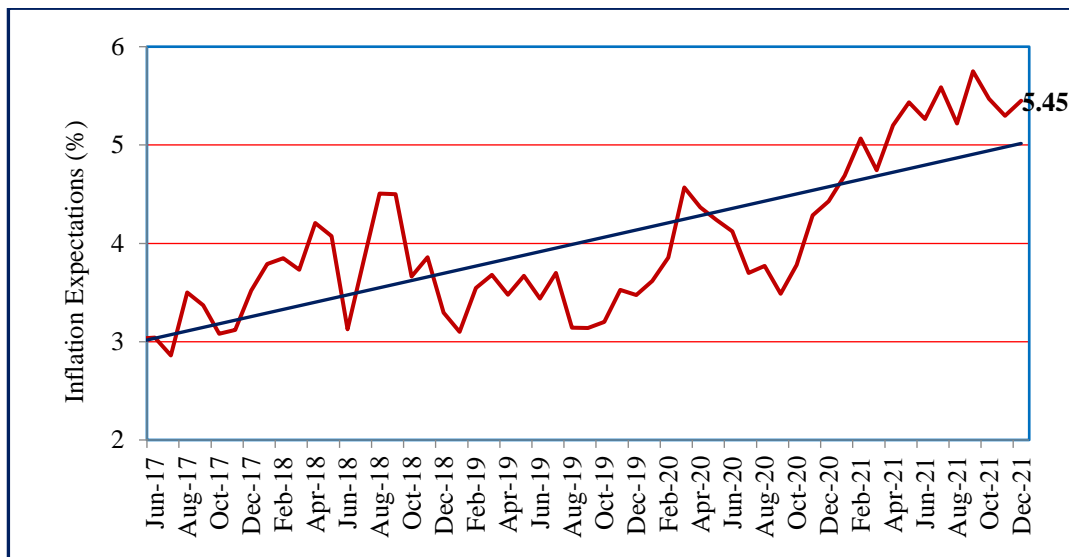


Business Inflation Expectations Survey (BIES)¹ – December 2021

A. Inflation expectations

- One year ahead business inflation expectations in December 2021, as estimated from the mean of individual probability distribution of unit cost increase, have increased by 15 basis points to 5.45% from 5.30% reported in November 2021. The trajectory of one year ahead business inflation expectations is presented in Chart 1.
- The uncertainty of business inflation expectations in December 2021, as captured by the square root of the average variance of the individual probability distribution of unit cost increase, has declined sharply to 1.9% from 2.1% reported in November 2021.

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



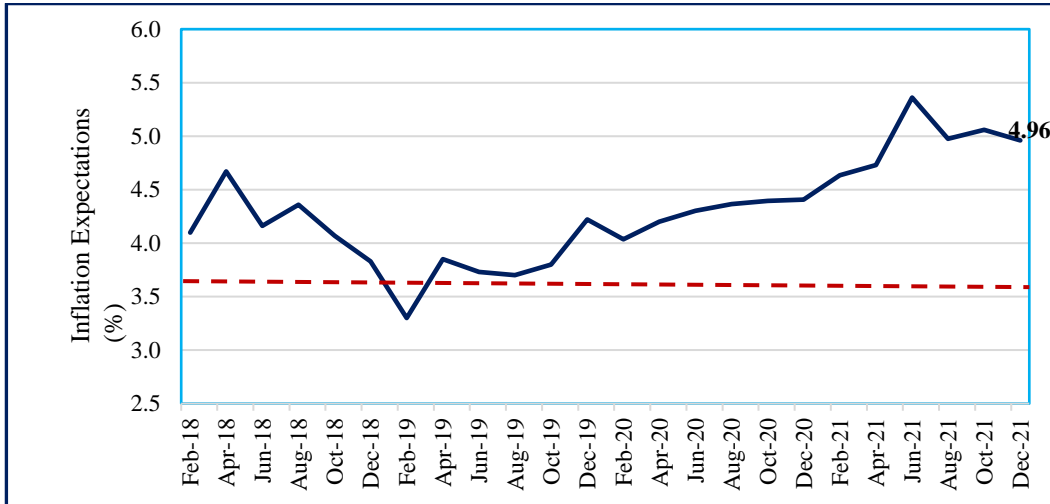
- Respondents were also asked to project one year ahead CPI headline inflation through an additional question using a probability distribution. This question is repeated every alternate month, coinciding with the month of RBI’s bi-monthly monetary policy announcement.

