

BIE | January 2016



Atlanta Fed Survey of Business Inflation Expectations

For immediate release: January 13, 2016

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The year-ahead inflation expectations of businesses were **1.8 percent in January**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted January 4–8, with 220 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 1.8 percent over the next 12 months. Inflation uncertainty declined to 2.1 percent. Firms also report that, compared to this time last year, their unit costs are up 1.4 percent. Respondents' sales levels, compared to what they consider normal conditions, were unchanged, with approximately 59 percent of respondents indicating current sales levels are at or above normal. Profit margins were also stable, with roughly 52 percent of respondents indicating their profit margins are at or above normal.

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 2.7 percent, on average, unchanged from the October reading. Respondents' uncertainty (variance) regarding this expectation declined to 2.1 percent.

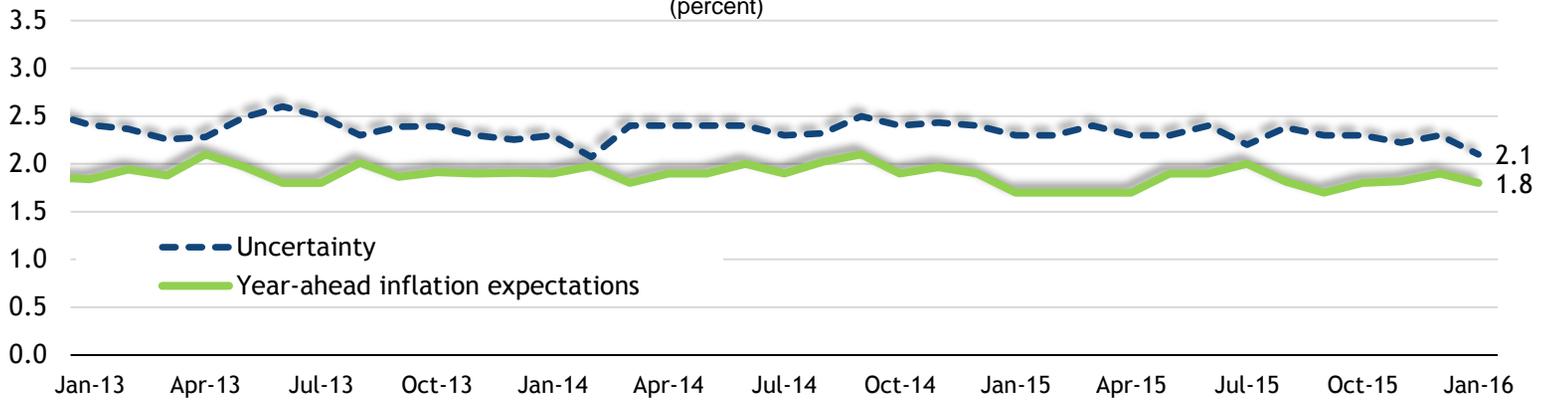
Special question: Firms' biggest concerns for 2016

The question asked respondents to describe their biggest concerns for the year ahead. Firms expressed a broad range of concerns, from the continuation of growth in the domestic and global economies to potential increases in wages, in many cases related to the ability to find qualified labor. The top 10 issues are listed on page 3.

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

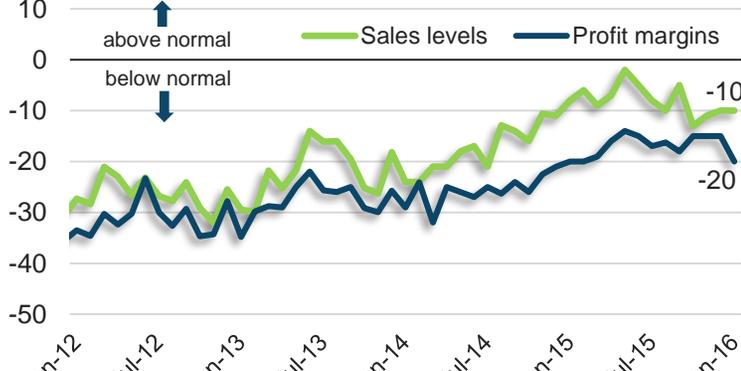
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

