

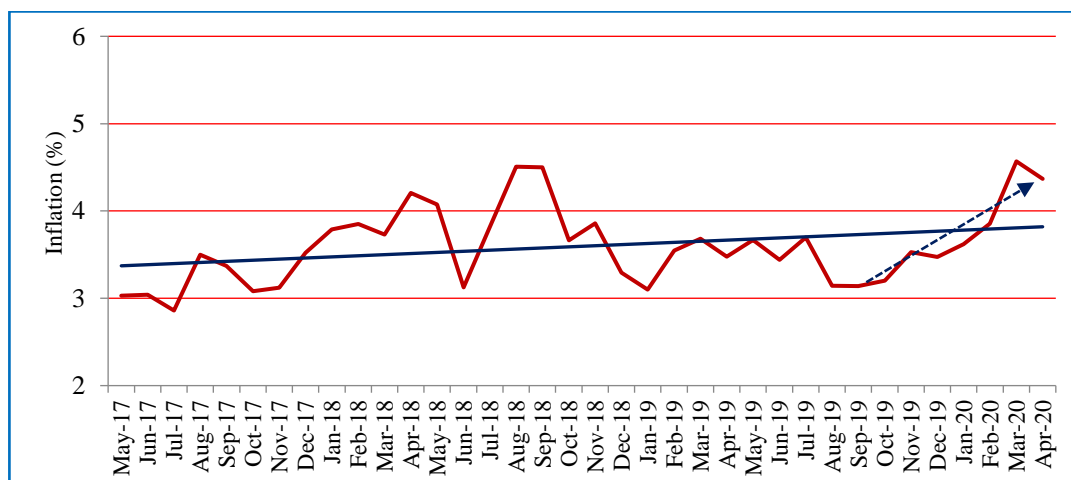
Business Inflation Expectations Survey (BIES)¹ – April 2020

The COVID-19 pandemic and subsequent lockdown of the economy have had an impact on the BIES survey responses for April 2020. In the first fortnight of May 2020, there were very few responses received. Due to obvious reasons, many firms declined to provide data on sales and profit expectations. Finally, the questionnaire was shortened and the data on only inflation/cost were sought. Accordingly, survey results are presented for inflation expectations and cost perceptions.

A. Inflation expectations

- One year ahead business inflation expectations in April 2020, as estimated from the mean of individual probability distribution of unit cost increase, have declined by 20 basis points to 4.37% from 4.57% reported in March 2020. However, it has still remained over 4% for two consecutive months. Trajectory of one year ahead business inflation expectations is presented in Chart 1.
- Uncertainty of business inflation expectations, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has marginally declined to 2.0% in April 2020 from around 2.1% in March 2020.

Chart 1: One year ahead business inflation expectations (%)



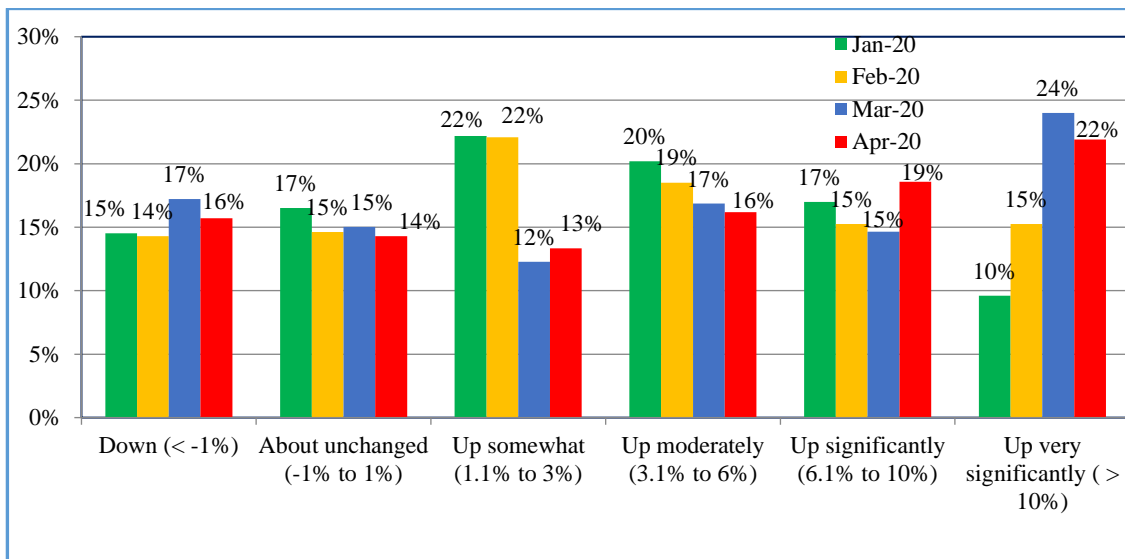
¹ The Business Inflation Expectations Survey (BIES) provides ways to examine the amount of slack in the economy by polling a panel of business leaders about their inflation expectations in the short and medium term. This monthly survey asks questions about year-ahead cost expectations and the factors 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 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 businesses and complement other macro data required for policy making. With this objective, the BIES was introduced at IIMA 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.

Companies are selected primarily from the manufacturing sector. The “BIES - April 2020” is the 36th round of the Survey. These results are based on the responses of around 1000 companies.

B. Costs

- The cost perceptions data shows clear signs of cost pressures building up.
- Over 57% of the firms believe that the current cost increase is 3.1% and above as compared to the same time last year. Over 2/5th of the firms perceive that the current cost increase is over 6%. It is pertinent to note that now over 1/5th of the firms perceive that current cost increase is over 10% (Chart 2).

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





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%.