

## Atlanta Fed Survey of Business Inflation Expectations

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The year-ahead inflation expectations of businesses were **1.9 percent in April**, according to the Federal Reserve Bank of Atlanta's most recent business inflation expectations (BIE) survey. The survey was conducted April 3–7, with 218 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 1.9 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 1.6 percent. Respondents' sales levels, compared to what they consider normal conditions, remained the same with a diffusion index value of -12. Profit margins improved somewhat, with a diffusion index value of -18.

### **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, down one-tenth of a percentage point from the January reading. Respondents' uncertainty (variance) regarding this expectation went unchanged at 2.1 percent.

### **Special question: Firms' understanding of the Federal Reserve's inflation target**

Firms were asked to provide the annual rate of inflation they believe the Federal Reserve is targeting over the long run. On average, firms believe the Federal Reserve is targeting a 2.5 percent annual rate of inflation, with the most frequent (modal) response being 2.0 percent.

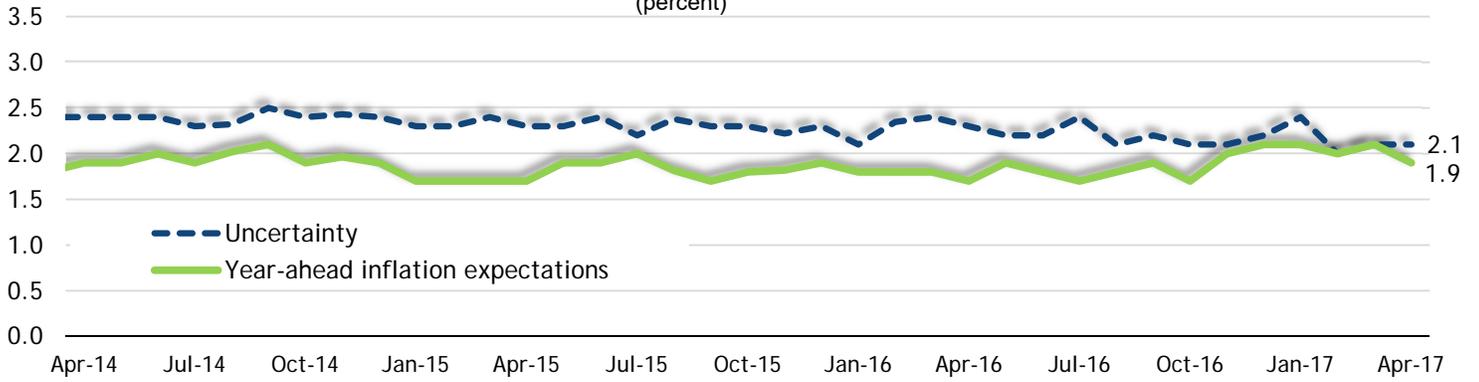
Firms were also asked for their perception of the Federal Reserve's tolerance for inflation above or below the inflation target. Twenty-two percent believe the Federal Reserve is more likely to accept inflation above its target, while 38 percent believe it is more likely to accept inflation below its target. Twenty-five percent of firms believe the Federal Reserve is equally likely to accept inflation above or below its target. The remainder of respondents were unsure.

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

## Monthly Questions

### Year-Ahead Inflation Expectations and Uncertainty

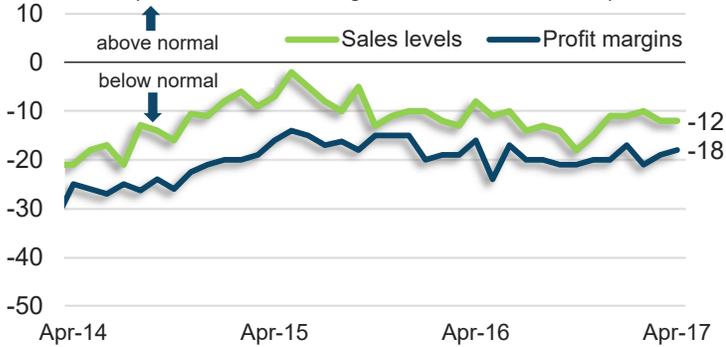
(percent)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

