

INDEX OF INDUSTRIAL PRODUCTION

**IIP growth printed at five-month high
of 5.7% in July 2023, higher than
expectations**

SEPTEMBER 2023



€ % \$





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IIP growth rose to a five-month high 5.7% in July 2023 from 3.8% in June 2023

YoY performance of most sub-sectors and use-based categories, apart from infra and intermediate goods, improved in July 2023, vis-à-vis June 2023

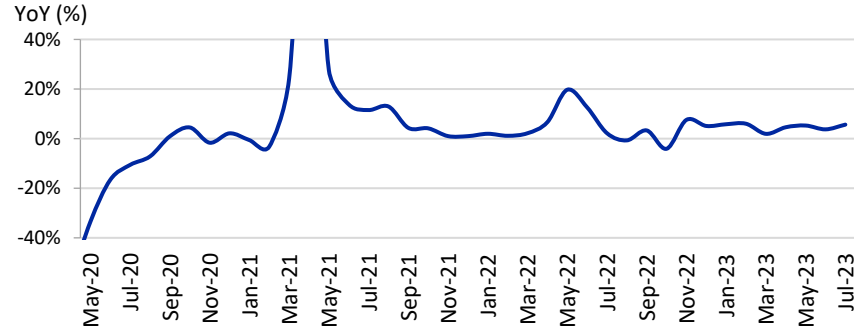
IIP growth is expected to rise to ~6-7% in August 2023, amid improved YoY performance of high frequency indicators, low base

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) improved to a five-month high of 5.7% in July 2023 (ICRA's exp.: +5.1%) from the revised 3.8% in June 2023, supported by a favourable base. This was led by a broad-based improvement across all sub-sectors and most use-based categories in July 2023 vis-à-vis June 2023, apart from intermediate goods and infrastructure/construction goods, even as the latter reported a double-digit growth for the fourth consecutive month. The consumer durables segment contracted for the second consecutive month in July 2023, albeit at a narrower pace, while also trailing the respective pre-Covid volumes, amidst a slowdown in exports of such items. Looking ahead, the YoY performance of most available high frequency indicators improved in August 2023, relative to July 2023; consequently, ICRA expects the YoY IIP growth to rise to ~6-7% in that month, partly supported by a low base (-0.7% in August 2022).

- **IIP growth rose to 5.7% in July 2023:** The IIP growth improved to 5.7% in July 2023 from 3.8% in June 2023 (ICRA's exp.: +5.1%), amidst a broad-based improvement across all the sub-sectors; output of manufacturing (to +4.6% from +3.1%), mining (to +10.7% from +7.6%), and electricity generation (to +8.0% from +4.2%).
- **YoY performance of most use-based categories improved in July 2023:** The YoY performance of primary goods (to +7.6% from +5.3%), capital goods (to +4.6% from +2.0%), consumer non-durables (to +7.4% from +0.3%), and consumer durables (to -2.7% from -6.7%; while contracting for second consecutive month) improved in July 2023, relative to June 2023. In contrast, the YoY expansion in infra/construction goods (to +11.4% from +12.9%) and intermediate goods (to +1.9% from +4.6%) moderated between these two months.
- **IIP exceeded pre-Covid levels by 7.7% in July 2023:** This was led by electricity generation (+19.6%) and mining (+11.7%), amid a relatively lower growth in manufacturing (+5.6%).
- **YoY IIP growth to rise to ~6-7% in August 2023:** The YoY performance of most available high frequency indicators improved in August 2023, relative to July 2023. This, along with a favourable base (-0.7% in August 2022), is expected to boost the IIP growth to ~6-7% in August 2023.

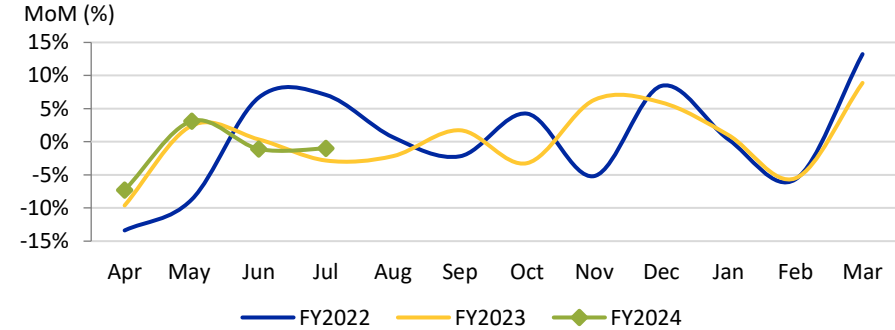
IIP growth improved to five-month high 5.7% in July 2023, partly led by favourable base

