

BIE | February 2017



Atlanta Fed Survey of Business Inflation Expectations

For immediate release: February 15, 2017

Contact: Jean Tate, 404-498-8035 or jean.tate@atl.frb.org

The year-ahead inflation expectations of businesses were **2.0 percent in February**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted February 6–10, with 213 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 2.0 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, were virtually unchanged with diffusion index value of -10. Profit margins declined somewhat, with a diffusion index value of -21.

Quarterly question: Long-term inflation expectations

Sixty-seven 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 65 percent of respondents indicating upward price pressure. Forty-two 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. This question was asked the week of the U.S. presidential election in November 2016, and reported results are a comparison of those who also responded in November. These questions are asked on a quarterly basis by the Duke CFO Global Business Outlook Survey.

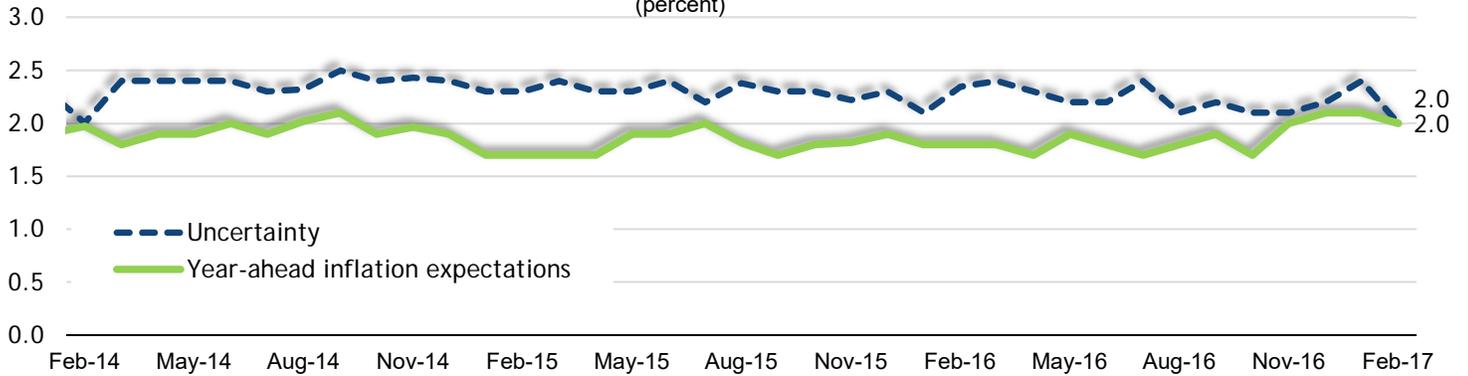
Of those firms that responded this month and in November, optimism about the U.S. economy was 62 out of 100 in November compared to 72 this month, on average. Respondents' optimism about their firms' financial prospects was 70 out of 100 in November and 74 this month, on average.

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

Monthly Questions

Year-Ahead Inflation Expectations and Uncertainty

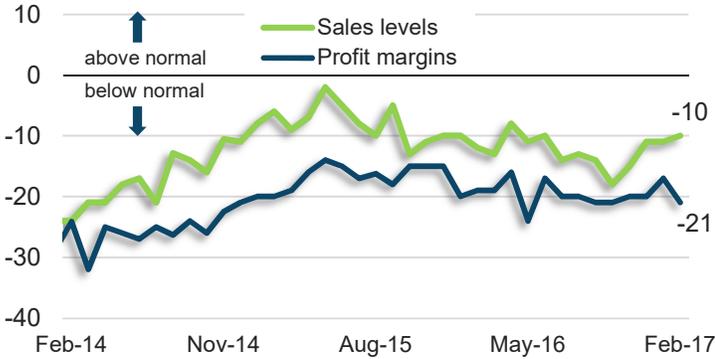
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Sales Levels and Profit Margins Compared to Normal Times

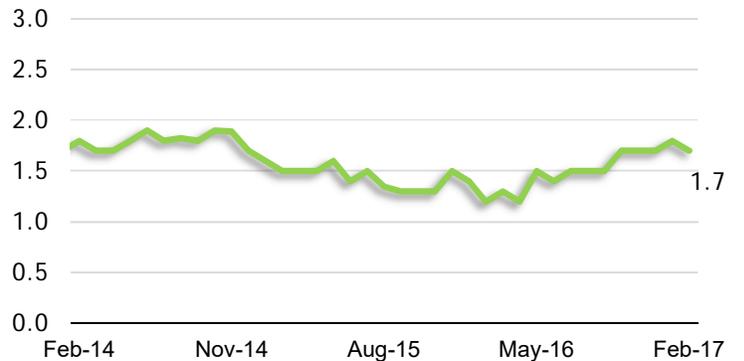
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Year-over-Year Unit Costs

