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## Fall in Service Purchasing Managers' Index

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### Why in News

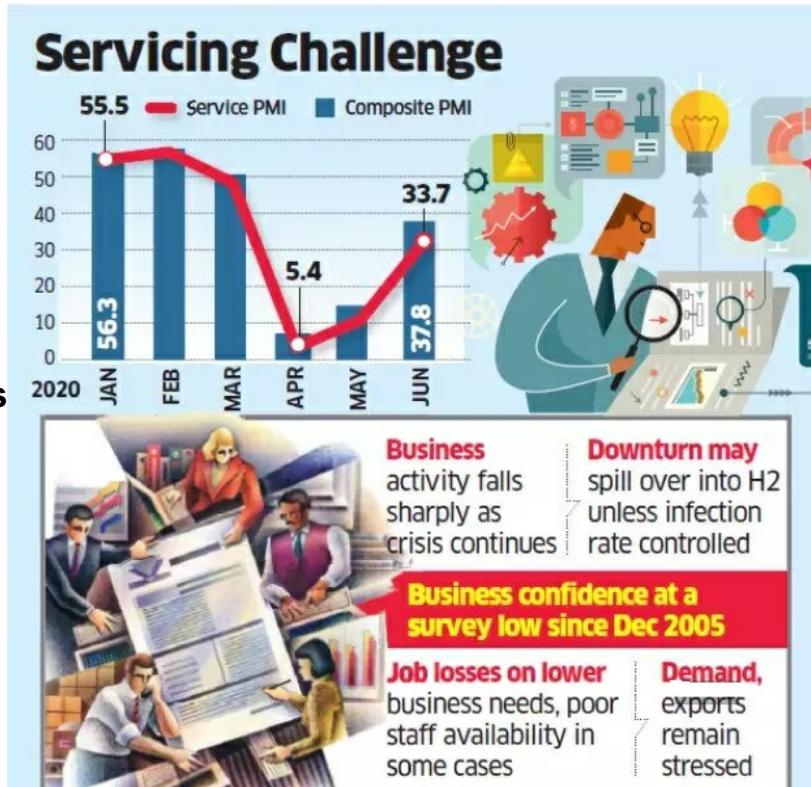
The IHS Markit India Services Business Activity Index (i.e Service **Purchasing Managers' Index (PMI)**) has observed the **contraction of services sector activity** for the **fourth consecutive month** in June 2020.

- India's services sector activity remained in deep downturn in June as the **Covid-19 pandemic curtailed intakes of new work orders and disrupted business operations.**
- The Index is compiled by IHS Markit for **more than 40 economies worldwide.** IHS Markit is a **global leader in information,** analytics and solutions for the major industries and markets that drive economies worldwide.

### Purchasing Managers' Index

- PMI is an index of the **prevailing direction of economic trends** in the **manufacturing and service sectors.**
- It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.
- The purpose of the PMI is to provide information about **current and future business conditions** to company decision makers, analysts, and investors.
- It is **different from the Index of Industrial Production (IIP),** which also gauges the level of activity in the economy.
  - IIP covers the **broader industrial sector** compared to PMI.
  - PMI is **more dynamic** compared to a standard industrial production index.

## Key Points



### • Current Scenario of Service Sector:

- The IHS Markit Services PMI in June **rose to 33.7 from 12.6 in May (2020), indicating a pick-up from the previous month**, although any **reading below 50** on this survey-based index **shows contraction**.

The index stood at a **record low of 5.4** in April (2020).

- India's services sector activity reported the **slower rate of decline** which is reflective of some **stabilisation** in activity levels.

However, the **closures and temporary suspensions** are responsible for the **stabilization in service** activities.

- Additionally, **59%** of firms reported **no change in output** since May. Meanwhile, **only 4%** registered **growth**, while **37%** recorded a **reduction**.

### • Reasons :

- Sharp **fall in total new orders** due to reduced consumption habits.
- **Closure of businesses** due to the unfavourable environment.
- Steep **drop in export** sales.
- **Job losses** due to lower business requirements.
- Poor staff availability.

- **Significance of Service Sector:**
  - The performance of the service sector is **critical to measure the economic situation** of the country as it accounts for the **two-thirds of total foreign direct investment** inflows into India and about **38% of India's exports**.
  - The Service Sector has a **share of 57% in Gross Domestic Products (GDP)**, which is **maximum** among all three sectors — services, industry and agriculture.
- **Composite PMI Output Index:**
  - The Composite PMI Output Index, which measures **combined services and manufacturing output, rose to 37.8 in June**, up from 14.8 in May.  
But 37.8 is still below the crucial 50 level signifying contraction.
  - The PMI for manufacturing has also been released which is at **42.7** signifying **moderate fall** in **manufacturing** production.

## Way Forward

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- Although the deterioration was weaker than in April and May, owing to a stabilisation in output levels at some firms, the latest reduction was stronger than seen prior to the virus outbreak by a wide margin.
- Thus, business confidence needs to be developed to uplift expectations of service sector activities which will help to manage the risk of a protracted recession noted by the firms.

**Source:IE**