

FAQs on Index of Services Production

1. What is the Index of Services Production (ISP)?

The Index of Services Production (ISP) is a short-term indicator designed to measure changes over time in the volume of output produced by the services sector relative to a specified base period. It measures changes in the real output of service-producing industries over time.

2. What is the contribution of services sector in the Indian economy and why is an ISP needed?

The services sector has emerged as the dominant force in the Indian economy, contributing over 50% of the Gross Value Added since 2013-14. Considering its growing importance and potential, and inline with global practices, India needs a short-term indicator to measure the growth of services sector to enable planners and policymakers to take suitable measures & guide its growth trajectory.

3. What are the objectives of ISP?

The two main aims for compiling ISP are to provide:

- Economic trends that would complement an IIP on the short – term movement of an economy; and
- High frequency information on the performance of the services sector to strengthen the existing statistical framework to support analytical and policy framework.

4. What are the benefits of ISP?

ISP will provide timely information on the performance of services industries, thereby, strengthening monitoring of economic activity and supporting evidence-based policy decisions. In addition, ISP will serve as a high-frequency indicator of services sector growth and will provide timeseries data to enable better economic forecasting and business cycle analysis. Main users of ISP would be National Accounts, economic Ministries / departments, domain experts and researchers.

5. What were the major challenges that India was not able to compile an ISP earlier?

The compilation of an ISP requires high-frequency, reliable and representative indicators of service sector output. Unlike manufacturing, where production can often be measured through physical quantities of goods produced, services are largely intangible and many service activities do not have directly observable output measures. Historically, compilation of ISP in India faced several challenges, including:

- i. Limited availability of administrative datasets covering service-producing industries;
- ii. Heterogeneous nature of service activities requiring sector-specific output indicators;
- iii. Non-availability of suitable service sector price indices for deriving volume measures;

Consequently, the compilation of a comprehensive high-frequency ISP was not feasible.

6. What developments have made the compilation of ISP feasible now?

Over the last decade, significant improvements have taken place in India's statistical and administrative data ecosystem, making compilation of ISP feasible. These developments primarily include availability of high-frequency GST data on outward supplies of service-producing units; Commencement of the Annual Survey of Incorporated Services Sector Enterprises (ASISSE) will provide periodic data for compilation of ISPs of sub – sectors like Health and Education which are not possible to cover through GST data.

7. Why are experimental / trial indices being released and when will the regular indices be released?

MoSPI will utilize three main data sources for ISP namely administrative data, GST and ASISSE. As some of these sources are still evolving and GST data will be used for the first time in statistical applications, trial or experimental ISP indices will be released for some time to observe their stability and resilience. Thereafter, regular compilation and dissemination will take place.

8. What are the major data sources proposed for ISP?

The three principal data sources are:

- Administrative/secondary data for ISP of Air Transport, Railway Transport, Banking and Insurance;
- GST data for Wholesale Trade, Retail Trade, Repair and Maintenance, Accommodation and Food, Road Transport, Water Transport, Warehousing and support activities for transportation, Postal & courier, Telecommunications, Information and Broadcasting, Real estate, Information and computer related services, Professional, scientific & technical services including R & D, Administrative & support services and Arts, Entertainment & Recreation, etc.;
- Annual Survey of Incorporated Services Sector Enterprises (ASISSE) data for Health and Education (excluding Government) sectors.

9. Will ISP cover the informal services sector?

No. ISP will primarily reflect the formal sector as it is compiled using outward supply of enterprises registered under GST.

10. Is the entire services sector covered in ISP?

Some of the services which are not covered in ISP are those which are either related to core government activities or are dominated by non – market activities and the informal sector. The excluded services sub sectors are:

- i. Public administration and Defence
- ii. Financial services excluding Banking and Insurance (e.g. activities of the Central Bank, Money Market Funds)
- iii. Social work activities without accommodation
- iv. Services of membership organisations
- v. Personal services
- vi. Activities of private households with employed persons
- vii. Activities of extraterritorial organisations
- viii. Health and Education services provided by Government and
- ix. Gambling and betting activities

11. How are Health and Education sub – sectors, exempt from GST will be covered in ISP?

Indices of Health and Education sub – sectors (excluding government contribution) are planned to be compiled on the basis of estimates from ASISSE surveys.

12. What will be the frequency of release of All India ISP?

ISP will be released with a monthly frequency with a lag of about 60 days.

13. What are quantity-based indicators?

Quantity based indicators directly measure the output in physical quantities terms such as passenger-kilometers travelled in case of Air Transport. In ISP, indices of only two sub – sectors, namely, Air Transport and Railways are based on quantity output.

14. What are value-based indicators?

Indicators where output is measured in value terms such as revenue, sales or outward supplies are the value-based indicators.

15. What are the preferred indicator variables for measuring service output?

Considering the International guidelines and deliberations in the TAC, the preferred and alternate indicators for each sector/sub-sector were identified considering Indian situation. Generally, the preferred indicator is turnover deflated by an appropriate price index, where available.

