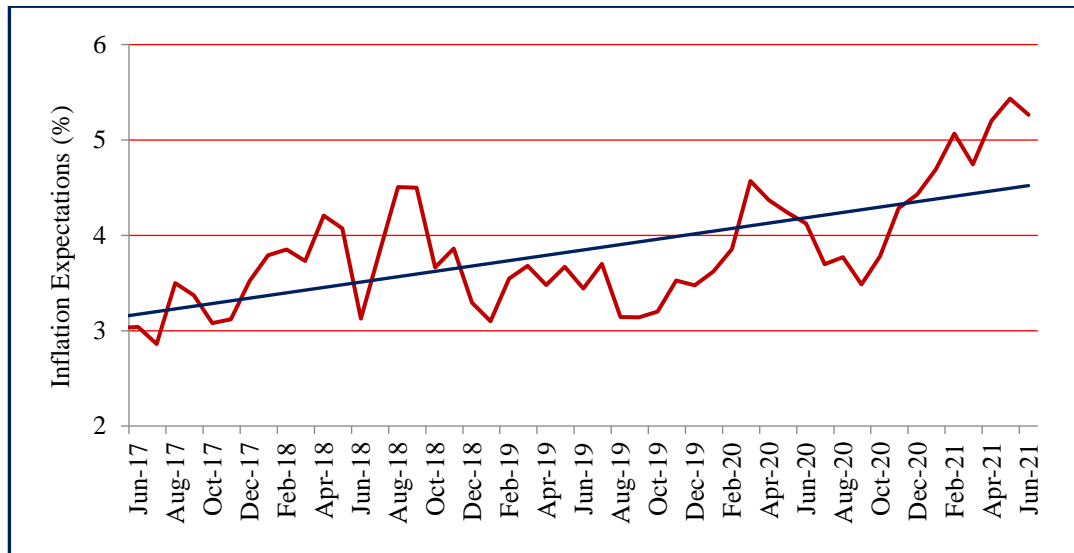


Business Inflation Expectations Survey (BIES)¹ – June 2021

A. Inflation expectations

- One year ahead business inflation expectations in June 2021, as estimated from the mean of individual probability distribution of unit cost increase, have declined by 16 basis points to 5.27% from 5.43% reported in May 2021. The trajectory of one year ahead business inflation expectations is presented in Chart 1.
- The 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 remained around 2% in June 2021.

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



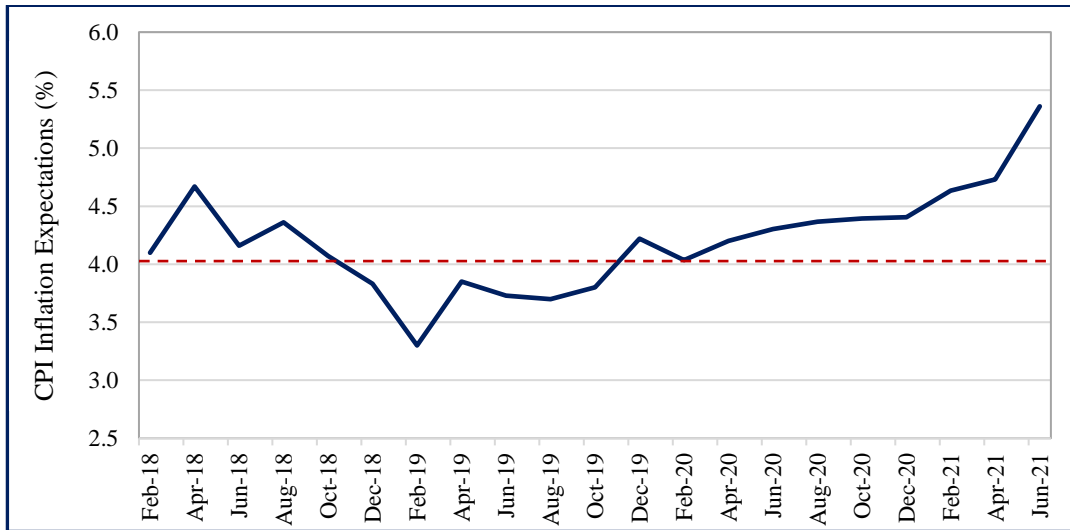
- Respondents were also asked to project one year ahead CPI headline inflation through an additional question using a probability distribution. This question is repeated every alternate month, coinciding with the month of RBI’s bi-monthly monetary policy announcement.

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 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 - June 2021” is the 50th round of the Survey. These results are based on the responses of around 1100 companies.

- Survey responses indicate a sharp increase in one year ahead CPI headline inflation expectation. It has remained above 4% since February 2020. The businesses in June 2021 expect one year ahead CPI headline inflation to be 5.36%, up from 4.73% reported in April 2021, with a low standard deviation of 0.98% (Chart 2).

