

Press Release

Dec-21 IIP: Unfavourable base plays spoilsport

While IIP YoY growth eases to a 10-month low, sequential recovery comes as a relief

11 February 2022

India's Index of Industrial production (IIP) grew at a slowest pace since Mar-21 by 0.4% YoY in Dec-21 from 1.3% in Nov-21 primarily led by an unfavorable statistical base of the previous year. However, on sequential basis, the print offered some comfort by expanding to a 9-month high of 7.5% MoM in Dec-21 from a contraction of 4.7% in Nov-21, with all sectors recording an expansion sequentially. The improvement in the sequential print was also corroborated in our proprietary AMEP (Acuité Macroeconomic Performance) index, which exhibited a similar outturn, expanding by 3.0% MoM in Dec-21 from a contraction of 11.3% MoM seen in Nov-21. (The index for the month of Dec-21 stood at 114.6 from 111.2 in Nov-21).

From the industry side, the uptick in the sequential growth momentum primarily driven by the electricity (9.9% MoM) and mining output (7.6% MoM) underscores the resolution of the coal supply problems that some of the thermal power plants in the country faced in Oct-Nov'21. The breadth of recovery in the manufacturing space (manufacturing sector grew by 7.2% MoM) also improved significantly with 22 out of 23 industries showing a sequential expansion.

On use-based side, robust sequential expansion was seen in consumer as well as capital goods. However, on a cumulative annualized basis, for the first nine months of FY22, the output in the capital as well as consumer durables segments is tracking way below their pre-pandemic levels. Nonetheless, it is important to note that the overall cumulative industrial output for Apr-Dec'21 is tracking only marginally lower and almost close to the levels seen in the comparable pre-pandemic of FY20.

While the improvement of industrial output on sequential basis is encouraging, the emergence of the third Covid wave amidst significant proliferation of Omicron cases in Jan-22 may have some impact on the production in Jan-22. Additionally, the rise in input price pressures due to substantial rise in commodity prices may lead to a further pass through to end consumers in the medium-term impacting demand and thereby overall production. However, Acuité believes that good progress in the pace of vaccinations, unwinding of lockdown restrictions by states amidst recent downdraft in Covid infections along with the accommodative monetary policies will support industrial recovery going forward. Further, thrust on infrastructure segment with the government embarking upon massive capital outlay underscored in the Union Budget FY23 will help in bolstering steel, cement and capital goods output over the next few quarters.

Annexure

Chart 1: Capital and Consumer durables continue to trail below pre-pandemic levels

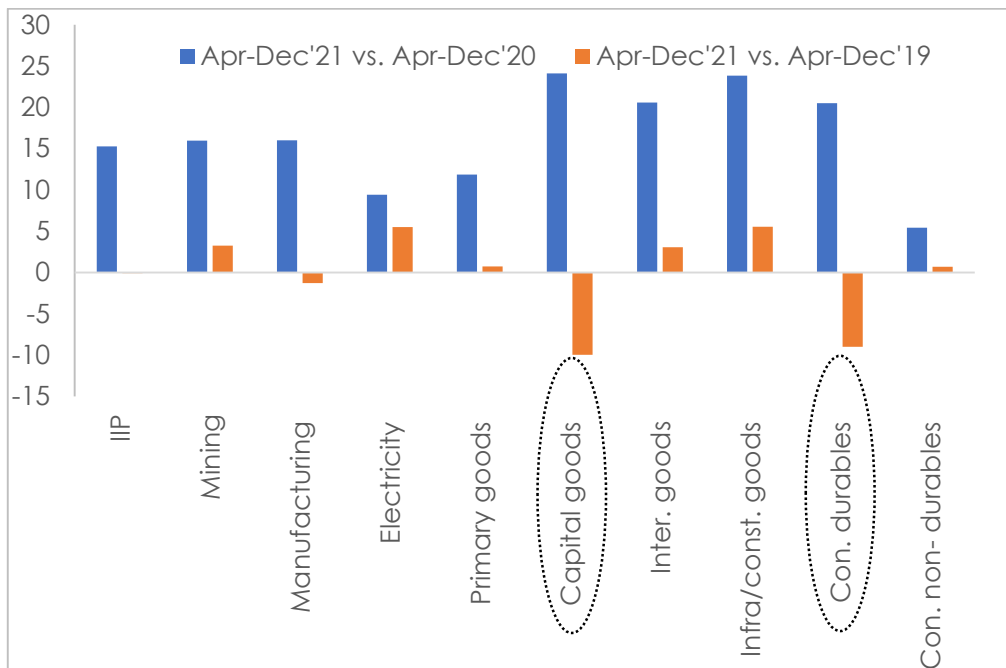
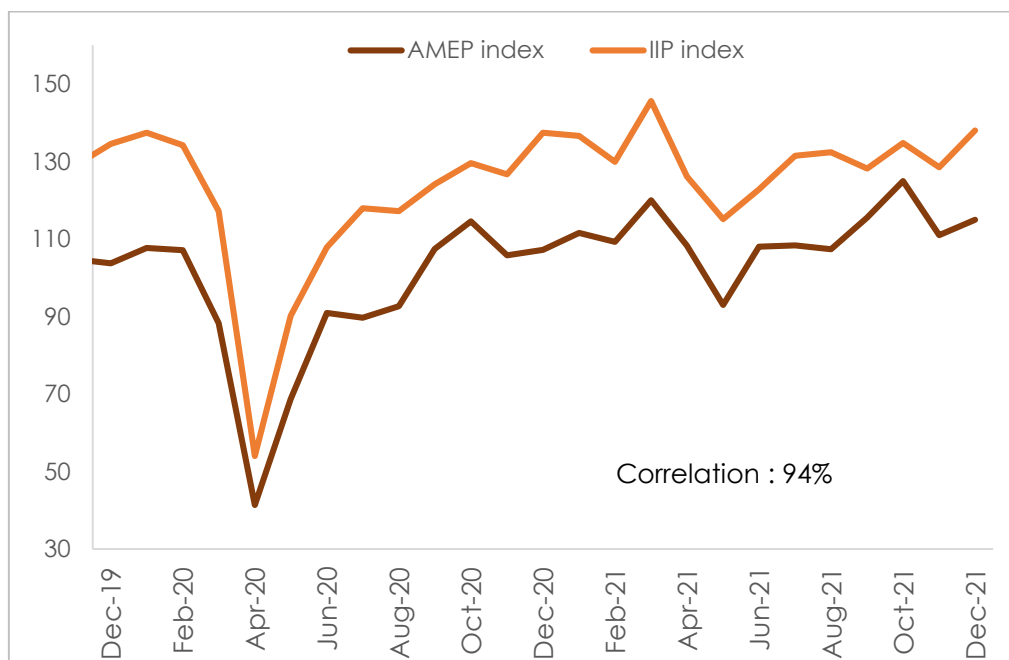


Chart 2: AMEP index serves as a predecessor to IIP index



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