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.