

# BIE | November 2013



## Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses **were 1.9 percent in November**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted November 4-8 with 207 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. Inflation uncertainty was virtually unchanged at 2.3 percent in November. Firms also report that, compared to this time last year, their unit costs are up 1.6 percent. Sales levels were relatively unchanged in November, with roughly 44 percent of respondents saying their current sales levels are at or above normal compared to 46 percent in October. Profit margins also were unchanged, with only 41 percent of respondents indicating their profit margins are at or above normal.

### **Quarterly question: Factors influencing price change**

Sixty-five percent of respondents expect labor costs to put moderate or strong upward pressure on their prices over the next 12 months, a relatively large share of responses that has trended slightly upward. Respondents' expectations regarding the upward influence of non-labor costs on prices over the next 12 months have lessened, and at 66 percent they are now roughly equal to expectations for the upward influence of labor costs. Thirty-nine percent of respondents expect sales levels to put moderate or strong upward pressure on prices in the year ahead, a measure that has increased since May.

### **Special question: Year-ahead unit sales level growth expectations**

The special question was used to assess the full range over which panel members anticipate their sales levels could increase or decrease over the next 12 months. To elicit this range while also testing methods for asking such a question, two versions of the same question were randomly assigned. Version 1 asked respondents to provide their best, middle, and worst case unit sales change percentages under specified probability assumptions. Version 2 asked respondents to assign probabilities to a wide set of possible unit sales change outcomes. The results of these questions produced a similar mean year-ahead unit sales level growth expectation, 5.3 percent for the best/middle/worst version and 5.6 percent for the alternative version.

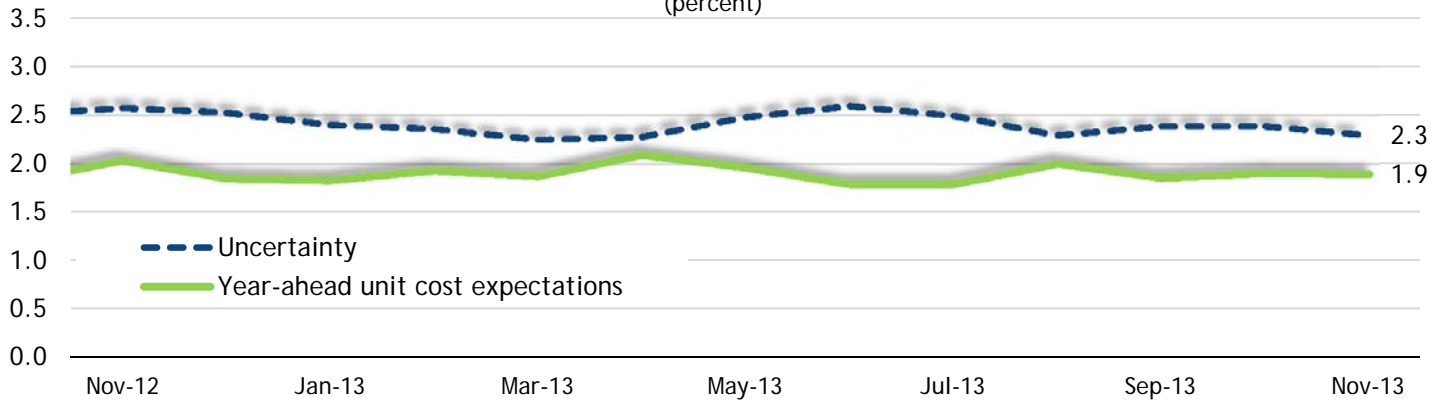
Please see page 3 for a breakdown of the results.



## Monthly Questions

### Year-Ahead Inflation Expectations and Uncertainty

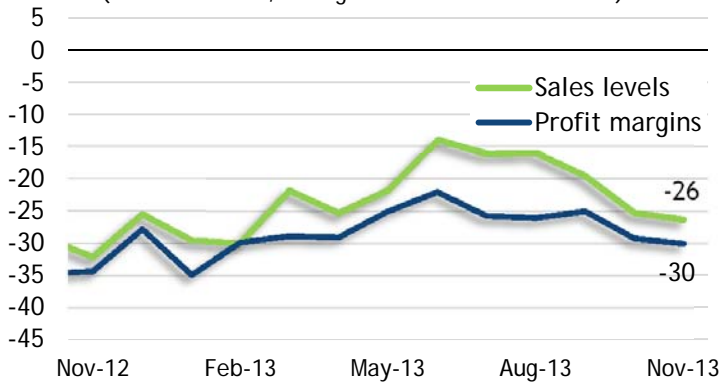
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

