

INDEX OF INDUSTRIAL PRODUCTION

YoY IIP growth eased to five-month low of 4.2% in June 2024; expected to print at 2.5-4.5% in July 2024, amid high base

AUGUST 2024





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IIP growth moderated to a five-month low of 4.2% in June 2024 from 6.2% in May 2024

Deterioration in IIP growth was led by deceleration in YoY expansion of manufacturing output and electricity generation; mining output growth saw an improvement

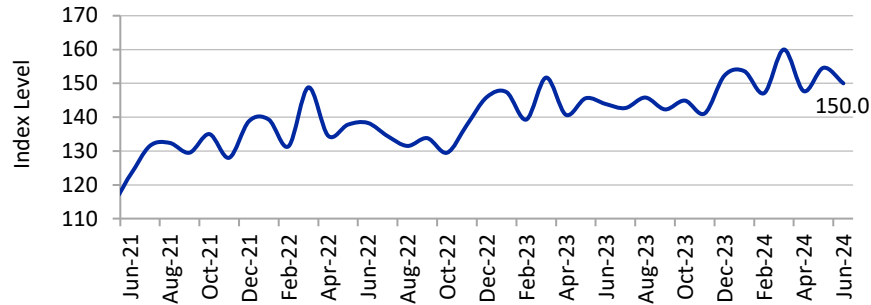
IIP growth is likely to print at 2.5-4.5% in July 2024

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) moderated to a five-month low of 4.2% in June 2024 from 6.2% in May 2024, while marginally trailing ICRA's expectations (+4.5%). This was driven by a deterioration in the growth of manufacturing output and electricity generation. Notably, the YoY performance of all the six use-based categories saw a broad based moderation in June 2024, relative to May 2024, with the output of consumer non-durables reverting to a YoY contraction in that month. While the IIP growth remained stable at 5.1% in Q1 FY2025 vis-à-vis Q4 FY2024, a compression in margins is likely to weigh on industrial GVA growth in the quarter. Amidst the mixed trends in the available high frequency data for July 2024, ICRA anticipates the YoY IIP growth to print at 2.5-4.5% in that month, given an adverse base (+6.2% in July 2023).

- **IIP growth eased to 4.2% in June 2024:** The YoY growth in the IIP deteriorated to a five-month low of 4.2% in June 2024 from 6.2% in May 2024, marginally trailing ICRA's expectations (+4.5%) for the month. This was driven by a moderation in the YoY expansion of manufacturing output (to +2.6% from +5.0%; despite a low base) and electricity generation (to +8.6% from +13.7%; amid an adverse base), even as that for mining output (to +10.3% from +6.6%) improved in June 2024 vis-à-vis May 2024.
- **Sequential dip in IIP in June 2024 wider than that seen in June 2023:** In month-on-month (MoM) terms, the IIP fell by 3.0% in June 2024, sharper than the 1.2% contraction seen in June 2023. This was driven by a weaker performance in manufacturing output (-3.3% in June 2024 vs. -1.0% in June 2023) and electricity generation (-2.8% vs. +1.8%) in June 2024 vis-à-vis June 2023. In contrast, the output of mining (-1.2% vs. -4.5%) recorded a narrower sequential dip in June 2024, relative to 2023.
- **IIP growth to print at 2.5-4.5% in July 2024:** Amidst the mixed trends in the available high frequency data for July 2024, ICRA anticipates the YoY IIP growth to print at 2.5-4.5% in that month, given an adverse base (+6.2% in July 2023).

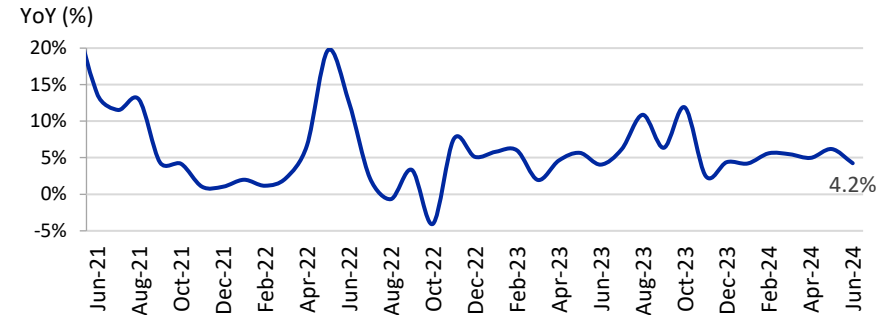
YoY expansion in IIP eased to five-month low of 4.2% in June 2024 from 6.2% in May 2024, marginally trailing ICRA's expectations

