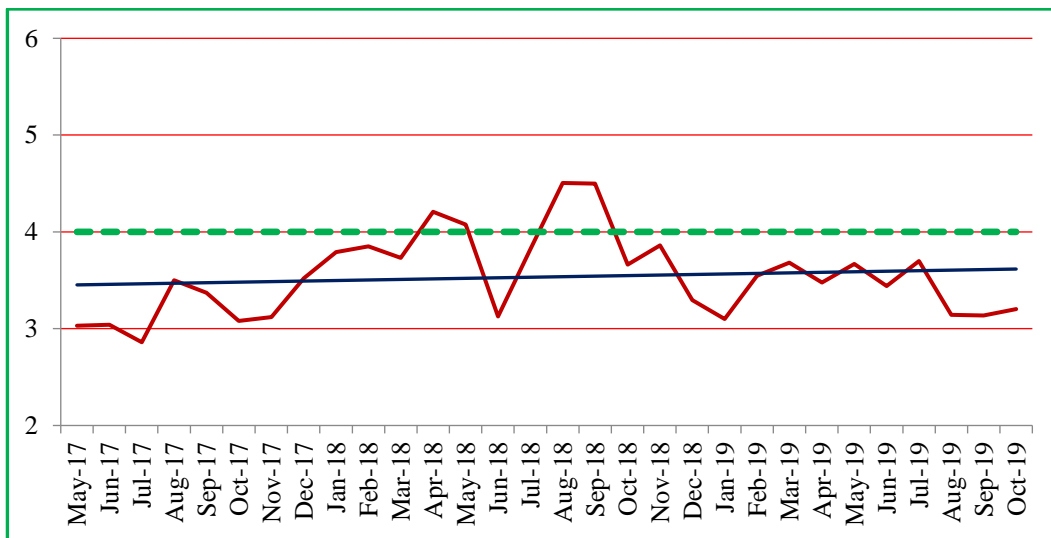


Business Inflation Expectations Survey (BIES)¹ – October 2019

A. Inflation expectations

- One year ahead business inflation expectation, as estimated from the mean of individual probability distribution of unit cost increase, has marginally increased to 3.20% in October 2019 from 3.14% reported in September 2019. Business inflation expectation has broadly remained well anchored in the range of 3-4%. Trajectory of one year ahead business inflation expectations is presented in Chart 1.
- Uncertainty of business inflation expectation, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has remained the same at around 2% for September and October 2019.

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



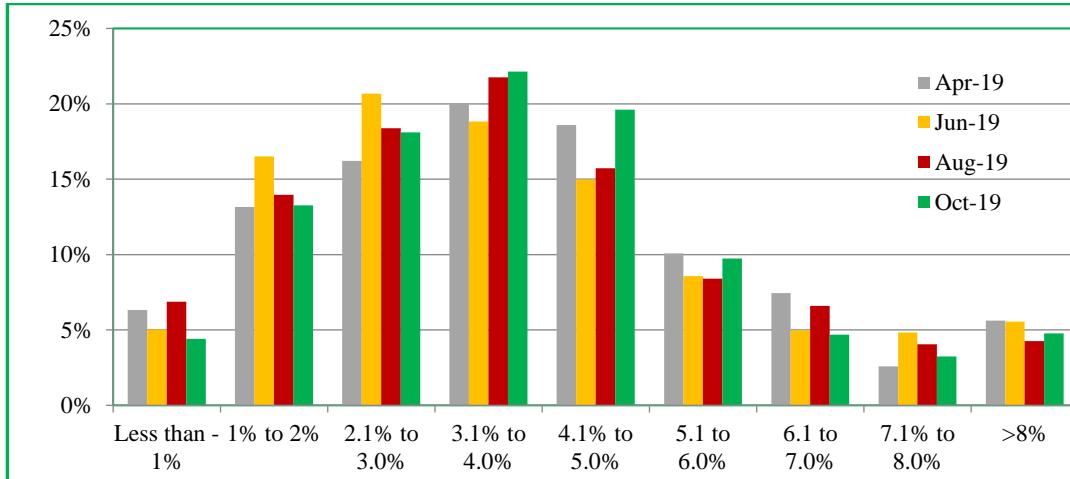
- Respondents were also asked to project one year ahead CPI headline inflation through an additional question using a probability distribution. This question is repeated every alternate month, coinciding with the month of RBI’s bi-monthly monetary policy announcement.

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 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 for information.

Companies are selected primarily from the manufacturing sector. The “BIES - October 2019” is the 30th round of the Survey. These results are based on the responses of over 1200 companies.

- Survey results indicate that businesses in October 2019 expect one year ahead CPI headline inflation to be 3.80%, marginally up from 3.70% projected in August 2019, with a relatively low standard deviation of around 1.12% (Chart 2).