EXHIBIT: YoY trends in IIP



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

EXHIBIT: Month-on-month (MoM) trends in IIP

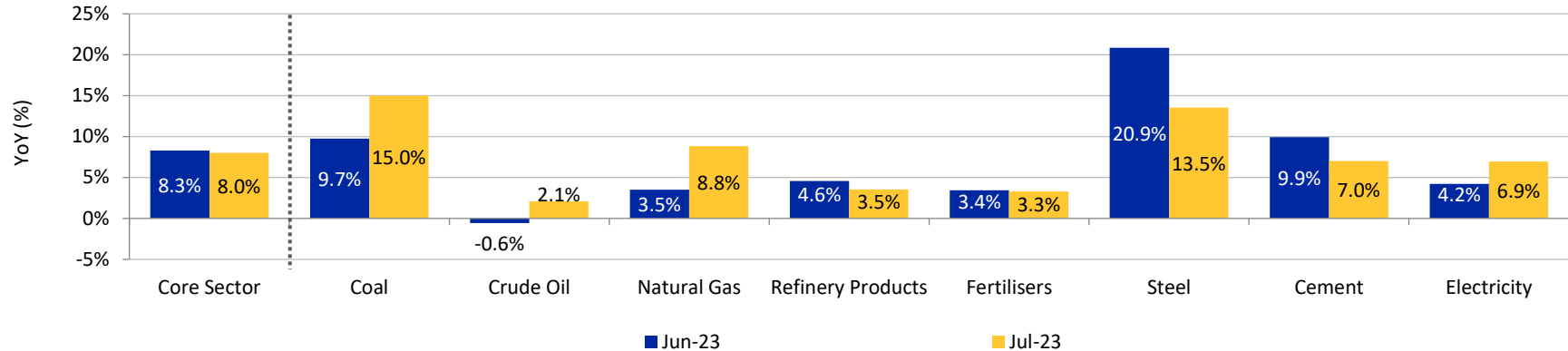


Source: NSO; CEIC; ICRA Research

- The YoY growth in the IIP rose to a five-month high 5.7% in July 2023 (+2.2% in July 2022) from the revised 3.8% in June 2023 (+12.6% in June 2022), partly supported by a favourable base. This was higher than ICRA's estimate of 5.1% for that month, on account of a better-than-expected performance of the manufacturing sector.
- The improvement in the IIP growth in July 2023, relative to June 2023 was broad-based across all sub-sectors such as the output of manufacturing (to +4.6% in July 2023 from +3.1% in June 2023), mining (to +10.7% from +7.6%), and electricity generation (to +8.0% from +4.2%).
- However, in sequential terms, the industrial output declined by a mild 1.0% in July 2023, led by mining (-8.5%) and electricity generation (-0.6%), even as manufacturing (+0.1%; lower than the MoM uptick of +2.2% seen in the generation of GST e-way bills) saw a marginal uptick. Moreover, this MoM decline in the IIP was narrower than the dip seen in July 2022 (-2.8%).

YoY expansion in IIP trailed that of the core sector for second straight month in July 2023

EXHIBIT: YoY performance of core sector and its sub-components in June 2023 and July 2023