(percent)

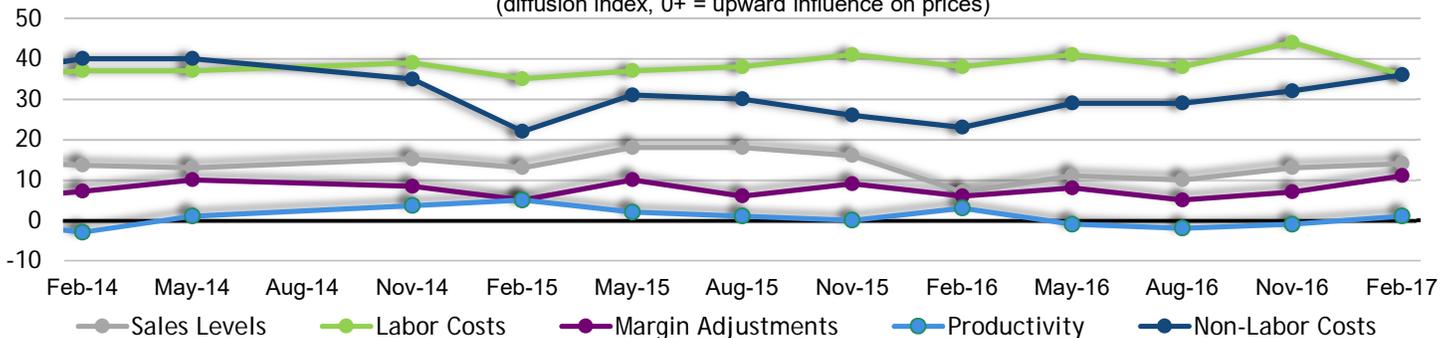


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Quarterly Question

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)

