

BIE | March 2014



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses **were 1.8 percent in March**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted March 10-14 with 196 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 1.8 percent over the next 12 months. Inflation uncertainty was unchanged at 2.4 percent. Firms also report that, compared to this time last year, their unit costs are up 1.7 percent. Respondents' sales levels compared to what they consider "normal" conditions showed little improvement, with approximately 51 percent indicating current sales levels are at or above normal, compared to approximately 49 percent in February. Profit margins deteriorated somewhat, with roughly 41 percent of respondents indicating their profit margins are at or above normal, compared to 48 percent in February.

Quarterly question: Percent above/below normal unit sales levels

On average (weighted by industry share of GDP), respondents indicated their unit sales gap (percentage below normal) was approximately 5.7 percent, compared to 4.8 percent below normal in December.

Since the last measure, in December, large firms' (500 or more employees) unit sales gap narrowed 0.8 percentage point to 3.0 percent below normal, on average, but has not improved significantly from the year-ago measure of 3.3 percent below normal. Midsize firms' (100-499 employees) unit sales gap widened 3.4 percentage points to 5.6 percent below normal, on average, a 1.2 percentage point improvement from the year-ago measure. Small firms' (less than 100 employees) unit sales gap widened 0.5 percentage point to 9.1 percent below normal, on average. That is a significant improvement over the March 2013 measure of 12.2 percent below normal.

Special question: Year-ahead unit sales level change expectations

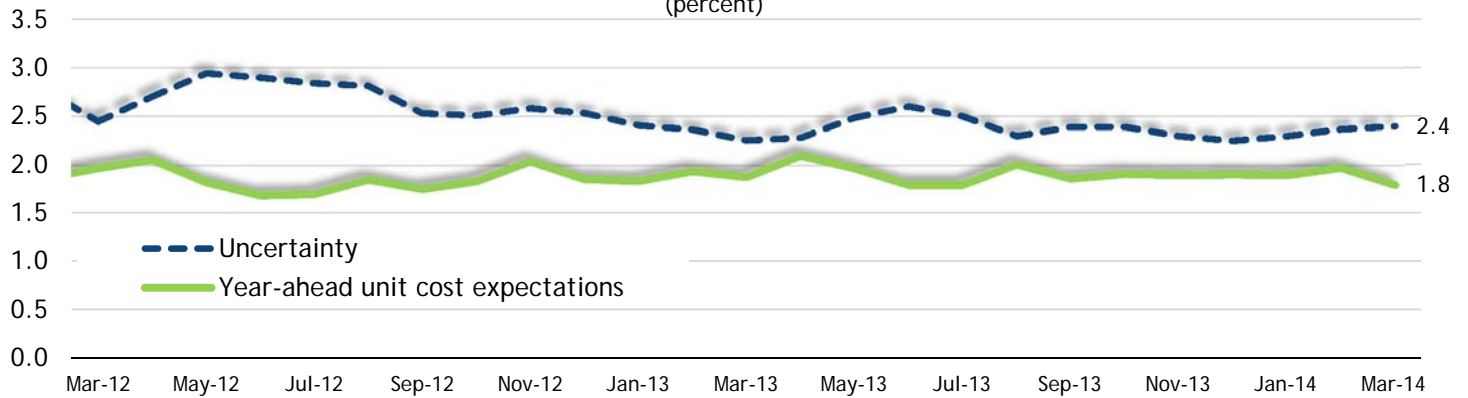
The question assessed the full range over which panel members anticipate their unit sales levels could change over the next 12 months. To elicit this range, respondents were asked to provide the high case, medium case, and low case percentage unit sales level change their firm could experience over the next 12 months. Respondents were then asked to assign likelihoods to each of these scenarios. The mean respondent's year-ahead unit sales growth expectation was 3.7 percent. Please see page 3 for a breakdown of the results.



Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

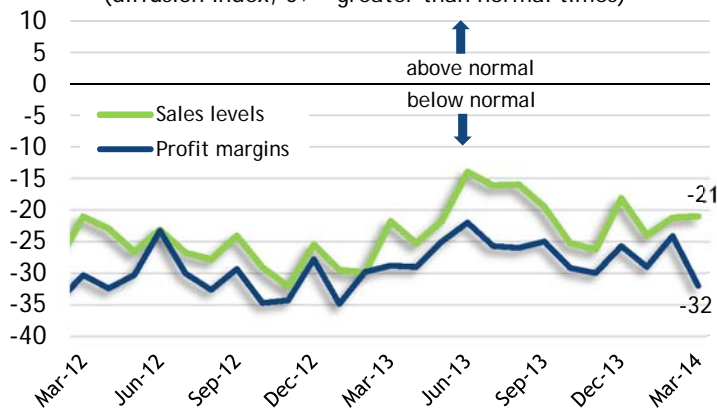
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

