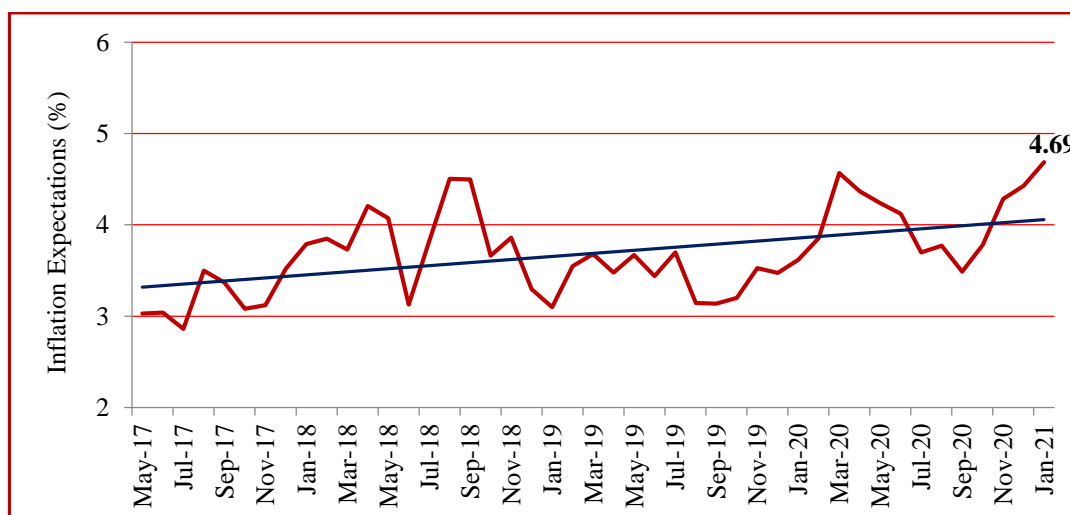


Business Inflation Expectations Survey (BIES)¹ – January 2021

A. Inflation expectations

- One year ahead business inflation expectations in January 2021, as estimated from the mean of individual probability distribution of unit cost increase, have increased further by 26 basis points to 4.69% from 4.43% reported in December 2020. Note that this is the highest inflation expectations print recorded ever in the BIES history. The trajectory of one year ahead business inflation expectations is presented in Chart 1.
- Uncertainty of business inflation expectations, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has increased marginally to 2.2% in January 2021 from 2.1% reported in December 2020.

Chart 1: One year ahead business inflation expectations (%)



B. Costs

- The cost perceptions data indicates further hardening of cost pressures. Over 42% of the firms in this round of the survey perceive significant (over 6%) cost increase – further up from 40%

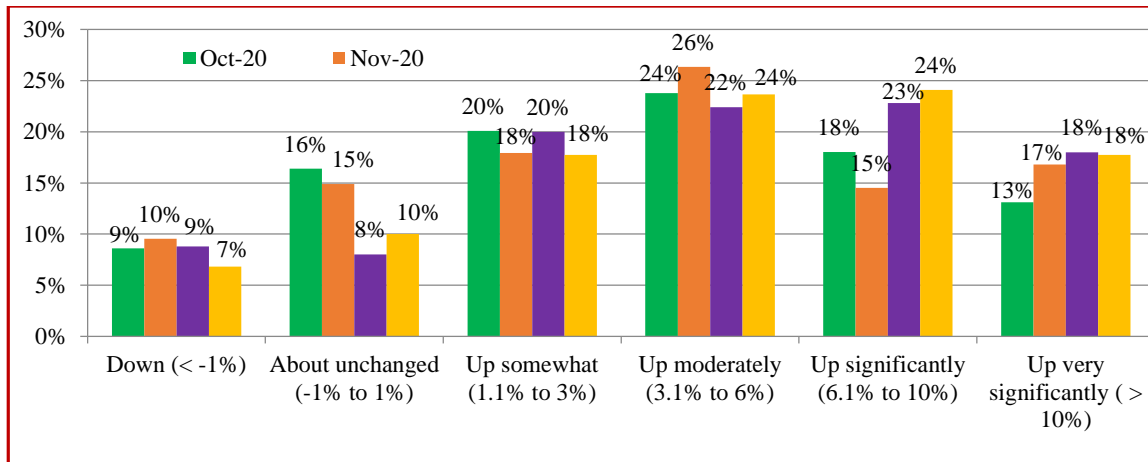
¹ The Business Inflation Expectations Survey (BIES) provides ways to examine the amount of slack in the economy by polling a panel of business leaders about their inflation expectations in the short and medium term. This monthly survey asks questions about year-ahead cost expectations and the factors 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 get a measure of uncertainty. It also provides an indirect assessment of overall demand condition of the economy. Results of this Survey are, therefore, useful in understanding the inflation expectations of businesses and complement other macro data required for policy making. With this objective, the BIES was introduced at IIMA 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.

Companies are selected primarily from the manufacturing sector. The “BIES - January 2021” is the 45th round of the Survey. These results are based on the responses of around 1000 companies.

reported in December 2020. About 18% of the firms perceive that costs have increased very significantly (over 10%).

- Over 66% of the firms in January 2021 find that the current cost increase is '3.1% and above' as compared to the same time last year – further up from 63% reported in December 2020 (Chart 2).

