

INDEX OF INDUSTRIAL PRODUCTION

YoY IIP growth rose to 3.8% in Dec 2023, in contrast with the moderation in core sector growth

FEBRUARY 2024



€ % \$





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IIP growth rose to 3.8% in Dec 2023, in contrast to easing in core sector growth

Improvement in YoY IIP growth in Dec 2023 vs. Nov 2023 was driven by manufacturing sector, broad-based across use-based categories except primary goods

Sequential uptick of 7.4% in IIP in Dec 2023 exceeded that seen in Dec 2022

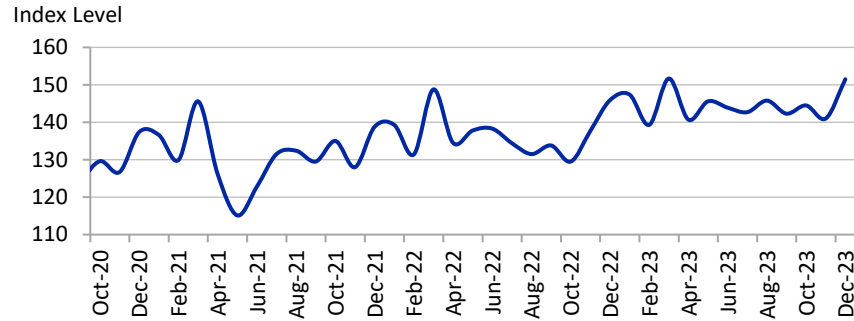
YoY IIP growth to rise to 4-6% in Jan 2024, amid healthy performance of high frequency indicators

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) unexpectedly rose to 3.8% in December 2023 from 2.4% in November 2023, contrary to ICRA's expectations as well as the slowdown seen in the core sector growth. This was driven by the improvement in the performance of manufacturing in December 2023, relative to the previous month. In terms of the use-based categories, only primary goods reported a sequential moderation in December 2023, with all the other five categories reporting an uptick. Looking ahead, majority of the available high frequency indicators recorded an improvement in their YoY performance in January 2024, relative to December 2023. Based on this, ICRA anticipates a modest rise in the IIP growth to 4-6% in January 2024.

- **IIP growth rose to 3.8% in December 2023:** The YoY IIP growth improved to 3.8% in December 2023 (ICRA's exp.: +1.5%) from 2.4% in November 2023, entirely driven by the improvement in the performance of manufacturing output (to +3.9% in Dec 2023 from +1.2% in Nov 2023). In contrast, electricity generation (to +1.2% from +5.8%) and the output of mining (to +5.1% from +7.0%) saw a moderation in December 2023, vis-à-vis November 2023.
- **Sequential uptick in IIP in December 2023 was higher than that seen in December 2022:** In month-on-month (MoM) terms, industrial output rose by 7.4% in December 2023, higher than the 6.0% uptick seen in December 2022, which could be related to the higher number of holidays in November 2023. This was led by a better MoM performance in the output of manufacturing, while electricity generation and mining saw a lower MoM expansion in December 2023 vis-à-vis 2022.
- **YoY expansion in IIP eased to 5.8% in Q3 FY2024:** The YoY expansion in IIP moderated to 5.8% in Q3 FY2024 from 7.8% in Q2 FY2024, led by a broad-based easing across all the sub-sectors and five of the six use-based categories, apart from consumer durables (to a six-quarter high +4.9% in Q3 FY2024 from +1.1% in Q2 FY2024).
- **IIP growth to rise modestly to 4-6% in January 2024:** Looking ahead, majority of the available high frequency indicators recorded an improved YoY performance in January 2024, relative to December 2023. Based on this, ICRA anticipates a modest rise in the IIP growth to 4-6% in January 2024.

