

BIE | August 2016



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **1.8 percent in August**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted August 8–12, with 225 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 decreased to 2.1 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, improved slightly to a diffusion index value of -13 compared to -14 in July. Profit margins were unchanged, with a diffusion index value of -20.

Quarterly question: Factors influencing price change

Seventy-two 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 increased from the last measure, with 61 percent of respondents indicating upward price pressure. Thirty-eight percent of respondents expect sales levels to put moderate or strong upward pressure on prices in the year ahead. The majority of firms expect productivity and margin adjustments to have little or no influence over prices in the next 12 months.

Special question: Firm pricing power

Firms assessed how their ability to increase prices has changed over the last 12 months and projected their ability to increase prices over the next three to six months.

Forty-seven percent of firms noted their ability to increase prices was "roughly unchanged" over the last 12 months. Thirty-eight percent indicated their ability to increase prices had "deteriorated," and 16 percent said that ability had "improved."

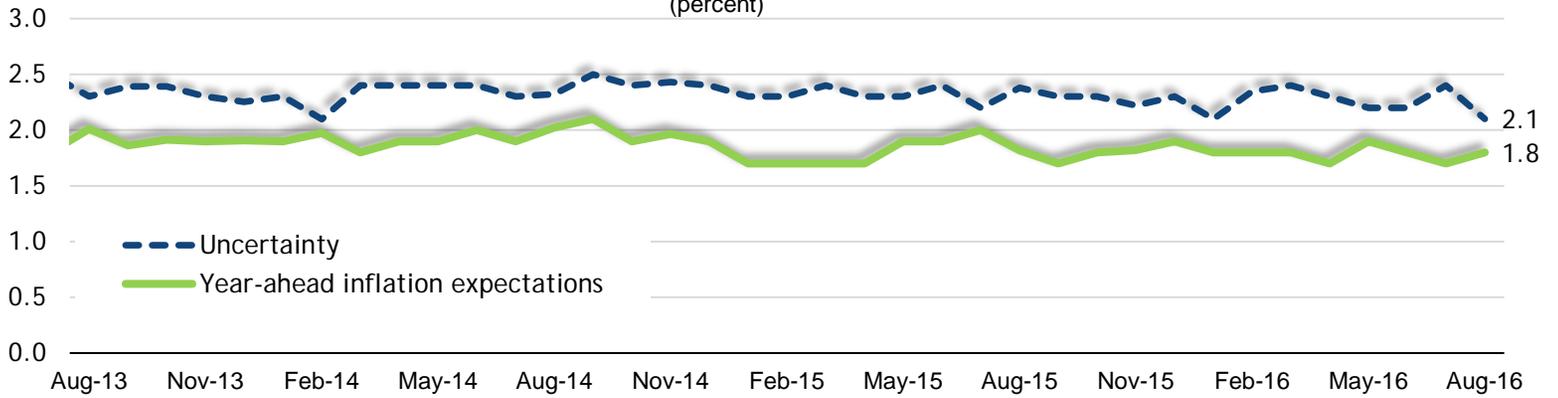
The majority of firms (55 percent) noted they will have "some ability to increase prices" over the next three to six months. This group includes roughly 40 percent of firms that indicated their pricing power had deteriorated over the last 12 months. Forty-five percent said they have "no ability to increase prices."

A breakdown of these results is on page 3.

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

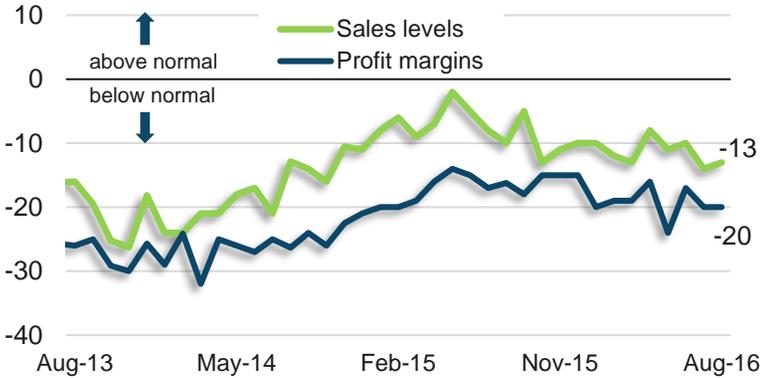
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

