
November	3%	18%	47%	31%	1%	5
December	1%	22%	44%	29%	4%	6
January	4%	13%	45%	34%	3%	9

Special Question: Out of every 20 price changes you make, roughly how many are adjustments of less than 1 percent?

Number of responses	0	1—2	3—5	6—10	11—15	16—20	N/A
161	35%	14%	13%	15%	6%	9%	9%

**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.

Note: Percentages may not add up to 100 percent because of rounding.

Full historical survey results dating from October 2011 will be posted January 27 with the launch of the BIE website.