

BIE | October 2013



Atlanta Fed Survey of Business Inflation Expectations

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

The year-ahead inflation expectations of businesses **were 1.9 percent in October**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted October 7-11 with 216 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 1.9 percent over the next 12 months, roughly in line with the recent year-ahead inflation forecasts of private economists. Inflation uncertainty was unchanged at 2.4 percent in October. Firms also report that, compared to this time last year, their unit costs are up 1.7 percent. Sales levels declined in October, with roughly 46 percent of respondents saying their current sales levels are at or above normal compared to 52 percent in September. Profit margins also declined, with only 41 percent of respondents indicating their profit margins are at or above normal, compared to 49 percent in September.

Quarterly question: Long-term inflation expectations

Over the long term, that is, per year over the next five to 10 years, respondents expect unit costs to increase 2.7 percent, on average, virtually unchanged from the July reading of 2.8 percent, but the lowest measure to date. Respondents' uncertainty regarding this expectation was 2.4 percent.

Special question: Year-ahead unit sales level growth expectations

The special question was also asked in November 2012 and April 2013. On average, respondents' year-ahead unit sales level growth expectations were virtually unchanged at 1.9 percent in October from 1.8 percent in April. However, year-ahead sales level growth expectations have improved considerably since the November 2012 mean expectation of 1.2 percent.

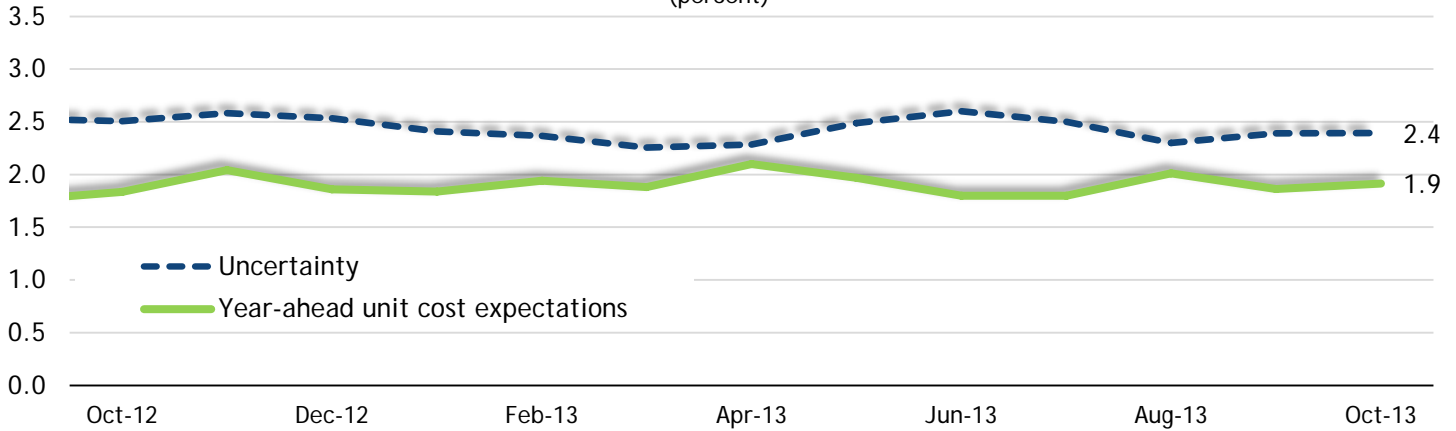
Please see page 3 for a breakdown of the results.



Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

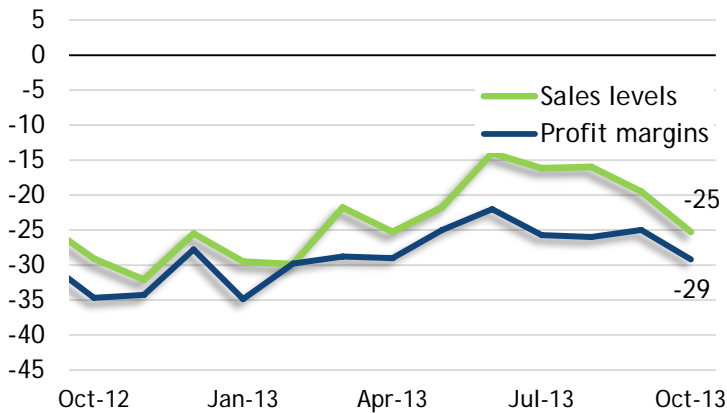
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

