

BIE | February 2016



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **1.8 percent in February**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted February 8–12, with 215 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 rose to 2.3 percent. Firms also report that, compared to this time last year, their unit costs are up 1.2 percent. Respondents' sales levels, compared to what they consider normal conditions, were virtually unchanged, with approximately 59 percent of respondents indicating current sales levels are at or above normal. Profit margins were also stable, with roughly 55 percent of respondents indicating their profit margins are at or above normal.

Quarterly question: Factors influencing price change

Seventy percent of respondents indicated that labor costs will put moderate or strong upward pressure on their prices over the next 12 months. Respondents' expectations regarding the influence of nonlabor costs on prices declined from the last measure in November, with 54 percent of respondents indicating upward price pressure. Thirty-three percent of respondents expect sales levels to put moderate or strong upward pressure on prices in the year ahead, down from the November measure. The majority of firms expect productivity and margin adjustments to have little or no influence over prices in the next 12 months.

Special question: Changes in rate of retirements and impact on the firm

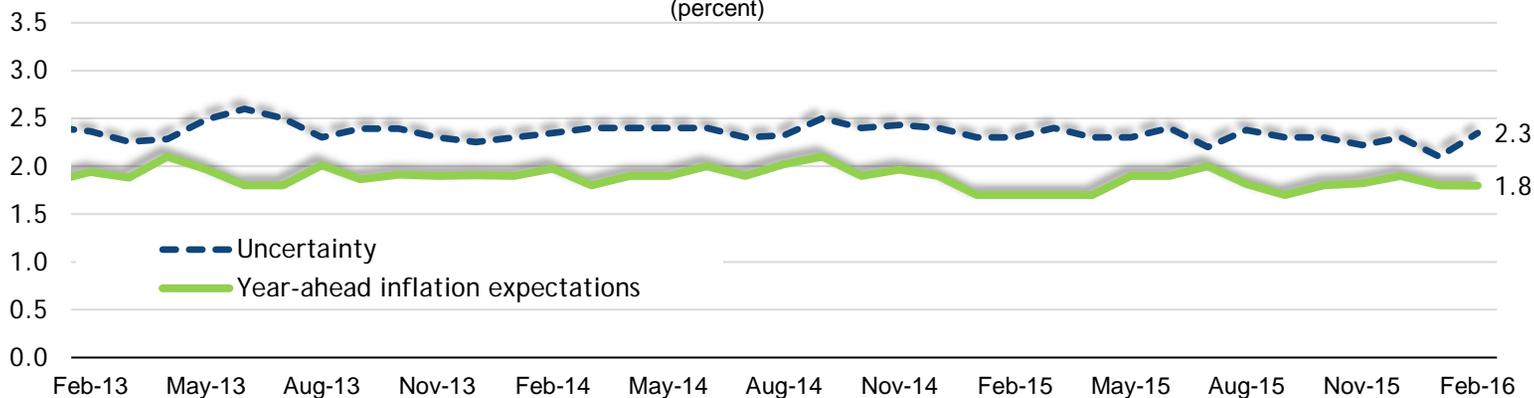
The question asked respondents to indicate whether they are experiencing a higher number of employee retirements in the last 12 months compared to what is normal for their firm.

Approximately 22 percent of respondents said they are experiencing a higher number of retirements. Those respondents received a follow-up question asking them to indicate how this has affected their firm's overall wage bill and productivity. A breakdown of these results can be found on page 3.

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

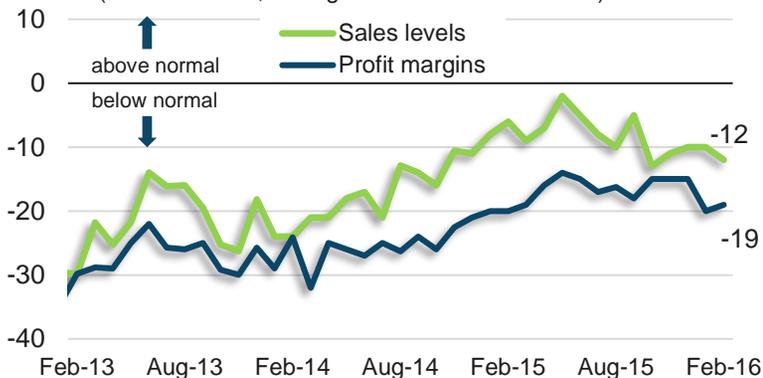
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

