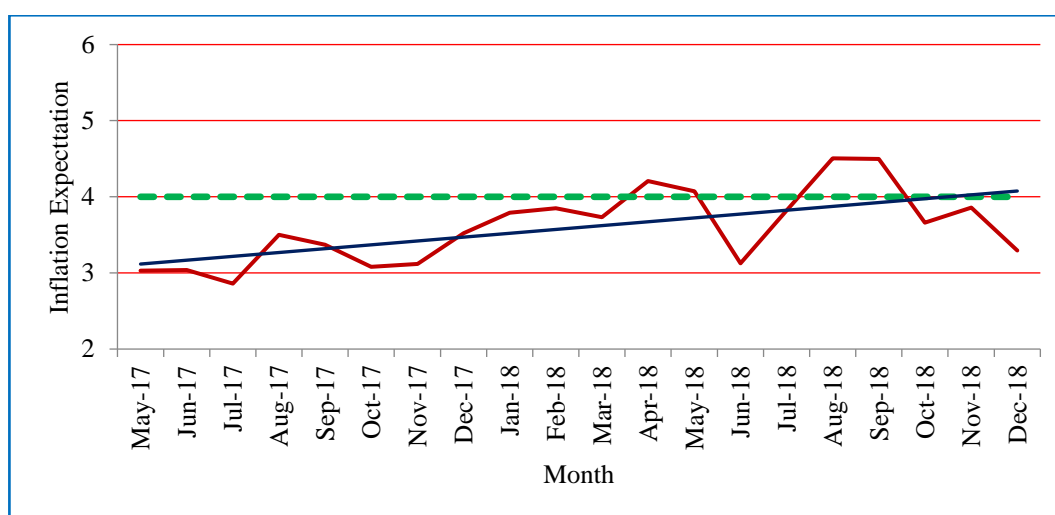


Business Inflation Expectations Survey (BIES)¹ – December 2018

A. Inflation expectations

- One year ahead business inflation expectation, as estimated from the mean of individual probability distribution of unit cost increase, has declined sharply to 3.29% in December 2018 from 3.86% observed in November 2018. Trajectory of one year ahead business inflation expectations is presented in Chart 1.
- Uncertainty of business inflation expectation in December 2018, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has also declined to 2.12% from 2.24% observed in November 2018.

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



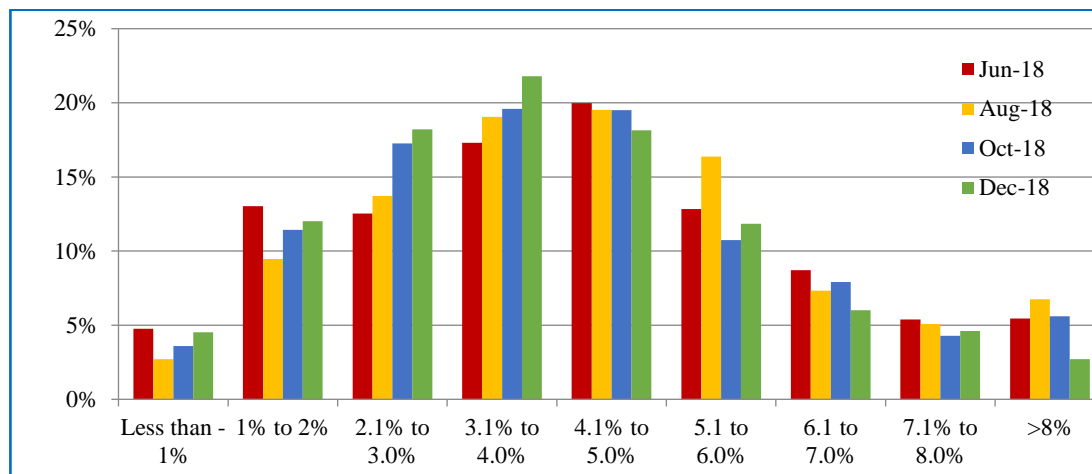
- Respondents were also asked to project one year ahead CPI headline inflation through an additional question using a probability distribution. This question is repeated every alternate month, coinciding with the month of RBI’s bi-monthly monetary policy announcement.

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 - December 2018” is the 20th round of the Survey. These results are based on the responses of over 1600 companies.

- Survey results indicate that businesses in December 2018 expect one year ahead CPI headline inflation to be 3.83% (down from 4.07% observed in October 2018 and 4.36% observed in August 2018), with a relatively low standard deviation of 1.00% (Chart 2).

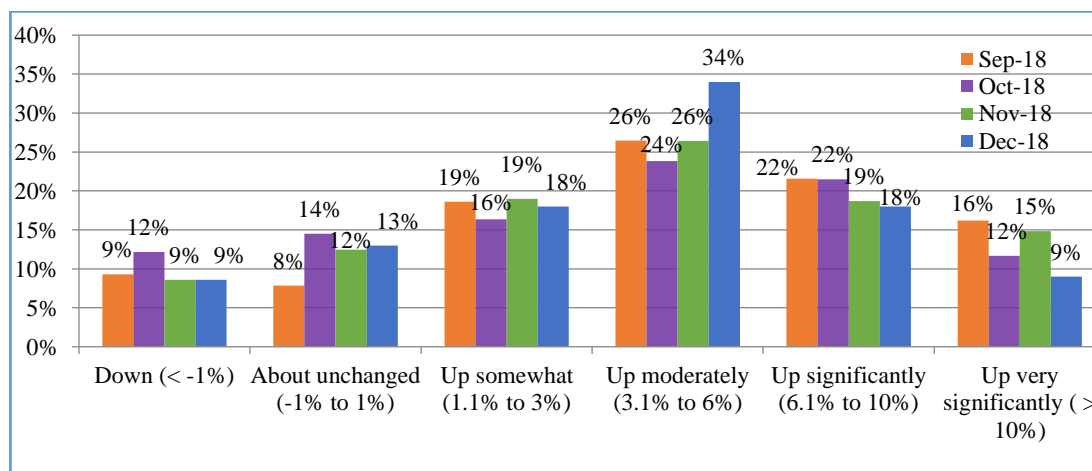
Chart 2: Expected CPI headline inflation (one year ahead) - mean probability (%) distribution



