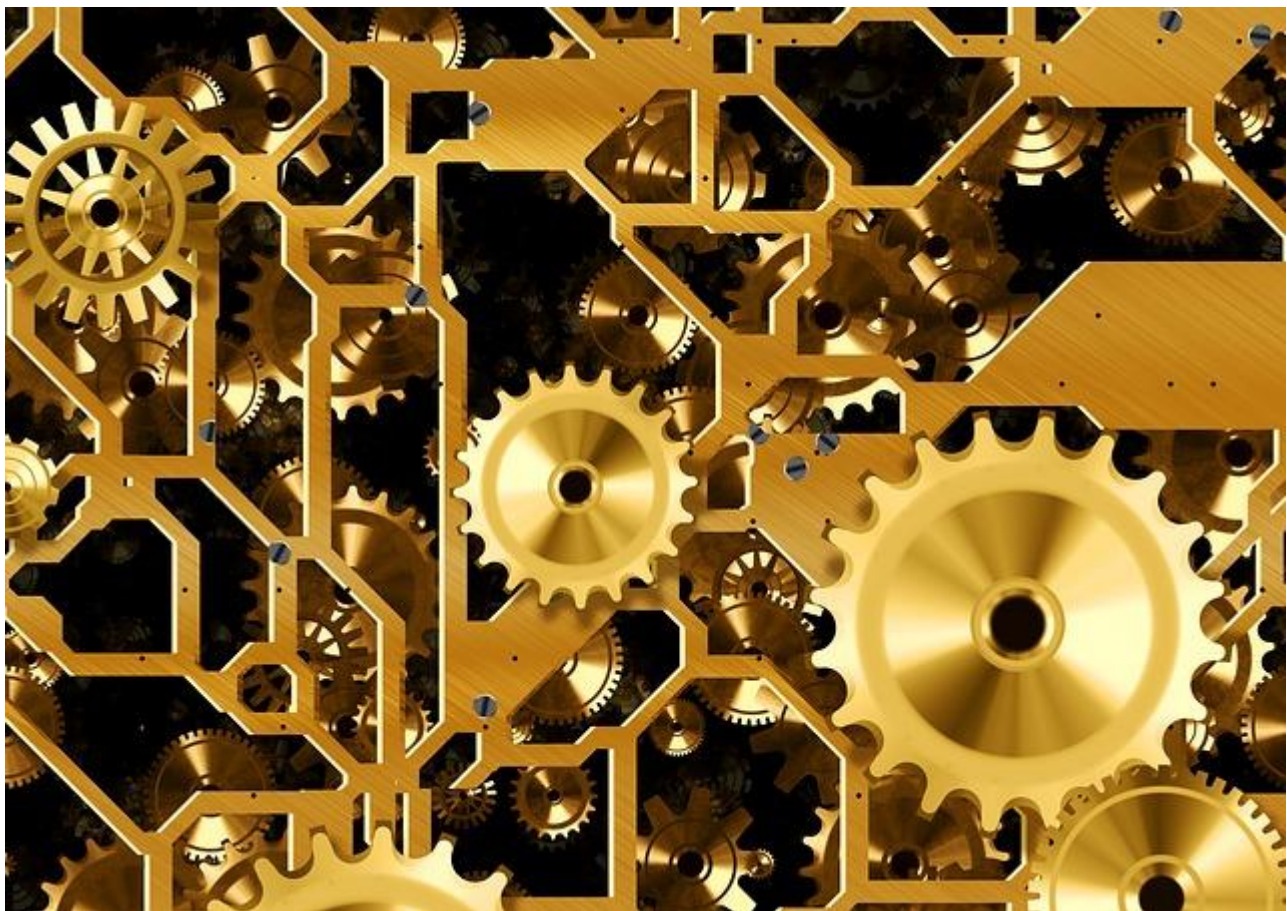


Unit 41. Index of Industrial Production (IIP): Made Easy to Understand



You all know that GDP measures the overall activity (production) in the Indian Economy. But is there any index which specifically captures the industrial activity in the Indian Economy? Yes, this index is known as Index of Industrial Production (IIP).

What is IIP?



- **Index of Industrial Production (IIP)** is an index which helps us understand the growth of various sectors in the Indian economy such as mining, electricity and manufacturing.
- IIP is a short term indicator of industrial growth till the results from Annual Survey of Industries (ASI) and National Accounts Statistics (Eg: GDP) are available.
- The base year of the index is given a value of 100. The current base year for the IIP series in India is 2011-12. So, if the current IIP reads 180, it means that there has been 80% industrial growth compared to the base year, ie 2011-12.

Who releases IIP?

Index of Industrial Production (IIP) is released by the **Central Statistics Office (CSO)** of the **Ministry of Statistics and Programme Implementation**.

