Changes in IIP - Part II

Click here for Changes in IIP - Part I

\n\n

Why in news?

\n\n

Revisions have been made to the base year for the Index of Industrial Production and the Wholesale Price Index with accompanying changes to weights of the component sectors, and restructuring of the individual sectoral constituents.

\n\n

What was the need?

\n\n

\n
- The theoretical aim of the IIP is to capture the direction and the trend of industrial production in the country, not the absolute value of industrial production.
\n
- Its chief utility is as an early indicator of turning points in the economy.
\n
- But IIP has been failing in serving this purpose.
\n
- The reason being that it was measuring industrial output using baskets of production items and producing entities that had remained unchanged since 2004-05.
\n
- The standard procedure followed was that a list of items was constructed in the base year and for each item the producing entities were identified. This structure was frozen.
\n
- If an entity shut down, its output fell to zero. But since the basket was frozen no new entity could be taken in place of the zero-output one.
\n
- e.g Calculators, may fall out of use and more smartphones may be consumed. But IIP was not equipped to capture such changes in the economy.

\n

\n\n

What is the impact?

\n\n

\n
- The average pace of industrial output based on the previous 2004-05 base year was 1.42%, with 2016-17 showing a paltry 0.7% expansion.
\n
- IIP data founded on the new base year of 2011-12 show that industrial output has grown annually at an average pace of 3.82% over the last five fiscal years. 2016-17 showed 5% rate of growth till March 2017.
\n
- It is clear that the change have all helped signal industrial activity as having been far more robust over the entire time period than had been previously posited.
\n
- There is an increase in the number of reporting factories and the exclusion of shuttered unit. This means that the information is now appreciably more representative.
\n
- A mechanism in the form of a Technical Review Committee has been put in place to periodically review the products featuring in the item list and to revise the series dynamically.
\n
- The reviews will help ensure that data pertaining to industrial output and wholesale price inflation will be relatively current and more accurately reflect economic trends.
\n
- The base years of all the major macroeconomic indicators, the Gross Domestic Product (GDP) and the Wholesale Price Index, are now aligned — 2011-12.
\n
- The IIP’s coverage by design is limited to the organised sector. The disruption in the unorganised sector is expected to get measured in the ASI.
\n

\n\n

\n\n

Source: The Hindu

\n



SHANKAR
IAS PARLIAMENT
Information is Empowering