

Press Release

IIP slips into contraction after 18-months

Global headwinds pose downside risk to our growth forecast of 7.2% in FY23

India's Index of Industrial production (IIP) registered a contraction for the first time in 18 months of -0.8% YoY in Aug-22 from an expansion of 2.2% YoY in Jul-22. While the erosion of a favorable statistical base played a major role in the decline of the headline growth print, the overall impact got exacerbated by two consecutive months of sequential contraction in momentum. As such, the index declined by -2.3% MoM in Aug-22 vs. -2.9% MoM. While this looks worse than the pre pandemic historical average expansion of 0.2% seen in the month of August, it is seen that the sequential output trajectory in the monsoon months is inherently volatile and can't be taken as an indicator of a particular trend.

While the loss of momentum in IIP is broadly in line with certain high frequency indicators such as exports, core infrastructure index, fuel consumption and PMI-Manufacturing Index that registered moderation in Aug-22, the contraction came in as a surprise given ours as well as the market expectation of a modest expansion of ~1.7%-2.0%. On a cumulative basis the IIP in Apr-Aug'22 has expanded by 4.2% as compared to the corresponding pre-pandemic period of FY20 with investment related production consistently outpacing consumption oriented production.

On industry side, mining and manufacturing registered a contraction, however, electricity output posted a modest expansion. While the high power demand amidst significant heatwave drove the output for electricity higher in the months of Apr-Jun'22, the onset of monsoon eased the demand causing the output to ease in the months of Jul-Aug'22. The adverse impact of monsoon seasonality has also clearly been reflected in the mining activities with the output declining in a sequential manner after reaching a peak in May-22. Manufacturing sector also contracted for the first time in 18 months by 0.7% YoY in Sep-22 with just 8 out of 23 manufacturing industries recording an expansion. On sub-sector basis, production of leather & leather products, wearing apparels, paper products, transport and electrical equipment have been trailing in deep negative in Apr-Aug'22 as compared to the pre-pandemic period of Apr-Aug'19.

On the use-based side, Investment oriented production, captured by Capital Goods and Infrastructure & Construction Goods, continues to remain relatively healthy amidst government's capex push. On the other hand, consumption oriented production, captured by Consumer Goods, has been weaker in comparison amidst uneven demand recovery. Within the consumption basket, there is evidence of a divide between urban and rural consumption. Recovery in urban consumption continues to power ahead (captured by 14.5% YoY growth in Consumer Durables during Apr-Aug'22) even as rural consumption paints a sombre picture (captured by -1.9% YoY growth in Consumer Non-Durables during Apr-Aug'22). Weakness in rural demand can be associated with elevated rural CPI inflation, sizeable run-up in agri-input costs and an uneven distribution of rainfall more recently.

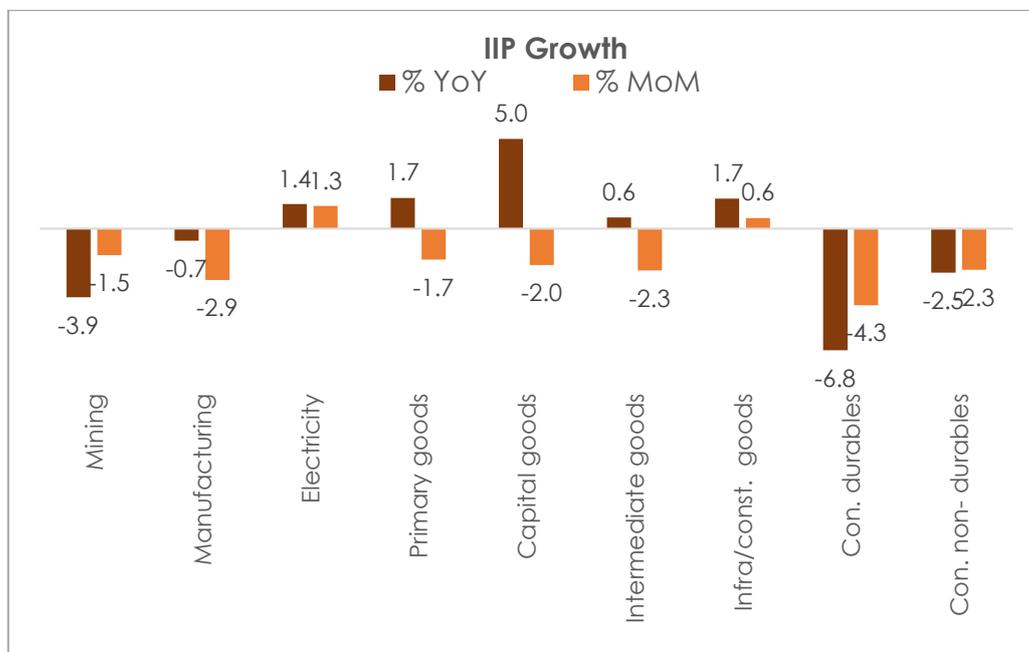
That said, strong improvement in manufacturing capacity utilization which stood juxtaposed with robust central government capex during Apr-Aug'22, festive heavy H2 FY23 along with lingering pent-up demand, and moderation in commodity prices could help support the industrial activity in H2 FY23.

From growth perspective, we maintain our FY23 GDP growth estimate of 7.20% as of now. However, emergence of downside risks especially on account of the anticipated global growth slowdown, need to be under close watch.

Says Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research “The IIP print in Aug-22 at a contraction of 0.8% YoY has been somewhat a negative surprise although it reflects the impact of seasonality in some of the sectors like mining during the monsoon months and the global headwinds which has had an effect on the export orders of manufacturers. This is the first annualized contraction in IIP in eighteen months and also reflects the absence of the base statistical advantage that had been inflating the recovery momentum earlier. On a cumulative basis, however, the industrial output has grown by 7.7% in Apr-Aug over the corresponding period in FY22. The production in the motor vehicle (auto) sector has been higher by 23.7% in Aug by 23.7%, reflecting the expected pickup in demand. We would need to wait for some more data points before any meaningful conclusion on the deeper impact of the global headwinds on the Indian manufacturing sector.”

Annexure

Table 1: IIP growth at a glance: August-22



About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,200 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contact:

Sahban Kohari
Ph: + 91-9890318722
sahban@eminenceonline.in

Analytical Contacts:

Suman Chowdhury
Chief Analytical Officer
Ph: + 91-9930831560
suman.chowdhury@acuite.in

Prosenjit Ghosh
Chief Operating Officer – Subsidiaries
Ph: +91-9920656299
prosenjit.ghosh@acuite.in

Disclaimer: This release is sent to you for the sole purpose of dissemination through your newspaper / magazine / media / website / agency. The release may be used by you in full or in part without changing the meaning or context thereof but with due credit to Acuité. However, only Acuité has the sole right of distribution of its releases through any media. Acuité has taken due care and caution for writing this release. Information has been obtained by Acuité from sources which it considers reliable. However, Acuité does not guarantee the accuracy, adequacy or completeness of information on which this release is based. Acuité is not responsible for any errors or omissions or for the results obtained from the use of this release. Acuité has no liability whatsoever to the users / distributors of this release.