



# Rise in Retail Inflation & Contract in Index of Industrial Production

**For Prelims:** Inflation, Index of Industrial Production (IIP), National Statistical Office (NSO), GDP (Gross Domestic Product)

**For Mains:** Causes and Consequences of Inflation and Measures

## Why in News?

According to the recent [National Statistical Office \(NSO\) data](#), the retail inflation **rose to 7%** in July, 2022 and the [Index of Industrial Production \(IIP\)](#) declined to a four-month low of 2.4% in July, 2022 as against a growth of 11.5% in 2021.

- Nine of the 22 manufacturing sub-sectors reported a contraction in output, including food products, tobacco products, leather products and electrical equipment.

## What is Inflation?

- Inflation refers to the **rise in the prices of most goods and services** of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc.
- Inflation is indicative of the **decrease in the purchasing power** of a unit of a country's currency. This could ultimately lead to a deceleration in economic growth.
- However, a **moderate level of inflation is required in the economy** to ensure that production is promoted.
- In India, the NSO under the Ministry of Statistics and Programme Implementation measures inflation.
- In India, inflation is primarily measured by two main indices — [WPI \(Wholesale Price Index\)](#) and **CPI (Consumer Price Index)** which measure wholesale and retail-level price changes, respectively.
  - **Consumer Price Index**
    - It measures price changes from the **perspective of a retail buyer**.
    - The CPI calculates the difference in the price of commodities and services such as food, medical care, education, electronics etc, which Indian consumers buy for use.
    - Four types of CPI are as follows:
      - **CPI for Industrial Workers (IW).**
      - **CPI for Agricultural Labourer (AL).**
      - **CPI for Rural Labourer (RL).**
      - **CPI (Rural/Urban/Combined).**
      - Of these, the first three are compiled by the Labour Bureau in the **Ministry of Labour and Employment**. Fourth is compiled by the National Statistical Office (NSO) in the Ministry of Statistics and Programme Implementation.
    - **Base Year** for CPI is **2012**.
  - The [Monetary Policy Committee \(MPC\)](#) uses CPI data to control inflation.
  - **Headline and Core Inflation:**

- The food and fuel inflation form one of the components of headline inflation in India.
- **Headline Inflation** is the total inflation for the period, comprising a basket of commodities.
- **Core Inflation** excludes volatile goods from the basket of commodities tracking Headline Inflation. These volatile commodities mainly comprise food and beverages (including vegetables) and fuel and light (crude oil).
  - Core inflation = Headline inflation - (Food and Fuel) inflation

## What are the Causes of Recent Inflation in India?

- **Food Inflation:** The uptick in inflation was largely driven by 'a broad-based rise across the food segment', with a higher inflation in cereals, pulses, milk, fruits.
  - The price rise in cereals rose further from 6.9% in July to 9.6% in August (2022).
  - Rural inflation saw a sharper rise than urban inflation.
- **Low Kharif output:** Due to erratic monsoon, the Kharif crop sowing is unlikely to touch last year's levels of production, therefore food inflation could remain a problem in the near future.
- **Base Effect:** The rise in inflation is attributable both to an adverse base effect and an increase in food and fuel prices.
  - Core inflation — headline inflation excluding food and fuel — was at 5.9% in August, remaining below the tolerance limit of 6% for the fourth consecutive month.
- **Other reasons:** Global inflation pressures, Inflationary expectations, Weakness in Indian currency, etc.

## What is the Index of Industrial Production?

- IIP 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.
- It 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 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 highly relevant to calculating the quarterly and advance [GDP \(Gross Domestic Product\)](#) estimates.
- About Eight Core Sectors:
  - These comprise 40.27% of the weight of items included in the Index of Industrial Production (IIP).
  - The eight core sector industries in decreasing order of their weightage: Refinery Products> Electricity> Steel> Coal> Crude Oil> Natural Gas> Cement> Fertilizers.

## What are the Reasons for Recent IIP Contraction?

- Mining sector output contracted 3.3 per cent in July, 2022. Non-durables contracted 2.0% in July, 2022.
  - The sharp YoY contraction in mining output in July 2022 was a surprise, given the double-digit growth in coal output, and is likely to have been **led by the excess rainfall seen during the month.**
- The IIP growth plunged to a four-month low due to the **shift in discretionary consumption to contact-intensive services also.**

- Industrial output was only 2.1% higher than pre-Covid levels of July 2019, with the consumer durables and non-durables segment lagging their pre-Covid levels by 6.8% and 2.5 %.
- Supply disruptions, the weakening global growth outlook also impact the industrial output.

## What can be the Way Forward?

- There should be consistency in import policy as that sends appropriate market signals in advance. Intervening through import tariffs is better than quotas, which leads to greater welfare loss. Recently, Government has prohibited exports of food products like wheat flour/atta, rice, maida, etc. to keep domestic supplies steady and curb rise in prices.
- There is a need for more accurate crop forecasts using satellite remote sensing and GIS techniques to indicate shortfall/surplus in a crop year much in advance.
- Moreover, a decade old CPI base year of 2011-12 that gives nearly half of the weight to food items needs to be revised and updated to reflect the change in food habits and lifestyle of the population. With the rising middle-class, spending on non-food items has increased and this needs to be better reflected in the CPI, thereby enabling RBI to better target the non-volatile segment (core inflation).
- Strong recovery in domestic demand will remain a key source of support for India's industrial output.

## UPSC Civil Services Examination Previous Year Question (PYQ)

### Prelims

**Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)**

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

**Ans: (b)**

- In 2015, Electricity was having the highest weightage in the index of 8 core industries.
- The Eight Core Industries comprise 40.27% of the weight of items included in the Index of Industrial Production (IIP).
- **The current weight (April 2021), of eight core industries is given below:**
  - **Petroleum Refinery production (28.04%),**
  - **Electricity (19.85%),**
  - **Steel(17.92%),**
  - **Coal production (10.33%),**
  - **Crude Oil (8.98%),**
  - **Natural Gas production (6.88%),**
  - **Cement production (5.37%),**
  - **Fertilizer production (2.63%).**
- Index of Industrial Production
- The Index of Industrial Production (IIP) is an index which details out the growth of various sectors in an economy such as mineral mining, electricity, manufacturing, etc.
- It is compiled and published monthly by the Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation six weeks after the reference month ends, i.e., a lag of six weeks.
- The Base Year of the Index of Eight Core Industries has been revised from the year 2004-05 to 2011-12 from April, 2017. **Therefore, option (b) is the correct answer.**

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