India’s manufacturing sector activity hits record low in April amid lockdown: PMI Survey

The country’s manufacturing sector activity witnessed unprecedented contraction in April amid national lockdown restrictions, following which new business orders collapsed at a record pace and firms sharply reduced their staff numbers, a monthly survey said.

The headline seasonally adjusted IHS Markit India Manufacturing Purchasing Managers’ Index (PMI) fell to 27.4 in April, from 51.8 in March, reflecting the sharpest deterioration in business conditions across the sector since data collection began over 15 years ago.

The index slipped into contraction mode, after remaining in the growth territory for 32 consecutive months. In PMI index, a print above 50 means expansion, while a score below that denotes contraction.

Amid widespread business closures, demand conditions were severely hampered in April. New orders fell for the first time in two-and-a-half years and at the sharpest rate in the survey’s history, far outpacing that seen during the global financial crisis, the survey said.

What is a PMI?

PMI or a Purchasing Managers’ Index (PMI) is an indicator of business activity — both in the manufacturing and services sectors. It is a survey-based measures that asks the respondents about changes in their perception of some key business variables from the month before. It is calculated separately for the manufacturing and services sectors and then a composite index is constructed.

How is the PMI derived?

The PMI is derived from a series of qualitative questions. Executives from a reasonably big sample, running into hundreds of firms, are asked whether key indicators such as output, new orders, business expectations and employment were stronger than the month before and are asked to rate them.

How does one read the PMI?

A figure above 50 denotes expansion in business activity. Anything below 50 denotes contraction. Higher the difference from this mid-point greater the expansion or 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 are its implications for the economy?

The PMI is usually released at the start of the month, much before most of the official data on
industrial output, manufacturing and GDP growth becomes available. It is, therefore, considered a good leading indicator of economic activity. Economists consider the manufacturing growth measured by the PMI as a good indicator of industrial output, for which official statistics are released later. Central banks of many countries also use the index to help make decisions on interest rates.

What does it mean for financial markets?

The PMI also gives an indication of corporate earnings and is closely watched by investors as well as the bond markets. A good reading enhances the attractiveness of an economy vis-a-vis another competing economy.