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## Contraction in July Factory Output: IIP

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### Why in News

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Recently, the **National Statistical Office** (NSO) has released data, highlighting the **decline in the factory output** (also called **Industrial Production**) for the fifth consecutive month, with July 2020 posting a contraction of 10.4% compared to July 2019.

The data, however, **recorded a sequential improvement from 15.8% contraction seen in June**, reflecting some **resumption in industrial activity** with the **lifting of lockdown** restrictions.

### Key Points

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- Cumulatively, the **Index of Industrial Production** (IIP) contracted by 29.2% for April-July against a growth of 3.5% in the same period last year.  
The IIP had grown by 4.9% in July 2019.
- **Reason:** The decline is **mainly due to degrowth** in manufacturing, mining, capital goods, and consumer durables output.
- **Contraction Data:** Barring consumer non-durables, all other sectors including manufacturing, mining, primary goods, capital goods contracted in July.
  - **Consumer Non-durables:** A proxy for the **Fast Moving Consumer Goods** (FMCG), it posted a positive growth of 6.7%.
  - **Manufacturing Sector:** Weight of 77.6% in IIP, contracted by 11.1% in July from a contraction of 16.0% in June.
  - **Electricity Output:** It contracted by 2.5% as against a double-digit contraction of 10.0% in June.  
It recorded the best sequential improvement and may turn out to be the first sector, apart from consumer non-durables, to find its way in positive territory going ahead.
- **Similar Trends:** The decline in industrial growth **mirrors the trend in other high-frequency indicators** for July.  
India's Manufacturing **Purchasing Managers' Index** (PMI) had stood at 46 in July compared with 47.2 in June. A print below 50 signifies a contraction.

- **Impact:** The negative IIP for July, which is the first month of the second quarter, will reflect in the expected contraction in the **Gross Domestic Product** (GDP) growth numbers for the July-September quarter.  
India's **GDP growth contracted by 23.9%** in the April-June quarter, the worst among G20 countries.

## **Index of Industrial Production**

- It is an indicator that **measures the changes in the volume of production of industrial products** during a given period.
- It is **compiled and published monthly by the National Statistical Office** (NSO), Ministry of Statistics and Programme Implementation.  
NSO is the **central statistical agency** of the government, set up by an **Act of the Parliament, Statistical Services Act (Chapter 386) 1980.**
- IIP is a **composite indicator** that measures the growth rate of industry groups classified under:
  - **Broad sectors**, namely, Mining, Manufacturing, and Electricity.
  - **Use-based sectors**, namely Basic Goods, Capital Goods, and Intermediate Goods.
- **Core Sector Industries** comprise **40.27%** of the weight of items included in IIP.  
The **eight core Industries in decreasing order of their weightage:**  
Refinery Products> Electricity> Steel> Coal> Crude Oil> Natural Gas> Cement> Fertilisers.
- **Base Year for IIP is 2011-2012.**
- **Significance of IIP:**
  - It is used by government agencies including the Ministry of Finance, the **Reserve Bank of India**, etc. for policy-making purposes.
  - IIP remains extremely relevant for the calculation of the quarterly and advance GDP estimates.

**Source: IE**