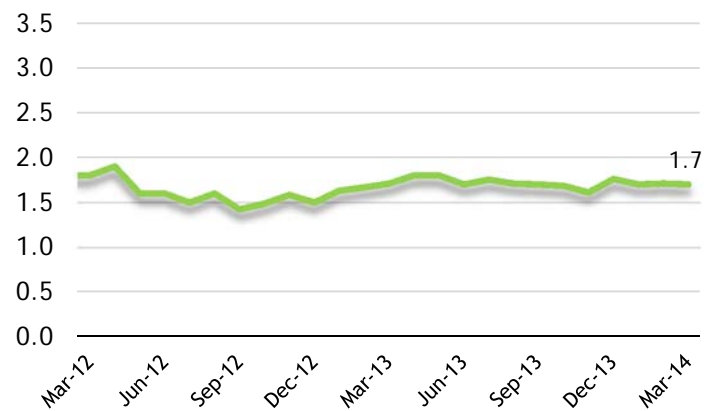
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

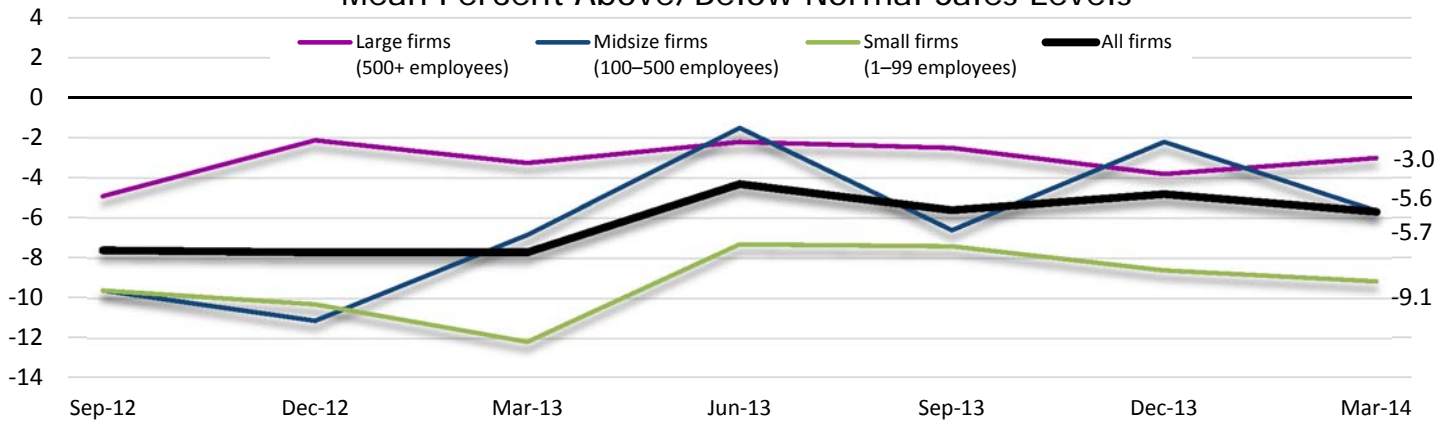
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

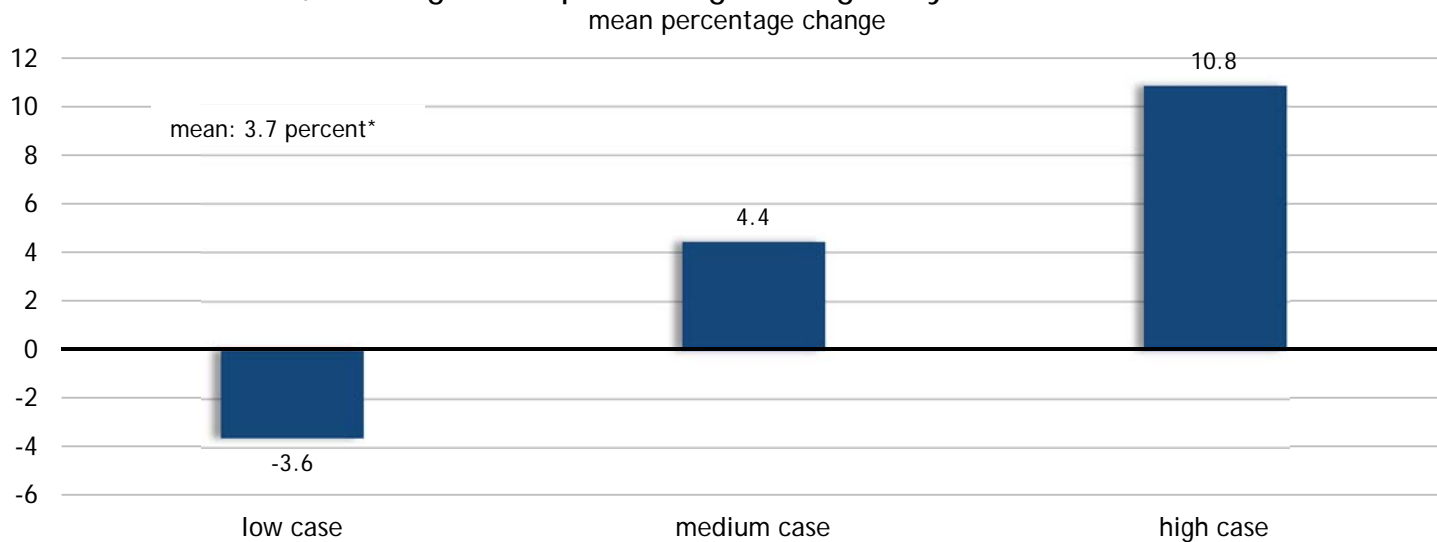
Mean Percent Above/Below Normal Sales Levels



