Survey of Business Uncertainty

Monthly Report: April 2024
Based on survey responses from 8-19 April 2024

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Headline Results
April 2024 Survey of Business Uncertainty

1. Sales revenue growth expectations have returned to their pre-pandemic average. (Slides 4)
2. But firms remain more uncertain about future sales growth than before the pandemic. (Slide 4)
3. A 10 percentage-point positive (negative) surprise to firm-level sales growth over the next 12 months would lead firms to revise up (down) their employment forecasts by 4.7 percent. (slide 7)
About the Survey

The Survey of Business Uncertainty (SBU) is fielded each month by the Federal Reserve Bank of Atlanta. It is designed, tested, and refined in cooperation with Nick Bloom of Stanford University and Steven Davis of the Hoover Institution and the University of Chicago Booth School of Business. Bloom and Davis received research support from the Sloan Foundation and the U.S. National Science Foundation to support their work on this project. Davis also received research support from Chicago Booth.

The SBU questionnaire goes to about 1500 panel members, who occupy senior finance and managerial positions at U.S. firms. We contact panel members each month by email, and they respond via a web-based instrument.

Survey questions pertain to current, past, and future outcomes at the respondent’s firm. Our primary objective is to elicit the respondent’s subjective forecast distributions over own-firm future sales growth rates and employment levels. We also ask special questions on timely topics.

For more information on survey design and methodology, please refer to the resources on the SBU page and “Surveying Business Uncertainty,” published in the Journal of Econometrics and also available as NBER Working Paper 25956.
Nominal sales growth has slowed considerably over the past two years. Recent employment growth is in line with pre-pandemic growth.

NOTE: Calculated using monthly data through April 2024. Realized growth rate series for sales revenue and employment are activity-weighted averages of firms’ reported (look-back) growth rates over the past year (specifically, the previous four quarters for sales revenue and previous 12 months for employment).

NOTE: The chart shows smoothed series.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see “Surveying Business Uncertainty” by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer, and Nick Parker, NBER Working Paper No. 25956, February 2020.
Sales revenue growth expectations have returned to their pre-pandemic average. However, firms remain more uncertain about future revenue growth than they were before the pandemic.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see “Surveying Business Uncertainty” by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer, and Nick Parker, NBER Working Paper No. 25956, February 2020.

NOTE: The charts show smoothed series.
Expected employment growth has improved in recent months. Uncertainty about employment growth has returned to pre-pandemic levels.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see “Surveying Business Uncertainty” by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer, and Nick Parker, NBER Working Paper No. 25956, February 2020.
The distribution of sales growth rates across firms remains wider than before the pandemic.

NOTES: Calculated using monthly data through April 2024. The chart shows smoothed series. Lines show percentiles of the activity-weighted distribution of firm-level sales growth rates over the past year.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business.
A 10 percentage-point positive (negative) surprise to firm-level sales growth over the next 12 months would lead firms to revise up (down) their employment forecasts by 4.7 percent.

Notes: Q1: How many employees would you expect 12 months from now if your firm’s sales growth rate is X percentage points lower/higher than you currently expect?
X = -20,-15,-10,-5,5,10,15 or 20, randomized.
Q2: As in Q1, but switching the sign of X.
Our core survey questions yield current and baseline expected employment values for each firm 12 months hence. We combine these values with responses to Q1 and Q2 to compute the “Firm-level employment growth rate response” on the vertical scale.
Sample size: 1668 responses for 834 firms in the February and March 2024 survey waves.
Results are weighted by firm size.
SBU Panelists view the strength of the economy, inflation, labor availability, and monetary policy as the top sources of uncertainty.

Question: From the list below, please select up to three sources of uncertainty that have the potential to affect your firm’s decision making. Rank the sources of uncertainty from 1 to 3, with "1" being the most important.

Note: Responses were collected between 12-23 February 2024 and 11-22 March 2024. Responses are equally weighted.
Appendix: Technical Information

Computing Moments of the Firm-Level Subjective Forecast Distributions

We calculate first and second moments of the subjective growth rate distributions of employment and sales revenue over the next 12 months or four quarters, as appropriate. Following standard practice in the literature on business-level dynamics, we calculate the growth rate of \( x \) from \( t-1 \) to \( t \) as \( g_t = 2(x_t - x_{t-1})(x_t + x_{t-1}) \).

**Employment**

\( EEmp = \text{firm's current employment level, as reported by the respondent} \)

\( FEmp = \text{employment 12 months hence in scenario } i, \text{ for } i = 1, 2, 3, 4, 5 \)

\( p_i = \text{the associated probabilities, } i = 1, 2, 3, 4, 5 \)

**Scenario-Specific Growth Rates**

\( EGr_t = 2(EEPmp - CEMP)/FEMPmp + CEMP, \text{ } i = 1, 2, 3, 4, 5 \)

**First and Second Moments of the Subjective Growth Rate Forecast Distribution**

\[\text{Mean}(EGr) = \sum_{t=1}^{5} p_i \cdot EGr_t\]

\[\text{Var}(EGr) = \sum_{t=1}^{5} p_i \cdot (EGr_t - \text{Mean}(EGr))^2\]

\[\text{SD}(EGr) = \sqrt{\text{Var}(EGr)}\]

**Sales Revenue**

\( CSales = \text{firm's sales revenue in the current quarter, as reported by the respondent} \)

\( FSalesGr_t = \text{respondent's scenario-specific sales growth rate from now to four quarters hence, } i = 1, 2, 3, 4, 5 \)