### Sales Levels and Profit Margins Compared to Normal Times

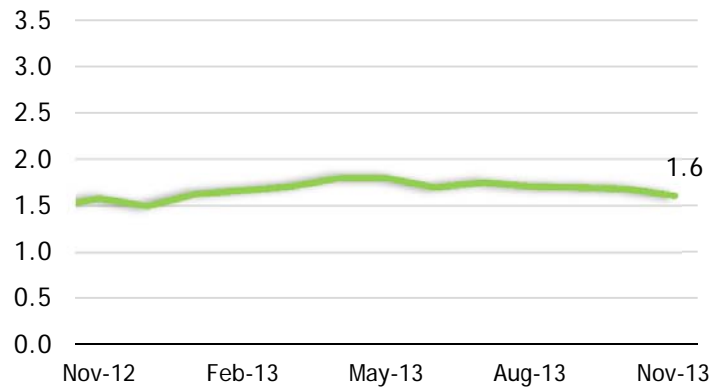
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

### Year-over-Year Unit Costs

(percent)

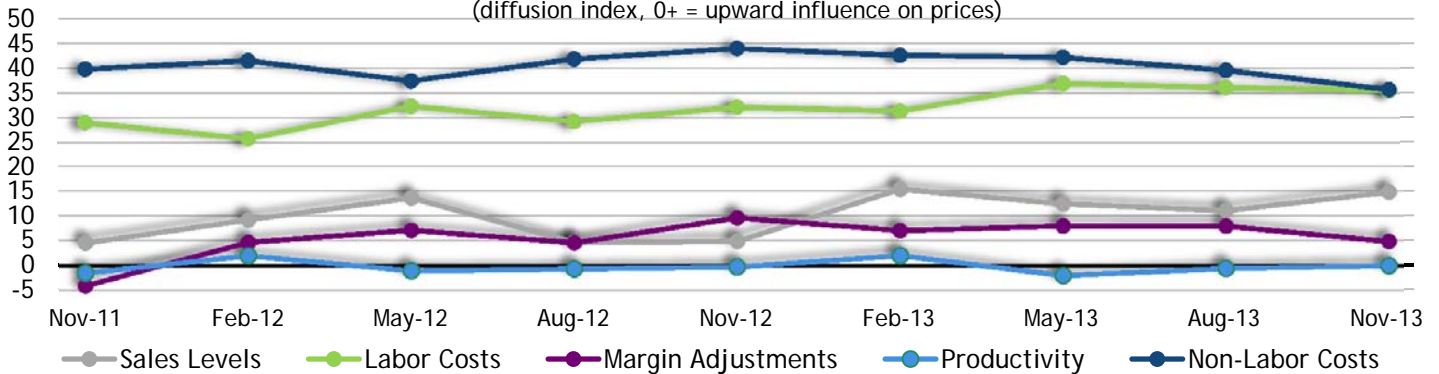


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

## 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?

(diffusion index, 0+ = upward influence on prices)



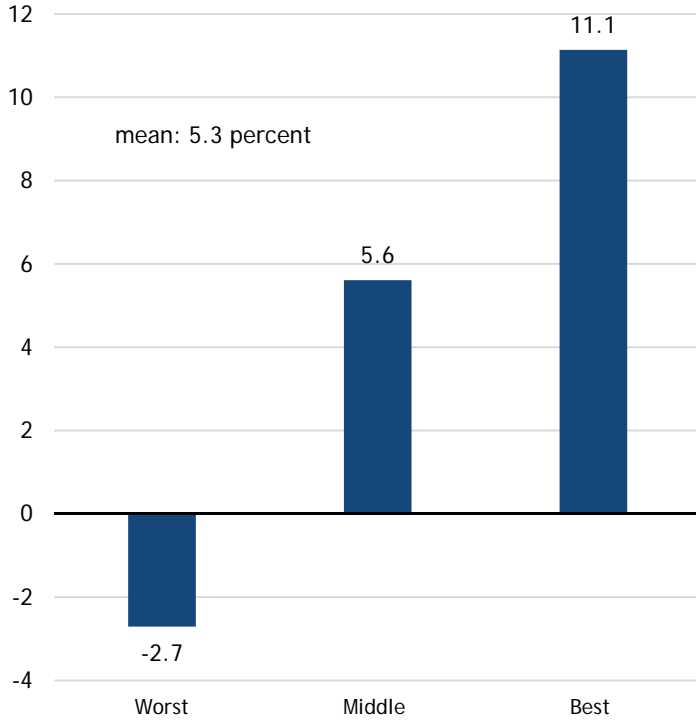
Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

