

BIE | November 2016



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **2.0 percent in November**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted November 7–11, 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 2.0 percent over the next 12 months. Inflation uncertainty was 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, improved somewhat to a diffusion index value of -15 compared to -18 in October. Profit margins were roughly unchanged, with a diffusion index value of -20.

Quarterly question: Factors influencing price change

Seventy-four 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 64 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: Optimism for economy and own firm's financial prospects

Firms were asked to rate their optimism about both the U.S. economy and their firm's financial prospects on a scale from 0–100, with 0 being the least optimistic and 100 being the most optimistic. These questions are asked on a quarterly basis by the Duke CFO Global Business Outlook Survey.

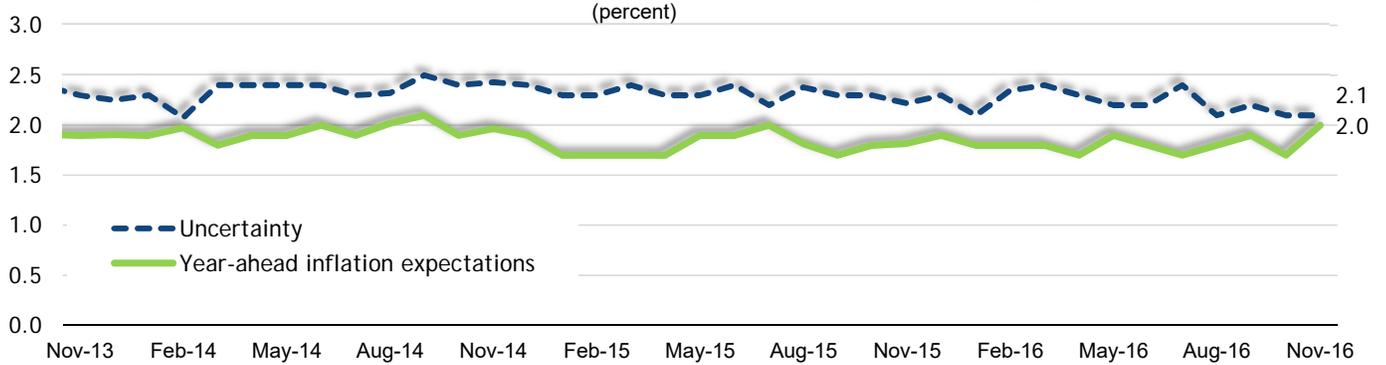
On average, firms' optimism about the U.S. economy was 62.2 out of 100, on average, in November compared to 58.5 in October, a statistically significant difference. Respondents' optimism about their firms' financial prospects was 70.6 out of 100, on average.

Postelection measures of optimism (November 9–11) were slightly higher but not statistically different from preelection measures.

A breakdown of results can be found on page 3.

Monthly Questions

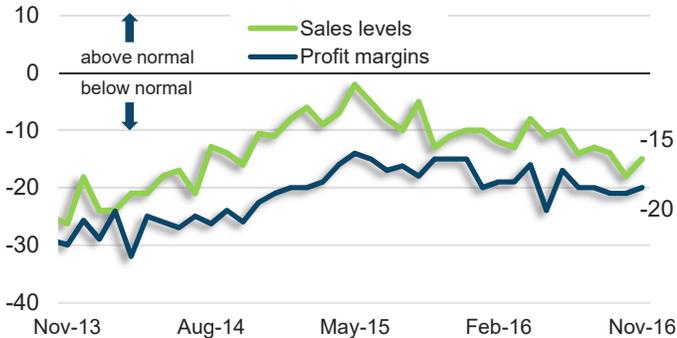
Year-Ahead Inflation Expectations and Uncertainty



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

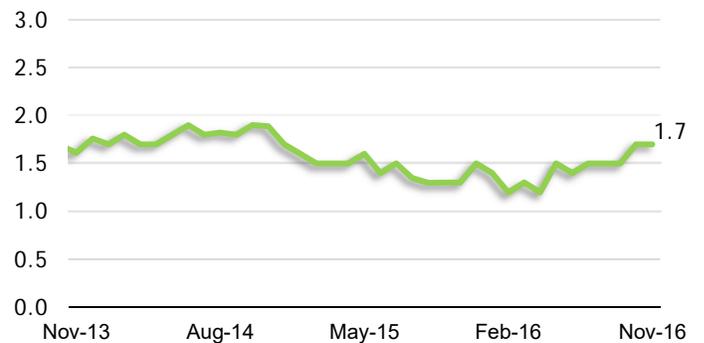
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

