

Atlanta Fed Survey of Business Inflation Expectations

For immediate release: May 15, 2014

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The year-ahead inflation expectations of businesses **were 1.9 percent in May**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted May 5-9 with 182 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 2.4 percent. Firms also report that, compared to this time last year, their unit costs are up 1.8 percent. Respondents' sales levels compared to what they consider "normal" conditions improved somewhat, with approximately 55 percent of respondents indicating current sales levels are at or above normal. Profit margins declined somewhat, with roughly 47 percent of respondents indicating their profit margins are at or above normal, compared to 51 percent in April.

Quarterly question: Factors influencing price change

About 64 percent of respondents expect labor costs to put moderate or strong upward pressure on their prices over the next 12 months. Respondents' expectations regarding the influence of non-labor costs on prices increased significantly from the last measure, taken in February. Thirty-seven percent of respondents expect sales levels to put moderate or strong upward pressure on prices in the year ahead. The majority of firms expect productivity and margin adjustments to have little or no influence over prices in the next 12 months.

Special question: Year-ahead employment outlook

The question assessed the full range over which panel members anticipate their number of employees (including part-time workers) could change over the next 12 months. Respondents provided estimates for five distinct scenarios and were then asked to assign percentage likelihoods to those scenarios. The firm size-weighted mean expectation for employment growth (weighted by firm size) over the year ahead was approximately 1.0 percent.

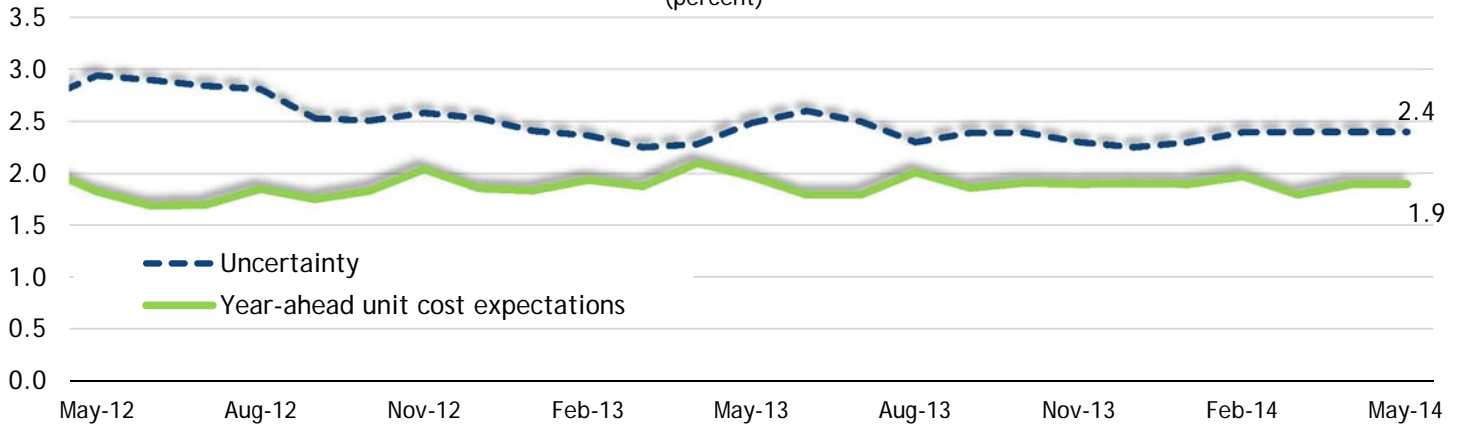
Some 31 percent of respondents expect a net reduction in their number of employees over the next 12 months, 42 percent expect a net increase in their number of employees over the next 12 months, and 27 percent expect no change in their number of employees over the next 12 months. Please see page 3 for a breakdown of the results.



Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

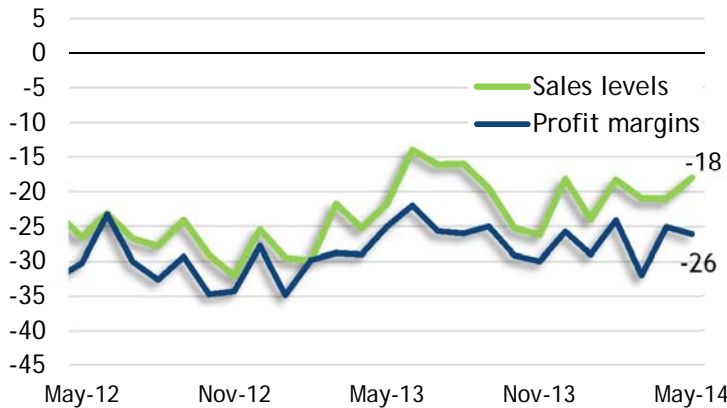
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

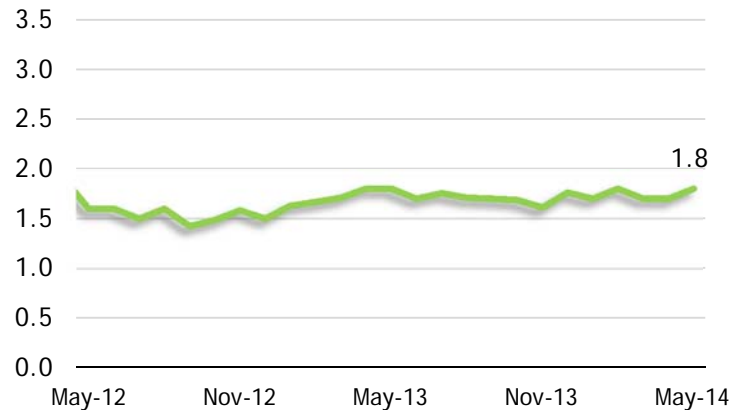
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

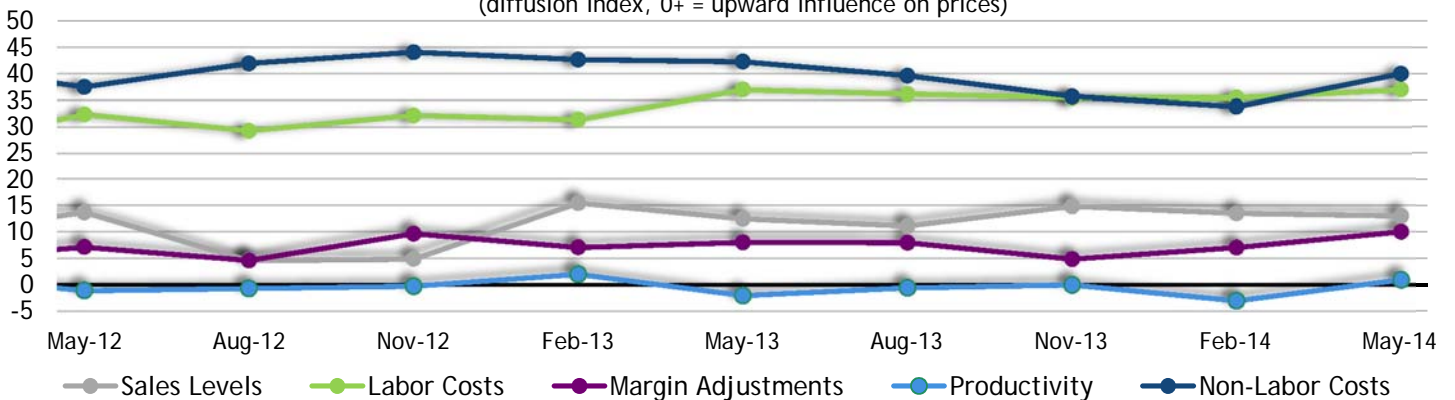


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

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?

