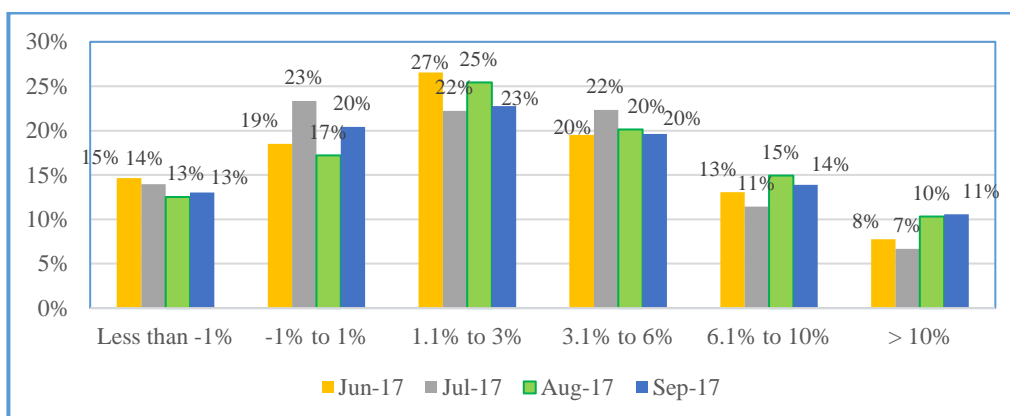


## Business Inflation Expectations Survey (BIES)<sup>1</sup> – September 2017

### A. Inflation expectations

- One year ahead business inflation expectations in September 2017, as estimated from the mean probability distribution of unit cost increase, are placed at 3.37%, showing a decline from 3.50% observed in August 2017 (Chart 1).
- Uncertainty of business inflation expectations in September 2017, as captured by the square root of the average variance of the individual mean probability distributions, is estimated to be 2.1% (same as that observed in August 2017).

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



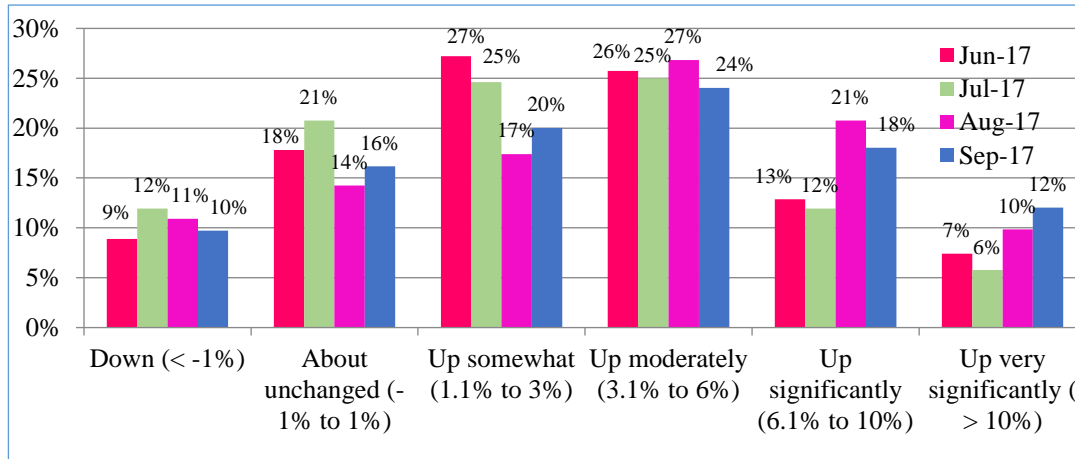
### B. Costs

- Regarding cost perceptions, around 54% of the firms in September 2017 reported that costs increase has been more than 3% during the last one year (Chart 2). This proportion has declined from 58% observed in August 2017.
- The cost perception data in September 2017 does not indicate signs of price pressure building up in the economy.

<sup>1</sup> 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 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 - September 2017 is the fifth round. These results are based on the responses of 2103 companies.

