

BIE | August 2013



Atlanta Fed Survey of Business Inflation Expectations

For immediate release: August 14, 2013

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

The year-ahead inflation expectations of businesses **rose to 2.0 percent in August**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted August 5-9 with 212 firms responding to questions about their business conditions, inflation outlook, and potential pricing pressures. The results are summarized below.

Year-ahead inflation expectations and current conditions

Respondents indicated that, on average, they expect unit costs to rise 2.0 percent over the next 12 months, roughly in line with the recent year-ahead inflation forecasts of private economists. Inflation uncertainty declined to 2.3 percent in August from 2.5 percent in July. Firms also report that, compared to this time last year, their unit costs are up 1.7 percent. Sales levels improved in August, with 53 percent of respondents now saying their current sales levels are at or above normal compared to 50 percent in July. Profit margins declined slightly from the July reading, with just 45 percent of respondents indicating their profit margins are at or above normal.

Quarterly question: Factors influencing price change

Sixty-five percent of respondents (the same percentage as in May, which was a series high) expect labor costs to have a moderate to strong upward influence on prices over the coming year while expectations for the influence of non-labor costs have declined continuously since last February's measure. Eighteen percent of respondents expect productivity to put moderate to strong upward pressure on prices over the coming year while the majority of respondents expect margin adjustments to have little or no influence. Thirty-seven percent of respondents expect sales levels to put moderate to strong upward pressure on prices in the year ahead.

Special question: 2015 federal funds rate projections

The special question asked panel members to assign probabilities to various ranges for the federal funds rate at the end of 2015. Fifty percent of respondents indicated that they expect the fed funds rate to be between 0.5 and 1 percent, while 40 percent of respondents expected it to be greater than 1 percent but less than 1.5 percent. The remaining 10 percent of respondents expect the federal funds rate to be either less than 0.5 percent (2 percent of respondents) or greater than 1.5 percent (8 percent of respondents) at the end of 2015.

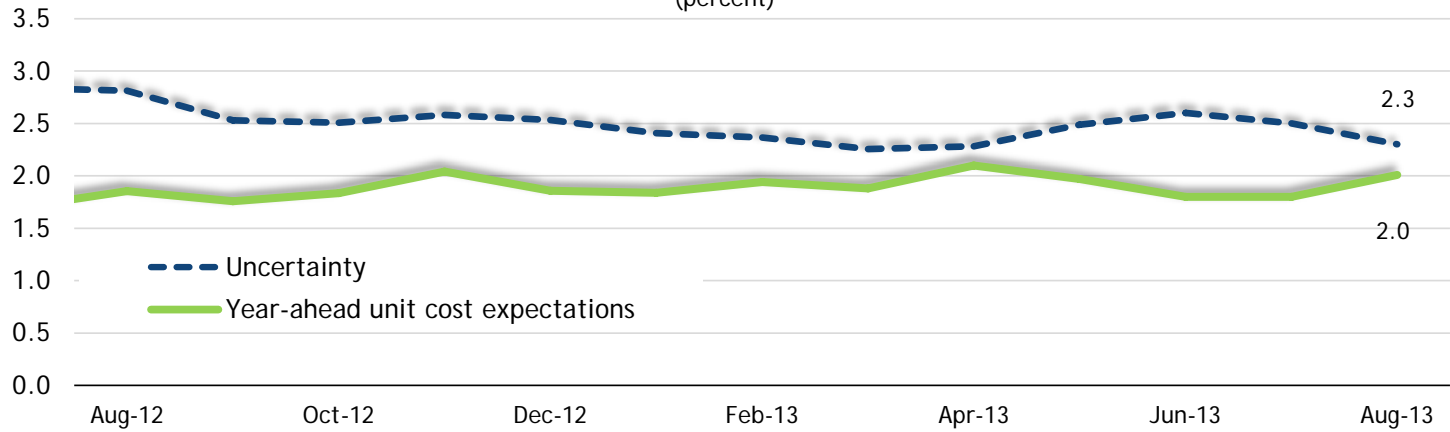
Please see page 3 for a breakdown of the results.



Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

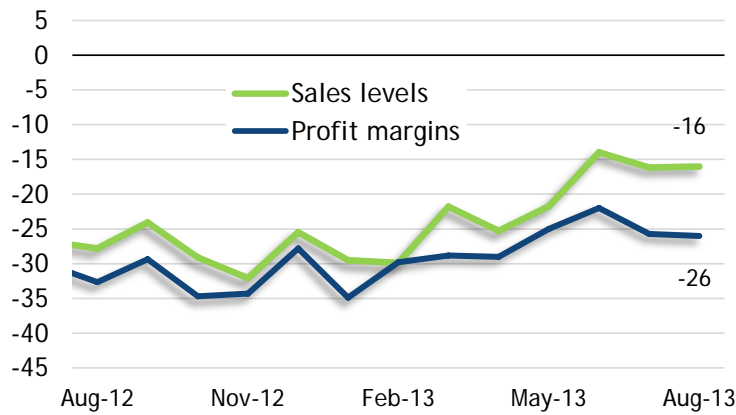
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

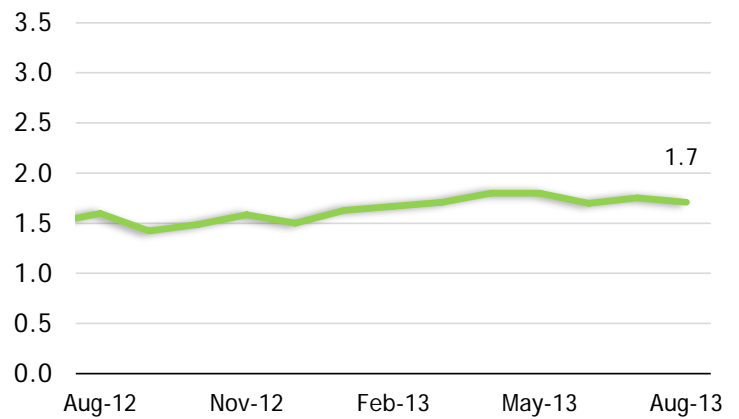
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

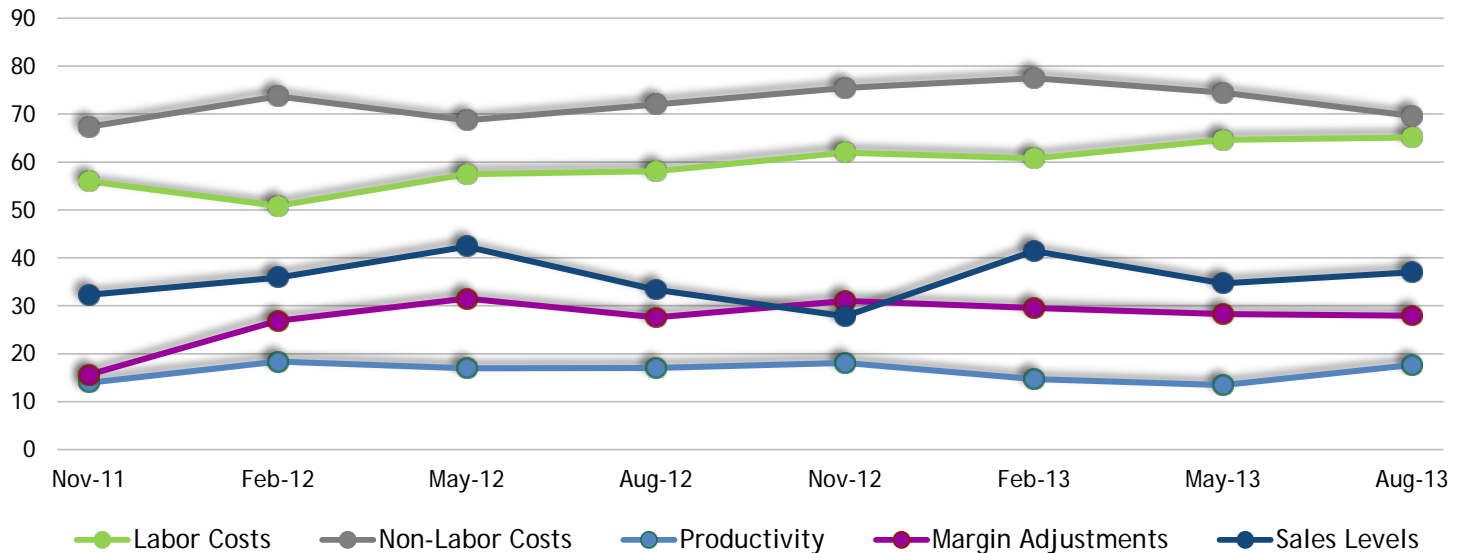


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

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?

