



Contraction of India's Manufacturing Sector: PMI

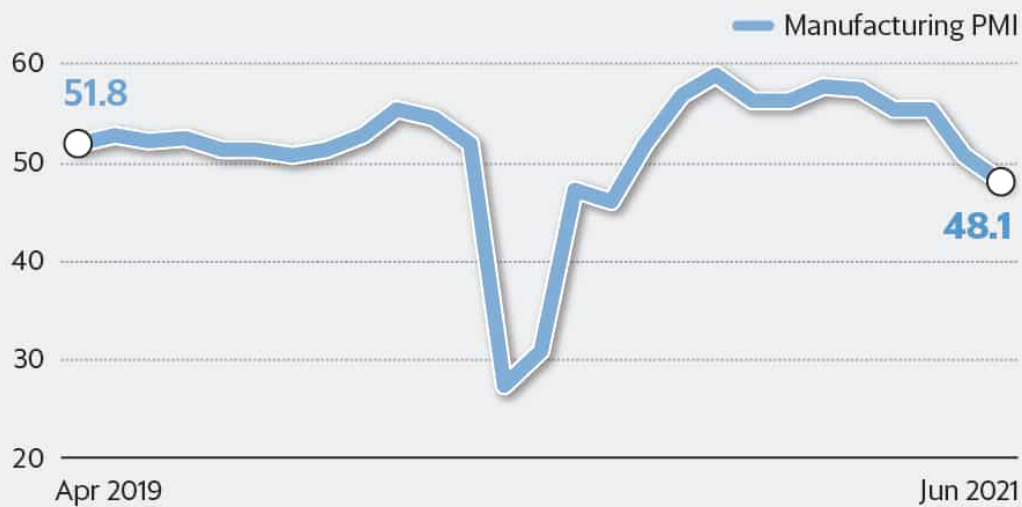
Why in News

The IHS Markit India Manufacturing [Purchasing Managers' Index \(PMI\)](#) slipped to **48.1 in June** from **50.8 in May**, moving below the **50-level separating growth from contraction**.

- India's manufacturing activity contracted in June for the first time in 11 months as the [second wave of the Covid-19 pandemic](#) and **strict containment measures negatively impacted demand** and led to renewed contractions in factory orders, production, exports and quantities of purchases.

Pressure point

The purchasing managers' index (PMI) for the manufacturing sector dropped to 48.1 in June from 50.8 in May.



A figure below 50 indicates contraction.

Key Points

- PMI is a **survey-based measure** that asks the respondents about changes in their perception about key business variables as compared with the previous month.
- 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.
- 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.

Source: TH

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