The value of indices to business and procurement

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Facts are important to us. We use them to support business cases we are developing, validate current thinking and extrapolate future trends. In business generally, and in procurement in particular, benchmarking information is sought – in essence to measure our performance against business activity in similar industries and also across different commercial and industrial sectors.

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At the national or regional level there are a number of commonly used indicators covering movements in the Gross Domestic Product (GDP), inflation and prices. These are detailed in their ‘raw form’ by the national authorities such as the European Central Bank (www.ecb.int), the Reserve Bank of Australia (www.rba.gov.au) or the Federal Reserve (www.federalreserve.org) in the United States. At the next level down, an analysis and commentary on the impact of the economic data to business is provided by many organisations, including Bloomberg (www.bloomberg.com) and Thomson Reuters (www.thomsonreuters.com). In addition to national central banks, national statistics departments such as the Australian Bureau of Statistics (www.abs.com.au) produce data.

The output from this data can take a variety of forms. For example, incorporation into speeches such as the excellent commentary on ‘The Economic Landscape in 2009’ given by the Assistant Governor (Economic) at the Reserve Bank of Australia at the Australian Industrial Group Annual Economic Forum on 4 March 2009.

Another output would be familiar to CIPS Australia members – the range of high profile performance indices. These indices give an indication of the overall health of the economy. CIPS Australia endorse the Performance of Manufacturing Index (PMI), Performance of Services Index (PSI) and the Performance of Construction Index (PCI) which are compiled monthly by AIG. Other supporters include PWC and NTC Research. As a benefit for CIPS Australia members, these indices are available monthly from the CIPSA newsletter and online at the Australasia section of the CIPS website.

CIPS members in the UK will be familiar with the suite of Purchasing Managers Indices (PMIs) also covering manufacturing, services and construction. These indices are produced for CIPS by financial information services company Markit (www.marketeconomics.com). Indices are also produced by Markit for European Union countries in the Eurozone. The Institute of Purchasing Management in the United States produce their own PMIs. Both sets of indices have been influential in providing early indications of the variance in economic activity. An index of 50 represents no change; a reading above 50 indicates expansion, and below 50 contraction. The greater the divergence from 50, the greater the degree of change in economic activity from the previous month.

In addition to composite indices such as the PMIs there are a number of indices that focus on specific industries and commodities. These are available on a multitude of websites including the BBC, who cover global prices for shares, currencies and commodities (www.bbc.co.uk/business/marketdata).
Exports account for over 20% of Australian GDP. This makes indices such as the Baltic Dry Index compelling reading for the procurement professional that is required to monitor the worldwide costs of moving freight by sea.

The Baltic Dry Index is compiled by the Baltic Exchange, the world’s leading maritime marketplace and tracks the price of shipping bulk cargo such as iron ore, coal and grain. At its peak in June 2008 the largest dry bulk vessels, known as a Capesize bulk carrier (with a mass of 170,000 tonnes) cost USD 233,988 to rent. Five months later, it was available for USD 4,793. This was represented on the Index with a drop from 11,893 points to 1,615 points. Interestingly enough, the Index jumped 15% on 4 February 2009 to reflect increasing demand from China for iron ore from Australia and Brazil.

Procurement professionals are encouraged to make full use of the indices and pricing data available, as up to date and relevant knowledge is essential for effective procurement activity. We need to end with a note of caution. By their definition, data used to compile indices are historical, gathered at a particular point in time. There is always a time lag from the change in economic activity to its representation in the data. The procurement professional should bear this in mind especially during times of extreme volatility in economic activity.