

Atlanta Fed Survey of Business Inflation Expectations

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Contact: Jean Tate, 404-498-8035 or jean.tate@atl.frb.org

The year-ahead inflation expectations of businesses were **1.7 percent in April**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted April 4–8, with 202 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 1.7 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 1.2 percent. Respondents' sales levels, compared to what they consider normal conditions, improved overall to a diffusion index value of minus 8 compared to minus 13 in March. Profit margins also improved, with a diffusion index value of minus 16 compared to minus 19 in March.

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 2.6 percent, on average, down slightly from the January reading. Respondents' uncertainty (variance) regarding this expectation increased to 2.2 percent.

Special question: Assessment of inventory levels and their impact

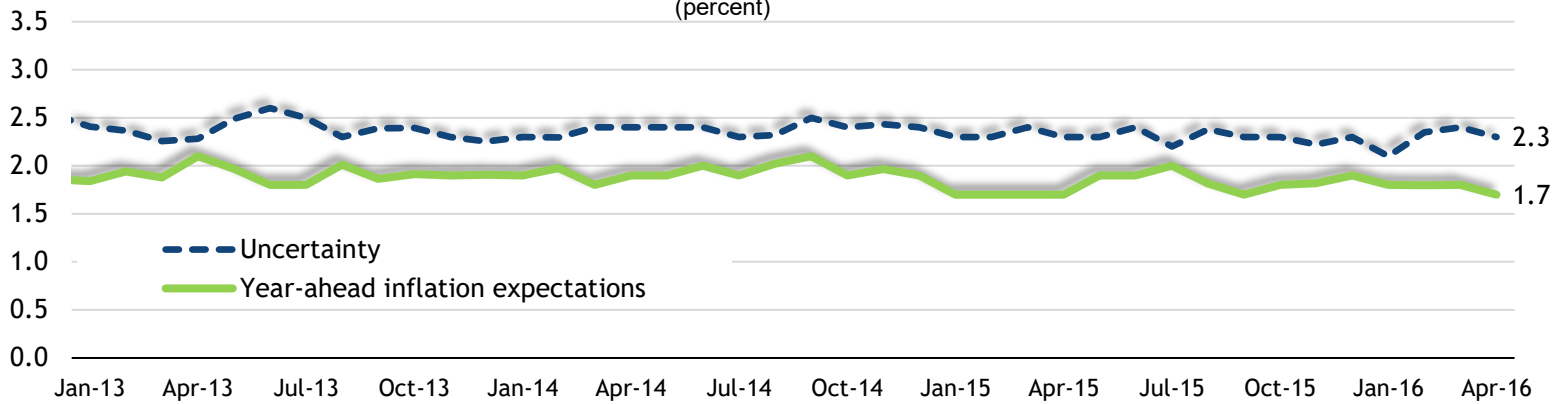
Respondents assessed their current level of inventory compared to what they consider normal times. Twelve percent indicated their current level of inventory is high, 9 percent see it as low, and 52 percent say it is normal. Twenty-six percent of respondents indicated they do not carry inventory.

Those who responded that their current level of inventory is high or low received a follow-up question asking how they anticipate this might affect their production, number of employees, and average price of their products and services. A breakdown of these results can be found on page 3.

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

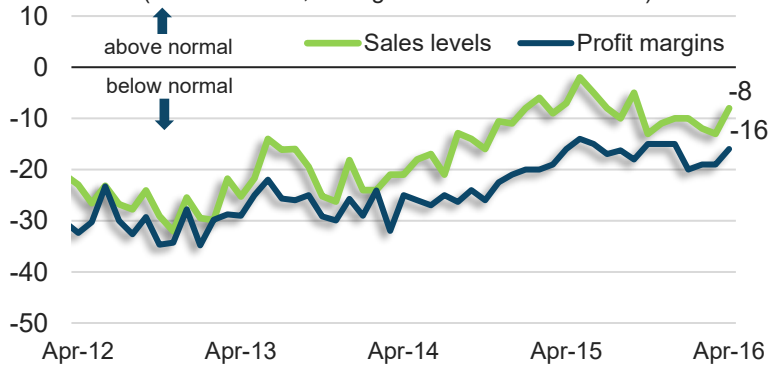
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