\( p_i = \text{the associated probabilities, } i = 1, 2, 3, 4, 5 \)

**Implied Future Sales Level**

\[FSales_t = \left(\frac{1 + \text{FSalesGr}_t}{100}\right) \cdot CSales, \text{ } i = 1, 2, 3, 4, 5\]

**Scenario-Specific Growth Rates (re-expressing respondent growth rates to our growth rate measure)**

\( SalesGr_t = 2(FSales_t - CSales)/(FSales_t + CSales) = 2FSalesGr_t/(FSalesGr_t + 2), \text{ } i = 1, 2, 3, 4, 5\)

**First and Second Moments of the Subjective Growth Rate Forecast Distribution**

\[\text{Mean}(SalesGr) = \sum_{t=1}^{5} p_i \cdot SalesGr_t\]

\[\text{Var}(SalesGr) = \sum_{t=1}^{5} p_i \cdot (SalesGr_t - \text{Mean}(SalesGr))^2\]

\[\text{SD}(SalesGr) = \sqrt{\text{Var}(SalesGr)}\]

We construct a monthly activity-weighted expectations (first-moment) index for employment growth and sales growth looking one year ahead. We also construct a monthly activity-weighted uncertainty (second-moment) index for employment growth and sales growth looking one year ahead.

- In month \( t \), the index for employment (sales) takes a value equal to the activity-weighted average of subjective mean employment (sales) growth rates looking one year hence (\( \text{Mean}(EGr) \)), averaging across all firms responding that month.
- We compute these subjective mean growth rates as described on slide 3, and winsorize them at the first and 99th percentiles before using them to construct the index.
- We use the subjective standard deviations across firms to calculate the standard deviation of the subjective mean employment (sales) growth rates index.

**Subjective Expectations and Uncertainty Indices**

The month-\( t \)-index of subjective uncertainty for employment (sales) growth is the activity-weighted mean of (SD (\( EGr menneske )) values across firms responding in month \( t \). We compute these subjective standard deviations over growth rates as described on slide 3, and winsorize them at the first and 99th percentiles before inputting them into the index construction formula.

- When constructing first- and second-moment employment growth indexes, we weight firm i's subjective mean growth rate expectation and uncertainty by the average of its month-\( t \)-employment (\( CEMP_t \)) and its expected employment level (\( EEmp_t \)). We top-code these weights at 500 to diminish the influence of outliers among very large firms.
- When constructing first- and second-moment sales revenue growth indexes, we weight firm i's subjective mean growth rate expectation and uncertainty by the average of its month-\( t \)-sales revenue (\( CSales_t \)) and its expected sales level (\( ESales_t \)). We winsorize these activity-weights at the 1st and 80th percentiles.

Finally, we smooth our topic-specific indices by taking a moving average. We set the window for the moving average to 2 or 3 months, to match the panel structure of our survey.

**Topic-specific Expected Excess Reallocation Indices**

We construct forward-looking indices of excess job and sales revenue reallocation. These series measure the volume of cross-firm reallocation in economic activity above the reallocation required to support aggregate growth. For ease of exposition, we often refer to these as simply “reallocation rates”.

- First, in each month \( t \), we compute the activity-weighted average of own-firm expected gross job creation and destruction rates, which boils down to the activity-weighted average of the absolute value of subjective mean growth rates (\( |\text{Mean}(EGr) \)|).
- Then, in each month \( t \), we compute the absolute value of the activity-weighted average of own-firm expected employment growth (\( \text{Mean}(EGr) \)). This is effectively the absolute value of the employment growth expectations index in month \( t \).
- We take the expected job reallocation rate index value for month \( t \) by subtracting the outcome of the second bullet from the first. Letting \( w_t \) be firm \( i \)'s activity weight in month \( t \),

\[\text{Expected Job Reallocation Rate}_t = \sum_{t=1}^{5} w_t \cdot |\text{Mean}(EGr) | - \sum_{t=1}^{5} w_t \cdot |\text{Mean}(EGr) |\]

- Analogously, the expected sales revenue reallocation rate index in month \( t \) is the difference between the activity-weighted average of absolute expected sales growth rates, minus the absolute value of the average activity-weighted growth rate:

\[\text{Expected Reallocation Rate For Sales Revenue}_t = \sum_{t=1}^{5} w_t \cdot |\text{Mean}(SalesGr) | - \sum_{t=1}^{5} w_t \cdot |\text{Mean}(SalesGr) |\]

- We compute the subjective mean growth rates (\( \text{Mean}(EGr) \)) and (\( \text{Mean}(SalesGr) \)) as described on slides 18-21, and winsorize them at the 1st and 99th percentiles before using them to construct the index.
- Firm i’s activity weight \( w_t \) is the average of its month-\( t \)-employment or sales level (\( CEMP_t \) or \( CSales_t \)) and its expected employment or sales level twelve months hence (\( EEmp_t \) or \( ESales_t \)). We top-code these weights at 500 for employment and at the 80th percentile for sales to diminish the influence of outliers among very large firms.
NOTES: Calculated using monthly data through April 2024. The charts show smoothed series. This is a plot of the subjective distribution for the representative firm’s future sales growth rates over a 4-quarter look-ahead horizon. To calculate this distribution, we pool over all firm-level subjective forecast distributions in the indicated month and weight each firm by its activity level. Then we use the probabilities assigned to each possible future sales growth rate to obtain activity-weighted quantiles of the future sales growth rate distribution.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business.
Appendix: Histogram of survey response frequency for the April 2024 survey wave

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business.