



# Purchasing packs a punch

by Catherine Morrison

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**P**urchasing managers take note: your business is a potent measure of what's going on in the world at large. So they think at the Richard Ivey School of Business, where the Ivey Purchasing Managers Index was launched in December 2000.

Since that time, the Ivey PMI, which is co-sponsored by the Purchasing Management Association of Canada, has become a serious contender for the attention of those movers and shakers who track, analyze and influence the health of the Canadian economy – the business press and economists in the both the private and public sector.

Add to those movers and shakers the purchasing profession itself, the Index's third key user group. It is the purchasing profession, too, from which the 175-member panel is drawn to participate in the monthly survey used to generate the Index.

## “The Ivey PMI is simply one more tool.”

“Canadian bonds plunged sharply lower yesterday, underperforming US Treasuries after the Ivey Purchasing Managers Index surged unexpectedly higher in June,” reported the *Financial Post* on July 8, 2003. That's assigning the Ivey PMI a whole lot of clout.

Others are more circumspect. Eric Beauchesne, a business writer for the *CanWest* chain of newspapers, has been using the Ivey PMI since it appeared on the scene, “but only in conjunction with other reports” such as those put out by Statistics Canada and the

Conference Board of Canada. “It doesn't have a track record,” says Beauchesne. “We'll need to see a full business cycle of seven years or so to see how it pans out.”

Michiel Leenders, professor of Purchasing Management at The Richard Ivey School of Business in London, Ontario, is equally careful. “I'd be the first to jump in and say that no one index is definitive. The Ivey PMI is simply one more tool.”

However, he points out, the American index on which the Ivey PMI is modelled (with key differences) is US Federal Reserve Board Chair Alan Greenspan's personal favourite. We know, says Leenders, that the Report on Business index (published in the US by the Institute of Supply Management for the last 70 years) is “the one Greenspan watches more than anything else in the American economy. Of all the indicators he gets, this is the one he per-

sonally prizes in terms of helping him decide to raise or lower interest rates, for example.”

Leenders modestly volunteers that the Ivey PMI has had the good fortune of “riding on the coat tails” of the American index, which has proven, over time, to be a highly reliable indicator of economic activity.

Yet the Canadian version is constructed quite differently. For one thing, it tracks purchases rather than orders. It is not seasonally adjusted and covers the entire economy, both private and public sector. The US index is con-

finied to manufacturing and services and is seasonally adjusted. Furthermore, it is based on mid-month data.

The Canadian data, by contrast, goes to month end, and thanks to electronic collection methods, is released a scant seven days later each month for maximum currency.

The Ivey PMI has the added benefit of providing discrete data covering five areas: purchasing, employment, inventories, supplier deliveries and prices. Survey participants, who have been selected by geographic region and by economic sector to reflect the Canadian economy as a whole, are asked whether their organizations' activities are up, down, or the same in the five areas. The American version, by comparison, is a composite index.

The index is based on month-to-month changes in dollar amounts for the five areas. An index number over 50 shows an increase in spending; a number less than 50 shows a decrease, and the number 50 means no change. Simple, no? But powerful.

The Ivey Purchasing Managers Index, accessible at <http://iveypmi.uwo.ca>, is released at 10:00 AM Eastern Standard Time, seven days after the first working day of the month. *MM*

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