# Special Question

## Version 1:

Projecting ahead over the next 12 months, please provide the best case, the middle case, and the worst case percentage change in your firm's unit sales levels.

(mean percent for given scenario)

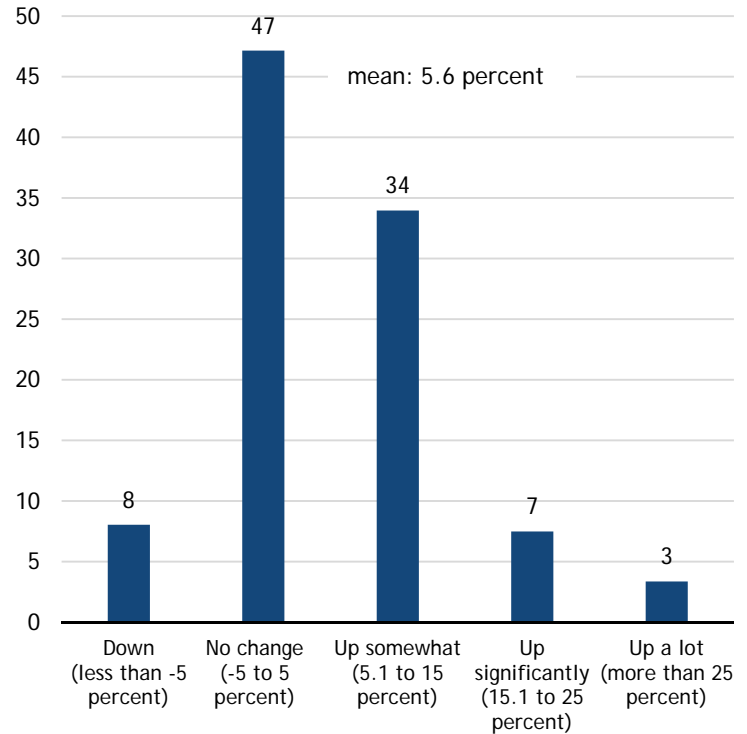


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

## Version 2:

Projecting ahead over the next 12 months, please assign a percent likelihood to the following changes to unit sales levels.

(mean probability assigned to given bin)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

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*
September	12%	36%	33%	18%	1%	-20
October	15%	38%	30%	16%	0%	-25
November	13%	43%	29%	15%	0%	-26

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
September	12%	39%	36%	13%	0%	-25
October	14%	45%	27%	14%	0%	-29
November	12%	46%	32%	9%	0%	-30

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
September	5%	26%	55%	11%	4%	1.7%
October	6%	23%	56%	12%	4%	1.7%
November	4%	28%	53%	12%	3%	1.6%

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)
September	6%	27%	41%	17%	8%	1.9% (2.4%)
October	7%	26%	41%	18%	8%	1.9% (2.4%)
November	5%	27%	42%	18%	7%	1.9% (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†
<b>Labor Costs</b>						
May	0%	1%	35%	56%	9%	37
August	0%	1%	34%	57%	8%	36
November	0%	2%	33%	55%	10%	35
<b>Non-Labor Costs</b>						
May	0%	1%	25%	63%	11%	42
August	0%	1%	29%	58%	12%	40
November	0%	6%	28%	59%	7%	34
<b>Productivity</b>						
May	1%	16%	70%	13%	0%	-2
August	0%	19%	63%	16%	2%	0
November	0%	19%	62%	16%	2%	0
<b>Margin Adjustments</b>						
May	2%	12%	58%	25%	3%	8
August	1%	11%	60%	26%	2%	8
November	1%	18%	52%	27%	2%	5
<b>Sales Levels</b>						
May	1%	11%	53%	33%	2%	12
August	1%	16%	46%	34%	3%	11
November	0%	13%	47%	36%	3%	15

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.