भारतीय प्रबंध संस्थान अहमदाबाद
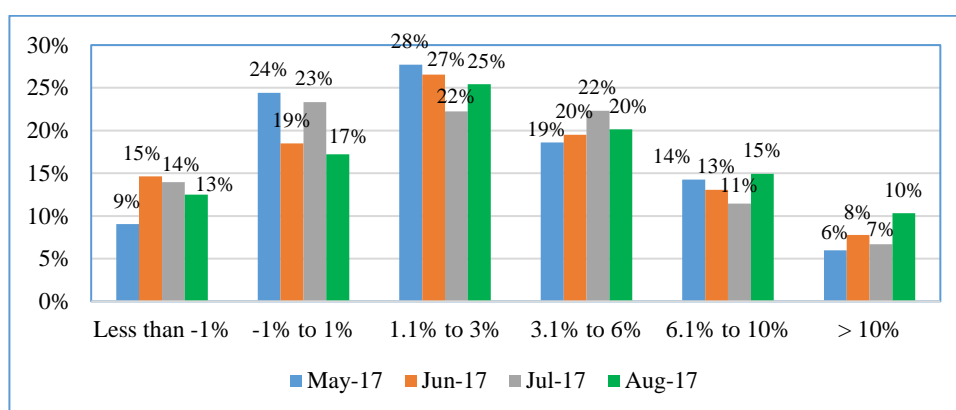**INDIAN INSTITUTE OF MANAGEMENT AHMEDABAD**

Business Inflation Expectations Survey (BIES)[1] – August 2017

A. Inflation expectations

- One year ahead business inflation expectations in August 2017, as estimated from the mean probability distribution of unit cost increase, are placed at 3.50%, showing a marked increase from 2.86% observed in July 2017 (Chart 1).

- Uncertainty of business inflation expectations in August 2017, as captured by the average of the standard deviation of the individual mean probability distribution is estimated to be 1.7%.

**Chart 1: Unit costs increase - mean probability (%) distribution**

B. Costs

- About cost perceptions, around 58% of the firms in August 2017 reported that costs increase has been more than 3% during the last one year (Chart 2). This proportion has sharply increased from 43% observed in July 2017.

- Higher cost perception in August 2017 may indicate early signs of price pressure building up.

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[1] The Business Inflation Expectations Survey (BIES) provides ways to examine the amount of slack in the economy by polling a panel of business leaders about their inflation expectations in the short and medium term. The survey asks questions about year-ahead cost expectations and factors influencing price changes, such as profit, sales levels, etc. The survey is unique in that it goes straight to businesses, the price setters, rather than to consumers or households, to understand their expectations of the price level changes. One major advantage of BIES is that one can get a probabilistic assessment of inflation expectations and thus a measure of uncertainty. It also provides an indirect assessment of overall demand condition of the economy. Results of this will thus be useful in understanding the inflation expectation of business and complement other macro data required for policy making. Towards this objective, IIMA introduced BIES from May 2017. The questionnaire of BIES is finalized based on the detailed feedback received from the industry, academicians and policy makers. A copy of the questionnaire is enclosed for information.

Companies, mostly in the manufacturing sector, are selected based on certain sampling criteria from the list of companies as available with the Ministry of Corporate Affairs (MCA). BIES - August 2017 is the fourth round. These results are based on over 1500 companies' responses.

Chart 2: How do current costs per unit compare with this time last year?
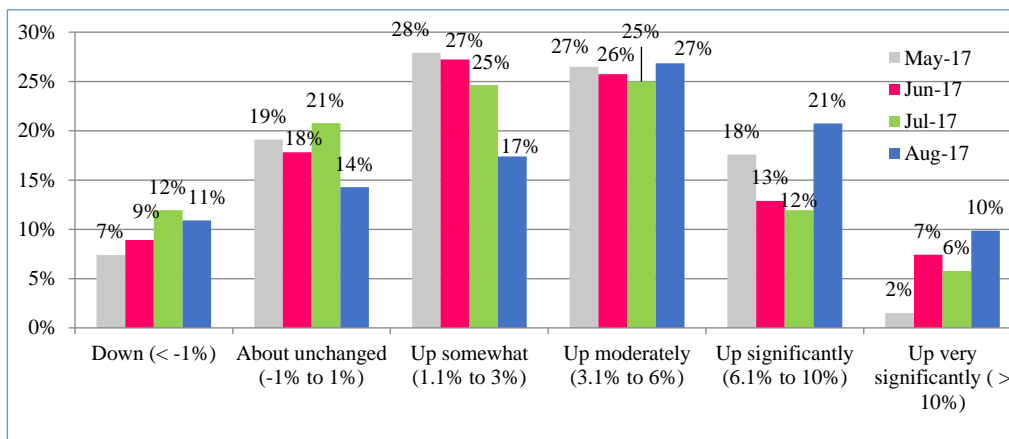
C. Sales Levels

- Over 40% of the firms in the sample reported that sales are 'much less than normal'[2] (Chart 3). The proportion of firms indicating 'much less than normal' sales has sharply increased in August 2017 as compared to July 2017.

- Over 3/5th of the firms have indicated that sales levels are much or somewhat less than normal. This proportion too has increased in August 2017. In sharp contrast, proportion of firms indicating sales somewhat greater than normal has been declining over the last 4 months.

