



drishti

## Manufacturing Hits Record Low

---

 [drishtiias.com/printpdf/manufacturing-hits-record-low](http://drishtiias.com/printpdf/manufacturing-hits-record-low)

### Why in News

---

According to a recent **IHS Markit India** monthly survey, Manufacturing **Purchasing Managers' Index (PMI)** fell to 27.4 in April, 2020 from 51.8 in March, 2020.

### Key Points

---

- India's **manufacturing sector activity** has witnessed **contraction** in April, 2020 due to national lockdown restrictions.
  - The new **business orders** have **collapsed** at a record pace **severely hampering the demand**.
  - This is the **sharpest deterioration** in business conditions across the manufacturing sector since data collection began over 15 years ago.
- The deteriorating demand conditions has led the **manufacturers to drastically cut back staff numbers**.
- **Export orders** have also witnessed a sharp decline.
- There was also **evidence of supply-side disruption** due to the lockdown.
- The **PMI slipped into contraction mode**, after remaining in the growth territory for 32 consecutive months.  
In PMI's language, a reading above 50 means expansion, while a score below that denotes contraction.
- According to the **12-month outlook for production** the demand will rebound once the Covid-19 threat is diminished and lockdown restrictions are eased.
- 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.

# Listless in lockdown

The Purchasing Managers' Index for manufacturing has shown a sharp contraction in activity in April, an expected fallout of the lockdown in many countries.



## 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.
- It is **different from the Index of Industrial Production (IIP)**, which also gauges the level of activity in the economy.

## Index of Industrial Production

- The Index of Industrial Production (IIP) is an index which details out the growth of various sectors in an economy such as mineral mining, electricity, manufacturing, etc.
- It is compiled and published monthly by the **National Statistical Organisation (NSO), Ministry of Statistics and Programme Implementation.**
- The **Base Year of the Index of Eight Core Industries** has been revised from the year 2004-05 to 2011-12 from April, 2017.
  - The eight core industries comprise 40.27% of the weight of items included in the Index of Industrial Production (IIP).
  - The eight Core Industries in decreasing order of their weightage: Refinery Products > Electricity > Steel > Coal > Crude Oil > Natural Gas > Cement > Fertilizers.

## **Difference between PMI and IIP**

- IIP covers the **broader industrial sector compared to PMI.**
  - IIP shows the **change in production volume** in major industrial sub sectors like manufacturing, mining and electricity.
  - Similarly, the IIP also gives **use based (capital goods, consumer goods etc) trends in industrial production.**
- **PMI is more dynamic compared to a standard industrial production index.**
  - The PMI senses dynamic trends because of the variable it uses for the construction of the index compared to **volume based production indicators like the IIP.**
  - For example, new orders under PMI show growth oriented positive trends and not just volume of past production that can be traced in an ordinary Index of Industrial Production.

**Source: IE**