

Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses **remained unchanged at 1.8 percent in July**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted July 8-12 with 209 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 indicate that, on average, they expect unit costs to rise 1.8 percent over the next 12 months, roughly in line with the recent year-ahead inflation forecasts of private economists. Inflation uncertainty was roughly unchanged at 2.5 percent in July from 2.6 percent in June. Firms also report that, compared to this time last year, their unit costs are up 1.8 percent. The improvement in sales levels noted by respondents in June have receded somewhat, with 50 percent now saying their current sales levels are at or above normal compared to 56 percent in June. Profit margins also declined slightly from the June reading, with 46 percent of firms stating that their margins are at or above normal, compared to 49 percent in June.

Quarterly question: Long-term inflation expectations

Over the long term, that is, per year over the next five to 10 years, respondents expect unit costs to increase 2.8 percent, on average, virtually unchanged from the April reading of 2.9 percent. Respondents' uncertainty (variance) regarding this expectation, at 2.4 percent, remains low in comparison to prior measures.

Special question: Response to increase/decrease in raw materials costs

The special question focused on commodity cost pressures. Half our panel was asked how they would respond to "a 10 percent increase in raw materials costs" and the other half how they would respond to "a 10 percent decrease in raw materials costs."

Of those who received the cost increase question, 52 percent said they would "mostly increase prices" in response to a 10 percent raw materials cost increase. Of those who received the cost decrease question, 43 percent said they would "mostly increase profit margins" in response to a 10 percent raw materials cost decrease.

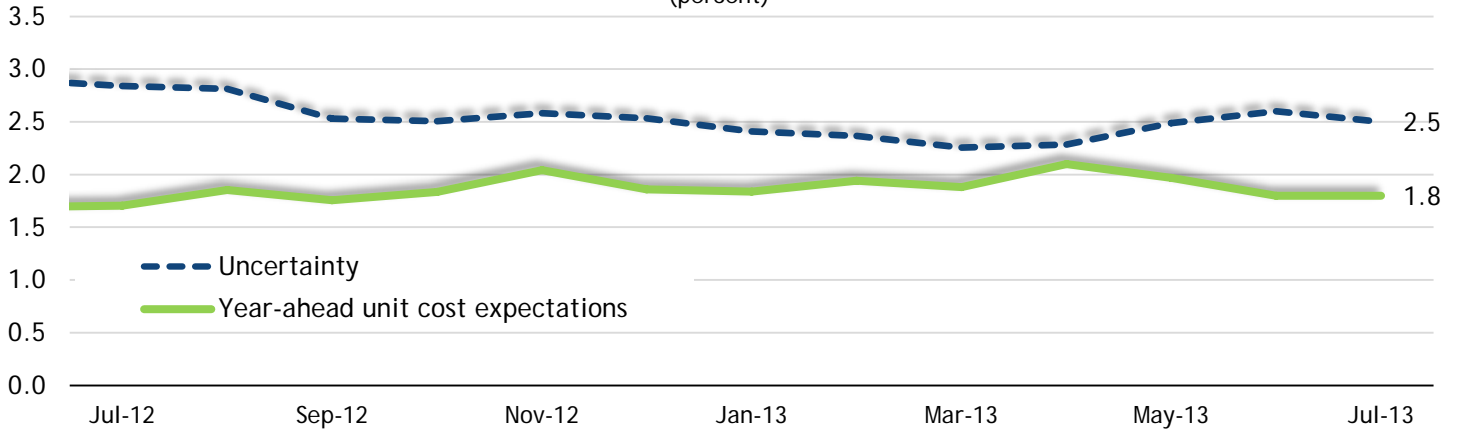
Please see page 3 for a breakdown of the results.



Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

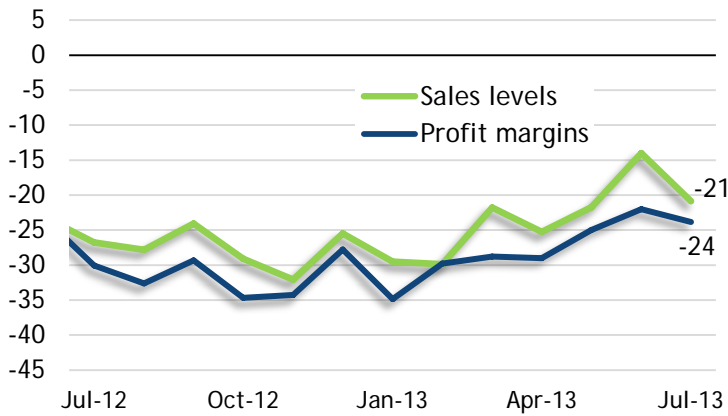
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

