

INDEX OF INDUSTRIAL PRODUCTION

YoY IIP growth rose marginally to 4.8% in July 2024; expected to print at sub-3% in August 2024, amid excess rainfall and high base

SEPTEMBER 2024





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IIP growth inched up to 4.8% in July 2024 from 4.7% in June 2024

Improvement in IIP growth was led by uptick in YoY expansion of manufacturing output, partly offset by deceleration in that for electricity generation and mining output

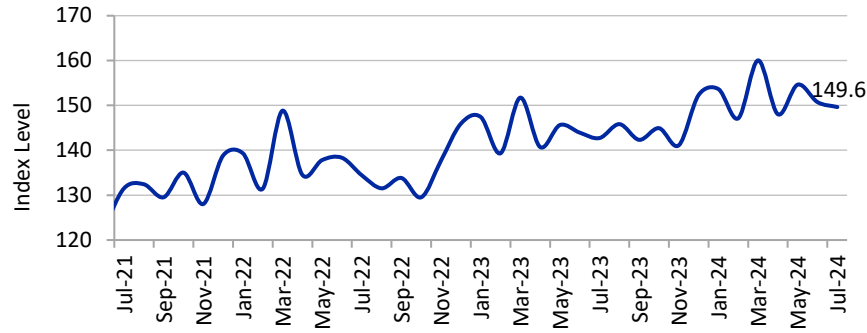
IIP growth is likely to ease to sub-3% in August 2024

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) inched up marginally to 4.8% in July 2024 from 4.7% in June 2024, in contrast with ICRA's expectations of a slowdown in that month (+3.6%). This was driven by an improvement in the growth of manufacturing output in July 2024 vis-à-vis June 2024, even as the pace of expansion in mining output and electricity generation deteriorated, owing to the surplus rainfall in the month. Notably, four of the six use-based segments, excluding capital and intermediate goods, saw a deceleration in their performance in July 2024 vis-à-vis June 2024, signalling that economic activity remains uneven. Overall, ICRA anticipates the YoY IIP growth to ease to sub-3.0% in August 2024, amidst a deterioration in the YoY performance of most available high frequency indicators in that month, a dip in electricity and mining output owing to excess rains, and an adverse base (+10.9% in August 2023 vs. +6.2% in July 2023).

- **IIP growth rose marginally to 4.8% in July 2024:** The YoY growth in the IIP unexpectedly inched up to 4.8% in July 2024 from 4.7% in June 2024. This was driven by an uptick in the YoY expansion of manufacturing output (to +4.6% from +3.2%), while that for mining output (to +3.7% from +10.3%) and electricity generation (to +7.9% from +8.6%) weakened in July 2024 vis-à-vis June 2024, owing to surplus rainfall seen in the month.
- **Sequential dip in IIP in July 2024 narrower than that seen in July 2023:** In month-on-month (MoM) terms, the IIP fell by 0.7% in July 2024, slightly narrower than the 0.8% contraction seen in July 2023. This was driven by a higher MoM uptick in manufacturing output (+1.6% vs. +0.4%) in July 2024, vis-à-vis July 2023, partly offset by the weaker performance of mining output (-14.0% vs. -8.5%) and electricity generation (-1.2% vs. -0.6%).
- **IIP growth to print at sub-3% in August 2024:** ICRA anticipates the YoY IIP growth to ease to sub-3.0% in August 2024, amidst a deterioration in the YoY growth of most available high frequency indicators in that month, a contraction in electricity and mining output owing to excess rains, as well as an adverse base (+10.9% in August 2023 vs. +6.2% in July 2023).

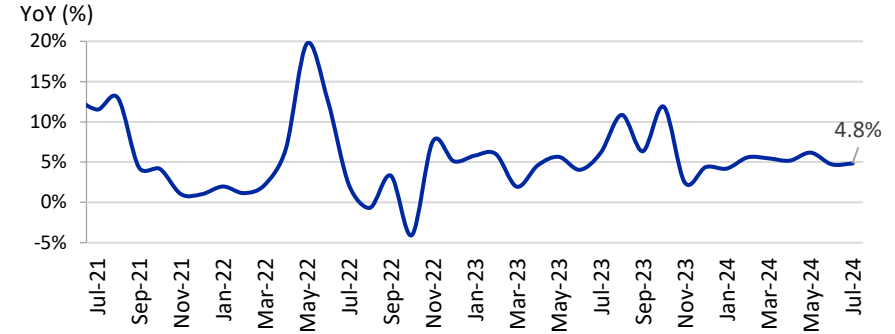
YoY expansion in IIP unexpectedly rose to 4.8% in July 2024 from 4.7% in June 2024