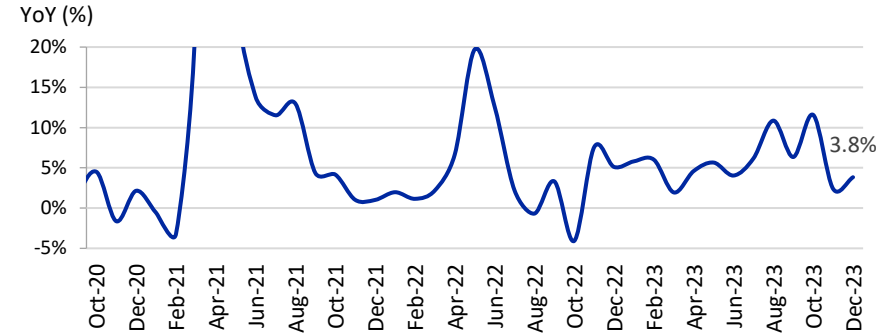
IIP growth rose to 3.8% in Dec 2023 from 2.4% in Nov 2023, contrary to expectations

EXHIBIT: Trends in index levels of IIP



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

EXHIBIT: Trends in YoY growth of IIP

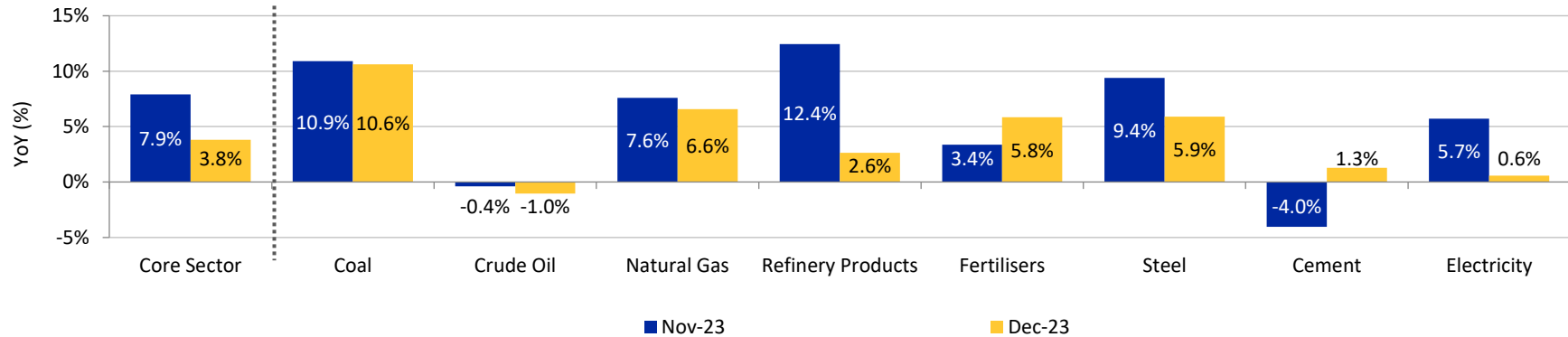


Source: NSO; CEIC; ICRA Research

- Exceeding ICRA's forecast (+1.5%), the YoY growth in the IIP improved to 3.8% in December 2023 (+5.1% in December 2022) from 2.4% in November 2023 (+7.6% in November 2022). However, this was much lower than the average growth of 6.8% seen during October-November 2023.
- The improvement in the IIP growth in December 2023, relative to the previous month, was driven by the uptick in the YoY expansion of the manufacturing sector (to +3.9% in Dec 2023 from +1.2% in Nov 2023).
- In contrast, the performance of the mining sector (to +5.1% from +7.0%) and electricity generation (to +1.2% from +5.8%) saw a deterioration in December 2023, vis-à-vis November 2023, partly owing to excess rainfall seen in the month (60% above LPA in Dec 2023).

Improvement in YoY IIP growth in Dec 2023 contrasted with the moderation seen in the performance of the core sector

