

Atlanta Fed Survey of Business Inflation Expectations

For immediate release: May 10, 2017

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

The year-ahead inflation expectations of businesses were **2.0 percent in May**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted May 1–5, with 200 firms responding to questions about their business conditions and inflation outlook. The results are summarized below.

Year-ahead inflation expectations and current conditions

Respondents indicated that, on average, they expect unit costs to rise 2.0 percent over the next 12 months. Inflation uncertainty increased slightly to 2.2 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, remained the same with a diffusion index value of -12. Profit margins declined, with a diffusion index value of -22.

Quarterly question: Factors influencing price change

Seventy percent of respondents indicated that labor costs will put moderate or strong upward pressure on their prices over the next 12 months. Respondents' expectations regarding the influence of nonlabor costs on prices increased from the last measure, with 71 percent of respondents indicating upward price pressure. 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 expected employment levels

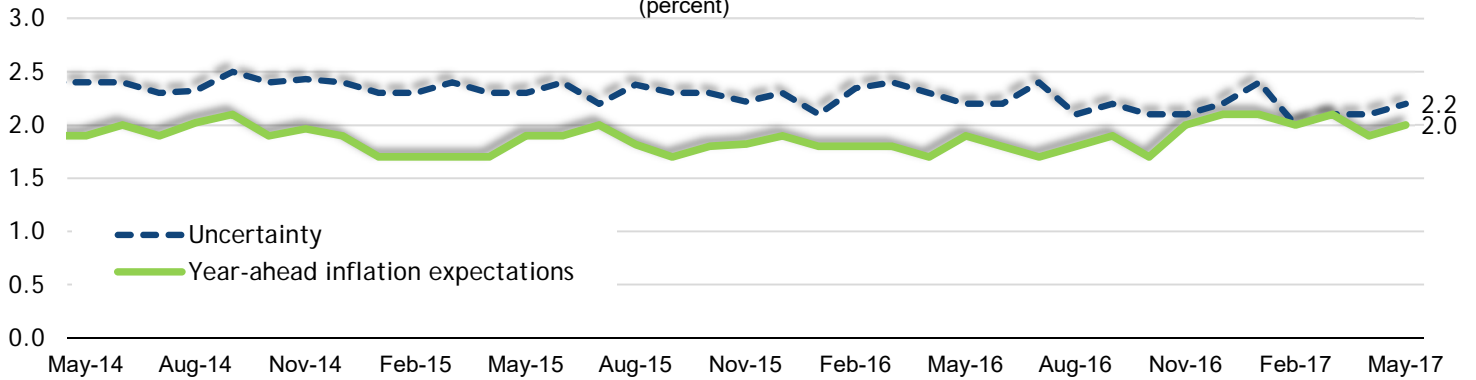
Firms were asked to provide their lowest, most likely, and highest potential number of employees 12 months from now along with the percentage likelihood they would assign to each of these scenarios. The median implied employment growth rate was 1.0 percent. If this growth rate were applied to current U.S. employment levels, it would be the equivalent of approximately 127,000 new jobs per month over the next year.

A breakdown of these results can be found on page 3.

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

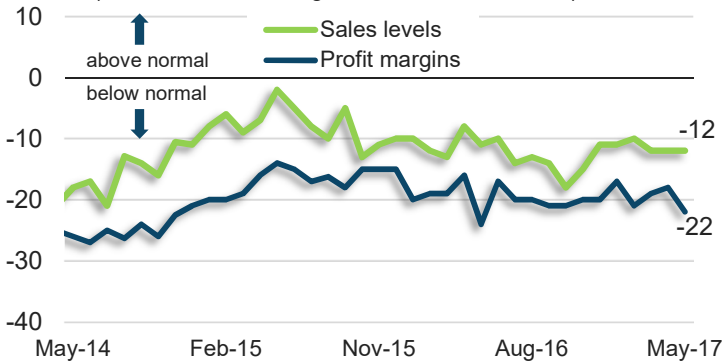
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

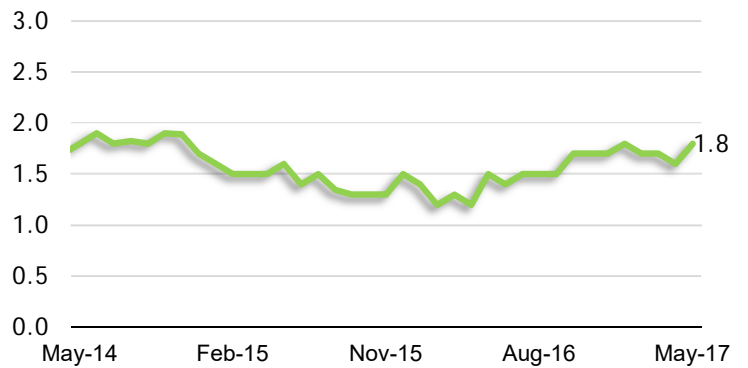
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

