ICRA
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INDEX OF INDUSTRIAL PRODUCTION
December 2021

Unfavourable base compressed IIP growth to 10-month low 0.4% in December 2021

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HIGHLIGHTS

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The pace of IIP growth dipped to 0.4% in December 2021 from 1.3% in November 2021, weakened by an unfavourable base

Relative to the pre-Covid level, IIP reverted to a growth of 2.6% in December 2021 from a contraction of 0.3% in November 2021

Capital goods, consumer durables and consumer non-durables contracted in YoY terms in December 2021

IIP growth likely to rise to 1-2% in January 2022, with a lower base, amidst the limited impact of the third wave on industry

Belying our expectation of a mild uptick, the year-on-year (YoY) growth of the Index of Industrial Production (IIP) deteriorated to a marginal 0.4% in December 2021 (ICRA exp.: +1.8%) from 1.3% in November 2021, partly on account of an unfavourable base (+2.2% in December 2020). The contraction in capital goods (-4.6%), consumer durables (-2.7%) and consumer non-durables (-0.6), along with a feeble growth in the remaining use-based categories ranging from 0.3% to 2.8% in December 2021, adds heft to the Monetary Policy Committee's (MPC's) decision to remain growth-supportive in light of the incomplete recovery. The weakness in the capital goods segment, relative to the year ago (-4.6%) as well as the pre-Covid levels (-2.5%), highlights the tentativeness in the investment cycle. Unlike the adverse impact on contact-intensive services and mobility, the third wave has not been hugely disruptive for the industrial sector in January 2022, as evidenced by the mild sequential decline in the monthly average generation of GST e-way bills and the rise in electricity and Coal India's output. Therefore, we expect the IIP growth to rise mildly to 1-2% in YoY terms in January 2022, as the base effect eases (-0.6% in January 2021).

- **IIP growth eased to a 10-month low 0.4% in December 2021:** Led by an unfavourable base, the YoY growth in the IIP slowed to 0.4% in December 2021 (+2.2% in December 2020) from the revised 1.3% in November 2021 (-1.6% in November 2020). The moderation was driven by manufacturing (contracting after nine months; to -0.1% in Dec 2021 from +0.8% in Nov 2021) and mining (to +2.6% from +4.9%), while electricity growth recorded a mild improvement to 2.8% from 2.1%, respectively. Moreover, five of the six use-based categories (barring consumer durables) witnessed a deterioration, in their YoY performance in December 2021 vis-à-vis the previous month.

- **Capital goods, consumer durables and non-durables contracted in December 2021:** The YoY contraction in the output of capital goods widened to 4.6% in December 2021 from 2.0% in November 2021, while that in consumer durables narrowed to 2.7% from 5.4%, respectively. Additionally, the output of consumer non-durables slipped into a YoY contraction of 0.6% in December 2021 (+0.5% in November 2021).

- **December 2021 industrial output reverted to a growth relative to the pre-Covid levels:** The IIP printed 2.6% above pre-Covid levels in December 2021, after the contraction of 0.3% in the previous month, even as mining continued to trail the pre-Covid level by a mild 0.5%. Further, output of capital goods trailed the pre-Covid level by 2.5% in December 2021, highlighting the tentativeness in the investment cycle. In line with our expectation, the recent RBI release indicates a capacity utilisation of 68.3% in Q2 FY2022; we expect this to improve to 71-72% in the ongoing quarter despite the third wave, but not be enough to trigger a broad-based pickup in the private capex cycle.

- **IIP is likely to grow by 1-2% in January 2022:** Unlike the adverse impact on contact-intensive services and mobility, the third wave has not been hugely disruptive for the industrial sector in January 2022, as evidenced by the mild sequential decline in the monthly average generation of GST e-way bills and rise in electricity and Coal India's output. Therefore, we expect the IIP growth to rise mildly to 1-2% in YoY terms in January 2022, as the base effect eases (-0.6% in January 2021).

