

BIE | January 2014



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses **were 1.9 percent in January**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted January 6-10 with 208 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 January. Firms also report that, compared to this time last year, their unit costs are up 1.7 percent. Respondents reported a slight decline in sales levels in January, with approximately 49 percent indicating their current sales levels are at or above normal compared to 54 percent in December. Profit margins also declined somewhat, with roughly 45 percent of respondents indicating their profit margins are at or above normal, compared to 50 percent in December.

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 2.8 percent, on average, virtually unchanged from the October reading of 2.7 percent. Respondents' uncertainty (variance) regarding this expectation was unchanged at 2.3 percent.

Special question: Year-ahead unit sales level change expectations

The question assessed the full range over which panel members anticipate their unit sales levels could change over the next 12 months. To elicit this range, respondents were asked to provide the high case, medium case, and low case percentage unit sales level change their firm could experience over the next 12 months. Respondents were then asked to assign likelihoods to each of these scenarios.

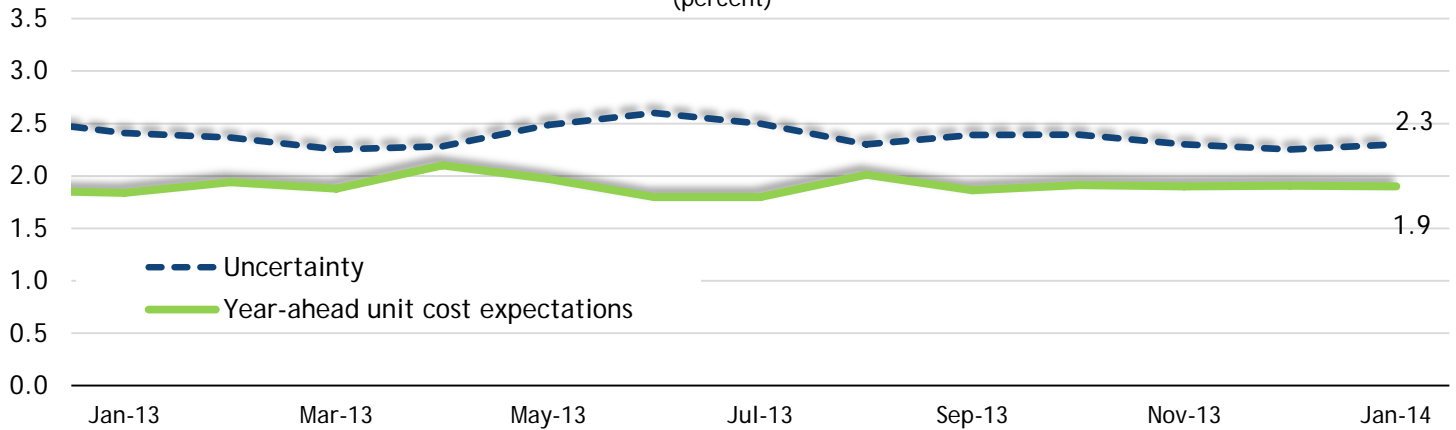
The average respondent's year-ahead unit sales growth expectation was 4.3 percent. Please see page 3 for a breakdown of the results.



Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

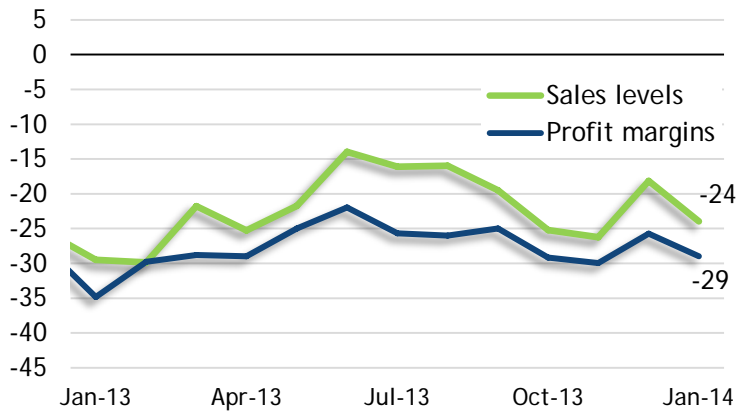
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