EXHIBIT: Trends in index levels of IIP



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

EXHIBIT: Trends in YoY growth of IIP

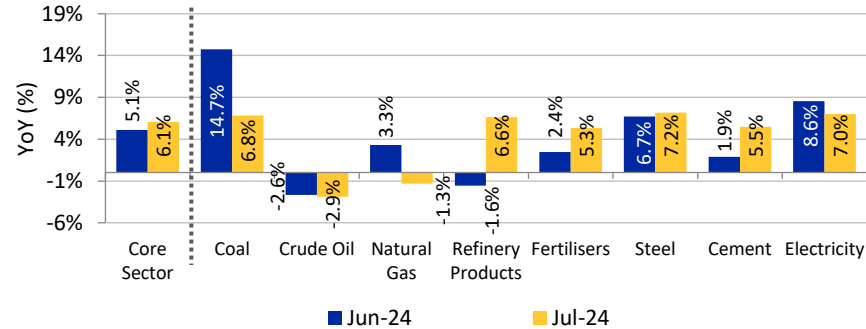


Source: NSO; CEIC; ICRA Research

- The YoY growth in the IIP inched up to 4.8% in July 2024 (+6.2% in July 2023) from 4.7% June 2024 (+4.0% in June 2023), despite an unfavourable base, and in contrast with ICRA's expectations of a slowdown in the month (+3.6%).
- The improvement in the IIP growth was driven by the uptick in the YoY growth of manufacturing output to 4.6% in July 2024 (+5.3% in July 2023) from 3.2% in June 2024 (+3.5% in June 2023), notwithstanding the adverse base.
- In contrast, the pace of YoY expansion in mining output moderated sharply to a four-month low of 3.7% in July 2024 from 10.3% in June 2024, driven by the slower growth in the output of coal, crude oil and natural gas. Additionally, the YoY growth in electricity generation (to a five-month low +7.9% from +8.6%) also eased in July 2024, relative to June 2024, amid an adverse base (+8.0% in July 2023) and a moderation in demand owing to the pick-up in rainfall in July 2024.

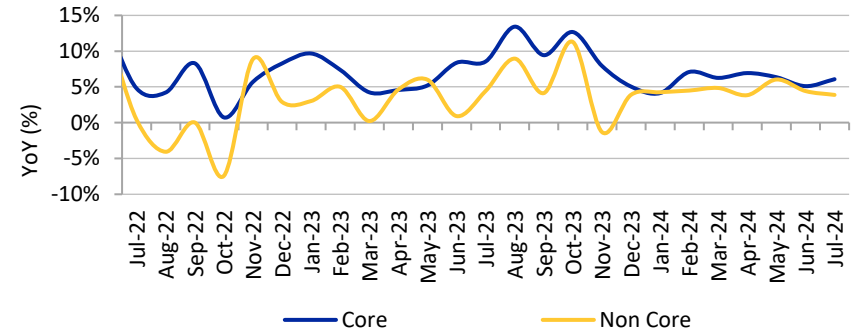
YoY growth in IIP trailed that of the core sector output in July 2024 for sixth straight month

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

EXHIBIT: YoY trends in output of core and non-core sectors of the IIP

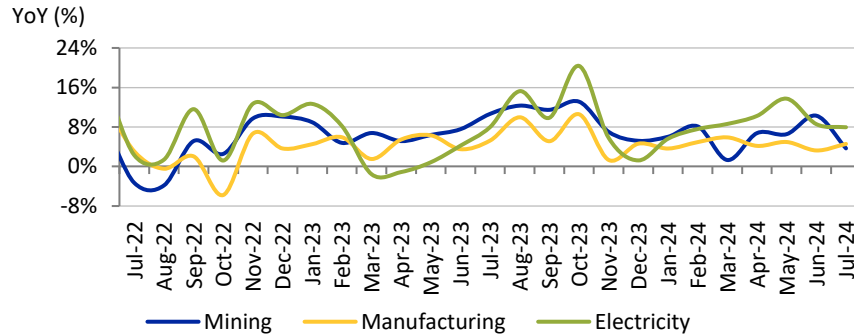


The non-core output is computed by excluding core output from the IIP; Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; CEIC; ICRA Research