EXHIBIT: Trends in index levels of IIP



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

EXHIBIT: Trends in YoY growth of IIP

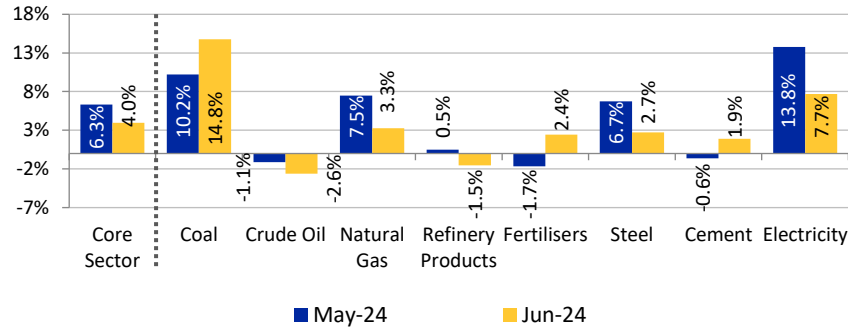


Source: NSO; CEIC; ICRA Research

- The YoY growth in the IIP expectedly moderated to a five-month low of 4.2% June 2024 (+4.0% in June 2023) from 6.2% in May 2024 (+5.7% in May 2023), while marginally trailing ICRA's expectations for the month (+4.5%).
- The deterioration in the IIP growth was driven by the slower growth in manufacturing output (to a seven-month low +2.6% in June 2024 from +5.0% in May 2024; despite a low base) and electricity generation (to a four-month low +8.6% from +13.7%) in June 2024, relative to May 2024, amidst an adverse base as well as a decline in the demand for the latter owing to the onset of monsoon across some parts of the country in June 2024.
- In contrast, the YoY growth in mining output (to an eight-month high +10.3% from +6.6%) improved in June 2024, vis-à-vis May 2024, driven by an uptick in the growth in coal output (to an eight-month high +14.8% from +10.2%).

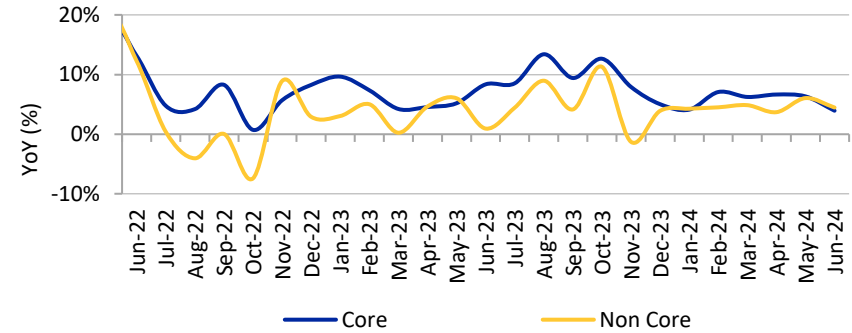
YoY growth in IIP exceeded that of the core sector output in June 2024, after a gap of four months

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

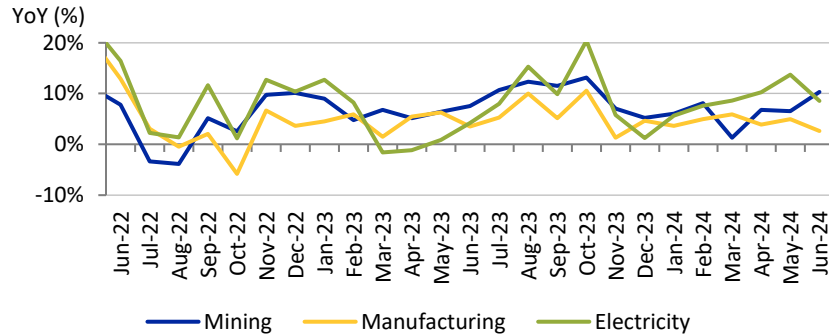


The non-core output is computed by excluding core output from the IIP; Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; CEIC; ICRA Research