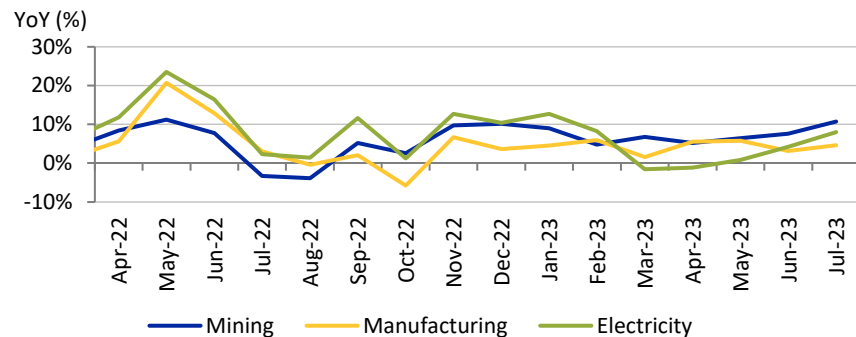


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; CEIC; ICRA Research

- The YoY expansion in the output of the core sector had dipped to 8.0% in July 2023 from 8.3% in June 2023, led by half of the sub-sectors.
- The YoY growth in the output of refinery products (to +3.5% in July 2023 from +4.6% in June 2023), steel (to +13.5% from +20.9%), fertilisers (to +3.3% from +3.4%), and cement (to +7.0% from +9.9%) had deteriorated in July 2023, vis-à-vis June 2023. This was partly offset by the healthy performance of the remaining four sub-sectors, with their YoY prints improving to multi-month highs in July 2023, such as coal (to a 13-month high +15.0% from +9.7%), crude oil (to a 14-month high +2.1% from -0.6%), natural gas (to a 17-month high +8.8% from +3.5%), and electricity generation (to +6.9% from +4.2%).
- Notably, the YoY expansion in the IIP sharply trailed the 8.0% YoY growth recorded in the core sector output (with a weight of 40.3% in the IIP) in July 2023, for the second consecutive month. Interestingly, the growth in electricity generation in the IIP (+8.0%) was higher than the same in the core data (+6.9%) in August 2023, at odds with the trends seen in the recent past.

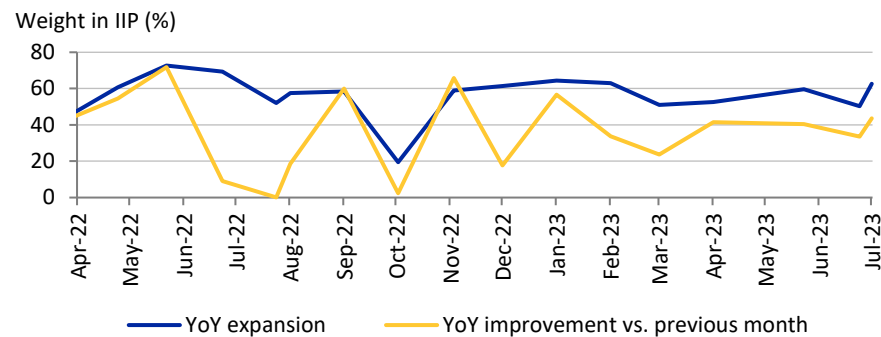
YoY performance of all sub-sectors saw broad-based improvement in July 2023, relative to June 2023

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

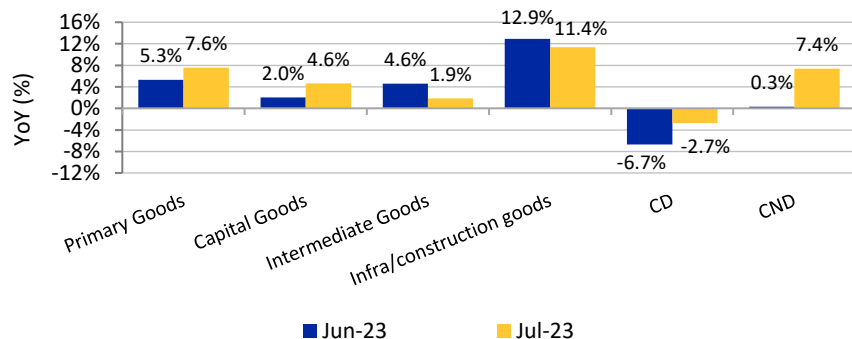


Source: NSO; CEIC; ICRA Research

- The YoY expansion in all sub-sectors witnessed a broad-based improvement in July 2023, vis-à-vis June 2023, including mining output (to a 14-month high +10.7% in July 2023 from +7.6% in June 2023, in line with the trends in coal, crude oil, and natural gas output), electricity generation (nearly-doubling to a five-month high +8.0% from +4.2%), and manufacturing output (to +4.6% from +3.1%).
- Notably, 14 of the 23 sub-sectors of manufacturing (with a considerable weight of 62.7% in the IIP) displayed a YoY growth in July 2023, while the output of the remaining nine sub-sectors (with a lower weight of 14.9% in the IIP) contracted in the month.
- Further, 15 sub-sectors (with a weight of 43.6% in the IIP) witnessed an improvement in their YoY performance in July 2023, relative to the previous month; this sub-set includes textiles, beverages, coke and refined petroleum products, etc. In contrast, eight of the 23 sub-sectors of manufacturing (with a lower weight of 34.0% in the IIP) recorded a deterioration in their YoY performance in July 2023, relative to June 2023; this sub-set includes chemicals and chemical products, basic metals, machinery and equipment, etc.

