

Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses **were 1.9 percent in July**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted July 7-11 with 237 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 virtually unchanged at 2.3 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 worsened somewhat, with approximately 54 percent of respondents indicating current sales levels are at or above normal. However, profit margins showed slight improvement, with roughly 49 percent of respondents indicating their profit margins are at or above normal, compared to 44 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, nearly unchanged from the April reading of 2.7 percent. Respondents' uncertainty (variance) regarding this expectation fell to 2.3 percent, down two-tenths of a percent from April.

Special question: Firms' planning horizons

The question assessed which horizon was most useful for firms when planning for or forecasting changes in six commonly considered variables: capital investment, prices, unit costs, sales revenue, profit margins, and hiring. Respondents could choose horizons ranging from "less than one month" to "more than 12 months." They were also given the option to indicate that they do not plan for or forecast a given variable or were simply unsure about their most useful horizon.

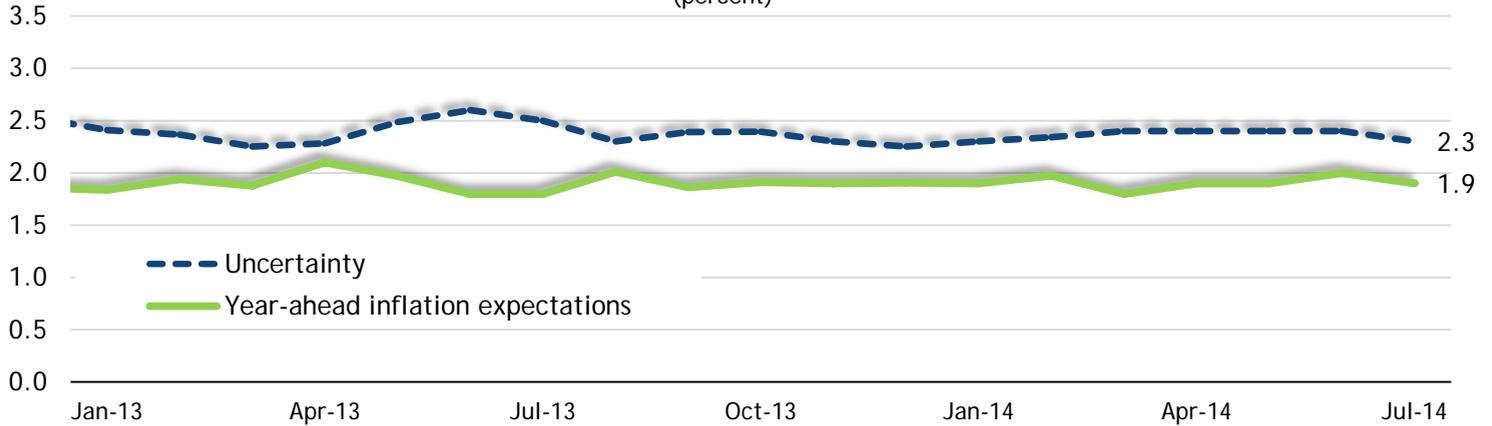
Please see page 3 for a breakdown of the results.



Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

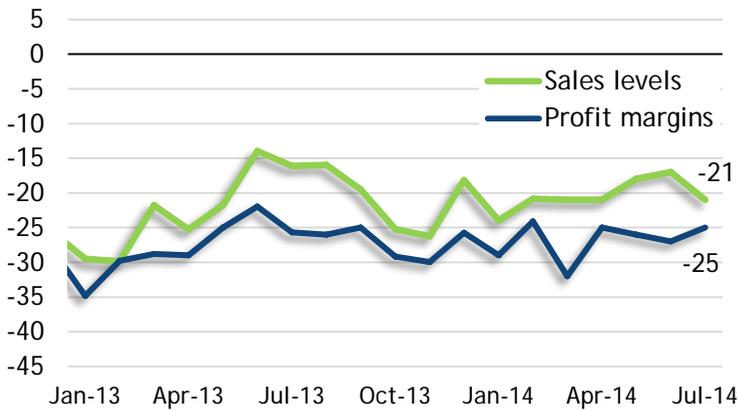
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

