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### RBI Working Paper Series 6 :

#### An Empirical Analysis of the Relationship between WPI and PMI-Manufacturing Price Indices in India

The Reserve Bank of India today placed on its website a Working Paper titled "[An Empirical Analysis of the Relationship between WPI and PMI-Manufacturing Price Indices in India](#)" under the Reserve Bank of India Working Paper Series (RBIWPS). The working paper has been authored by Shri Jeevan Kumar Khundrakpam and Shri Asish Thomas George.

Manufacturing Purchasing Managers Index (PMI) is considered to be a good leading indicator of economic activity, as it is constructed from the survey of purchasing managers - which is often regarded as a reliable barometer of evolving economic activity, for its timeliness and real-time nature of the data. Thus, PMI has been increasingly used by various central banks for assessing the direction and strength of economic activity. PMI survey also captures information on manufacturing input and output price conditions in the form of diffusion indices, which are used for nowcasting inflation in some of the advanced economies.

In this paper, an attempt has been made to examine whether these PMI price diffusion indices serve as useful indicators for understanding changes in WPI in India. The analysis has been carried out using both OLS and ARDL approach to co-integration for the period April 2005 to October 2012.

Main findings of the paper are:

- PMI price indices have a significant influence and predict the movements of final WPI, implying that these indices are useful for the purpose of forecasting/nowcasting movements in final WPI.
- The break-even values of these price diffusion indices that signal neither expansion nor contraction are around 44, significantly less than commonly referred value of 50. This implies that when the PMI price indices exceed the value of 44, and not 50, WPI inflation (seasonally adjusted annualised month-on-month) would turn positive.

The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not those of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.