Press Release

Jan-22 IIP: Omicron dents sequential industrial recovery

Higher crude oil prices due to geo-political events may pull down near term growth

14 March 2022

After hitting a 10-month low in Dec-21, India's Index of Industrial production (IIP) recovered marginally expanding by 1.3% YoY in Jan-22 from an upwardly revised print of 0.7% in Dec-21 (earlier 0.4%). However, the subdued industrial activity due to the state level lockdown restrictions imposed amidst the spread of Omicron variant clearly got reflected in the sequential print. As such, the industrial output on sequential basis remained flat from an expansion of 7.8% in Dec-21.

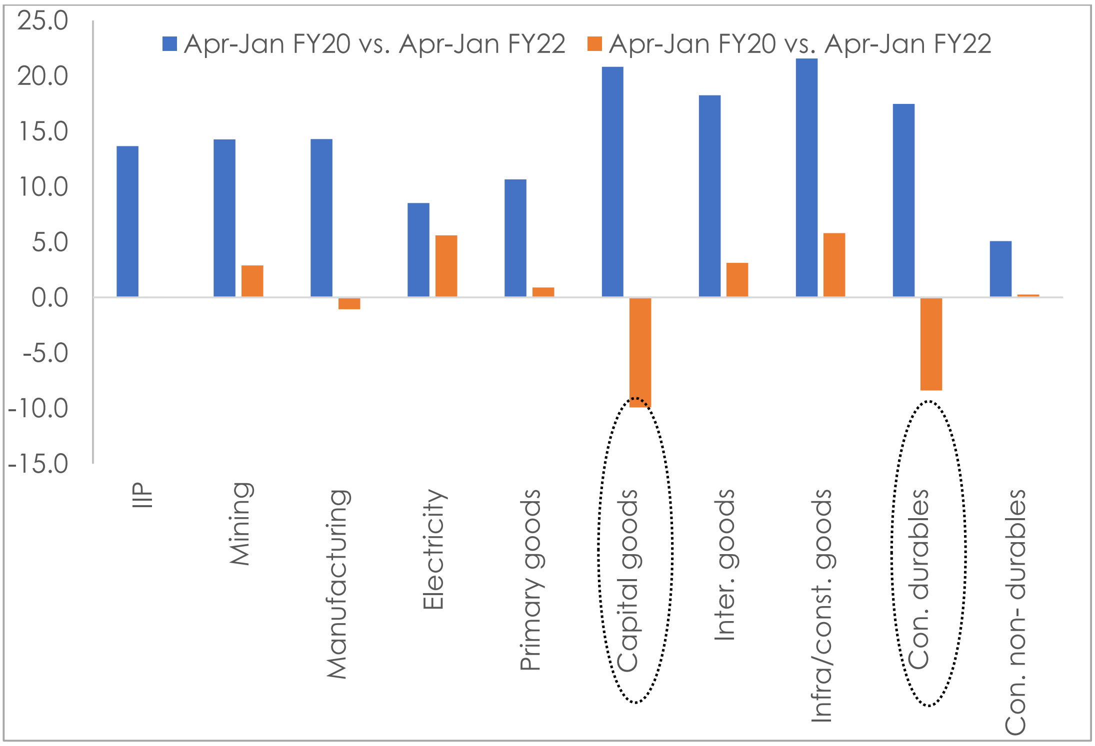
From the industry side, contraction was recorded in the manufacturing space (-0.9% MoM in Jan-22 vs. 7.6% in Dec-21) with 15 out of 23 industries recording a sequential decline. Further, mining (3.7% MoM vs. 7.6%) and electricity output (1.9% MoM vs. 9.9%) also recorded some moderation. The industrial and mining activities which had been gradually recovering from coal supply problems faced during Oct-Nov'21 is likely to be confronted with fresh headwinds amidst the geopolitical tensions in Russia and Ukraine. Significant surge in coal prices may reduce coal imports, thereby putting additional pressure on domestic production and increasing supply bottlenecks. This can have a cascading impact on the industries such steel, cement, aluminum etc. that are heavily reliant on coal for its production.

On use-based side, sequential contraction was recorded in capital goods, consumer durables as well as consumer non-durables. On a cumulative annualized basis as well (Apr-Jan FY22), the output for capital and consumer durable goods have continued to track way below their pre-pandemic levels. Nonetheless, it is important to note that the overall cumulative industrial output for Apr-Jan FY22 has marginally surpassed the corresponding pre-pandemic level of FY20.

Although not very significant, the Omicron wave dented the pace of growth recovery that posted a good run post the second Covid wave amidst a mix of pent-up, festive and some organic demand. While there has been some quick and healthy turnaround in industrial activities with Omicron cases having peaked rather quicky, the increasing commodity prices especially crude oil prices and fresh supply chain bottlenecks in the context of Russia-Ukraine crisis is likely to impact industrial production in the near term. Additionally, a scale back of fiscal and monetary policy support in the major economies and significant financial market volatility (amidst rising interest rates, quantitative tightening, and geopolitical concerns) could weigh on overall growth momentum. From growth perspective, we expect GDP growth for FY23 at 7.5% amidst government's strong thrust on infrastructure segment, solid coverage on vaccination, moderate recovery in rural consumption and the full play out of pent-up demand although it is likely to be partly offset by high crude oil prices and higher than expected inflationary pressures.

Annexure

Chart 1: Capital & Consumer Durables still trail way below pre-pandemic levels



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