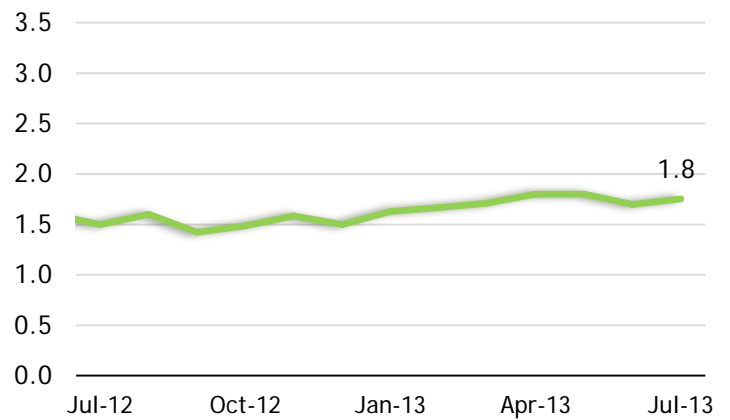
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

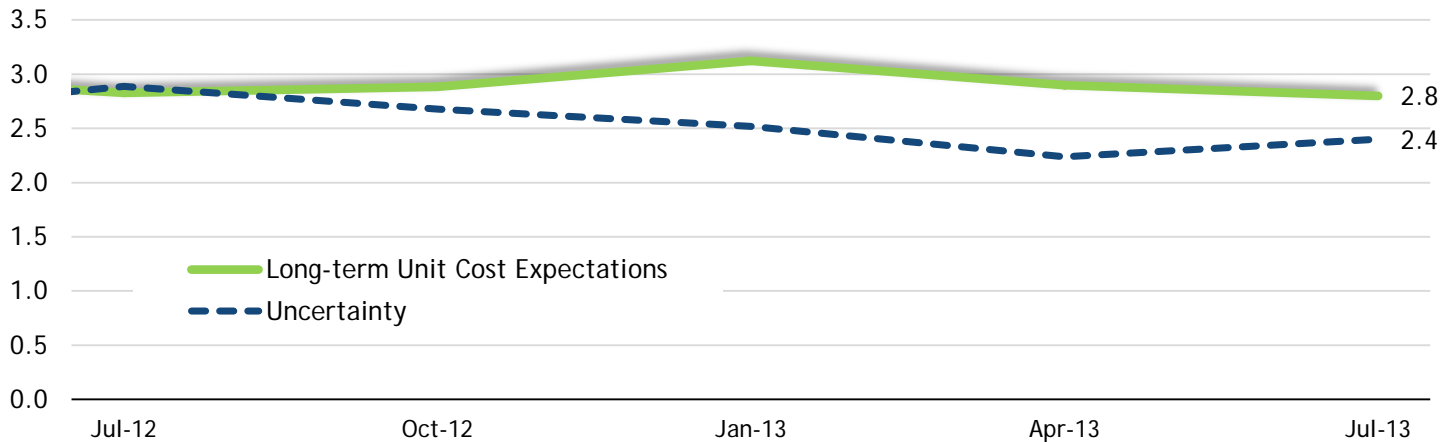


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Long-Term Inflation Expectations and Uncertainty

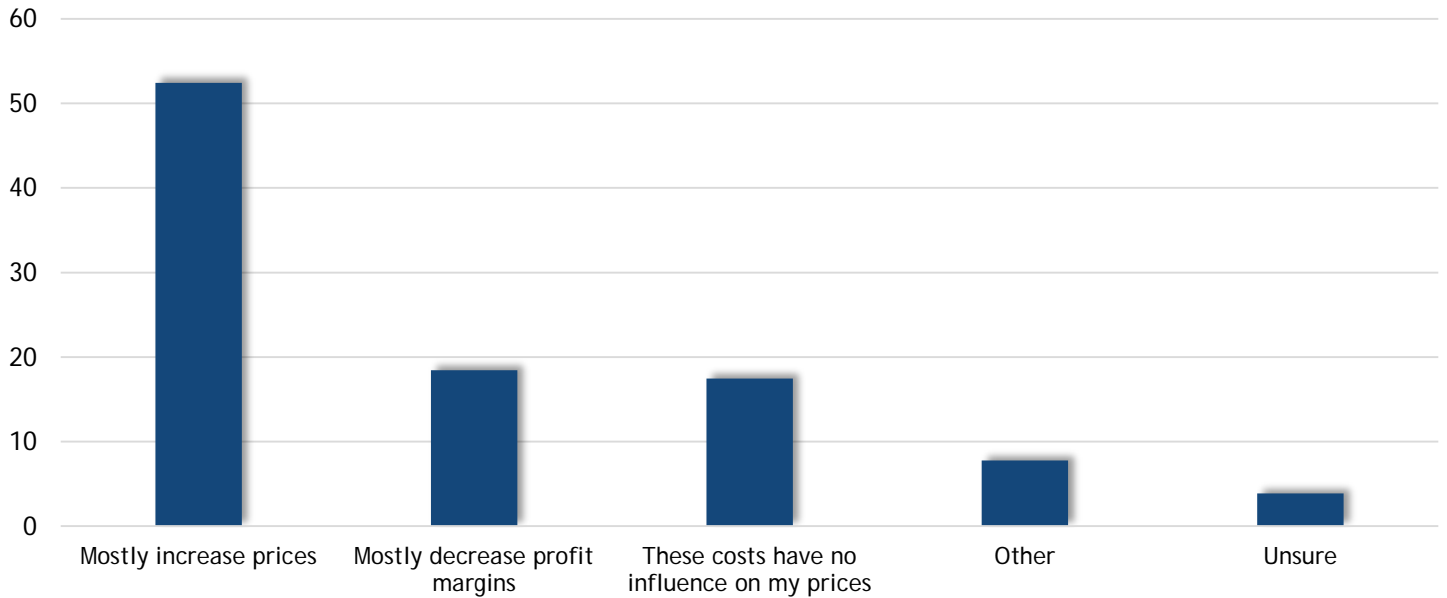
(percent, per year over the next five to 10 years)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

