

Supplemental Survey Report

Businesses See Inflation Moderating after Next Year

Supplementary questions to the May *Empire State Manufacturing Survey* and *Business Leaders Survey* focused on businesses' short- and longer-term expectations for inflation (as measured by the Consumer Price Index—CPI), as well as recent and expected changes in their own selling prices (the prices they receive from their customers). Some of these questions had been asked in surveys conducted in October 2020 and earlier.

In the current survey, businesses were asked for their best estimate of what inflation would be over the next twelve months, as measured by the CPI. The median expectation was 6.1 percent among service-sector respondents and 6.5 percent among manufacturers. The last time we asked this question—in October 2020, a period when inflation was quite subdued—the median expected rate among both groups was 2.0 percent. This time around, we also asked about inflation expectations three and five years out (that is, in 2025 and 2027). The median expectation among both groups

of businesses was that inflation would decelerate to 4.0 percent by 2025 and 3.0 percent by 2027.

We also looked at the dispersion around the median based on the interquartile range, which contains the middle 50 percent of respondents. For the one-year-ahead inflation predictions, this range extended from 5 to 8 percent—that is, half of respondents expect inflation to fall in the 5-8 percent range, with a quarter of those surveyed foreseeing an inflation rate of 5 percent or less, and another quarter expecting it to be 8 percent or more. The range for manufacturers was a bit wider, extending from 5 to 10 percent. The dispersion for longer-term expectations tended to be a bit narrower, as shown in the table below, suggesting a bit more of a consensus.

In addition to asking businesses about their expectations for overall CPI inflation, we asked how much they expect their own selling prices to change over the next year. The median service firm indicated that its

prices had risen 4 percent over the past twelve months, and predicted another 4 percent hike in the year ahead. In contrast, the median manufacturer reported a much larger increase of 10 percent for the past year but anticipated a more moderate rise of 5 percent in the year ahead.

Finally, businesses were asked if they had experienced larger than normal increases in their overall costs since the beginning of 2022; the vast majority said they had. Those seeing outsized cost hikes were then asked how much of these costs they have passed along to customers in the form of higher prices. In general, manufacturers appear to have been passing along more of their costs than service firms. Almost 30 percent of the service firms reporting above-normal cost increases said they had not passed any of those costs along, versus just 5 percent of manufacturers. At the other end of the spectrum, a third of service firms and more than two in five manufacturers said they had passed all or almost all of their cost increases along in the form of higher prices. ■

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QUESTION 1

Thinking about the overall annual inflation rate in the economy based on the Consumer Price Index (CPI), what is your best estimate for what this rate will be over the next twelve months, three years from now (2025), and five years from now (2027)?

	Business Leaders Survey			Empire State Manufacturing Survey		
	Measures of Expected Inflation Rate			Measures of Expected Inflation Rate		
	Over the next 12 months	3 years from now (2025)	5 years from now (2027)	Over the next 12 months	3 years from now (2025)	5 years from now (2027)
Median expected inflation rate	6.1	4.0	3.0	6.5	4.0	3.0
Average expected inflation rate	6.8	4.3	3.7	7.5	4.3	3.7
Interquartile range (lower)*	5.0	3.0	2.0	5.0	2.0	2.0
Interquartile range (upper)*	8.0	5.0	4.0	10.0	5.0	4.0

* These are the thresholds between which the middle 50 percent of responses fall.

QUESTION 2

Thinking about the prices you charge for all the goods and services you sell, by how much have your selling prices changed, on average, compared with this same time one year ago? And what is your best estimate of how much your selling prices will change, on average, over the next twelve months?

	Business Leaders Survey		Empire State Manufacturing Survey	
	Past and Expected Percentage Increase in Own Selling Prices		Past and Expected Percentage Increase in Own Selling Prices	
	Over the past 12 months	Over the next 12 months	Over the past 12 months	Over the next 12 months
Median increase	4.0	4.0	10.0	5.0
Average increase	6.7	4.7	10.4	5.1

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QUESTION 3

Have you experienced larger than normal increases in your business's costs since the beginning of 2022? And, if yes, are you passing along any of these cost increases to customers by raising prices?

	Business Leaders Survey	Empire State Manufacturing Survey
	Percentage of Respondents	Percentage of Respondents
No	19.5	10.6
Yes	80.5	89.4
Percentage of those responding Yes above:		
Not passing along any costs	28.1	5.1
Passing along some but less than half	28.9	38.8
Passing along more than half	10.1	15.3
Passing along all or almost all costs	32.9	40.8