

Press Release

IIP growth spurts in May-22 due to base factor

Despite elevated price pressures, broad based sequential pickup is a positive

13 Jul 2022

India's Index of Industrial production (IIP) soared to a 9-month high of 19.6% YoY in May-22 from a downwardly revised print of 6.7% in Apr-22 supported by a favourable base from May-21 that saw the peak of Delta wave of Covid weigh on industrial activity. Nevertheless, on sequential basis, the index recorded a healthy expansion of 2.3% MoM in May-22 from a contraction of 9.5% in Apr-22. The improvement seems to be in line with most of lead indicators of economic activity such as PMI, GST collections, core infra output, railway freight and port traffic along with bank credit that continue to underpin the recovery underway in manufacturing activity.

On the sectoral side, the improvement was broad-based with mining, electricity and manufacturing recording a sequential expansion. The increase in electricity generation in the months of April and May, primarily reflects the high power demand from the residential segment due to the severity of the summer in the current year. Increasing power demand along with surge in global coal prices due to Russia-Ukraine standoff led domestic coal production to increase thereby supporting overall mining output. Manufacturing segment also improved sequentially, with 15 out of 23 industries recording a strong growth momentum. Within industries, manufacturing of transport equipment, electrical equipment and chemicals recorded a strong expansion, while decline in the production of textiles, food products, and pharmaceuticals capped the growth in the manufacturing sector.

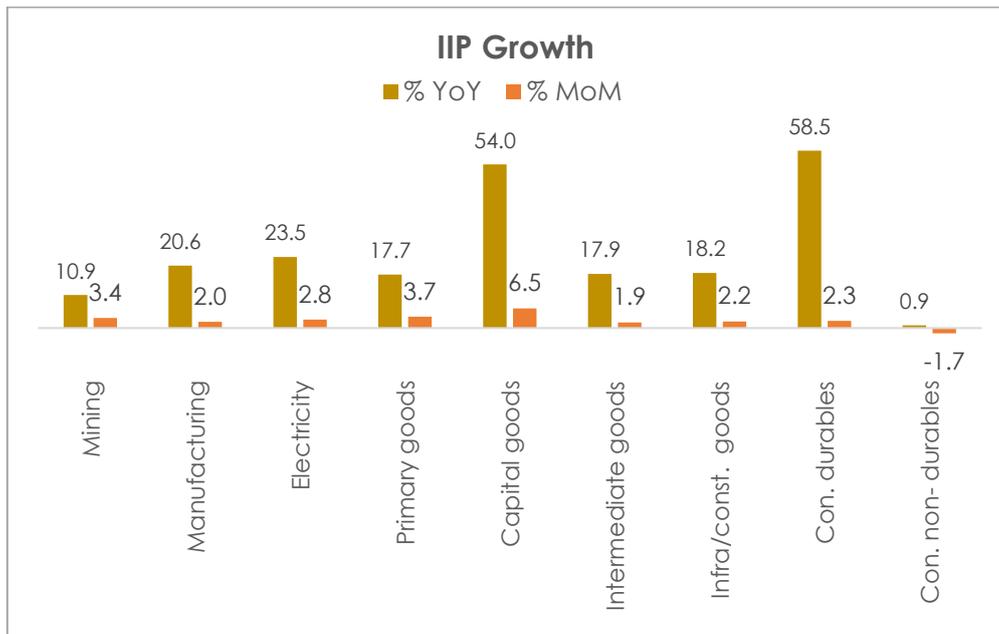
From the use-based sector perspective, consumer goods continue to be a point of concern. Consumer non-durable output dropped by -1.7% in May'22 and has been virtually stagnant over the last one year. Overall demand for consumer goods (including consumer durables and non-durables) is likely to remain subdued in the near term reflecting an uneven demand recovery especially in the rural sector which has been impacted by high inflation in commodities and its derivatives. Nevertheless, good progress in monsoon and kharif sowing, the latest hike in MSP, and favourable terms of trade could help support rural demand. On the other hand, production of infrastructure and construction goods is likely to find support from the capex focused government spending. There is also some traction in the capital goods sector as seen by the 6.5% MoM growth and raises hopes of a pickup in the private sector capex cycle.

Once the favourable base factor of the previous year wanes, we expect the pace of IIP recovery to come under pressure given the prolonged headwinds from ongoing Russia-Ukraine, elevated price pressures and slowing global growth. World Bank became the latest international agency to cut 2022 global growth outlook sizeably to 2.9% from 4.1% anticipated in Jan-22 (following downgrades from IMF and OECD). Nevertheless, the latest data indicates that the concerns of slowdown or even recession in some nations have started to have a counter effect on the global commodity prices. While crude oil prices still continue to rule above USD 100 pb (while has moderated from USD 115 pb in Jun-22), prices of metals, precious metals, fertilizers, and non-energy commodities have clearly moderated to some extent. Further,

government's orientation towards capex, expectation of a normal South-west monsoon driving rural demand improvement, and services led recovery with opening up of the economy after the pandemic disruption should provide support to growth. Considering these factors, we continue to expect India's GDP growth at 7.5% in FY23.

Annexure

Chart 1: IIP growth jumps to a 9-month high of 19.6% on account of favourable base



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