



## Business Inflation Expectations Survey (BIES)<sup>1</sup> – May 2023

- **Contributing valuable insights to support macro monetary policy formulation since 2017**
- **Survey released every month by the Misra Centre for Financial Markets and Economy**

**July 06, 2023:** The Misra Centre at the Indian Institute of Management Ahmedabad (IIMA), today released the BIES Survey for the month of May 2023. Authored by Professor Abhiman Das, the BIES Survey is the only business inflation survey to be published in India since May 2017. Over the six years, the BIES survey from IIMA has contributed to effective monetary policy formulation by providing valuable insights which have been referred to by various policy makers, government, and industry.

**Click here for video version:** [https://www.youtube.com/watch?v=Nb\\_mLIa\\_jIM](https://www.youtube.com/watch?v=Nb_mLIa_jIM)

**Key messages of May 2023 survey are as follows:**

<b>Average inflation expectations of the firms reverted to below 4% for the first time since October 2020</b>
<b>One year ahead business inflation expectation declined sharply by 44 basis points to 3.87% in May 2023, from 4.31% reported in April 2023.</b>
<b>Sales expectations of the reporting firms have relatively improved. However, over 57% of the firms are still reporting ‘much less than normal’ or ‘somewhat less than normal’ sales in May 2023</b>
<b>Profit margin expectations remained subdued.</b>

<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 is conducted monthly at the Misra Centre for Financial Markets and Economy, IIMA. A copy of the questionnaire is annexed.

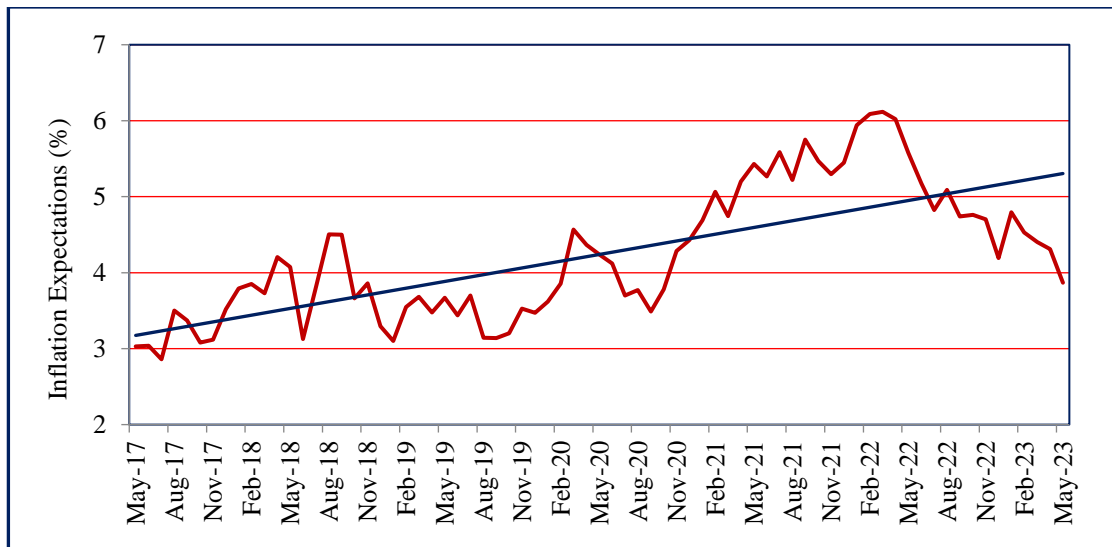
Companies are selected primarily from the manufacturing sector. Starting in May 2017, the “BIES – May 2023” is the 73<sup>rd</sup> round of the Survey. These results are based on the responses of around 1000 companies.

Details of the survey follow:

### Inflation expectations

- One year ahead business inflation expectation, as estimated from the mean of individual probability distribution of unit cost increase, declined sharply by 44 basis points to 3.87% in May 2023, from 4.31% reported in April 2023. Average inflation expectations of the firms reverted to below 4% for the first time since October 2020. The trajectory of one year ahead business inflation expectations is presented in Chart 1.
- The uncertainty of business inflation expectations in May 2023, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has remained unchanged at around 2%, as in April 2023.

