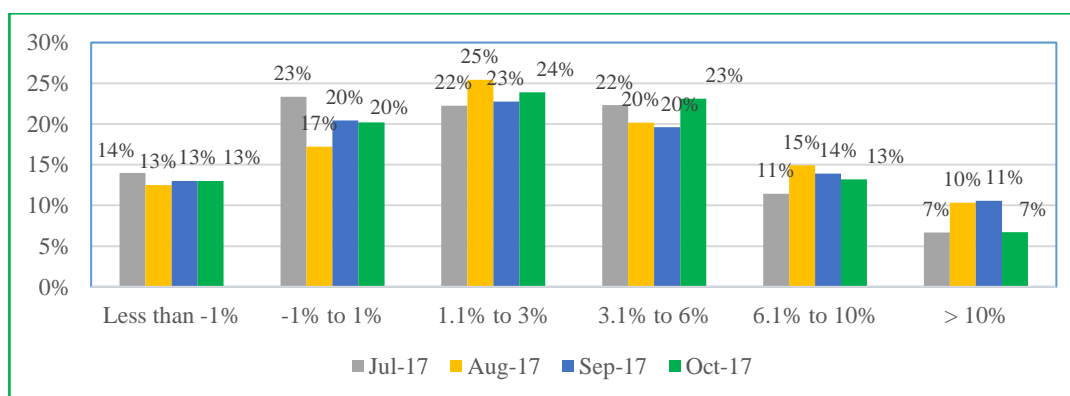


Business Inflation Expectations Survey (BIES)¹ – October 2017

A. Inflation expectations

- One year ahead business inflation expectation in October 2017, as estimated from the mean probability distribution of unit cost increase, is placed at 3.08%, showing a decline from 3.37% observed in September 2017 (Chart 1). Business inflation expectations have remained less than 3.5% in all the six rounds of the survey.
- Uncertainty of business inflation expectations in October 2017, as captured by the square root of the average variance of the individual mean probability distributions, is estimated to be 2.0% (marginally declined from 2.1% observed in September 2017).

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

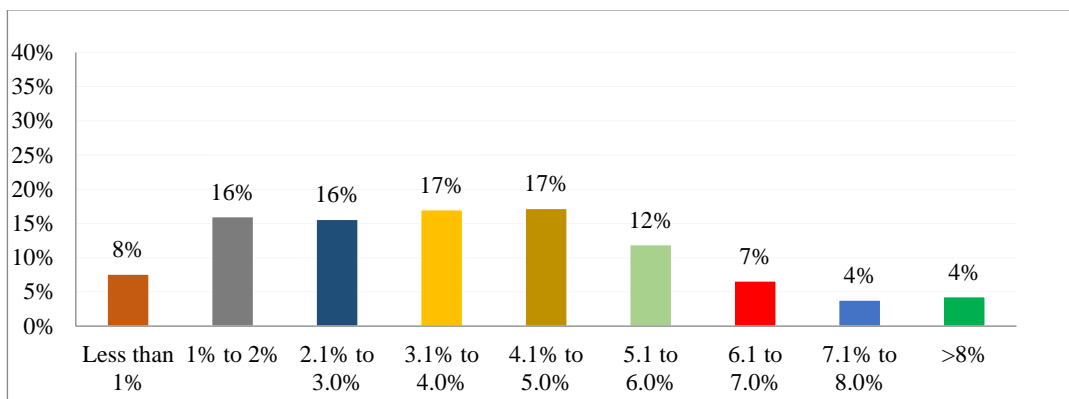


- For the first time, respondents were also asked to project one year ahead headline CPI inflation through an additional question using a probability distribution.
- Results indicate that businesses in October 2017 expect one year ahead CPI inflation to be 3.73%, with a relatively low standard deviation of 1.2% (Chart 2).

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 BIES thefrom 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 - October 2017 is the 6th round. These results are based on the responses of 2117 companies.

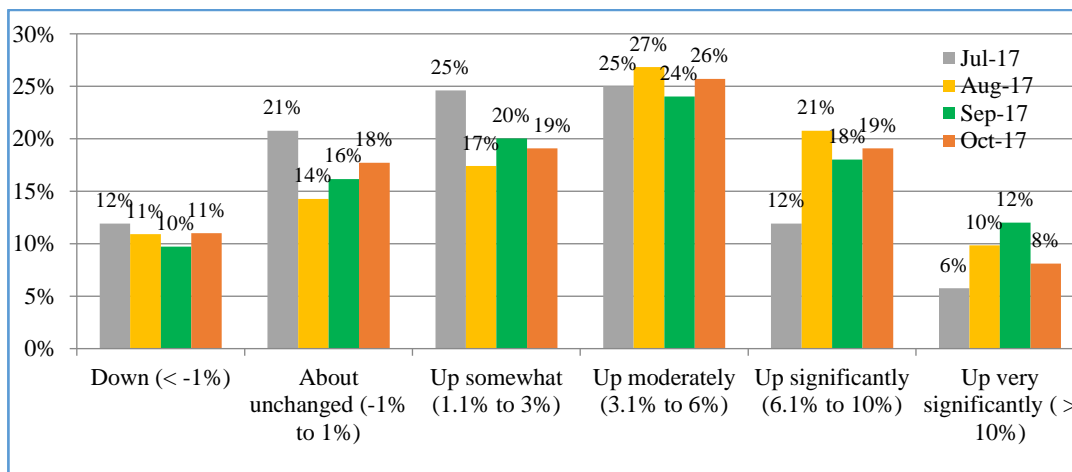
Chart 2: Expected headline CPI inflation (one year ahead) - mean probability (%) distribution



