

BIE | September 2015



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **1.7 percent in September**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted September 7–11, with 224 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 1.7 percent over the next 12 months. Inflation uncertainty decreased slightly to 2.3 percent. Firms also report that, compared to this time last year, their unit costs are up 1.3 percent. Respondents' sales levels, compared to what they consider normal conditions, improved slightly, with approximately 67 percent of respondents indicating current sales levels are at or above normal. Profit margins were virtually unchanged, with roughly 55 percent of respondents indicating their profit margins are at or above normal.

Quarterly question: Percent above/below normal sales levels

On average (weighted by industry share of gross domestic product), respondents indicated their unit sales gap (percentage below normal unit sales) was approximately 2.0 percent below normal compared to 1.9 percent below normal in June. On average, large firms (500 or more employees) reported a narrowing of their sales gap to 0.7 percent. Midsize firms' (100–499 employees) and small firms' (fewer than 100 employees) sales gap increased to 2.7 percent and 5.1 percent below normal, respectively.

Special question: Influence on pricing decisions

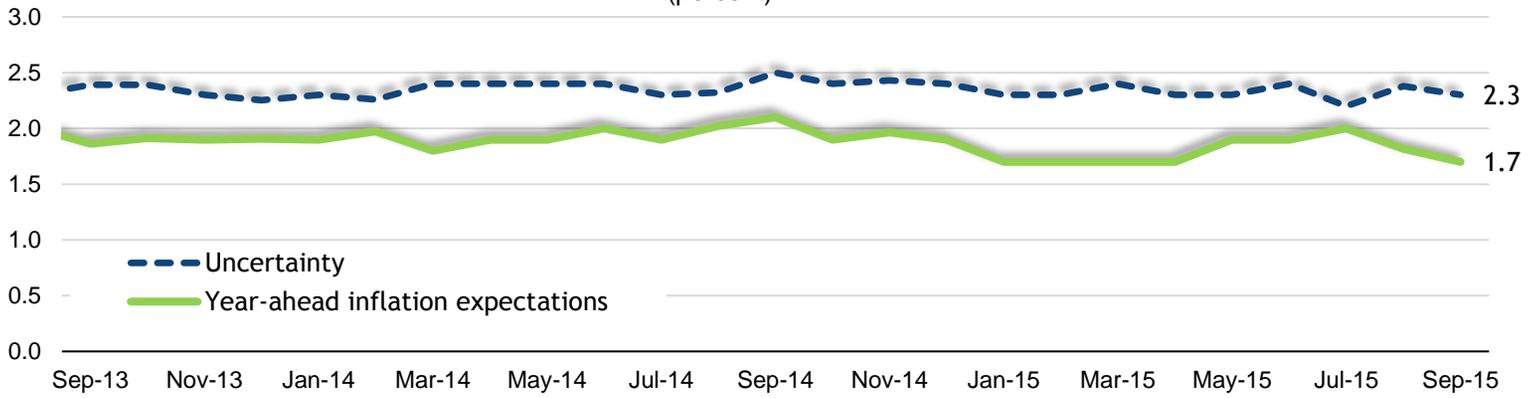
The question assessed the level of influence a firm's expectations regarding overall inflation and cost have on their pricing decisions.

Forty-four percent of respondents indicated that their costs have a significant influence on their pricing decisions. Only 18 percent of respondents indicated that overall inflation has significant influence on their pricing decisions. A chart containing a breakdown of the results is provided on page 3.



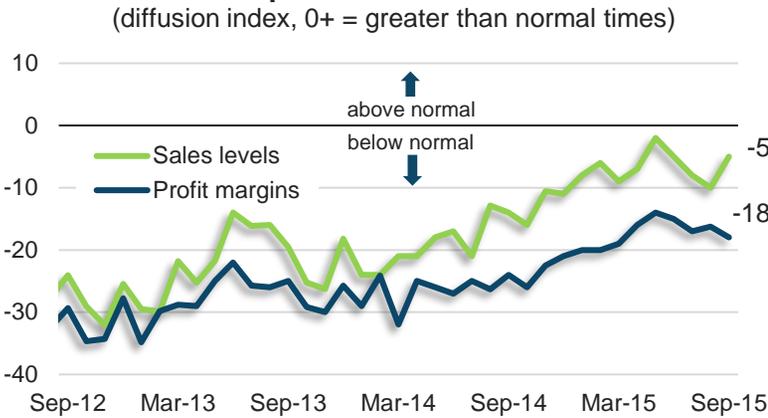
Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty (percent)



