Press Release

Loss of favourable base shrinks IIP growth to a 4-month low

GDP growth for FY23 revised down to 7.2% amidst global headwinds

The gradual dilution of the favorable statistical base of the previous year, that witnessed the disruptive impact of the Delta wave of the Covid pandemic, led India's Index of Industrial production (IIP) to register a single-digit growth of 2.4% YoY in Jul-22 from 12.7% YoY in Jun-22. IIP growth print has been slowing since the one-year high of 19.6% recorded in May-22, primarily due to the taper of favorable base. On sequential basis, the index recorded a contraction of 2.75% MoM in Jul-22 from +0.51% in Jun-22 which can be partly attributed to the seasonal factor and the disruption to mining and construction activities due to the monsoon. Nevertheless, on cumulative basis, IIP growth for Apr-Jul'22 stands at a healthy level posting an expansion of 4.24% as compared to the corresponding pre-pandemic period of FY20.

On the industry side, the contraction was recorded in mining sector while manufacturing and electricity recorded a modest expansion on annualized basis. While the high power demand amidst the significant heatwave drove the output for electricity higher in the first quarter of FY23 (average expansion in electricity output was 17.23% in Q1 FY23 as compared to 10.7% recorded in the previous financial year), the arrival of monsoon eased the power demand causing the output to record a single-digit expansion of 2.27% YoY in Jul-22 as compared to 16.44% in Jun-22. The adverse impact of the monsoon seasonality has started to reflect in the mining activity which contracted by 3.35% YoY in Jun-22, for the first time in 17 months. The muted activity in the mining sector is also on account of higher export duty on iron ore exports and imposition of export duty on iron ore pellets apart from weaker demand from China.

The manufacturing sector recorded a modest expansion of 3.21% YoY in Jul-22 from an expansion of 12.95% in Jun-22 with manufacturing of motor vehicles, basic metals and furniture showing a strong annualized expansion. Robust improvement in manufacturing capacity utilization to 75.3% in Q4 FY22 (above its long-term average of 73.2%) and the expectation of higher demand in the festive season juxtaposed with the 62.5% YoY growth in central government capex in Apr-Jul'22 bode well for near term industrial activity. Overall, as compared to the pre-pandemic period while there has been a broad-based expansion on industry side, electricity output has been leading the pack with output recording a double-digit expansion of 14.08% in Apr-Jul'22 as compared to the pre-pandemic period of FY20.

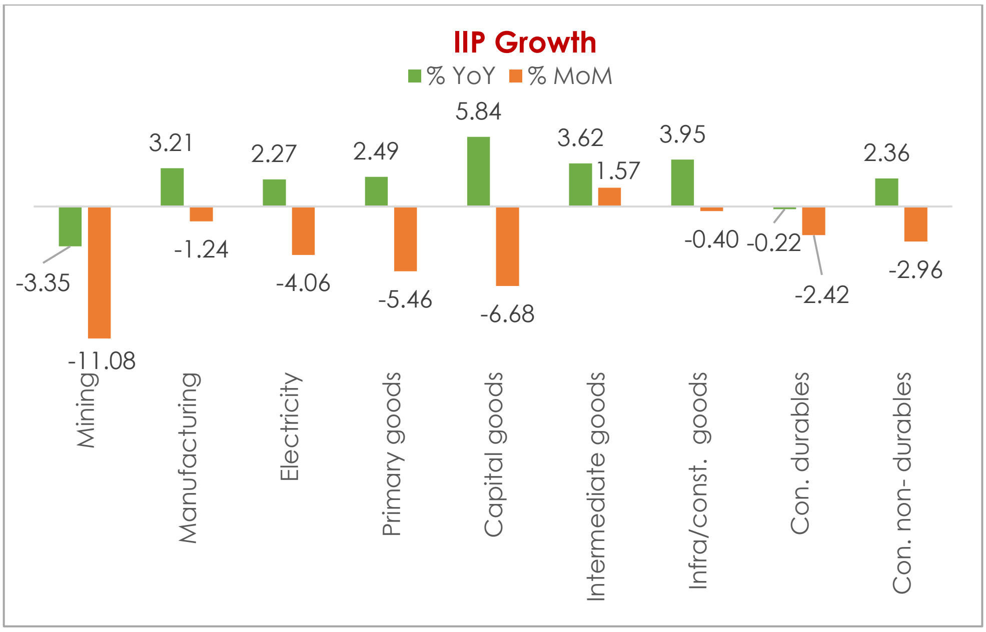
As compared to FY20, the use-based classification offered a mixed picture with capital goods, consumer durables and non-durables output still lagging behind the pre-pandemic levels. However, primary, intermediate, and Infra & construction goods have registered a strong expansion. Going forward, we expect the production of capital, infrastructure, and construction goods to continue to find some support from the capex focused government spending.

Going forward, we expect the pace of IIP recovery to remain under pressure given the strong headwinds to global growth and therefore exports apart from the removal of the base factor advantage. The support from external demand has started to moderate on account of accelerated pace of monetary tightening by key central banks, persistence of elevated geopolitical uncertainty, and lingering of Covid risks in few countries including China. The IMF in its Jul-22 update of the World Economic Outlook report slashed its 2022 and 2023 global growth forecasts by 40 bps and 70 bps to 3.2% and 2.9% respectively. Nevertheless, the domestic economy has shown resilience with a healthy momentum so far and the recent correction in global commodity prices definitely comes as a support for the domestic growth outlook. The softness is likely to provide producers some respite in the face of a sharp rise in input costs experienced in the last one year and encourage them to increase output. Considering these factors, we continue to expect a full year GDP growth of 7.2% in FY23 although we have pared down the figure from 7.5%.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "IIP growth print has been fairly misleading in the first quarter of FY23 given the base factor arising from the second wave impact over Q1FY22. This is set to get normalized from Q2 and we expect it to be moderate in low single digits in the rest of the year. While there has been a significant recovery in the broader economy after the prolonged pandemic, the output in the consumer goods and the capital goods sectors still lag behind the pre-pandemic levels due to weak rural demand and the sluggishness in private sector capex. While an expected pickup in domestic demand and the higher government capex will be a positive for industrial output, it is likely to be partly offset by the slowdown in exports."

Annexure

Table 1: IIP growth at a glance: July'2022



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