

Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **1.7 percent in July**, according to the Federal Reserve Bank of Atlanta’s most recent business inflation expectations (BIE) survey. The survey was conducted July 4–8, with 244 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 increased to 2.4 percent. Firms also report that, compared to this time last year, their unit costs are up 1.5 percent. Respondents’ sales levels, compared to what they consider normal conditions, declined somewhat to a diffusion index value of -14 compared to -10 in June. Profit margins also declined, with a diffusion index value of -20 compared to -17 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 2.6 percent, on average, unchanged from the April reading. Respondents’ uncertainty (variance) regarding this expectation increased to 2.4 percent.

Special question: Effect of Brexit on uncertainty

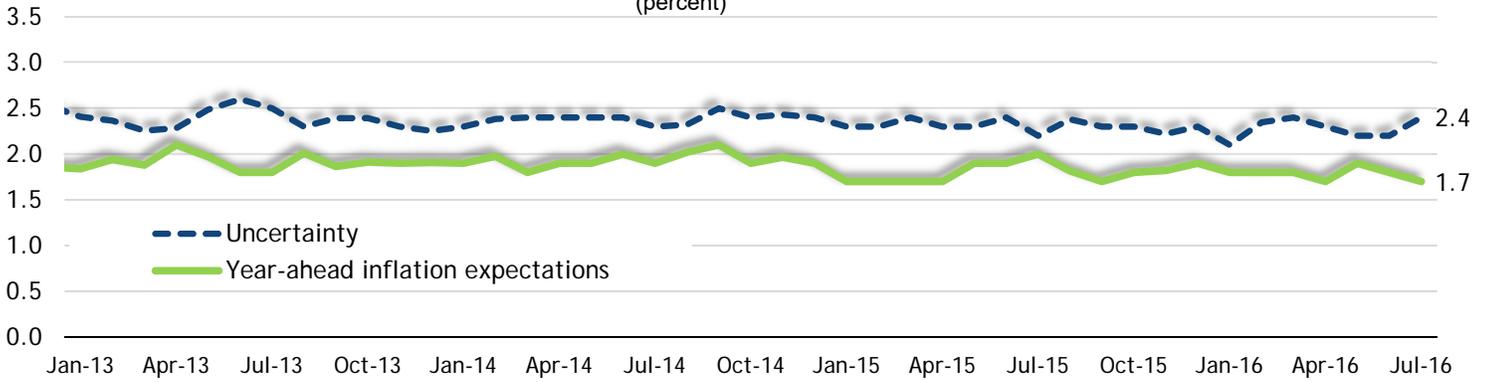
Respondents were asked how the recent referendum regarding Britain’s membership in the European Union (so-called Brexit) affected their level of certainty regarding their sales growth outlook.

Approximately 63 percent of respondents indicated their sales growth forecast was “unaffected” by Britain’s vote to leave the European Union, 29 percent indicated their sales growth forecast was “somewhat more uncertain,” and 3 percent indicated their sales growth forecast was “much more uncertain.” The remainder of respondents were unsure.

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

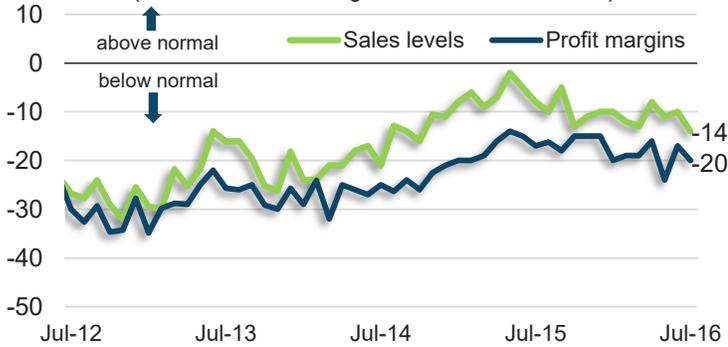
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

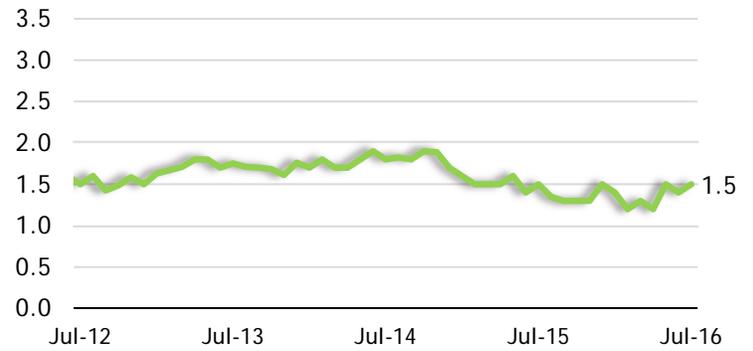
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