OVERVIEW

- Belying our expectation of a mild uptick, the YoY IIP growth declined to a 10-month low 0.4% in December 2021 (+2.2% in December 2020; ICRA exp: +1.8%) from the revised 1.3% in November 2021 (-1.6% in November 2020), partly on account of an unfavourable base. Notably, for the fourth consecutive month, the YoY rise in the broader IIP was lower than that for the core sector output (with a weight of 40.3% in the IIP), which had reported a 3.8% YoY growth in December 2021.
- The dip in YoY IIP growth in December 2021 relative to November 2021 was driven by a mild 0.1% contraction in manufacturing output in December 2021 (+0.8% in November 2021) and a moderation in growth for mining output (to +2.6% from +4.9%) even as growth in electricity generation improved slightly (to +2.8% from +2.1%).
- In MoM terms, the IIP recorded a broad-based improvement of 7.5% in December 2021, led by manufacturing (+7.2%), electricity (+9.9%) and mining (+7.6%; refer Exhibits 1, 2 and 3). The sequential increase was in line with the trend observed across years; industrial output typically rises in December vis-à-vis November levels, with the latter dampened by the holidays during the festive period.
- After a gap of nine months, the manufacturing sector slipped into a contraction of 0.1% December 2021 from the revised growth of 0.8% in November 2021. Notably, 10 of the 23 sub-sectors of manufacturing (with a weight of 33.0% in the IIP) displayed a YoY contraction in December 2021, while 13 sub-sectors (with a higher weight of 44.6% in the IIP) witnessed a growth in that month. Moreover, as many as 11 of the 23 sub-sectors of manufacturing (with a substantial weight of 36.9% in the IIP) recorded a deterioration in the YoY performance in December 2021 relative to November 2021; this sub-set includes basic metals (to +1.7% in December 2021 from +6.5% in November 2021), wearing apparel (to +6.1% from +31.3%), electrical equipment (to -15.6% from -6.9%), pharma, medicinal chemical and botanical products (to -1.8% from +2.5%), rubber and plastics products (to -9.7% from -6.3%), etc. In contrast, 12 sub-sectors (with a weight of 40.7% in the IIP) recorded an improvement in the YoY performance in December 2021 relative to the previous month; including computer, electronic and optical products (to +36.5% from +9.5%), coke and refined petroleum products (to +3.5% from +3.2%), other manufacturing (to +34.4% from +3.1%), other transport equipment (to -11.3% from -22.4%), motor vehicles, trailers and semi-trailers (to -4.5% from -5.1%), other non-metallic mineral products (to +8.1% from -3.0%), machinery and equipment N.E.C. (to -13.0% from -13.5%), etc.
- In addition, the YoY growth in mining output moderated to a 10-month low of 2.6% in December 2021 from the revised 4.9% in November 2021, driven by the trend in the output of coal (to +5.2% in December 2021 from +8.2% in November 2021) and natural gas (to +19.5% from +23.7%). In contrast, the contraction in crude oil narrowed slightly during this period (to -1.8% from -2.2%; refer Exhibit 5).
- Encouragingly, the YoY growth in electricity generation witnessed a mild improvement to 2.8% in December 2021 from 2.1% in November 2021, in line with the data released by the Central Electricity Authority, which indicated that the growth in thermal electricity generation rose to 2.1% in December 2021 from 0.2% in November 2021. However, hydroelectricity generation recorded a YoY decline of 1.1% in December 2021, in contrast to the growth of 15.3% in the previous month.
- Among the use-based categories, the YoY performance of five of the six categories (apart from consumer durables) worsened in December 2021 relative to November 2021, partly reflecting an unfavourable base effect. The contraction in the capital goods segment widened to an 11-month low 4.6% in December 2021 (+2.2% in Dec 2020) from 2.0% in November 2021 (-7.5% in Nov 2020), highlighting the tentativeness in the investment cycle. In line with our expectation, the recent RBI release indicates a capacity utilisation of 68.3% in Q2 FY2022; we expect this will improve to 71-72% in the ongoing quarter despite the third wave, but not be enough to trigger a broad-based pickup in the private capex cycle.