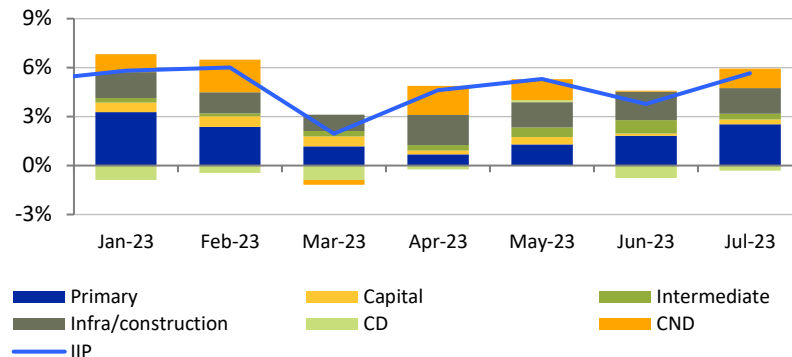
Four of the six use-based categories witnessed improvement in YoY performance in July 2023 vis-à-vis June 2023

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

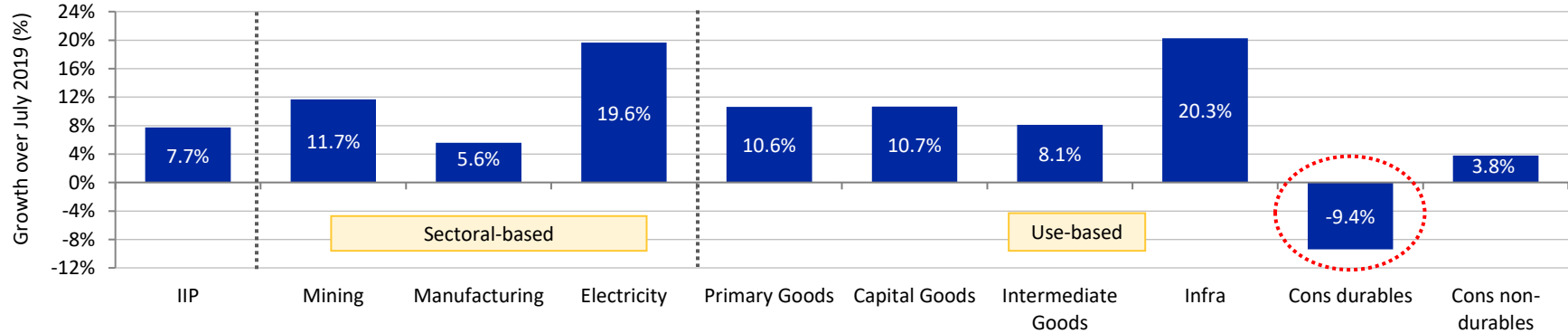


*CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research

- The YoY performance of most use-based categories recorded an improvement in July 2023, vis-à-vis June 2023, aided by a low base. This sub-set includes the output of primary goods (to a six-month high +7.6% in July 2023 from +5.3% in June 2023), capital goods (more-than-doubling to +4.6% from +2.0%), and consumer non-durables (to +7.4% from +0.3%). While the output of consumer durables continued to contract for the second consecutive month in July 2023, amidst the sustained YoY dip in the exports of certain items such as readymade garments (-17.3%), plastic and linoleum (-19.0%), etc., the pace of contraction narrowed to 2.7% in the month from 6.7% in June 2023.
- In contrast, the YoY expansion in the output of infra/construction goods (to +11.4% from +12.9%, in line with the moderation in steel and cement output, amid excess rainfall in July 2023) and intermediate goods (to +1.9% from +4.6%) weakened in July 2023, vis-à-vis June 2023.
- All the use-based categories (apart from consumer durables: +1.0% and consumer non-durables: +4.0%) recorded an MoM decline in July 2023, led by capital goods (-4.6%), primary goods (-3.4%), infrastructure/construction goods (-1.1%), and intermediate goods (-1.0%).

