Core Sector Growth at 5.5%

Part of: GS Prelims and GS-III-Economic data

According to the data released by the Ministry of Commerce and Industry, the eight core sector industries recorded a growth of 5.5% in February, 2020 which is highest in 11-months.

Key Points

- This spike is because of growth in refinery products, electricity, fertiliser, cement and coal production.
- However, crude oil, natural gas, and steel recorded negative growth rate in February.
- This was the fourth consecutive month when the index of eight core industries reported growth.
- The outlook may not be very bright for March 2020, as the lockdown to check the spread of Covid-19 has disrupted the production process in the country and globally.

Core Sector Industries

- The eight core sector industries include coal, crude oil, natural gas, refinery products, fertiliser, steel, cement and electricity.
- The eight core industries comprise 40.27% of the weight of items included in the Index of Industrial Production (IIP).
- The eight Core Industries in decreasing order of their weightage: Refinery Products> Electricity> Steel> Coal> Crude Oil> Natural Gas> Cement> Fertilizers.

<table>
<thead>
<tr>
<th>CORE INDUSTRIES AND WEIGHTAGE</th>
<th>Weight (In percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum &amp; Refinery production</td>
<td>28.04</td>
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<tr>
<td>Electricity generation</td>
<td>19.85</td>
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<tr>
<td>Steel production</td>
<td>17.92</td>
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<tr>
<td>Coal production</td>
<td>10.33</td>
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<tr>
<td>Crude Oil production</td>
<td>8.98</td>
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<tr>
<td>Natural Gas production</td>
<td>6.88</td>
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<tr>
<td>Cement production</td>
<td>5.37</td>
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<tr>
<td>Fertilizers production</td>
<td>2.63</td>
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</tbody>
</table>

Index of Industrial Production

- The Index of Industrial Production (IIP) is an index that indicates the performance of various industrial sectors of the Indian economy.
Official Definition – As given by CSO

“It is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period.”

IIP – Explanation

- This index gives the growth rates of different industry groups of the economy over a specified time period.
- The industry groups that it measures are classified under the following:
  - **Broad sectors** like manufacturing, mining and electricity.
  - **Use-based sectors** like capital goods, basic goods, intermediate goods, infrastructure goods, consumer durables and consumer non-durables.
- The eight core industries of India represent about 40% of the weight of items that are included in the IIP. The **Eight Core Sectors/Industries** are:
  - Electricity
  - Steel
  - Refinery products
  - Crude oil
  - Coal
  - Cement
  - Natural gas
  - Fertilisers
- The United Nations Statistics Division (UNSD) recommends including quarrying, gas steam and air-conditioning supply, sewerage, water supply, waste management and remediation in the broad sectors. But this is not done due to the problems in data availability on a monthly basis for all these sectors. So, the data has been restricted to mining, electricity and manufacturing.

Index of Industrial Production Importance

- The Index is used by government agencies and departments such as the Finance Ministry and the RBI for policy making.
- It is also used for estimating the Gross Value Added of the manufacturing sector on a quarterly basis.
- In addition, the Index is also used by business analysts, financial experts and the private industry for multiple purposes.
- It is the only measure on the physical volume of production.
- It is also extremely useful for the projection of advance GDP estimates.

IIP Latest Change

- The latest change in the IIP was made in 2017.
- Any index is to be subject to changes and modifications like changing the base year, including more items in the basket, etc.
- The new and current base year for IIP is 2011 – 12. The previous base year was 2004 –
05.

- Another change was the inclusion and deletion of certain items in the data series.
  - Some items introduced:
    - Refined palm oil
    - Surgical accessories
    - Cement clinkers
  - Some items removed:
    - Chewing tobacco
    - Tooth brush
    - Calculators
    - Fans
    - Watches
    - Pens
- This is the 9th base year revision ever since IIP was first published in 1950. The first base year was 1937.

**IIP 2004-05 covers 682 items!**

We have already seen that IIP measures industrial growth. It measures the short term changes in the volume of production of a basket of industrial products. The current IIP basket covers 682 representative items.

- Mining (61 items) – 14.16% weight
- Manufacturing (620 items) – 75.53% weight
- Electricity (1 item) – 10.32% weight.

Note: Even though United Nations Statistics Division suggests to also include Gas steam, Air conditioning supply, Water supply, Sewerage, Waste Management and Remediation activities in the IIP, due to data constraints Indian IIP only covers three sectors – mining, manufacturing and electricity. These three are called **broad sectors**.

**Annual Survey of Industries (ASI) Vs Index of Industrial Production (IIP)**

The Industrial Output data is captured and monitored, primarily, through two statistical activities – Annual Survey of Industries (ASI) and Index of Industrial Production (IIP).

**ASI**

- ASI is calculated on an annual basis
- The ASI is conducted under the Collection of Statistics Act, since 1959.
- The objective is to obtain comprehensive and detailed statistics of industrial sector with the objective of estimating the contribution of registered manufacturing industries as a whole to the national income.
- ASI data is based on the actual book of accounts and other documents maintained by registered factories.

**IIP**

- IIP is calculated on a monthly basis.
- Data for IIP are collected by various source agencies under different Acts/statutes.
- The IIP is compiled on the basis of data sourced from 16 ministries/ administrative departments.
Industry vs Manufacturing

Though often interchangeably used, the terms industry and manufacturing are different. The term industry is comprehensive and may be considered as a superset of manufacturing. Industry, in general, refers to an economic activity that is concerned with the production of goods, extraction of minerals and sometimes even for the provision of services. Thus we have iron and steel industry (production of goods), coal mining industry (extraction of coal) and tourism industry (service provider).

So what is manufacturing then?

Manufacturing: Production of goods in large quantities after processing from raw materials to more valuable products is called manufacturing.

Industry = Manufacturing + Mining + Electricity + much more.

Note: The share of Manufacturing in the GDP of India – 17%.

The share of Mining, quarrying, electricity and gas in the GDP of India – 10%.

Total share of Industrial Sector = 27%

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