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Change in IIP and WPI base year: What can be expected?

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Change in IIP and WPI base year. What can be expected?

By *Rucha Ranadive* / May 15, 2017

The most debated question is whether these new high IIP and low WPI inflation numbers will translate into the better economic growth numbers | Reuters

From time to time, the government has been revising the base years of macroeconomic indicators with a view to reflect structural changes in the economy in key macroeconomic indicators along with improving

the quality, coverage and representation of the indicators in line with actual economic performance.

Keeping this objective in the forefront, the government introduced new series of Index of Industrial Production (IIP) and Wholesale Price Index (WPI) with change in the base year recently. The base year of these two new series has been revised from 2004-05 to 2011-12. With this change, the new series of IIP and WPI aligns with existing Consumer Price Index (CPI) and Gross Domestic Product (GDP) series.

While the framework has been retained in the new IIP and WPI series with base 2011-12, the coverage has undergone changes. Both the series have used National Industrial Classification (NIC) - 2008 classification. The new IIP series covers 407 items as against 399 item groups covered in the old series. Weights assigned to sectors have been reshuffled. The weightage of mining and manufacturing has been increased whereas that of electricity sector is reduced. In the used based classification in addition to existing classification of primary, intermediate, capital and consumption goods, a new category of infrastructure/construction goods has been introduced. With these alterations, the IIP for FY17 stands at 5.0% compared to 0.7% growth recorded as per old series.

Even with regard to new WPI series, while the classification of major groups remains the same, the numbers of items in the basket have increased from 676 to 697. In the new WPI series, 199 new items have been added whereas 146 old items have been removed from the index that is commensurate with changing standard of living. The weightage of primary articles has been increased by 2.5% in the new series. The new series excludes indirect taxes when reckoning prices. New WPI food index has been introduced combining food articles under the primary articles and food products under the manufacturing products. As a result, the new WPI inflation depicts lower increase in prices leading to maximum difference of 1.5-1.6% in the old and new series.

The most debated question now is whether these new high IIP and low WPI inflation numbers will translate into the better economic growth numbers. In our view, the change in IIP series may not directly reflect in corresponding GDP number, the reason being GDP or GVA numbers are based on the accounts of the companies while the IIP indicates physical production by the registered factories in the country. Both the numbers would be represented by each other only if the companies covered under GDP correspond to factories surveyed for IIP. On the other hand, the WPI tends to impact the GDP as it is used as the deflator with the GDP being a value based indicator. The lower deflator will push up the GDP growth numbers.

However, the advantages of these new series cannot be overlooked. Because of exclusion of indirect taxes, the WPI is very much close to the Producer Price Index (PPI), which is internationally recognised macroeconomic indicator. The new IIP number will come closer to the GDP number given the common base year. With change in the mix of basket to commodities used for these indicators, the new series of IIP and WPI are more reliable with new base year 2011-12.

(Rucha Ranadive is an associate economist, Care Ratings)

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