

BIE | October 2016



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **1.7 percent in October**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted October 10–14, 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 1.7 percent over the next 12 months. Inflation uncertainty was roughly unchanged at 2.1 percent. Firms also report that, compared to this time last year, their unit costs are up 1.7 percent. Respondents' sales levels, compared to what they consider normal conditions, fell to a diffusion index value of -18 compared to -14 in September. Profit margins were unchanged, with a diffusion index value of -21.

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 2.7 percent, on average, up one-tenth of a percentage point from the July reading. Respondents' uncertainty (variance) regarding this expectation decreased to 2.1 percent.

Special question: Optimism about the economy

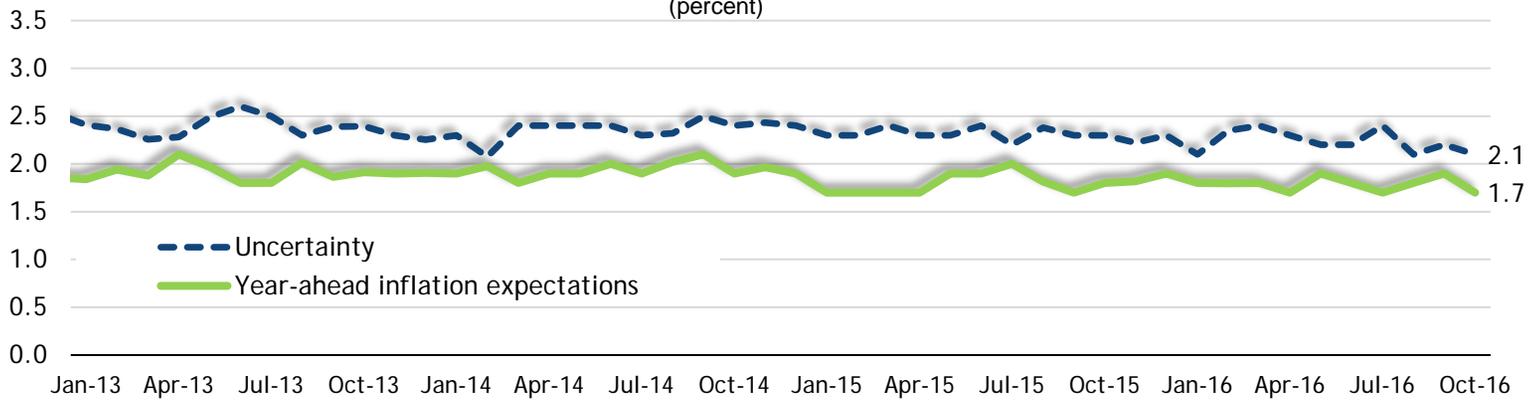
Firms were asked to rate their optimism about the U.S. economy on a scale from 0–100, with 0 being the least optimistic and 100 being the most optimistic. This is a question asked on a quarterly basis by the Duke CFO Global Business Outlook Survey.

On average, firms' optimism about the U.S. economy was rated 58.5 out of 100, similar to the mean value (60.6) assigned by firms in the September release of the Duke CFO Survey. A breakdown of results can be found on page 3.

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

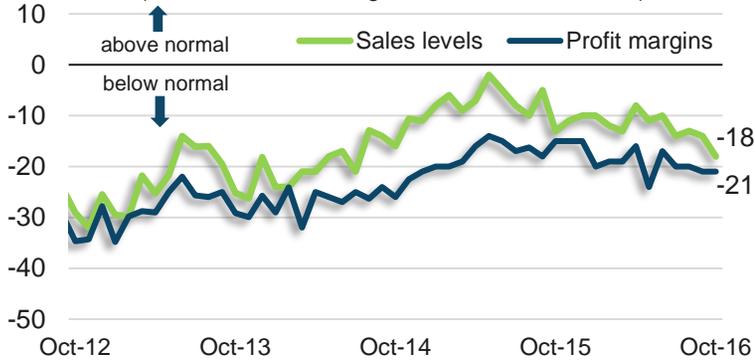
(percent)



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)

