

INDEX OF INDUSTRIAL PRODUCTION

**Shift in festive calendar, low base
boosted IIP growth to 11.7% in Oct
2023; growth expected to slide to
2-4% in Nov 2023**

DECEMBER 2023



€ % \$





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IIP growth surged to 11.7% in Oct 2023, boosted by low base, festive season

Improvement in YoY growth in Oct 2023 over Sep 2023 was broad-based across all sectors and use-based categories

However, consumer goods trailed the Oct 2021 levels, when the festive period had a similar onset

Fewer number of working days in Nov 2023, to dampen IIP growth to 2-4%

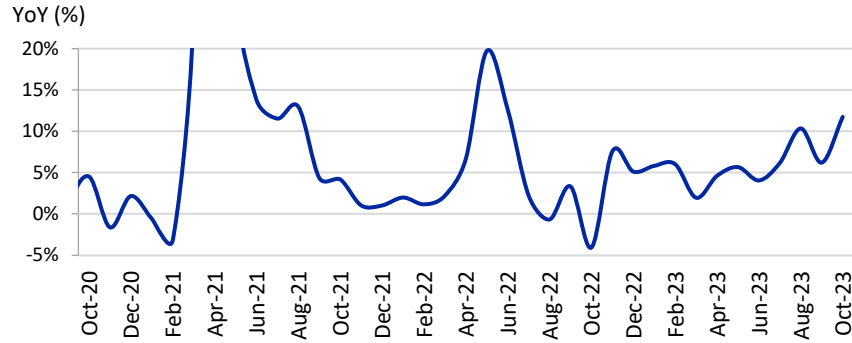
A favourable base as well as a shift in the festive calendar boosted the year-on-year (YoY) growth in the Index of Industrial Production (IIP) to a 16-month high of 11.7% in October 2023 (ICRA's exp.: +10.0%) from 6.2% in September 2023. Notwithstanding the double-digit YoY growth, the IIP recorded a relatively milder expansion of 7.2% relative to the October 2021 levels, when the festive period had a similar onset, dampened by consumer goods, suggesting that caution should be employed while interpreting the better-than-expected IIP expansion. Looking ahead, ICRA expects the YoY IIP growth to moderate sharply to ~2-4% in November 2023, driven by the fewer number of working days amid the late onset of the festive season in 2023 vis-à-vis 2022*, and the associated unfavourable base (+7.6% in Nov 2022), as signalled by the sharp moderation in the YoY growth of several high frequency indicators. With the shift in the festive calendar obfuscating YoY comparisons, ICRA believes that it would be more meaningful to look at the average YoY growth performance in October-November 2023.

- **IIP growth surged to 11.7% in Oct 2023:** A low base and a shift in the festive calendar caused the YoY IIP growth to rise to 11.7% in Oct 2023 (ICRA's exp.: +10.0%) from 6.2% in Sep 2023. This was led by a broad-based improvement across all sub-sectors, such as manufacturing (to +10.4% from +4.9%), electricity generation (to +20.4% from +9.9%), and mining (to +13.1% from +11.5%).
- **Expansion was milder when compared to Oct 2021:** Notwithstanding the double-digit YoY growth, the IIP recorded a relatively milder expansion of 7.2% relative to the Oct 2021 levels, when the festive period* had a similar onset. Notably, consumer durables and non-durables trailed the corresponding Oct 2021 levels, by 5.0% and 5.5%, respectively, suggesting that caution should be employed while interpreting the higher-than-expected IIP expansion.
- **IIP growth to slow down sharply to 2-4% in Nov 2023:** However, this easing would be largely driven by the fewer number of working days in Nov 2023 amid the late onset of the festive season in 2023 vis-à-vis 2022, and the associated unfavourable base (+7.6% in Nov 2022). Notably, electricity demand growth had slowed quite sharply from 20.9% in October 2023 to 6.1% in November 2023, before a contraction emerged in early December 2023.

