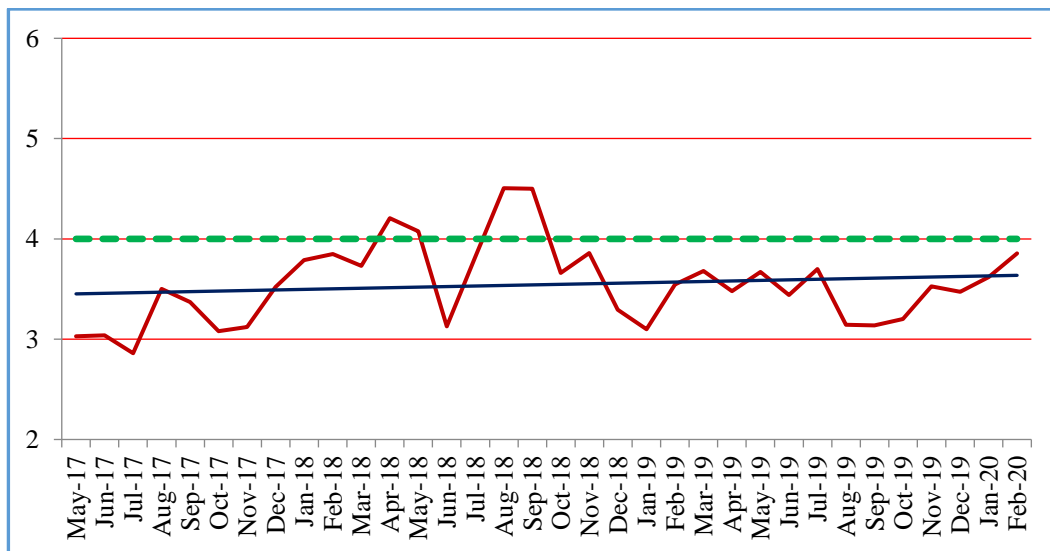


## Business Inflation Expectations Survey (BIES)<sup>1</sup> – February 2020

### A. Inflation expectations

- One year ahead business inflation expectation, as estimated from the mean of individual probability distribution of unit cost increase, has further increased to 3.85% from 3.62% reported in January 2020. Though it has remained under 4% for over a year, business inflation expectation has been steadily increasing since October 2019. Trajectory of one year ahead business inflation expectations is presented in Chart 1.
- Uncertainty of business inflation expectation, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has remained around 2% from December 2019 to February 2020.

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



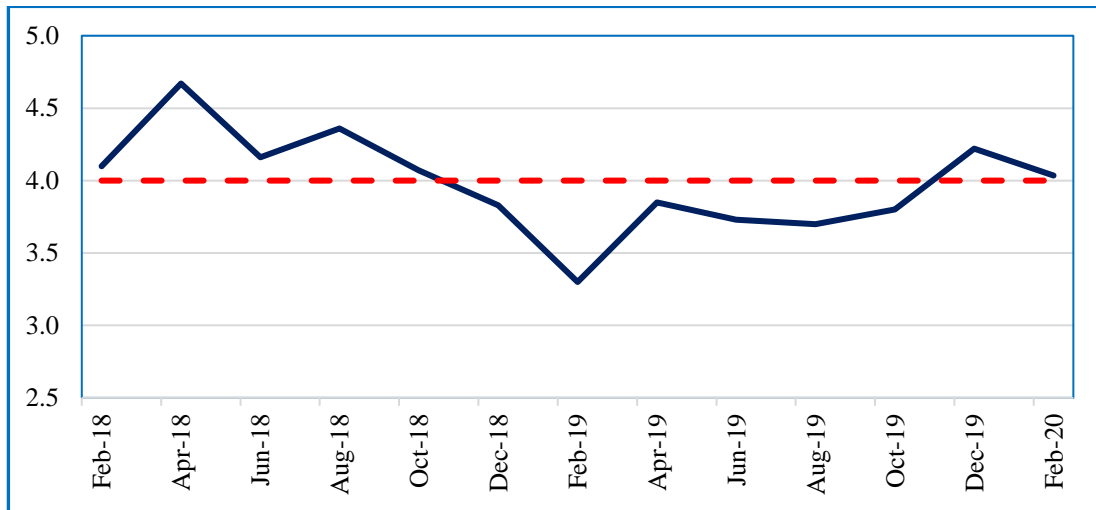
- Respondents were also asked to project one year ahead CPI headline inflation through an additional question using a probability distribution. This question is repeated every alternate month, coinciding with the month of RBI’s bi-monthly monetary policy announcement.

<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 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 - February 2020” is the 34<sup>th</sup> round of the Survey. These results are based on the responses of around 1000 companies.

- Survey results indicate that businesses in February 2020 expect one year ahead CPI headline inflation to be 4.03%, slightly down from 4.22% reported in December 2019, with a relatively low standard deviation of around 1.0% (Chart 2).

