

BIE | December 2016



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **2.1 percent in December**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted December 5–9, with 206 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 2.1 percent over the next 12 months. Inflation uncertainty was virtually unchanged at 2.2 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 to a diffusion index value of -11 compared to -15 in November. Profit margins were unchanged, with a diffusion index value of -20.

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 3.4 percent below normal compared to 4.0 percent below normal in September. On average, small firms (fewer than 100 employees) reported a decline in their sales gap to 4.6 percent. Midsize firms' (100–499 employees) sales gap decreased to 1.9 percent, and large firms (500 or more employees) sales gap increased slightly to 1.6 percent below normal.

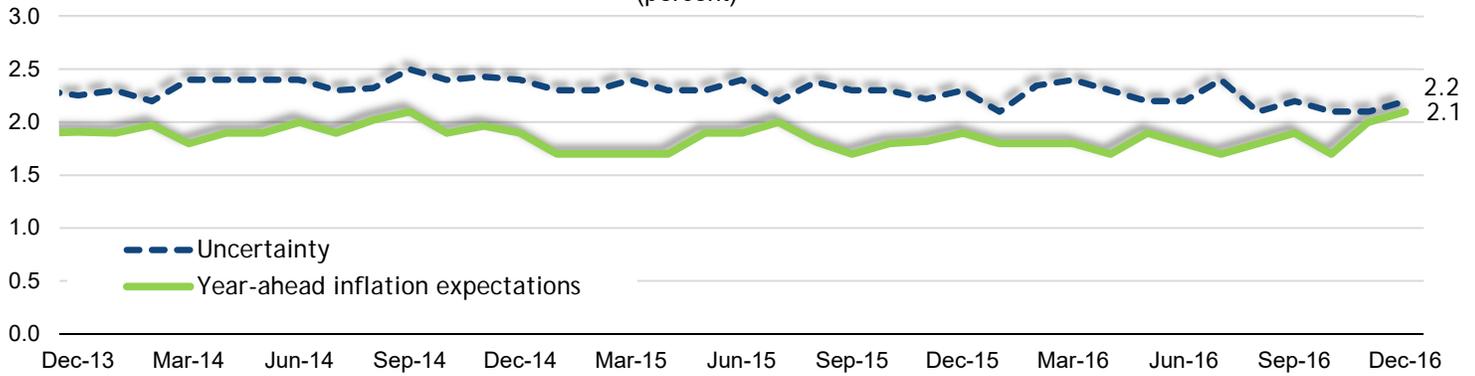
Special question: Biggest concerns for 2017

Firms' biggest concerns for the year ahead center on their cost structure (potential health care cost, input price, and wage increases), regulatory and compliance concerns, uncertainty regarding government policy, and their ability to attract and retain qualified labor. These concerns are similar to those expressed when firms were asked the same question about 2016.

We will provide more details about the results in a future *macroblog* post.

Monthly Questions

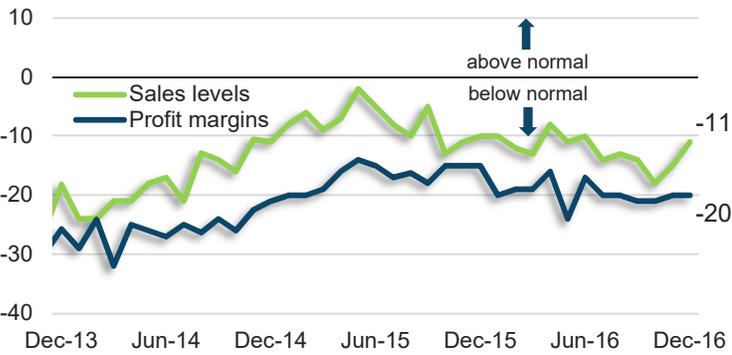
Year-Ahead Inflation Expectations and Uncertainty (percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

