Index of Industrial Production (IIP)

What is the issue?

- The Index of Industrial Production (IIP) estimates from the National Statistical Office show that output shrank by 4.3% in September, 2019.
- All the three component sectors in the index - manufacturing, mining and electricity - post contractions.

What is IIP?

- IIP is a composite indicator measuring changes in the volume of production of a basket of industrial products over a period of time, with respect to a chosen base period.
- It is compiled and published on a monthly basis by the Central Statistics Office (CSO) under the National Statistical Office (NSO).
- It is published with a time lag of six weeks from the reference month.

What is IIP's significance for this year?

- This is yet another set of economic data from the NSO that **reaffirms** both the depth and all-pervasive width of the ongoing economic **slowdown**.
- This was the **sharpest contraction in output since April 2012**, before which the data was referenced to a different base year.
- Five of the six categories on the IIP's **use-based classification** of goods registered **declines**, with only intermediate goods bucking the trend.
- The **prolonged slump in the output of capital goods** (a proxy for investment activity by businesses) extended into a 9th straight month as production contracted by about 21% for the 2nd month in a row.
- **Consumer durables** also posted a 4th straight **contraction**, with the 9.9% decline which is in stark contrast to September 2018's 5.4% growth.
- Clearly, manufacturers of white goods are struggling to find demand for their wares and the sliding production points to an absence of the traditional festival-eve restocking bump.
- The second successive shrinkage in infrastructure and construction goods reflects the challenges besetting the two primary sectors.
- Here, the Centre's announcement of a funding initiative to help stalled housing projects ought to provide some fillip in the coming months.
- But a stretched fiscal situation is likely to keep government spending on

other big-ticket infrastructure projects muted for the foreseeable future.

What is the industry perspective?

- From an industry perspective, 17 of the 23 industry groups that comprise the manufacturing sector contracted.
- Leading the slump was the motor vehicles industry, which posted a 25% contraction.
- **SIAM** - The wholesale data from the Society of Indian Automobile Manufacturers (SIAM) can be an indicator of trends for this industry.
- In this, there is certainly more pain ahead as overall shipments fell almost 13% from a year earlier in October 2019.
- Demand for newly introduced utility vehicles was the saving grace, as it propelled a marginal uptick in passenger vehicle deliveries.
- SIAM's figures on commercial vehicles, show that the 23% year-on-year decline, particularly underscore the demand vacuum in the rural hinterland and the wariness on the part of fleet operators to invest in new haulage capacity.
- With manufacturing having a weight of almost 78% in the IIP, the latest report from IHS Markit gives little room for optimism.
- **Purchasing Managers' Index** – This is a survey-based index that revealed continuing manufacturing sector weakness in October 2019 as weakening demand hurt new orders and business sentiment.
- The business confidence had slipped to its lowest level in more than 2½ years.
- **In Future** - All signs now point to the central bank cutting interest rates again at its next meeting, in order to help spur a revival.

Source: the Hindu