- The YoY core sector expansion slid to a 20-month low of 4.0% in June 2024, led by a moderation in growth or deeper contraction in five of the eight constituents, barring coal (to an eight-month high +14.8% in June 2024 from +10.2% in May 2024), fertilisers (to a six-month high +2.4% from -1.7%), and cement (to +1.9% from -0.6%). With the onset of the monsoon and the dissipation of a favourable base, the growth in electricity generation reverted to single digits in June 2024 after a gap of two months, while remaining healthy at 7.7%.
- Infrastructure-related sectors such as steel and cement saw a muted expansion in June 2024 amidst low Government capex and monsoon-led slowdown in construction activities. Additionally, the output of refinery products slipped into a YoY contraction of 1.5% in June 2024 (five-month low; +0.5% in May 2024), while the output of crude oil (to a 14-month low -2.6% in June 2024 from -1.1% in May 2024) and natural gas (to a 12-month low of +3.3% from +7.5%) also declined in the month.
- Notably, the overall YoY IIP growth (+4.2%) exceeded the 4.0% YoY expansion seen in the core sector output (weight in IIP: 40.3%), after a gap of four months in June 2024, owing to the higher growth in the output of the non-core sector (+4.5%).

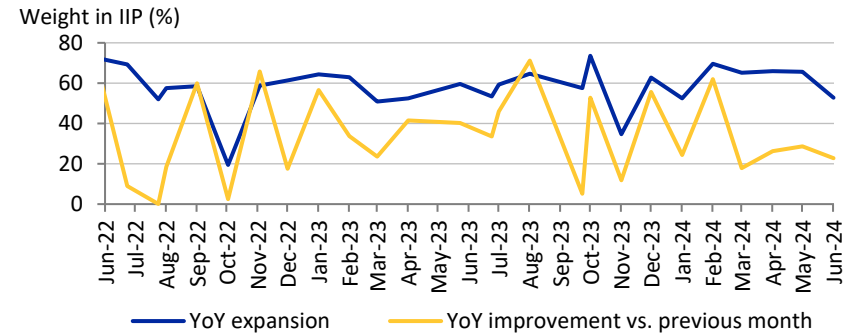
Moderation in manufacturing output growth in June 2024 vis-à-vis May 2024 was driven by 17 of the 23 sub-sectors

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

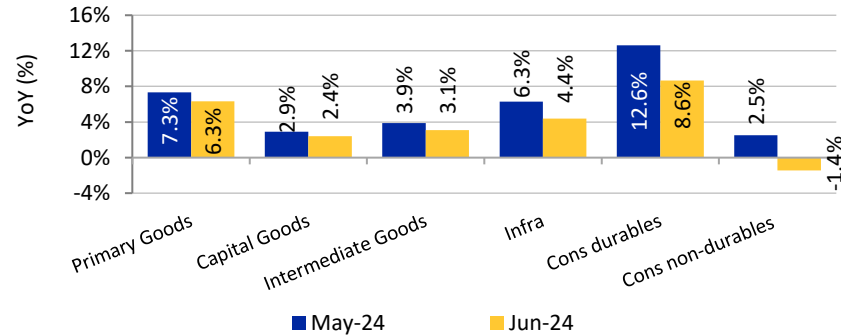


Source: NSO; CEIC; ICRA Research

- Within the manufacturing segment, the YoY performance of 17 of the 23 sub-sectors (with a large weight of 54.8% in the IIP) deteriorated in June 2024 relative to May 2024; this subset includes basic metals, coke and refined petroleum products, pharma, medicinal chemical and botanical products, etc. This suggests that the moderation in the YoY expansion of manufacturing output in June 2024 vs. May 2024 was broad based.
- In contrast, the output of the remaining six sub-sectors (with a lower weight of 22.9% in the IIP) witnessed an improvement in their YoY performance in June 2024 vis-à-vis May 2024. This sub-set includes food products, chemicals and chemical products, other non-metallic mineral products, etc.
- Notably, the production of 14 of the 23 sub-sectors of manufacturing (with a sizeable weight of 52.8% in the IIP) increased on a YoY basis in June 2024, while the output of the remaining nine sub-sectors (with a lower weight of 24.9% in the IIP) contracted in that month.

