Revival Trend in Indian Industrial Activity

Why in news?

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In India Industrial activity has been improved in terms of IIP and PMI.

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What is the status of Indian Industrial growth?

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- Industrial growth is measured by the government's Index of Industrial Production (IIP) and the private sector Purchasing Managers' Index (PMI).
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- Both of these Indexes has been improved significantly in the months of Nov 2017 – Feb 2018.
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- Growth in the IIP soared to 8.8% in November, the highest since October 2015, and stood at a slightly slower but still robust 7.07% in December, this growth was largely driven by the manufacturing sector.
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- The PMI surged to a 60-month high of 54.7 in December 2017 and came in at 52.4 in January 2018.
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How industrial activity has been revived?

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- The November 2016 demonetisation had a major impact on industrial activity and the manufacturing sector was slowed down.
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- Activity resumed thereafter, but was hit again by the prospect of the Goods and Services Tax and then its fallout.
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- Industrial activity contracted in June because firms halted production to get rid of their stock in preparation for the GST.

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- A combination of impending festive season and the re-stocking of inventory led companies to increase their activity thereafter, with a recovering global economy boosting exports, which further propelled industrial growth in November and December.
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- There were other factors at play, such as companies getting increasingly comfortable with the GST regime.
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- The government has also taken steps to ease the woes of exporters due to the input tax credit system.
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What are implications of this revival?

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- While the IIP is an output measure, the PMI is an indication of the activity at the input, or purchasing, level.
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- If both show strong growth, the implication is an overall recovery in industrial activity and sentiments.
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- Economic growth itself is expected to increase, with private sector analysts and economists saying there are signs of a recovery.
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- It is also important to note that the IIP and the PMI measure only the formal sector.
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- Several accounts say the informal sector, a very large segment of the economy that accounts for significant employment, is still recovering from the effects of demonetisation.
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- This trend also implies that part of the recovery is based on global economic trends, any dip there will have a detrimental effect on India’s exports.
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Source: The Hindu

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Quick Fact

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IIP

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- The Index of Industrial Production (IIP) is an abstract number or ratio which measures the growth of various sectors in the economy.
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- In India, IIP is a representative figure which measures the general level of Industrial activity in the country.
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- Being an abstract number, it does not show volume of activity and only shows the magnitude which represents the status of production in the industrial sector for a given period of time as compared to a reference period of time.
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PMI

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- The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector.
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- The PMI is based on five major indicators such as new orders, inventory levels, production, supplier deliveries and the employment environment.
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- The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers.
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