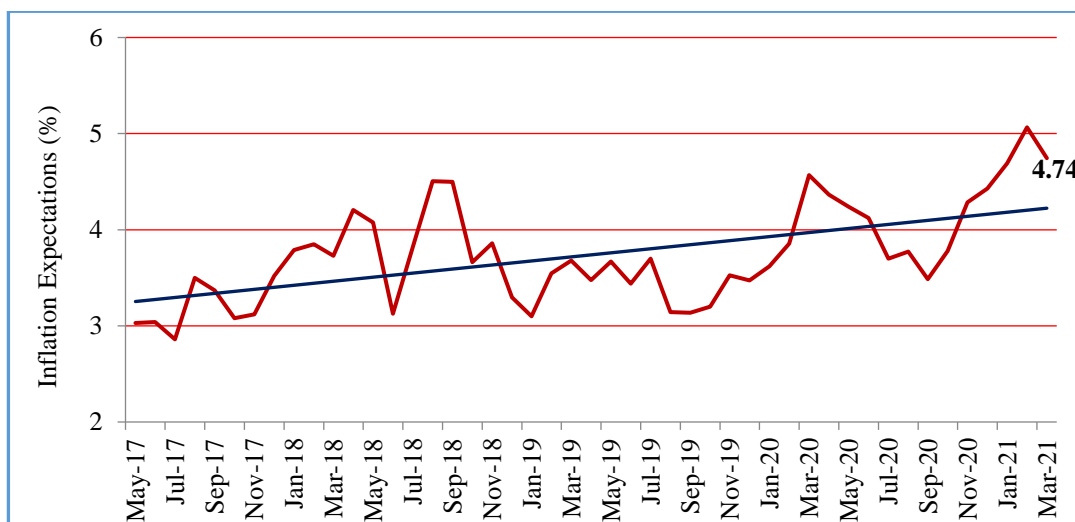


Business Inflation Expectations Survey (BIES)¹ – March 2021

A. Inflation expectations

- One year ahead business inflation expectations in March 2021, as estimated from the mean of individual probability distribution of unit cost increase, have declined by 35 basis points to 4.74% from 5.09% reported in February 2021. The trajectory of one year ahead business inflation expectations is presented in Chart 1.
- Uncertainty of business inflation expectations in March 2021, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has marginally declined to 2.1% from 2.2% reported in February 2021.

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



B. Costs

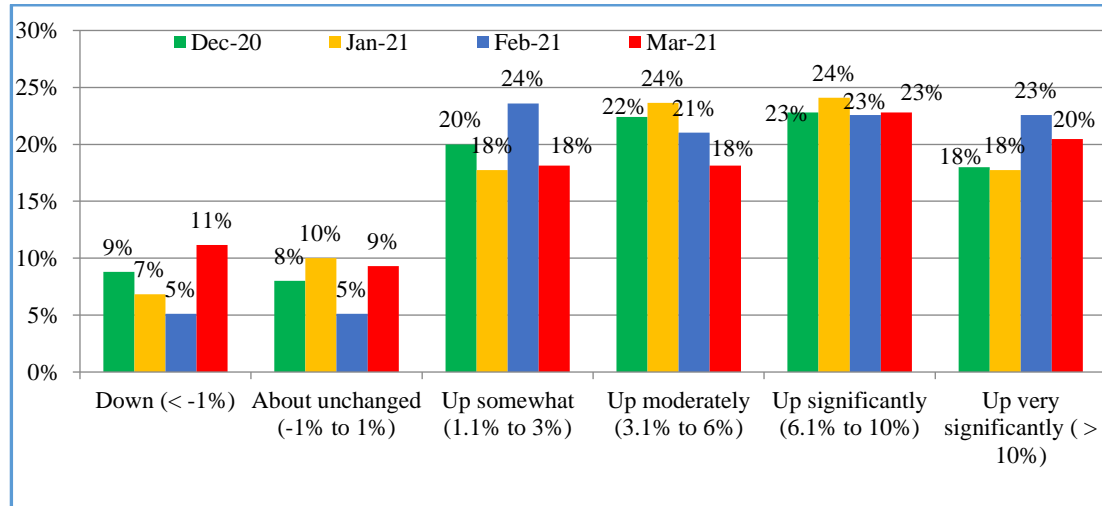
- The cost perceptions data indicates moderate softening of cost pressures. Over 43% of the firms in this round of the survey perceive significant (over 6%) cost increase – down from 46% reported in February 2021. Note that about 1/5th of the firms in March 2021 still perceive that costs have increased very significantly (over 10%).

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 annexed.

Companies are selected primarily from the manufacturing sector. The “BIES - March 2021” is the 47th round of the Survey. These results are based on the responses of around 1200 companies.

- Over 61% of the firms in March 2021 find that the current cost increase is '3.1% and above' as compared to 67% reported in February 2021 (Chart 2).

