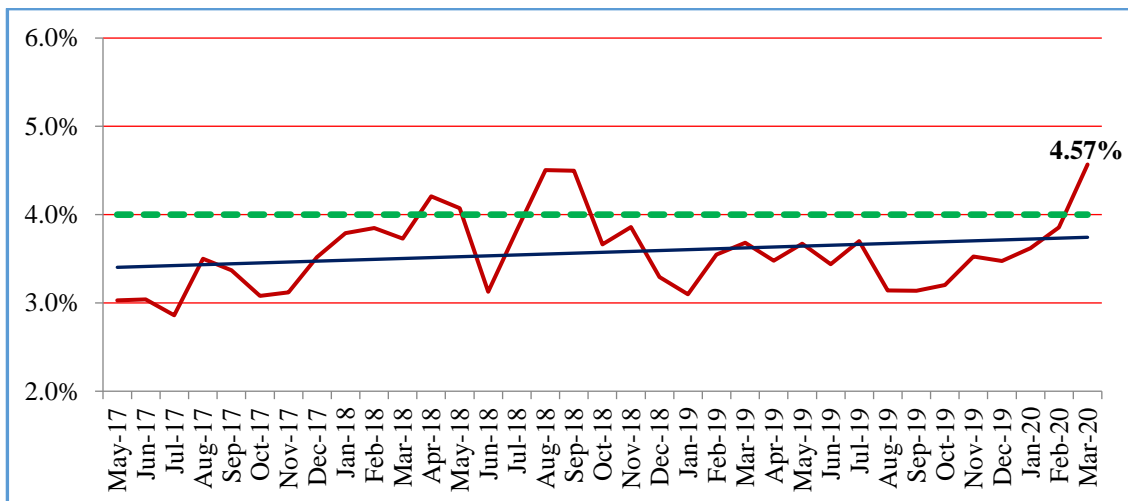


Business Inflation Expectations Survey (BIES)¹ – March 2020

A. Inflation expectations

- One year ahead business inflation expectations in March 2020, as estimated from the mean of individual probability distribution of unit cost increase, has increased sharply to 4.57% from 3.85% reported in February 2020. It is the highest ever print recorded since the inception of this survey in May 2017. For the first time, respondents attached 21% probability that one year ahead inflation expectations would be over 10%. Trajectory of one year ahead business inflation expectations is presented in Chart 1.
- 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 marginally increased to 2.1% in March 2020 from around 2% in February 2020.

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



B. Costs

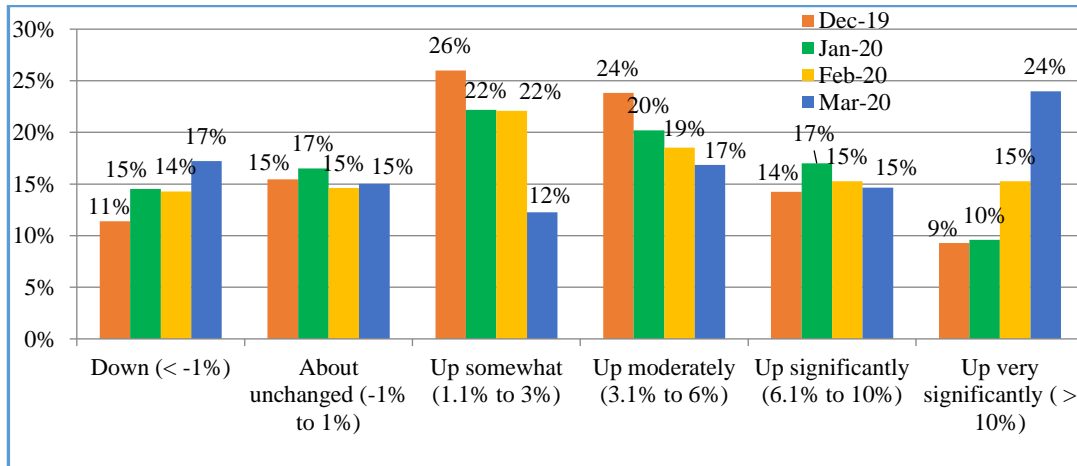
- The cost perceptions data shows clear signs of cost pressures building up.

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 enclosed.

Companies are selected primarily from the manufacturing sector. The “BIES - March 2020” is the 35th round of the Survey. These results are based on the responses of over 1300 companies.

- Over 56% of the firms believe that the current cost increase is 3.1% and above as compared to the same time last year. Around 2/5th of the firms perceive that the current cost increase is over 6%. Importantly, over 1/4th of the firms now perceive that current cost increase is over 10% (Chart 2).

