

Press Release

Sequential industrial expansion in Oct-21 But YoY print reflects a slight slowdown as favourable base wanes

11 December 2021

India's Index of Industrial production (IIP) printed marginally lower at 3.2% YoY in Oct-21 vs. 3.3% in Sep-21 due to complete tapering of the favorable statistical base that was at play in the earlier part of the current fiscal. Nevertheless, after witnessing a contraction for two successive months, the IIP expanded sequentially by a healthy 4.3% MoM in Oct-21. The sequential improvement in the IIP index was largely anticipated by our proprietary AMEP (Acuité Macroeconomic Performance) index which touched a new high of 125.2 in Oct-21 from 115.7 in Sep-21 primarily led by festive season which augmented pent-up demand. (Chart 1)

The expansion in sequential print was primarily driven by mining activities followed by manufacturing output. Sharp increase in coal production in Oct-21 (23.2% MoM) witnessed in core sector activity, may have likely led mining output to rise significantly by 15.3% MoM in Oct-21. However, electricity generation didn't witness a similar revival possibly due to coal logistical challenges and the seasonal factor in power demand kicking in. The surge in international coal prices and higher freight rates have also been a factor in lower generation for some power plants leading electricity output to decline for the second consecutive month by 0.36% MoM in Oct-21, albeit at a much slower pace than -11.0% MoM in Sep-21. Manufacturing output on the other hand, rose by a modest 3.4% MoM in Oct-21 with 15 out of 23 industries posting a sequential expansion.

While the industrial output for Oct-21 is higher as compared to the pre-pandemic period (Oct-19) as reflected by the 7.8% growth in the IIP index, the cumulative industrial output for Apr-Oct'21 is still trailing marginally lower by 0.8% as against Apr-Oct'19, primarily reflecting an incomplete and uneven recovery particularly in the manufacturing space. While production of basic metals, followed by pharmaceuticals and chemicals has reached their respective pre-pandemic levels, production of wearing apparels, beverages, furniture, transport equipment, computer & electronics and motor vehicles are yet to catch up. (Chart 2)

On the use-based side, barring capital and consumer goods sequential expansion was recorded in all other sectors with robust growth registered in primary goods followed by infrastructure & construction goods. On cumulative basis as well, for the first seven months (Apr-Oct'21), a weakness continues to be visible in the capital and consumer durables segments the output of which is still tracking way below their pre-pandemic levels. (Chart 3)

Amidst increasing base of the previous year with economy having gradually reverted to normalcy post the impact of the first Covid wave and before the onslaught of the second, we expect the annualised print to remain in single digits in H2FY22. Having said that, the focus has now shifted towards sequential momentum that will help in gauging growth trends across sectors.

While we expect some moderation in industrial production due to the seasonal phenomenon post the festive boost, overall sequential momentum is expected to remain stable amidst pickup in demand with near complete removal of lockdown restrictions, steady progress in the pace of vaccinations along with continued policy support from the central bank. However, raw material shortages due to persistent supply chain bottlenecks, resurgence of Covid cases along with the emergence of new Covid variant could further amplify the existing logistical challenges thereby hampering industrial activity in H2 FY22. Additionally, the rise in input price pressures due to higher commodity prices which have weighed on producers' profit margins may lead to a further pass through to end consumers impacting demand and thereby overall production.

Annexure

Chart 1: Manufacturing sector in Apr-Oct'21 stands 2.4% lower vs. Apr-Oct'19

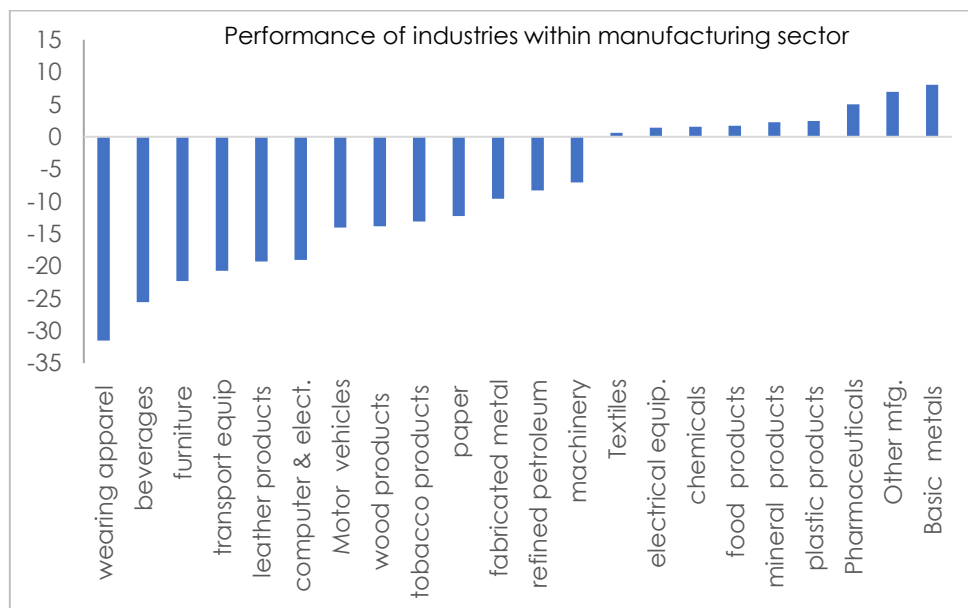


Chart 2: Capital and Consumer durables trail well below their pre-pandemic levels

