Fall in IHS Markit

Part of: GS Prelims and GS-III- Economy Data

The IHS Markit India Services Business Activity Index (i.e Service Purchasing Managers’ Index (PMI)) was at 49.3 in March, down from February’s 85-month high of 57.5.

Important

- The Index 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.
- The fall implies contraction in India’s services sector activity during March basically due to COVID-19.
  - The COVID-19 pandemic has reduced demand, particularly in overseas markets. Nationwide store closures and prohibition to leave the house weighed heavily on the services economy.
  - In PMI parlance, a print above 50 means expansion, while a score below that denotes contraction.
- The Composite PMI Output Index that maps both the manufacturing and services sector also fell to 50.6 in March, down 7 points from February’s 57.6.
  - This signals a sharp slowdown in private sector output growth and brought an abrupt end to the recent strong upward-moving expansion trend.

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.

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 Central Statistical Organisation (CSO), 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.
- Index of Industrial Production (IIP) measures **growth in the industrial sector**.
- 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.