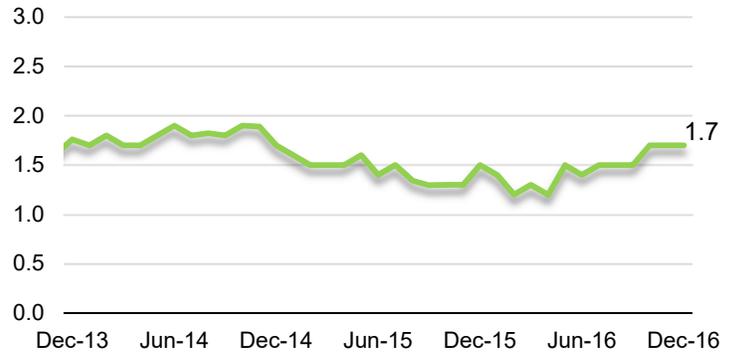
Sales Levels and Profit Margins Compared to Normal Times

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



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

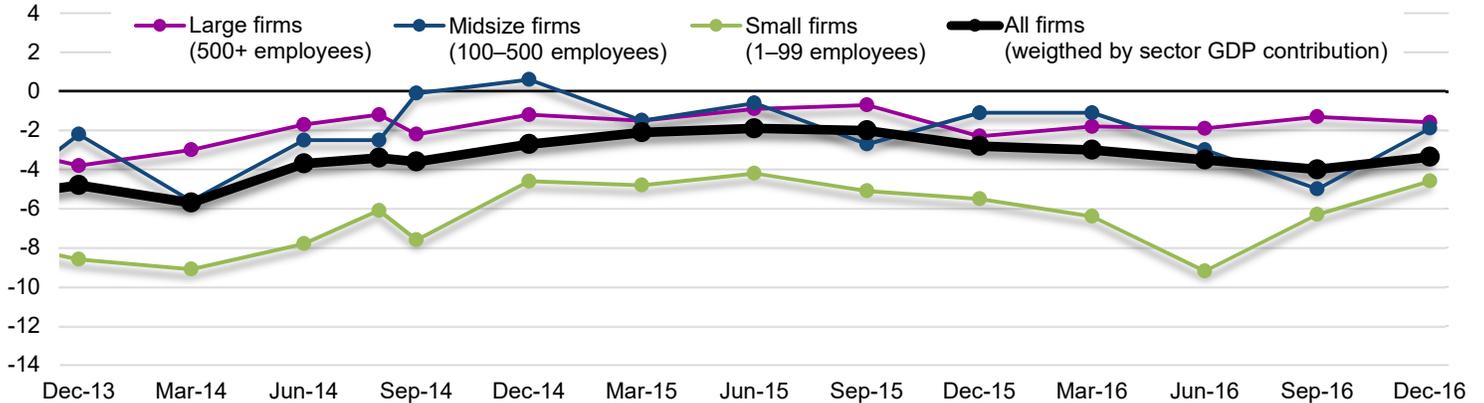
Year-over-Year Unit Cost Change (percent)



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

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*
October	10%	35%	36%	18%	1%	-18
November	7%	35%	39%	18%	1%	-15
December	6%	30%	45%	17%	2%	-11

How do your current PROFIT MARGINS compare with “normal” times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
October	8%	36%	45%	10%	1%	-21
November	6%	43%	36%	14%	1%	-20
December	9%	34%	45%	11%	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
October	3%	27%	58%	9%	4%	1.7%
November	4%	28%	53%	11%	4%	1.7%
December	3%	24%	60%	9%	3%	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)
October	6%	29%	44%	16%	6%	1.7% (2.1%)
November	5%	24%	46%	18%	7%	2.0% (2.1%)
December	4%	23%	46%	19%	8%	2.1% (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)					
	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Small (1-99 employees)	-5.1 (92)	-5.5 (93)	-6.4 (90)	-9.2 (96)	-6.3 (108)	-4.6 (101)
Midsize (100-499 employees)	-2.7 (74)	-1.1 (58)	-1.1 (66)	-3.0 (64)	-5.0 (61)	-1.9 (55)
Large (500+ employees)	-0.7 (47)	-2.3 (48)	-1.8 (50)	-1.9 (53)	-1.3 (50)	-1.6 (46)
All	-2.0 (213)	-2.8 (199)	-3.0 (206)	-3.5 (213)	-4.0 (219)	-3.4 (202)

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.