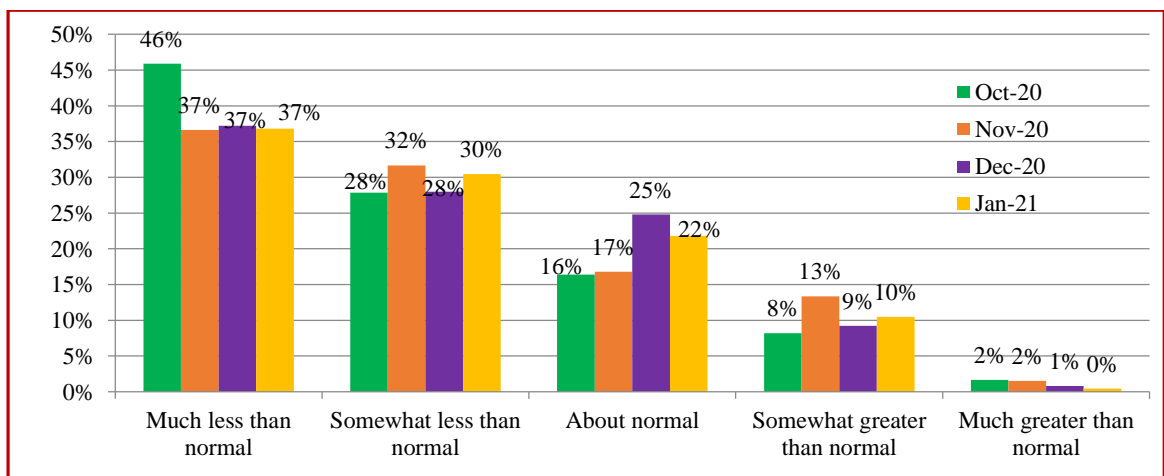
Chart 2: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- Prima facie, the expectations on sales look unchanged. However, the balance is indicating a somewhat slower pace of sales momentum.
- Over 37% of the firms in January 2021 still report that sales are 'much less than normal'.² Over 32% of the firms report that sales are normal or above normal, down from 35% reported in December 2020 (Chart 3).

Chart 3: Sales Levels - % response

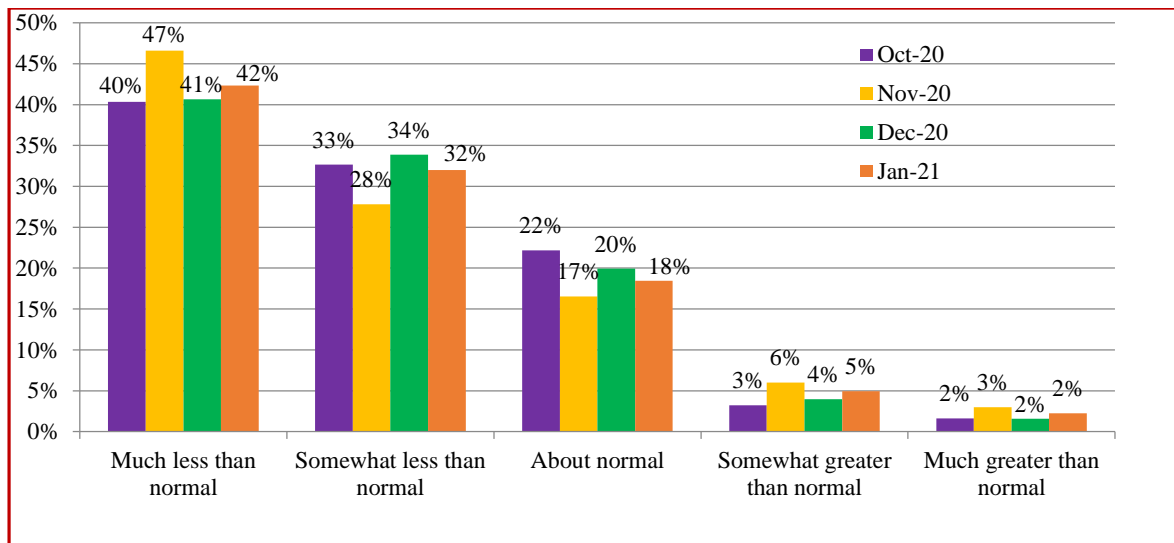


² "Normal" means as compared to the average level obtained in the preceding 3 years.

D. Profit Margins

- Over 42% of firms in the sample in January 2021 report ‘much less than normal’ profit – marginally up from 41% reported in December 2020 (Chart 4).
- Firms’ expectations of ‘about normal’ or greater profit margin have remained unchanged in this round of the survey.

Chart 4: Profit Margins - % response





Business Inflation Expectation Survey (BIES) – Questionnaire

A. Current Business Conditions

Q1. How do your current **PROFIT MARGINS**[®] compare with "normal"* times?

- Much less than normal
- Somewhat less than normal
- About normal
- Somewhat greater than normal
- Much greater than normal

Q2. How do your current sales levels compare with **SALES LEVELS**[®] during what you consider to be "normal"* times?

- Much less than normal
- Somewhat less than normal
- About normal
- somewhat greater than normal
- 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?

- Down (< -1%)
- About unchanged (-1% to 1%)
- Up somewhat (1.1% to 3%)
- Up moderately (3.1% to 6%)
- Up significantly (6.1% to 10%)
- Up very significantly (> 10%)
-

[^] 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.

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

%
%
%
%
%
%

^{\$} of the main or most important product in terms of sales.

Values should add up to 100%.