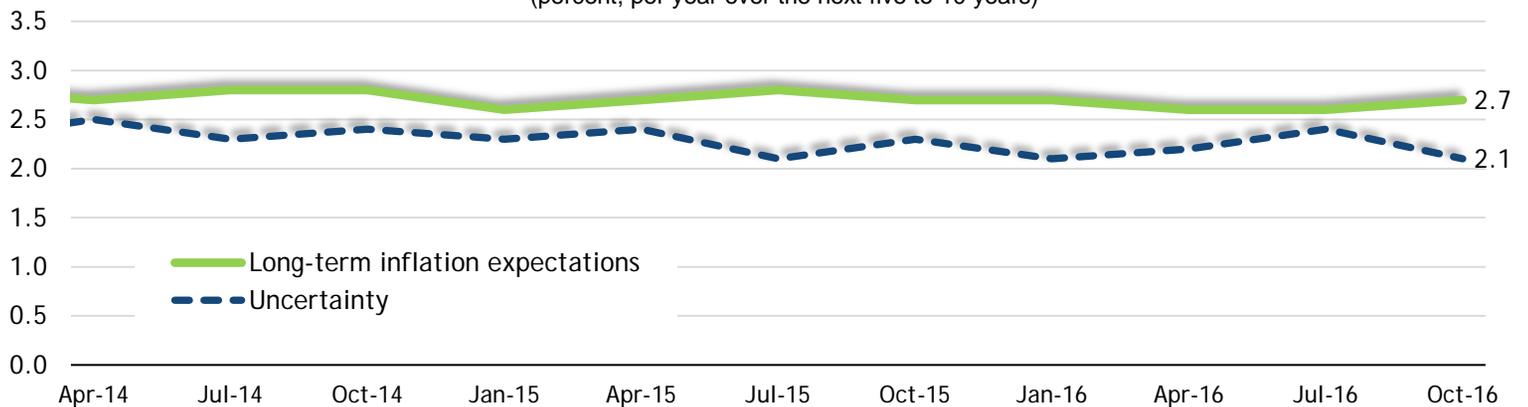


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Long-Term Inflation Expectations and Uncertainty

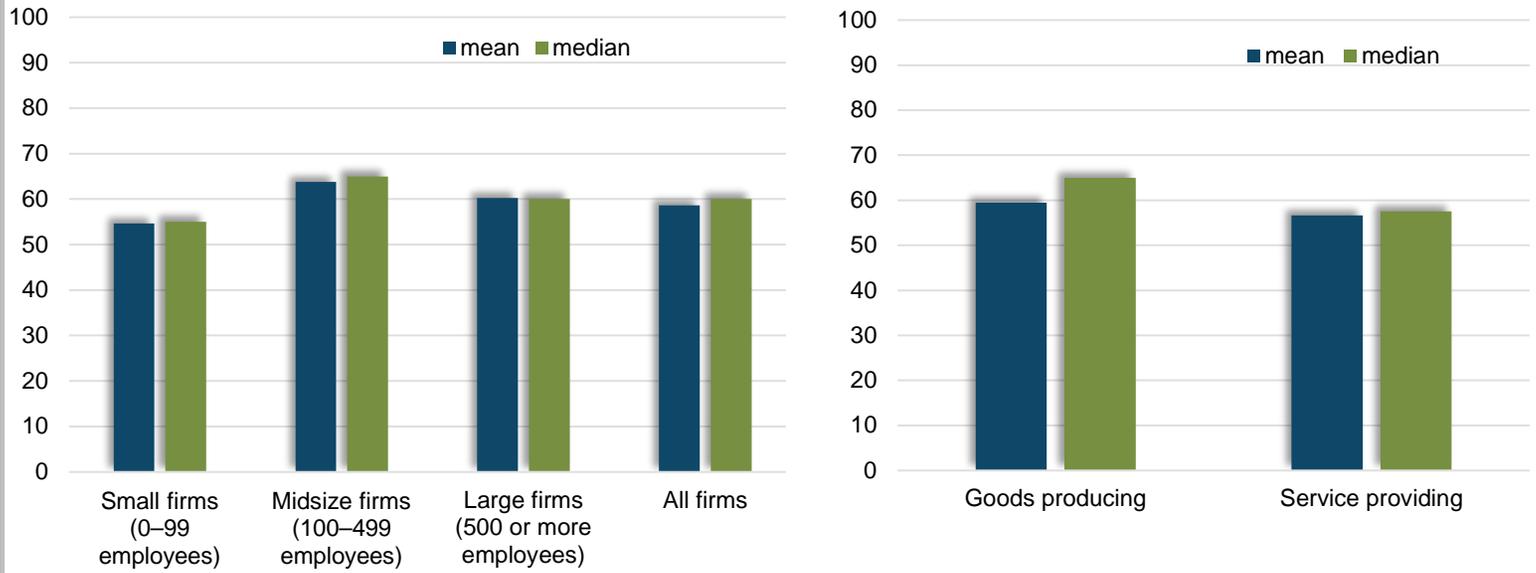
(percent, per year over the next five to 10 years)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

Please rate your optimism about the U.S. economy on a scale from 0–100, with 0 being the least optimistic and 100 being the most optimistic.



Sources: Atlanta Fed Business Inflation Expectations (BIE) survey; question wording from the Duke CFO Global Business Outlook 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*
August	9%	29%	43%	18%	1%	-13
September	9%	33%	37%	19%	2%	-14
October	10%	35%	36%	18%	1%	-18

How do your current PROFIT MARGINS compare with “normal” times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
August	7%	37%	44%	11%	0%	-20
September	11%	36%	39%	12%	2%	-21
October	8%	36%	45%	10%	1%	-21

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
August	6%	26%	58%	8%	2%	1.5%
September	3%	28%	61%	7%	1%	1.5%
October	3%	27%	58%	9%	4%	1.7%

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)
August	6%	28%	44%	16%	6%	1.8% (2.1%)
September	5%	26%	43%	19%	6%	1.9% (2.2%)
October	6%	29%	44%	16%	6%	1.7% (2.1%)

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
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%)
September 2016 (219)	3%	15%	40%	27%	14%	2.7% (2.1%)

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.