

BIE | January 2017



Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **2.0 percent in January**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted January 2–6, with 204 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 virtually unchanged at 2.1 percent. Firms also report that, compared to this time last year, their unit costs are up 1.8 percent. Respondents' sales levels, compared to what they consider normal conditions, were unchanged with diffusion index value of -11. Profit margins improved somewhat, with a diffusion index value of -17.

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 2.8 percent, on average, up one-tenth of a percentage point from the October reading. Respondents' uncertainty (variance) regarding this expectation went unchanged at 2.1 percent.

Special question: Firm age

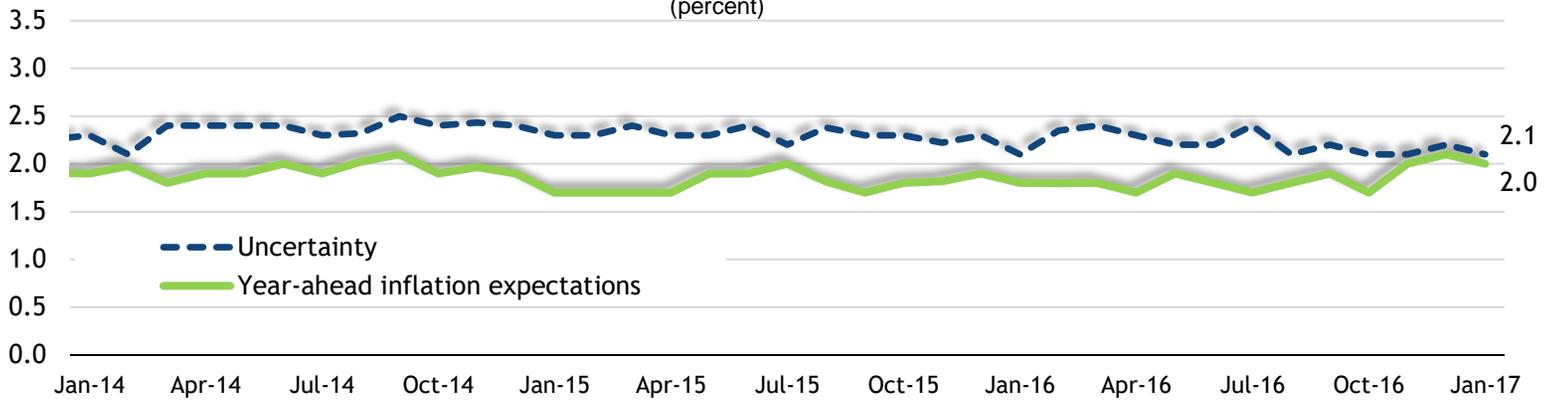
To learn more about the characteristics of our panel, firms were asked in what year they hired their first paid employee, a proxy for firm age.

A breakdown of these results can be found on page 3.

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

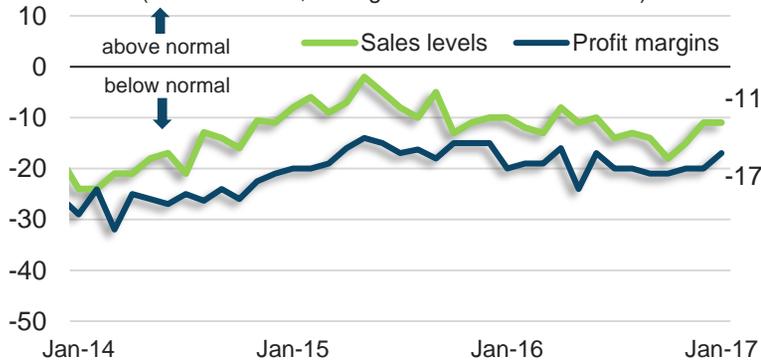
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

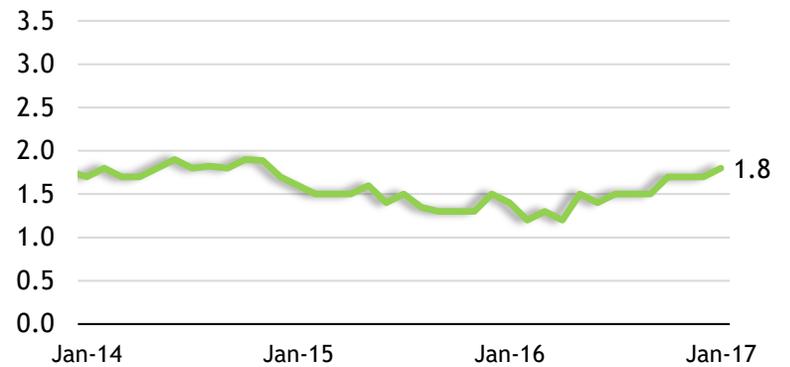
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