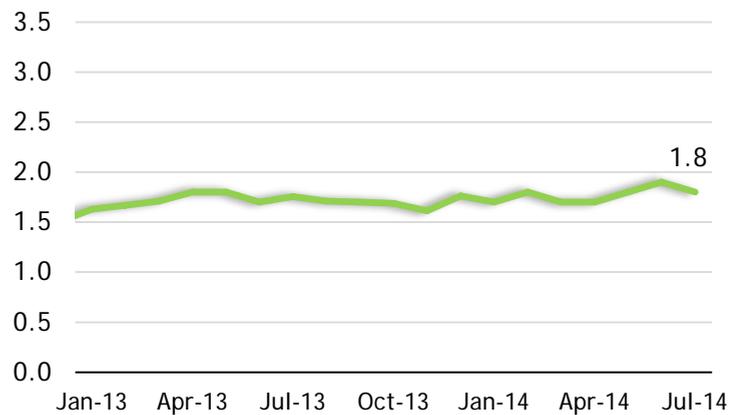
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

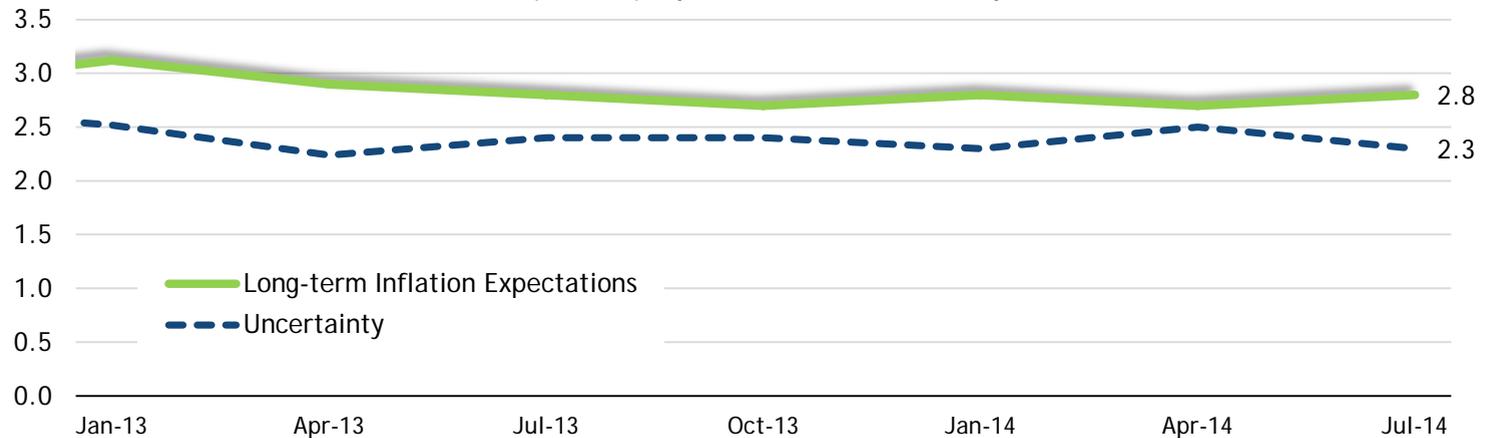


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Long-Term Inflation Expectations and Uncertainty

