



Contraction in August Core Industry Output: IIP

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Why in News

India's **eight core industrial** sectors contracted by **8.5%** in August 2020 compared to **August 2019**, marking the **sixth month** in a row of shrinking output.

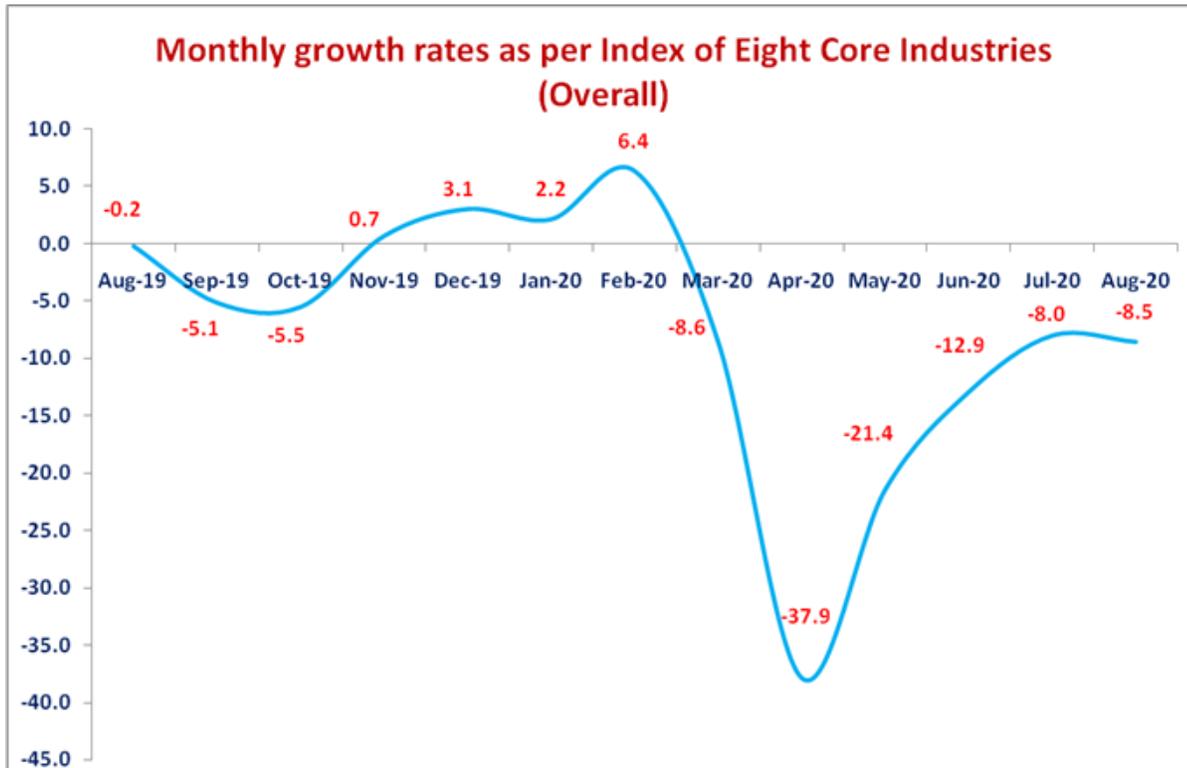
- The eight core sector industries are **coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity**.
- These eight industries account for **40.27% in the Index of Industrial Production (IIP)**.

Key Points

- **Contraction:**
 - The **cumulative growth** of Core Industries during April to August, 2020-21 has been (-) **17.8%**.
 - **Except for coal and fertilisers**, production continued to decline in most core sectors in August.

Coal production **increased 3.6%** on-year in August after four months of contraction, due to improvement in **offtake level**.

An offtake agreement is an arrangement between a producer and a buyer to purchase or sell portions of the producer's upcoming goods.
 - The **steepest decline** in August was observed in **refinery products**, which dropped 19.1%. This was followed by cement, and natural gas.
- **Reason:** The drop in August is due to factors like:
 - **Low demand** in the economy.
 - **Unavailability of equipment** for setting up newer production platforms.
 - **Seasonal and lockdown restrictions**.



Index of Industrial Production

- The Index of Industrial Production (IIP) is an index that shows the growth rates in different industry groups of the economy in a fixed period of time.
- It is compiled and published monthly by the **National Statistical Office (NSO), Ministry of Statistics and Programme Implementation.**
- 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.**
- The eight core sector industries represent about 40% of the weight of items that are included in the IIP.

The eight core industries in decreasing order of their weightage: **Refinery Products (28.04 %)**> **Electricity (19.85 %)**> **Steel (17.92 %)** > **Coal (10.33 %)**> **Crude Oil (8.98 %)**> **Natural Gas (6.88 %)**> **Cement (5.37 %)**> **Fertilizers (2.63 %)**.
- **Base Year** for IIP calculation is **2011-2012.**
- **Significance of IIP:**
 - IIP is the measure on the physical volume of production.
 - 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 **Gross Domestic Product (GDP)** estimates.

Source: PIB