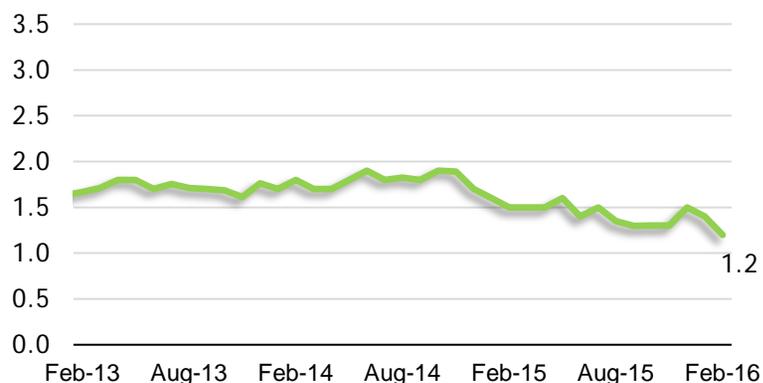
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

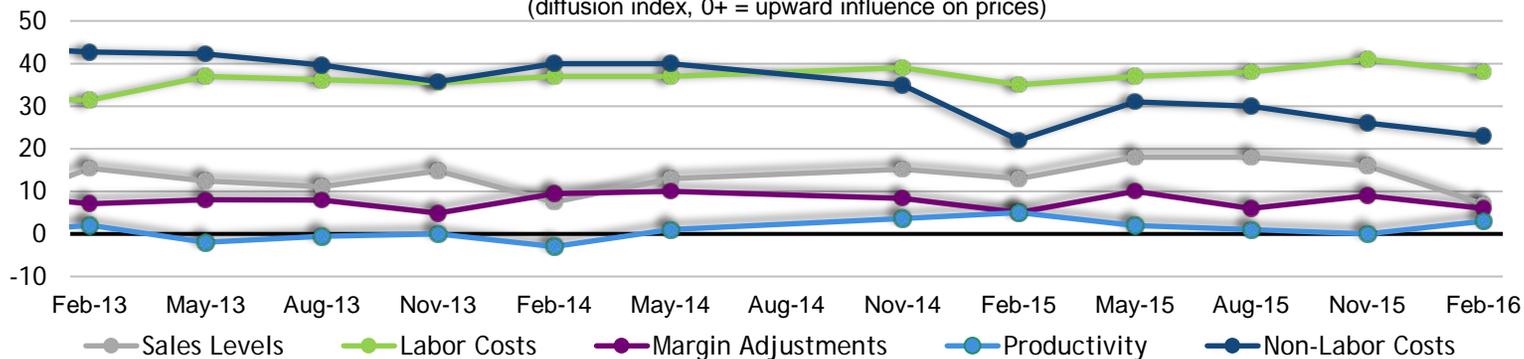


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

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?

(diffusion index, 0+ = upward influence on prices)

