Changes in Index of Industrial Production

Why in news?

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The government launched the updated series of data for the Index of Industrial Production (IIP) and Wholesale Price Index (WPI)-based inflation.

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What are IIP and WPI?

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- **WPI -** It is a measure of the average change in the prices of commodities for bulk sale. WPI covers commodities falling under the three Major Groups namely Primary Articles, Fuel and Power and Manufactured products.
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- The prices tracked are ex- factory price for manufactured products, mandi price for agricultural commodities and ex-mines prices for minerals.
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- **IIP –** It details out the growth of various sectors in an economy such as mining, electricity and manufacturing.
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- IIP is released by Central Statistical Organisation whereas WPI is released by Ministry of Commerce & Industry.
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What are the changes made?

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- CSO **revises the base year** of the macroeconomic indicators as a regular exercise to capture structural changes in the economy and improve the quality and representativeness of the indices.
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- The base year for IIP and WPI in the new series **has shifted to 2011-12,** against the earlier 2004-05.
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- **IIP -** The total number of items in **IIP has increased to 809** as compared to 620 earlier.
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- The **149 new items in IIP** include steroids and hormonal preparations, cement clinkers, medical/surgical accessories, pre-fabricated concrete blocks and refined palm oil.
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- On the other hand, 124 items such as biaxially oriented polypropylene films, calculators, colour TV picture tubes, gutka have been deleted from the 2004-05 series.
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- **The weight of manufacturing** in the new IIP has increased to 77.6% from 75.5%, while that of mining reduced to 14.1% from 14.3%, and electricity to 7.9% from 10.3%.
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- **WPI -** In the new series of the WPI, the number of items covered has increased from **676 to 697.**
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- **WPI will no longer incorporate indirect taxes.**
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- Previously, the WPI was calculated on the basis of the base price plus excise duty minus any trade discount.
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- The new formula removes the excise duty aspect.
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- The **weight of manufactured items has decreased** to 64.2% in the WPI in the new series from 64.9% in old series, and fuel and power to 13.1% from 14.9%, while those of primary items rose to 22.6% from 20.1%.
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- The two updated indices are based on reports of expert committees led by former Planning Commission Member **Saumitra Chaudhuri.**
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What are the implications?

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- The changes effected by the government in the product basket are aimed at **capturing the economic data in a more comprehensive manner.**
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- The ministry also said in a statement that in order to reflect the increasing significance of electricity generation from renewable sources, it has been decided to include the data in the new series.

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- The new WPI has excluded indirect taxes from the wholesale price, which means they will be insulated from policy changes. **It is closer to the concept of a Producers Price Index.**
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- The new series of data paint a much healthier picture of the Indian economy than the old series did.
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- However, deeper analysis shows that woes in manufacturing persist.
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- **According to the new series of IIP factory output grew by 2.7% in March.**
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- But by the old series, factory output was lower at 2.5 % in March and had contracted by 1.2% in February.
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- Likewise, the IIP annual growth in 2016-17 under the new series is 5% against 0.7% under the old series.
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- Despite a sharp rise in fuel prices, WPI inflation under the new series eased to 3.85% in April from 5.3% in March.
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Source: The Hindu & Business Standard

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