- While the YoY growth in core sector output rose to 6.1% in July 2024 from 5.1% in June 2024, the improvement was not broad based with half of the eight constituents reporting a weaker print vis-à-vis the previous month. These largely pertain to the energy sector, such as coal (to a 21-month low of +6.8% in July 2024 from +14.7% in June 2024), electricity generation (to a six-month low of +7.0% from +8.6%), crude oil (to a 15-month low of -2.9% from -2.6%), and natural gas (that turned negative after a gap of 13 months to -1.3% from +3.3%), with the former two impacted by excess rainfall in the month.
- In contrast, the YoY performance of the infra-related sectors such as steel (to +7.2% from +6.7%) and cement (to +5.5% from +1.9%) output improved in July 2024 vis-à-vis June 2024. Additionally, fertilisers (to +5.3% from +2.4%) and refinery products (to +6.6% from -1.6%) reported the highest growth in seven and eight months, respectively.
- Notably, the YoY IIP growth (+4.8%) trailed the 6.1% YoY expansion seen in the core sector output (weight in IIP: 40.3%), for the sixth consecutive month in July 2024, owing to the lower growth in the output of the non-core sector (+3.9%).

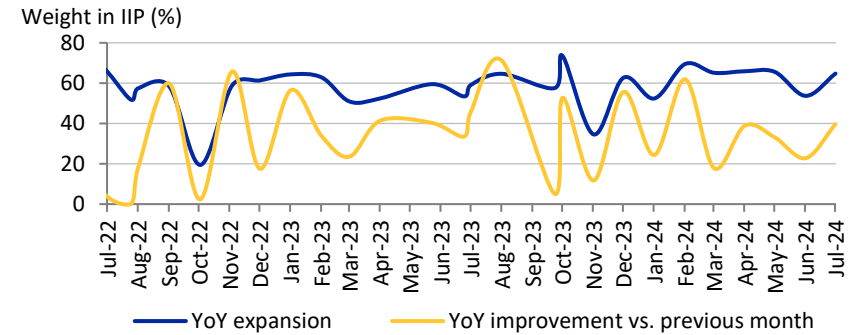
Uptick in manufacturing output growth in July 2024 vis-à-vis June 2024 was driven by 13 of the 23 sub-sectors

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

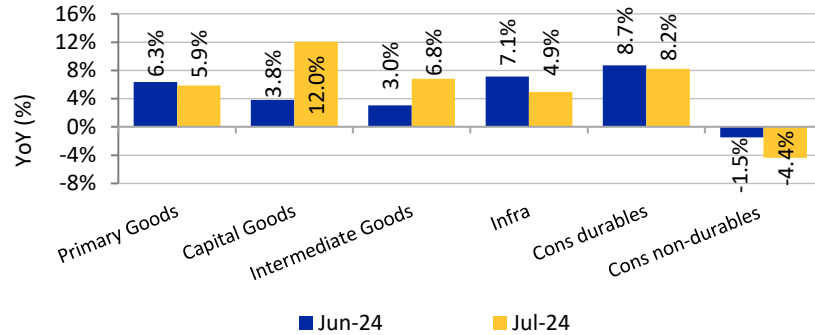


Source: NSO; CEIC; ICRA Research

- Within the manufacturing segment, the YoY performance of 13 of the 23 sub-sectors (with a relatively large weight of 39.8% in the IIP) improved in July 2024 relative to June 2024; this subset includes coke and refined petroleum products, textiles, chemicals and chemical products, etc.
- In contrast, the output of the remaining 10 sub-sectors (with a lower weight of 37.9% in the IIP) witnessed a deterioration in their YoY performance in July 2024 vis-à-vis June 2024. This sub-set includes food products, basic metals, other non-metallic mineral products, etc.
- Notably, the production of 18 of the 23 sub-sectors of manufacturing (with a sizeable weight of 64.9% in the IIP) increased on a YoY basis in July 2024, while the output of the remaining five sub-sectors (with a lower weight of 12.8% in the IIP) contracted in that month.

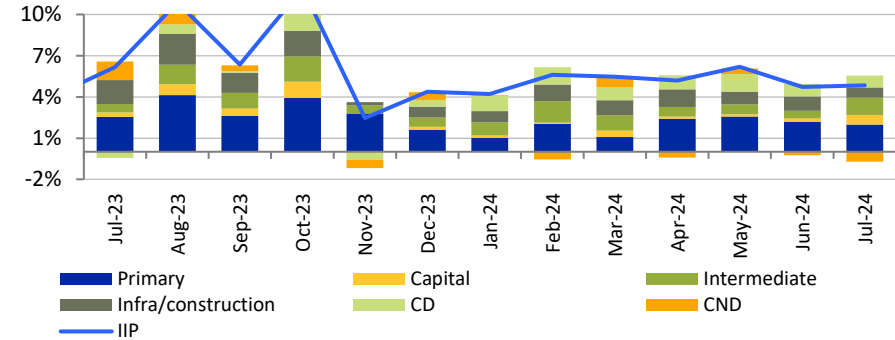
YoY performance of four of the six use-based categories deteriorated in July 2024, reflecting unevenness in economic activity

