Business Inflation Expectations Survey (BIES)\(^1\) – August 2018

A. Inflation expectations

\begin{itemize}
  \item One year ahead business inflation expectation in August 2018, as estimated from the mean of individual probability distribution of unit cost increase, has further increased sharply to 4.5% from 3.8% observed in July 2018. Trajectory of one year ahead business inflation expectations is presented at Chart 1.

  \item Uncertainty of business inflation expectation in August 2018, as captured by the square root of the average variance of the individual probability distributions of unit cost increase, has remained elevated at around 2.25%.
\end{itemize}

\textbf{Chart 1: One year ahead business inflation expectations (\%)}

\begin{center}
\begin{figure}
\includegraphics[width=\textwidth]{chart.png}
\end{figure}
\end{center}

\begin{itemize}
  \item Respondents were also asked to project one year ahead CPI headline inflation through an additional question using a probability distribution. This question is being repeated every
\end{itemize}

\(1\) 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 - August 2018 is the 16\(^{th}\) round of the Survey. These results are based on the responses of over 1600 companies.
alternate month, coinciding with the month of RBI’s bi-monthly monetary policy announcements.

- Survey results indicate that businesses in August 2018 expect one year ahead CPI headline inflation to be 4.36% (marginally up from 4.16% observed in June 2018), with a relatively low standard deviation of 1.17% (Chart 2).

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

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

B. Costs

- Regarding cost perceptions, around 70% of the firms in August 2018 reported that increase in costs has been more than 3% (again up significantly from around 60% observed in July 2018) during the last one year (Chart 3). The proportion of firms perceiving significant cost increase has further gone up to 41% in August 2018 from 37% in July 2018.

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

![Chart 3: How do current costs per unit compare with this time last year? – % responses]
C. Sales Levels

- Around 45% of the firms in the sample reported that sales are ‘normal or greater than normal’ in August 2018 (Chart 4). This proportion has remained in the range of 45-46% during the last 3 months.

Chart 4: Sales Levels - % response

D. Profit Margins

- Responses of 42% of the firms in the sample in August 2018 indicate ‘much less than normal’ profit margins. Proportion of firms reporting ‘normal or above normal’ profit has been gradually declining during the last 3 months (Chart 5).

Chart 5: Profit Margins - % response

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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\(^\circ\) 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\(^\circ\) 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%.