*festive period: a) 2021 – Oct 7, 2021 to Nov 17, 2021; b) 2022 – Sep 26, 2022 to Nov 6, 2022; c) 2023 – Oct 15, 2023 to Nov 25, 2023

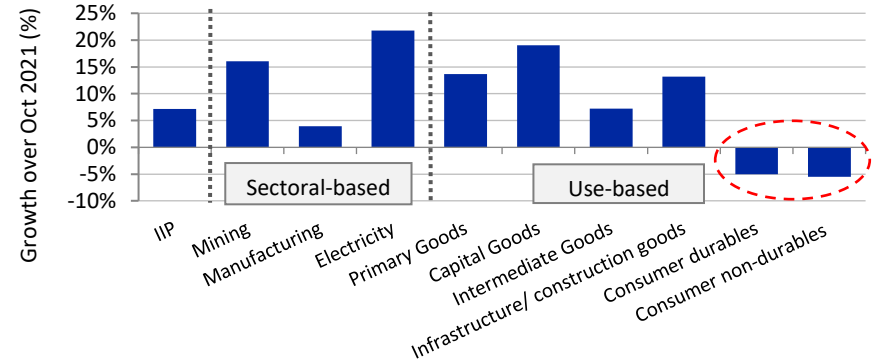
IIP growth surged to 11.7% in Oct 2023, owing to low base amid shift in festive calendar; expansion was relatively milder compared to Oct 2021 levels

EXHIBIT: Trends in YoY growth of IIP



Source: National Statistical Office (NSO); CEIC; ICRA Research

EXHIBIT: Trends in IIP, its sectors and use-based categories in Oct 2023 vs. Oct 2021



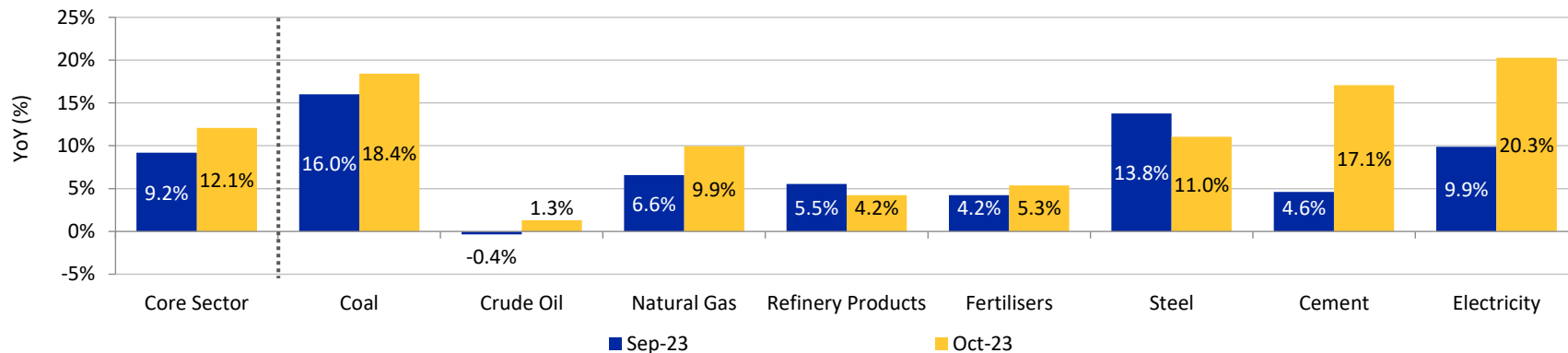
Source: NSO; CEIC; ICRA Research

- Exceeding ICRA's forecast (+10.0%), the YoY growth in the IIP surged to a 16-month high of 11.7% in October 2023 (-4.1% in October 2022) from 6.2% in September 2023 (+3.3% in September 2022), led by a favourable base related to the shift in the festive calendar.
- The improvement in the IIP growth in October 2023 relative to September 2023 was broad-based, with the YoY expansion of all the sub-sectors rising to multi-month highs, such as manufacturing (to +10.4% in October 2023 from +4.9% in September 2023), electricity generation (to +20.4% from +9.9%), and mining (to +13.1% from +11.5%).
- Notwithstanding the double-digit YoY growth, the IIP recorded a relatively milder expansion of 7.2% relative to the Oct 2021 levels, when the festive period* had a similar onset. This was largely on account of a subdued 4.0% expansion in the output of manufacturing, as against the double-digit rise in mining output (+16.0%) and electricity generation (+21.8%) in Oct 2023 vis-à-vis Oct 2021. Among the use-based categories, consumer durables (-5.0%) and non-durables (-5.5%) trailed the corresponding Oct 2021 levels, suggesting that caution should be employed while interpreting the higher-than-expected IIP expansion.