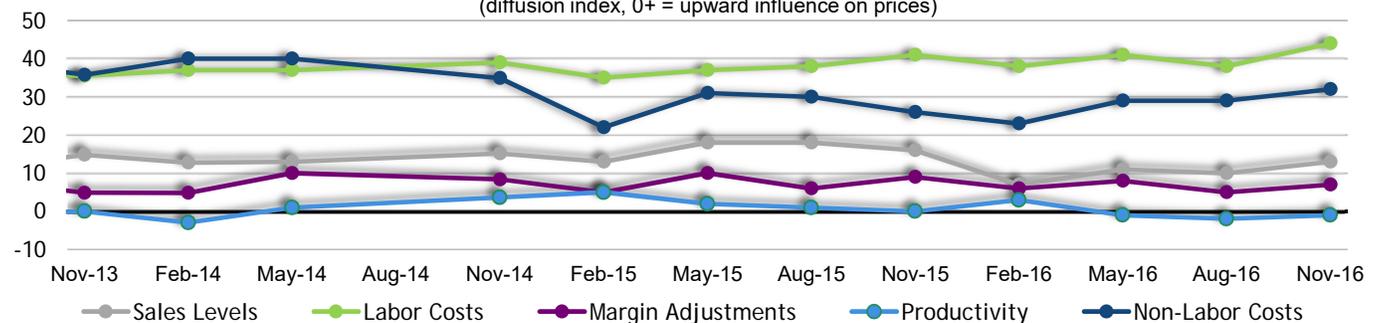


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

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?

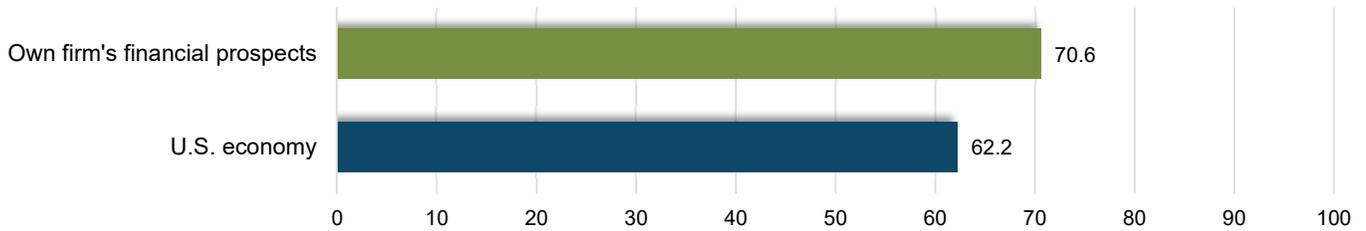
(diffusion index, 0+ = upward influence on prices)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

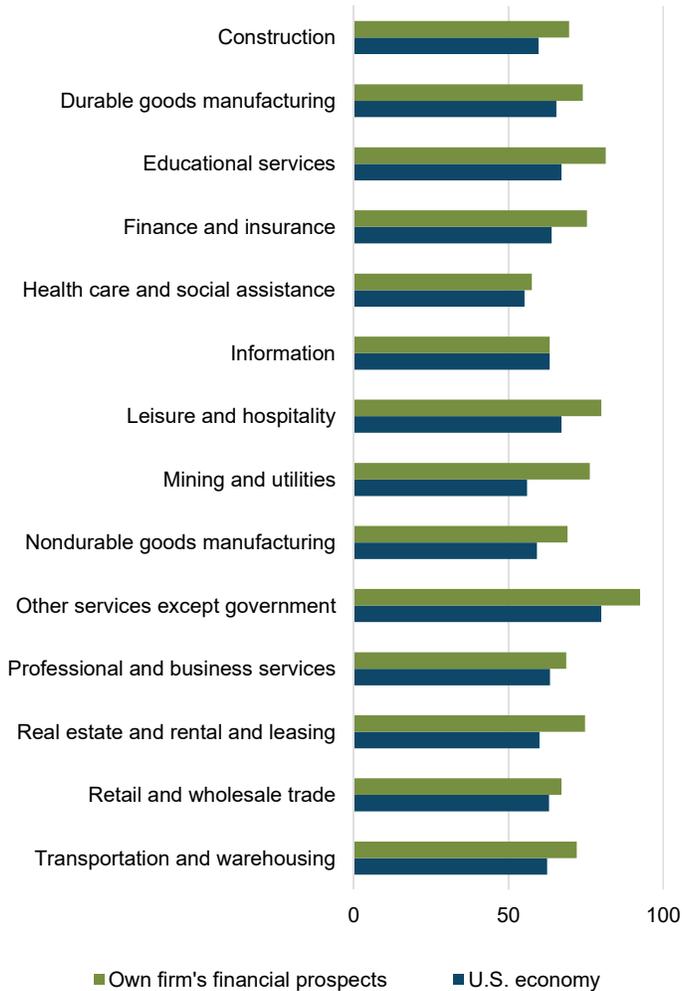
Special Question

Optimism for U.S. Economy and Firm Financial Prospects on a scale from 0–100, average

