Purchasing Managers' Index (PMI)

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Why in news?

- India's services sector growth eased slightly in May 2023, but registered the **second-strongest rate of growth in close to 13 years**.
  - The seasonally adjusted S&P Global India Services PMI Business Activity Index fell from 62 in April to 61.2 in May.
  - Despite falling from April, the latest reading indicated that output increased at the second-quickest pace since July 2010.

- Earlier, the manufacturing PMI for May 2023 revealed that **India's manufacturing activity reached a 31-month high in May**.
    - The seasonally adjusted manufacturing PMI rose from 57.2 in April to 58.7 in May, the highest value since October 2020.

What is Purchasing Managers' Index (PMI)?

- Purchasing Managers' Index (PMI) is an economic indicator, which is derived after monthly surveys of different companies.
- It measures activity at the purchasing or input stage.
    - In this sense, it is very different from industrial production which is indicative of actual production.
    - E.g., the Index of Industrial Production (IIP) measures output.
- There are two types of PMI — Manufacturing PMI and Services PMI.
    - The index shows trends in both the manufacturing and services sector.
- PMI does not capture informal sector activity.

Which Institution is responsible for releasing PMI for India?

- PMI data for India is released by S&P Global – a global major in financial information and analytics.
    - Earlier PMI data is India was released by IHS Markit before its merger with S&P.
- The Index measures the performance of India's manufacturing sector and is derived after a survey of approx. 500 manufacturing companies.

What is the Methodology for calculating PMI?

- The PMI is derived from a series of qualitative questions. For manufacturing PMI, the questionnaire is sent to manufacturing companies.
- The questions are related to 5 key variables.
    - The variables with their weights in the index are:
        - new orders (30%),
        - output (25%),
        - employment (20%),
        - suppliers' delivery times (15%) and
        - stock of items purchased (10%).
- The surveys are conducted on a monthly basis.

Reading of the PMI

- A PMI number greater than 50 indicates expansion in business activity.
  - A number less than 50 shows contraction.
- The rate of expansion can also be judged by comparing the PMI with that of the previous month data.
  - If the figure is higher than the previous month's then the economy is expanding at a faster rate.
  - If it is lower than the previous month then it is growing at a lower rate.

What is the Significance of PMI?

- The index is released much before most of the official data on industrial output, manufacturing and GDP growth becomes available.
  - Hence, it is considered a good leading indicator of economic activity.
- Central banks of many countries also use the index to help make decisions on interest rates.
- It also gives an indication of corporate earnings and is closely watched by investors as well as the bond markets.
- A good reading of index enhances the attractiveness of an economy vis-a- vis another competing economy.

Q1) What is IHS Markit?

IHS Markit is a global information and analytics company that provides specialized data, insights, and expertise across various industries. The company was formed in 2016 through the merger of IHS Inc. and Markit Ltd. It operates in over 120 countries and serves customers in sectors such as energy, automotive, financial services, aerospace, defense, technology, and more.

Q2) What is S&P Global?

S&P Global is a leading provider of financial market intelligence, ratings, data, and analytics. It is a multinational corporation headquartered in the United States. S&P Global operates various divisions and brands that offer a range of services in the financial industry. One of the well-known divisions of S&P Global is Standard & Poor's Financial Services LLC, commonly referred to as S&P Ratings or S&P Global Ratings. This division provides credit ratings, research, and analytical tools to assess the creditworthiness and risk of various entities, such as corporations, governments, and financial institutions.

Source: India's May services growth defies inflation pressures but falls to 61.2 from 62 in April | Outlook | Financial Express | The Hindu