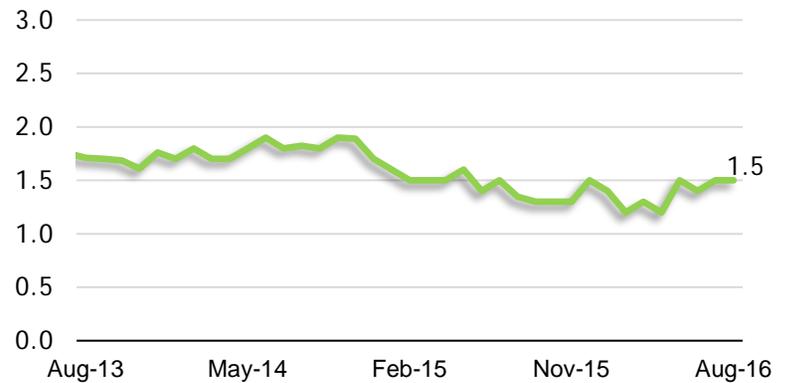
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

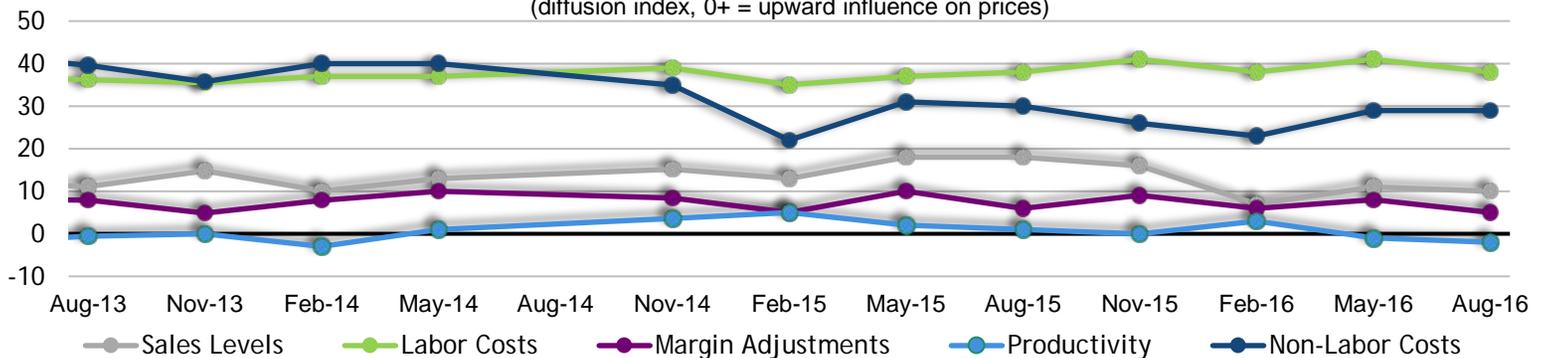


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

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?

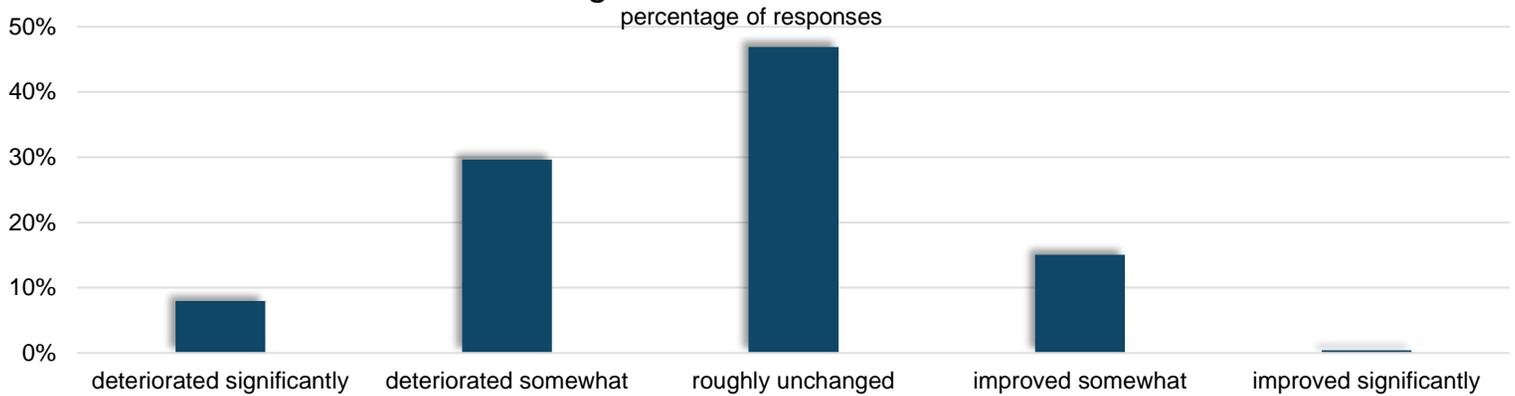
(diffusion index, 0+ = upward influence on prices)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