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

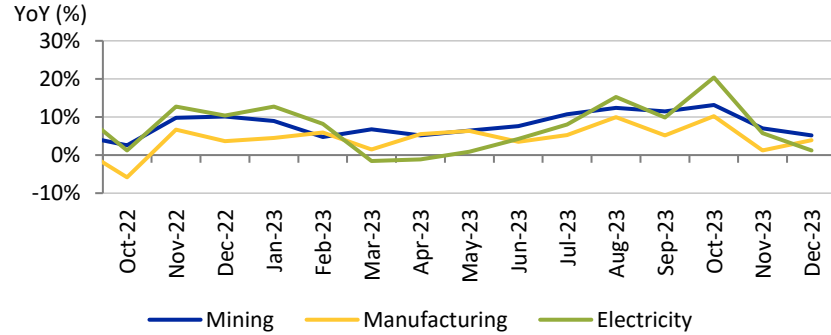


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; CEIC; ICRA Research

- The YoY expansion in the output of the core sector halved to a 14-month low of 3.8% in December 2023 from 7.9% in November 2023, led by a broad-based easing in the YoY performance across six of the eight the sub-sectors, apart from fertilisers and cement.
- While the output of crude oil (to -1.0% from -0.4%) contracted for the second consecutive month, that for refinery products (to an eight-month low +2.6% from +12.4%) and electricity generation (to an eight-month low +0.6% from +5.7%) recorded a sub-3% rise in December 2023. This was followed by a slowdown in the pace of YoY expansion in steel (to a 14-month low +5.9% from +9.4%), coal (to a six-month low +10.6% from +10.9%), and natural gas (to +6.6% from +7.6%).
- In contrast, the expansion in fertilisers (to a seven-month high +5.8% from +3.4%) and cement (to +1.3% from -4.0%) saw an improvement in December 2023, vis-à-vis November 2023.
- Notably, the improvement in the YoY IIP growth (to +3.8% from +2.4%) contrasted with the deterioration seen in the YoY rise of the core sector output (weight in IIP: 40.3%) in December 2023, relative to November 2023.

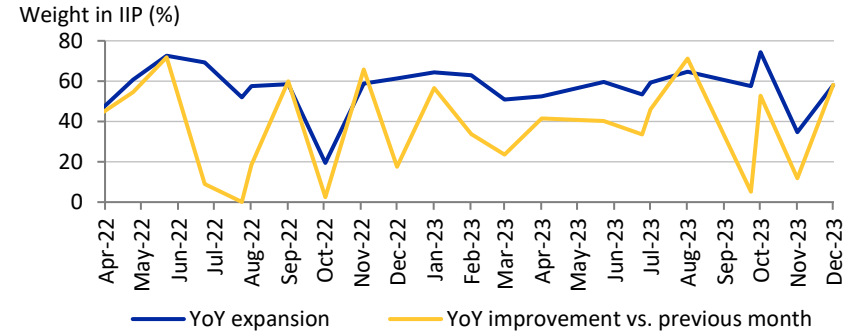
YoY expansion of the manufacturing sector saw an uptick in Dec 2023 vis-à-vis Nov 2023, with 18 of its 23 segments posting an improvement