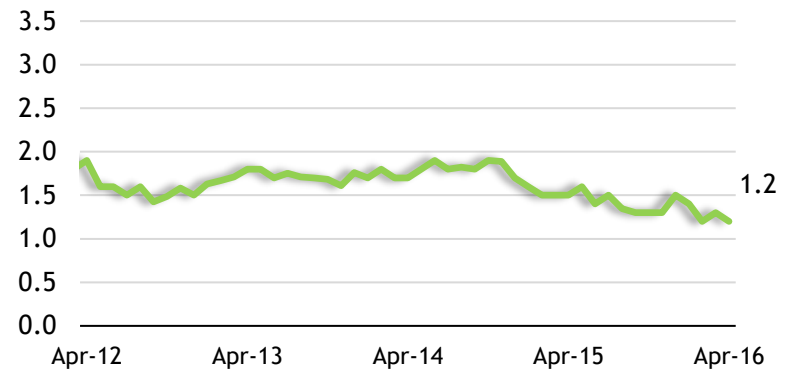
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

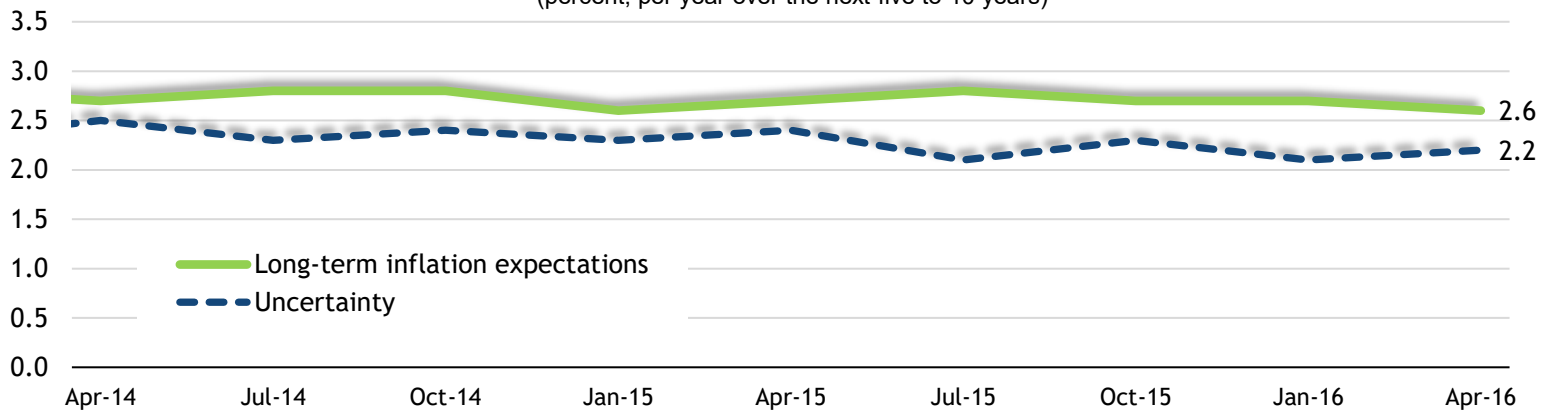


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Long-Term Inflation Expectations and Uncertainty