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

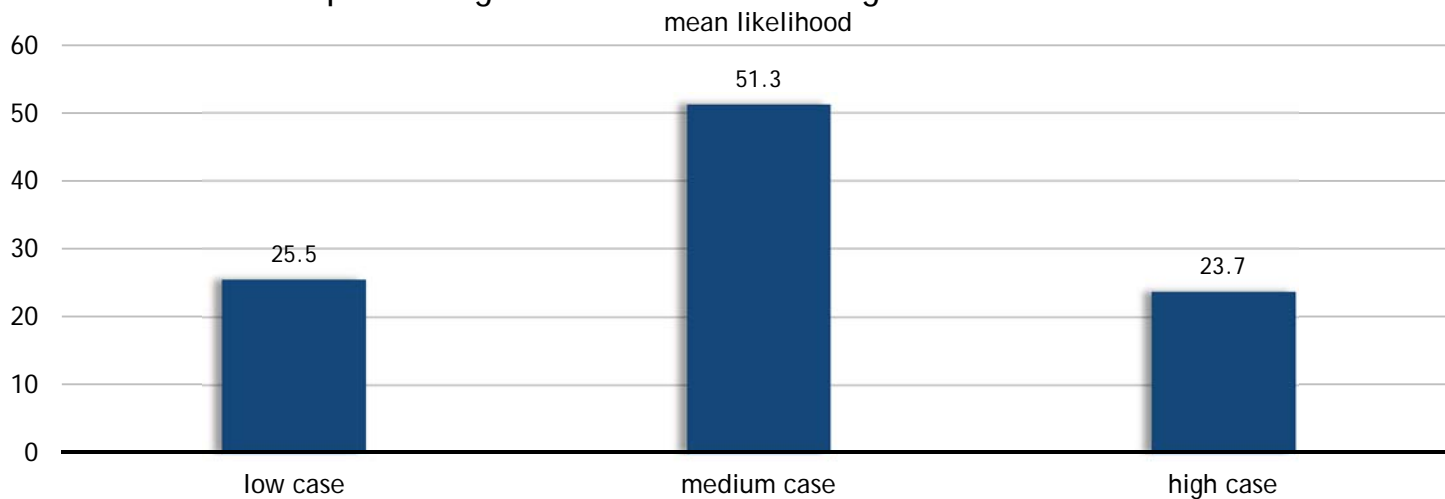
Special Question

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.



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

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



Source: Atlanta Fed Business Inflation Expectation (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*
January	13%	39%	34%	14%	1%	-24
February	12%	39%	28%	20%	1%	-21
March	12%	37%	33%	17%	1%	-21

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
January	16%	39%	34%	10%	1%	-29
February	10%	42%	35%	13%	0%	-24
March	14%	46%	31%	9%	1%	-32

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
January	6%	24%	54%	13%	4%	1.7%
February	5%	23%	54%	13%	4%	1.8%
March	4%	21%	62%	9%	3%	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)
January	6%	26%	43%	16%	8%	1.9% (2.3%)
February	6%	24%	43%	19%	8%	2.0% (2.4%)
March	7%	28%	42%	16%	7%	1.8% (2.4%)

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)					
	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Small (1-99 employees)	-10.3% (100)	-12.2% (91)	-7.3% (87)	-7.4 (92)	-8.6 (85)	-9.1 (83)
Midsize (100-499 employees)	-11.1% (45)	-6.8% (42)	-1.5% (47)	-6.6 (48)	-2.2 (49)	-5.6 (46)
Large (500+ employees)	-2.1% (52)	-3.3% (60)	-2.2% (56)	-2.5 (66)	-3.8 (69)	-3.0 (67)
All	-7.7% (197)	-7.7% (193)	-4.3% (190)	-5.6 (206)	-4.8 (203)	-5.7 (196)

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.