

BIE | December 2013



Atlanta Fed Survey of Business Inflation Expectations

For immediate release: December 20, 2013

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

The year-ahead inflation expectations of businesses **were 1.9 percent in December**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted December 9-13 with 203 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 unchanged at 2.3 percent in December. Firms also report that, compared to this time last year, their unit costs are up 1.8 percent. Respondents reported improved sales levels in December, with roughly 54 percent indicating their current sales levels are at or above normal compared to just 44 percent in November. Profit margins also improved somewhat, with 50 percent of respondents indicating their profit margins are at or above normal, compared to just 41 percent in November.

Quarterly question: Percent above/below normal unit sales levels

On average (weighted by industry share of GDP), respondents indicated that unit sales levels are approximately 4.8 percent below normal, an improvement from the September measure of 5.6 percent below normal.

Large firms' (500 or more employees) and small firms' (less than 100 employees) mean unit sales gap grew to 3.8 percent and 8.6 percent below normal in December from 2.5 percent and 7.4 percent below normal in September, respectively. However, midsize firms' (100-499 employees) unit sales level gap decreased from 6.6 percent below normal in September to 2.2 percent below normal in December.

Special question: Year-ahead unit cost change expectations

The question assessed the full range over which panel members anticipate their unit costs could change over the next 12 months. To elicit this range, respondents were asked to provide the best case, most likely, and worst case percentage unit cost change their firm could experience over the next 12 months.

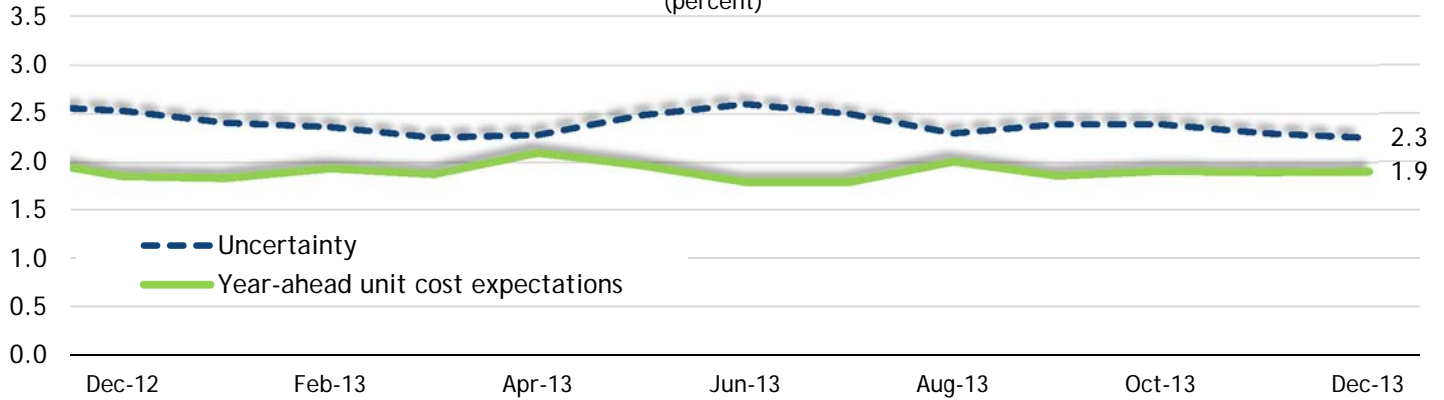
Please see page 3 for a breakdown of the results.



Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

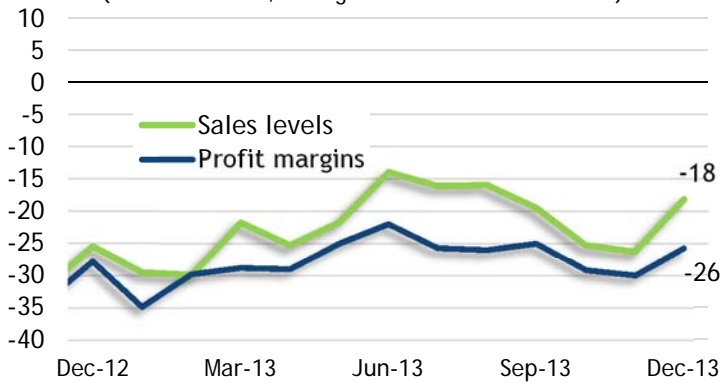
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

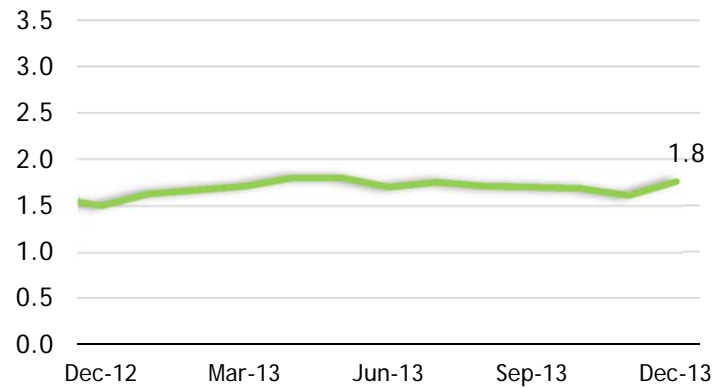
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

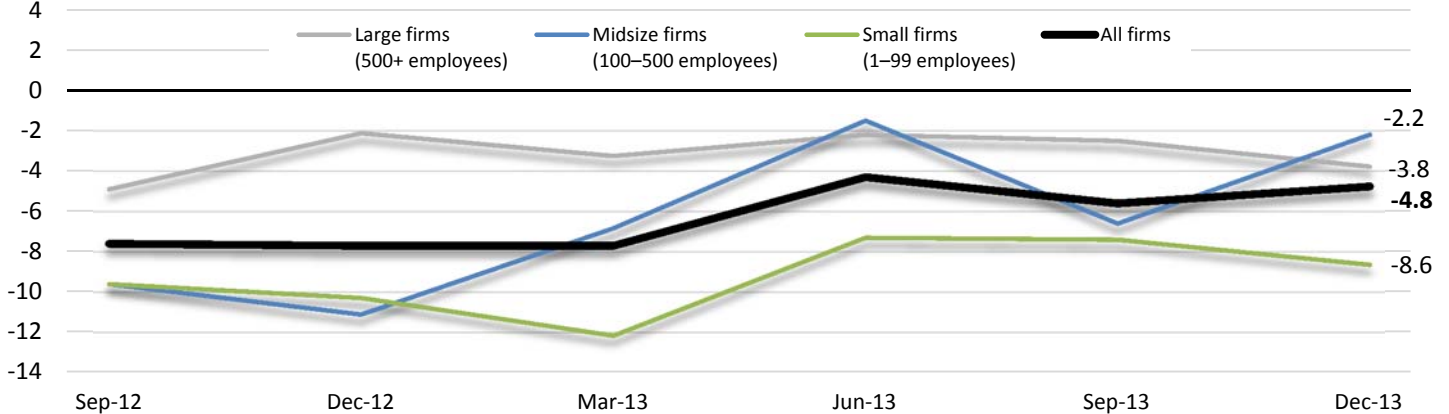
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

