



## Manufacturing Improved: PMI

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### Why in News

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As per the latest Purchasing Managers' Index (PMI) data, India's manufacturing sector activity has started to show signs of growth in August, driven mainly by pick-up in production along with improvement in customer demand.

### Purchasing Managers' Index

- Purchasing Managers' Index (PMI) is an indicator of business activity - both in the **manufacturing** and **services sectors**.
- It is calculated separately for the manufacturing and services sectors and then a composite index is also constructed.
- The PMI summarizes whether market conditions as viewed by purchasing managers are expanding, neutral, or contracting.
- The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors.
  - The PMI is a number from **0 to 100**.
  - PMI **above 50** represents an expansion when compared to the previous month;
  - PMI **under 50** represents a contraction, and
  - A **reading at 50** indicates no change.
- The PMI is usually released at the start of every month. It is, therefore, considered a good leading indicator of economic activity.
- The Index (PMI) 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.

### Key Points

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- **PMI Data:**

- The **Purchasing Managers' Index (PMI)** rose from **46 in July to 52 in August**.

In PMI parlance, a value **above 50 means expansion**, while a score below that denotes contraction.

- **In April**, the index had slipped into contraction mode, after remaining in the growth territory for 32 consecutive months.

- **Positive Highlights:**

- **New business** received by Indian manufacturers **expanded at the fastest pace since February**.
- **Higher levels of production** supported a **modest rise in the number of purchases** during August.
- **Goods and Services Tax Collection: GST** collections in August stood at—88% of the August 2019-20 level.

Collections in July were marginally higher but at 85.6% of the year earlier.

- **Infrastructure:** The contraction in India's infrastructure sector **slowed to 9.6%** in July compared with 12.9% shrinkage in June.
- **Mobility: The Google Mobility index**, which measures visits to different locations such as retail shops, workplaces, parks and transport hubs, **showed a 2% rise in trends** for places such as supermarkets, food warehouses, farmers' markets, speciality food shops and pharmacies.
- **E-way bills**, another widely followed indicator of business activity, reached **99.8% of last year's level in August**.
- **Petrol consumption:** Petrol consumption **rose by about 2%** in the first fortnight of August from the corresponding period in July.

- **Reasons:** The pick-up in demand from domestic markets gave rise to upturns in production and input buying.

- Gradually, unlocking after lockdown has increased the pace of mobilization of economic resources.
- Exports are also on marginal improvement. When compared to imports, the rate of export demand is on the higher side due to strict slash on imports.

- **Concerns:**

- **Unemployment:** Despite an expansion in new orders, **job shedding** continued in the Indian manufacturing sector.

The relocation of employees following Covid-19 pandemic is linked to the reduction in staffing numbers.

- **Inflation:** Reports of higher raw material costs due to supplier shortages and transportation delays stemming from the Covid-19 pandemic, resulted in rising input prices during August.
- **Exports:** The decline in foreign exports weighed slightly on overall new orders as firms cited subdued demand conditions from abroad.

## Suggestions

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- **Focusing on Atmanirbhar Bharat:** The government announced an economic stimulus package of Rs. 20 lakh crore and big-bang systemic reforms under the **Atmanirbhar Bharat Abhiyan** (self-reliant India). The intended objective of this plan is two-fold.
  - First, **interim measures** such as liquidity infusion and direct cash transfers for the poor will work as shock absorbers for those in acute stress.
  - The second, **long-term reforms** in growth-critical sectors to make them globally competitive and attractive.
- **Increasing the MGNREGA Funding and Expanding to Urban Areas:** The **Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA)** programme has proved to be a bedrock of support in the normal times and during times of difficulty (like Covid-19) and it will be a good idea to expand the scheme to urban areas.
- **Transfer of Cash Benefits:** Money in the hands of people can provide an immediate sense of security and confidence, which is the cornerstone to restoring economic normalcy.

It will raise the consumption and demand of the economy and can bring back the virtuous cycle of demand and supply in play.
- **Issues with the Banking System:** Covid-19 assistance measures undertaken by the Reserve Bank of India (RBI) and the government such as interest rate reductions, credit guarantee and liquidity enhancement schemes are welcome steps.
  - Although banks have largely failed to take initiatives as they are not confident of lending.
  - The RBI should consider a Single One Time Window for restructuring business loans, as required, by all banks.
- **Tax Incentivization:** Big business houses and **MSME sector** should be supported by the government through tax incentivization to reopen their operations.

This will energize consumer demand and boost the functioning of the vendor or ancillary industry in the MSME sector (which has huge potential for job creation).
- **Calibrating Make in India:** The ongoing distrust on Chinese manufacturing amid USA-China spat can be very well garnered by India.

Making India a global trading hub – devise an incentive regime for companies setting up global trading operations from India.
- **Promoting Sunrise Sectors:** It should also encourage sunrise sectors as part of re-imagining Indian economy such as battery manufacturing (storage systems)/ solar panel manufacturing.

The government can also consider giving impetus to “Deep Tech”-leveraged businesses - blockchain, robotics, AI, machine learning, etc.

- **Auto-sector Reforms:** The auto industry which contributes significantly to GDP (nearly 9%) deserves special treatment.
  - In addition to reducing GST rate, old vehicle scrap policy with tax incentives for creating a demand for new vehicles may be formulated.
- **Labour Law Reforms:** Focus should be given to strictly enforce discipline within the factory premises and demand higher productivity. The moves by U.P., M.P. and Gujarat are welcome signals.
  - labour laws must be motivated by concerns of sustainability. Minimum wages, a written job contract that specifies terms and conditions of working, social security provisions etc. increase costs in the short run but augment economic optimisation in the long run by enhancing the productivity of the workforce.
  - The government has come out with **four labour codes** as long term reforms.
  - The government should provide health insurance for migrant labourers as experimented by certain States.

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