

An index is a composite/summary indicator, an absolute number free of units of measurement and expressed, generally, as a percentage with reference to a previous period, normally known as base period.

Industrial production

Industrial production refers to the outputs of all industrial activities, which form part of the International Standard Industrial Classification (ISIC). In India, National Industrial Classification (NIC), which is developed in harmony with the ISIC, is the basis for classification of all economic activities within the boundary of the country. The term 'industry' is used in a restricted sense of production of commodities, excluding agriculture and services. However, in the compilation of IIP the scope is limited and thus industrial production for the purpose of IIP means that of the sectors of Mining, Manufacturing and Electricity.

Item basket: The term commodity basket refers to a fixed list of items used specifically to track the changes in prices or volume of production in one period compared to a reference period in an economy or market. It is generally not practicable to include all the economic activities that contribute to industrial production, because data for some activities may not be readily and economically available and some economic activities may not warrant inclusion due to their insignificant contribution. Hence, the item basket means representative basket of items selected by applying judgment and on the basis of their relative importance for inclusion in the compilation of the index. Generally, individual items are included in the item basket according to some minimum contribution of individual item to national product. The basket is so selected that the contribution to national product of all the items in the basket is about 80 percent. The overriding criterion for the selection of item basket is the regular availability of production data from the various data source agencies.

Weights

Value of output is recommended as the weight variable to compile the IIP at the product and product group levels of the index and Gross value added at basic prices data is recommended as the weight variable to compile the IIP. The relative importance of various

economic activities is different and these differentials need to be reflected while measuring the performance of the entire industrial sector. With a view to achieving this, each item included in the item basket is given appropriate weight.

Base period

The IIP is a weighted average of the production relatives. The production relative is the ratio of the production in the current period to the reference period. This reference period is called the base period. The base period is required to be a normal period which satisfies certain characteristics. In the present series, IIP has been compiled with base 2011-12.

Use based classification of Items: IIP as per use based categories

The items in the item basket have been categorized into 6 Use Based groups.

The Use Based Categories are illustrated as under with examples:

- i. **Primary goods:** Only such goods which are directly obtained from natural sources and used for further processing and consumption in manufacturing and power-generating activities. This category has been created to replace the existing category “Basic goods” since the latter suffered from definitional ambiguity and overlapping coverage with other categories such as “Intermediate goods”. Ex-: Ores and Minerals (incl. concentrates); Fuels (Diesel, Aviation Turbine Fuel, Kerosene, LPG, etc.) and Electricity.
- ii. **Capital goods:** Plants, machinery and goods used for further investments. E.g.: Boilers, Air & Gas Compressors, Engines including Internal Combustion and Diesel Engine, Tractors (complete), Transformers, Commercial Vehicles and all machineries like Textile Machinery, Printing Machinery etc.
- iii. **Infrastructure/ construction goods:** Finished goods which are primarily used in infrastructure industry or construction industry as an input. This category has been created to precisely categorise items which could not be classified under Consumer durables or Intermediate goods. E.g.: paints, cement, cables, bricks and tiles, rail materials, etc.
- iv. **Intermediate goods:** Any good/ product produced as incomplete product or which goes as input in production for further finishing or forming a part of a product. e.g.: Cotton yarn, Plywood, Steel Tubes/ Pipes, Fasteners, etc.

- v. **Consumer durables:** Products directly used by consumers and having a longer durability (more than 2/3 years). e.g.: Pressure Cooker, Air Conditioners, Tyres, Telephone and mobile instruments, TV Sets, Passenger cars, Two-wheelers (motorcycles/ scooters), Jewellery of gold, etc.

- vi. **Consumer non-durables:** Products that are directly used by consumers and can't be preserved for long periods. e.g.: Soyabean Oil, Full-cream/ Toned/ Skimmed milk, Milk Powder, Maida, Rice, Biscuits/ cookies, Sugar, Tea, Cigarettes, etc.