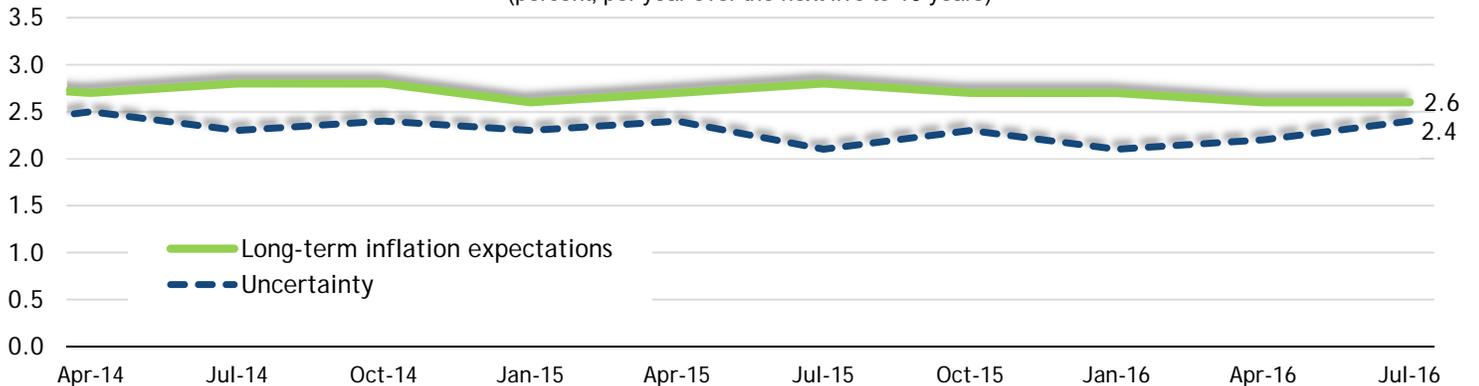


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Long-Term Inflation Expectations and Uncertainty

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

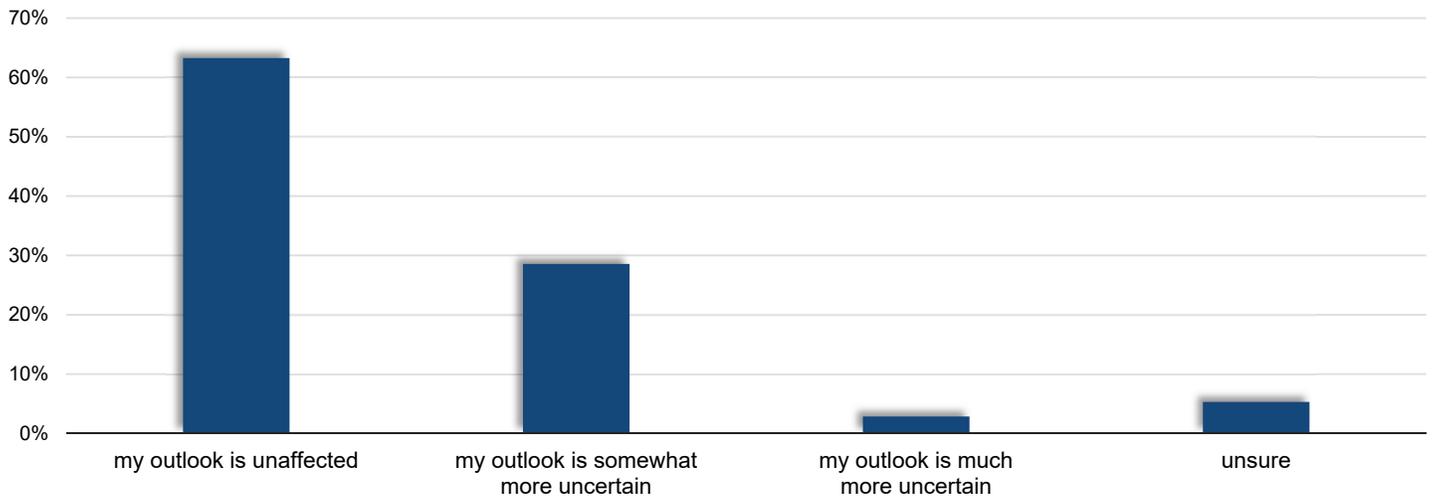


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Which of the following best describes how the outcome of the recent referendum in Great Britain (so-called Brexit) has affected your sales growth outlook?*

percentage of responses



*Note: Respondents were also given "somewhat more certain" and "much more certain" response options, both of which received zero 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	7%	36%	30%	27%	1%	-11
June	7%	33%	36%	24%	1%	-10
July	9%	33%	38%	20%	1%	-14

How do your current PROFIT MARGINS compare with “normal” times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
May	11%	37%	38%	13%	0%	-23
June	11%	31%	39%	19%	0%	-17
July	11%	32%	43%	13%	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
May	9%	18%	62%	9%	2%	1.5%
June	6%	27%	58%	8%	1%	1.4%
July	4%	31%	55%	7%	3%	1.5%

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	5%	26%	45%	18%	5%	1.9% (2.2%)
June	6%	28%	45%	16%	6%	1.8% (2.2%)
July	6%	30%	42%	15%	7%	1.7% (2.4%)

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
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%)
July 2016 (231)	4%	16%	41%	25%	14%	2.6% (2.4%)

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.