16. Why turnover is considered a suitable output indicator?

Considering that services are consumed as soon as they are produced and generally do not involve inventory accumulation; therefore, turnover closely reflects production.

17. What are the Service Accounting Codes (SAC)?

The Service Accounting Code (SAC) is the Scheme of Classification under the Indian Goods and Services Tax (GST) system. It is a modified version of the United Nations Central Product Classification (CPC), with modifications adapted for the Indian

context by the Central Board of Indirect Taxes and Customs (CBIC). SAC is used to classify different types of services for the purposes of taxation, invoicing, and filing GST returns. SACs facilitate mapping of GST outward supplies to the National Industrial Classification (NIC) codes of the services industries.

18. How are GST data transformed into output measures?

Aggregated data on SAC wise Taxable Value of Sales (outward supplies), as obtained from the return GSTR 1, can be considered as the output variable in value terms. GSTN has made available product / service wise (SAC codes) data on 'outward supplies' for different service activities as extracted from monthly GST returns. MoSPI does not have access to nor does it require individual unit level data for this purpose.

The production of services directly results into its sale / consumption. Hence, use of GST data of outward supplies essentially reflects production of services. Outward supplies of SACs mapped to a particular NIC code are aggregated and then deflated to obtain real output measures.

19. What is a deflator?

The ISP tracks short-term changes in the *volume* of services produced. Because primary service data is usually collected in value terms (nominal value), it captures the effects of both the prices and value addition. A price deflator is therefore required to remove the effects of change in prices from nominal service revenue. It transforms "value-based" (nominal) data into "volume-based" (real) data, allowing measurement of actual changes in service output over time.

20. What deflators are used in ISP?

Following deflators are used,

- WPI for Wholesale trade;
- Sector-specific CPI, wherever available;
- CPI General for Banking and Insurance
- CPI Non-Food, elsewhere;

21. What are international guidelines on deflators for ISP?

As per International Practice, the Service Producer Price Indices (SPPIs) are preferred as deflators for ISP, in case of non-availability of SPPI, CPI is recommended.

22. Why has SPPI not been used for ISP?

The data on SPPI is available only for limited services. In respect of the sub – sectors being covered under ISP; SPPIs are available only for five sub- sectors, namely, Air Transport, Railways, Telecom, Banking and Insurance for which SPPI were available. In case of Air Transport and Railways, as the output indicator of ISP is in terms of quantity, no deflator is required.

Further, as the SPPIs are available with a quarterly frequency and lag of 60 days their use in monthly ISP may not be feasible. Thus, use of CPI (communications) as a deflator for telecom sub – sector will be made. In case of financial sub – sectors (Banking and Insurance), in accordance with the report of the sub – committee on ‘Methodological improvement for the base year revision of GDP (base year 2022 -23), use of general CPI as a deflator for sub sectors will be made.

23. Why CPI is considered an acceptable proxy?

For many services, producer and consumer prices move closely because services are consumed soon after production. The use of CPI in absence of SPPIs is acceptable considering that services are consumed as soon as they are produced, thus, SPPIs and CPIs differ only by tax margin at one level (level of consumer). Considering the taxes are constant, there may not be any significant differences between the two.

24. In the absence of both SPPI and sub – sector specific CPI, why has use of CPI (Non – food) been proposed as a general deflator.

This proposition finds merit in the logic that inflation of services moves in tandem with inflation of non-food items (which are generally more stable than food items) in view of the following:

- i. The non – food items account for nearly 63% of the total weight of overall CPI. The non – food items include items of services also, which account for nearly 28% of the total weight of overall CPI and nearly 44.44% of the non- food weight.

- ii. Another significant division in the non – food items category is "Housing, Water, Electricity, Gas and Other Fuels", this accounts for nearly 17.67% of the total weight of the overall CPI and 28% weight in the non - food category. 'Housing, Water, Electricity, Gas and Other Fuels' are significant contributors to inflation in services. They act as major cost-push factors by either directly driving up operating expenses for businesses & producer prices or increasing the cost of living for employees leading to higher wage demands & in turn higher producer prices.
- iii. Other significant cost push factor items in the non – food category include petrol, diesel and CNG which are under the Transport Division of CPI which account for nearly 4.85% of the total weight of the overall CPI and 7.7% weight in the non - food category.
- iv. Thus, in all more than 80% of the Non – food inflation is attributable either directly to services or its cost push factors.

25. What is the proposed base year for ISP?

The proposed base year of trial ISPs is 2024 -25 which meets both the recency and normal year criteria. The choice of base year considers the fact that for most of the sub – sectors, CPI based deflators are proposed to be used. As the base of the new series of CPI is 2024, it was felt that 2024 -25 may be more appropriate a choice for the base year.

26. How are weights assigned in ISP?

Weights are based on sectoral contributions to Gross Value Added (GVA) available from National Account Statistics.

27. Why are GVA-based weights used?

They reflect the relative economic importance of each services industry.

28. What is the proposed compilation formula?

ISP is proposed to be compiled using a fixed-weight Laspeyres volume index.