IIP exceeded pre-Covid levels by ~8% in July 2023 even as consumer durables segment lagged

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

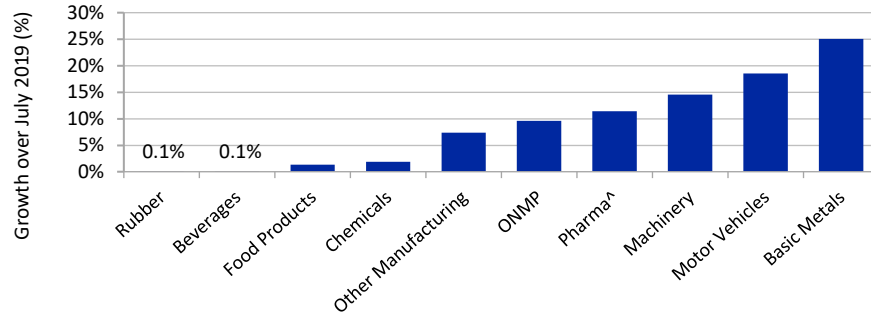


*Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- The IIP was 7.7% higher in July 2023 relative to the pre-Covid levels of July 2019, benefitting from a double-digit expansion in electricity generation (+19.6%) and mining (+11.7%), followed by a relatively lower growth in manufacturing (+5.6%).
- Moreover, five of the six use-based categories exceeded their respective pre-Covid levels in July 2023, with a healthy expansion in infra/construction goods (+20.3%), primary goods (+10.6%), capital goods (+10.7%), and intermediate goods (+8.1%), followed by a relatively moderate growth in consumer non-durables (+3.8%).
- In contrast, consumer durables continued to trail the pre-Covid volumes in July 2023 by 9.4%, likely owing to a continued lower demand appetite for such items amid stronger consumer preferences towards services, and a decline in exports for such goods.

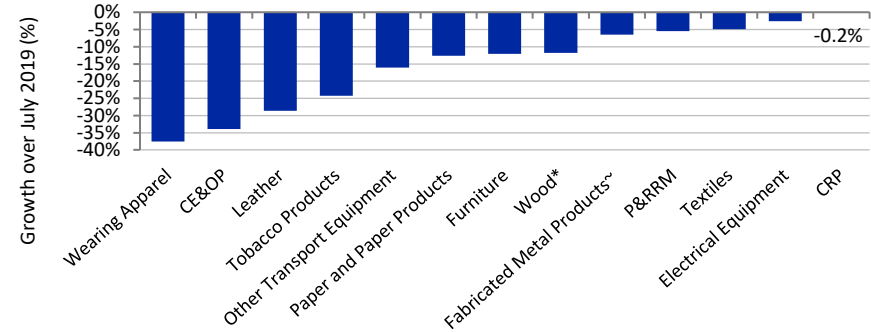
Output of 10 of the 23 manufacturing sub-sectors exceeded pre-Covid levels in July 2023, with a combined weight of ~49% in IIP

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



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

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



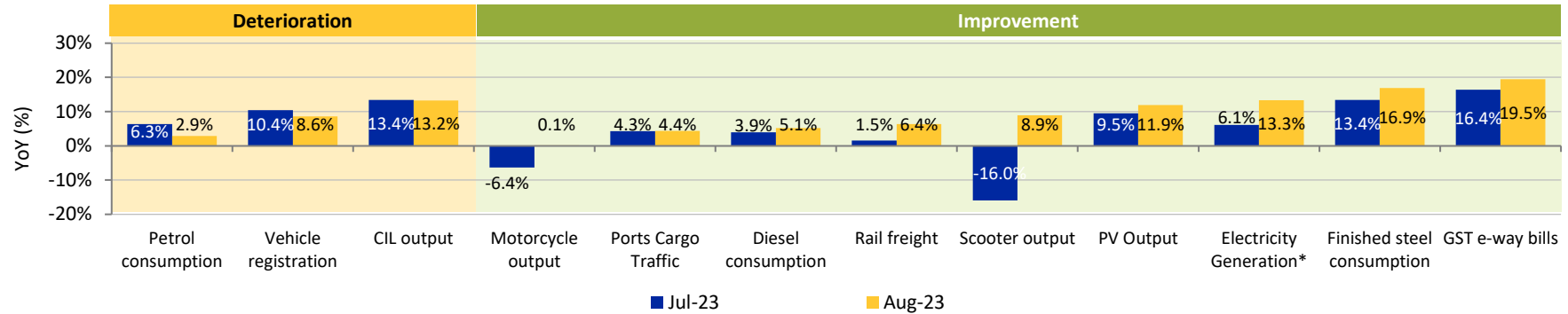
*ex Furniture; Articles of Straw and Plaiting Materials; ~ex Machinery and Equipment; Source: NSO; CEIC; ICRA Research

