BIE | September 2012

Atlanta Fed Survey of Business Inflation Expectations

FEDERAL RESERVE BANK of ATLANTA

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The inflation expectations of businesses in the Southeast for the coming year was 1.7 percent in September, down from 1.9 percent in August, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted September 10–14 with 192 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% ⬇ from 1.9% in August	Survey respondents indicated that, on average, they expect unit costs to rise 1.7 percent over the next 12 months. That number is down slightly from 1.9 percent in August and is a bit below recent year-ahead inflation forecasts of private economists. Inflation uncertainty declined by 0.2 percentage point to 2.6 percent in September. Firms reported that their unit costs rose 1.3 percent compared to this time last year, which is 0.3 percentage point lower than their assessment in August.

FACTORS INFLUENCING PRICE CHANGES

According to the businesses surveyed, firms continue to operate in an environment of below normal sales levels and profit margins, however, both showed improvement in September. Projecting ahead, firms continue to anticipate little or moderate upward pressure coming from input costs over the next 12 months. Businesses' expectations for the price influence from both labor and non-labor costs over the next year held roughly steady in September. Respondents also anticipate that margin adjustments and sales levels are likely to have a small upward influence on the prices they charge in the coming year.

SPECIAL QUESTION

This month, the Atlanta Fed asked businesses a special question aimed at gauging how much current sales levels differ from "normal" times. On average, firms see sales levels as about 7.6 percent below normal, though their assessment of current performance varied widely by the size of the firm. Firms with fewer than 500 employees reported that current sales levels were roughly 9.6 percent below normal. That gap is nearly twice as large as the 4.9 percent below normal figure reported by larger firms (500-plus employees).

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*
July	16%	39%	30%	14%	2%	-27
August	17%	38%	31%	13%	2%	-28
September	12%	38%	35%	15%	1%	-23

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion Index*
July	15%	39%	39%	7%	0%	-30
August	17%	42%	31%	10%	0%	-33
September	13%	41%	34%	11%	1%	-28

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
July	6%	28%	54%	10%	3%	1.5%
August	5%	26%	57%	8%	5%	1.6%
September	10%	29%	50%	10%	2%	1.3%

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						
July	0%	3%	46%	46%	5%	27
August	2%	0%	40%	54%	4%	29
September	0%	2%	42%	50%	6%	29
Non-Labor Costs						
July	0%	3%	30%	54%	12%	38
August	0%	2%	26%	58%	14%	42
September	0%	2%	24%	60%	14%	43
Productivity						
July	0%	20%	69%	9%	1%	-4
August	0%	19%	64%	16%	1%	-1
September	1%	18%	65%	15%	1%	-1
Margin Adjustments						
July	1%	11%	62%	25%	2%	8
August	2%	15%	55%	26%	1%	5
September	2%	13%	57%	28%	0%	6
Sales Levels						
July	1%	21%	49%	26%	2%	3
August	4%	21%	42%	29%	4%	5
September	1%	21%	43%	34%	2%	8

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
July	8%	31%	38%	14%	9%	**1.7%**	1.6%	1.5%	2.8%
August	8%	27%	38%	18%	9%	**1.9%**	1.8%	1.8%	2.8%
September	8%	29%	40%	16%	7%	**1.7%**	1.7%	1.6%	2.6%

Special Question:	By roughly what percent are your sales levels, above/below "normal"?	
Number of responses	Firm Size	Average
92	Small (1–99 employees)	-9.6%
43	Medium (100–499 employees)	-9.6%
49	Large (500-plus employees)	-4.9%
184	**Total (weighted by industry share of GDP)**	**-7.6%**

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.