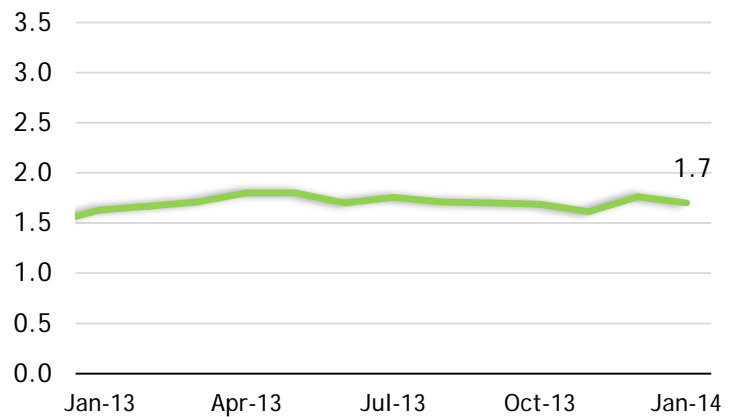
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

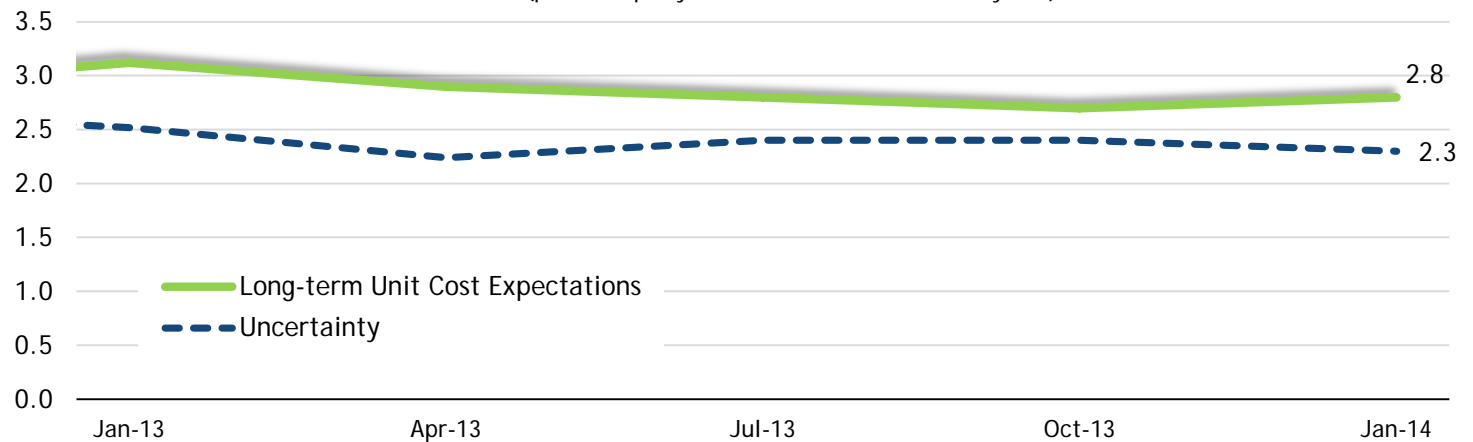


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Long-Term Inflation Expectations and Uncertainty