B. Costs

- Regarding cost perceptions, around 53% of the firms in October 2017 reported that increase in costs has been more than 3% during the last one year (Chart 3). This proportion has remained similar during last two rounds.
- The cost perception data in October 2017 does not indicate signs of price pressure building up in the economy.

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



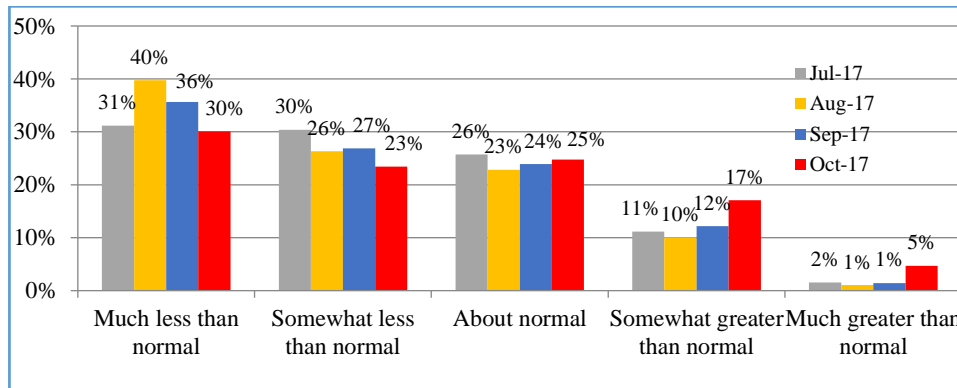
C. Sales Levels

- About 30% of the firms in the sample reported that sales are ‘much less than normal’² in October 2017 (Chart 4). This proportion, however, has been declining for the last 3 consecutive months.

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

- Over 55% of the firms have indicated that sales levels are much or somewhat less than normal in October 2017. This proportion is also declining in the past months.
- Although, the overall data shows persistence of the subdued demand conditions, there are visible signs of improvement in sales.

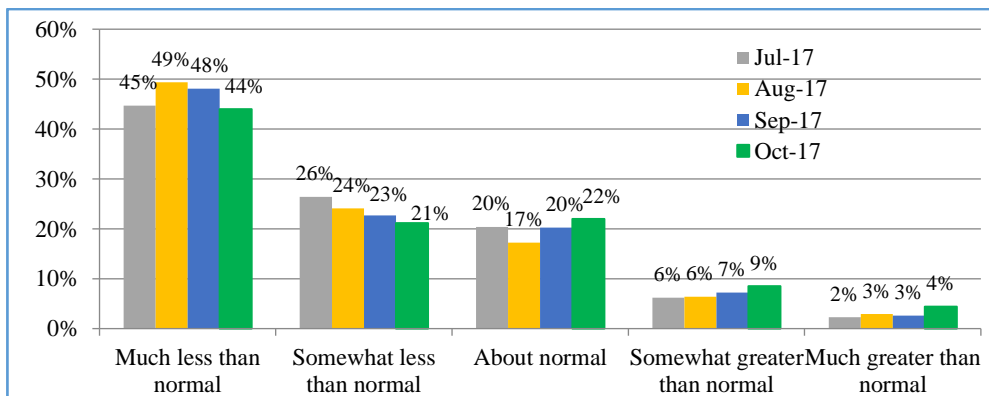
Chart 4: Sales Levels - % response



D. Profit Margins

- Responses of around 44% of the firms in the sample in October 2017 indicate ‘much less than normal’³ profit margin of the firms (Chart 5). This proportion has declined during last two months.
- For the first time during last 6 months, percentage of firms reporting squeezing of profit margins has declined - from 71% in September 2017 to 65% in October 2017. This may indicate early signs of optimism of corporate performance.
- Business as usual or better than in normal times is reported roughly by 31% of firms in October 2017, slightly up from the September 2017 round. Higher profit margins in the current economic conditions are 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.

- 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%.