(percentage of respondents indicating moderate to strong upward pressure)

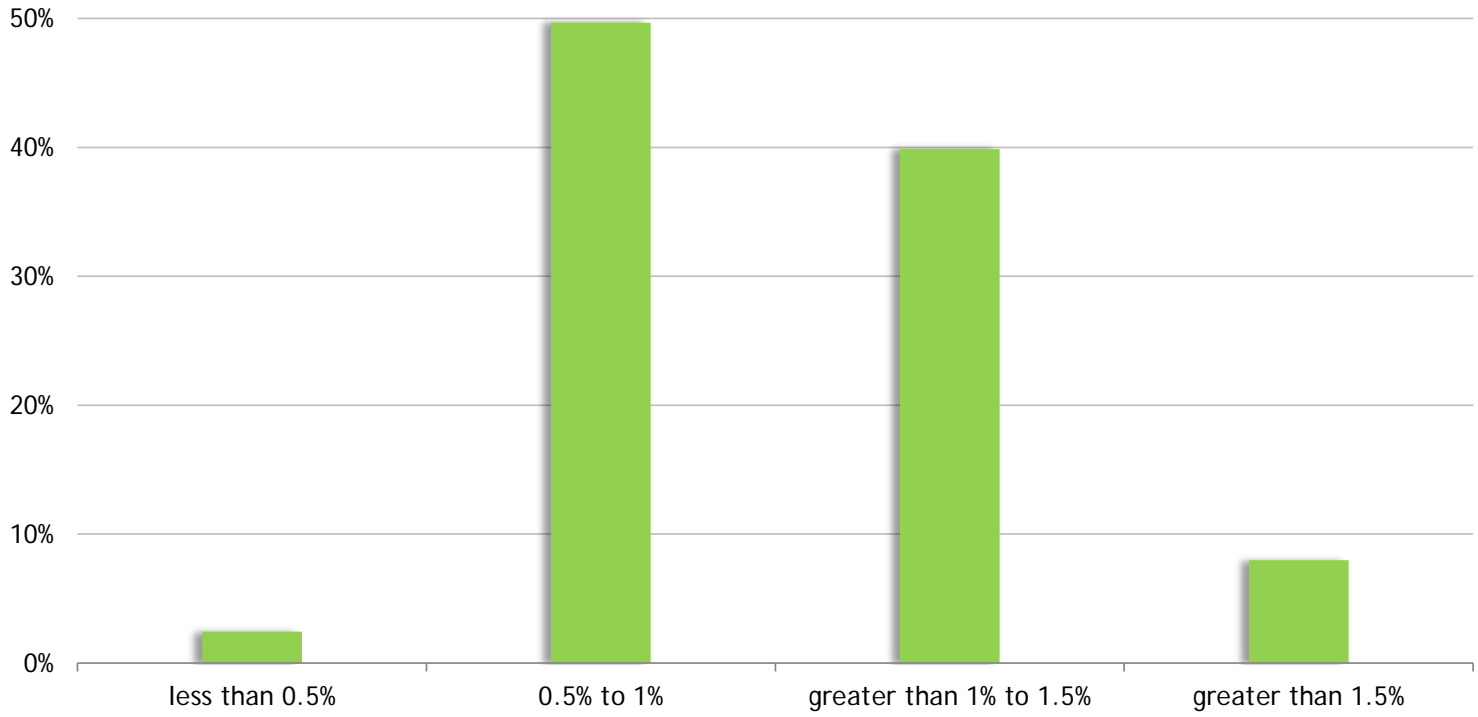


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Year-end 2015 Federal Funds Rate Projections

percentage of responses



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*
June	11%	32%	31%	24%	1%	-14
July	13%	37%	29%	21%	0%	-21
August	11%	36%	30%	20%	3%	-16

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
June	10%	40%	36%	12%	1%	-22
July	8%	46%	33%	13%	0%	-24
August	10%	45%	33%	10%	2%	-26

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%)	Mean
June	5%	22%	60%	12%	2%	1.7%
July	5%	23%	58%	9%	5%	1.8%
August	6%	25%	51%	14%	4%	1.7%

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%)	Mean (Variance)
June	8%	28%	39%	17%	8%	1.8% (2.6%)
July	7%	26%	42%	17%	8%	1.8% (2.5%)
August	5%	25%	42%	20%	8%	2.0% (2.3%)

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						
February	0%	1%	38%	55%	5%	33
May	0%	1%	35%	56%	9%	37
August	0%	1%	34%	57%	8%	36
Non-Labor Costs						
February	0%	2%	21%	69%	9%	42
May	0%	1%	25%	63%	11%	42
August	0%	1%	29%	58%	12%	40
Productivity						
February	0%	11%	74%	13%	2%	2
May	1%	16%	70%	13%	0%	-2
August	0%	19%	63%	16%	2%	0
Margin Adjustments						
February	4%	11%	56%	30%	0%	6
May	2%	12%	58%	25%	3%	8
August	1%	11%	60%	26%	2%	8
Sales Levels						
February	2%	8%	48%	38%	3%	16
May	1%	11%	53%	33%	2%	12
August	1%	16%	46%	34%	3%	11

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.