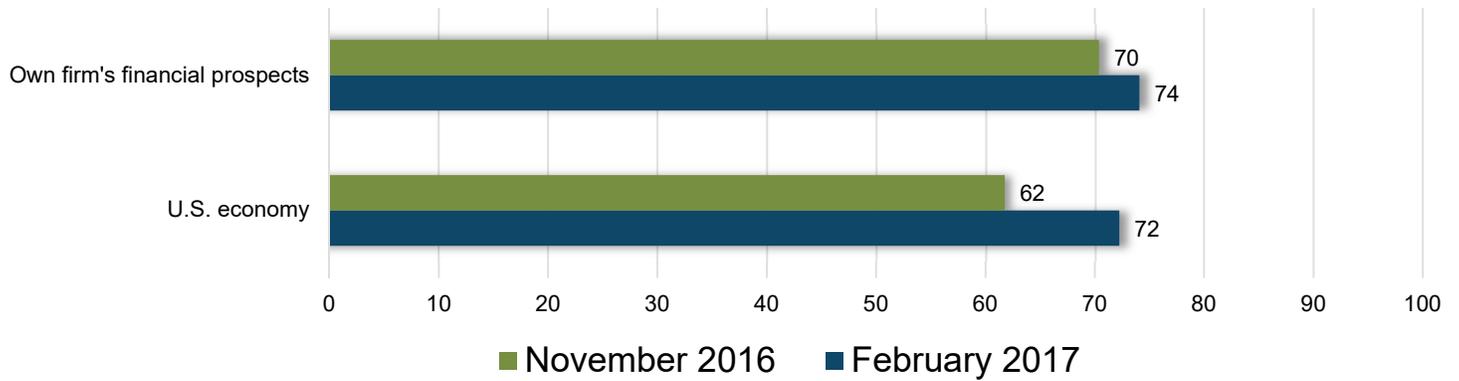


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

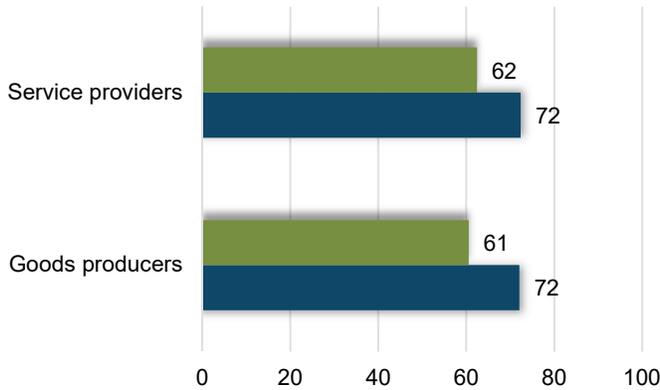
Special Question

Optimism for U.S. Economy and Firm Financial Prospects

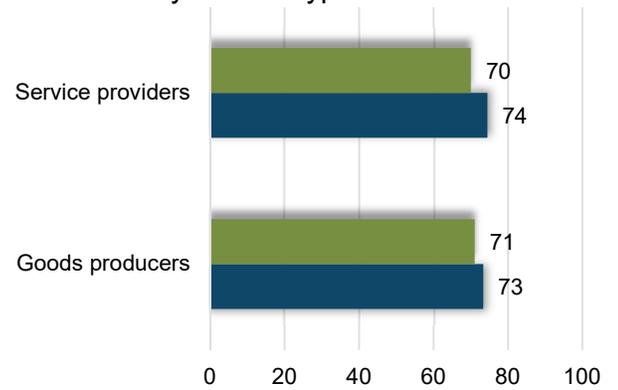
on a scale from 0–100, average



U.S. Economy by Sector Type



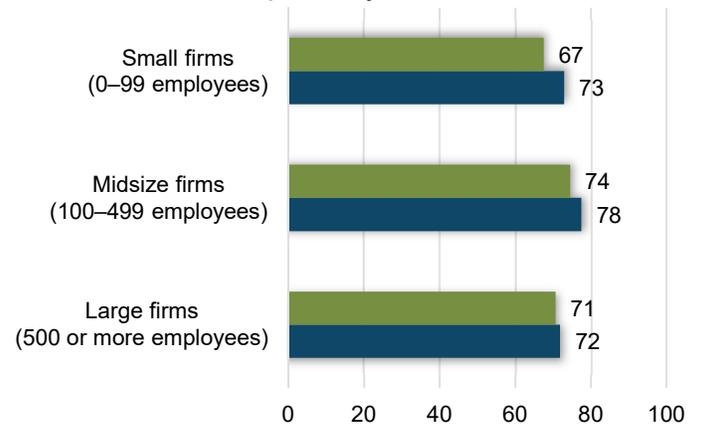
Own Firm's Financial Prospects by Sector Type



U.S. Economy by Firm Size



Own Firm's Financial Prospects by Firm Size



Sources: Atlanta Fed Business Inflation Expectations (BIE) Survey; 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*
December	6%	30%	45%	17%	2%	-11
January	9%	27%	45%	18%	2%	-11
February	7%	29%	43%	20%	1%	-10

How do your current PROFIT MARGINS compare with "normal" times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
December	9%	34%	45%	11%	1%	-20
January	10%	31%	44%	14%	1%	-17
February	8%	37%	41%	13%	0%	-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
December	3%	24%	60%	9%	3%	1.7%
January	3%	23%	60%	10%	4%	1.8%
February	1%	29%	58%	8%	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)
December	4%	23%	46%	19%	8%	2.1% (2.2%)
January	5%	23%	45%	18%	9%	2.1% (2.1%)
February	3%	27%	44%	18%	8%	2.0% (2.0%)

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						
August	1%	1%	25%	65%	7%	38
November	0%	2%	23%	58%	16%	44
February	0%	1%	32%	59%	8%	36
Non-Labor Costs						
August	2%	4%	33%	58%	3%	29
November	1%	3%	33%	59%	5%	32
February	0%	3%	32%	57%	8%	36
Productivity						
August	0%	20%	65%	14%	1%	-2
November	1%	17%	68%	13%	1%	-1
February	0%	15%	70%	15%	1%	1
Margin Adjustments						
August	1%	13%	61%	24%	1%	5
November	1%	11%	64%	22%	2%	7
February	1%	11%	55%	33%	0%	11
Sales Levels						
August	1%	21%	40%	34%	4%	10
November	1%	12%	49%	36%	2%	13
February	2%	11%	46%	41%	1%	14

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.