

Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **1.8 percent in June**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted June 6–10, with 219 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 remained stable at 2.2 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, improved somewhat to a diffusion index value of -10 compared to -11 in May. Profit margins also improved, with a diffusion index value of -17 compared to -23 in May.

Quarterly question: Percent above/below normal sales levels

On average (weighted by industry share of gross domestic product), respondents indicated their unit sales gap (percentage below normal unit sales) was approximately 3.5 percent below normal compared to 3.0 percent below normal in March. On average, small firms (fewer than 100 employees) reported an increase in their sales gap to 9.2 percent. Midsize firms' (100–499 employees) sales gap increased to 3.0 percent, and large firms (500 or more employees) sales gap increased to 1.9 percent below normal.

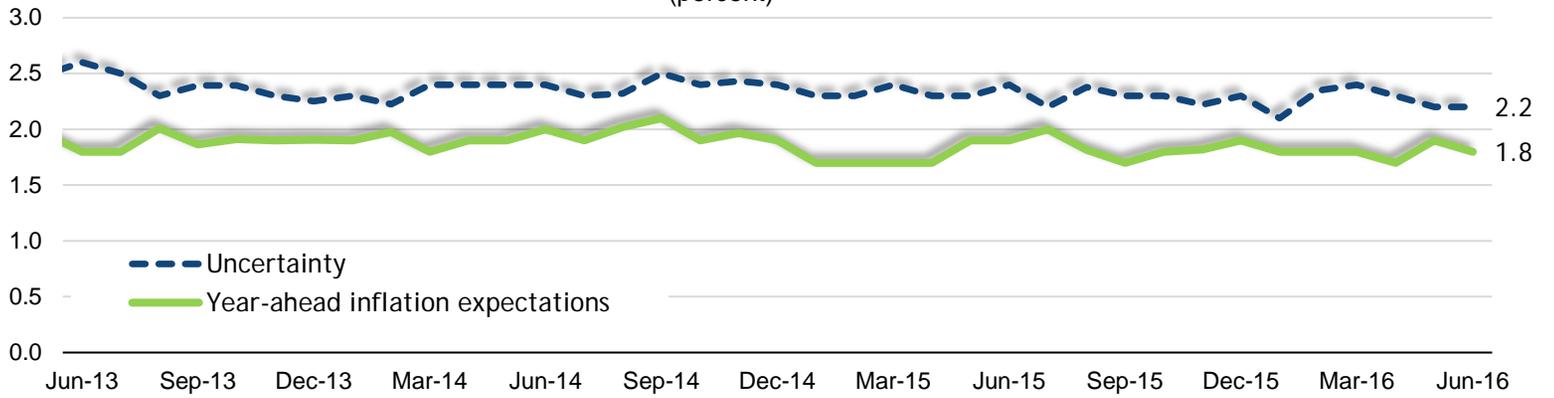
Special question: Underlying cost forecasting period when changing price

Respondents were asked to provide the period over which they typically forecast changes in underlying costs when contemplating price changes.

Approximately 31 percent of respondents consider potential cost changes over the next three months or less when contemplating a price change. Twenty-three percent consider potential cost changes over the next six months, and 26 percent consider changes over the next 12 months or more. A breakdown of these results can be found on page 3.

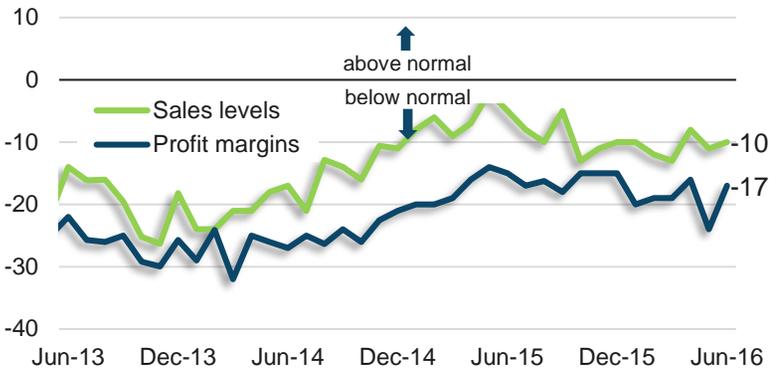
Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty (percent)