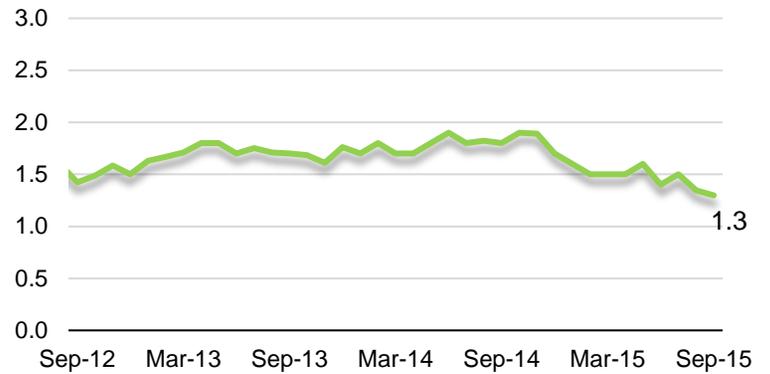
Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times (diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

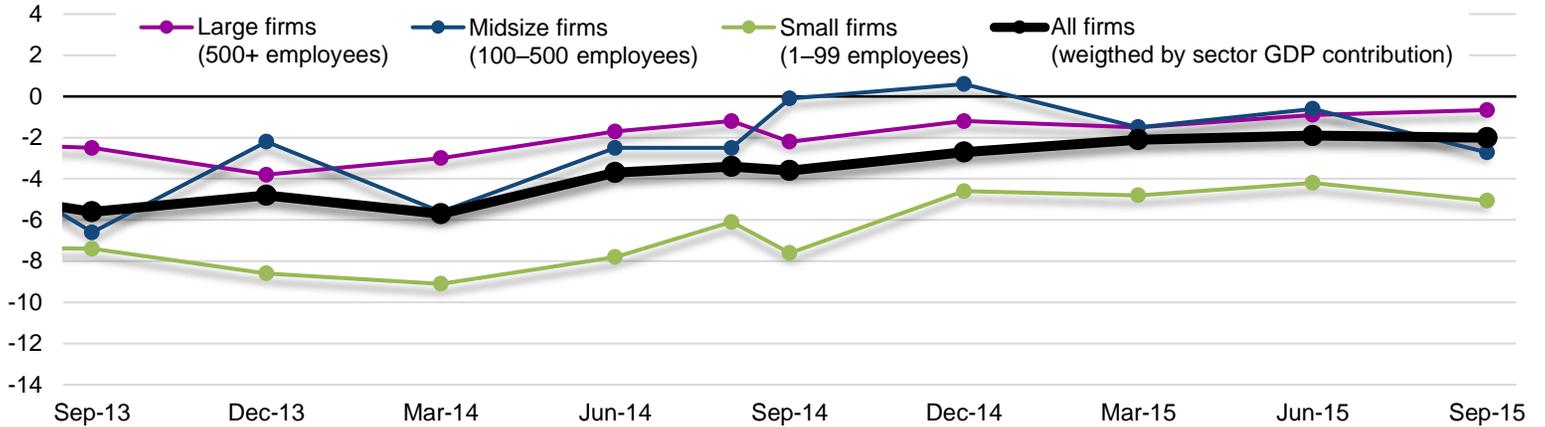
Year-over-Year Unit Cost Change (percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