*festive period: a) 2021 – Oct 7, 2021 to Nov 17, 2021; b) 2022 – Sep 26, 2022 to Nov 6, 2022; c) 2023 – Oct 15, 2023 to Nov 25, 2023

YoY expansion in IIP mildly trailed that of the core sector for fifth consecutive month in Oct 2023

EXHIBIT: YoY performance of core sector and its sub-components

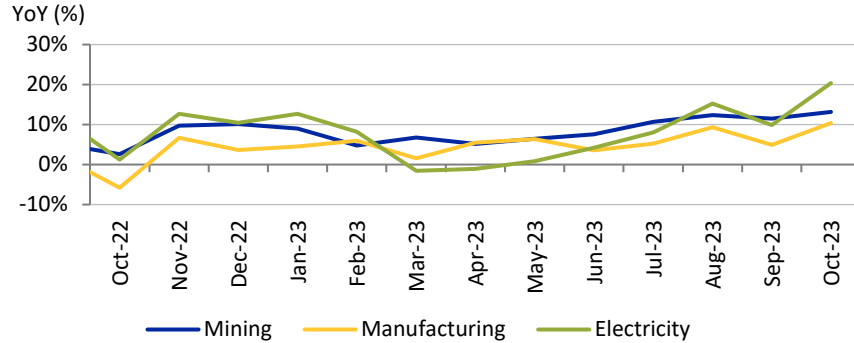


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; CEIC; ICRA Research

- The YoY expansion in the output of the core sector rebounded to a double-digit expansion of 12.1% in October 2023 from 9.2% in September 2023, aided by a low base owing to higher number of holidays in the year-ago month amid the earlier onset of the festive season in 2022 vis-à-vis 2023. As many as four of the eight core industries witnessed a double-digit growth in October 2023, including electricity, coal, cement, and steel.
- Additionally, six of the eight sub-sectors recorded an improvement in their YoY performance in October 2023 vis-à-vis September 2023, including coal (to a 16-month high +18.4% in Oct 2023 from +16.0% in Sep 2023), crude oil (to +1.3% from -0.4%), natural gas (to +9.9% from +6.6%), fertilisers (to a five-month high +5.3% from +4.2%), cement (to +17.1% from +4.6%), and electricity generation (to a 17-month high +20.3% from +9.9%). In contrast, the output of refinery products (to +4.2% from +5.5%) and steel (to +11.0% from +13.8%) deteriorated between these two months, even though the latter expanded by double digits for the twelfth month in a row.
- Notably, the YoY IIP growth (+11.7%) mildly trailed the 12.1% YoY expansion seen in the core sector output (weight in IIP: 40.3%) in October 2023, for the fifth straight month.

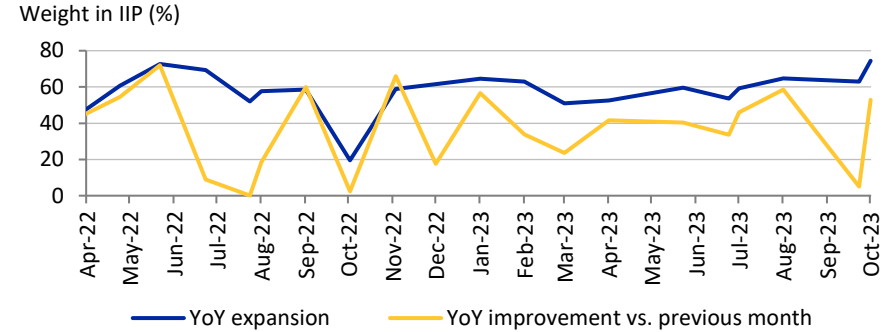
Broad-based uptick across all sub-sectors in Oct 2023 vs. Sep 2023; 20 of 23 segments of manufacturing sector saw an improvement in YoY growth

EXHIBIT: YoY trends in IIP (sectoral-based)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Weightage (%; in IIP) of manufacturing sub-sectors reporting YoY expansion and improvement in YoY growth vs. previous month