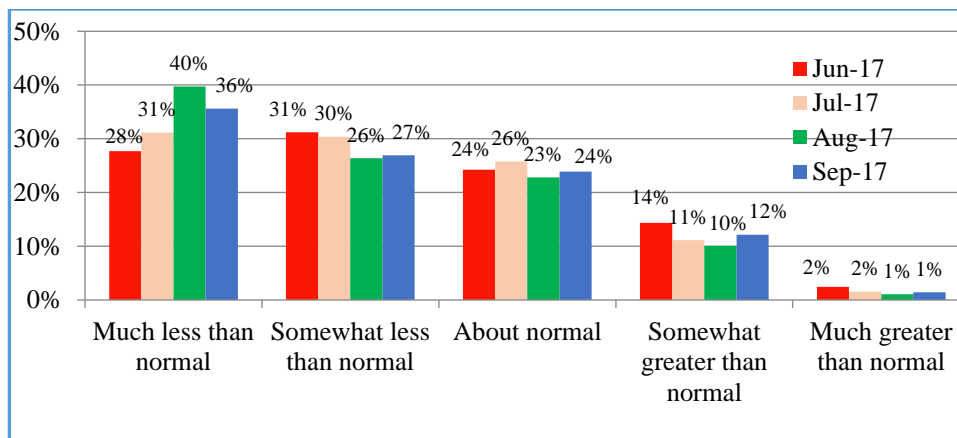
**Chart 2: How do current costs per unit compare with this time last year?**



### C. Sales Levels

- More than 1/3<sup>rd</sup> of the firms (36%) in the sample reported that sales are ‘much less than normal’<sup>2</sup> in September 2017 (Chart 3). This proportion has, however, declined by 4% in September 2017 as compared to August 2017.
- Over 3/5<sup>th</sup> of the firms have indicated that sales levels are much or somewhat less than normal in September 2017. This proportion has remained somewhat unchanged for the fifth consecutive months.
- The data shows persistence of the subdued demand conditions.

**Chart 3: Sales Levels - % response**

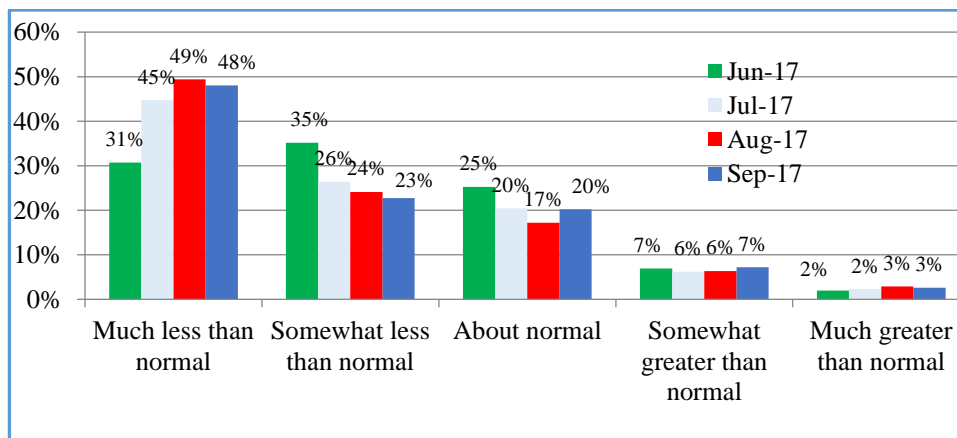


<sup>2</sup> "Normal" means as compared to the average level obtained in the preceding 3 years.

### D. Profit Margins

- Responses of around 48% of the firms in the sample in September 2017 indicate ‘much less than normal’<sup>3</sup> profit margin of the firms (Chart 4). This proportion has remained fairly unchanged.
- Over 70% of the firms in September 2017 reported squeezing of profit margins. This proportion too has remained somewhat stable during last 3 months.
- Business as usual or better than in normal times is reported roughly by 30% of firms in September 2017, slightly up from the August 2017 data. Higher profit margins in the current economic conditions are not supported by the data.

**Chart 4: Profit Margins - % response**



<sup>3</sup> "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**<sup>@</sup> 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**<sup>@</sup> 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

<sup>@</sup> 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<sup>^</sup>

Q3. Looking back, how do your current **COSTS PER UNIT**<sup>^</sup> 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%)
- 

<sup>^</sup> of the main or most important product in terms of sales.

### C. Forward Looking Costs Per Unit<sup>\$</sup>

Q4. Projecting ahead, to the best of your ability, please assign a percent likelihood (probability) to the following changes to costs per unit<sup>\$</sup> 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%)

%
%
%
%
%
%

<sup>\$</sup> of the main or most important product in terms of sales.

Values should add up to 100%.