

The Index of Industrial Production (IIP)

April 5, 2019

Manifest Pedagogy

Relationship between inflation and growth is one of the key planks of economic theory. Upsc will give due regard to concepts, indices, agencies involved and impact of their policies in both prelims and mains.

In news

IIP growth slip below 2%

Placing it in the syllabus

Indian Economy and issues relating to planning, mobilization of resources, growth, development

Static dimensions

- About IIP
- Core Sectors
- Types of Inflation

Current dimensions

- Slow in the growth of IIP
- The Calibrated tightening policy of RBI

Content

About IIP

The IIP is a composite indicator that measures the changes in the volume of production of a basket of industrial products

during a given period with respect to the volume of production in a chosen base period.

In other words, It is an index that shows the performance of different industrial sectors of the Indian economy. The Central Statistical Organisation (CSO) estimates and publishes it on a monthly basis. **The base year for the IIP is 2011-12.** It gives the general level of industrial activity in the economy as an all – India index.

What are the core sectors?

It contains the following eight core industries;

- Electricity
- Steel
- Refinery products
- Crude oil
- Coal
- Cement
- Natural gas and
- Fertilizer

The Index of Eight Core Industries is a monthly production index, which is also considered as a lead **indicator of the monthly industrial performance**. The Index of Eight Core Industries is compiled based on the monthly production information received from the Source Agencies.

Weightage in IIP

- Coal- 10.33%
- Crude oil- 8.98%
- Steel production-17.92%
- Natural gas- 6.88%
- fertilizers – 2.63%
- Electricity production- 0.7%
- Refinery products- 28.04%

Another measure

The Purchasing Managers' Index (PMI)

It is an **indicator of the economic health of the manufacturing sector**. It is based on the following five indicators:

1. New orders.
2. Inventory levels.
3. Production.
4. Supplier deliveries and
5. The employment environment.

The PMI's purpose is to provide business decision – makers, analysts and purchasing managers with information about current business conditions.

Retail Inflation

Types of Inflation

- **Creeping inflation:** If the speed of upward thrust in prices is slow but small then we have creeping inflation.
 - Walking inflation: If the rate of annual price increase lies between 3 p.c. and 4 p.c., then we have a situation of walking inflation. When mild inflation is allowed to fan out, walking inflation appears.
1. **Galloping inflation:** Walking inflation may be converted into running inflation. Running inflation is dangerous. If it is not controlled, it may ultimately be converted to galloping or hyperinflation. It is an extreme form of inflation when an economy gets shattered.
 2. **Running inflation:** When the rise in prices increases rapidly at a rate of 10 percent or 20 percent per annum is known as running inflation. As the inflation rate crosses the two-digit figure, economic problems arise. Running inflation adversely affects the poor and middle-

class families and households in the economy.

3. **Stagflation:** It is a condition of slow economic growth and relatively high unemployment, or economic stagnation, accompanied by rising prices (especially oil), or inflation. It can also be defined as inflation and a decline in the gross domestic product (GDP).
4. **Deflation:** It occurs when asset and consumer prices fall over time. While this may seem like a great thing for shoppers, the actual cause of widespread deflation is a long-term drop in demand and most often signals an impending recession.
5. **Disinflation:** It is a situation of a decrease in the rate of inflation over a successive time period. It is simply slowing of inflation.

Agencies of inflation

- **WPI– It is released by Office of Economic Affairs, Ministry of Commerce and Industries (MOCI)**
- **CPI All India, CPI-Urban and Rural- CSO, Ministry of Statistics and Programme Implementation (MOSPI)**
- **CPI-Agricultural Labour – By Labour Bureau, Ministry of Labour and Employment**
- **CPI-Rural Labour –By Labour Bureau, Ministry of Labour and Employment**
- **CPI-Industrial Worker –By Labour Bureau, Ministry of Labour and Employment**

Core Inflation: it is the change in the price of goods and services except that of food and energy. It represents the most accurate picture of underlying inflation trends. Food and energy products are too volatile to be included.

Calibrated RBI policy

Calibrated Tightening in monetary policy refers Uncertainty of

stable rate as well as the probability of rate to go high /forward with no other option. Certainly, the interest rate hike is possible.

Role of RBI

Central banks have their primary goal of controlling inflation and keeping in mind the objective of growth. This is done by following an inflation targeting approach. If inflation is broadly in line with central banks estimates the bank tries to also push growth.

However, there is a growing tussle between RBI and government on the failure of monetary policy to push growth despite inflation being in the comfort zone. This has resulted in real interest rates to remain higher and having an adverse effect on industrial performance.

All this has to be seen in light of other events such as PCA framework, NBFC crisis and tight liquidity. This has resulted in debates about the overly cautious working of central bank. However, in defence of the RBI, we are also experiencing global headwinds such as volatility in crude prices, uncertainties in trade talks and what would be the colour and shape of the next government (fiscal policy effects on broader economy).