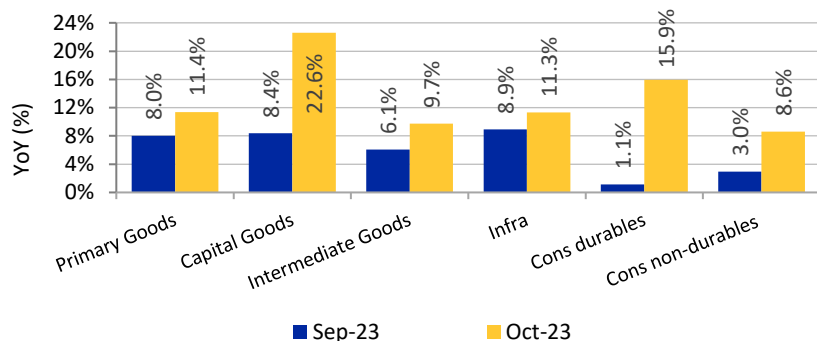


Source: NSO; CEIC; ICRA Research

- The YoY expansion in all sub-sectors witnessed an improvement in October 2023 vis-à-vis September 2023, including manufacturing output (to a 16-month high +10.4% in Oct 2023 from +4.9% in Sep 2023), electricity generation (to a 17-month high +20.4% from +9.9%; amid deficient rainfall in Oct) and mining output (to a 26-month high +13.1% from +11.5%, in line with the trends in coal, crude oil, and natural gas output).
- Notably, 19 of the 23 sub-sectors of manufacturing (with a considerable weight of 74.4% in the IIP) displayed a YoY growth in October 2023, while the output of the remaining four sub-sectors (with a marginal weight of 3.2% in the IIP) contracted in the month.
- Further, 20 sub-sectors of manufacturing (with a sizeable weight of 52.9% in the IIP) witnessed an improvement in their YoY performance in October 2023, relative to the previous month; this sub-set includes food products, machinery and equipment, motor vehicles, trailers and semi-trailers, etc. In contrast, just three of the 23 sub-sectors of manufacturing (with a lower weight of 24.8% in the IIP) saw a deterioration in their YoY performance in October 2023, relative to September 2023; this sub-set includes basic metals, wood and wood products, and coke and refined petroleum products.

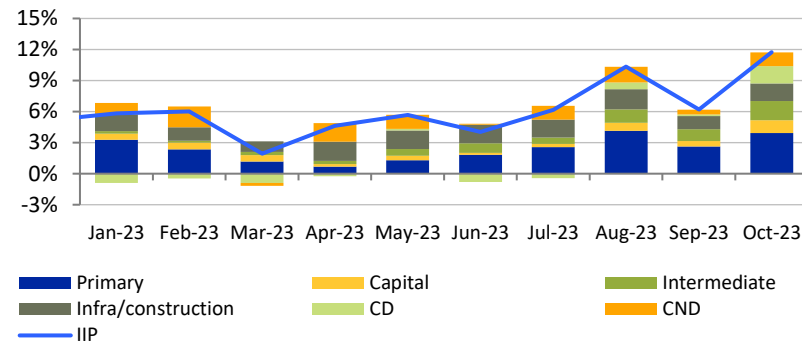
All use-based categories saw an improvement in YoY performance in Oct 2023

EXHIBIT: YoY trends in IIP (use-based)



*CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research

EXHIBIT: Contribution to IIP growth by use-based categories

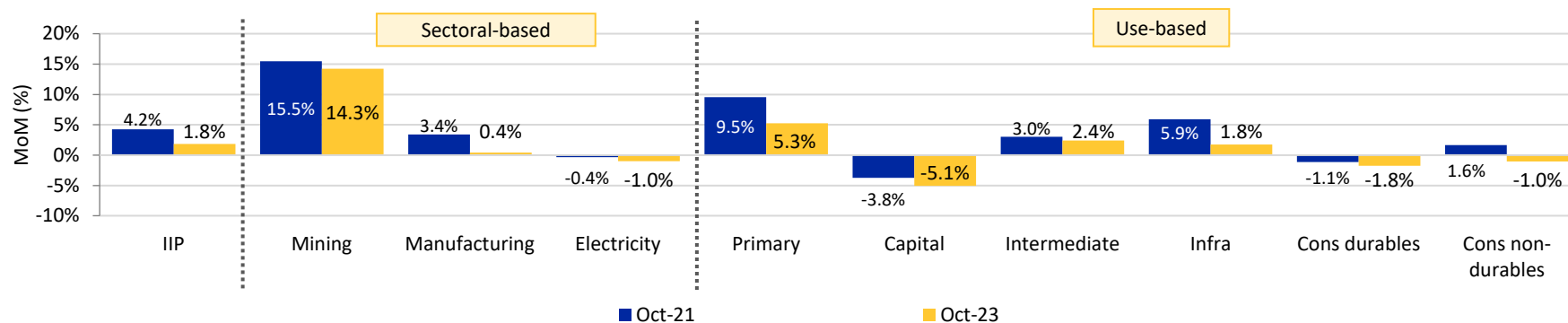


*CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research

- All of the six use-based categories recorded a better YoY performance in October 2023, vis-à-vis September 2023. This includes the output of primary goods (to +11.4% in Oct 2023 from +8.0% in Sep 2023), capital goods (to a 16-month high +22.6% from +8.4%), infra/construction goods (to +11.3% from +8.9%, in line with the uptick in cement output), intermediate goods (to a 16-month high +9.7% from +6.1%), and consumer non-durables (to +8.6% from +3.0%).
- Additionally, a low base (-18.1% in Oct 2022) boosted the output of consumer durables to a YoY expansion of 15.9% in Oct 2023 (16-month high), for the third consecutive month (+1.1% in Sep 2023), amidst an improvement in the exports of a few major commodities in that month, such as plastic and linoleum (+12.8%), cotton yarn (+36.5%), etc.

MoM uptick in October 2023 was lower than sequential expansion recorded in October 2021

EXHIBIT: Month-on-month (MoM) trends in IIP and its sub-components



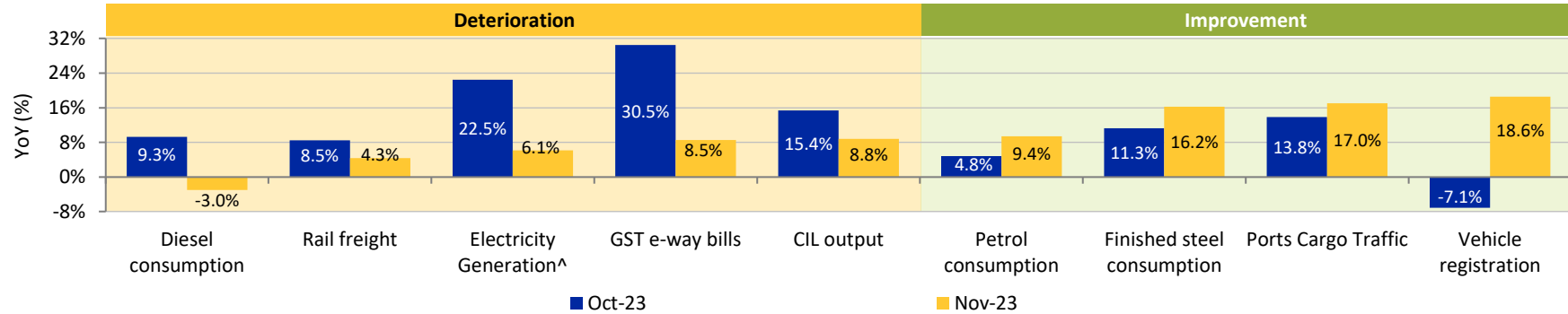
Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- In sequential terms, industrial output was up by a muted 1.8% in October 2023, in contrast to the 3.2% decline seen in October 2022. This was led by a better performance across all sub-sectors and use-based categories, amidst a late onset of the festive season* in 2023 vis-à-vis 2022.
- However, this uptick was lower than the 4.2% expansion seen in Oct 2021, when the festive period had begun around the same time. This was led by a lower MoM expansion across all the sub-sectors in October 2023 vis-à-vis 2021, such as manufacturing (+0.4% in Oct 2023 vs. +3.4% in Oct 2021), mining (+14.3% in vs. +15.5%), and electricity generation (-1.0% vs. -0.4%).
- Similarly, all the six use-based categories of the IIP witnessed a weaker MoM trend in October 2023 relative to 2021, including primary goods (+5.3% vs. +9.5%), consumer non-durables (-1.0% vs. +1.6%), consumer durables (-1.8% vs. -1.1%), intermediate goods (+2.4% vs. +3.0%), infrastructure/construction goods (+1.8% vs. +5.9%), and capital goods (-5.1% vs. -3.8%).