- Moreover, the YoY growth in primary goods and intermediate goods moderated to a 10-month low 2.8% and 0.3%, respectively, in December 2021 from 3.5% and 2.4%, respectively, in November 2021. Despite the easing of weather-related disruptions in South India, the pace of growth of infrastructure/construction goods fell to 1.7% in December 2021 from 3.1% in the previous month.
- Additionally, consumer non-durables slipped into a YoY contraction of 0.6% in December 2021, from the growth of 0.5% in November 2021, led by an unfavourable base (+1.9% in December 2020). In contrast, the YoY contraction in consumer durables narrowed to 2.7% in December 2021 (+6.5% in December 2020) from 5.4% in November 2021 (-3.2% in November 2020), despite an unfavourable base.
- Encouragingly, the IIP reverted to a growth of 2.6% in December 2021 relative to the pre-Covid levels, driven by electricity (+8.1%) and manufacturing (+2.5%), even as mining (-0.5%) continued to trail the pre-Covid level. Further, as many as 10 of the 23 sub-segments within manufacturing (with a substantial weight of 53.0% in the IIP) posted a higher output in the December 2021 vs. pre-Covid levels; this sub-set includes computer, electronic and optical products (+65.7%), other manufacturing (+30.2%), basic metals (+8.1%), pharma, medicinal chemical and botanical products (+4.8%), tobacco products (+3.3%), other non-metallic mineral products (+2.9%), coke and refined petroleum products (+2.8%), motor vehicles, trailers and semi-trailers (+2.1%), etc. On the other hand, 13 of the 23 sub-sectors (with a weight of 24.7% in the IIP) recorded a lower output in December 2021 relative to December 2019; this sub-set includes printing and reproduction of recorded media (-19.7%), other transport equipment (-18.5%), paper and paper products (-14.8%), wood and wood products (-13.1%), leather and related products (-13.0%), electrical equipment (-7.5%), etc.
- Five of the use-based categories surpassed their pre-Covid levels in December 2021, namely infrastructure/ construction goods (+4.8%), consumer durables (+3.6%), primary goods (+3.2%), intermediate goods (+2.6%), and consumer non-durables (+1.3%). In contrast, capital goods output was 2.5% lower in December 2021 as compared to December 2019.
- In MoM terms, industrial output rose by a healthy 7.5% in December 2021, led by electricity (+9.9%), mining (+7.6%) and manufacturing (+7.2%), in line with the sequential trend observed over the years. Interestingly, the sequential rise in manufacturing in December 2021 (+7.2%) was much lower than the rise in the generation of GST e-way bills (+17.1%) in that month. In addition, all six use-based categories witnessed a higher output in December 2021 relative to November 2021, led by consumer durables (+13.7%), capital goods (+10.7%), infrastructure/ construction goods (+8.4%), followed by consumer non-durables (+6.9%), intermediate goods (+6.4%), and primary goods (+5.7%).
- The YoY growth in the IIP in November 2021 has been revised mildly downwards to 1.3% from the initial 1.4%, driven by manufacturing (to +0.8% from an initial +0.9%) and mining (+4.9% vs. +5.0%), with the output of electricity remaining unchanged at 2.1%. Amongst the use-based categories, the performance of intermediate goods (+2.4% vs. +2.5%), infrastructure/construction goods (+3.1% vs. +3.8%), and consumer non-durables (+0.5% vs. +0.8%) was revised downwards in November 2021. On the other hand, the performance of capital goods (-2.0% vs. -3.7%) and consumer durables (-5.4% vs. -5.6%) was revised upwards, while that for primary goods remained unchanged at 3.5% in November 2021.
- In quarterly terms, the IIP growth recorded a broad-based moderation to 1.9% in Q3 FY2022 (+1.7% in Q3 FY2021) from 9.5% in Q2 FY2022 (-5.7% in Q2 FY2021), mainly led by a normalising base. The capital goods and consumer durables sectors witnessed a YoY decline of 2.8% and 3.8%, respectively, in Q3 FY2022, which dampened the manufacturing sector growth to a low 1.2% in that quarter (+8.6% in Q2 FY2022). Additionally, relative to the pre-Covid level of Q3 FY2020, the IIP recorded a modest growth of 3.6% in Q3 FY2022, led by electricity (+9.6%), manufacturing (+3.1%) and mining (+2.6%). In terms of the use-based categories, the performance of capital goods (-3.4%) recorded a deterioration in Q3 FY2022 relative to Q3 FY2020, whereas that of infrastructure/ construction goods (+9.2%), primary goods (+3.4%), intermediate goods (+3.4%), consumer non-durables (+2.9%) and consumer durables (+2.9%) witnessed an improvement.

