All about Index of Industrial Production

What is the issue?

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- Central Statistics Office's (CSO) recent data show that factory output growth had slipped to a 17-month low in November, 2018.
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- In this backdrop, it is appropriate to understand the Index of Industrial Production (IIP) on which the above data is based on.
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What is IIP?

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- IIP is a composite indicator measuring changes in the volume of production of a basket of industrial products over a period of time, with respect to a chosen base period.
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- It is compiled and published on a monthly basis by the CSO with a time lag of six weeks from the reference month.
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Why is IIP significant?

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- IIP is the only measure on the physical volume of production.
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- The all-India IIP provides a single representative figure to measure the general level of industrial activity in the economy.
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- It is used by government agencies including the Ministry of Finance, the Reserve Bank of India etc, for policy purposes.
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- It forms a crucial input for compilation of Gross Value Added (GVA) of the manufacturing sector in the Gross Domestic Product (GDP) on a quarterly basis.
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- IIP remains extremely relevant for the calculation of the quarterly and advance GDP estimates.
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- It is also used extensively by financial intermediaries, policy analysts and private companies for various analytical purposes.
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What was the change in 2017?

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- The change in the base year of the all-India IIP to 2011-12 happened in 2017.
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- It was the ninth revision of base year of the all-India IIP since the beginning of its dissemination.
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- In the 2011-12 series, as compared to 2004-05 series, a number of items were introduced or deleted.
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- In all, 149 new items were added in the new IIP 2011-12 data series, and 124 of them were deleted.
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- [Items such as refined palm oil, cement clinkers and surgical accessories were introduced. Tooth brushes, chewing tobacco, fans, calculators, pens and watches were removed.]
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- This helped check the volatility of the index that was earlier seen especially for capital goods.
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- A change in the base year should not end up making too much difference to the IIP growth figures.
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- But the bigger impact is on account of the difference in the constituent items of the index and weights assigned to each of them.
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What is the Annual Survey of Industries?

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- The ASI (Annual Survey of Industries) is the main source of long term industrial statistics.
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- Notably, the IIP is a monthly indicator based on items and factories selected from ASI.
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- For the annual revised estimates, the CSO replaces the IIP with the ASI.
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Why do IIP and ASI differ?

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- The IIP is based on a fixed set of items and factories chosen in the base period.
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- Whereas, the ASI is a record-based survey of establishments registered under the Factories Act, 1948.
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- Here, the sampling frame and the sampled establishments undergo significant changes.
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- Consequently, the ASI captures information of new items and factories whereas the IIP does not.
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- Growth rates in IIP are based on volume of production whereas growth rates in ASI are derived on the basis of Value Added (Output – Input).
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- Also, the IIP is based on a much smaller sample of factories as compared to that of ASI.
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- Further, establishments selected in IIP are generally larger in size whereas ASI establishments cover both large and smaller units.
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- So, the growth rates in IIP are lower as the smaller units with thinner base show higher growth (ASI).
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- As a result of all these, there is divergence in the growth rates of manufacturing sector based on the two datasets (IIP and ASI).
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Source: Indian Express

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