EXHIBIT: YoY trends in IIP (use-based)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Contribution to IIP growth by use-based categories

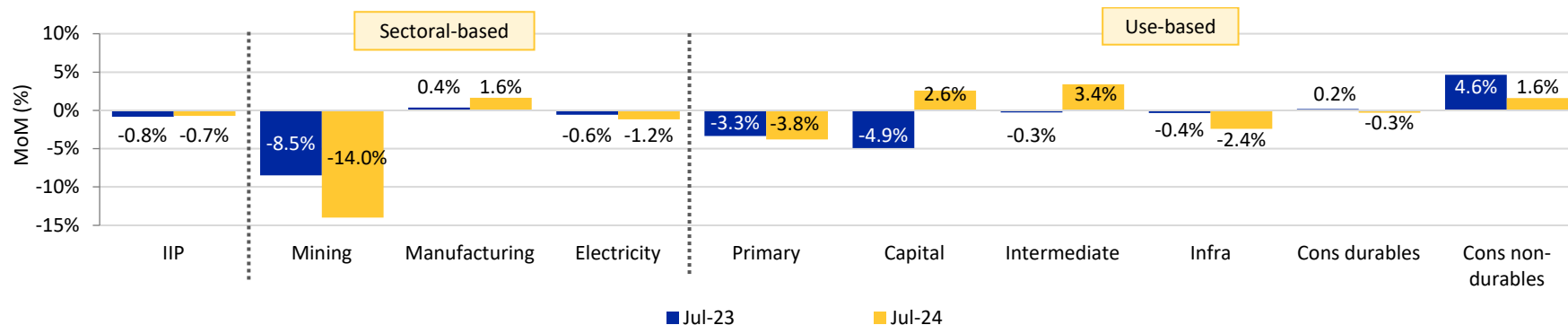


*CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research

- The YoY performance of four of the six use-based categories deteriorated to multi-month lows in July 2024 vis-à-vis June 2024, signalling that economic activity remains uneven. The YoY performance of consumer durables (to a seven-month low of +8.2% in July 2024 from +8.7% in June 2024), consumer non-durables (to a 21-month low of -4.4% from -1.5%), primary goods (to a four-month low of +5.9% from +6.3%), and infrastructure/construction goods (to an eight-month low of +4.9% from +7.1%) output deteriorated between these months.
- In contrast, the YoY growth in the output of capital (to a nine-month high of +12.0% from +3.8%) and intermediate (to a five-month high of +6.8% from +3.0%) goods saw an improvement in July 2024, relative to June 2024.
- Notably, the output of consumer durables trailed the corresponding pre-Covid levels by 2.8% in July 2024, while all the other categories exceeded the same.

