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Press Release

**Business Inflation Expectations Survey (BIES) – January 2020**

**March 2, 2020 | 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 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 for information.

Companies are selected primarily from the manufacturing sector. The “BIES - January 2020” is the 33rd round of the Survey. These results are based on the responses of over 1200 companies.

**A. Inflation expectations**

* One year ahead business inflation expectation, as estimated from the mean of individual probability distribution of unit cost increase, has increased to 3.62% in January 2020, from 3.47% reported in December 2019. Though business inflation expectation has been slowly inching up since October 2019, it has remained under 4% for over a year. 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% in January 2020 and December 2019.

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

**B. Costs**

* The cost perceptions data shows that the signs of significant cost pressures building up have ebbed.
* Nearly 47% of the firms believe that the current cost increase is 3.1% and above as compared to the same time last year. Over 1/4th of the firms perceive that the current cost increase is over 6% (Chart 2).

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

**C. Sales Levels**

* Sales perception data still does not show clear signs of recovery.
* In January 2020, around 70% of the firms in the sample reported that sales are ‘somewhat or much less than normal’[[1]](#footnote-1) as against 72% reporting in December 2019 (Chart 3). This proportion has remained around 70% since June 2019.

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

**D. Profit Margins**

* From June 2019, the proportion of firms in the sample reporting ‘much less than normal or somewhat less than normal’ profit margins has remained around 75% (Chart 4).
* Overall, the profit margin scenario is still not showing any clear signs of improvement.

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

**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)