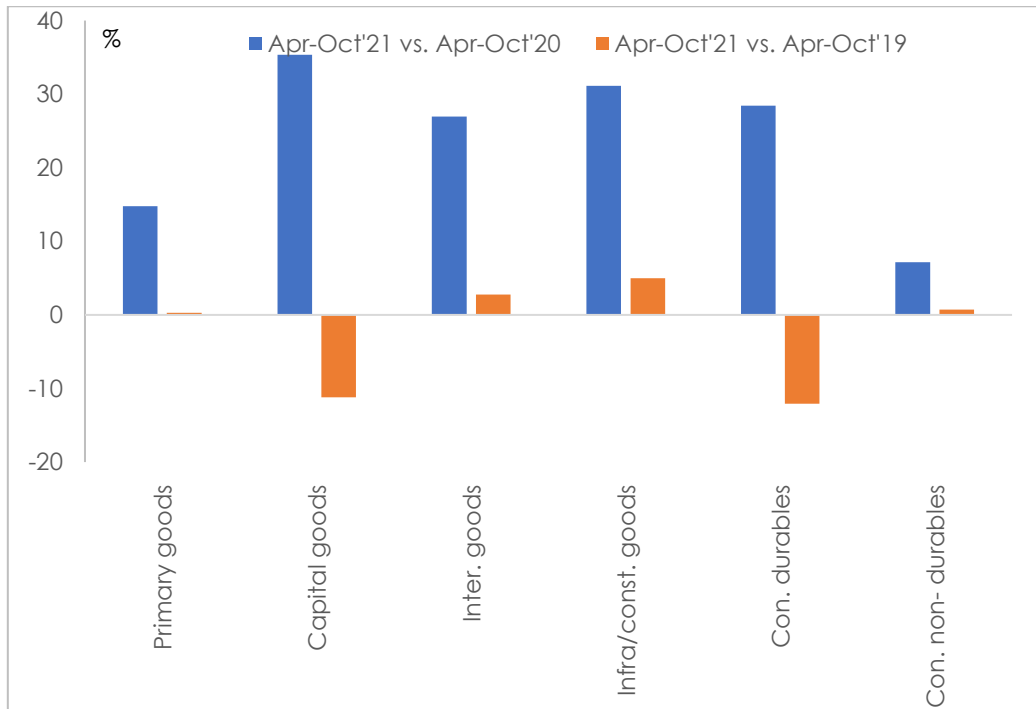
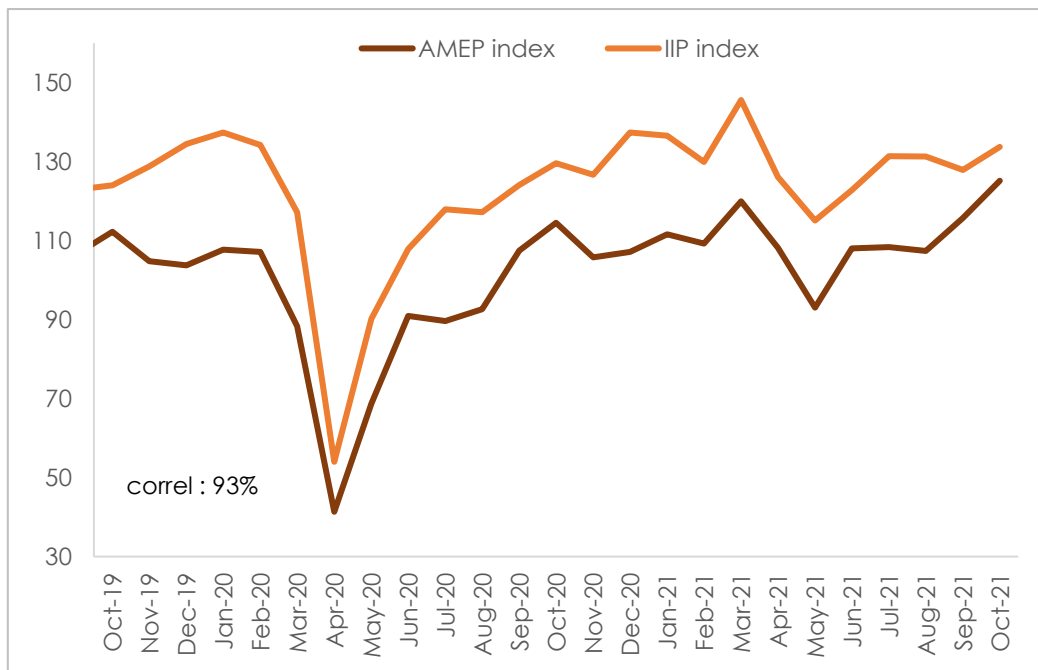


Chart 3: AMEP index serves as a predecessor to IIP index



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