Sequential decline in July 2024 was narrower than that seen in July 2023

EXHIBIT: MoM trends in IIP and its sub-components

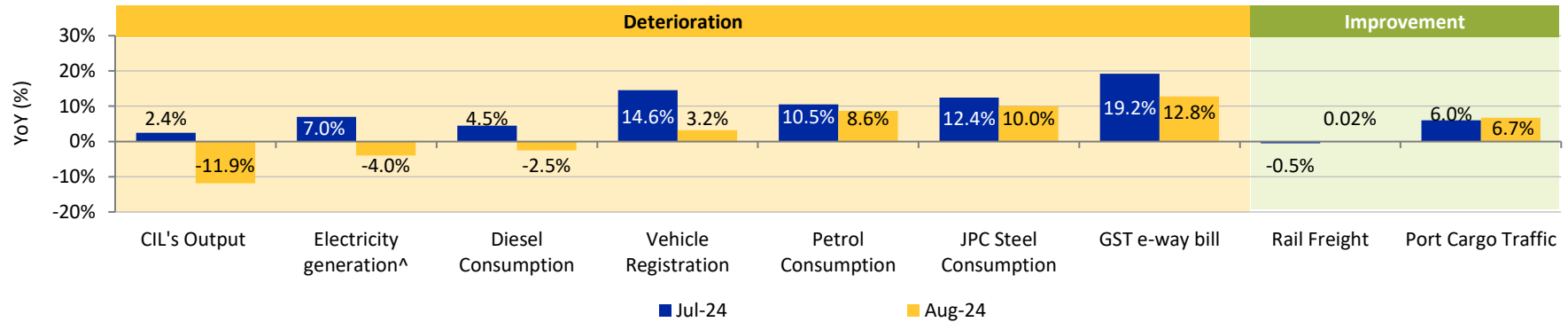


Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- In sequential terms, industrial output declined by 0.7% in July 2024, slightly lower than the 0.8% contraction seen in July 2023. The narrower MoM dip was driven by a higher sequential uptick in the output of manufacturing (+1.6% in July 2024 vs. +0.4% in July 2023) in July 2024, vis-à-vis July 2023. This was partly offset by the weaker performance of mining output (-14.0% vs. -8.5%) and electricity generation (-1.2% vs. -0.6%) during this period.
- Moreover, four of the six use-based categories of the IIP witnessed a weaker MoM performance in July 2024 relative to the year ago level. This includes consumer durables (-0.3% in July 2024 vs. +0.2% in July 2023), consumer non-durables (+1.6% vs. +4.6%), infrastructure/construction goods (-2.4% vs. -0.4%), and primary goods (-3.8% vs. -3.3%). In contrast, the output of intermediate (+3.4% vs. -0.3%) and capital (+2.6% vs. -4.9%) goods saw a higher sequential uptick in July 2024, relative to 2023.

OUTLOOK: IIP growth to print at sub-3% in August 2024 amid dip in electricity and mining output owing to excess rains, as well as an adverse 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: CIL; CEA; GSTN; PPAC; Vahan Portal; IPA; JPC; CEIC; Railways; ICRA Research

- The YoY performance of the available high frequency indicators reveals that the growth in economic activity deteriorated in August 2024 relative to July 2024.
- The output of Coal India Limited (-11.9% in August 2024 vs. +2.4% in July 2024; at 46.1 million tones, the lowest level since September 2022) and electricity generation (-4.0% vs. +7.0%; partly on account of an adverse base) contracted steeply in August 2024, with excess rainfall affecting mining activity and power demand in the month. Further, the YoY performance of some mobility-related indicators including vehicle registrations (to +3.2% from +14.6%; with excessive rainfall possibly leading to a deferment of purchases), and diesel consumption (to -2.5% from +4.5%) also moderated between these months.
- Additionally, the pace of expansion in finished steel consumption (to +10.0% from +12.4%), GST e-way bills (to +12.8% from 19.2%), and petrol consumption (to +8.6% from +10.5%) deteriorated in August 2024 vis-à-vis July 2024, while remaining quite healthy. While rail freight traffic remained largely unchanged vis-à-vis year ago levels (vs. -0.5% in July 2024), the growth in cargo traffic at major ports improved (to +6.7% from +6.0%), led by iron ore, raw fertilisers, and other cargo.
- **Overall, ICRA anticipates the YoY growth in the IIP to ease to sub-3.0% in August 2024, amid contraction in electricity and mining output owing to excess rains, as well as an adverse base (+10.9% in August 2023 vs. +6.2% in July 2023).**

Annexure A.1.

Table A.1: Trends 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-24	4.7%	10.3%	3.2%	8.6%	6.3%	3.8%	3.0%	7.1%	8.7%	-1.5%
July-24	4.8%	3.7%	4.6%	7.9%	5.9%	12.0%	6.8%	4.9%	8.2%	-4.4%
MoM (%)										
June-24	-2.5%	-1.2%	-2.7%	-2.8%	-3.0%	5.6%	-2.5%	-0.5%	-2.5%	-5.9%
July-24	-0.7%	-14.0%	1.6%	-1.2%	-3.8%	2.6%	3.4%	-2.4%	-0.3%	1.6%
July-24 / July-19	13.5%	15.8%	11.1%	29.1%	17.2%	24.6%	17.0%	27.6%	-2.8%	0.1%

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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Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, and Head- Research and Outreach	aditin@icraindia.com	0124- 4545 385
Rahul Agrawal	Senior Economist	rahul.agrawal@icraindia.com	022 – 6114 3425
Aarzoo Pahwa	Economist	aarzoo.pahwa@icraindia.com	0124 – 4545 835
Tiasha Chakraborty	Senior Associate Economist	tiasha.chakraborty@icraindia.com	0124- 4545 848
Isha Sinha	Associate Economist	isha.sinha@icraindia.com	022 – 6114 3445





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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