

India's Industrial Production Update

Economic Update | 13th November 2022

Industrial Production Regains Momentum, Grows 3.1% In September

| Event | Actual | Consensus | Previous |
|-----------|--------|-----------|----------|
| India IIP | 3.1% | 2.0% | -0.7% |

Highlights:

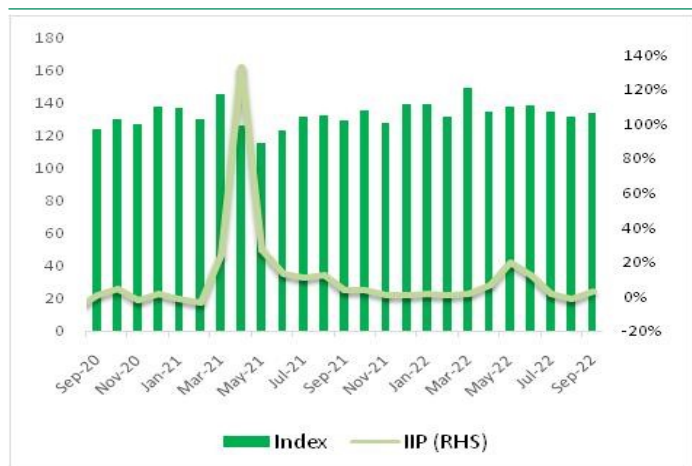
- India's factory output rose in September after having contracted the previous month. The Index of Industrial Production grew 3.1% YoY in September compared with a contraction of 0.7% YoY in August.
- The industrial output rose by 1.5% on a MoM basis in September.
- During April-September this year, IIP rose 7% against 23.8% expansion in the same period of FY2021-22.
- Manufacturing output rebounded 1.8%, after a decline of 0.5% in August, backed by increases in the production of basic metals (5.8%), coke and refined petroleum products (9.8%), food products (5.3%), machinery and equipment (5.3%), motor vehicles, trailers and semi-trailers (29.9%), and other non-metallic mineral products (9.3%).
- In addition, output rose for both mining (4.6% vs 3.9% in August) and electricity (11.6% vs 1.4%).
- In terms of the use-based categories, growth improved for primary, capital, infrastructure and intermediate goods in September 2022 relative to the previous month, while consumer non-durables reported a narrower contraction and the fall in growth in consumer durables deepened.
- Capital goods and Infrastructure sector have recorded healthy growth of 10.3% and 7.4% respectively in September. Government boost to the capital expenditure is supportive of the pick-up in capital goods and infrastructure output. This is also reflective of likely pick up in private capex cycle in the quarters to come.
- Ease in global commodity prices will be supportive for industrial sector in the months to come. Going forward, strong manufacturing sector performance as witnessed in expansionary manufacturing PMI and improving capacity utilisation provides more impetus to the manufacturing output which would boost industrial production further.
- India Manufacturing Purchasing Managers' Index stood at 55.3 in October against 55.1 in September. Firms were again able to secure additional work in October. Overall, factory orders increased at an above-trend pace that was nonetheless the weakest since June.
- However, there is need to be cautious given the weakening of external demand and uncertain global environment. Pick-up in capital goods and Infrastructure sector is definitely a positive signal. However, consumption demand needs to improve on a sustained basis .
- We expect the overall IIP growth to ease to sub-2% in October 2022, as a higher number of holidays in October 2022 relative to October 2021 owing to the earlier onset of the festive season.

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Fig 1: IIP Trend YoY% and Index Level


Source: Mospi, SMIFS Research

Fig 2: Manufacturing PMI Trend


Source: Bloomberg, SMIFS Research

Tab 1: IIP Table

| | | | Weights | | YOY | |
|-------------|-----------------------------------|-------|---------|--------|--------------|--|
| | | | Sep-22 | Aug-22 | Apr-Sep FY23 | |
| Sectoral | Mining & quarrying | 14.37 | 4.6 | -3.9 | 4.2 | |
| | Manufacturing | 77.63 | 1.8 | -0.5 | 6.8 | |
| | Electricity | 7.99 | 11.6 | 1.4 | 10.8 | |
| Use-Based | Primary goods | 34.05 | 9.3 | 1.7 | 9.2 | |
| | Capital goods | 8.22 | 10.3 | 4.3 | 16.8 | |
| | Intermediate goods | 17.22 | 2.0 | 1.2 | 6.8 | |
| | Infrastructure/construction goods | 12.34 | 7.4 | 2.1 | 7.3 | |
| | Consumer durables | 12.84 | -4.5 | -2.5 | 10.7 | |
| | Consumer non- durables | 15.32 | -7.1 | -9.5 | -2.8 | |
| Overall IIP | | 100 | 3.1 | -0.7 | 7 | |

Source: Mospi, SMIFS Research

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