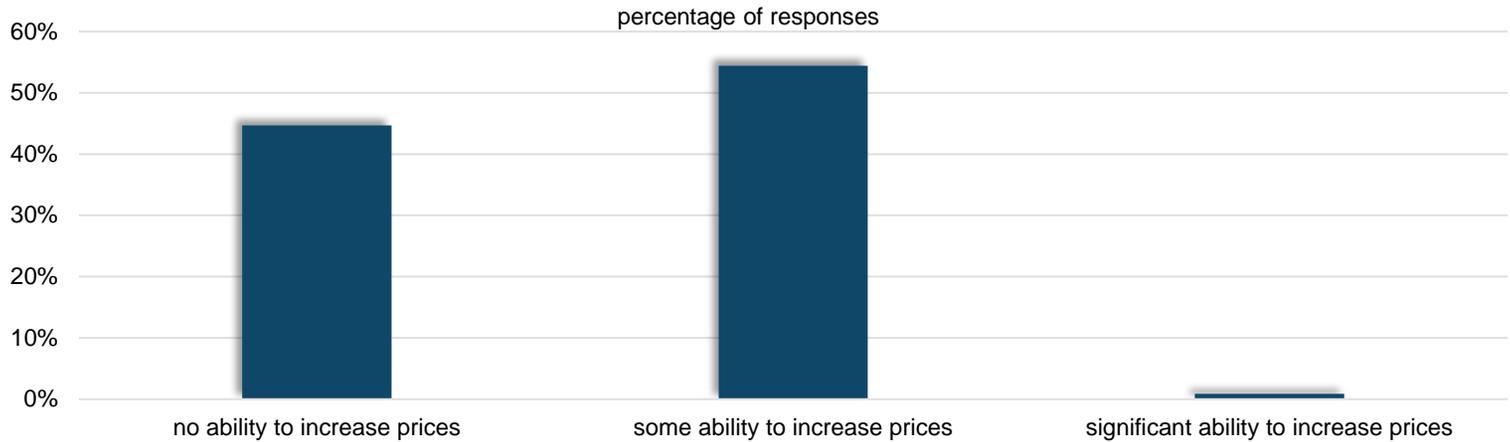
Special Question

Which of the following best describes how your ability to increase prices has changed over the last 12 months?



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Which of the following best describes your ability to increase prices over the next three to six months?



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*
June	7%	33%	36%	24%	1%	-10
July	9%	33%	38%	20%	1%	-14
August	9%	29%	43%	18%	1%	-13

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
June	11%	31%	39%	19%	0%	-17
July	11%	32%	43%	13%	0%	-20
August	7%	37%	44%	11%	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
June	6%	27%	58%	8%	1%	1.4%
July	4%	31%	55%	7%	3%	1.5%
August	6%	26%	58%	8%	2%	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)
June	6%	28%	45%	16%	6%	1.8% (2.2%)
July	6%	30%	42%	15%	7%	1.7% (2.4%)
August	6%	28%	44%	16%	6%	1.8% (2.1%)

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						
February	1%	1%	29%	62%	8%	38
May	0%	1%	26%	58%	12%	41
August	1%	1%	25%	65%	7%	38
Non-Labor Costs						
February	1%	11%	34%	49%	5%	23
May	0%	6%	32%	54%	5%	29
August	2%	4%	33%	58%	3%	29
Productivity						
February	1%	13%	67%	18%	2%	3
May	0%	16%	68%	10%	2%	-1
August	0%	20%	65%	14%	1%	-2
Margin Adjustments						
February	1%	12%	65%	19%	4%	6
May	1%	14%	55%	24%	3%	8
August	1%	13%	61%	24%	1%	5
Sales Levels						
February	2%	19%	46%	28%	5%	7
May	2%	15%	42%	36%	2%	11
August	1%	21%	40%	34%	4%	10

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.