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

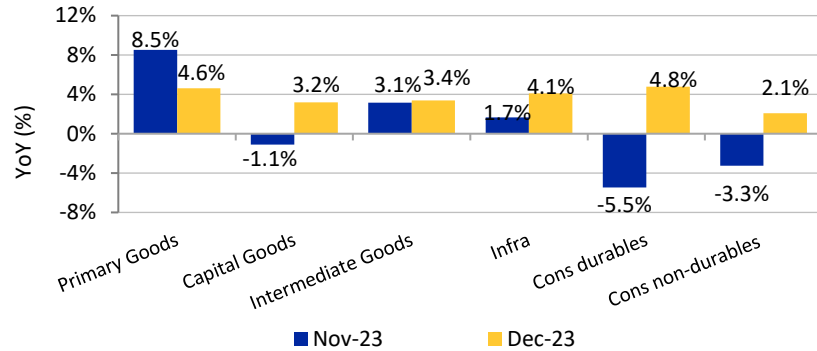


Source: NSO; CEIC; ICRA Research

- While the YoY expansion in manufacturing output (to +3.9% in Dec 2023 from +1.2% in Nov 2023) witnessed an uptick in December 2023 relative to November 2023, that for mining output (to a 10-month low +5.1% from +7.0%, in line with the trends in coal, crude oil, and natural gas output), and electricity generation (to a seven-month low +1.2% from +5.8%; amid excess rainfall in Dec 2023) deteriorated.
- Notably, 12 of the 23 sub-sectors of manufacturing (with a considerable weight of 58.0% in the IIP) displayed a YoY expansion in December 2023, while the output of the remaining 11 sub-sectors (with a lower weight of 19.7% in the IIP) contracted in the month.
- Further, 18 sub-sectors of manufacturing (with a sizeable weight of 58.2% in the IIP) witnessed an improvement in their YoY performance in December 2023 relative to the previous month; this sub-set includes food products, machinery and equipment, basic metals, etc. In contrast, the output of only five sub-sectors (with a lower weight of 19.5% in the IIP) saw a moderation in YoY performance in December 2023 relative to November 2023; this subset includes beverages, paper and paper products, coke and refined petroleum products, motor vehicles, trailers and semi-trailers, and other manufacturing.

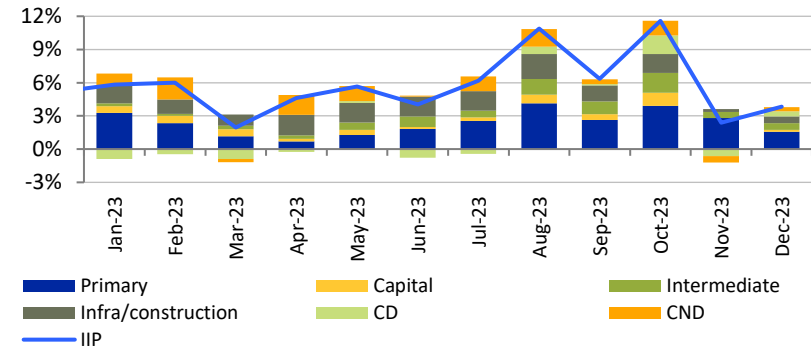
Five of the six use-based categories saw a higher YoY expansion in Dec 2023 vis-à-vis Nov 2023

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

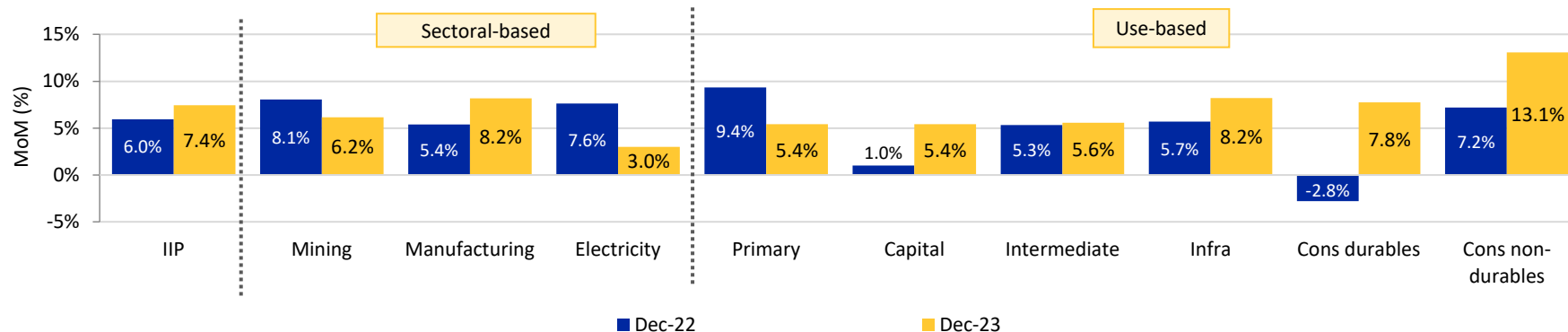


*CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research

- Five of the six use-based categories recorded an improvement in their YoY performance in December 2023 vis-à-vis November 2023. This was led by a turnaround to a YoY expansion in the output of capital goods (to +3.2% in Dec 2023 from -1.1% in Nov 2023), consumer durables (to +4.8% from -5.5%), and consumer non-durables (to +2.1% from -3.3%) in December 2023, after contracting in the previous month.
- This was followed by a modest improvement in the output of infra/construction goods (to +4.1% from +1.7%, in line with the improvement in the growth in cement output) and intermediate goods (to +3.4% from +3.1%) in December 2023, vis-à-vis November 2023. In contrast, only the output of primary goods (to a seven-month low +4.6% from +8.5%) saw a deterioration in YoY growth between these two months.
- Notably, the output of consumer durables continued to trail the corresponding pre-Covid level by 2.8% in December 2023, for the second consecutive month.

