

Press Release

Slowdown in industrial activity surfaces as favourable base wanes Raw material shortages drive sequential contraction for second consecutive month

13 November 2021

India's Index of Industrial production (IIP) slid to a 7-month low of 3.1% YoY in Sep-21 vs. 12.0% in Aug-21 primarily led by a tapering of the favorable statistical base, a slowdown in the momentum of the industrial recovery, raw material shortages in some sectors along with some impact of backloaded monsoon linked disruption.

Looking at the overall trajectory for H1 FY22, industrial production after faltering during the second Covid wave, recouped its lost momentum in the months of Jun-Jul 21. However, in the month of Aug-Sep 21 the sequential momentum eased with the index contracting for the second consecutive month by -2.4% MoM in Sep-21 after a marginal -0.1% in Aug-21. The decline in sequential print was led by broad-based contraction in the output of electricity (-11.0% MoM) followed by mining (-8.4% MoM) and manufacturing (-0.5% MoM). Electricity output declined amidst a significant drop recorded in coal production caused by prolonged monsoon spell preventing replenishment of coal inventory, leading to coal shortages in the thermal power stations. Clearly, the impact of decline in coal production was also visible in the mining activity. One of the key factors behind the lacklustre IIP print in Sep-21 is the weak performance of the auto sector. Except for Commercial Vehicles (CVs), the production and sales of both Passenger Vehicles (PVs) and Two Wheelers (2Ws) have seen a significant decline on a YoY basis due to both slowdown in demand as well as production constraints arising due to shortages of semiconductors. PV sales volumes have witnessed a sharp 31.2% dip in Sep'21 and 2W volumes also shrank by 13.1% in the same month with the trend continuing in Oct-21 as well. A similar narrative has also emerged from our **proprietary AMEP (Acuite Macroeconomic performance) index (AMEP correlation with IIP stands at 98%, chart 1) which after having recovered post the second wave has shown signs of plateauing. (For details refer: https://www.acuite.in/pdf/PR_Index_Launch_Oct-21.pdf).**

While the industrial output for Sep-21 is higher as compared to the pre-pandemic period (Sep-19) as reflected by the 4.1% growth in the index, the cumulative industrial output for Apr-Sep'21 is still marginally lower by 2.2% as against Apr-Sep'19, primarily reflecting an incomplete and uneven recovery particularly in the manufacturing space.

On the use-based side, sequential contraction was registered in primary goods followed by construction goods, and intermediate goods. Encouragingly, consumer goods overall have continued to show a sequential uptick since Jun-21 with consumer durables clocking a healthy 6.7% MoM presumably due to the expectation of festive demand. However, consumer non-durables showed a slight sequential contraction, reflecting some persistent weakness in rural demand. On cumulative basis for first six months of the fiscal (Apr-Sep'21), barring intermediate and construction goods, all other sectors are still below the pre-pandemic levels with major drag coming from capital goods and consumer durables (Chart 2).

While the recent surge in global commodity prices and supply chain disruptions primary led by global semiconductor chip shortages along with the recent energy crisis is likely to impact sequential growth in IIP in the near term, **we continue to maintain our FY22 GDP forecast at 10.0%**. Factors that remain in favour of India's growth recovery include 1) Near complete removal of lockdown restrictions 2) Strong pick up in the pace of vaccinations 3) Robust export growth with outbound shipments clocking a growth of 55.1% in Apr-Oct'21 and 4) Healthy run of central government capital expenditure. Additionally, accommodative policy backdrop will continue to provide support to India's growth trajectory.

Annexure

Chart 1: AMEP index serves as a predecessor to IIP index

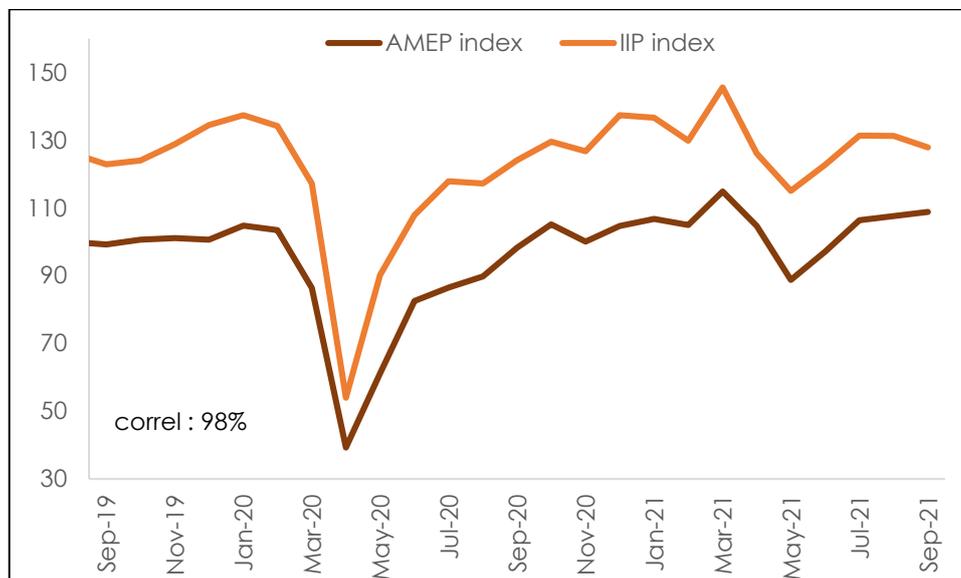
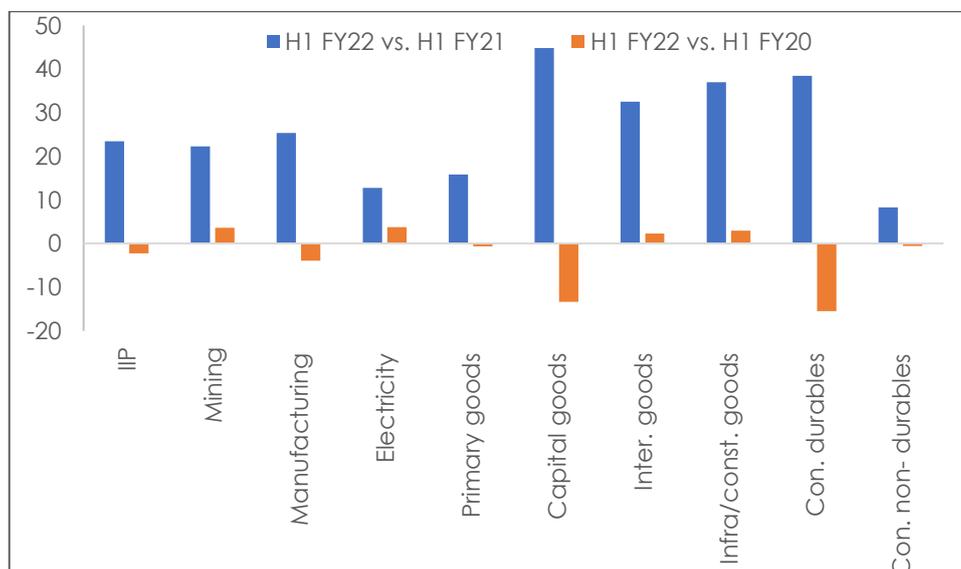


Chart 2: IIP for H1 FY22 still at -2.2% lower vs. pre-pandemic level



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