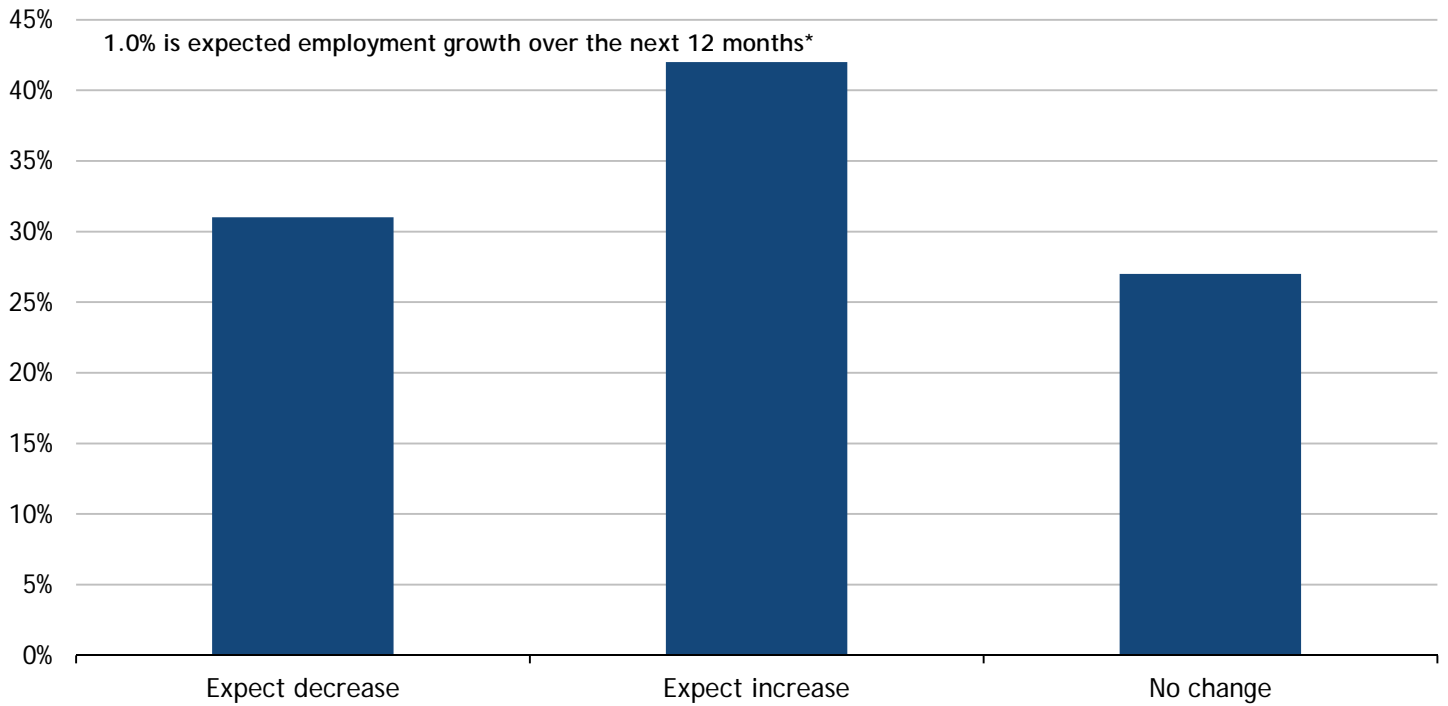
(diffusion index, 0+ = upward influence on prices)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Percentage of Firms Expecting Increase/Decrease/No Change
in Number of Employees 12 Months from Now



*Note: Firm size-weighted expected growth rate

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*
March	12%	37%	33%	17%	1%	-21
April	15%	33%	33%	17%	2%	-21
May	12%	34%	33%	20%	1%	-18

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
March	14%	46%	31%	9%	1%	-32
April	14%	35%	40%	9%	2%	-25
May	12%	41%	36%	11%	0%	-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
March	4%	21%	62%	9%	3%	1.7%
April	5%	21%	61%	7%	5%	1.7%
May	2%	22%	64%	9%	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)
March	7%	28%	42%	16%	7%	1.8% (2.4%)
April	6%	27%	44%	16%	8%	1.9% (2.4%)
May	6%	26%	42%	19%	7%	1.9% (2.4%)

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†
Labor Costs						
November	0%	2%	33%	55%	10%	35
February	0%	3%	30%	56%	9%	36
May	0%	1%	34%	54%	10%	37
Non-Labor Costs						
November	0%	6%	28%	59%	7%	34
February	1%	4%	29%	57%	9%	34
May	1%	1%	24%	64%	10%	40
Productivity						
November	0%	19%	62%	16%	2%	0
February	1%	21%	61%	16%	1%	-3
May	0%	14%	69%	15%	1%	1
Margin Adjustments						
November	1%	18%	52%	27%	2%	5
February	0%	14%	59%	27%	0%	7
May	0%	11%	59%	27%	2%	10
Sales Levels						
November	0%	13%	47%	36%	3%	15
February	1%	17%	41%	37%	4%	12
May	0%	11%	52%	35%	2%	13

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.