Press Release

Feb-22 IIP: Signs of a slow revival in some industrial sectors

Higher commodity prices to weigh on industrial output in FY23

13 April 2022

India's Index of Industrial production (IIP) recorded a modest expansion of 1.7% YoY from an upwardly revised print of 1.5% in Feb-22 (earlier 1.3%). While there has been a sequential contraction of output in Feb-22 of 4.69% MoM from +0.14% in Jan-22, it has to be seen in the context of lower number of working days during the month and some residual impact of the Omicron wave.

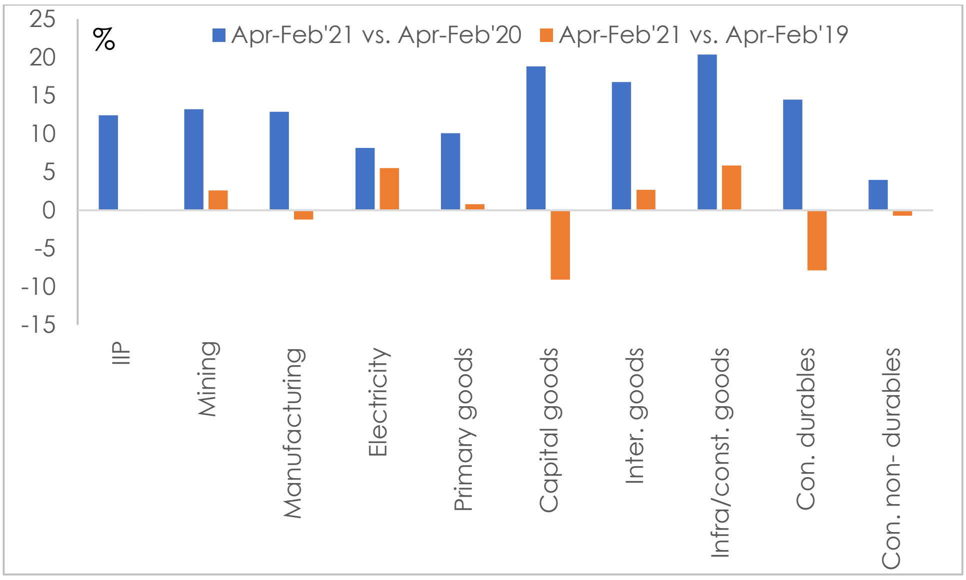
The manufacturing sector, constituting 77.6% of the IIP had a nominal growth of 0.8% YoY with 9 out of 23 industry segments recording a decline on a YoY basis. The weakness in output in Feb-22 primarily came from pharmaceuticals, chemicals, capital goods and electronic goods. Both electricity and mining output grew by 4.5% as compared to that in Feb-21. While there has been a recovery in domestic coal production since Oct-Nov'21, imports of coal have seen a slowdown due to a spurt in global prices and logistical challenges brought about by the geopolitical crisis in Ukraine. Lower availability of coal on an overall basis can have a cascading impact on electricity output and can negatively impact the production of certain industries such as steel, cement, aluminum etc. that are heavily reliant on coal for its production.

On use-based side, continued weakness was recorded in consumption demand with both consumer durables and non-durables recording a contraction of 8.2% and 5.5% respectively in Feb-22. This reflects an uneven demand recovery especially in the rural sector which has been impacted by high inflation in commodities and its derivatives. On a cumulative basis, the industrial output in the first eleven months of the current fiscal (Apr'21-Feb'22) has grown by 12.45 on a lower base but is still 0.1% lower vs the comparable pre-pandemic period of FY20 primarily due to slow revival in capital goods and consumer goods.

Although not very significant, the Omicron wave dented the pace of growth recovery that posted a good run post the second Covid wave amidst a mix of pent-up, festive and some organic demand. While there has been a rapid turnaround in industrial activities with Omicron cases having peaked rather quickly, the increasing commodity prices especially crude oil prices, fresh supply chain bottlenecks and moderating global growth in the context of Russia-Ukraine crisis are likely to weigh on the domestic demand and export growth impacting industrial growth in the first half of FY23. Additionally, a scale back of fiscal and monetary policy support in the major economies and significant financial market volatility (amidst rising interest rates, quantitative tightening, and geopolitical concerns) could weigh on overall growth momentum. Nevertheless, we expect GDP growth at 7.5% for FY23 on the back of government's strong thrust on infrastructure segment, robust vaccination coverage, and the full play out of pent-up demand which is likely to support a moderate growth in industrial activity in the current year.

Annexure

Chart 1: Capital & Consumer goods still trail way below pre-pandemic levels



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