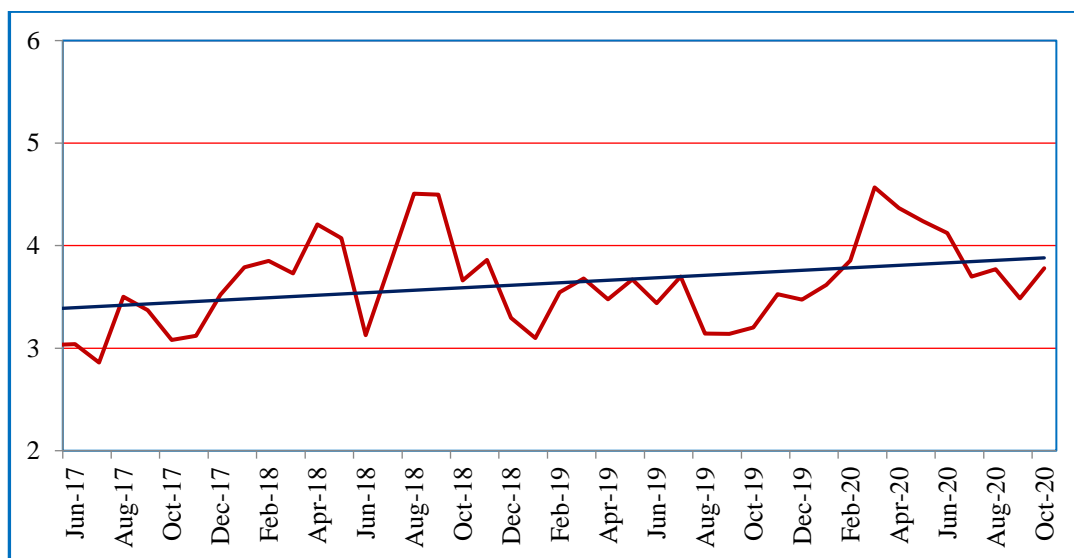


Business Inflation Expectations Survey (BIES)¹ – October 2020

A. Inflation expectations

- One year ahead business inflation expectations in October 2020, as estimated from the mean of individual probability distribution of unit cost increase have witnessed an increase of 29 basis points to 3.78% from 3.49% reported in September 2020. 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 declined significantly from 2.1% during August-September 2020 to 1.9% in October 2020.

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



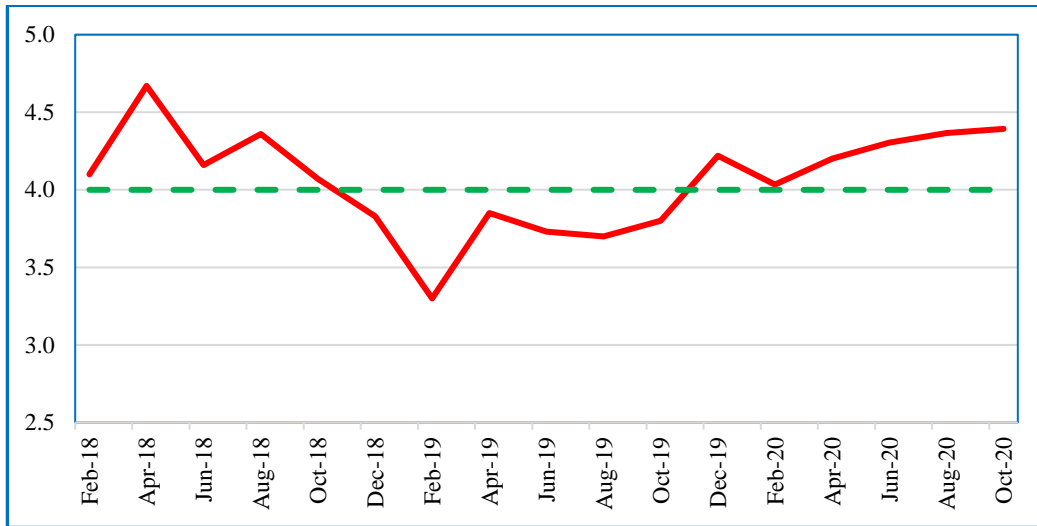
- Respondents were also asked to project one year ahead CPI headline inflation through an additional question using a probability distribution. This question is repeated every alternate month, coinciding with the month of RBI’s bi-monthly monetary policy announcement.

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 - October 2020” is the 42nd round of the Survey. These results are based on the responses of around 1100 companies.

- Survey responses indicate a steady increase in one year ahead CPI headline inflation expectation. It has remained above 4% since February 2020. The businesses in October 2020 expect one year ahead CPI headline inflation to be 4.40%, marginally up from 4.37% reported in August 2020, with a relatively low standard deviation of around 0.9% (Chart 2).