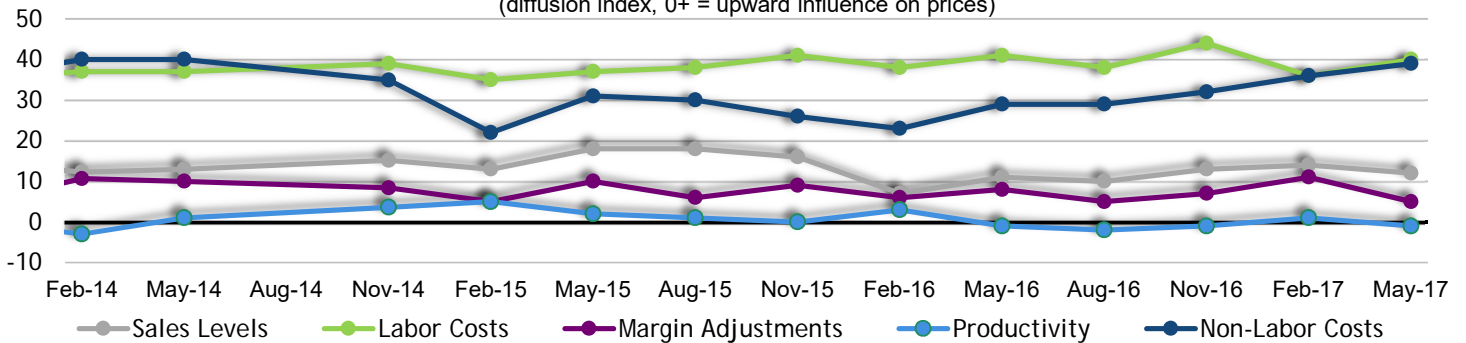


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

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?

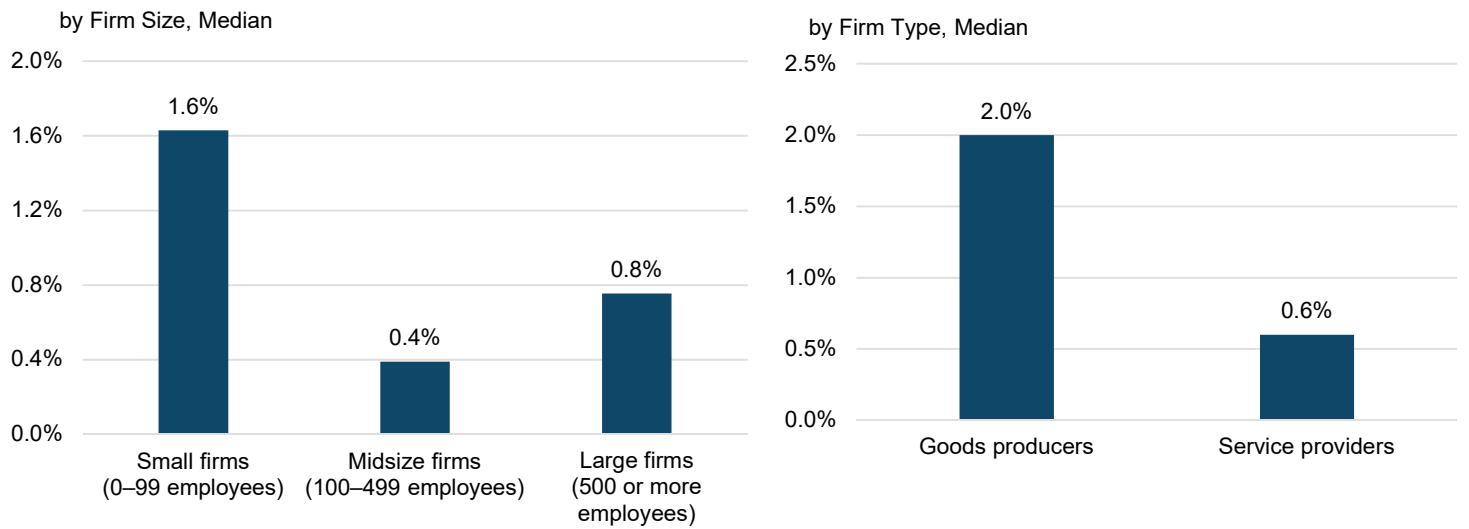
(diffusion index, 0+ = upward influence on prices)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Year-Ahead Expected Employment Growth Rates



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	9%	27%	44%	19%	1%	-12
April	9%	28%	44%	18%	1%	-12
May	11%	28%	38%	22%	1%	-12

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
March	9%	34%	46%	12%	0%	-19
April	7%	33%	48%	12%	0%	-18
May	9%	34%	46%	10%	0%	-22

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	3%	22%	63%	8%	4%	1.7%
April	2%	30%	58%	8%	2%	1.6%
May	1%	24%	59%	14%	2%	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	4%	23%	47%	19%	8%	2.1% (2.1%)
April	5%	27%	44%	16%	8%	1.9% (2.1%)
May	4%	24%	45%	20%	7%	2.0% (2.2%)

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%	23%	58%	16%	44
February	0%	1%	32%	59%	8%	36
May	1%	2%	27%	57%	13%	40
Non-Labor Costs						
November	1%	3%	33%	59%	5%	32
February	0%	3%	32%	57%	8%	36
May	1%	2%	26%	62%	9%	39
Productivity						
November	1%	17%	68%	13%	1%	-1
February	0%	15%	70%	15%	1%	1
May	1%	16%	69%	14%	1%	-1
Margin Adjustments						
November	1%	11%	64%	22%	2%	7
February	1%	11%	55%	33%	0%	11
May	1%	11%	65%	22%	1%	5
Sales Levels						
November	1%	12%	49%	36%	2%	13
February	2%	11%	46%	41%	1%	14
May	2%	11%	49%	34%	3%	12

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.