



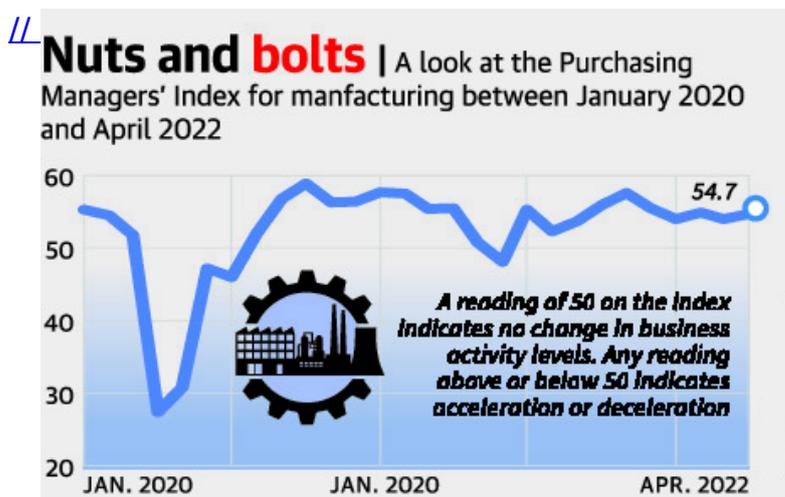
## Purchasing Managers Index

**For Prelims:** PMI, IIP, GDP, Inflation

**For Mains:** Growth & Development, PMI and its Significance, State of Economy.

### Why in News?

According to the S&P Global India Manufacturing [Purchasing Managers' Index \(PMI\)](#), [India's manufacturing sector](#) recorded a slight acceleration in new orders and output which rose to 54.7 in April 2022 from 54 in March 2022.



### What are the Key Highlights of the Index?

- April data showed a rebound in new export orders, following the first contraction for nine months in March.
  - **Contraction**, in economics, refers to a **phase of the business cycle in which the economy is in decline**.
  - A contraction generally occurs after the business cycle peaks, but before it becomes a trough.
- **Inflationary pressures meanwhile intensified**, owing to rising commodity prices, the [Russia-Ukraine war](#) and greater transportation costs.
- **Input prices increased at the fastest pace in five months**, while output charge [inflation](#) hit a 12-month high.
- A major insight from the latest results was an **intensification of inflationary pressures**, as energy price volatility, global shortages of inputs and the war in Ukraine pushed up purchasing costs.
- On the job front, there was **only a mild increase in employment during April 2022**.

## What is the PMI?

- It is a **survey-based measure that asks the respondents about changes in their perception of key business variables** as compared with the previous month. It is an **index of the prevailing direction of economic trends in the manufacturing and service sectors**.
- The purpose of the PMI is to **provide information about current and future business conditions** to company decision makers, analysts, and investors.
- It is **calculated separately for the manufacturing and services sectors** and then a composite index is also constructed.
- The PMI is **a number from 0 to 100**.
  - **A print above 50 means expansion**, while a score below that denotes contraction.
  - A reading at 50 indicates no change.
- If the **PMI of the previous month is higher than the PMI of the current month**, it represents that the economy is contracting.
- It is **usually released at the start of every month**. It is, therefore, considered a good leading indicator of economic activity.
- 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.
  - IHS Markit is **part of S&P Global**.
- As the official data on industrial output, **manufacturing and [Gross Domestic Product \(GDP\)](#)** growth comes much later; PMI helps to make informed decisions at an earlier stage.
- 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.

## What is the Significance of PMI?

- **Provides a Reliable Expectation of Economy:**
  - The PMI is **becoming one of the most tracked indicators** of business activity across the world.
  - It provides a **reliable expectation of how an economy is doing** as a whole and manufacturing in particular.
- **Indicator of Economic Activity:**
  - It is a **good gauge of boom-and-bust cycles in the economy** and closely watched by investors, business, traders and financial professionals besides economists.
    - PMI is also **regarded as a leading indicator of economic activity** since it is released at the beginning of every month.
    - It **comes before the official data on industrial output**, core sector manufacturing and GDP growth.
- **Helps in Decision Making:**
  - The PMI is **used by central banks to set interest rates**.
  - Besides influencing equity market movements, **PMI releases also impact bond and currency markets**.
- **Enhances Attractiveness of the Economy:**
  - A **good reading of PMI enhances the attractiveness of an economy** vis-a-vis other competing economies.
  - **Suppliers can decide on prices** depending on PMI movements.

## UPSC Civil Services Examination, Previous Year Questions

**Q. What does S & P 500 relate to? (2008)**

- (a) Supercomputer
- (b) A new technique in e-business

(c) A new technique in bridge building

(d) An index of stocks of large companies

**Ans: (d)**

- S&P 500 or Standard & Poor's 500 is an American Stock index, which is widely regarded as the best gauge of large-capital US Equities.

**Source: IE**

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