MoM uptick in December 2023 exceeded the sequential rise recorded in December 2022

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



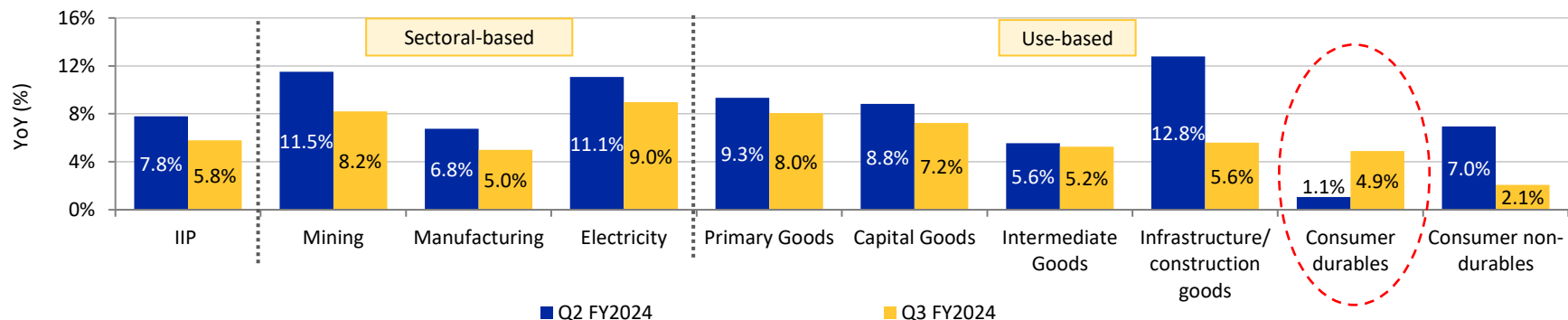
Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- In sequential terms, industrial output rose by 7.4% in December 2023, higher than the 6.0% uptick seen in December 2022, driven by the sharper MoM uptick in manufacturing output (+8.2% in Dec 2023 vs +5.4% in Dec 2022). This was partly driven by the shift in the festive calendar*.
- In contrast, there was a lower MoM increase in electricity generation (+3.0% vs. +7.6%) and the output of mining (+6.2% vs. +8.1%) in December 2023, relative to December 2022.
- Moreover, five of the six use-based categories of the IIP (apart from primary goods; +5.4% in Dec 2023 vs. +9.4% in Dec 2022) witnessed a sharper MoM uptick in December 2023 relative to 2022, led by consumer non-durables (+13.1% vs. +7.2%), consumer durables (+7.8% vs. -2.8%), infrastructure/construction goods (+8.2% vs. +5.7%), and capital goods (+5.4% vs. +1.0%).

*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 IIP growth eased to 5.8% in Q3 FY2024 from 7.8% in Q2 FY2024