### Sales Levels and Profit Margins Compared to Normal Times

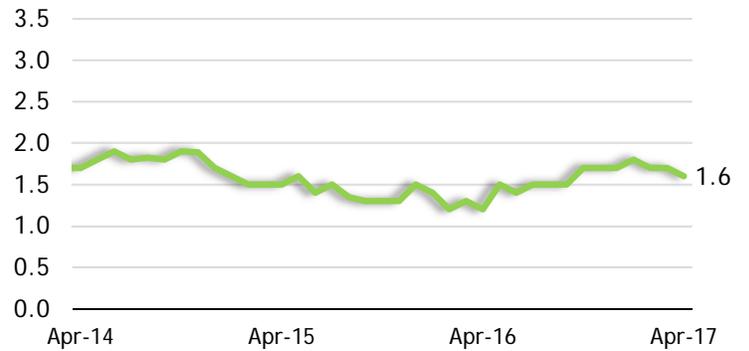
(diffusion index, 0+ = greater than normal times)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

### Year-over-Year Unit Costs

(percent)

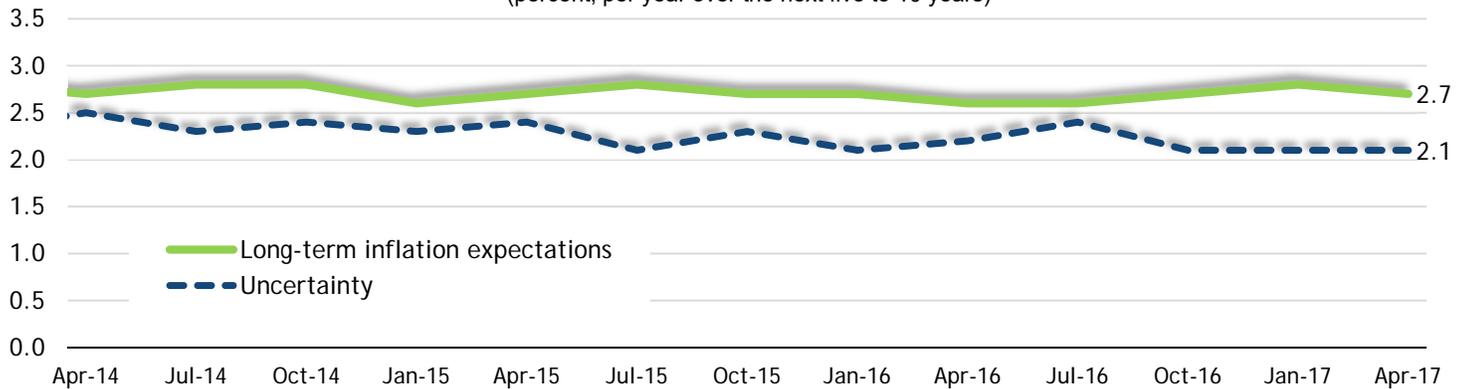


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

## Quarterly Question

### Long-Term Inflation Expectations and Uncertainty

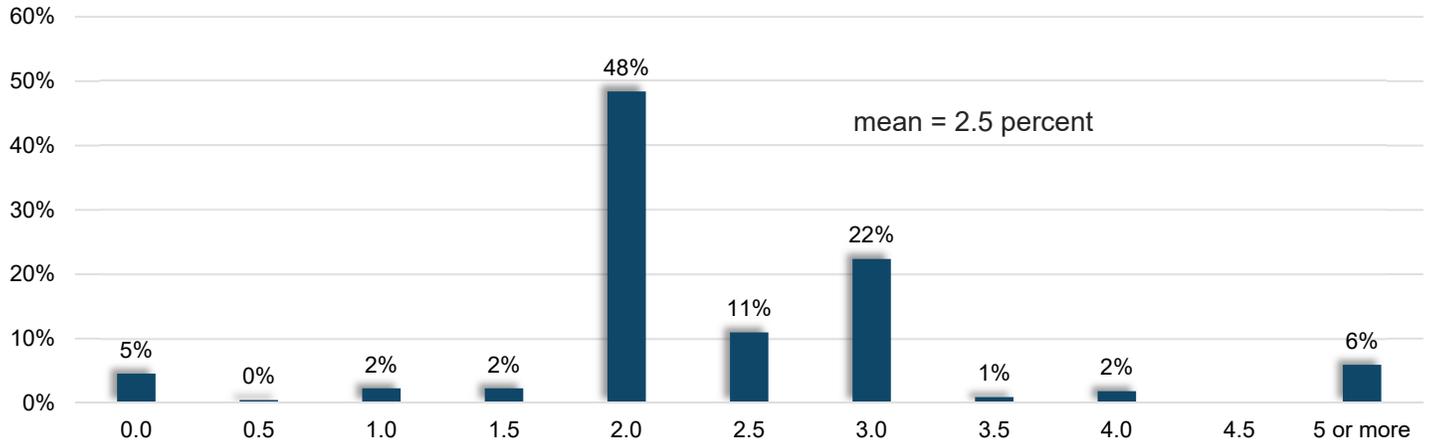
(percent, per year over the next five to 10 years)