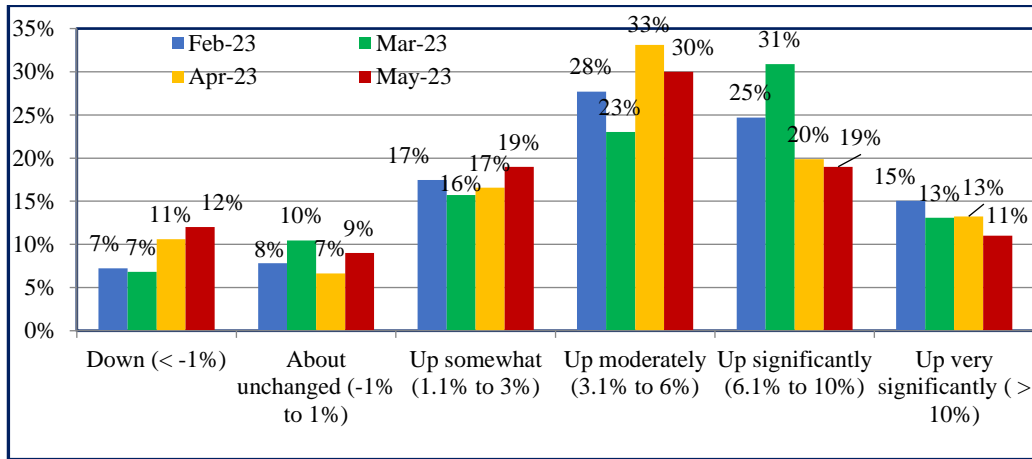
**Chart 1: One year ahead business inflation expectations (%)**



### B. Costs

- Overall, the cost perceptions data indicates further moderation of cost pressures. The percentage of firms perceiving significant (over 6%) cost increase has further declined.
- Majority (over 30%) of the firms perceives that costs have gone up moderately – in the range of 3.1% to 6% (Chart 2).

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

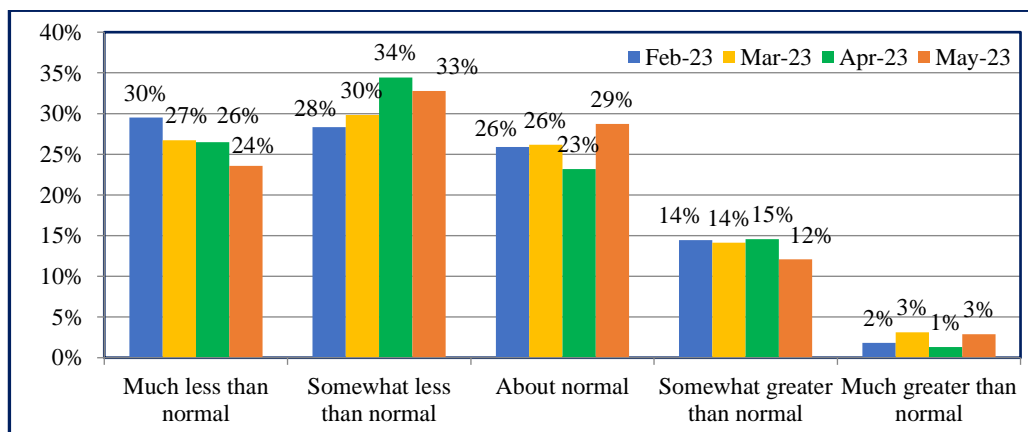


<sup>1</sup> "Normal" means as compared to the average level obtained in the preceding 3 years, excluding the Covid-19 period.

### C. Sales Levels

- Sales expectations of the reporting firms have relatively improved. The percentage of firms reporting ‘normal sales’ sales has increased to 29% in May 2023, from 23% reported in April 2023 (Chart 3)<sup>2</sup>.
- However, over 57% of the firms are still reporting ‘much less than normal’ or ‘somewhat less than normal’ sales in May 2023.