OUTLOOK

After a broad-based improvement in the sequential momentum in December 2021, several high frequency indicators recorded a decline in MoM terms in January 2022, amidst the third wave of Covid-19 and the associated state-wise restrictions. These indicators include diesel consumption (-12.8% in January 2022), petrol consumption (-12.2%), vehicle registrations (-7.8%), non-oil merchandise exports (-5.0%), generation of GST e-way bills (-3.9%) and ports cargo traffic (-0.4%). In contrast, the output of Coal India Limited (CIL; +7.1%), rail freight traffic (+1.8%), and electricity generation (+1.7%) rose in January 2022 relative to the previous month.

In line with this, the YoY growth of many indicators moderated in January 2022, relative to December 2021, such as the generation of GST e-way bills (to +9.5% in January 2022 from +11.6% in December 2021), non-oil merchandise exports (to +19.4% from +28.3%; as per provisional data released by the Ministry of Commerce and Industry), ports cargo traffic (to -2.8% from -0.6%) and electricity generation (to +0.6% from +2.9%). Additionally, petrol and diesel consumption slipped into a contraction of 5.3% and 6.5%, respectively, in January 2022 (+4.1% and +1.7%, respectively, in December 2021). In contrast, the YoY performance of three indicators – rail freight traffic (to +7.7% from +7.2%), vehicle registration (to -10.8% from -16.1%) and CIL's output (to +6.7% from +3.3%) improved in January 2022 relative to December 2021.

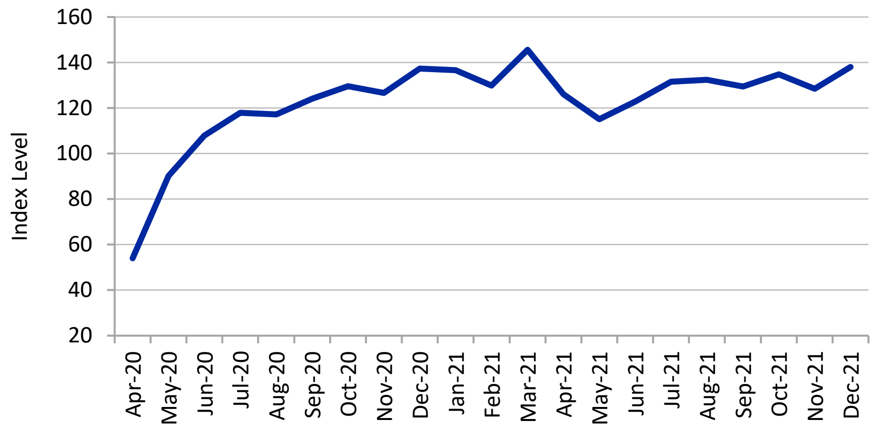
Unlike the adverse impact on contact-intensive services and mobility, the third wave has not been hugely disruptive for the industrial sector in January 2022, as evidenced by the mild sequential decline in the monthly average generation of GST e-way bills and rise in electricity generation and Coal India's output. Therefore, we expect the IIP growth to rise to 1-2% in YoY terms in January 2022, as the base effect eases. Subsequently, the daily average generation of GST e-way bills has risen to 2.3 million during February 1-6, 2022 relative to the average of 2.2 million recorded in the previous month, which implies that economic activity may stage a quick rebound with the abating of the third wave.