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 annexed.

Companies are selected primarily from the manufacturing sector. The “BIES - December 2021” is the 56th round of the Survey. These results are based on the responses of around 1100 companies.

- The businesses in December 2021 expect one year ahead CPI headline inflation to be 4.96%, marginally down from 5.06% reported in October 2021, with a relatively low standard deviation of 0.93% (Chart 2). It has remained around 5% since June 2021.

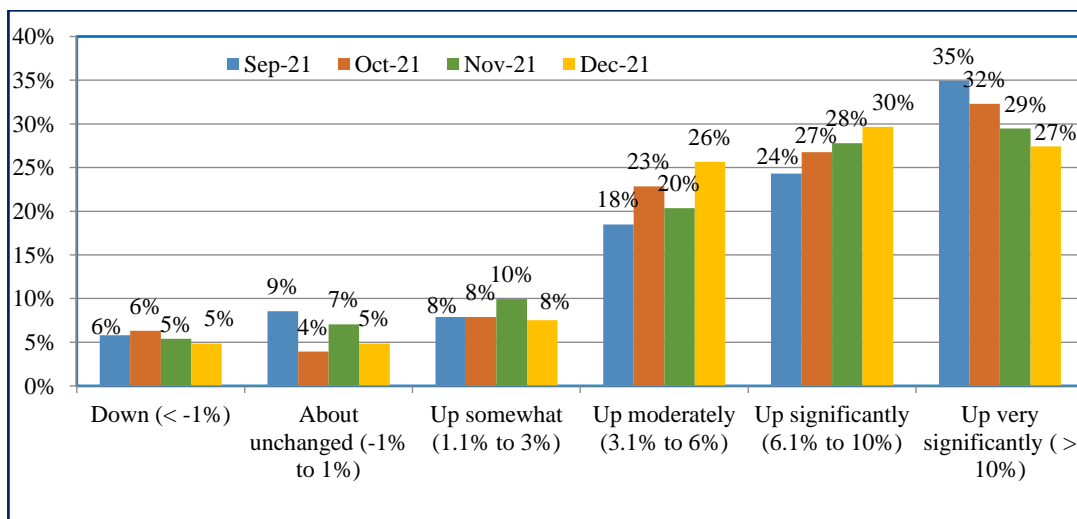
Chart 2: Expected CPI headline inflation (%) - one year ahead



B. Costs

- The cost perceptions data is yet to indicate any significant reduction of cost pressures. There is further decline in the number of firms perceiving very high cost increase (over 10%). Nevertheless, around 27% of the firms are still reporting more than 10% cost increase.
- Also, the number of firms perceiving significant cost increase (over 6%) has remained high around 57% during last two rounds of the survey (Chart 3).

