

Index of Industrial Production

UPSC Notes

What is IIP?

The Index of Industrial Production is contemplated as a combined metric that measures change in the production quantity of industrial goods for a short time taken against a set baseline time. India attempted to calculate the IIP years beforehand when the earliest recommendation was issued for IIP at the international level.

- In 1951, The Central Statistical Organization of the country took charge of assembling and announcing the Index of Industrial Production with the organization's establishment.
- This association is also renowned as National Statistic Office.
- It indicates the performance of eight primary sectors.
- Government agencies, including the Reserve Bank of India, the Ministry of Finance, the Office of Economic Adviser (Department for Promotion of Industry and Internal Trade), use the IIP index for policy-making purposes.

Index of Industrial Production

As per the Central Statistical Organization's formal definition

"Index of Industrial Production is a compound statistic that assesses the short-range variations in the quantity of production of a basket of manufacturing goods throughout a given time with regard to that in a selected base time duration."

The IIP is a metric that shows the accomplishment of numerous industrial sectors in the country's economy. Every month CSO computes and announces the IIP number.

- The IIP is also a combined pointer to the overall level of industrial activities in the country's economy.
- The IIP index also reflects the growth rates of various industry groups of the country's economy in a specified or fixed time or duration.
- The economic growth and industrial health are calculated by comparing the IIP index value of the current month of the current year with the same month last year.

Primary Industries of IIP Index

The Index of Industrial Production number gauges the production in various industries for the time under review, which is generally one month compared to the reference duration. The IIP index only measures the physical capacity of industrial production.

The primary industries of the IIP incorporate the 8 - core sectors of the country's economy. These core industries hold a 40.27 per cent share of IIP, providing the growth rates of various industry groups in specified time duration.

The industry groups that the Index of Industrial Production measures are broadly classified into three sectors: mining, manufacturing, and electricity. It also includes sectors based on use, such as goods (capital, primary, intermediate infrastructure), consumer durables, and non-durables.

The country's core sectors of the economy are listed below.

- Electricity industry
- Steel industry
- Refinery products
- Crude oils
- Coal industry
- Cement industry
- Natural gas
- Fertilizers

The Indian economy is mainly affected by these core sectors, which consequently affects maximum other industries.

Index of Industrial Production on the production of industries is limited to mining, manufacturing, and electricity. However, once UNSD recommended including conditioning, gas steam, water supply, quarrying, gas steam, sewerage, and waste management in IIP's broad sectors production measuring.

Weightage of Core Industries in descending order.

Refinery Product> Electricity Industry> Steel Industry> Coal Industry >Crude Oils> Natural Gas> Cement Industry> Fertilizers

Importance of IIP Index

The IIP helps several organizations, agencies, businesses, and departments for multiple purposes. The Index of Industrial Production [IIP] is essential for estimating the Gross Value Added to the manufacturing sector each quarter, making it an index closely monitored by financial experts, business analysts, private industry, and government agencies.

- Numerous government organizations and departments take the help of the Index of Industrial Production for making various policies. It includes the RBI, the Finance Ministry, and many other government agencies.
- Different industries use the IIP index to estimate the GVA in the manufacturing sector every three months.
- Furthermore, many private sector industries, finance specialists, and business analysts for various purposes.

- Moreover, the Index of Industrial Production is beneficial for predicting advanced GDP estimates.

Recent Outcomes of IIP

- The earlier recorded extraordinary Index of Industrial Production growth was 13 per cent in August 2021.
- There is a growth of 6.3 percent in the manufacturing sector, 11.8 percent in the power sector, and 7.8 percent in the mining sector in the first month (April) of the financial year 2022-2023.
- According to use-based categorization, there is a 14.7 percent growth in capital, and the consumer durables output expanded to 8.5 percent.
- The outputs from the Consumer non-durables sector reflect consumers' careful spending during high inflation.
- Additionally, primary goods recorded 10.1%, intermediate goods recorded 7.6%, infrastructure goods recorded 3.8% of outputs, and consumer non-durables recorded sectors expanded to 0.3%.
- Because of the low base of the 2nd COVID wave, the Index of Industrial Production bounced and grew to a high of 7.1% in April 2022.

Latest Updates on IIP Index

- A rise of one per cent was observed in December 2020.
- Whereas in September 2019, the IIP index diminished by 4.3 percent compared to September 2018. In simple words, the IIP decreased during the year 2018-2019.
- Furthermore, back after November 2012, Mining, Manufacturing, and Electricity sectors combinedly, known as board-based sectors, diminished and indicated the lowermost monthly growth rate during the 2011-12 base year succession.
- The most recent modification in the IIP was made in 2017. It is exposed to reforms such as changes in the base year, incorporating more products in the basket, and many other changes.
- 2011 – 12 is the latest base year for the Index of Industrial Production shifted from the earlier the year 2004 – 05.
- Other modifications were the including and deleting some items in its data series.
- Items introduced in the IIP basket include Surgical auxiliaries, Refined palm oil, and Cement clinkers. At the same time, the items removed from the IIP basket include Chewing tobacco, Fans, Watches, Pens, Toothbrush, and Calculators.
- It is the 9th base year reform since the Index of Industrial Production was first published in 1950, with the very first base year 1937.

IIP Index in the Base Year 2011–12

This IIP index includes the weight of Core industries listed in IIP. As per this index, Coal Industry weighs 10.33, the Electricity industry weighs 19.85, the Crude oil weighs 8.98, the Cement industry weighs 5.37, the Natural gas weighs 6.88, the Steel industry

weighs 17.92, the Refinery products weigh 28.04, and fertilizers weigh 2.63 making a total of 100.

Source of IIP Data:

The maximum portion of the data for the calculation of IIP is sourced from the DIPP (Department of Industrial Policy and Promotion). Also, numerous agencies and ministries of distinct government departments are data sources for IIP calculation.

The Central Statistical Organization uses secondary data to estimate the monthly IIP number.

People Using IIP Data

Various organizations, government agencies, and other people use IIP data or numbers.

It includes the country's finance ministry, RBI, private industries, analysts, and the manufacturing sector.

Calculating the IIP

The mathematical calculation of IIP involves Laspeyre's fixed base formula. IIP calculation generates the average weight of production compared to all the industries. The calculated number indicates the growth of industrial groups classified in the IIP list.

Difference between IIP Index and Annual Survey of Industries

- Even though both the statistical activities are used to obtain and observe industrial output data, they work differently.
- IIP number is calculated and released every month, whereas ASI is computed annually.
- IIP sources data from multiple source organizations or agencies under distinct Acts, while on the other side, ASI sources data under the Collection of Statistics Act.
- The compilation of IIP is based on the data collected from the country's sixteen ministries and administrative departments. In contrast, ASI data depends on the data accounts and documents kept by the industries.
- While the IIP is used to find out the change in production volume of the industries and growth in core industries of the Indian economy, the ASI aims to acquire comprehensive statistics of the sectors to estimate the impact of recorded manufacturing industries on the national income.