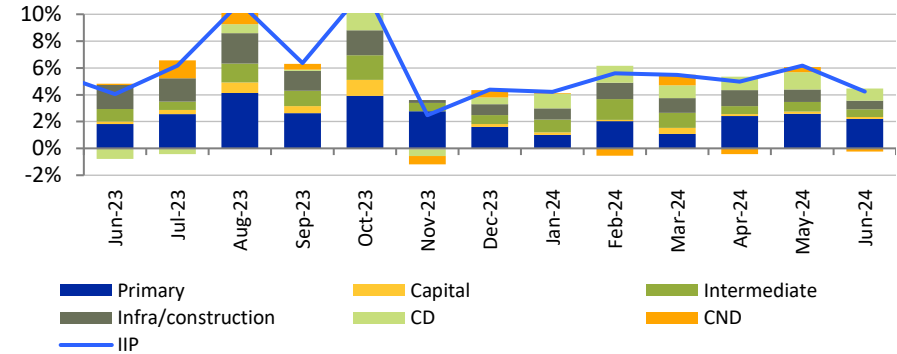
YoY performance of all six use-based categories saw broad based deterioration in June 2024

EXHIBIT: YoY trends in IIP (use-based)



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

EXHIBIT: Contribution to IIP growth by use-based categories

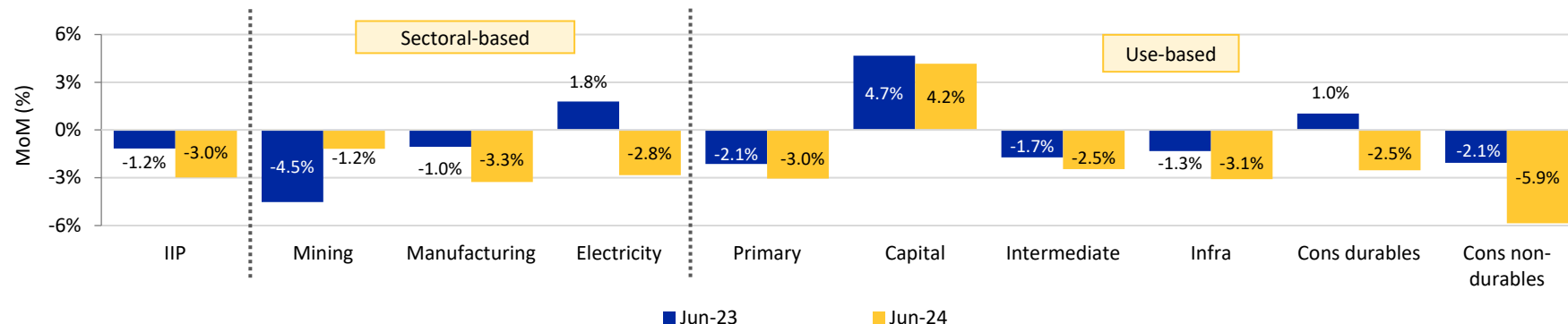


*CD: Consumer durables; CND: Consumer non- durables; Source: NSO; CEIC; ICRA Research

- All of the six use-based categories recorded a deterioration in their YoY performance in June 2024 vis-à-vis May 2024. The YoY performance in the output of consumer durables (to a six-month low +8.6% from +12.6%), capital goods (to a four-month low +2.4% in June 2024 from +2.9% in May 2024), and consumer non-durables (to -1.4% from +2.5%) deteriorated between these months, despite a low base.
- In addition, the YoY growth in the output of primary goods (to +6.3% from +7.3%), infrastructure/construction goods (to a seven-month low +4.4% from +6.3%; owing to Model Code of Conduct amid General Elections and a high base), and intermediate goods (to a 14-month low +3.1% from +3.9%) saw a moderation in June 2024, relative to May 2024.