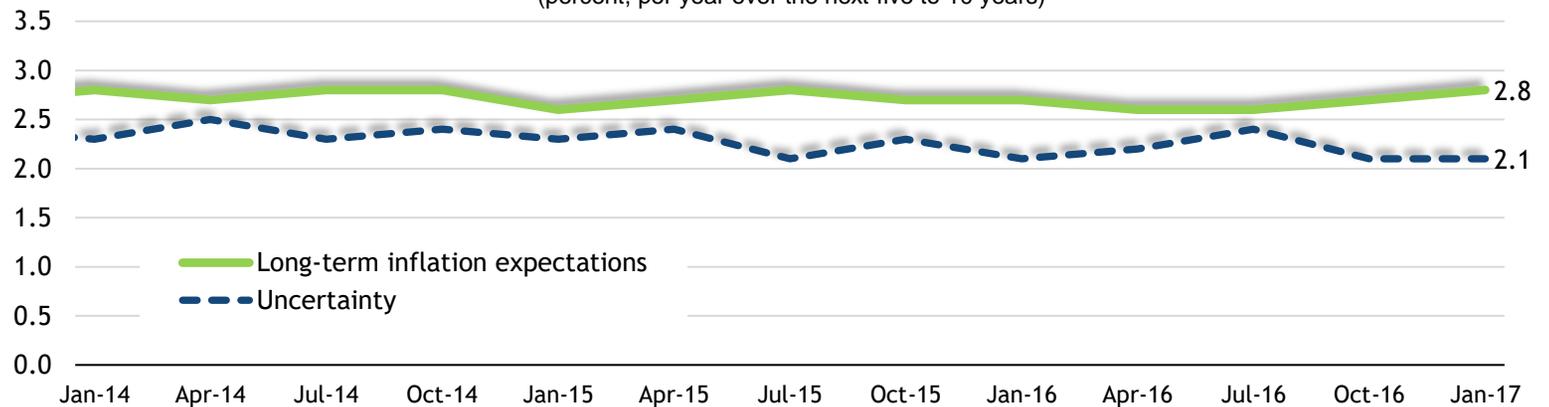


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

Long-Term Inflation Expectations and Uncertainty

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

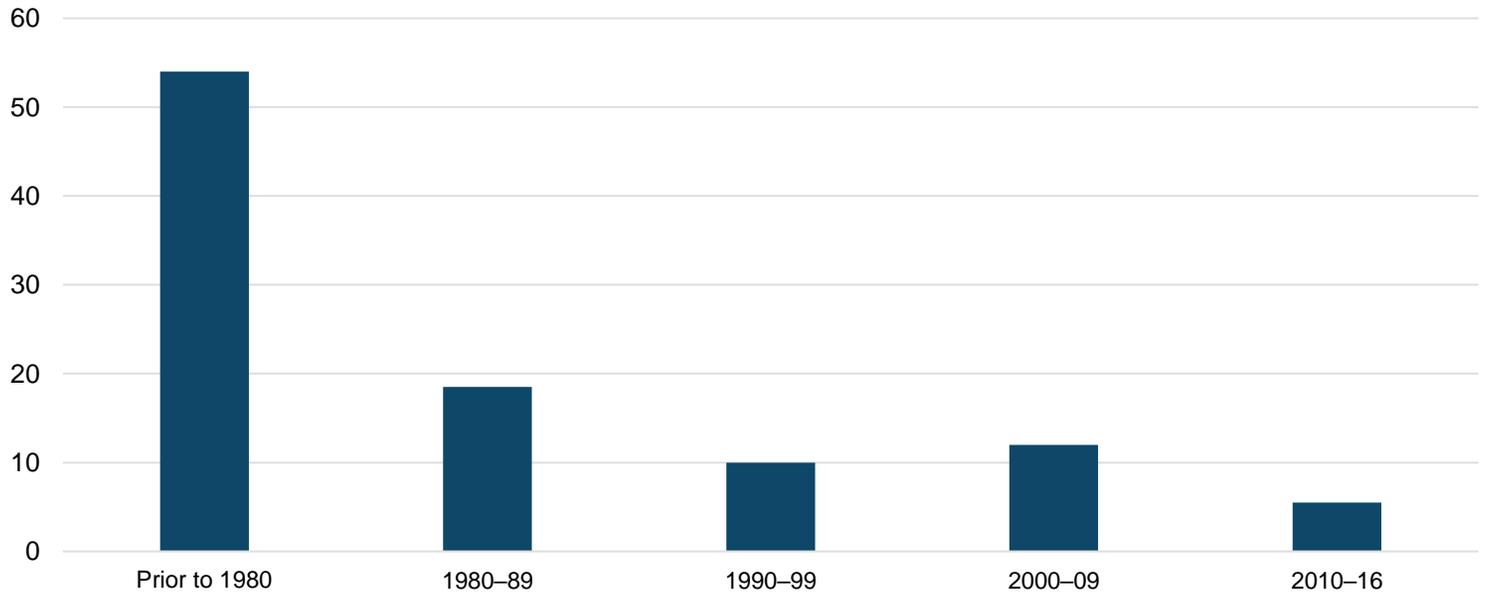


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Special Question

In what year did your firm hire its first paid employee?

percent of total



Sources: 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*
November	7%	35%	39%	18%	1%	-15
December	6%	30%	45%	17%	2%	-11
January	9%	27%	45%	18%	2%	-11

How do your current PROFIT MARGINS compare with “normal” times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
November	6%	43%	36%	14%	1%	-20
December	9%	34%	45%	11%	1%	-20
January	10%	31%	44%	14%	1%	-17

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
November	4%	28%	53%	11%	4%	1.7%
December	3%	24%	60%	9%	3%	1.7%
January	3%	23%	60%	10%	4%	1.8%

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)
November	5%	24%	46%	18%	7%	2.0% (2.1%)
December	4%	23%	46%	19%	8%	2.1% (2.2%)
January	5%	23%	45%	18%	9%	2.0% (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
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%)
October 2016 (219)	3%	15%	40%	27%	14%	2.7% (2.1%)
January 2017 (201)	3%	14%	40%	28%	15%	2.8% (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.