*festive period: a) 2021 – Oct 7, 2021 to Nov 17, 2021; b) 2022 – Sep 26, 2022 to Nov 6, 2022; c) 2023 – Oct 15, 2023 to Nov 25, 2023

OUTLOOK: IIP growth to dip sharply to 2-4% in Nov 2023, owing to fewer working days amid shift in festive calendar and unfavourable base

EXHIBIT: YoY trends of high frequency indicators



[^]excludes renewable energy; CIL: Coal India Limited; petrol and diesel refer to growth in consumption volumes; Source: JPC; CIL; IPA; CEA; Goods and Services Tax Network; PPAC; Indian Railways; Vahan Portal; CEIC; ICRA Research

- The YoY performance of a slim majority of the available high frequency indicators weakened in Nov 2023 relative to Oct 2023, with fewer working days in the former month owing to the late onset of the festive season in 2023 vis-à-vis 2022* leading to a sharp fall in the growth to multi-month lows for some indicators. This set includes rail freight traffic (to a four-month low +4.3% from +8.5%), generation of GST e-way bills (to a 13-month low +8.5% from +30.5%), output of Coal India Limited (to a seven-month low +8.8% from +15.4%), electricity generation (to a four-month low +6.1% from +22.5%), and diesel sales (to a 22-month low -0.7% from +9.3%).
- In contrast, the YoY growth in petrol sales (to a six-month high +9.4% from +4.8%), cargo traffic at major ports (to a 29-month high +17.0% from +13.8%; led by coal), vehicle registrations (to +18.6% from -7.1%; owing to Diwali and Dhanteras) and finished steel consumption (to +16.2% from +11.3%) improved in Nov 2023 relative to Oct 2023.
- **ICRA expects the YoY IIP growth to slow down sharply to 2-4% in Nov 2023, driven by the fewer number of working days in Nov 2023 amid the late onset of the festive season in 2023 vis-à-vis 2022, as well as an unfavourable base (+7.6% in Nov 2022). Given the shift in the festive calendar, ICRA believes it would be more meaningful to compare the average YoY growth performance in Oct-Nov 2023 vis-à-vis Oct-Nov 2022.**

*festive period: a) 2021 – Oct 7, 2021 to Nov 17, 2021; b) 2022 – Sep 26, 2022 to Nov 6, 2022; c) 2023 – Oct 15, 2023 to Nov 25, 2023