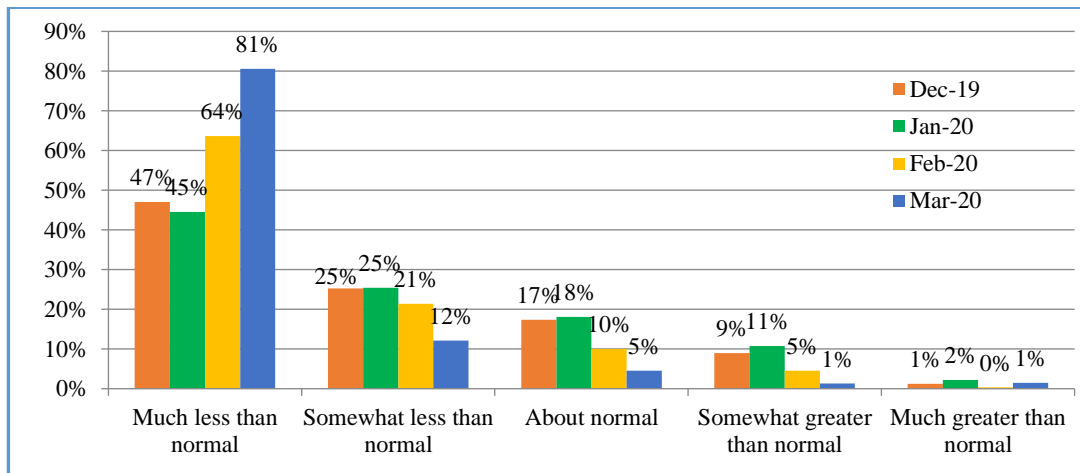
Chart 2: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- The effect of the extension of lockdown period due to Covid-19 is evident. Over 81% firms in March 2020 report that sales are much less than normal as against over 64% firms reporting in February 2020.
- Around 93% of the firms in the sample report that sales are ‘somewhat or much less than normal’² as against 85% reporting in February 2020 (Chart 3). Note that this proportion has remained over 70% since June 2019.

Chart 3: Sales Levels - % response

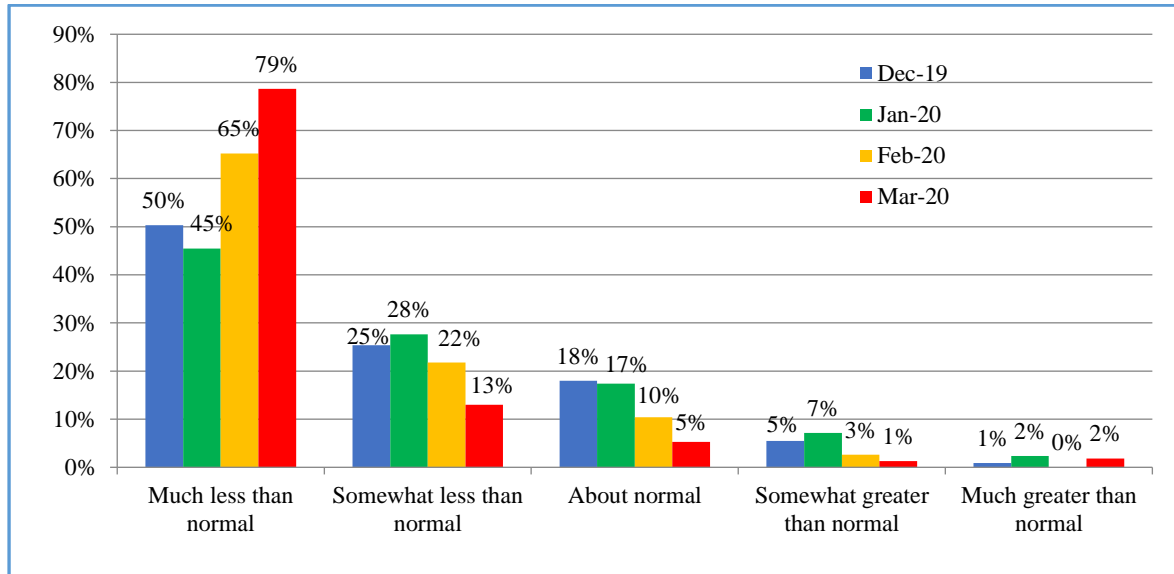


² "Normal" means as compared to the average level obtained in the preceding 3 years.

D. Profit Margins

- The proportion of firms in the sample reporting ‘much less than normal’ profit has further jumped up to 79% in March 2020 from 65% in February 2020. Over 93% of the firms in the sample expect ‘much less than normal or somewhat less than normal’ profit margins (Chart 4). Note that this proportion has remained around 75% since June 2019 till January 2020.

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%.