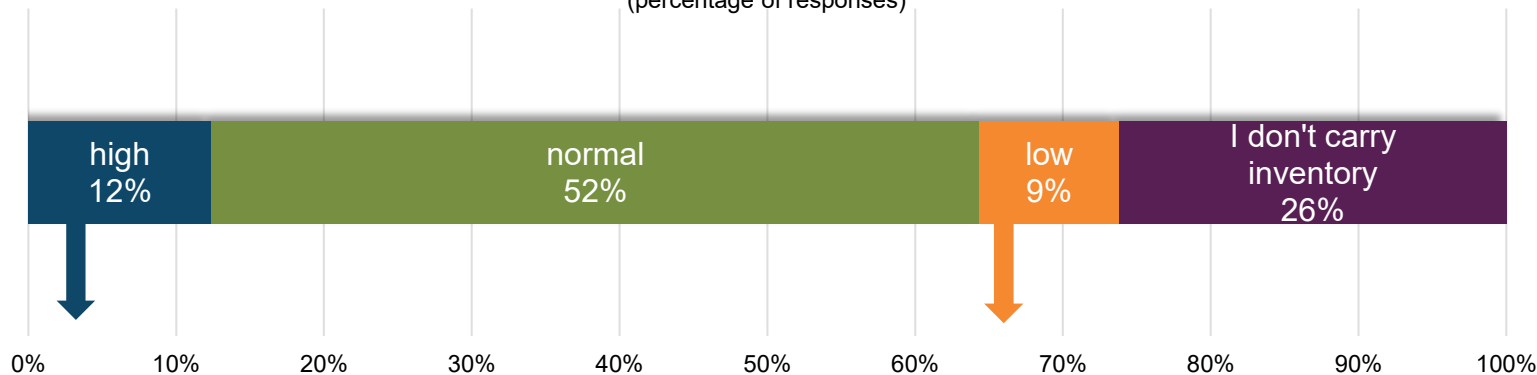
(percent, per year over the next five to 10 years)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Assessment of Current Inventory Levels

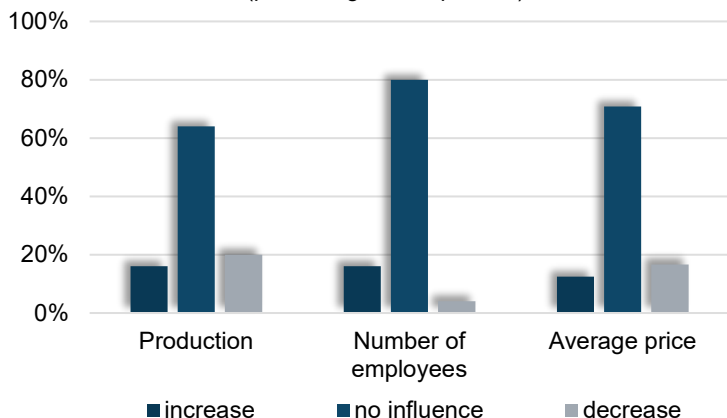
(percentage of responses)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Anticipated Impact of **High** Inventory

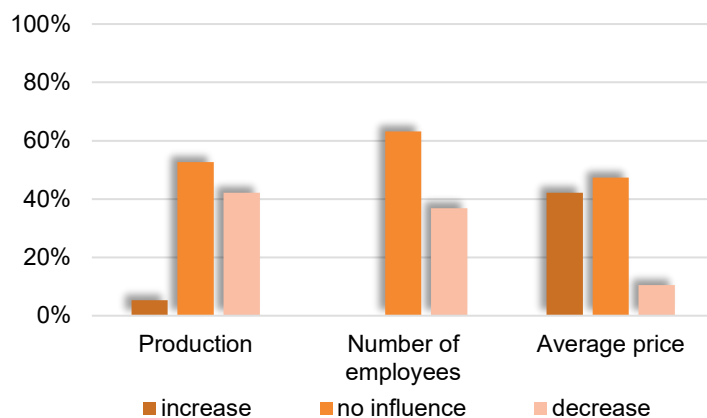
(percentage of responses)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Anticipated Impact of **Low** Inventory

(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*
February	5%	36%	37%	22%	0%	-12
March	8%	32%	39%	20%	1%	-13
April	6%	34%	32%	27%	1%	-8

How do your current PROFIT MARGINS compare with “normal” times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
February	7%	38%	39%	16%	0%	-19
March	12%	34%	35%	18%	1%	-19
April	8%	35%	38%	18%	0%	-16

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
February	10%	30%	53%	6%	1%	1.2%
March	8%	24%	62%	6%	0%	1.3%
April	9%	28%	56%	6%	0%	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)
February	7%	27%	42%	18%	6%	1.8% (2.3%)
March	6%	27%	44%	17%	6%	1.8% (2.4%)
April	6%	29%	44%	16%	5%	1.7% (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 <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
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%)
April 2016 (195)	3%	15%	43%	26%	13%	2.6% (2.2%)

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.