

# Purchasing Managers' Index

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## In News

The 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.

## More About PMI

- The purpose of the PMI is to **provide information about current and future business conditions** to company decision makers, analysts, and investors.
- The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.
- The PMI is based on a **monthly survey of supply chain managers across industries**, covering both upstream and downstream activity.
- The value and movements in the PMI and its components can provide useful insight to business decision makers, market analysts, and investors, and is a leading indicator of overall economic activity in the country.
- It is **calculated separately for the manufacturing and services sectors and then a composite index is constructed**.
- 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.
- **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.
- 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.
- 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.