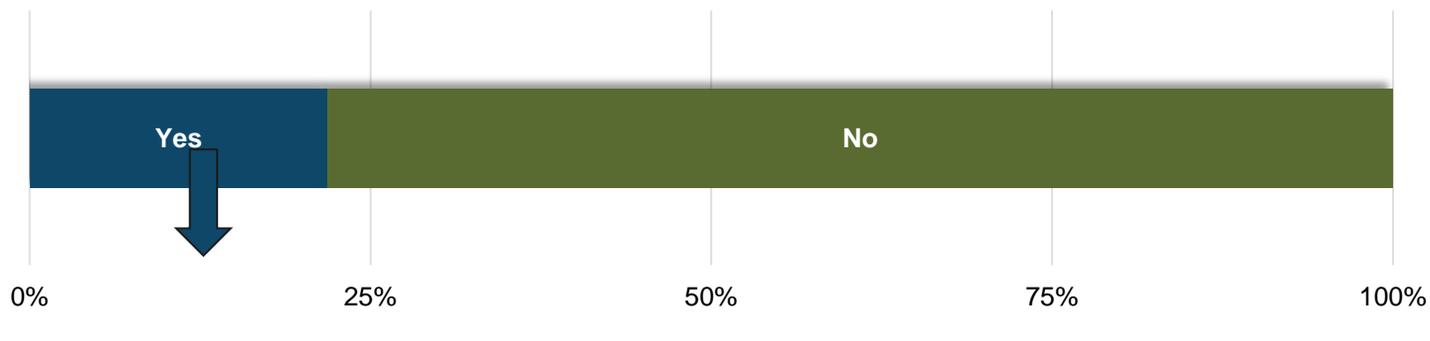


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

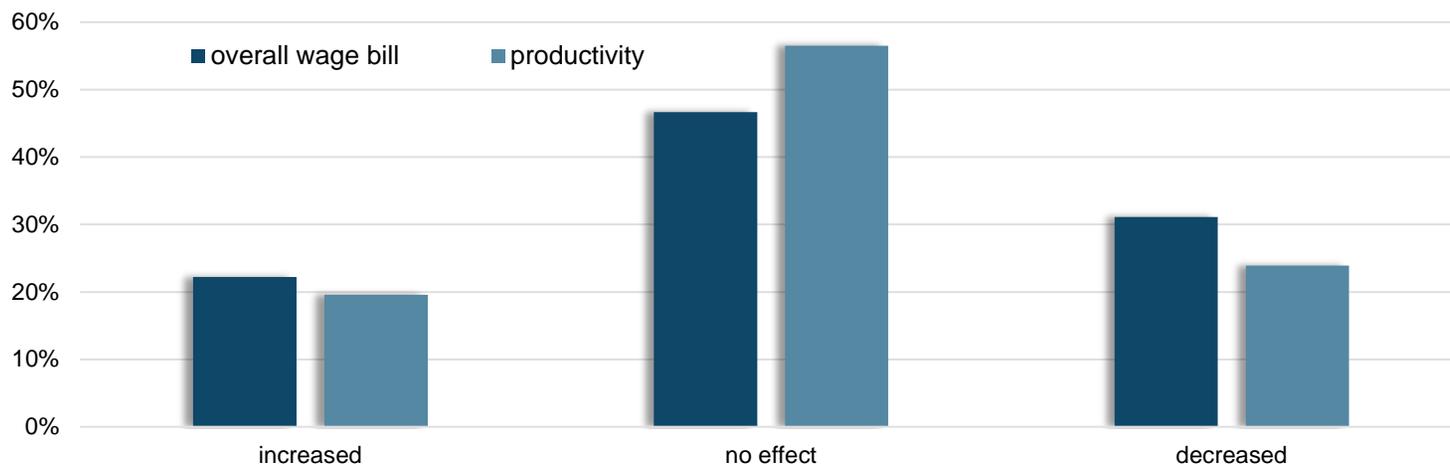
Special Question

Changes in Rate of Retirements and Impact on the Firm

In the last 12 months, has your firm experienced an increase in the number of retirements?
(percentage of responses)



Impact of Increased Retirements on Wage Bill and Productivity (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*
December	6%	34%	34%	23%	2%	-10
January	6%	32%	35%	24%	0%	-10
February	5%	36%	37%	22%	0%	-12

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
December	8%	40%	29%	23%	1%	-15
January	8%	39%	36%	16%	0%	-20
February	7%	38%	39%	16%	0%	-19

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
December	9%	21%	61%	7%	2%	1.5%
January	8%	27%	54%	9%	2%	1.4%
February	10%	30%	53%	6%	1%	1.2%

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)
December	5%	25%	45%	17%	7%	1.9% (2.3%)
January	6%	27%	44%	16%	7%	1.8% (2.1%)
February	7%	27%	42%	18%	6%	1.8% (2.3%)

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†
Labor Costs						
August	0%	4%	26%	60%	10%	39
November	0%	2%	25%	63%	11%	41
February	1%	1%	29%	62%	8%	38
Non-Labor Costs						
August	1%	7%	30%	58%	5%	30
November	1%	8%	33%	53%	5%	26
February	1%	11%	34%	49%	5%	23
Productivity						
August	0%	17%	63%	20%	0%	2
November	0%	17%	66%	16%	0%	0
February	1%	13%	67%	18%	2%	3
Margin Adjustments						
August	0%	15%	58%	25%	1%	6
November	1%	12%	57%	29%	2%	9
February	1%	12%	65%	19%	4%	6
Sales Levels						
August	1%	14%	40%	43%	2%	16
November	3%	9%	43%	42%	2%	16
February	2%	19%	46%	28%	5%	7

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.