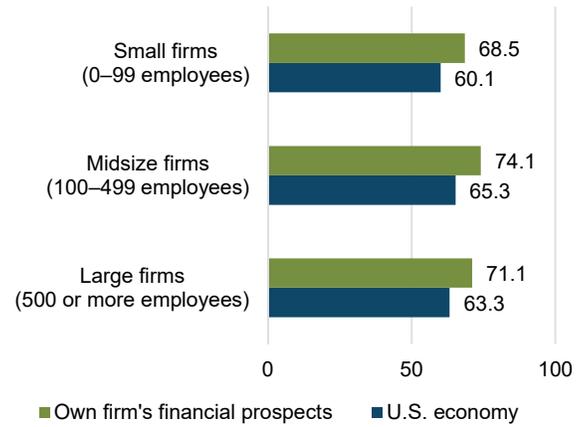


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

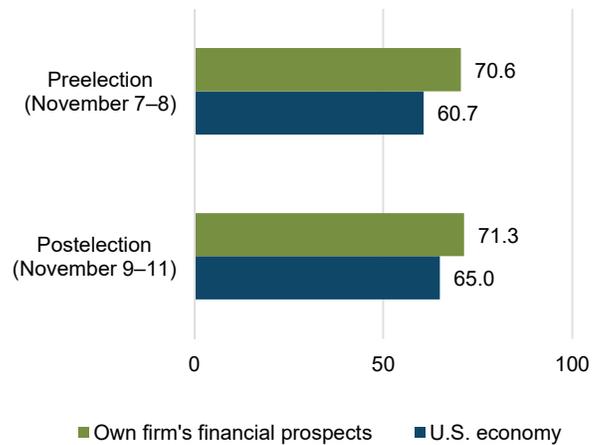
By Sector



By Firm Size



Pre- and Postelection Day



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* |
| September | 9% | 33% | 37% | 19% | 2% | -14 |
| October | 10% | 35% | 36% | 18% | 1% | -18 |
| November | 7% | 35% | 39% | 18% | 1% | -15 |

| How do your current PROFIT MARGINS compare with "normal" times? | | | | | | |
|---|-----------|---------------|--------------|------------------|--------------|------------------|
| | Much less | Somewhat less | About normal | Somewhat greater | Much greater | Diffusion index* |
| September | 11% | 36% | 39% | 12% | 2% | -21 |
| October | 8% | 36% | 45% | 10% | 1% | -21 |
| November | 6% | 43% | 36% | 14% | 1% | -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 |
| September | 3% | 28% | 61% | 7% | 1% | 1.5% |
| October | 3% | 27% | 58% | 9% | 4% | 1.7% |
| November | 4% | 28% | 53% | 11% | 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) |
| September | 5% | 26% | 43% | 19% | 6% | 1.9% (2.2%) |
| October | 6% | 29% | 44% | 16% | 6% | 1.7% (2.1%) |
| November | 5% | 24% | 46% | 18% | 7% | 2.0% (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 | | | | | | |
| May | 0% | 1% | 26% | 58% | 12% | 41 |
| August | 1% | 1% | 25% | 65% | 7% | 38 |
| November | 0% | 2% | 23% | 58% | 16% | 44 |
| Non-Labor Costs | | | | | | |
| May | 0% | 6% | 32% | 54% | 5% | 29 |
| August | 2% | 4% | 33% | 58% | 3% | 29 |
| November | 1% | 3% | 33% | 59% | 5% | 32 |
| Productivity | | | | | | |
| May | 0% | 16% | 68% | 10% | 2% | -1 |
| August | 0% | 20% | 65% | 14% | 1% | -2 |
| November | 1% | 17% | 68% | 13% | 1% | -1 |
| Margin Adjustments | | | | | | |
| May | 1% | 14% | 55% | 24% | 3% | 8 |
| August | 1% | 13% | 61% | 24% | 1% | 5 |
| November | 1% | 11% | 64% | 22% | 2% | 7 |
| Sales Levels | | | | | | |
| May | 2% | 15% | 42% | 36% | 2% | 11 |
| August | 1% | 21% | 40% | 34% | 4% | 10 |
| November | 1% | 12% | 49% | 36% | 2% | 13 |

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.