- The data shows further manifestation of the subdued demand conditions.
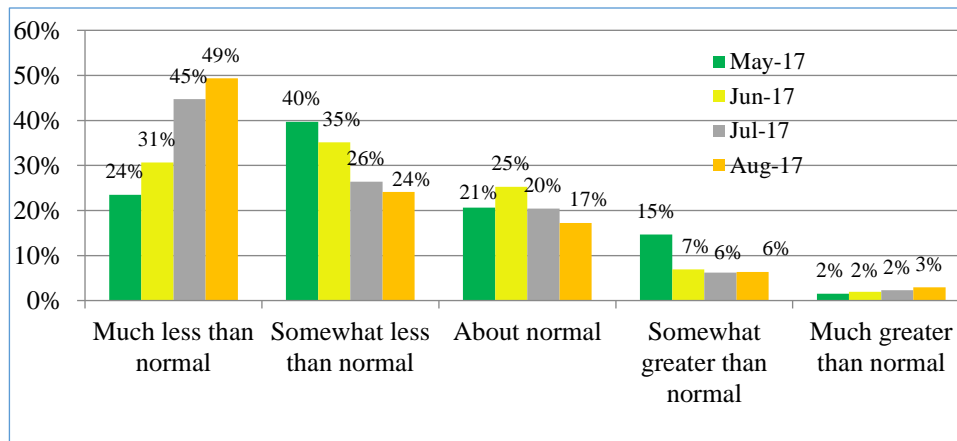
Chart 3: Sales Levels - % response

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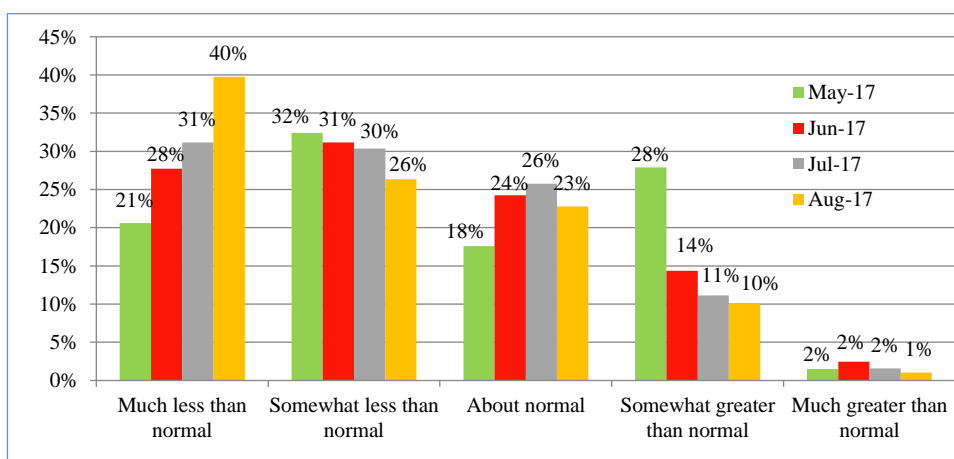
[2] *"Normal" means as compared to the average level obtained in the preceding 3 years.*

D. Profit Margins

- Responses of around 50% of the firms in the sample in August 2017 indicate 'much less than normal'[3] profit margin of the firms (Chart 4). This proportion has further increased in August 2017.

- Around 73% of the firms in August 2017 reported squeezing of profit margins. This is higher than what is reported in July 2017.

- Business as usual or better than normal times is reported roughly by 26% of firms in August 2017, further down from the July 2017 data. Higher profit margins in the current economic condition are not supported by the data.

Chart 4: Profit Margins - % response

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[3] *"Normal" means as compared to the average level obtained in the preceding 3 years.*

Business Inflation Expectation Survey (BIES) - Questionnaire

A. Current Business Conditions

Q1. How do your current **PROFIT MARGINS**[@] compare with "normal"[*] times?
- o   Much less than normal
- o   Somewhat less than normal
- o   About normal
- o   Somewhat greater than normal
- o   Much greater than normal

Q2. How do your current sales levels compare with **SALES LEVELS**[@] during what you consider to be "normal"[*] times?
- o   Much less than normal
- o   Somewhat less than normal
- o   About normal
- o   somewhat greater than normal
- o   Much greater than normal

[@] *of the main or most important product in terms of sales.*

[*]"normal" means the average level obtained during the corresponding time point of preceding 3 years.

B. Current Costs Per Unit[^]

Q3. Looking back, how do your current **COSTS PER UNIT**[^] compare with this time last year?
- o   Down (< -1%)
- o   About unchanged (-1% to 1%)
- o   Up somewhat (1.1% to 3%)
- o   Up moderately (3.1% to 6%)
- o   Up significantly (6.1% to 10%)
- o   Up very significantly (> 10%)
- o

[^] *of the main or most important product in terms of sales.*

C. Forward Looking Costs Per Unit[$]

Q4. Projecting ahead, to the best of your ability, please assign a percent likelihood (probability) to the following changes to costs per unit[$] over the next 12 months.

o Unit costs down (less than -1%)	%
o Unit costs about unchanged (-1% to 1%)	%
o Unit costs up somewhat (1.1% to 3%)	%
o Unit costs up moderately (3.1% to 6%)	%
o Unit costs up significantly (6.1% to 10%)	%
o Unit costs up very significantly (>10%)	%

[$] *of the main or most important product in terms of sales.*
Values should add up to 100%.