EXHIBIT 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 (%)										
Nov-21	1.3%	4.9%	0.8%	2.1%	3.5%	-2.0%	2.4%	3.1%	-5.4%	0.5%
Dec-21	0.4%	2.6%	-0.1%	2.8%	2.8%	-4.6%	0.3%	1.7%	-2.7%	-0.6%
MoM (%)										
Nov-21	-4.7%	1.8%	-4.8%	-11.6%	-1.6%	-8.1%	-3.0%	-7.8%	-17.1%	-0.1%
Dec-21	7.5%	7.6%	7.2%	9.9%	5.7%	10.7%	6.4%	8.4%	13.7%	6.9%
Quarterly growth (%)										
Q3 FY2022 vs. Q3 FY2021	1.9%	6.0%	1.2%	2.7%	5.0%	-2.8%	2.1%	3.8%	-3.8%	0.2%
Q3 FY2022 vs. Q3 FY2020	3.6%	2.6%	3.1%	9.6%	3.4%	-3.4%	3.4%	9.2%	2.9%	2.9%
Dec-21 vs. Dec-19	2.6%	-0.5%	2.5%	8.1%	3.2%	-2.5%	2.6%	4.8%	3.6%	1.3%

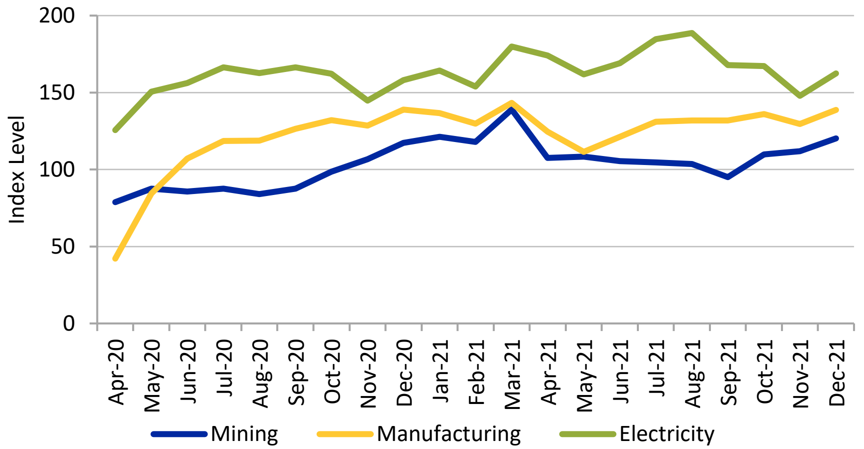
Source*: National Statistical Office (NSO); CEIC; ICRA Research*