EXHIBIT: YoY performance of IIP and its sub-sectors in Q2 and Q3 FY2024

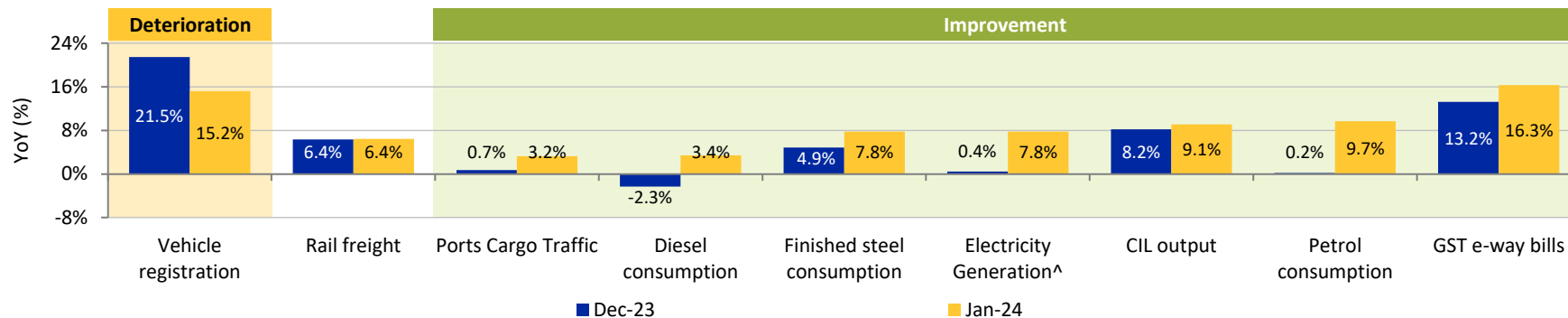


Source: NSO; CEIC; ICRA Research

- The YoY expansion in IIP moderated to 5.8% in Q3 FY2024 (+2.8% in Q3 FY2023) from 7.8% in Q2 FY2024 (+1.6% in Q2 FY2023). This was led by a broad-based deterioration across all the sub-sectors, including mining (to +8.2% from +11.5%), manufacturing (to +5.0% from +6.8%), and electricity generation (to +9.0% from +11.1%) in Q3 FY2024, relative to the previous quarter.
- Additionally, five of the six use-based categories saw a slow down in YoY performance in Q3 FY2024, relative to Q2 FY2024, namely infrastructure/construction goods (to a five-quarter low +5.6% in Q3 FY2024 from +12.8% in Q2 FY2024), consumer non-durables (to a four-quarter low +2.1% from +7.0%), primary goods (to +8.0% from +9.3%), capital goods (to +7.2% from +8.8%), and intermediate goods (to +5.2% from +5.6%). In contrast, only the output of consumer durables improved to a six-quarter high of 4.9% in Q3 FY2024 from 1.1% in Q2 FY2024.

OUTLOOK: IIP growth to improve to 4-6% in January 2024

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

- A majority of the available high frequency indicators saw an improvement in their YoY performance in January 2024 relative to December 2023. This subset includes the output of Coal India Limited (to +9.1% in Jan 2024 from +8.2% in Dec 2023; despite a high base), electricity generation (to +7.8% from +0.4%; amid deficient rainfall in Jan 2024), petrol sales (to an eight-month high +9.7% from +0.2%), diesel sales (to +3.4% from -2.3%; expansion after a gap of two months), GST e-way bills (to +16.3% from +13.2%), cargo traffic at major ports (to +3.2% from +0.7%; led by POL, fertilisers, thermal coal, etc.), and finished steel consumption (to +7.8% from +4.9%).
- While the YoY expansion in vehicle registrations (to +15.2% in Jan 2024 from +21.5% in Dec 2023) eased in January 2024 vis-à-vis December 2023, that in rail freight traffic remained unchanged (at +6.4%).
- **With the available high frequency data for January 2024 appearing promising, ICRA anticipates a modest rise in the IIP growth to 4-6% in that month.**

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 (%)										
November-23	2.4%	7.0%	1.2%	5.8%	8.5%	-1.1%	3.1%	1.7%	-5.5%	-3.3%
December-23	3.8%	5.1%	3.9%	1.2%	4.6%	3.2%	3.4%	4.1%	4.8%	2.1%
MoM (%)										
November-23	-2.4%	3.1%	-1.7%	-13.5%	-1.5%	-7.4%	-4.1%	-5.5%	-14.0%	11.1%
December-23	7.4%	6.2%	8.2%	3.0%	5.4%	5.4%	5.6%	8.2%	7.8%	13.1%
Dec-23 vs. Dec-19	12.6%	15.3%	11.2%	20.8%	17.1%	10.2%	8.4%	21.5%	-2.8%	12.6%
Q3 FY2024 vs. Q3 FY2023	5.8%	8.2%	5.0%	9.0%	8.0%	7.2%	5.2%	5.6%	4.9%	2.1%

Source: NSO; CEIC; ICRA Research

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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