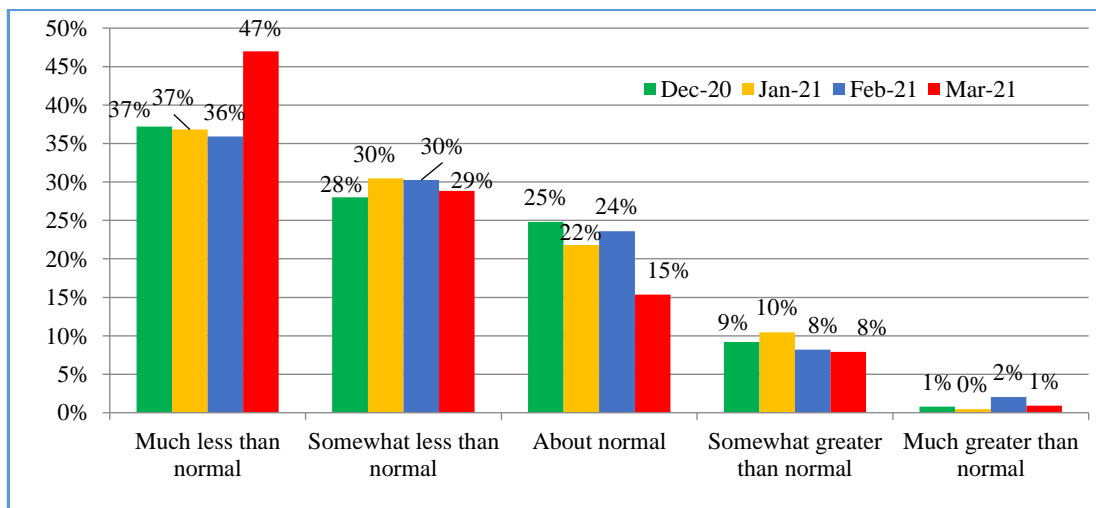
Chart 2: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- The sales expectations, which improved steadily since September 2020, got dented heavily due to the second wave of Covid-19. Over 47% of the firms in March 2021 report that sales are 'much less than normal', significantly up from 36% reported in February 2021 (Chart 3)². Firms reported similar sentiments last in September 2020.

Chart 3: Sales Levels - % response

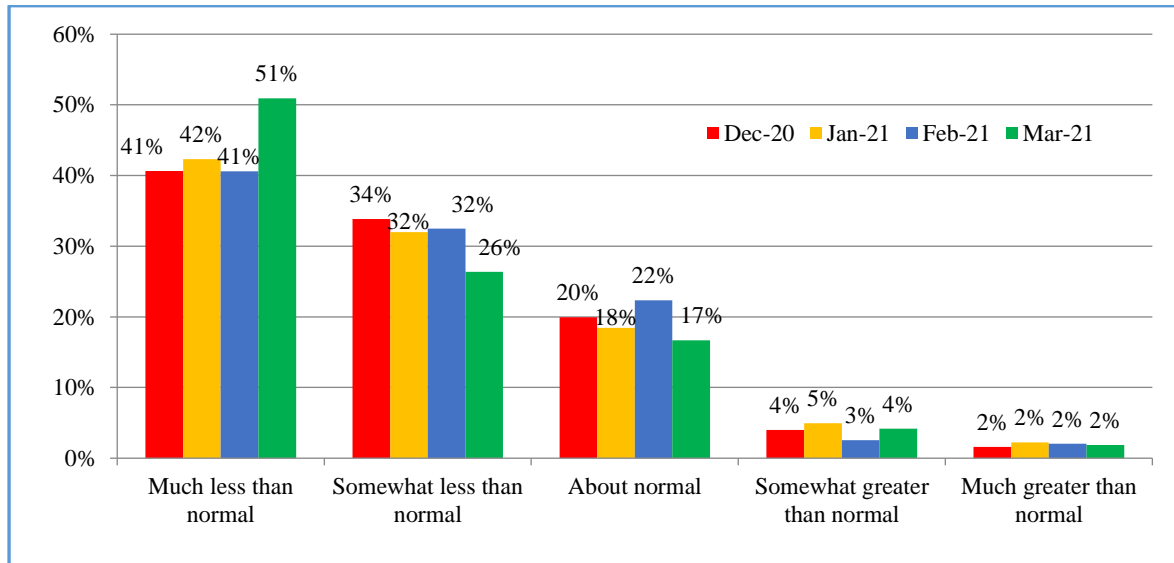


² "Normal" means as compared to the average level obtained in the preceding 3 years.

D. Profit Margins

- Over half of the firms in the sample in March 2021 report ‘much less than normal’ profit – sharply up from 41% reported in February 2021 (Chart 4).
- Firms on the margin, which recorded normal or somewhat less than normal profit, have reported deteriorations in their performance.

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%.