EXHIBIT 2: Trend in IIP since April 2020



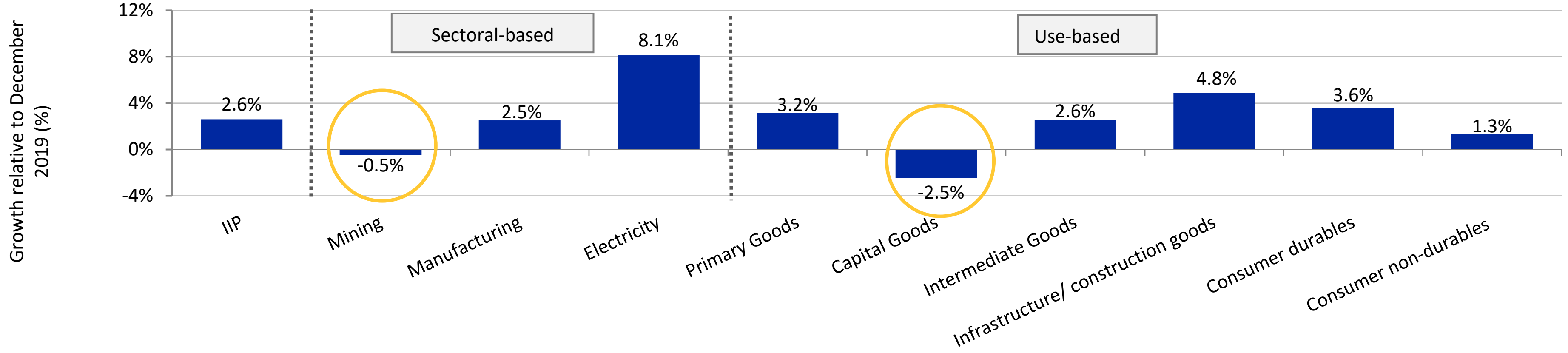
Source: *NSO; CEIC; ICRA Research*

EXHIBIT 3: Trend in index levels for mining, manufacturing and electricity since April 2020



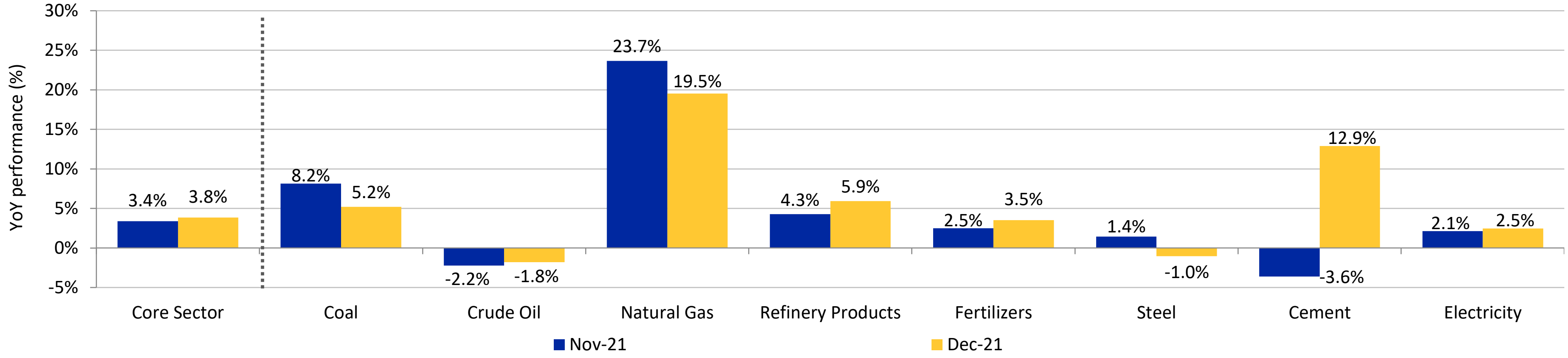
Source: *NSO; CEIC; ICRA Research*

EXHIBIT 4: Trend in performance of IIP and its sub-components in December 2021 relative to December 2019



