

## Eighth District Businesses Report Persistent Inflationary Pressures

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To gain a deeper understanding of current economic conditions, the Federal Reserve Bank of St. Louis conducts a quarterly survey of businesses in the Eighth District.<sup>1</sup> The results of the survey are regularly reported in the St. Louis Fed’s contribution to the [Beige Book](#) report on national and regional economic conditions.<sup>2</sup> With elevated rates of inflation in the economy and widespread interest in factors driving current inflation, this essay takes a closer look at the special survey results pertaining to firms’ pricing changes and expectations for the remainder of 2023.

In the St. Louis Fed’s quarterly survey conducted in February of 2022 and 2023,<sup>3</sup> firms were asked to provide an estimate of the growth rate of the average prices they (i) charged customers for the previous year and (ii) planned to charge in the year ahead. These results are summarized in the table below, along with comparable economic data from the Bureau of Labor Statistics (BLS) and the national Chief Financial Officer (CFO) survey. The realized data and forecasts are as of February 2022 in the left two columns and February 2023 in the right two columns.

The table shows that, on average, District firms surveyed this February reported that prices charged to customers increased 6.2% in 2022; this was slower than the reported price growth in 2021 (7.8%) but slightly faster than firms had expected (5.8%). The results are broadly consistent

with changes during 2022 in the consumer price index (6.4%), producer price index (8.7%), and CFO Survey prices (8.6%).<sup>4</sup> Overall the survey-based projections last February appear to have provided more-accurate estimates of future inflationary pressures than professional forecasts, which anticipated a steeper decline in inflation during 2022.

Looking forward over the next 12 months, all the projections repeat a trend similar to that of the prior year: Inflationary pressures are expected to continue to subside. However, the magnitude of this decline varies by source, with the firm-based-survey measures indicating greater inflation persistence. St. Louis Fed survey respondents expect their prices to increase by 4.8% in 2023, while the CFO Survey respondents expect their prices to increase by 5.2%. Professional forecasters, on the other hand, anticipate inflation rates will drop by half, with the consumer price index increasing 3.6% and the producer price index increasing 3.0%. All of these projections may be viewed as higher rates of inflation than what one would consider price stability, typically measured at about 2% growth in prices paid by households.

### Passing Costs to Customers

There continues to be an elevated share of firms reporting that higher labor costs will place upward pressure on

**Inflation Projections: Surveys versus Data**

	As of February 2022		As of February 2023	
	2021	2022 (f)	2022	2023 (f)
<b>St. Louis Fed Survey: Prices charged</b>	<b>7.8%</b>	<b>5.8%</b>	<b>6.2%</b>	<b>4.8%</b>
The CFO Survey: Prices	6.3%	4.2%	8.6%	5.2%
Consumer prices	7.5%	4.4%	6.4%	3.6%
Producer prices	12.5%	5.9%	8.7%	3.0%

NOTES: *Consumer prices* is measured by the consumer price index for all urban consumers; *Producer prices* is measured by the producer price index for final demand. Values are growth rates for the 12 months ending in January. The CFO Survey referenced was conducted in the fourth quarters of 2021 and 2022; values are growth rates from the fourth quarter to the fourth quarter of the next year. Consumer prices and producer prices forecasts (f) are growth rates from the fourth quarter of 2021 to the fourth quarter of 2022 from S&P Global (as of March 7, 2022) and the fourth quarter of 2022 to the fourth quarter of 2023 (as of March 6, 2023).

SOURCE: Bureau of Labor Statistics, S&P Global, The CFO Survey, and Federal Reserve Bank of St. Louis.

prices. Specifically, 70% of firms in the February 2023 survey indicated that higher labor costs will place upward pressure on prices; this percentage is unchanged from the 2022 survey, but up sharply from the 2018-20 surveys in which the share averaged 45%. Despite the anticipated persistence in inflationary pressures, there is some evidence that firms are finding it more difficult to pass on higher costs to customers.

Firms were equally split between the effect of sales levels on prices charged: 30% expect sales levels to put downward pressure on prices, while 30% expect sales levels to put upward pressure on prices. Firms noted that a weaker sales outlook makes it more difficult to raise prices, and some firms expect to cut prices to maintain sales levels, particularly for contacts in wholesale and retail firms where inventories remain higher than desired. On the other hand, firms in the hospitality sector were most likely to note that strong sales would allow them to pass on higher costs to customers. This is a notable shift from the survey last year, when only 10% of firms anticipated that sales levels would put downward pressure on prices and over half of firms anticipated that sales levels would put upward pressure on prices.

This tension between higher input costs and weaker sales is also evident when firms were asked about their overall ability to increase prices charged to customers. In the 2022 survey, over 80% of firms reported at least some ability to increase prices charged to customers, a notable increase from the historical average of around 50%. This share declined in this year's survey: 63% percent of firms reported at least some ability to increase prices, and 37% reported no ability to increase prices. While not a complete return to earlier years, it is a sign that inflationary pressures have abated in large part due to weaker demand from customers. The minutes from the January 2023 FOMC meeting refer to this shift in demand: “[As] consumers become more price sensitive, businesses might accept lower profit margins in an effort to maintain market share, which could reduce inflation temporarily.” ■

## Notes

<sup>1</sup> Headquartered in St. Louis, the Eighth Federal Reserve District includes all of Arkansas, southern Illinois, southern Indiana, western Kentucky, eastern Missouri, northern Mississippi, and western Tennessee.

<sup>2</sup> The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. The link connects to the St. Louis Fed's summary within the Beige Book.

<sup>3</sup> The St. Louis Fed has conducted this survey on a quarterly basis since May 2014. The key results of the survey are reported alongside the Beige Book report in February, May, August, and November. In addition to the standard questions, the St. Louis Fed includes a series of questions on timely topics or areas of specific importance. Since 2018, the St. Louis Fed has included a series of questions on pricing decisions each February. The latest survey was conducted between February 6 and February 17, 2023; there were 130 responses.

<sup>4</sup> The CFO Survey is conducted through a partnership between Duke University's Fuqua School of Business and the Federal Reserve Banks of Richmond and Atlanta. Survey results are not weighted by firm size or sector; the initial sample is intended to reflect the industry mix of the Eighth District economy.