Business Inflation Expectations Survey (BIES) – January 2018

A. Inflation expectations

- One year ahead business inflation expectation in January 2018, as estimated from the mean probability distribution of unit cost increase, is placed at 3.79%, showing a further increase from 3.52% observed in December 2017 (Chart 1).

- Uncertainty of business inflation expectations in January 2018, as captured by the square root of the average variance of the individual mean probability distributions, is estimated to be 2.0% (increased from 1.8% observed in December 2017).

Chart 1: Unit costs increase (one year ahead) - mean probability (%) distribution

- Respondents were also asked to project one year ahead headline CPI inflation through an additional question using a probability distribution. This question was repeated after the October 2017 round.

- Results indicate that businesses in January 2018 expect one year ahead CPI inflation to be 4.17%, with a relatively low standard deviation of 1.2% (Chart 2).

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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. Towards this objective, IIMA introduced the BIES 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 - January 2018 is the 9th round of the Survey. These results are based on the responses of 2005 companies.
Chart 2: Expected headline CPI inflation (one year ahead) - mean probability (%) distribution

B. Costs

- Regarding cost perceptions, around 60% of the firms in January 2018 reported that increase in costs has been more than 3% during the last one year (Chart 3). This proportion has increased significantly in January 2018 as compared to the last three rounds.

- The cost perception data in January 2018 indicates signs of price pressure building up in the economy.

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

C. Sales Levels

- Around 30% of the firms in the sample reported that sales are “much less than normal” in January 2018 (Chart 4). This proportion has been quite stable during last 4 consecutive months.

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2 “Normal” means as compared to the average level obtained in the preceding 3 years.
Over half of the firms in the sample continue to report that sales levels are much or somewhat less than normal.

Overall data shows persistence of the pessimism about the demand conditions.

**Chart 4: Sales Levels - % response**

D. Profit Margins

- Responses of around 43% of the firms in the sample in January 2018 indicate ‘much less than normal’ profit margin (Chart 5).

- About 65% of firms continue to report squeezing of profit margins. This proportion has remained more or less stable during last 4 months.

- Perception of higher profit margins in the current economic conditions is not supported by the data.

**Chart 5: Profit Margins - % response**

3 “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.

<table>
<thead>
<tr>
<th>Change Description</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>Unit costs down (less than -1%)</td>
<td></td>
</tr>
<tr>
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</tr>
<tr>
<td>Unit costs up very significantly (&gt;10%)</td>
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</tbody>
</table>

$ of the main or most important product in terms of sales.

Values should add up to 100%.