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

### Firms' Understanding of the Federal Reserve's Inflation Target

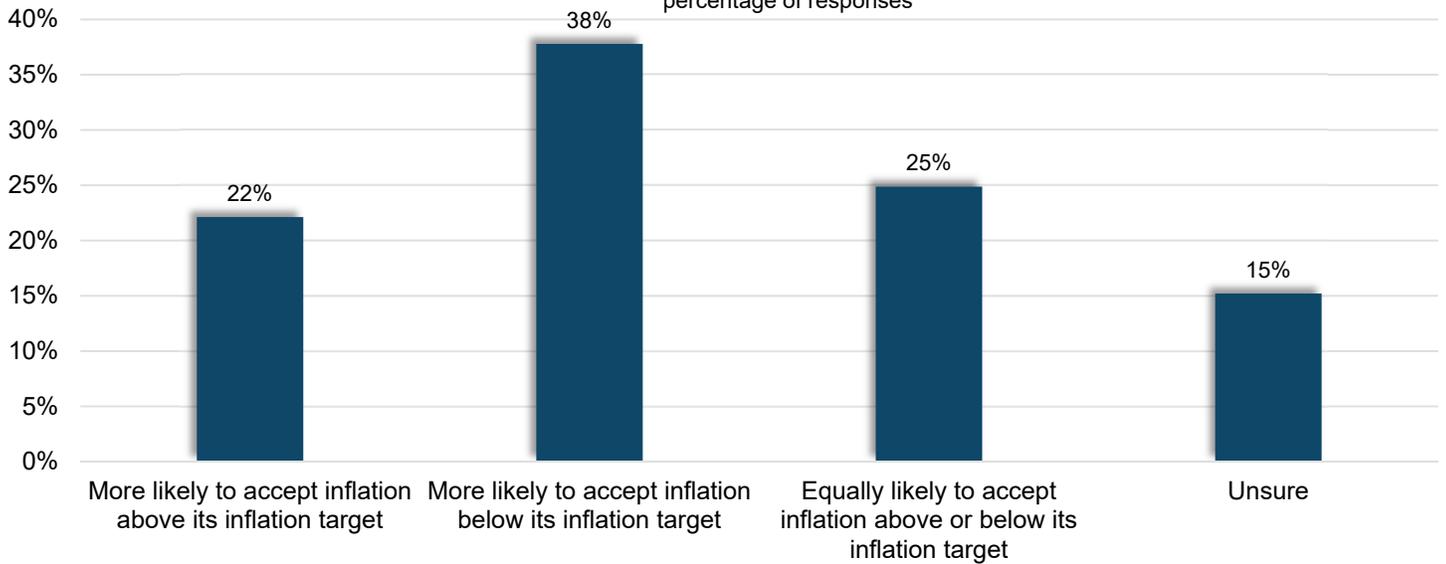
percentage of responses



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

### Firms' Perception of the Federal Reserve's Tolerance for Inflation above/below Its Inflation Target

percentage of responses



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*
February	7%	29%	43%	20%	1%	-10
March	9%	27%	44%	19%	1%	-12
April	9%	28%	44%	18%	1%	-12

How do your current PROFIT MARGINS compare with “normal” times?						
	Much less	Somewhat less	About normal	Somewhat greater	Much greater	Diffusion index*
February	8%	37%	41%	13%	0%	-21
March	9%	34%	46%	12%	0%	-19
April	7%	33%	48%	12%	0%	-18

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
February	1%	29%	58%	8%	3%	1.7%
March	3%	22%	63%	8%	4%	1.7%
April	2%	30%	58%	8%	2%	1.6%

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)
February	3%	27%	44%	18%	8%	2.0% (2.0%)
March	4%	23%	47%	19%	8%	2.1% (2.1%)
April	5%	27%	44%	16%	8%	1.9% (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
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%)
April 2017 (211)	3%	15%	41%	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.