B. Costs

- Regarding cost perceptions, around 61% of the firms in December 2018 reported that increase in costs has been more than 3% (marginally up from around 60% in November 2018) during the last one year (Chart 3).
- The proportion of firms perceiving significant cost increase in December 2018 has declined to 27% as compared to 34% in November 2018.

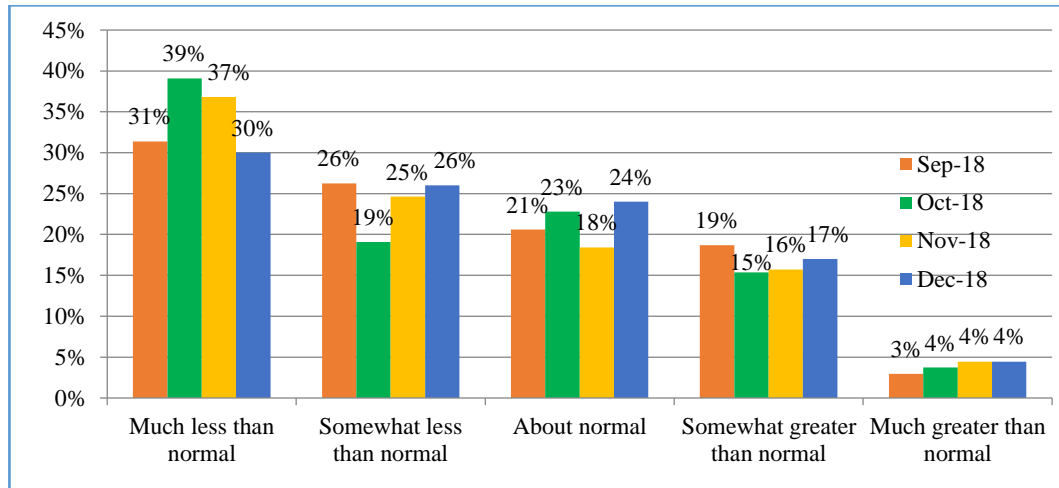
Chart 3: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- Nearly 56% of the firms in the sample reported that sales are ‘somewhat or much less than normal’² in December 2018 (Chart 4). However, the proportion of firms that reported ‘much less than normal’ sales has declined sharply in December 2018.

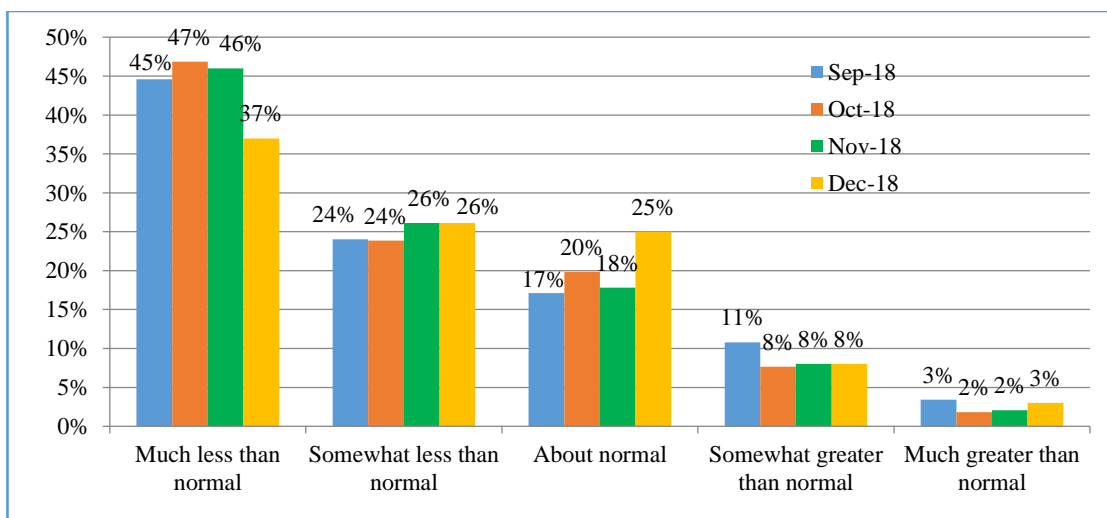
Chart 4: Sales Levels - % response



D. Profit Margins

- The proportion of firms in the sample reporting ‘much less than normal’ profit margins has declined sharply to 37% in December 2018 from 46% in November 2018 (Chart 5). This is primarily due to the increase in the proportion of firms reporting ‘normal’ profit in December 2018.

Chart 5: Profit Margins - % response



² "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?

- 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%.