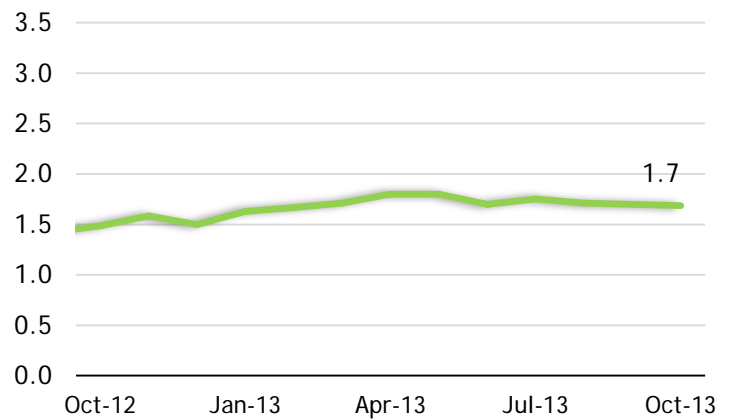
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

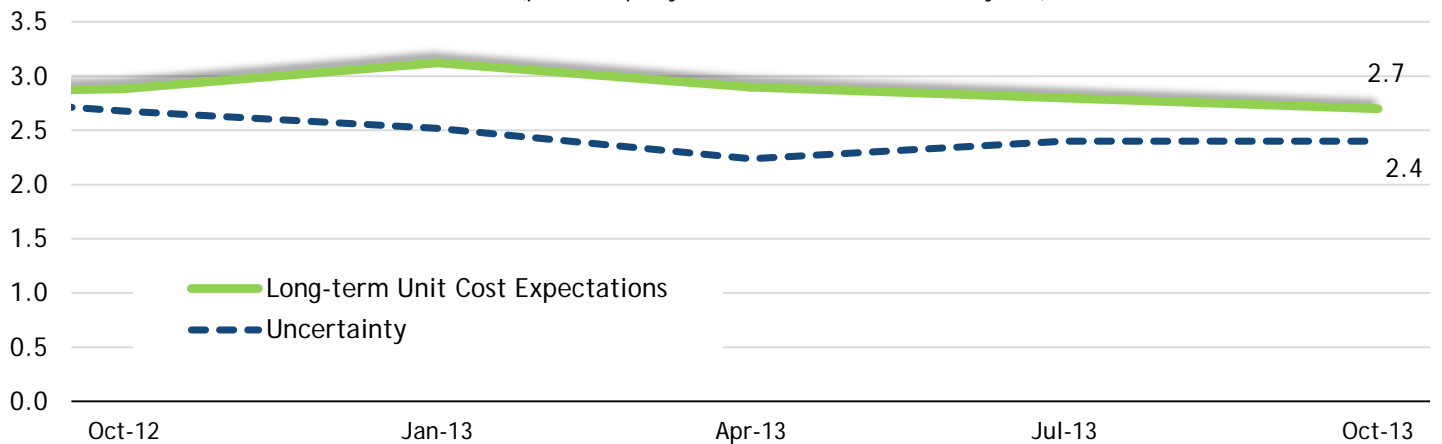


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Long-Term Inflation Expectations and Uncertainty

(percent, per year over the next five to 10 years)

