****

Press Release

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

**August 10, 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 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 - June 2020” is the 37th round of the Survey. These results are based on the responses of around 1200 companies.

**A. Inflation expectations**

* One year ahead business inflation expectations in June 2020, as estimated from the mean of individual probability distribution of unit cost increase, have declined marginally by 12 basis points to 4.12% from 4.24% reported in May 2020. However, they continue to remain over 4% for four consecutive months. 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 marginally increased to 2.1% from 2.0% May 2020.

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

**B. Costs**

* The cost perceptions data shows some early signs of moderation of cost pressures.
* In the sample, percentage of firms expecting significant (over 6%) cost increase has been gradually declining. However, percentage of firms reporting moderate (in the range of 3% to 6%) cost increase has sharply increased - from 16% in May 2020 to 22% in June 2020. As a result, 58% of the firms now believe that the current cost increase is 3.1% and above as compared to the same time last year – up from 53% reported in May 2020 (Chart 2).

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

**C. Sales Levels**

* Over 71% of the firms in June 2020 report that sales are ‘much less than normal’ as against over 75% in May 2020 and 81% firms reporting in March 2020.[[1]](#footnote-1)
* While there seems to be some improvement of sales from ‘much less than’ category, around 91% of the firms in the sample still report that sales are ‘somewhat or much less than normal’, as against 92% reporting in May 2020 (Chart 3). Note that this proportion has remained over 70% since June 2019.

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

**D. Profit Margins**

* Over 68% of firms in the sample in June 2020 reported ‘much less than normal’ profit as against 74% in May 2020.
* Over 86% of the firms in the sample in June 2020 expect ‘much less than normal or somewhat less than normal’ profit margins – down from 89% that reported in May 2020 (Chart 4). Note that this proportion was hovering around 75% since June 2019 till January 2020, thereafter it went up further.

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

*For media queries, please contact:*

**Mitaaly Naidu**

**Executive, Public Relations**

Ph: (Cell) +91-7069074816, (O) +91-79-7152 4684, Email: [pr@iima.ac.in](mailto:pr@iima.ac.in)

**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%*.** |

1. "Normal" means as compared to the average level obtained in the preceding 3 years. Data of perceptions on sales and profit is not available for April 2020. [↑](#footnote-ref-1)