

Press Release

**Business Inflation Expectations Survey (BIES) – July 2018**

**September 14, 2018 | Ahmedabad**

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 - April 2018 is the 12th round of the Survey. These results are based on the responses of 1941 companies.

**A. Inflation expectations**

* One year ahead business inflation expectation in July 2018, as estimated from the mean of individual probability distribution of unit cost increase, has increased sharply to 3.8% from 3.1% observed in June 2018. However, business inflation expectation has remained fairly range bound between 3-4% since May 2017. Trajectory of one year ahead business inflation expectations is presented at Chart 1.
* Uncertainty of business inflation expectations in July 2018, as captured by the square root of the average variance of the individual probability distributions of unit cost increase, remained elevated at around 2.25%.

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

**B. Costs**

* Regarding cost perceptions, over 60% of the firms in July 2018 reported that increase in costs has been more than 3% (up significantly from around 54% observed in June 2018) during the last one year (Chart 2). The proportion of firms perceiving significant cost increase has also gone up to 37% in July 2018 from 29% in June 2018.

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

**C. Sales Levels**

* Around 46% of the firms in the sample reported that sales are ‘normal or greater than normal’[[1]](#footnote-1) in July 2018 (Chart 3). This proportion has not changed in the current round.

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

**D. Profit Margins**

* Responses of 43% of the firms in the sample in July 2018 indicate ‘much less than normal’ profit margins, significantly up from June 2018 level. Proportion of firms reporting ‘normal or above normal’ profit has declined to 32% in July 2018 from around 38% recorded during May-June 2018 (Chart 4).
* Overall perception of firms does not reflect improvement in profit margins.

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

**The End –**

**Business Inflation Expectation Survey (BIES) – Questionnaire**

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| **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%*.** |

1. "Normal" means as compared to the average level obtained in the preceding 3 years. [↑](#footnote-ref-1)