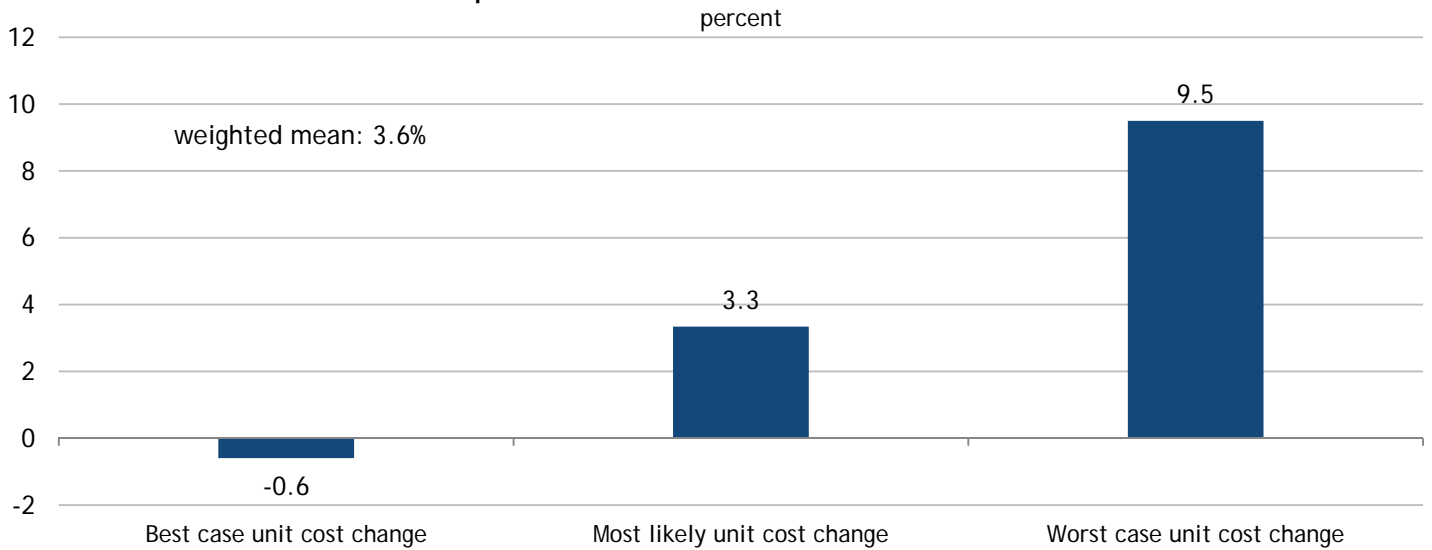
Mean Percent Above/Below Normal Sales Levels



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Projecting ahead, to the best of your ability, please provide your estimate of the worst case unit cost change, the most likely unit cost change, and the best case unit cost change your firm could experience over the next 12 months.



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*
October	15%	38%	30%	16%	0%	-25
November	13%	43%	29%	15%	0%	-26
December	12%	35%	33%	19%	2%	-18

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
October	14%	45%	27%	14%	0%	-29
November	12%	46%	32%	9%	0%	-30
December	15%	35%	37%	12%	1%	-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
October	6%	23%	56%	12%	4%	1.7%
November	4%	28%	53%	12%	3%	1.6%
December	4%	25%	53%	15%	3%	1.8%

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)
October	7%	26%	41%	18%	8%	1.9% (2.4%)
November	5%	27%	42%	18%	7%	1.9% (2.3%)
December	6%	26%	44%	17%	7%	1.9% (2.3%)

Quarterly Question: By roughly what percent are your firm's sales levels above/below "normal," if at all?						
Firm size	Average percent above/below normal (number of responses)					
	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Small (1-99 employees)	-9.6% (92)	-10.3% (100)	-12.2% (91)	-7.3% (87)	-7.4 (92)	-8.6 (85)
Midsize (100-499 employees)	-9.6% (43)	-11.1% (45)	-6.8% (42)	-1.5% (47)	-6.6 (48)	-2.2 (49)
Large (500+ employees)	-4.9% (49)	-2.1% (52)	-3.3% (60)	-2.2% (56)	-2.5 (66)	-3.8 (69)
All	-7.6% (184)	-7.7% (197)	-7.7% (193)	-4.3% (190)	-5.6 (206)	-4.8 (203)

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.