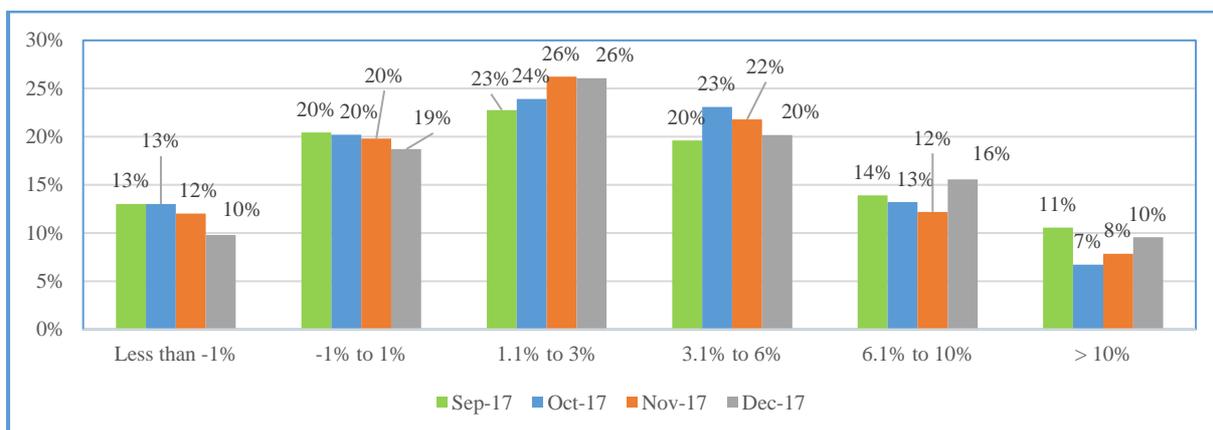


Business Inflation Expectations Survey (BIES)¹ – December 2017

A. Inflation expectations

- One year ahead business inflation expectation in December 2017, as estimated from the mean probability distribution of unit cost increase, is placed at 3.52% (Chart 1). It has increased significantly from 3.12% observed in November 2017.
- For the first time in the last eight rounds, business inflation expectation (one year ahead) has crossed 3.5%.
- Uncertainty of business inflation expectations in December 2017, as captured by the square root of the average variance of the individual mean probability distribution, is estimated to be 1.8% (significantly declined from 2.2% observed in November 2017).

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



B. Costs

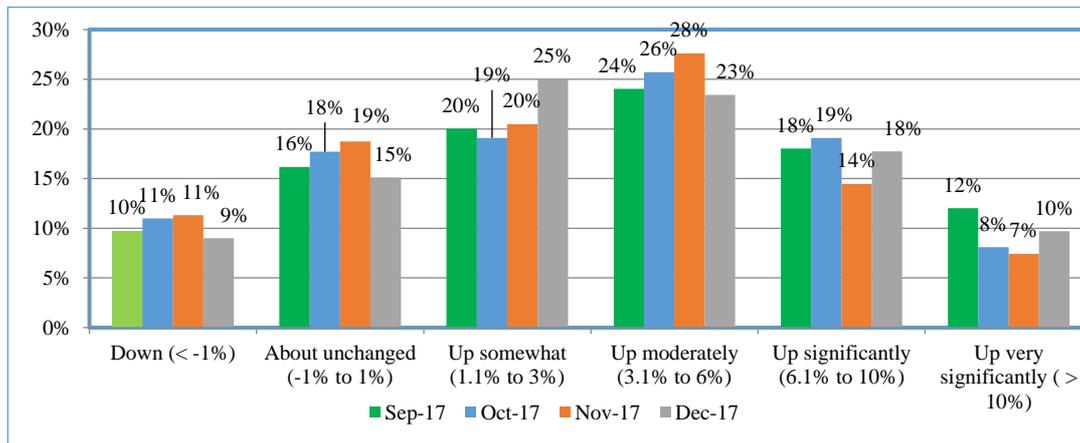
- Regarding cost perceptions, about half of the firms in December 2017 reported that increase in costs has been less than 3% as compared to the same time last year (Chart 2). This proportion has remained similar during last three rounds.

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 - December 2017 is the 8th round of the Survey. These results are based on the responses of 2536 companies.

- Many respondents changed their perceptions of cost from ‘down’ or ‘about unchanged’ to the ‘up somewhat’ category. However, the overall cost perception in December 2017 reflects subdued cost increase as compared to the same time a year before.

