

## PMI is not a proxy to IIP: CARE Ratings

### Synopsis

CARE Ratings said that the correlation between the Purchasing Managers' Index— manufacturing and services and the respective lagged variables such as Index of Industrial Production—manufacturing and GVA services, is weak.



Agencies

Kolkata: Purchasing Managers' Indexes that come out on the first couple of days of the month and are considered to be a leading indicator of what is happening in the economy but they can't be a substitute or proxy to Index of **Industrial Production (IIP)** or **factory output**, **CARE Ratings** **NSE -0.80 %** said.

The IHS Markit India Manufacturing **PMI** rose to a six-month high of 52 in August from 46 in July. The August print above 50 indicated expansions in output and new orders. The index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

However, CARE Ratings said that the correlation between the PMI – **manufacturing** and services and the respective lagged variables such as IIP—manufacturing and **GVA** services (excluding public administration, defence and other services) is weak.

“Although the scores of both the PMI indicators reflect the degree of improvement, no change or deterioration in the respective sectors of the economy but fails to capture the change in actual production and value addition which the lagged variables of IIP and GVA are able to capture,” the rating firm said.

The PMI also focusses on a restricted set of around 400 companies as against the much larger sample in case of IIP and GVA. Nonetheless, as the PMI is released without much delay, it gives a preliminary understanding of the level of confidence in both the manufacturing and services sector.

PMI is tracked globally to assess the health of the manufacturing and services sectors in the economy. This index is computed based on survey-based responses on the changes in the perception of some key business variables compared with the previous month, while IIP or gross domestic product (GDP) captures the actual production and value addition respectively in the economy.

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