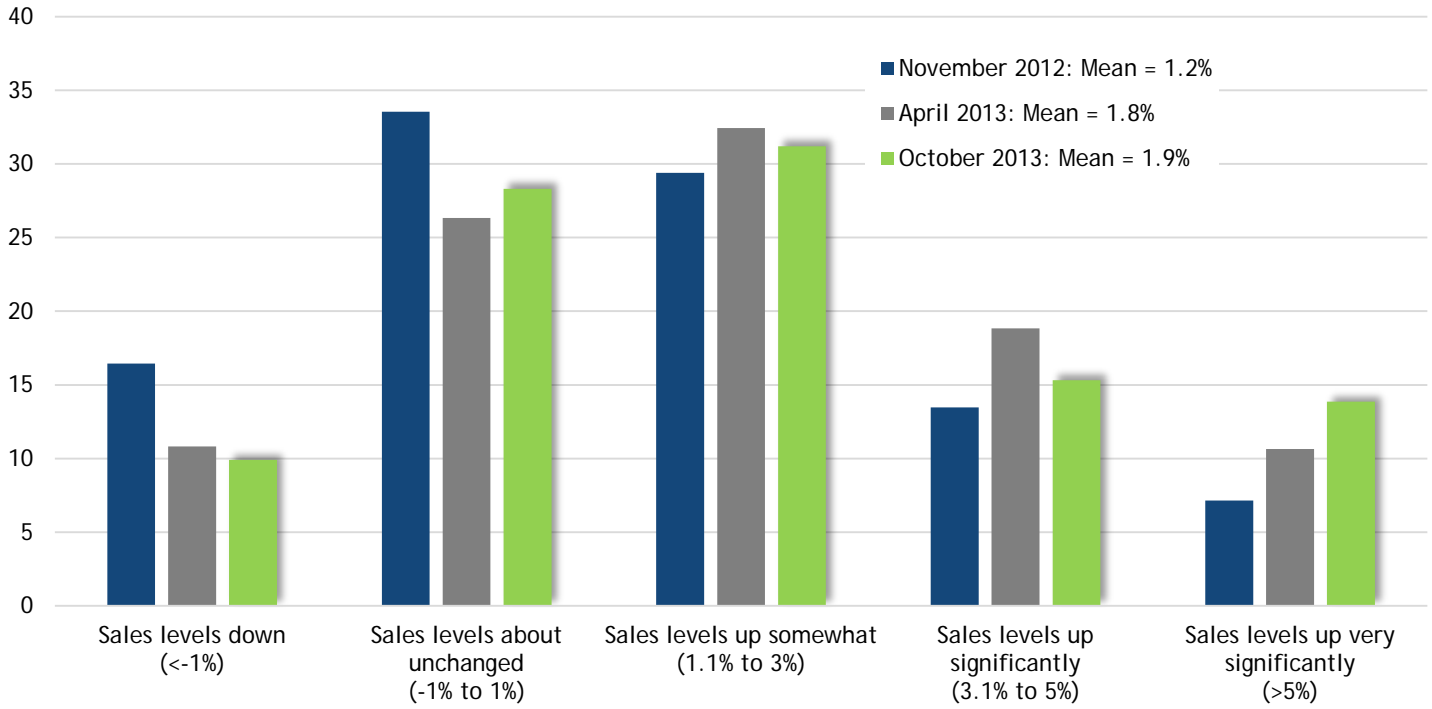


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Subjective Year-Ahead Unit Sales Level Growth Probabilities

(mean percent probability for each outcome)



| 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* |
| August | 11% | 36% | 30% | 20% | 3% | -16 |
| September | 12% | 36% | 33% | 18% | 1% | -20 |
| October | 15% | 38% | 30% | 16% | 0% | -25 |

| How do your current PROFIT MARGINS compare with "normal" times? | | | | | | |
|---|-----------|---------------|--------------|------------------|--------------|------------------|
| | Much less | Somewhat less | About normal | Somewhat greater | Much greater | Diffusion index* |
| August | 10% | 45% | 33% | 10% | 2% | -26 |
| September | 12% | 39% | 36% | 13% | 0% | -25 |
| October | 14% | 45% | 27% | 14% | 0% | -29 |

| 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 |
| August | 6% | 25% | 51% | 14% | 4% | 1.7% |
| September | 5% | 26% | 55% | 11% | 4% | 1.7% |
| October | 6% | 23% | 56% | 12% | 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) |
| August | 5% | 25% | 42% | 20% | 8% | 2.0% (2.3%) |
| September | 6% | 27% | 41% | 17% | 8% | 1.9% (2.4%) |
| October | 7% | 26% | 41% | 18% | 8% | 1.9% (2.4%) |

| Quarterly Question: Projecting ahead, to the best of your ability, please assign a percent likelihood to the following changes to unit costs per year over the next FIVE TO 10 years. | | | | | | |
|---|------------------------|--|-------------------------------------|--|--|-------------|
| Month (number of responses) | Unit costs down (<-1%) | Unit costs about unchanged (-1% to 1%) | Unit costs up somewhat (1.1% to 3%) | Unit costs up significantly (3.1% to 5%) | Unit costs up very significantly (>5%) | Mean |
| February (89) | 4% | 11% | 38% | 29% | 17% | 2.9% (2.8%) |
| April (152) | 4% | 12% | 36% | 30% | 18% | 3.0% (2.6%) |
| July (153) | 4% | 15% | 36% | 26% | 19% | 2.8% (2.9%) |
| October (196) | 4% | 13% | 36% | 30% | 17% | 2.9% (2.7%) |
| January (196) | 3% | 12% | 32% | 28% | 23% | 3.0% (2.5%) |
| April (189) | 4% | 12% | 38% | 26% | 20% | 2.9% (2.2%) |
| July (209) | 4% | 14% | 37% | 28% | 15% | 2.8% (2.4%) |
| October (216) | 4% | 15% | 45% | 26% | 11% | 2.7% (2.4%) |

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.