Unit 40. Index of Industrial Production (IIP) – All About The New IIP Series (2011-12)

No country can be great without a robust manufacturing base. In India, Index of Industrial Production (IIP) is the index which measures the growth in the industrial sector. In this post, we explain the concept of IIP, the changes in the new IIP series (2011-12), limitations, and the future.

What is Index of Industrial Production (IIP)?

- IIP is an important composite indicator in India that **measures the changes in the volume of production** of a basket of industrial products.
- IIP measures the growth of manufacturing, mining, and electricity sectors.
- The aim of IIP is to capture the direction and the trend of industrial production in the country, **not the absolute value** of industrial production.
- It measures the **short-term changes** in the volume of production of a basket of industrial products.
- In India, the periodicity of IIP is one month with a six-week lag.
- The basket of the new series contains 407 item groups (405 manufacturing sector item groups (comprising of 809 items) and one item group each of mining and electricity).

Note: We have covered the concepts of IIP and the old series (the base year 2004) in another article. If you need to refer the same, check – IIP: Made easy to understand.

Who releases the IIP?

- The Index of Industrial Production (IIP) is published by the Central Statistics Office (CSO) of the Ministry of Statistics and Programme Implementation.

Which are the sources for compiling the new IIP Series?

- The new series has 14 sources namely -(i) Department of Industrial Policy and Promotion (DIPP); (ii) Indian Bureau of Mines; (iii) Central Electricity Authority; (iv) Joint Plant Committee, Ministry of Steel; (v) Ministry of Petroleum and Natural Gas; (vi) Office of Textile Commissioner; (vii) Department of Chemicals and Petrochemicals; (viii) Directorate of Sugar & Vegetable Oils; (ix) Department of

Fertilizers; (x) Tea Board; (xi) Office of Jute Commissioner; (xii) Office of Coal Controller; (xiii) Railway Board; and (xiv) Coffee Board.

How does the new IIP differ from the old IIP? A Comparison:

The table below compares some major additions in the new IIP series and their possible impacts in brief.

CHANGE	OLD SERIES	NEW SERIES	COMMENT
Base Year	**2004-05**	**2011-12**	Will be able to capture structural changes in the economy and improve the quality and representativeness of the indices.
Selection of items	Done at 2 digit level of National Industrial Classification (NIC)-2004	Done at 3 digit level of NIC- 2008	Better representation possible
Number of items in Manufacturing sector	620 (397 item groups)	809 (405 item groups)	149 new items like Steroids, Surgical accessories, Palm oil etc. added 124 items like Calculators, Colour TV picture tubes, Gutka have been omitted
Sectorial Weightage	Manufacturing – 75.527 Electricity – 10.316 Mining -14.157	Manufacturing - 77.633 Electricity -7.994 Mining – 14.373	Increase weightage to the Manufacturing sector, while weightage of Electricity and Mining has dropped.
Electricity sector	Renewable sources- Absent	Added Electricity produced from renewable energy	Shows the significance of renewable energy, also fall in line with the COP-21 target of 40% production of energy via renewable sources

Mining Sector		27 non-metallic minerals not be covered	These were declared minor minerals in MCDR Amendment Rules, 2016. Thus Indian Bureau of Mines won't cover them
The number of source agencies	15	14	Data on 'Iodised Salt' will be provided by DIPP. Because, the Salt Commissioner is not in a position to supply Salt production data after the abolition of Salt Cess Act, 1953 in Finance Bill 2016.
Use-Based Classification changes		There are two new categories introduced in the new series namely "**Primary goods**" and "**Infrastructure/ Construction goods"** replaced the category "**Basic goods"** in use-based classification.	
Working in Progress		Many items have production span of more than one month for which data will now be reported on '**work in progress'** so that continuous production is accounted. It will address the fluctuations in production data.	

Why was a revise needed in the IIP series?

- The amendment in item list brings the production data of products that are relevant according to the changing time. For example, the production of colour TV picture tubes holds little relevance in a time of LCD, LED and OMLED technology. Yet fall in colour TV picture tube affected the IIP.
- Change in series maintains representativeness of the items and producing entities and also address issues relating to the continuous flow of production data.
- By changing base year to 2011-12, now GDP, WPI and IIP, the three major indices; are in sync.
- Also, a change in base year is done to shave off the **base effect**. It increases the sensitivity of the index to changes over the previous year.
- The IIP was criticised for being unable to get the true picture. It focussed on redundant items while many vital aspects were left untouched, like the **renewable energy production**. Therefore a drastic change became a necessity.

What are the impacts after IIP revision?

- A **Technical Review Committee**, chaired by Secretary, Ministry of Statistics and Program Implementation, is being set up to facilitate dynamic revision of the item list and panel of factories. It will meet once a year to amend the list. It will make the IIP dynamic, time relevant and an organic index.
- The average industrial output growth for last five fiscal was 1.42%, as per 2004-05 series. It increased to 3.82% according to the new IIP series (2011-12).
- Also, the old series showed 0.7% expansion in 2016-17. While the new series showed 5% rate of growth till March 2017 (2016-17).

What are the limitations of IIP?

- **Quality Vs Quantity**: IIP is still reliant on quantity based growth projection. It faces problem in assessing the growth of high-value, low output products. Take the example of two cars, Maruthi Alto and Mercedes Benz. The value of one Mercedes Benz is more than 10 Maruthi Alto. Yet, a production increase of 2 units of Benz would be equal to 2 Maruthi Alto. So a little fall in the mass produced Alto will negate the increase in Benz production.
- **Unorganised Sector:** The unorganised sector is still out of reach of the index. According to the employment and unemployment survey (EUS 2011-12, conducted by NSSO), employment in the informal component is to be about 75 per cent of total usual status employment (principal and subsidiary) in the rural areas and 69 per cent in urban areas. So IIP leaves about 70% of employment providing sector (i.e., unorganised sector) out of its reach.
- **Manufacturing Sector and PMI**: While assessing manufacturing sector, IIP still lacks the sensitivity that PMI (Purchasing Managers' Index- by Nikkei) is supposed to have. PMI also covers service sector.

What is the future?

We are moving through an era of disruptive technology, where the boundaries between service and manufacturing are becoming hazy with each moment. With the fourth industrial revolution approaching, there is a need to change the way of assessing parameters of production and its direction. The formation of Technical Review committee is a good step but merely changing the items won't be enough in this fast changing world. The need is to redefine IIP where it covers not just production flow, but also its quality, impact and sustainability. It's sometimes joked that only if we have a Richter scale to judge economic quakes. Well, IIP's future lies in becoming that scale.