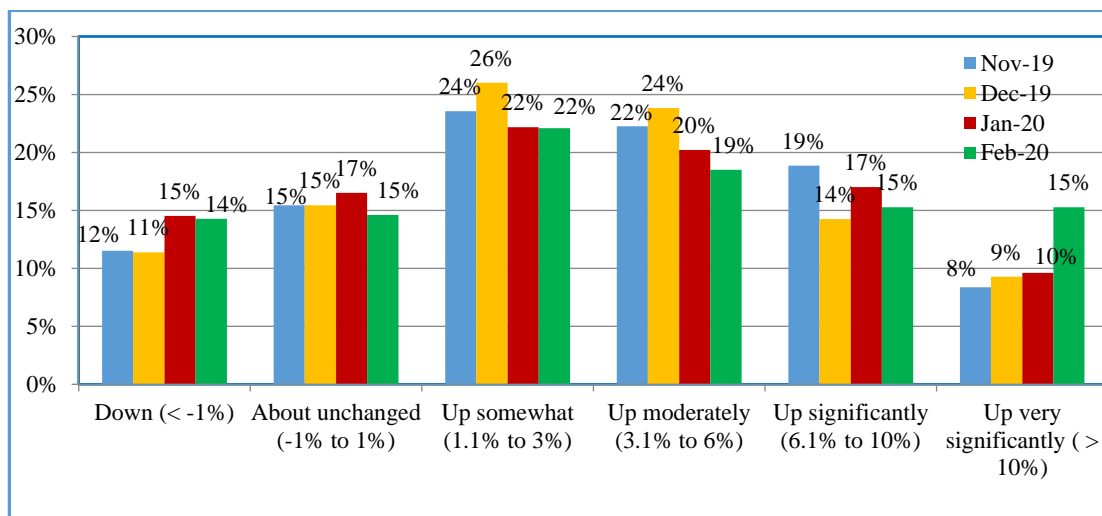
**Chart 2: Expected CPI headline inflation (one year ahead)**



## B. Costs

- The cost perceptions data shows early signs of cost pressures building up.
- Now, nearly 50% of the firms believe that the current cost increase is 3.1% and above as compared to the same time last year. Over 30% of the firms perceive that the current cost increase is over 6%. Importantly, over 15% firms now perceive that current cost increase is over 10% (Chart 3).

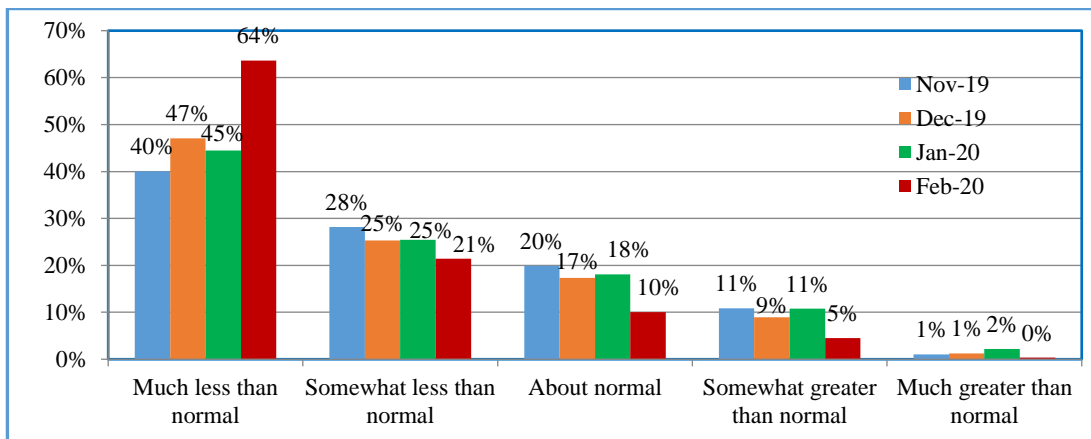
**Chart 3: How do current costs per unit compare with this time last year? – % responses**



### C. Sales Levels

- In February 2020, over 64% of the firms report that sales are much less than normal as against 45% reported in January 2020.
- Around 85% of the firms in the sample report that sales are ‘somewhat or much less than normal’<sup>2</sup> as against 70% reporting in January 2020 (Chart 4). Note that this proportion has remained around 70% since June 2019.

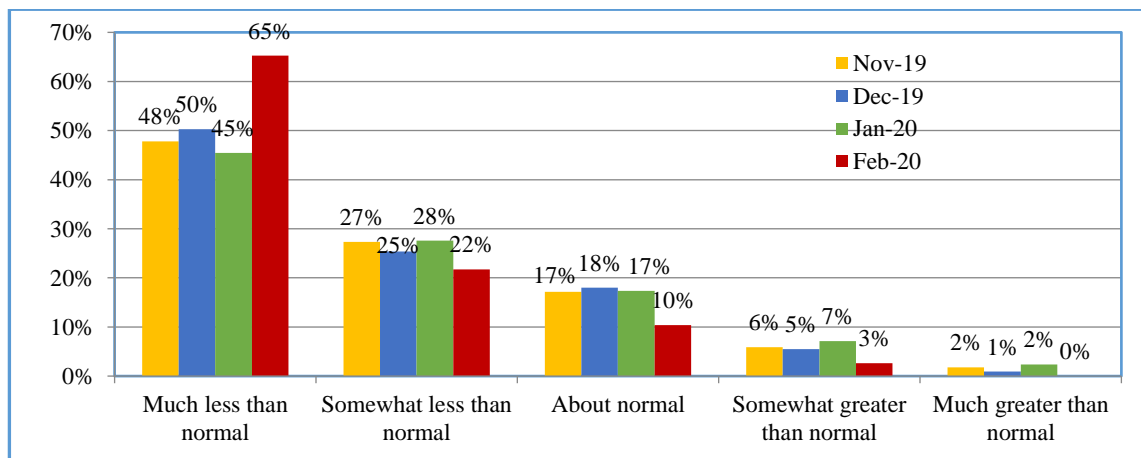
**Chart 4: Sales Levels - % response**



### D. Profit Margins

- The proportion of firms in the sample reporting ‘much less than normal’ profit has jumped up by over 20% to 65% in February 2020. Over 87% of the firms in the sample expect ‘much less than normal or somewhat less than normal’ profit margins (Chart 5). Note that this proportion has remained around 75% since June 2019.

**Chart 5: Profit Margins - % response**



<sup>2</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%.**