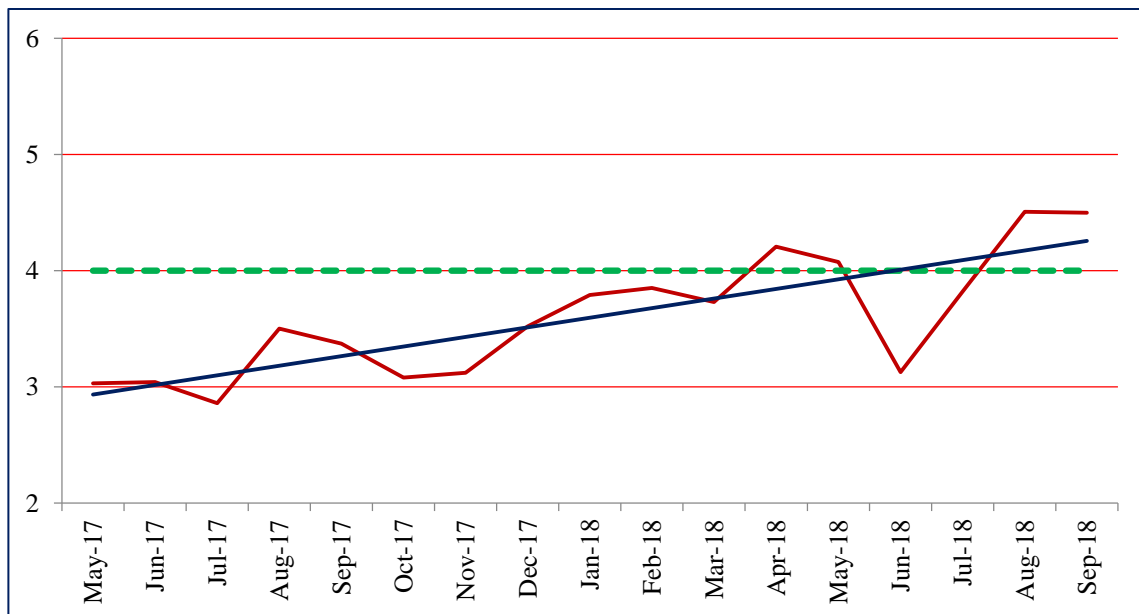


Business Inflation Expectations Survey (BIES)¹ – September 2018

A. Inflation expectations

- One year ahead business inflation expectation, as estimated from the mean of individual probability distribution of unit cost increase, in September 2018 stood at 4.5%. After showing a sharp increase during the previous two consecutive months of July and August, inflation expectation has remained unchanged in September 2018. Trajectory of one year ahead business inflation expectations is presented at Chart 1.
- Uncertainty of business inflation expectation in September 2018, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has remained elevated but marginally declined to 2.15%.

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



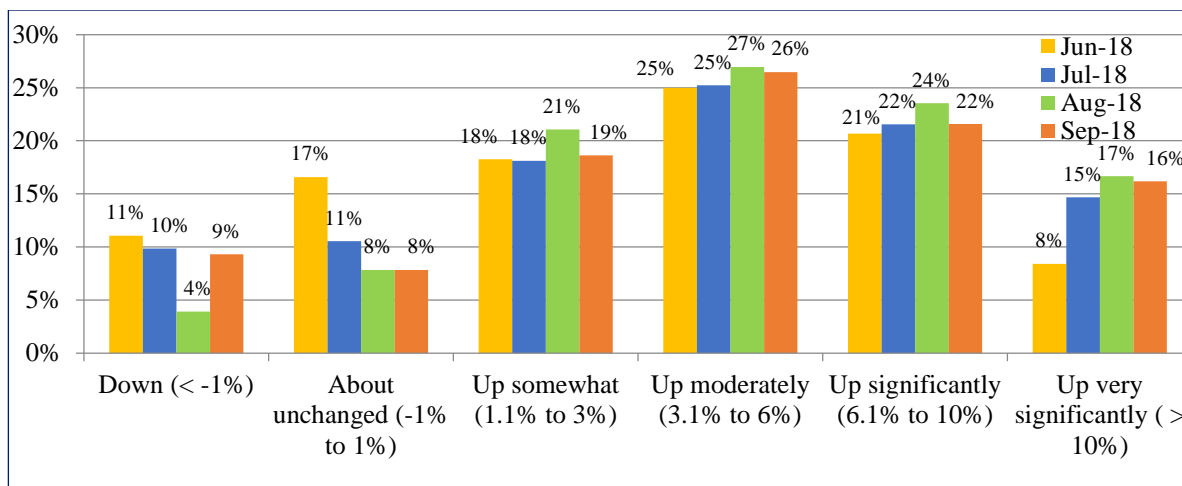
¹ The Business Inflation Expectations Survey (BIES) provides ways to examine the amount of slack in the economy by polling a panel of business leaders about their inflation expectations in the short and medium term. This monthly survey asks questions about year-ahead cost expectations and the factors 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 can 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 business 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 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 - September 2018” is the 17th round of the Survey. These results are based on the responses of over 1600 companies.