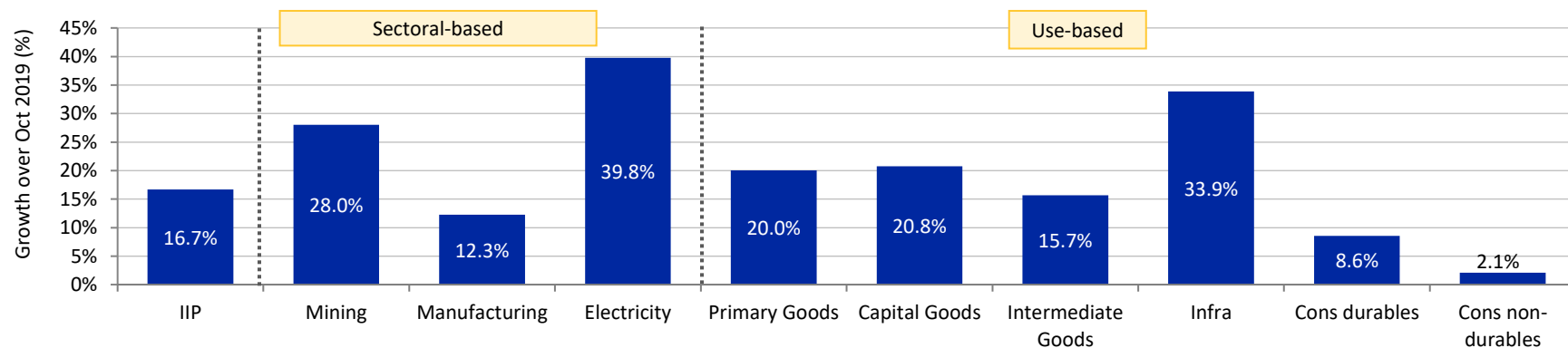
Table A.1: Trend in IIP Growth

	Sectoral				Use-Based Classification					
	IIP	Mining	Manufacturing	Electricity	Primary	Capital	Intermediate	Infra/ Construction	Durables	Non-Durables
Weight	100.0%	14.4%	77.6%	8.0%	34.0%	8.2%	17.2%	12.3%	12.8%	15.3%
YoY (%)										
September-23	6.2%	11.5%	4.9%	9.9%	8.0%	8.4%	6.1%	8.9%	1.1%	3.0%
October-23	11.7%	13.1%	10.4%	20.4%	11.4%	22.6%	9.7%	11.3%	15.9%	8.6%
MoM (%)										
September-23	-2.1%	-0.4%	-1.6%	-6.6%	-4.5%	4.8%	-1.5%	-1.5%	1.9%	-3.2%
October-23	1.8%	14.3%	0.4%	-1.0%	5.3%	-5.1%	2.4%	1.8%	-1.8%	-1.0%
Oct-23 vs. Oct-19	16.7%	28.0%	12.3%	39.8%	20.0%	20.8%	15.7%	33.9%	8.6%	2.1%

Source: NSO; CEIC; ICRA Research

Annexure A.2.A: IIP exceeded pre-Covid levels by a robust ~17% in October 2023

EXHIBIT: Trend in performance of IIP and its sub-components in October 2023 relative to October 2019

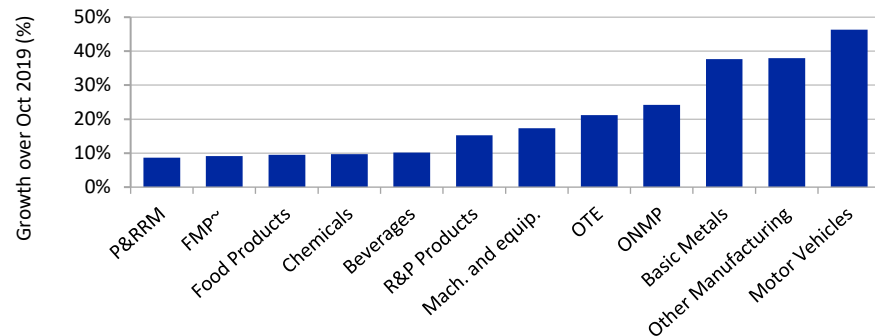


*Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- The IIP was a robust 16.7% higher in October 2023 relative to the pre-Covid levels of October 2019, benefitting from a double-digit expansion across all the sub-sectors, such as electricity generation (+39.8%), mining (+28.0%), and manufacturing (+12.3%).
- Encouragingly, all the six use-based categories also exceeded their respective pre-Covid levels in October 2023, with a healthy double-digit expansion in infra/construction goods (+33.9%), capital goods (+20.8%), primary goods (+20.0%), and intermediate goods (+15.7%), followed by a lower growth in consumer durables (+8.6%), and consumer non-durables (+2.1%).

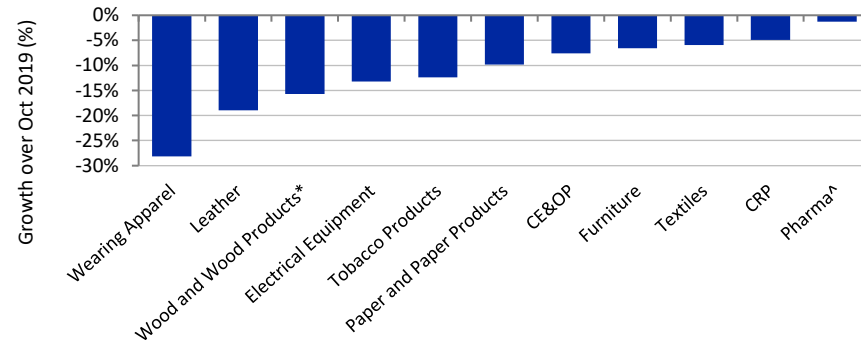
Annexure A.2.B: Output of 11 of the 23 manufacturing sub-sectors continued to trail pre-Covid levels in Oct 2023