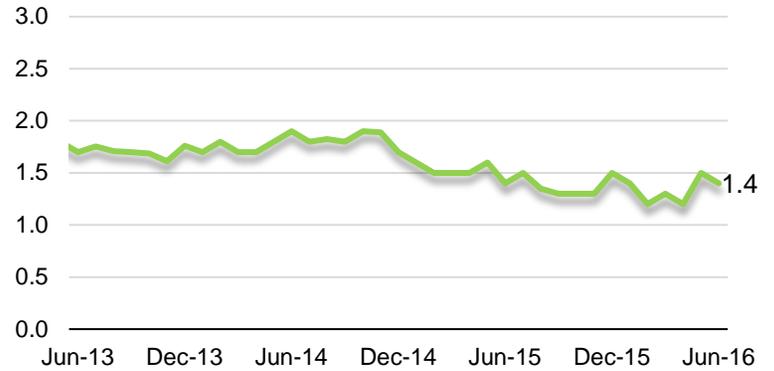
Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times (diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

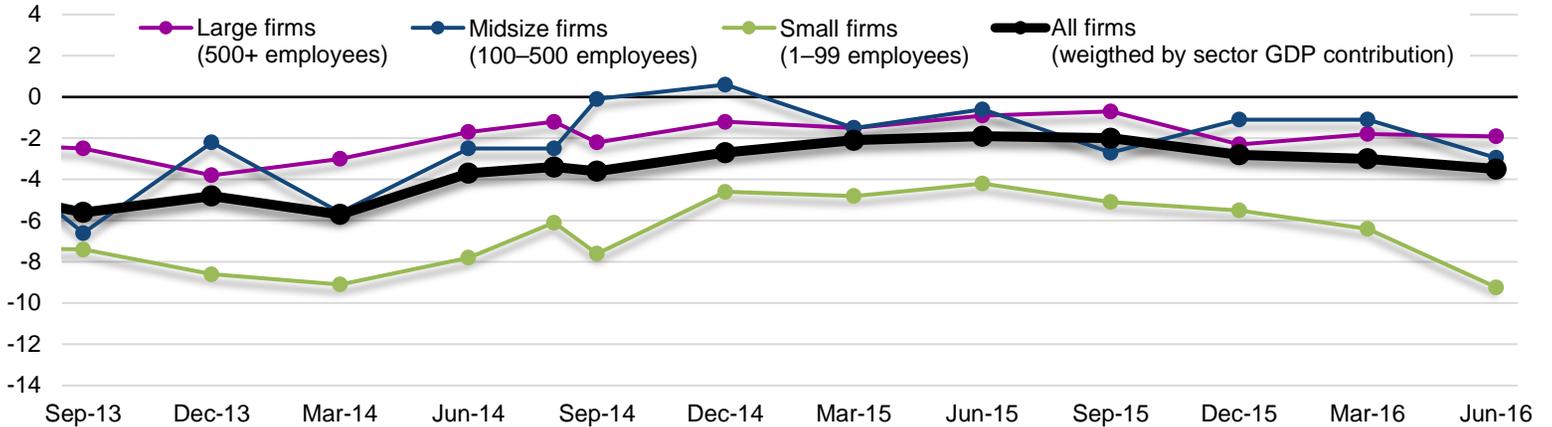
Year-over-Year Unit Cost Change (percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Mean Percent Above/Below Normal Sales Levels