Sequential decline in June 2024 was sharper than that seen in June 2023

EXHIBIT: MoM trends in IIP and its sub-components

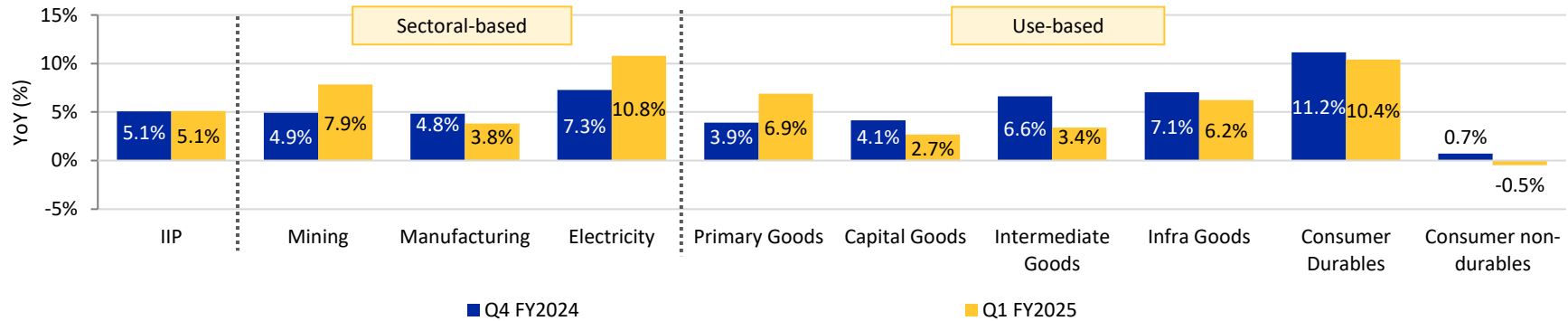


Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- In sequential terms, industrial output declined by 3.0% in June 2024, sharper than the 1.2% contraction seen in June 2023. The wider MoM dip was driven by a weaker performance of manufacturing output (-3.3% in June 2024 vs. -1.0% in June 2023) and electricity generation (-2.8% vs. +1.8%) in June 2024 vis-à-vis June 2023. In contrast, the output of mining (-1.2% vs. -4.5%) recorded a narrower sequential dip in June 2024, relative to 2023.
- Moreover, all of the six use-based categories of the IIP witnessed a weaker MoM performance in June 2024 relative to the year-ago level. This includes consumer durables (-2.5% in June 2024 vs. +1.0% in June 2023), consumer non-durables (-5.9% vs. -2.1%), infrastructure/construction goods (-3.1% vs. -1.3%), intermediate goods (-2.5% vs. -1.7%), primary goods (-3.0% vs. -2.1%) and capital goods (+4.2% vs. +4.7%).

YoY growth in IIP remained stable at 5.1% in Q1 FY2025 vs. Q4 FY2024; industrial GVA growth to be impacted by margin compression in the quarter

EXHIBIT: YoY performance of the IIP, its sectoral categories and use-based categories

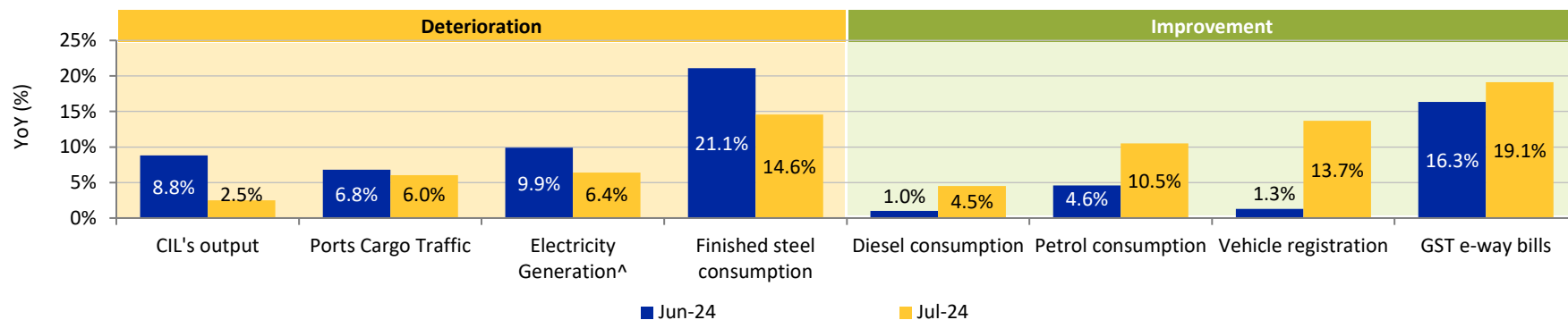


*Infra goods: Infrastructure/construction goods; Source: NSO; CEIC; ICRA Research