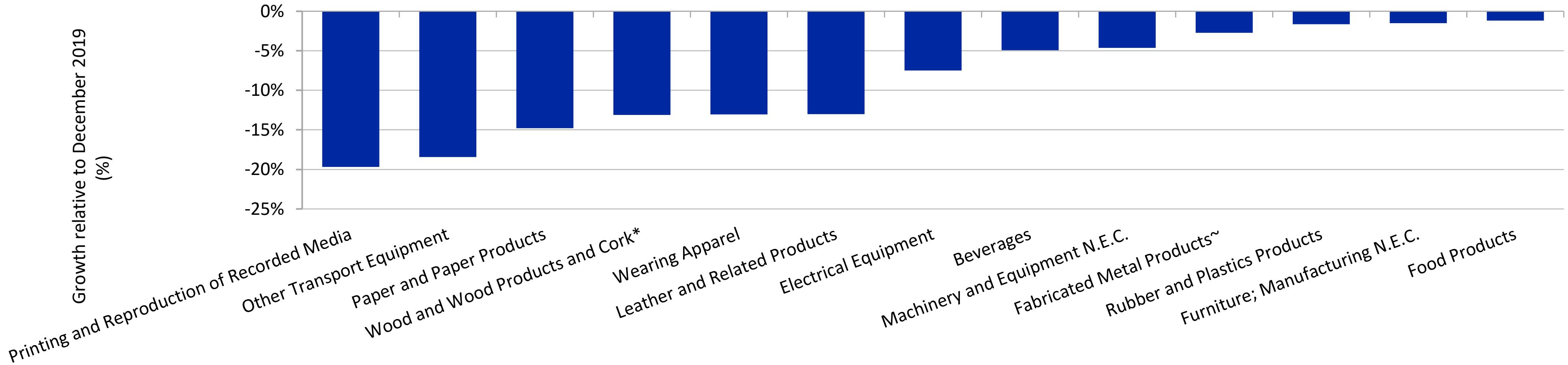
Source*: NSO; CEIC; ICRA Research*

EXHIBIT 5: YoY performance of core sector and its sub-components in November 2021 and December 2021



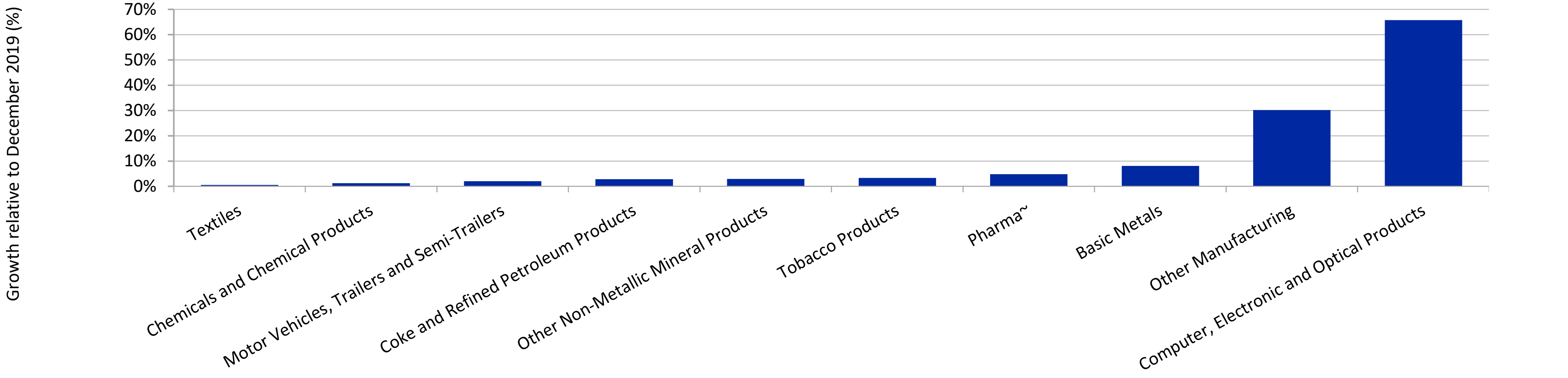
Source: *Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research*

EXHIBIT 6: Trend in performance of manufacturing sub-sectors in December 2021 relative to December 2019 (PART-I)



ex Furniture; Articles of Straw and Plaiting Materials; ~ex Machinery and Equipment;* ***Source:* *NSO; CEIC; ICRA Research*

EXHIBIT 7: Trend in performance of manufacturing sub-sectors in December 2021 relative to December 2019 (PART-II)



*~Including Medicinal Chemical and Botanical Products**; Source**: NSO; CEIC; ICRA Research*

EXHIBIT 8: 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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