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

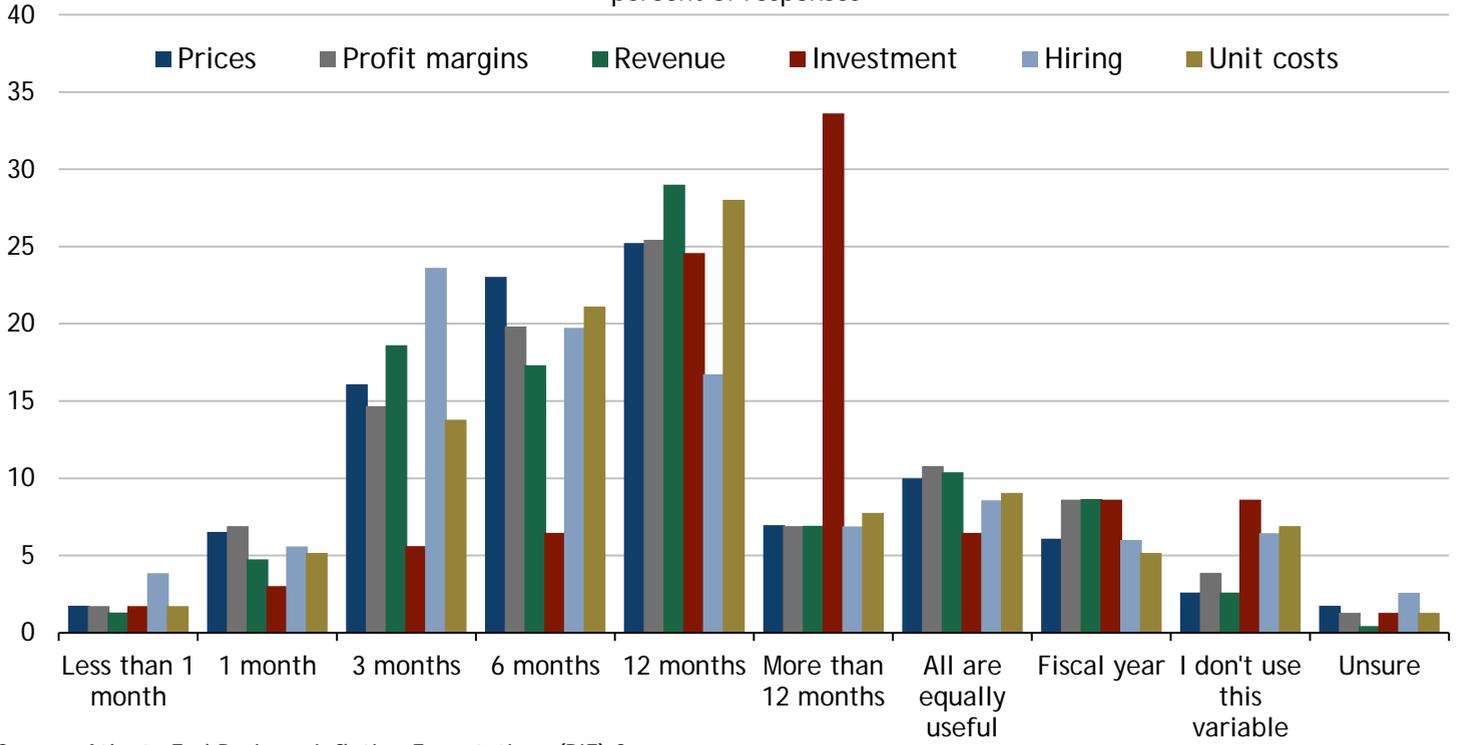


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Most Useful Planning/Forecasting Horizon

percent 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	12%	34%	33%	20%	1%	-18
June	11%	32%	38%	19%	0%	-17
July	13%	33%	38%	16%	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	12%	41%	36%	11%	0%	-26
June	10%	46%	31%	13%	0%	-27
July	11%	41%	36%	12%	1%	-25

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	2%	22%	64%	9%	3%	1.8%
June	2%	22%	61%	10%	5%	1.9%
July	3%	20%	61%	12%	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)
May	6%	26%	42%	19%	7%	1.9% (2.4%)
June	5%	24%	45%	18%	8%	2.0% (2.4%)
July	5%	26%	44%	17%	8%	1.9% (2.3%)

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
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%	3.0% (2.5%)
April (189)	4%	12%	38%	26%	20%	2.9% (2.2%)
July (209)	4%	14%	37%	28%	15%	2.8% (2.4%)
October (216)	4%	15%	45%	26%	11%	2.7% (2.4%)
January (208)	4%	20%	43%	21%	11%	2.8% (2.3%)
April (181)	3%	16%	42%	30%	8%	2.7% (2.5%)
July (223)	4%	19%	35%	26%	14%	2.8% (2.3%)

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.