



Contraction in August Core Industry Output: IIP

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)**.

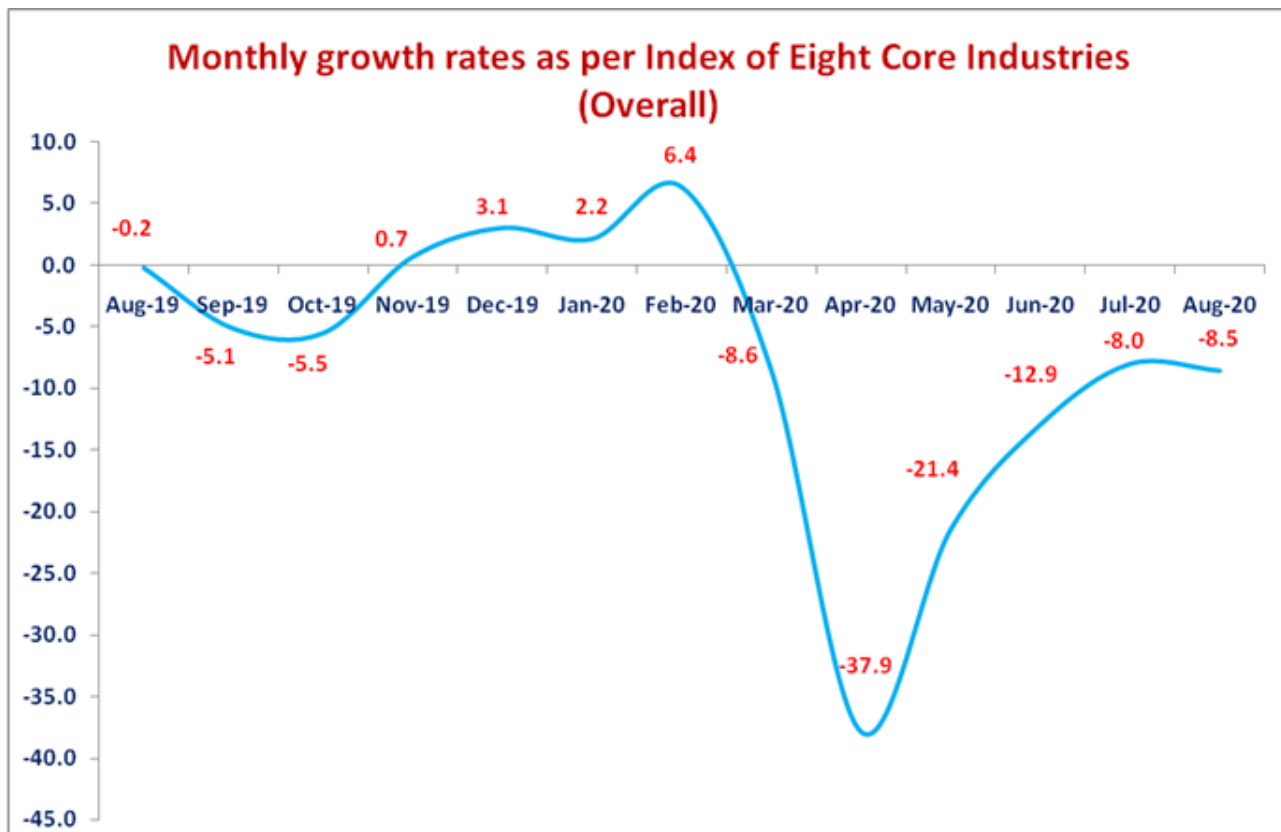
Key Points

▪ 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