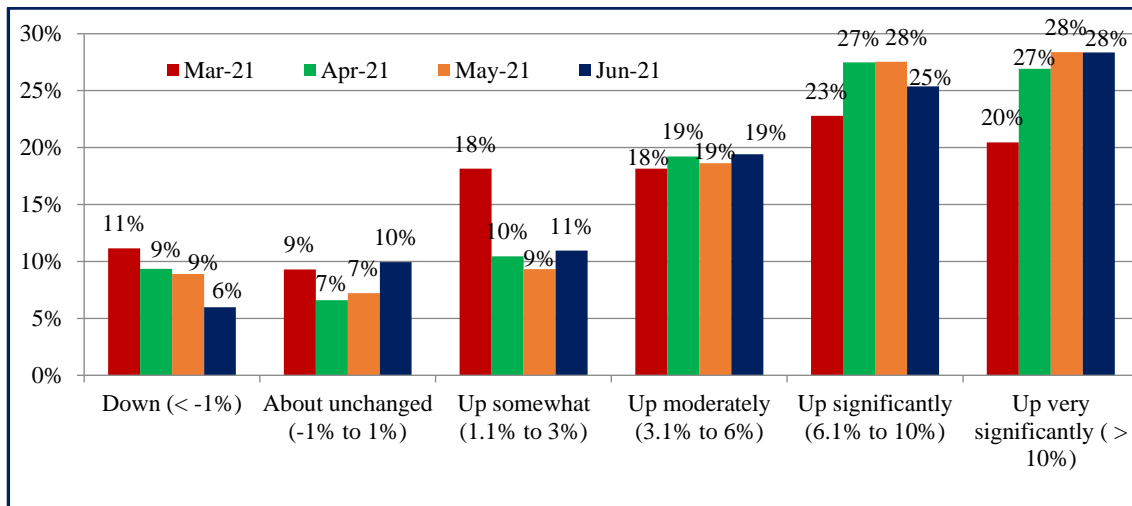
Chart 2: Expected CPI headline inflation (%) - one year ahead



B. Costs

- The cost perceptions data indicates sustained high cost pressures. Over 53% of the firms in this round of the survey perceive significant (over 6%) cost increase – marginally down from 56% reported in May 2021. Note that about 28% of the firms still perceive that costs have increased very significantly (over 10%).
- Over 72% of the firms in June 2021 find that the current cost increase is ‘3.1% and above’ as compared to 61% reported in March 2021 (Chart 3).

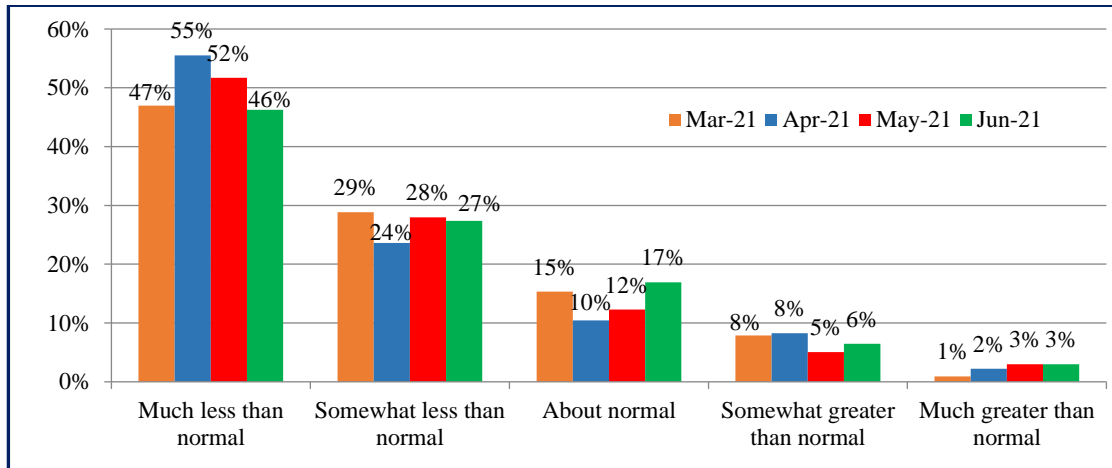
Chart 3: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- Severe adverse impact of the second wave of Covid-19 on sales expectations is gradually waning. Over 46% of the firms in June 2021 report that sales are ‘much less than normal’ – further improvement as compared to the sentiment reported in May 2021 (Chart 4)².

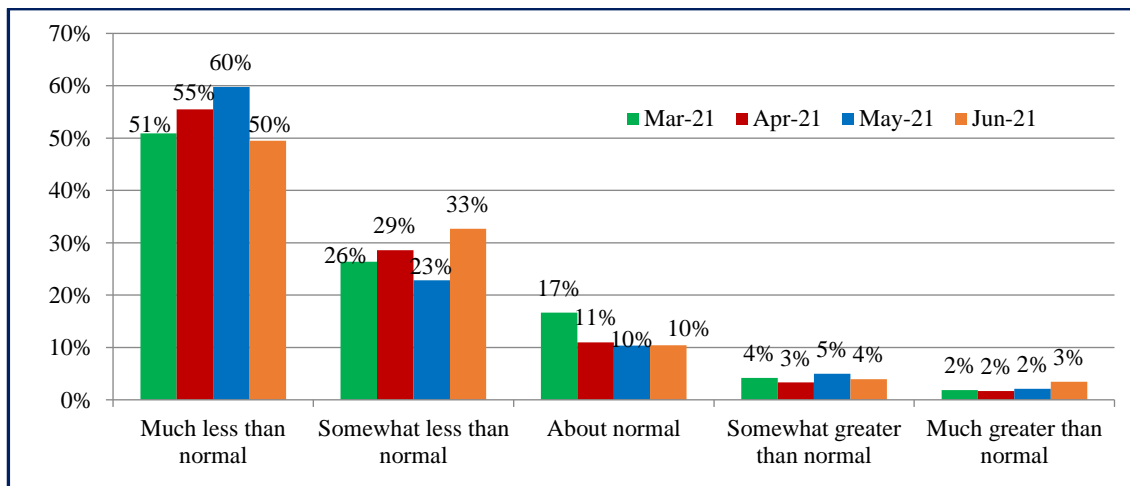
Chart 4: Sales Levels - % response



D. Profit Margins

- Over 50% of the firms in the sample in June 2021 report ‘much less than normal’ profit – sharply down from 60% reported in May 2021 (Chart 5).
- Note that the change in profit expectations is primarily due to the shift of responses from ‘much less than normal’ to ‘somewhat less than normal’ category.

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%.