

# BIE | June 2012


Atlanta Fed Survey of Business Inflation Expectations



For immediate release: June 22, 2012

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The inflation expectations of businesses in the Southeast for the coming year moderated to 1.7 percent in June, down from 1.8 percent in May, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted June 11–15 with 167 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>1.7%</b>  from 1.8% in May	Survey respondents indicated that, on average, they expect unit costs to rise 1.7 percent over the next 12 months. That number is down from 1.8 percent in May and below recent year-ahead inflation forecasts of private economists. Inflation uncertainty was unchanged at 2.9 percent in June. Firms also reported that their unit costs had risen 1.6 percent compared to this time last year, which is unchanged from their assessment in May.

FACTORS INFLUENCING PRICE CHANGES
According to the businesses surveyed, firms continue to operate in an environment of below normal sales levels and profit margins—though both sales and margins improved in June. Projecting ahead, firms continue to anticipate little or moderate upward pressure coming from input costs over the next 12 months. Businesses' expectations for both labor and non-labor costs over the next year declined for the second consecutive month in June. Just 32 percent of firms expect moderate or strong upward price influence from sales in the coming year, the smallest percentage since November 2011. Respondents also anticipate that margin adjustments are likely to have a modest upward influence on the prices they charge in the coming year.

SPECIAL QUESTION
Each month the Atlanta Fed's BIE survey asks businesses to estimate the impact of various influences on their prices over the coming 12 months. This month's special question aims to gauge the impact of those same factors over the previous 12 months. Respondents estimated that, on balance, margin adjustments had a negligible influence on prices over the past year, a contrast with their expectation that margin adjustments may increase prices slightly over the coming year. Labor costs are likely to have a larger upward influence on prices in the coming year than they did in the past 12 months, according to respondents, whereas firms largely anticipate similar cost pressure from non-labor costs over the next 12 months as they experienced in the past year.

**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*
April	17%	36%	27%	18%	2%	-23
May	17%	37%	30%	14%	2%	-27
June	16%	34%	33%	16%	2%	-23

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

	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion Index*
April	19%	36%	36%	9%	0%	-32
May	18%	37%	32%	13%	0%	-30
June	12%	35%	42%	11%	1%	-23

**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
April	3%	24%	56%	12%	6%	1.9%
May	8%	22%	54%	12%	4%	1.6%
June	8%	26%	51%	11%	4%	1.6%

**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>						
April	0%	1%	43%	52%	4%	29
May	0%	1%	42%	49%	8%	32
June	0%	1%	42%	54%	4%	30
<b>Non-Labor Costs</b>						
April	0%	0%	24%	57%	18%	47
May	0%	3%	29%	60%	9%	38
June	0%	4%	29%	60%	7%	35
<b>Productivity</b>						
April	0%	15%	66%	16%	2%	2
May	1%	18%	64%	16%	1%	-1
June	1%	17%	68%	14%	1%	-2
<b>Margin Adjustments</b>						
April	2%	13%	57%	26%	2%	6
May	1%	16%	52%	31%	1%	7
June	2%	14%	53%	30%	1%	7
<b>Sales Levels</b>						
April	1%	19%	46%	32%	2%	7
May	3%	13%	41%	38%	4%	14
June	3%	18%	48%	30%	2%	5

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
April	5%	27%	37%	20%	10%	2.1	2.0	2.0	2.7
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

Special Question:	Looking back over the LAST 12 months, how do you think the following five common influences have affected the prices of your products and/or services?						
	Number of responses	Strong downward influence	Moderate downward influence	Little/no influence	Moderate upward influence	Strong upward influence	Diffusion Index†
Labor Costs	155	0%	2%	52%	41%	4%	24
Non-Labor Costs	155	0%	6%	30%	53%	11%	34
Productivity	154	1%	14%	67%	18%	1%	2
Margin Adjustments	154	3%	19%	55%	21%	2%	1
Sales Levels	155	4%	20%	45%	27%	4%	4

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.