

# BIE | March 2012

Atlanta Fed Survey of Business Inflation Expectations




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RESERVE  
BANK  
of ATLANTA

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In the Federal Reserve Bank of Atlanta's monthly business inflation survey of firms in the Sixth Federal Reserve District, respondents indicated their inflation expectations for the coming year are 2.0 percent. That number, which is measured by the rise firms anticipate in their year-ahead unit costs, is up from 1.9 percent in February. The survey was conducted March 12–16 with 162 firms responding to questions about their business conditions, inflation outlook, and potential pricing pressures. The results are summarized below.

EXPECTED CHANGE IN UNIT COSTS	
<b>2.0%</b>  from 1.9% in February	Survey respondents indicated that, on average, they expect unit costs to rise 2.0 percent over the next 12 months. That number is up from 1.9 percent in February and comparable to recent year-ahead inflation forecasts of private economists. Firms also reported that their unit costs had risen 1.8 percent compared to this time last year, which is unchanged from their assessment in February. Inflation uncertainty, as measured by the average respondent's variance, declined from 2.8 percent in February to 2.4 percent in March, the lowest variance since the survey was launched in October 2011.

FACTORS INFLUENCING PRICE CHANGES
According to the businesses surveyed, sales levels and profit margins, though still below normal, have begun to improve. Looking forward, firms expect continued, though modest, improvement in sales and margins over the next year. Firms' expectations for labor costs rose in March, with 59 percent of respondents—the highest percentage in the six-month history of the survey—predicting a moderate or strong upward price influence coming from labor over the next 12 months. Firms anticipate that non-labor costs will put little or moderate upward pressure on prices in the year ahead, though that assessment declined slightly in March.

SPECIAL QUESTION
This month the Atlanta Fed asked businesses a special question to assess how various influences ordinarily factor into firms' pricing decisions. The results underscore the notion that the sorts of costs that firms care about seem to vary significantly by industry. All industry groups rated competitive pressure and demand as especially important in pricing decisions. Materials and transportation costs play a greater role for retail and manufacturing firms, whereas firms in other industries consider labor to be slightly more influential than do manufacturers and retailers.

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	18%	38%	28%	16%	1%	-27
February	18%	37%	31%	14%	1%	-28
March	18%	29%	31%	21%	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	20%	36%	34%	10%	0%	-34
February	17%	44%	32%	8%	0%	-35
March	14%	42%	32%	11%	0%	-30

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%)	Average
January	9%	27%	47%	14%	3%	1.5%
February	7%	21%	52%	16%	4%	1.8%
March	6%	23%	55%	12%	5%	1.8%

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†
<b>Labor Costs</b>						
January	0%	5%	41%	51%	3%	26
February	0%	1%	48%	49%	2%	26
March	0%	4%	37%	53%	6%	30
<b>Non-Labor Costs</b>						
January	1%	4%	30%	51%	14%	36
February	0%	2%	24%	62%	12%	42
March	0%	3%	27%	57%	13%	39
<b>Productivity</b>						
January	1%	15%	62%	22%	0%	3
February	0%	15%	67%	18%	1%	2
March	0%	20%	64%	14%	2%	-1
<b>Margin Adjustments</b>						
January	2%	12%	66%	20%	1%	3
February	0%	17%	56%	27%	0%	5
March	1%	11%	63%	26%	0%	7
<b>Sales Levels</b>						
January	4%	13%	45%	34%	3%	9
February	2%	18%	45%	32%	4%	9
March	1%	15%	45%	36%	2%	11

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%)	Average	Median	Mode	Variance
January	6%	31%	37%	18%	8%	1.8	1.8	1.8	2.6
February	7%	29%	38%	16%	10%	1.9	1.8	1.8	2.8
March	6%	25%	42%	17%	9%	2.0	2.0	1.9	2.4

Special ORDINARILY, what level of influence do the following have on your pricing decisions? (1=No Question: influence, 5=Very influential)

Industry	Number of responses	Labor costs	Materials costs	Transport. costs	Marketing costs	Demand	Inventories	Competitive pressure
Total	150	3.3	3.4	2.9	2.4	3.7	2.4	3.8
Retail & wholesale trade	17	3.2	4.1	3.1	2.9	3.4	3.3	4.2
Manufacturing	34	3.2	4.3	3.6	2.1	3.9	2.6	4.0
Other	99	3.4	3.0	2.7	2.4	3.7	2.2	3.6

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.