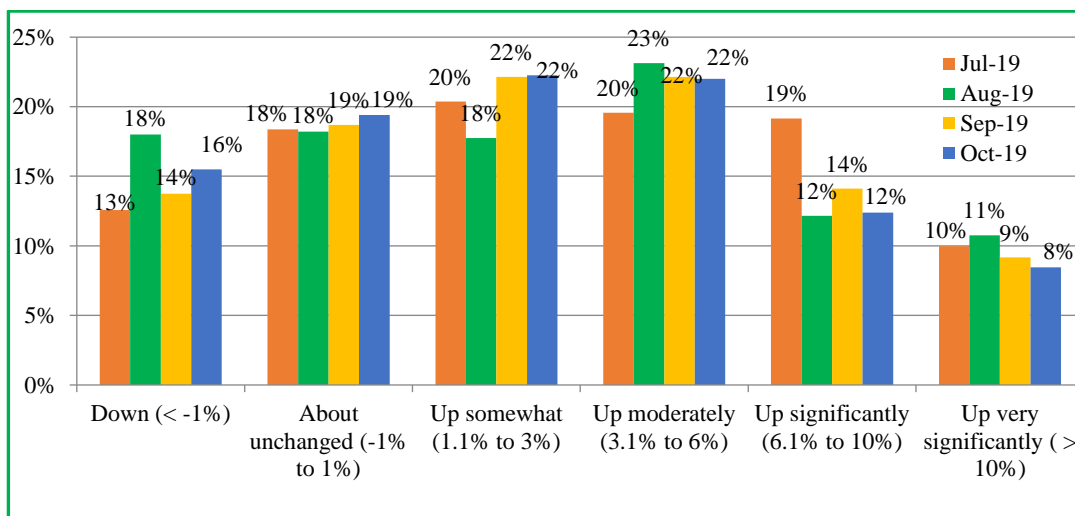
Chart 2: Expected CPI headline inflation (one year ahead) - mean probability (%) distribution



B. Costs

- Regarding cost perceptions, around 42% of the firms in October 2019 reported that increase in costs has been more than 3% (further down from 45% reported in September, 46% reported in August 2019, 49% reported in July 2019 and 55% reported in June 2019) during the last one year (Chart 3).
- Furthermore, the proportion of firms perceiving significant cost increase (more than 6%) has also come down from 23% in September 2019 to 20% in October 2019.

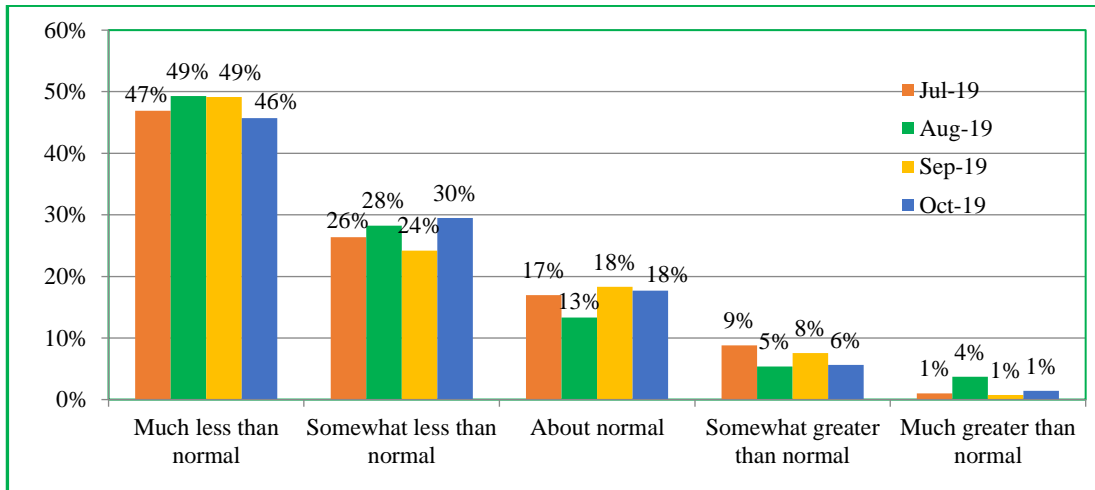
Chart 3: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- In October 2019, around 76% of the firms in the sample reported that sales are ‘somewhat or much less than normal’² as against 73% reported in September 2019 (Chart 4). This proportion has increased significantly since June 2019.

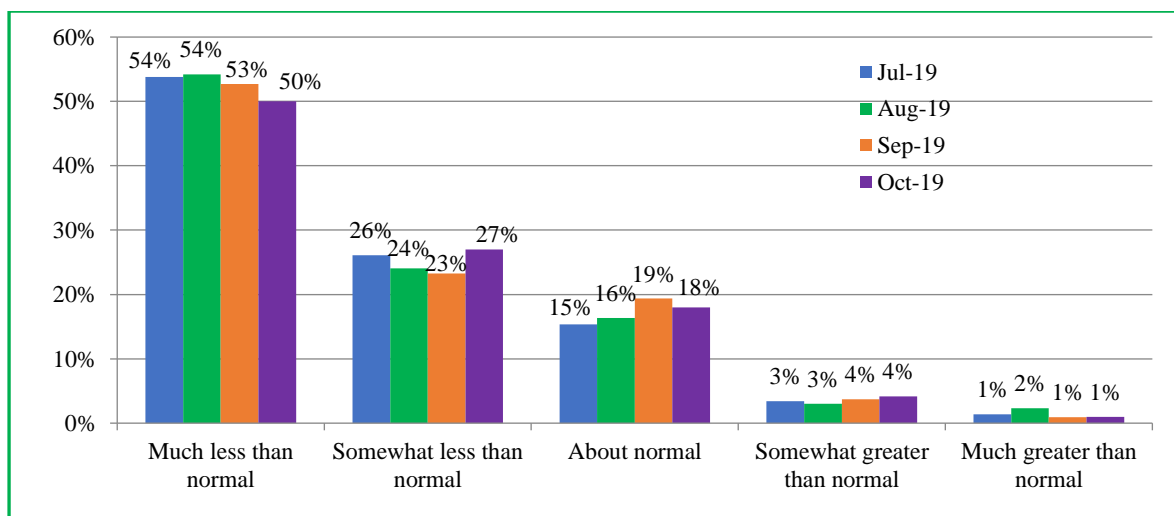
Chart 4: Sales Levels - % response



D. Profit Margins

- Starting from June 2019, the proportion of firms in the sample reporting ‘much less than normal’ profit margins has remained above 50%.
- Overall, the profit margin scenario has remained subdued for over a quarter now.

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%.