B. Costs

- Regarding cost perceptions, around 64% of the firms in September 2018 reported that increase in costs has been more than 3% (down significantly from around 70% observed in August 2018) during the last one year (Chart 2). The proportion of firms perceiving significant cost increase has also come down to 38% from 41% reported in September 2018.

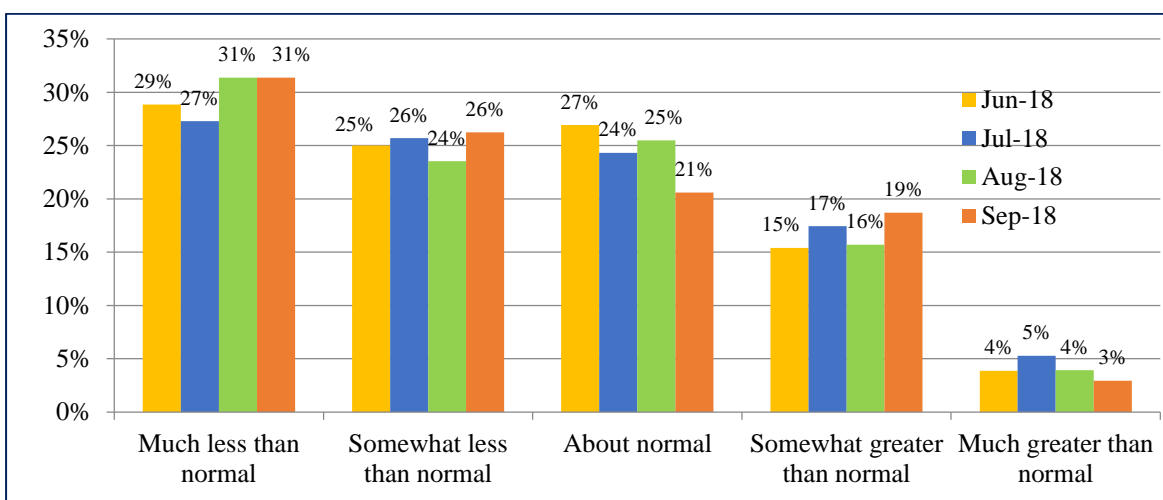
Chart 2: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- Around 43% of the firms in the sample reported that sales are ‘normal or greater than normal’² in September 2018 (Chart 3). This proportion has declined in this month from its average of 45-46% observed during the last 3 months.

Chart 3: Sales Levels - % response

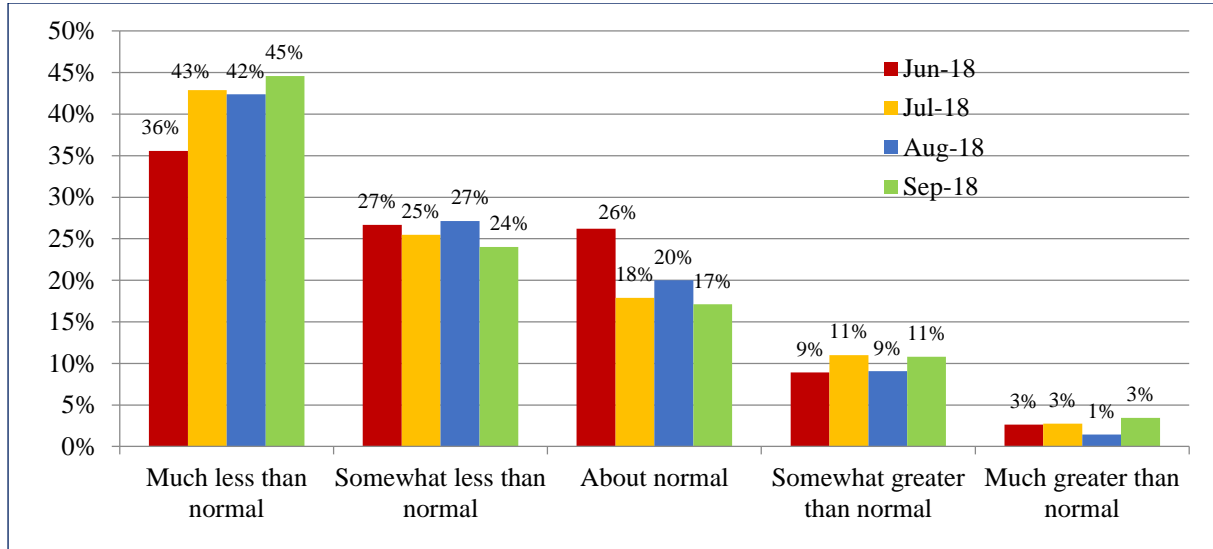


² "Normal" means as compared to the average level obtained in the preceding 3 years.

D. Profit Margins

- Responses of 45% of the firms in the sample in September 2018 indicate 'much less than normal' profit margins. Proportion of firms reporting 'normal or above normal' profit has not witnessed a significant change during the last 3 months (Chart 4).

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%.