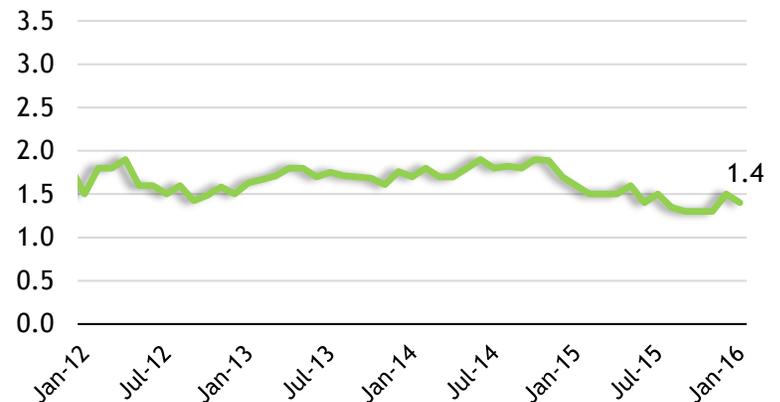
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

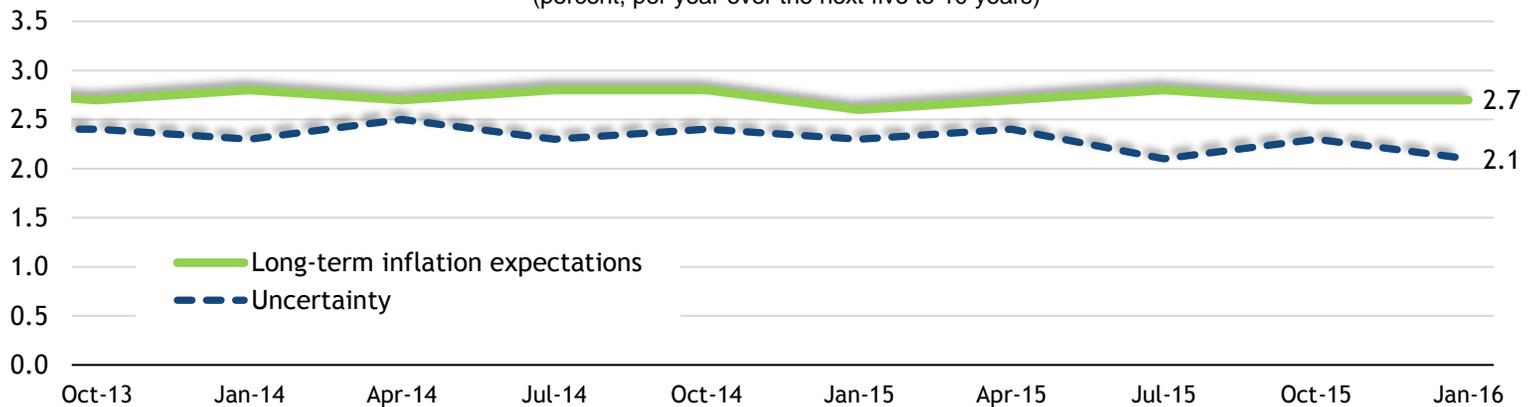


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

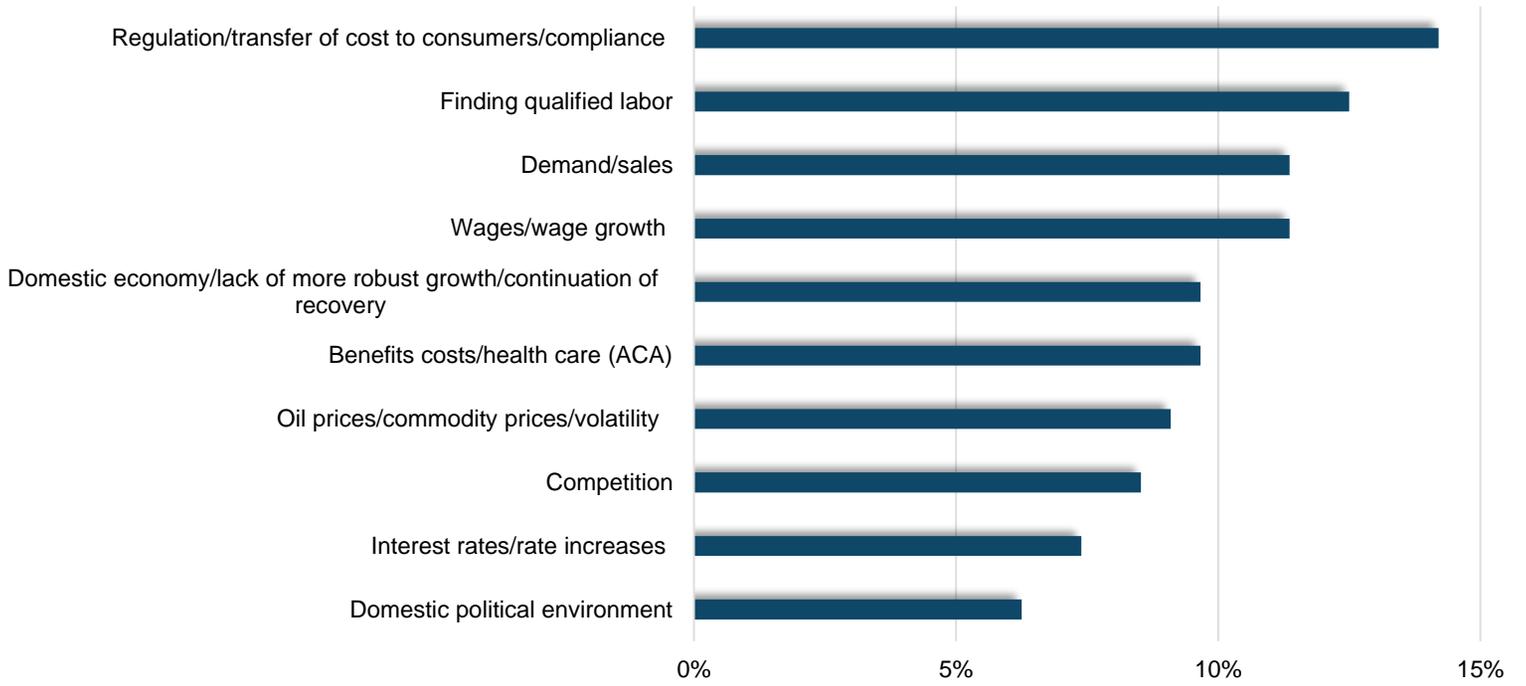
Long-Term Inflation Expectations and Uncertainty

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



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Top 10 Concerns for 2016 (percentage of mentions among top 10)



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*
November	6%	35%	34%	24%	1%	-11
December	6%	34%	34%	23%	2%	-10
January	6%	32%	35%	24%	0%	-10

How do your current PROFIT MARGINS compare with “normal” times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
November	8%	36%	35%	21%	1%	-15
December	8%	40%	29%	23%	1%	-15
January	8%	39%	36%	16%	0%	-20

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
November	11%	26%	53%	8%	1%	1.3%
December	9%	21%	61%	7%	2%	1.5%
January	8%	27%	54%	9%	2%	1.4%

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)
November	7%	26%	43%	18%	6%	1.8% (2.2%)
December	5%	25%	45%	17%	7%	1.9% (2.3%)
January	6%	27%	44%	16%	7%	1.8% (2.1%)

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 <u>FIVE TO 10</u> 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
January 2014 (208)	4%	13%	38%	29%	16%	2.8% (2.3%)
April 2014 (181)	3%	13%	41%	28%	15%	2.7% (2.5%)
July 2014 (223)	4%	13%	40%	27%	16%	2.8% (2.3%)
October 2014 (208)	4%	14%	38%	27%	17%	2.8% (2.4%)
January 2015 (216)	4%	14%	43%	26%	13%	2.6% (2.3%)
April 2015 (180)	4%	14%	42%	27%	13%	2.7% (2.4%)
July 2015 (170)	3%	12%	43%	28%	14%	2.8% (2.1%)
October 2015 (215)	3%	15%	41%	27%	13%	2.7% (2.3%)
January 2016 (212)	3%	15%	43%	26%	14%	2.7% (2.1%)

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.