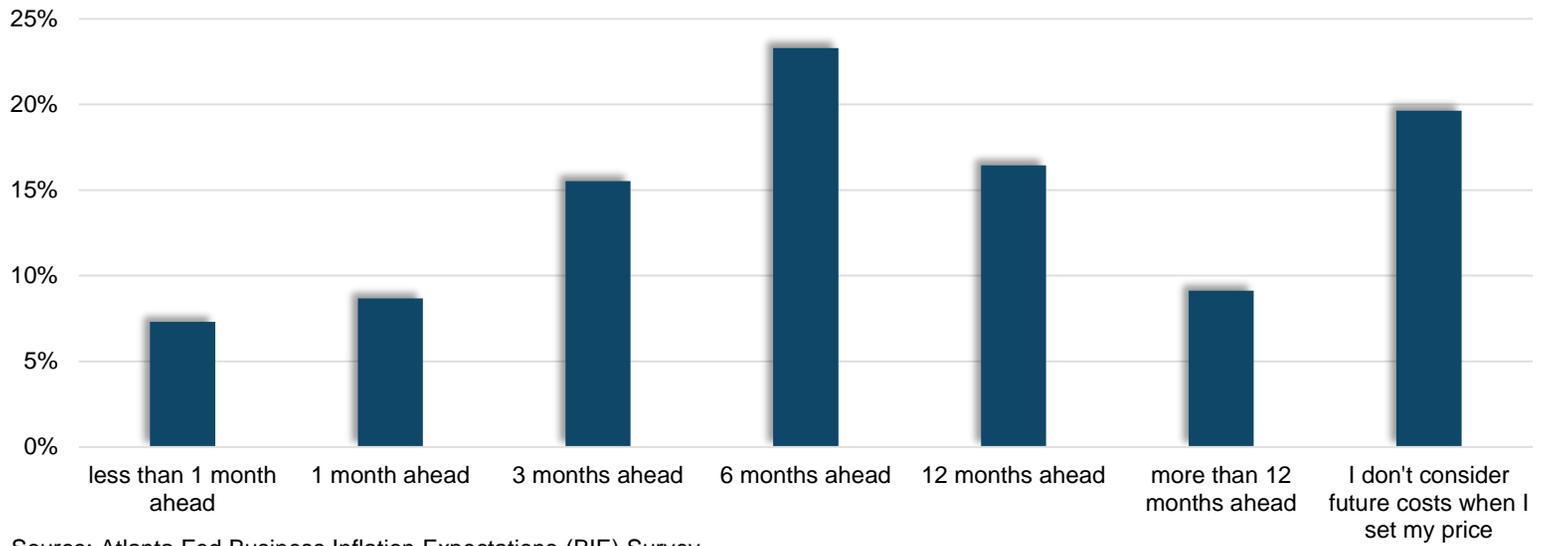


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

How far into the future do you typically consider possible changes to underlying costs when changing the price of a product or service, if you do so at all?

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* |
| April | 6% | 34% | 32% | 27% | 1% | -8 |
| May | 7% | 36% | 30% | 27% | 1% | -11 |
| June | 7% | 33% | 36% | 24% | 1% | -10 |

| How do your current PROFIT MARGINS compare with “normal” times? | | | | | | |
|---|-----------|---------------|--------------|------------------|--------------|------------------|
| | Much less | Somewhat less | About normal | Somewhat greater | Much greater | Diffusion index* |
| April | 8% | 35% | 38% | 18% | 0% | -16 |
| May | 11% | 37% | 38% | 13% | 0% | -23 |
| June | 11% | 31% | 39% | 19% | 0% | -17 |

| 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 |
| April | 9% | 28% | 56% | 6% | 0% | 1.2% |
| May | 9% | 18% | 62% | 9% | 2% | 1.5% |
| June | 6% | 27% | 58% | 8% | 1% | 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) |
| April | 6% | 29% | 44% | 16% | 5% | 1.7% (2.3%) |
| May | 5% | 26% | 45% | 18% | 5% | 1.9% (2.2%) |
| June | 6% | 28% | 45% | 16% | 6% | 1.8% (2.2%) |

| Quarterly Question: By roughly what percent are your firm's sales levels above/below “normal,” if at all? | | | | | | |
|---|--|------------|------------|------------|------------|------------|
| Firm size | Average percent above/below normal (number of responses) | | | | | |
| | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 |
| Small (1-99 employees) | -4.8 (97) | -4.2 (96) | -5.1 (92) | -5.5 (93) | -6.4 (90) | -9.2 (96) |
| Midsized (100-499 employees) | -1.5 (42) | -0.6 (39) | -2.7 (74) | -1.1 (58) | -1.1 (66) | -3.0 (64) |
| Large (500+ employees) | -1.5 (59) | -0.9 (51) | -0.7 (47) | -2.3 (48) | -1.8 (50) | -1.9 (53) |
| All | -2.1 (198) | -1.9 (186) | -2.0 (213) | -2.8 (199) | -3.0 (206) | -3.5 (213) |

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.