IIP is published monthly, six weeks after the reference month ends.

IIP Old Series Data: 2004-05

The current base year for the IIP series in India is 2011-12. The old series data is given just for reference/comparison.

IIP data 2004-05 is sourced by 16 agencies!

IIP is compiled using data received from 16 source agencies viz. Department of Industrial Policy & Promotion (DIPP); Indian Bureau of Mines; Central Electricity Authority; Joint Plant Committee; Ministry of Petroleum & Natural Gas; Office of Textile Commissioner; Department of Chemicals & Petrochemicals; Directorate of Sugar; Department of Fertilizers; Directorate of Vanaspati, Vegetable Oils & Fats; Tea Board; Office of Jute Commissioner; Office of Coal Controller; Railway Board; Office of Salt Commissioner and Coffee Board.

IIP 2004-05 covers 682 items!

We have already seen that IIP measures industrial growth. It measures the short term changes in the volume of production of a basket of industrial products. The current IIP basket covers 682 representative items.

- Mining (61 items) – 14.16% weight
- Manufacturing (620 items) – 75.53% weight
- Electricity (1 item) – 10.32% weight.

Note: Even though United Nations Statistics Division suggests to also include Gas steam, Air conditioning supply, Water supply, Sewerage, Waste Management and Remediation activities in the IIP, due to data constraints Indian IIP only covers three sectors – mining, manufacturing and electricity. These three are called **broad sectors**. IIP also gives us an idea about **use-based sectors** – another classification. User-based sectors include Basic Goods, Capital Goods and Intermediate Goods.

Weighted arithmetic mean of quantity relatives with weights being allotted to various items in proportion to value added by manufacture in the base year by using Laspeyres' formula.

Core Industries and IIP 2004

Coal, Crude Oil, Natural Gas, Refinery Product, Steel, Cement and Electricity are known as Core Industries. The eight Core Industries comprise nearly **37.9 %** of the weight of items included in the Index of Industrial Production (IIP). The 8 core industries are their relative weight in IIP is as below:

1. Coal (weight: 4.38 %).
2. Crude Oil (weight: 5.22 %).
3. Natural Gas (weight: 1.71 %).
4. Refinery Products (weight: 5.94%).
5. Fertilizers (weight: 1.25%).
6. Steel (weight: 6.68%).
7. Cement (weight: 2.41%).
8. Electricity (weight: 10.32%)

Annual Survey of Industries (ASI) Vs Index of Industrial Production (IIP)

The Industrial Output data is captured and monitored, primarily, through two statistical activities – Annual Survey of Industries (ASI) and Index of Industrial Production (IIP).

ASI

- ASI is calculated on an annual basis
- The ASI is conducted under the Collection of Statistics Act, since 1959.
- The objective is to obtain comprehensive and detailed statistics of industrial sector with the objective of estimating the contribution of registered manufacturing industries as a whole to the national income.
- ASI data is based on the actual book of accounts and other documents maintained by registered factories.

IIP

- IIP is calculated on a monthly basis.
- Data for IIP are collected by various source agencies under different Acts/statutes.
- The IIP is compiled on the basis of data sourced from 16 ministries/ administrative departments.

Industry vs Manufacturing

Though often interchangeably used, the terms industry and manufacturing are different.

The term industry is comprehensive and may be considered as a superset of manufacturing. Industry, in general, refers to an economic activity that is concerned with the production of goods, extraction of minerals and sometimes even for the provision of services. Thus we have iron and steel industry (production of goods), coal mining industry (extraction of coal) and tourism industry (service provider).

So what is manufacturing then?

Manufacturing: Production of goods in large quantities after processing from raw materials to more valuable products is called manufacturing.

Industry = Manufacturing + Mining + Electricity + much more.

Share of Industrial Sector in the total GDP of India

The total Industrial sector has only around 27 percent share in the total GDP of India. Over the last two decades, the share of the manufacturing sector has stagnated at 17 per cent of GDP – out of a total of 27 per cent for the industry which includes 10 per cent for mining, quarrying, electricity and gas.

- The share of Manufacturing in the GDP of India – 17%.
- The share of Mining, quarrying, electricity and gas in the GDP of India – 10%.
- Total share of Industrial Sector = 27%

Steps to boost manufacturing

1. National Manufacturing Competitiveness Council (NMCC): The National Manufacturing Competitiveness Council (NMCC) has been set up by the Government to provide a continuing forum for policy dialogue to energise and sustain the growth of manufacturing industries in India.
2. Make in India Initiative.
3. National Investment and Manufacturing Zones (NIMZs).
4. Delhi-Mumbai Industrial Corridor (DMIC).



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