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EDITORIAL ANALYSIS

Base and Framework: On the New Index of Industrial Production

THE HINDU

4 June 2026 · ECONOMY · GS3

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Base and Framework: On the New Index of Industrial Production

The Hindu 4 June 2026 GS3

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EDITORIAL SUMMARY

The Hindu examines India's launch of a revised **Index of Industrial Production (IIP)** with **2022-23 as the new base year**, replacing the decade-old 2011-12 series. The editorial notes that April 2026 industrial output growth of **4.9% under the new series** is lower than the **5.8% growth** that would have been reported under the old series for the same month — reflecting how improved data methodology can alter the picture of economic performance. It welcomes the expanded sectoral coverage (now including water supply, sewerage, gas) and modernised product basket but cautions that the **break in series** complicates trend analysis and backward comparisons.

WHY BASE YEAR REVISIONS MATTER

Economic indices like IIP, WPI, and CPI need periodic base year revisions because:

1. **Production structure changes** — new industries emerge (semiconductors, EVs, drones) while old ones decline (typewriters, fax machines)
2. **Relative weights shift** — the importance of different sectors in the economy changes
3. **Price levels evolve** — price relatives from an old base year become increasingly distorted
4. **New data sources become available** — administrative data, GST filings, new surveys improve coverage

The general principle: A base year should ideally be refreshed every 5–10 years.

WHAT CHANGED IN THE NEW SERIES

DIMENSION	OLD (2011-12)	NEW (2022-23)
Products	809	1,042
Item groups	399	463
New items	—	Rare earth minerals, vaccines, CCTV cameras, aircraft parts, medical devices
New sectors	Mining, Mfg, Electricity only	+ Gas supply, Water supply, Sewerage, Waste management
Classification	NIC-2008	NIC-2025

The addition of **water supply, sewerage, and waste management** reflects a broader understanding of "industry" to include utility services — aligning India's IIP more closely with international standards (UNIDO methodology).

THE 4.9% VS. 5.8% DISCREPANCY

The fact that April 2026 growth is **4.9% under the new series vs. 5.8% under the old** has important implications:

- The **higher mining weight** in the old series meant mining's contraction (-5.1%) had less drag
- New series gives **greater weight to manufacturing sub-sectors** (especially capital goods and intermediate goods) that are growing faster
- **Consumer non-durables** now have a higher weight and their -1.2% contraction drags the headline figure down

Editorial concern: Revisions make backward trend comparisons difficult. Prior IIP growth rates (2011-2022) cannot be directly compared to post-2022 growth rates without a **linking factor** — MoSPI should publish a linked historical series.

CAPITAL GOODS AS A LEADING INDICATOR

The **+12.8% capital goods growth** in April 2026 is the editorial's most positive data point. Capital goods (machinery, equipment) are produced for investment — their growth signals that businesses are expanding capacity and anticipating higher future output. This is a **leading indicator** of GDP growth 6–12 months ahead.

Historical context: Capital goods growth was negative through much of 2015-17 and 2019-2021 — the current double-digit growth, if sustained, suggests a genuine investment revival.

LIMITATIONS OF IIP

Even the revised IIP has structural limitations:

1. **Formal sector only** — informal manufacturing (~45% of mfg GDP) is not captured
2. **Volume index** — measures quantities, not value addition
3. **Quarterly revisions** — first estimates are often substantially revised
4. **Service sector excluded** — services (~55% of GDP) are not in IIP at all

Complementary indicators to track alongside IIP:

- **PMI Manufacturing** (S&P Global/HSBC) — sentiment-based, faster
- **E-Way Bills / GST data** — real-time production/movement proxy
- **Eight Core Industries** — available monthly, covers 40% of IIP
- **Capex data from DPIIT** — tracks formal investment approvals

UPSC RELEVANCE

Prelims

- New base year: 2022-23 (old: 2011-12)
- April 2026 growth: 4.9% (new series); 5.8% (old series — same month)
- Capital goods growth: +12.8%
- Consumer non-durables: -1.2%
- New sectors: Water supply, gas supply, sewerage, waste management
- Released by: MoSPI

Mains Angles (GS3)

1. Critically examine the significance of base year revisions in economic indices. What are the challenges in backward comparability?
2. What does the divergence between capital goods growth (+12.8%) and consumer non-durables (-1.2%) reveal about the nature of India's current economic recovery?
3. Discuss the limitations of IIP as a measure of India's industrial performance. What complementary indicators should policymakers use?

FACTS CORNER

FACT	DETAIL
New base year	2022-23
April growth (new series)	4.9%
April growth (old series, same month)	5.8%
Capital goods	+12.8%
Consumer non-durables	-1.2%
New sectors added	Water, gas, sewerage, waste management
Products covered	1,042 (old: 809)
Released by	MoSPI

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