

Press Release

Industry activity largely steady in Aug'21

Slight sequential index contraction, however shows weakness in revival momentum

13 October 2021

India's Index of Industrial production (IIP) rose marginally by 11.9% YoY in Aug-21 vs. 11.5% in Jul-21 led by a strong annualised expansion in mining and electricity output. Despite the healthy increase in the annualized IIP print, the sequential trajectory of IIP contracted by 0.23% in Aug-21 as compared to the strong expansion of 6.5% and 7.2% recorded in preceding two months i.e Jun-July just after the taper down of the second Covid wave. The moderation in sequential print is fairly consistent with the moderation in certain high frequency indicators such as core index, PMI manufacturing, auto production, and exports in the month of Aug-21. The manufacturing sector, the heavyweight in IIP, expanded at a slower pace of 9.7% YoY in Aug-21 from 10.5% in Jul-21 with only 12 out of 23 industries posting a sequential expansion.

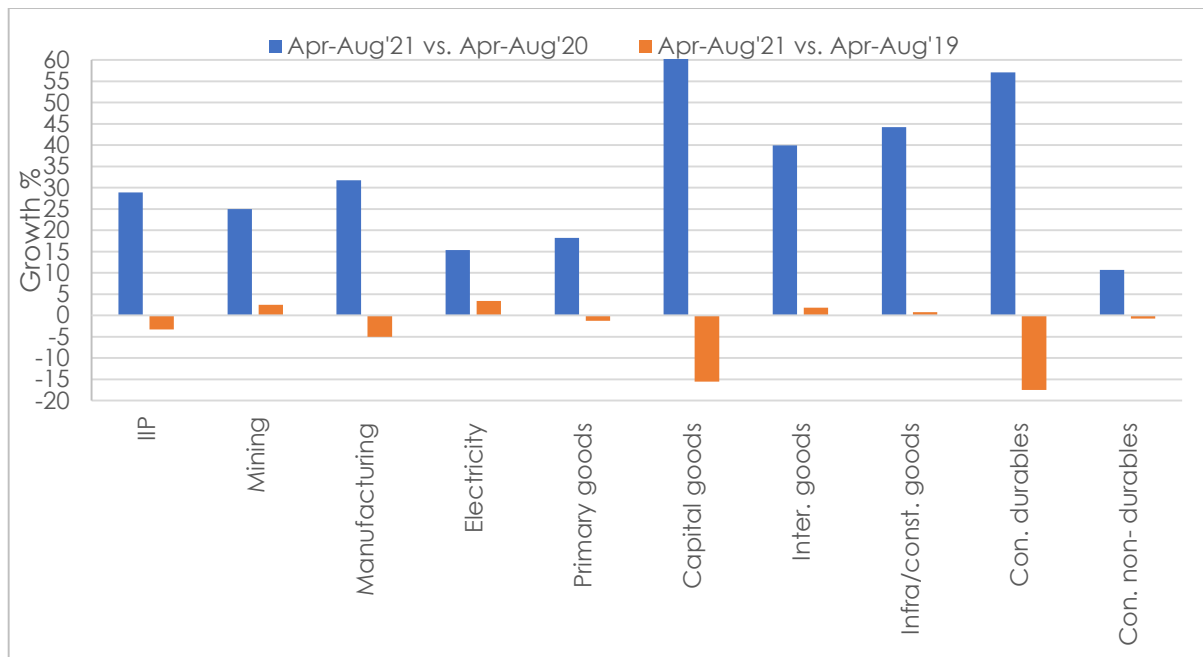
While the industrial output for Aug-21 is higher as compared to the pre-pandemic period (Aug-19) as reflected by the 3.9% growth in the index, the cumulative industrial output for Apr-Aug'21 is still tracking lower by 3.5% as against Apr-Aug'19, primarily reflecting an incomplete and uneven recovery particularly in the manufacturing space.

On the user-based side, broad-based annualised expansion was recorded with primary, capital, intermediate and infrastructure registering a double digit growth. Encouragingly, consumer non-durables have seen a growth YoY vs a contraction last month, raising hopes for a recovery in rural demand. The sequential growth in infrastructure & construction index indicates the positive effects of the higher capital expenditure by the government. However, on a cumulative basis for the five months of the fiscal (Apr-Aug'21), all the other sectors barring intermediate and construction goods, are still below the pre-pandemic levels.

Going forward, a potential power shortage triggered by lower coal supplies can have a near term impact on industrial activity. Lack of adequate coal and power availability may impact manufacturing sectors which had plans to ramp up their production amidst recovery in domestic and export demand. While the impact of the global semiconductor chip shortage is already being felt by the domestic automotive sector, other industries such as consumer durables and electronics are also likely to face production constraints ahead of the festive season amidst chip shortage.

While the momentum of industrial revival is slower than expected, it is encouraging to see the output levels starting to surpass the pre pandemic levels. While we expect low sequential growth in IIP over the next few months given the raw material shortages and higher commodity prices in certain sectors, we maintain our FY22 annual GDP forecast at 10.0% given lower incremental risks from the pandemic and the expected pickup in consumption demand over the next 2 quarters.

Chart 1: Overall IIP for Apr-Aug'21 at -3.3% lower vs. pre-pandemic level



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