EXHIBIT: Trend in performance of manufacturing sub-sectors in October 2023 relative to October 2019 (PART-I)



~ex Machinery and Equipment; Source: NSO; CEIC; ICRA Research

EXHIBIT: Trend in performance of manufacturing sub-sectors in October 2023 relative to October 2019 (PART-II)



*ex Furniture; Articles of Straw and Plaiting Materials; ^Including Medicinal Chemical and Botanical Products; Source: NSO; CEIC; ICRA Research

- Compared to the pre-Covid levels of October 2019, as many as 12 of the 23 sub-segments of the manufacturing sector (with a sizeable weight of 49.2% in the IIP) recorded a higher output in October 2023; this subset includes basic metals (expansion over pre-Covid: +37.6%; weight: 12.8%), motor vehicles, trailers and semi-trailers (+46.4%; 4.9%), chemicals and chemical products (+9.7%; 7.9%), food products (+9.5%; 5.3%), etc.
- In contrast, the output of as many as 11 of the 23 sub-sectors (with a relatively lower weight of 28.4% in the IIP) in October 2023 trailed the October 2019 levels; this sub-set includes wearing apparel (-28.2%; 1.3%), leather and related products (-19.0%; 0.5%), textiles (-6.0%; 3.3%), etc. Notably, most of these segments have consistently trailed the corresponding pre-Covid volumes throughout FY2024 so far, partly reflecting the weakness in external demand.

OTE.: Other Transport Equipment; R&P Products: Rubber and Plastic Products; Mach. And equip.: Machinery and Equipment; Machinery: Machinery and Equipment N.E.C.; Wood: Wood and Wood Products; Rubber: Rubber and Plastic Products; FMP: Fabricated Metal Products; Leather: Leather and related products; P&RRM: Printing and Reproduction of Recorded Media; CE&OP: Computer, Electronic and Optical Products; CRP: Coke and Refined Petroleum products; Chemicals: Chemicals and Chemical products; ONMP: Other Non-metallic Mineral products; Motor Vehicles: Motor Vehicles, Trailers and Semi-Trailers

Table A.2: Sub-groups with major contribution in IIP on the basis of use-based classification

Use-Based Classification	Item Group	Sub-group	Weight (%)	Use-Based Classification	Item Group	Sub-group	Weight (%)
Primary Goods (Wt.=34.0%)	Diesel	Coke and refined petroleum products	5.71	Infrastructure /Construction Goods (Wt.=12.3%)	Cement	Other non-metallic mineral products	2.16
	Petrol/Motor Spirit	Coke and refined petroleum products	1.66		Bars and Rods of Mild steel	Basic Metals	1.35
	LPG	Coke and refined petroleum products	0.84		HR coils and sheets of mild steel	Basic Metals	1.35
Capital Goods (Wt.=8.2%)	Commercial Vehicles	Motor vehicles, trailers and semi-trailers	0.94	Consumer Durables (Wt.=12.8%)	Auto components/ spares and accessories	Motor vehicles, trailers and semi-trailers	2.59
	Stationary and internal combustion piston engines not for motor vehicles	Machinery and equipment N.E.C.	0.51		Two-wheelers (motorcycles/ scooters)	Other transport equipment	1.36
	Generators / Alternators	Electrical Equipment	0.46		Readymade Garments	Wearing Apparel	1.01
Intermediate Goods (Wt.=17.2%)	Naphtha	Coke and refined petroleum products	1.15	Consumer Non-durables (Wt.=15.3%)	API & formulations of vitamins	Pharmaceuticals, medicinal chemical and botanical products	0.85
	MS blooms/ billets/ ingots/ pencil ingots	Basic Metals	0.95		Sugar	Food Products	0.76
	MS slabs	Basic Metals	0.84		Steroids and hormonal preparations	Pharmaceuticals, medicinal chemical and botanical products	0.72

Source: NSO; CEIC; ICRA Research



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