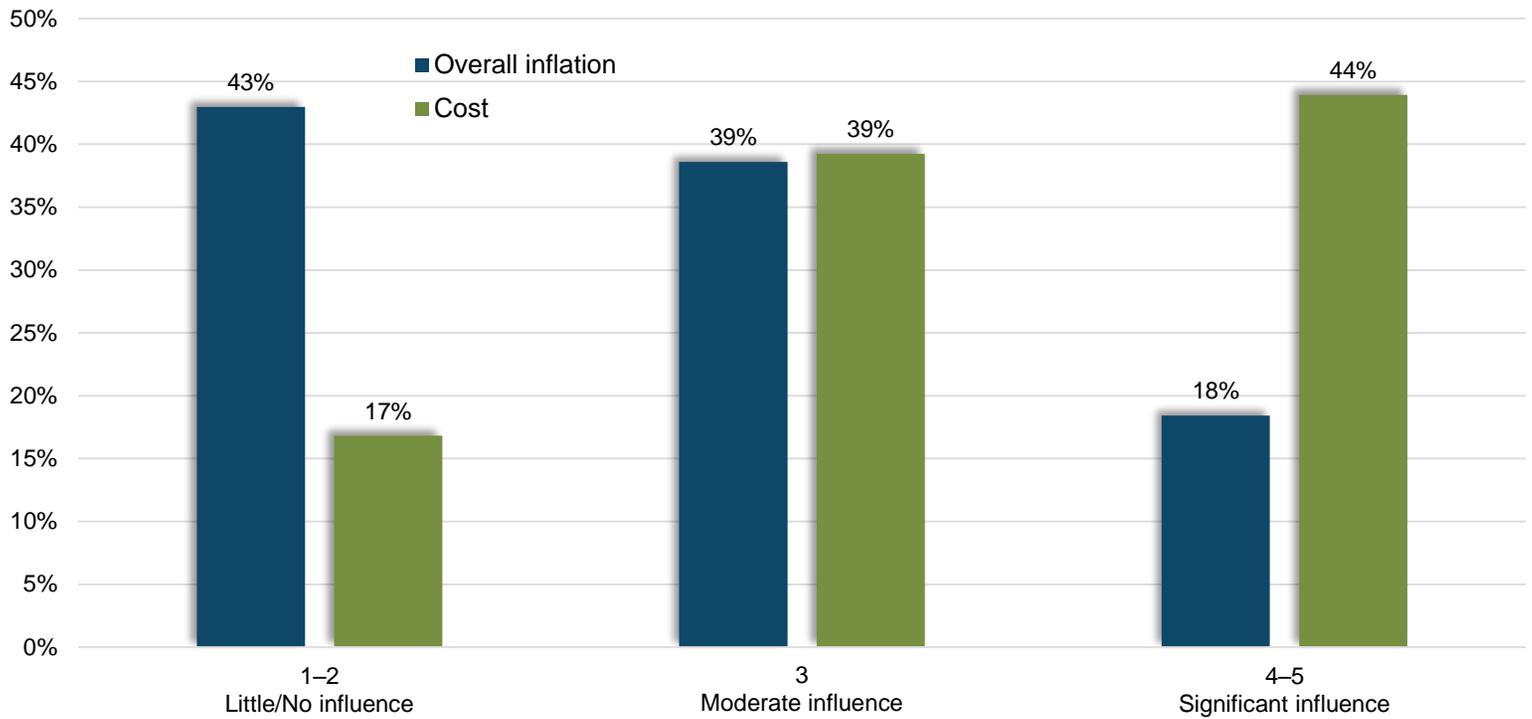
Mean Percent Above/Below Normal Sales Levels



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Influence of Cost Versus Overall Inflation Expectations on Pricing Decisions

scale from 1 to 5 (1 = no influence), percent of responses



Source: 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*
July	5%	34%	36%	23%	2%	-8
August	4%	39%	32%	23%	2%	-10
September	5%	28%	39%	27%	1%	-5

How do your current PROFIT MARGINS compare with “normal” times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
July	10%	34%	39%	15%	2%	-17
August	9%	34%	39%	18%	0%	-16
September	8%	36%	42%	12%	1%	-18

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
July	9%	22%	54%	14%	1%	1.5%
August	10%	23%	57%	9%	1%	1.3%
September	9%	27%	56%	5%	3%	1.3%

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)
July	5%	23%	45%	20%	6%	2.0% (2.2%)
August	7%	25%	43%	18%	6%	1.8% (2.4%)
September	8%	24%	46%	16%	5%	1.7% (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)					
	Aug-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Small (1-99 employees)	-6.1 (117)	-7.6 (89)	-4.6 (100)	-4.8 (97)	-4.2 (96)	-5.1 (92)
Midsize (100-499 employees)	-2.5 (38)	-0.1 (39)	0.6 (39)	-1.5 (42)	-0.6 (39)	-2.7 (74)
Large (500+ employees)	-1.2 (53)	-2.2 (57)	-1.2 (58)	-1.5 (59)	-0.9 (51)	-0.7 (47)
All	-3.4 (208)	-3.6 (185)	-2.7 (197)	-2.1 (198)	-1.9 (186)	-2.0 (213)

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.