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

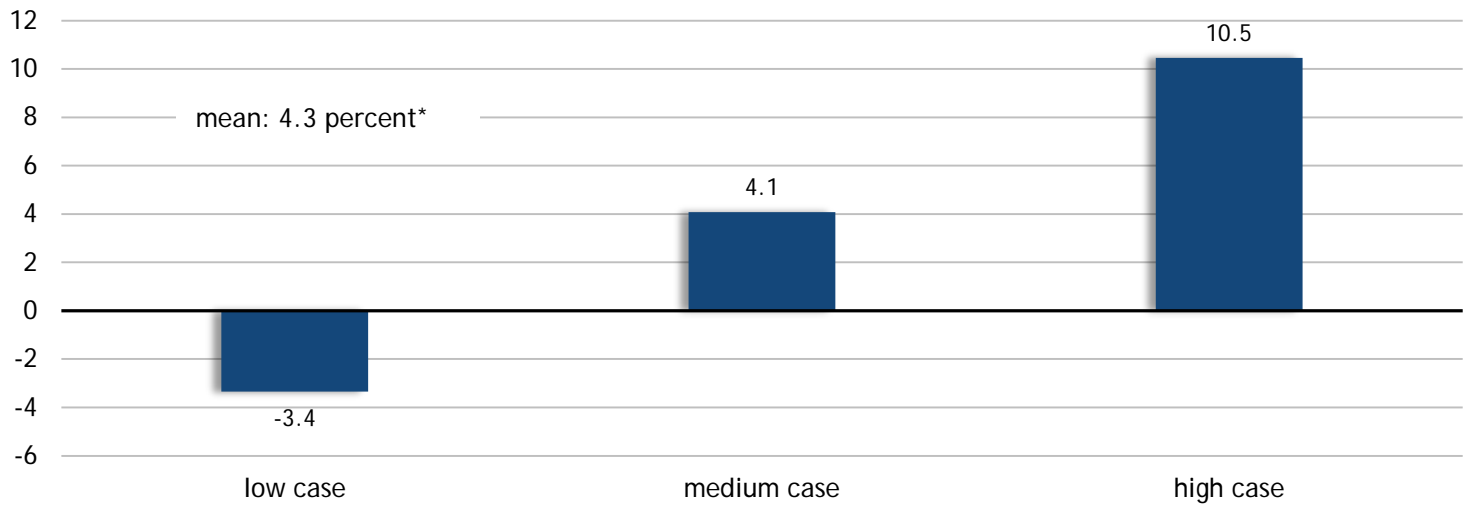


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Projecting ahead, over the next 12 months, please provide the approximate low case, medium case, and high case percentage change in your firm's unit sales levels.

mean change

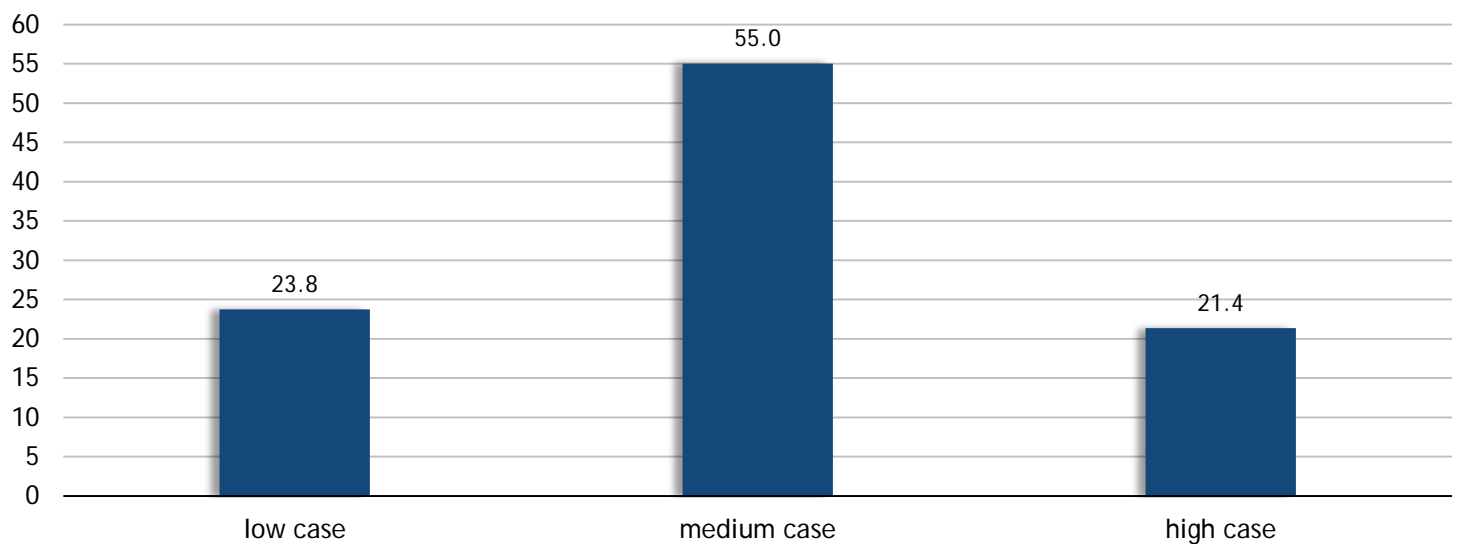


*This represents the mean of all respondents' individual probability weighted means.

Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Please assign a percentage likelihood to the low case, medium case, and high case percentage unit sales level changes selected above.

mean likelihood



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*
November	13%	43%	29%	15%	0%	-26
December	12%	35%	33%	19%	2%	-18
January	13%	39%	34%	14%	1%	-24

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
November	12%	46%	32%	9%	0%	-30
December	15%	35%	37%	12%	1%	-26
January	16%	39%	34%	10%	1%	-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
November	4%	28%	53%	12%	3%	1.6%
December	4%	25%	53%	15%	3%	1.8%
January	6%	24%	54%	13%	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)
November	5%	27%	42%	18%	7%	1.9% (2.3%)
December	6%	26%	44%	17%	7%	1.9% (2.3%)
January	6%	26%	43%	16%	8%	1.9% (2.3%)

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%)
January (208)	4%	20%	43%	21%	11%	2.8% (2.3%)

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.