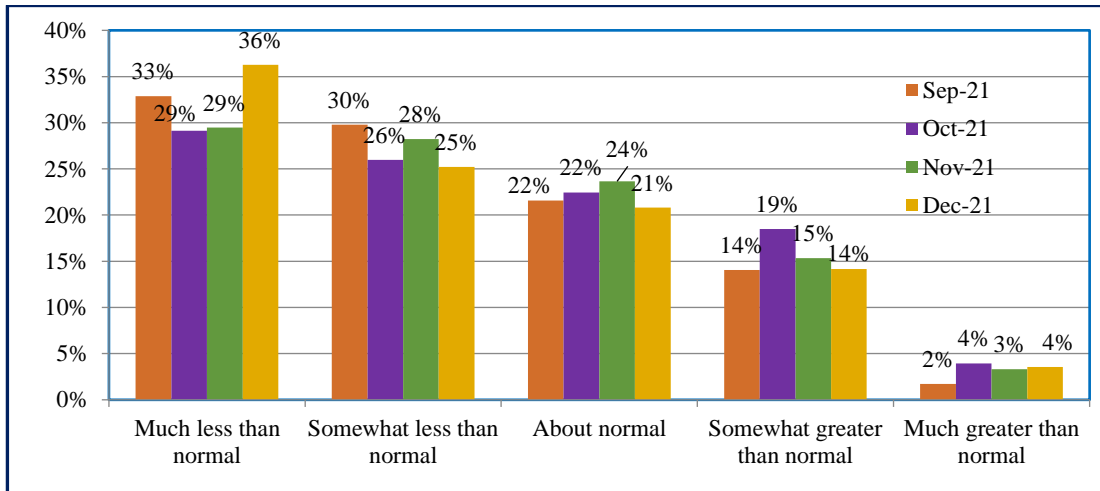
Chart 3: How do current costs per unit compare with this time last year? – % responses



C. Sales Levels

- Sales expectations in December 2021 have sharply dropped – possibly reflecting negative effects of Covid/Omicron outbreak. Percentage of firms reporting ‘much less than normal’ sales has shot up to 36% from 29% reported in November 2021.
- Over 61% of the firms report that sales are ‘much or somewhat less than normal’, as compared to 57% reported in November 2021 (Chart 4)².

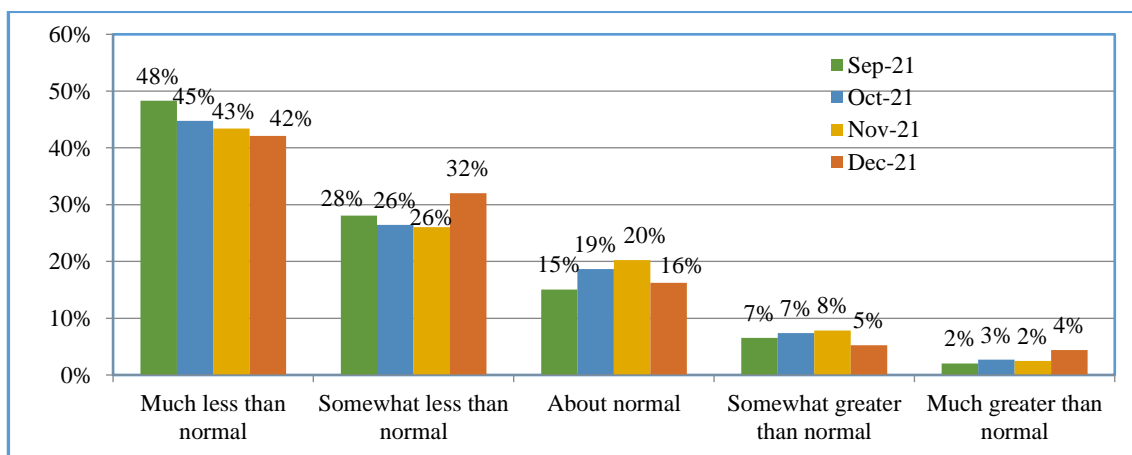
Chart 4: Sales Levels - % response



D. Profit Margins

- The firms in December 2021 report muted profit expectations. Around 32% of the firms in the sample report ‘somewhat less than normal’ profit – noticeably up from 26% reported in November 2021 (Chart 5).

Chart 5: Profit Margins - % response



² "Normal" means as compared to the average level obtained in the preceding 3 years, excluding the Covid-19 period.

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, excluding the Covid-19 period.

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%.