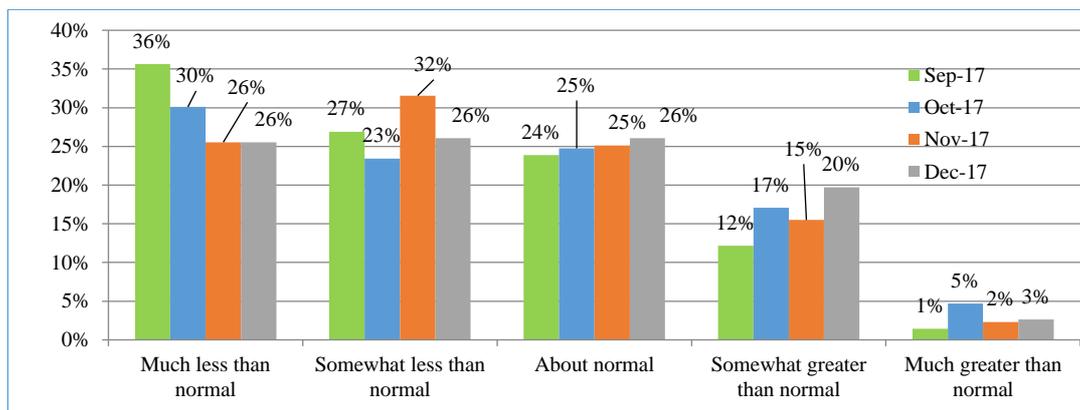
Chart 2: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- About 1/4th of the firms in the sample reported that sales are ‘much less than normal’² in December 2017 (Chart 3). After declining for 4 consecutive months, this proportion has remained unchanged in December 2017. On the other hand, proportion of businesses responding normal and better sales has increased.
- The overall data shows visible signs of improvement in sales.

Chart 3: Sales Levels - % response

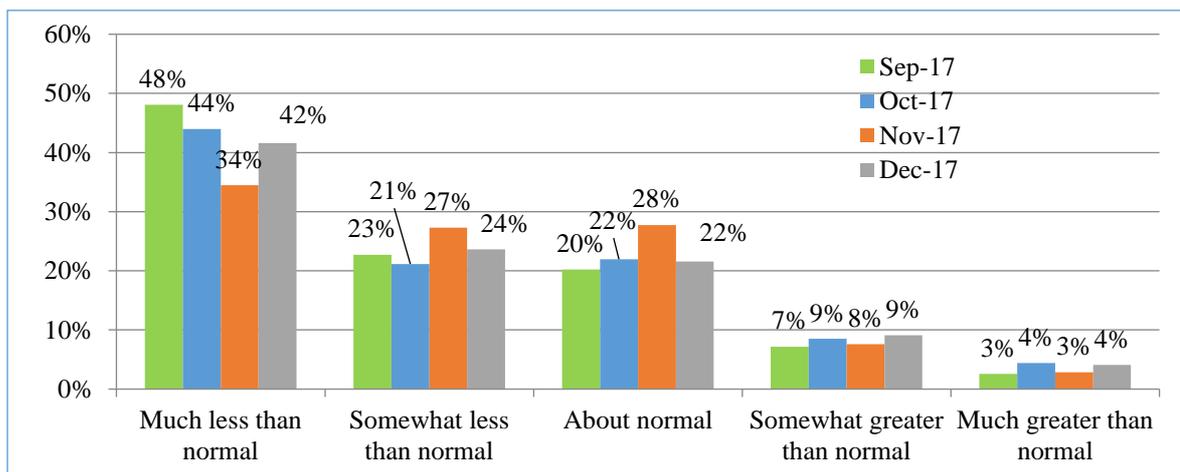


² "Normal" means as compared to the average level obtained in the preceding 3 years.

D. Profit Margins

- Responses of around 42% of the firms in the sample in December 2017 indicate ‘much less than normal’³ profit margins (Chart 4). After a decline of four consecutive months, this proportion has increased in December 2017 – possibly reflecting increased cost concerns of the businesses.
- Percentage of firms reporting profit margins ‘much or somewhat less than normal’ has increased to 66% in December 2017 from 61% in November 2017.
- In contrast, business as usual or better than in normal times is reported roughly by 35% of firms in December 2017, down from 39% reported in November 2017.

Chart 4: 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%.