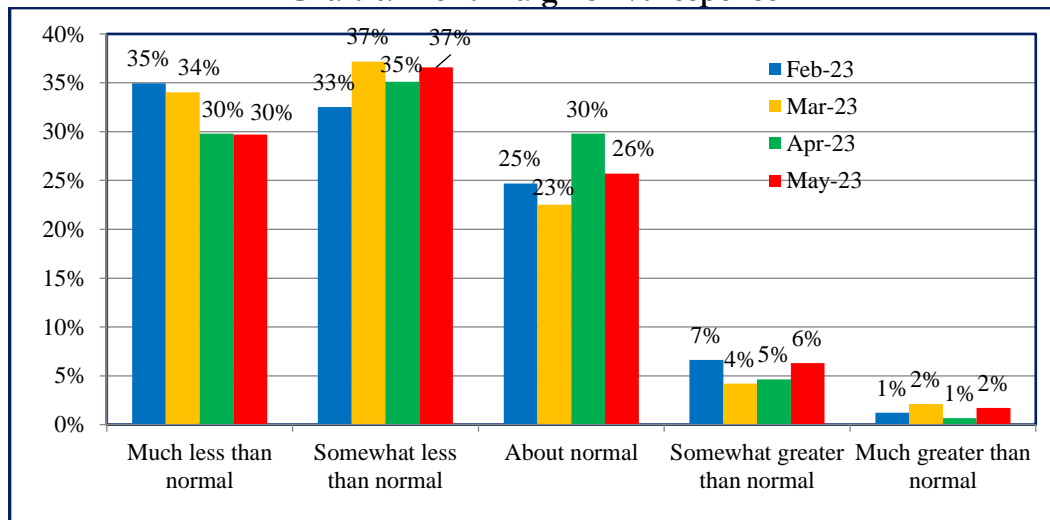
**Chart 3: Sales Levels - % response**



## D. Profit Margins

- Over 26% of the participating firms in May 2023 perceive profit margins are ‘about normal’ – down from 30% reported in April 2023 (Chart 4).
- Over 67% of the firms are reporting profit ‘much less than normal’ or ‘somewhat less than normal’ sales in May 2023.
- The profit margins expectations remained subdued.

**Chart 4: Profit Margins - % response**



## Questionnaire

### A. Current Business Conditions

Q1. How do your current **PROFIT MARGINS**<sup>@</sup> compare with "normal"<sup>\*</sup> 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"<sup>\*</sup> 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.

<sup>\*</sup>"normal" means the average level obtained during the corresponding time point of preceding 3 years, excluding the Covid-19 period.

### 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%.**



### **About Misra Centre for Financial Markets and Economy**

Financial Markets play an important role in the Indian economy. The study and analysis of financial markets require high quality data, research, and insights to engage in the debate and influence policymakers, institutions, and other stakeholders. In this context, the Misra Centre for Financial Markets and Economy, set up at IIMA, is a Centre of excellence, conducting research on the financial markets and economy in India. This Centre provides the impetus for focused research, teaching, and knowledge dissemination on contemporary issues related to financial markets within the overall economic framework.

### **About IIMA**

The Indian Institute of Management Ahmedabad (IIMA) is a premier, global management Institute that is at the forefront of promoting excellence in the field of management education. Over the 60 years of its existence, it has been acknowledged for its exemplary contributions to scholarship, practice and policy through its distinctive teaching, high-quality research, nurturing future leaders, supporting industry, government, social enterprise and creating a progressive impact on society.

IIMA was founded as an innovative initiative by the Government, industry, and international academia in 1961. Since then, it has been consolidating its global footprint and today it has a network with over 80 top international institutions and a presence in Dubai. Its eminent faculty members and more than 40,000 alumni, who are at the helm of influential positions in all walks of life also contribute to its global recognition.

Over the years, IIMA's academically superior, market-driven, and socially impactful programmes, have earned high reputation and acclaim globally. It became the first Indian institution to receive international accreditation from EQUIS. The institute also is placed first in the Government of India's National Institutional Ranking Framework (NIRF), India Rankings 2023. The Institute has been ranked number 1 in India, number 2 in Asia and the 35<sup>th</sup>, globally, in the Financial Times (FT) Executive Education Rankings 2023. The renowned flagship two-year Post Graduate Programme in Management (PGP) is ranked 26<sup>th</sup> in the FT Masters in Management Ranking 2021 and the one-year Post Graduate Programme in Management for Executives (PGPX) has been ranked 62<sup>nd</sup> in the FT Global MBA rankings 2022.

IIMA offers consultancy services and more than 200 curated executive education programmes in customized, blended, and open enrolment formats for a diverse audience comprising business leaders, policymakers, industry professionals, academicians, government officials, armed forces personnel, agri-business and other niche sector specialists and entrepreneurs. To know more about IIMA, please visit: <https://www.iima.ac.in/>

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