Press Release

Jun-22 IIP: Base factor continues to keep growth in double digits

Sequential growth in capital and consumer goods a positive

16-Aug-2022

The gradual taper of the favorable statistical base of the previous year due to the Delta wave of Covid, led India's Index of Industrial production (IIP) to ease to 12.3% YoY in Jun-22 from a 9-month high of 19.6% YoY in May-22. While the high IIP growth was along expected lines and is in sync with most other leading indicators of domestic activity, the sequential momentum depicts a moderate momentum in industrial growth. On sequential basis, the index recorded a lower expansion of 0.2% MoM in Jun-22 from 2.3% in May-22.

From the economic activity based perspective, the contraction was recorded in mining and electricity while manufacturing sector posted a healthy expansion. While the high power demand amidst the raging heatwave drove higher electricity generation in the months of Apr-May'22, the onset of monsoon eased the power demand causing the output to decline sequentially in Jun-22. The adverse impact of monsoon seasonality has also started to reflect in the mining activity which contracted by 5.8% MoM in Jun-22. While the coal production improved marginally in Jun-22, the monsoon seasonality is likely to hamper the transportation of coal from mines to power stations which could weigh on both mining and electricity output in the near term. With cumulative rainfall between Jun 1st and Aug 12th clocking an 8.4% surplus vis-à-vis the long period average, the hydro power could help contribute towards electricity generation. Manufacturing sector recorded a sequential expansion of 1.3% MoM in Jun-22 from an expansion of 2.1% in May-22. Strong improvement in manufacturing capacity utilization to 75.3% in Q4 FY22 (above its long-term average of 73.2%) juxtaposed with the 57.0% YoY growth in central government capex in Q1 FY23 bodes well for growth in manufacturing output.

The use-based classification of IIP offered a mixed picture. Primary, Intermediate, and Infra & construction goods saw a sequential contraction in output in Jun-22, while Capital and Consumer goods (both durables and non-durables) encouragingly, registered a strong expansion. However, on cumulative basis the overall growth of consumer non-durables has registered only a modest growth of 1.1% YoY in Q1 FY23 on a lower base, underscoring the weakness in rural demand amid elevated rural CPI inflation and high agri-inputs cost. That said, we expect production of capital, infrastructure, and construction goods to find some support from the capex focused government spending.

With the dilution of the favourable base factor of the previous year, we expect the IIP growth print to come under pressure given slowing global growth and its impact on exports. 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. 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, India's economic activity remained fairly resilient with a relatively stable momentum in Q1 FY23 despite unrelenting global headwinds. This is reflected in our **Acuité Macroeconomic Performance index (AMEP index)** which has hit a post pandemic high of 128.5 in Q1 FY23 from 117.1 in Q4 FY22. The correction in global commodity prices also 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 believe growth risks to be broadly balanced at this juncture and retain our FY23 GDP growth projection of 7.5%.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "From the growth perspective, the key monitorable for us is the sequential growth in manufacturing output. It has been in positive territory for both May and Jun'22 and highlights the resilience in the domestic economy amidst the challenging global scenario. The moderation in commodity prices is likely to add some optimism and growth to industrial output in the near term although on an annualized basis, the print may come down sharply due to erosion in the base factor."

Annexure

Table 1: IIP growth at a glance

IIP Growth (%YoY): Break-up					
	Weight in IIP (%)	Jun-21	Jun-22	Apr-Jun FY22	Apr-Jun FY23
IIP Headline	**-**	**13.8**	**12.3**	**44.4**	**12.7**
Sectoral classification					
Mining	14.4	23.1	7.5	27.5	9.0
Manufacturing	**77.6**	**13.2**	**12.5**	**52.9**	**12.7**
Electricity	8	8.3	16.4	16.8	17.1
Use-based classification					
Primary Goods	34.1	12	13.7	20.8	13.9
Capital Goods	8.2	27.3	26.1	109	29.5
Intermediate Goods	17.2	22.6	11	69.8	11.7
Infrastructure & Const. Goods	12.3	20	8	84	9.8
Consumer Durables	12.8	28	23.8	123.1	26.6
Consumer Non-durables	15.3	-3.9	2.9	17.4	1.2

About Acuité Ratings & Research Limited:

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