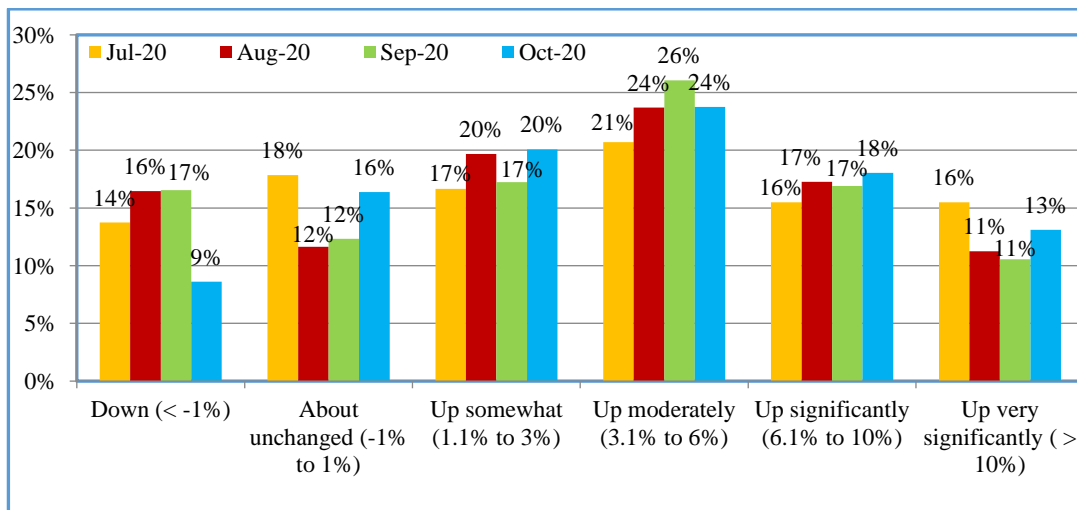
Chart 2: Expected CPI headline inflation (one year ahead)



B. Costs

- The cost perceptions data presents a mixed signal. About 1/4th of the firms in this round of the survey perceive that cost increase has been less than 1% as compared with the same time last year. At the same time, around 1/3rd of the firms still perceive significant (over 6%) cost increase.
- Around 55% of the firms find that the current cost increase is ‘3.1% and above’ as compared to the same time last year – marginally up from 54% reported in September 2020 (Chart 3). This is primarily driven by the firms indicating moderate cost increase (between 3.1% and 6%).

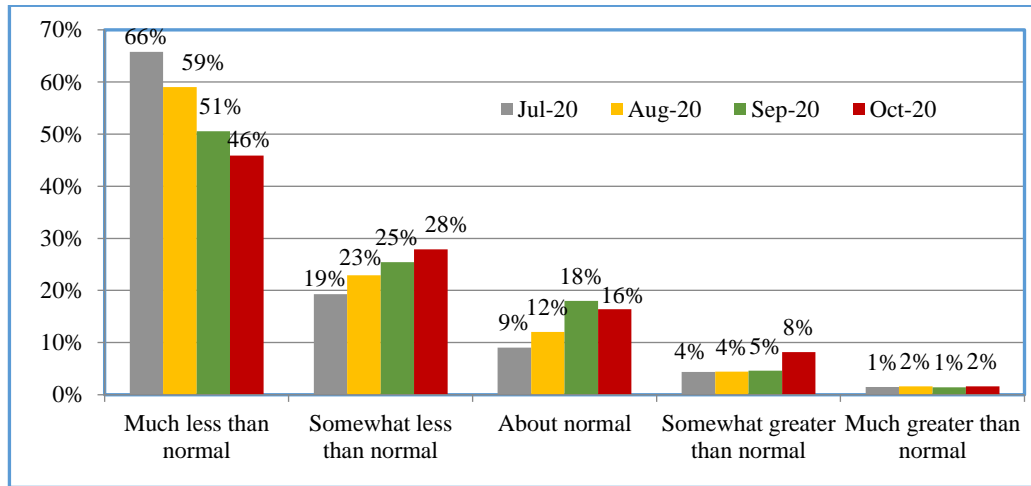
Chart 3: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- Expectations on sales have further improved – reflecting improved demand during the festival season. Over 46% of the firms in October 2020 report that sales are ‘much less than normal’ as against 51% firms reporting in September 2020.² This proportion is gradually declining from March 2020 (Chart 4).

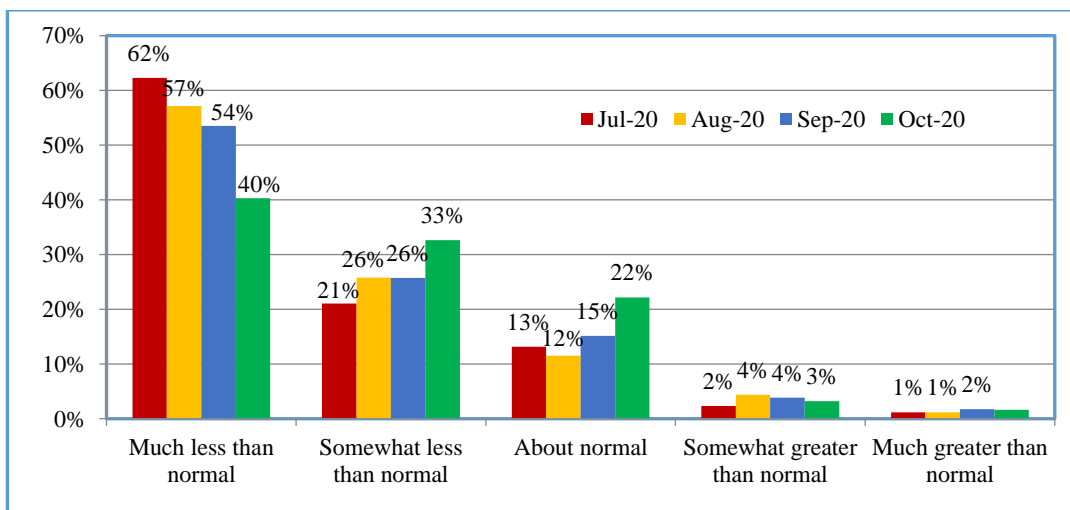
Chart 4: Sales Levels - % response



D. Profit Margins

- Over 40% of firms in the sample in October 2020 report ‘much less than normal’ profit as against 54% in September 2020. Firms’ profit margin expectations have steadily moved from ‘much less than normal’ profit to ‘somewhat less than normal’ and ‘about normal’ profit category (Chart 5).

Chart 5: Profit Margins - % response



² "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%.