- The YoY growth in the IIP remained unchanged at 5.1% in Q1 FY2025 (+4.8% in Q1 FY2024) vis-à-vis Q4 FY2024 (+4.5% in Q4 FY2023). The uptick in the growth of mining output (to +7.9% in Q1 FY2025 from +4.9% in Q4 FY2024) and electricity generation (to +10.8% from +7.3%) was offset by the moderation in that for manufacturing output (to a six-quarter low +3.8% from +4.8%) between these quarters.
- As per the use-based classification, most of the six categories (apart from primary goods: to +6.9% from +3.9%) saw a weaker YoY performance in Q1 FY2025, vis-à-vis Q4 FY2024, with the output of these categories moderating to a multi-quarter lows in Q1 FY2025. This includes the output of capital goods (to a nine-quarter low +2.7% from +4.1%), intermediate goods (to +3.4% from +6.6%), infrastructure/construction goods (to a seven-quarter low +6.2% from +7.1%), consumer durables (to +10.4% from +11.2%), and consumer non-durables (to a seven-quarter low -0.5% from +0.7%).
- While the volume growth remained steady between Q1 FY2025 and Q4 FY2024, the margins of some industrial sectors are likely to witness slight compression between these quarters, owing to the uptick in global commodity prices, thereby weighing upon the industrial GVA growth in that quarter.

OUTLOOK: IIP growth to print at 2.5-4.5% in July 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: CIL; CEA; GSTN; PPAC; Vahan Portal; IPA; JPC; CEIC; ICRA Research

- The YoY performance of the available high frequency indicators reveals a mixed trend in July 2024 relative to June 2024. The YoY growth in the output of Coal India Limited (to a 28-month low of +2.5% in July 2024 from +8.8% in June 2024) and electricity generation (to a seven-month low +6.4% from +9.9%) moderated in July 2024, relative to June 2024, with excess rainfall impacting mining activity and leading to a cooling in power demand. Additionally, the pace of expansion in finished steel consumption (to +14.6% from +21.1%; while remaining healthy) and cargo traffic at major ports (to +6.0% from +6.8%) deteriorated in July 2024, vis-à-vis June 2024.
- In contrast, the YoY performance of mobility-related indicators including GST e-way bills (to a nine-month high +19.1% in July 2024 from +16.3% in June 2024), vehicle registrations (to a three-month high +13.7% from +1.3%), petrol consumption (to a three-month high +10.5% from +4.6%), and diesel consumption (to a five-month high +4.5% from +1.0%) witnessed an improvement in July 2024, relative to June 2024.
- **Amidst the mixed trends in the available high frequency data for July 2024, ICRA anticipates the YoY IIP growth to print at 2.5-4.5% in that month, given an adverse base (+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 (%)										
May-24	6.2%	6.6%	5.0%	13.7%	7.3%	2.9%	3.9%	6.3%	12.6%	2.5%
June-24	4.2%	10.3%	2.6%	8.6%	6.3%	2.4%	3.1%	4.4%	8.6%	-1.4%
MoM (%)										
May-24	4.7%	4.3%	4.2%	8.2%	5.7%	11.3%	3.9%	0.4%	9.5%	1.8%
June-24	-3.0%	-1.2%	-3.3%	-2.8%	-3.0%	4.2%	-2.5%	-3.1%	-2.5%	-5.9%
June-24 / June-19	16.0%	26.7%	12.6%	28.3%	22.1%	7.9%	16.5%	26.9%	5.8%	4.8%
Quarterly Growth (%)										
Q1 FY2025 vs. Q1 FY2024	5.1%	7.9%	3.8%	10.8%	6.9%	2.7%	3.4%	6.2%	10.4%	-0.5%

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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