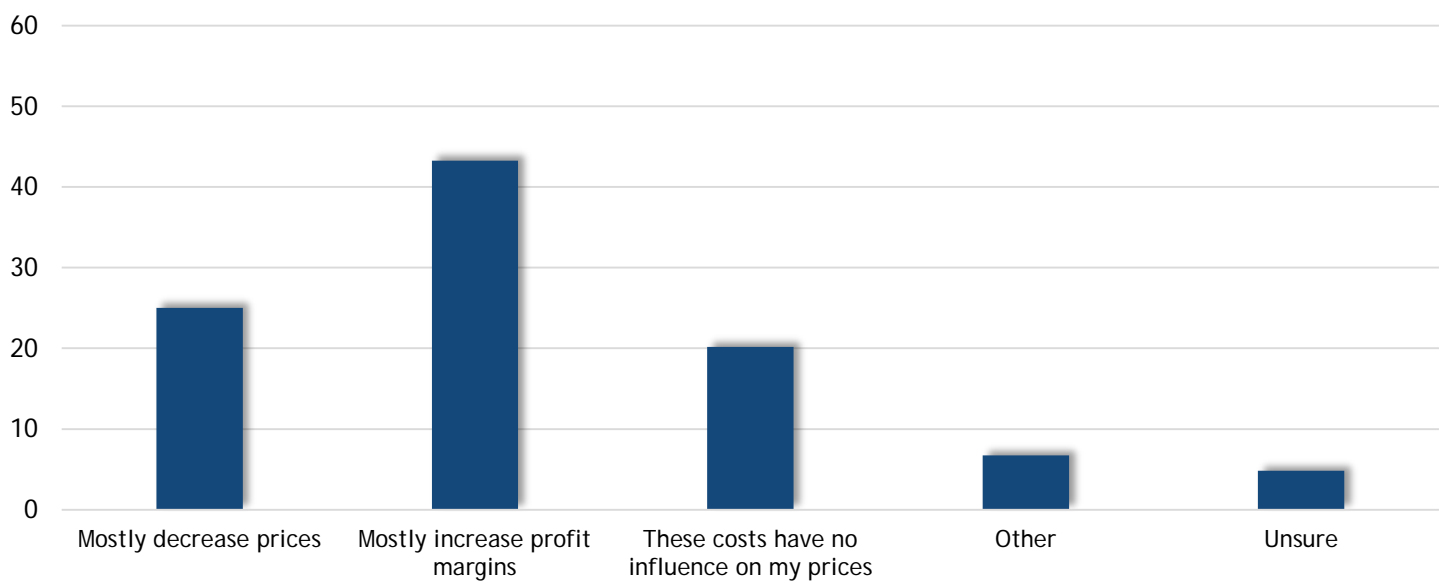
Special Question

How would you respond to a 10% **increase** in raw materials costs?
(percentage of responses)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

How would you respond to a 10% **decrease** in raw materials costs?
(percentage of responses)



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*
May	10%	44%	26%	20%	1%	-22
June	11%	32%	31%	24%	1%	-14
July	13%	37%	29%	21%	0%	-21

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
May	11%	43%	31%	13%	1%	-25
June	10%	40%	36%	12%	1%	-22
July	8%	46%	33%	13%	0%	-24

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
May	5%	21%	57%	13%	4%	1.8%
June	5%	22%	60%	12%	2%	1.7%
July	5%	23%	58%	9%	5%	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)
May	7%	25%	38%	20%	10%	2.0% (2.5%)
June	8%	28%	39%	17%	8%	1.8% (2.6%)
July	7%	26%	42%	17%	8%	1.8% (2.5%)

Quarterly Question: Projecting ahead, to the best of your ability, please assign a percent likelihood to the following changes to unit costs per year over the next FIVE TO 10 years.						
Month (number of responses)	Unit costs down (<-1%)	Unit costs about unchanged (-1% to 1%)	Unit costs up somewhat (1.1% to 3%)	Unit costs up significantly (3.1% to 5%)	Unit costs up very significantly (>5%)	Mean (variance)
February (89)	4%	11%	38%	29%	17%	2.9% (2.8%)
April (152)	4%	12%	36%	30%	18%	3.0% (2.6%)
July (153)	4%	15%	36%	26%	19%	2.8% (2.9%)
October (196)	4%	13%	36%	30%	17%	2.9% (2.7%)
January (196)	3%	12%	32%	28%	23%	3.1% (2.5%)
April (189)	4%	12%	38%	26%	20%	2.9% (2.2%)
July (209)	4%	14%	37%	28%	15%	2.8% (2.4%)

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.