- Compared to the pre-Covid levels of July 2019, only 10 of the 23 sub-segments of the manufacturing sector (albeit with a sizeable weight of 49.1% in the IIP) recorded a higher output in July 2023; this subset includes basic metals (expansion over pre-Covid: +25.1%; weight: 12.8%), chemicals and chemical products (+1.9%; 7.9%), food products (+1.4%; 5.3%), motor vehicles, trailers and semi-trailers (+18.5%; 4.9%), etc.
- In contrast, the output of as many as 13 of the 23 sub-sectors (with a relatively lower weight of 28.6% in the IIP) in July 2023 trailed the July 2019 levels; this sub-set includes wearing apparel (-37.5%; 1.3%), leather and related products (-28.6%; 0.5%), fabricated metals (-6.4%; 2.7%), textiles (-4.9%; 3.3%), etc., with some segments partly dampened by the recent weakness in external demand.

Machinery: Machinery and Equipment N.E.C.; Wood: Wood and Wood Products; Rubber: Rubber and plastic 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

OUTLOOK: Performance of available high frequency indicators suggests robust IIP growth at ~6-7% in August 2023

EXHIBIT: YoY trends of high frequency indicators



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

- The YoY performance of most available high frequency indicators improved in August 2023, relative to July 2023. This subset includes output of passenger vehicles (to +11.9% in Aug 2023 from +9.5% in Jul 2023), scooters (to +8.9% from -16.0%), and motorcycles (to +0.1% from -6.4%), diesel sales (to +5.1% from +3.9%), generation of GST e-way bills (to +19.5% from +16.4%), cargo traffic at major ports (to a six-month high +4.4% from +4.3%, led by POL and containers), rail freight traffic (to an 11-month high +6.4% from +1.5%, led by coal, containers, POL, etc.), electricity generation (to +13.3% from +6.1%; amidst below-normal rainfall in Aug 2023), and finished steel consumption (to +16.9% from +13.4%).
- In contrast, the pace of YoY expansion in the output of Coal India Limited (to +13.2% from +13.4%), vehicle registrations (to +8.6% from +10.4%) and petrol sales (to +2.9% from +6.3%), decelerated in August 2023, relative to July 2023, although the latter two remained quite robust.
- Based on these trends as well as a favourable base (-0.7% in August 2022), ICRA expects the YoY IIP growth to witness an uptick to ~6-7% in August 2023.

Annexure A.1

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 (%) | | | | | | | | | | |
| June-23 | 3.8% | 7.6% | 3.1% | 4.2% | 5.3% | 2.0% | 4.6% | 12.9% | -6.7% | 0.3% |
| July-23 | 5.7% | 10.7% | 4.6% | 8.0% | 7.6% | 4.6% | 1.9% | 11.4% | -2.7% | 7.4% |
| MoM (%) | | | | | | | | | | |
| June-23 | -1.1% | -4.5% | -0.9% | 1.8% | -2.1% | 3.8% | -1.9% | -0.2% | 1.4% | -1.8% |
| July-23 | -1.0% | -8.5% | 0.1% | -0.6% | -3.4% | -4.6% | -1.0% | -1.1% | 1.0% | 4.0% |
| July-23 vs. July-19 | 7.7% | 11.7% | 5.6% | 19.6% | 10.6% | 10.7% | 8.1% | 20.3% | -9.4% | 3.8% |

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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