



Contraction in Manufacturing: PMI

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Why in News

According to the recent **IHS Markit India Manufacturing Purchasing Managers' Index (PMI)**, India's manufacturing sector activity contracted at a faster pace in July 2020 than in June 2020.

Key Points

- **Manufacturing PMI:**

- It stood at 46 in July 2020, down from 47.2 in June 2020.

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

- This is the **fourth straight month of contraction** for the Indian manufacturing sector. In April, the PMI had slipped into contraction mode, after remaining in growth territory for 32 consecutive months.
- The manufacturing PMI showed some recovery in May, and further in June 2020, but it once again slipped in July 2020.

- **Reason for Contraction:**

The demand conditions remained subdued with some businesses still closed amid lockdown extensions due to emergence of new epicentres of **Covid-19 pandemic**.

Export orders have also witnessed a decline.

- **Effect:**

The re-acceleration of declines in the manufacturing sector is **undermining the trend towards economic stabilisation** seen over the past two months. The **firms have reduced both staff numbers as well as purchasing activity**.

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.
 - However, PMI is **more dynamic** compared to a standard industrial production index.

Way Forward

In India the positive impact from unlock is not as strong as the negative impact of the lockdown. Therefore the government needs to contain the spread of the Covid-19 pandemic on a priority to make economic recovery sustainable.

Source: TH