Favorable base effect, consumer durables supported industrial production growth in February

16 April, 2024

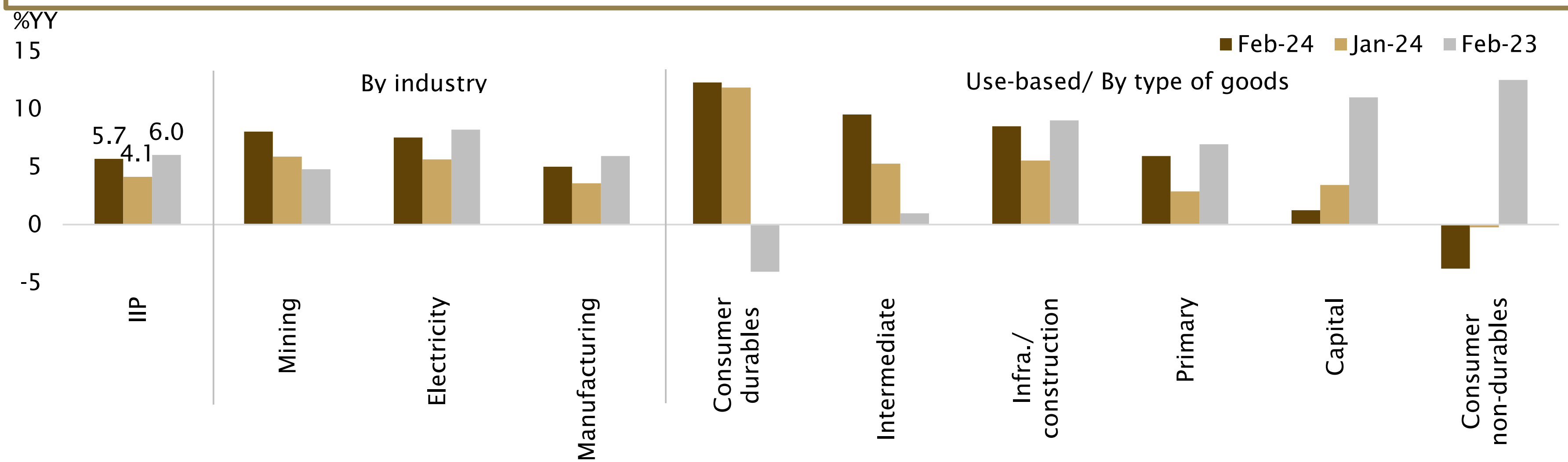
TRUST

In Partnership. With Trust.

Key takeaways

- Industrial production growth increased to 5.7%YY in February from 4.1% in January (revised up from 3.8%), though slightly lower than market expectations (Bloomberg estimate:6%). The improvement in year-on-year growth was driven by base effects, even as output fell month-on-month in non-seasonally adjusted terms. However, data indicated improvement in momentum post seasonal adjustment.
- Compared to the previous month, year-on-year growth was higher across all three major sectors of mining, manufacturing and electricity. In terms of use-based classification, consumer durables led the way, posting double-digit growth for the second straight month and driven by improvement in production of motor vehicles, transport equipment, textiles, and computer and electronic products. Consumer non-durables and capital goods were laggards, though the decline in output of non-durables was due to contraction in production of pharmaceuticals amid an improvement in output of food and beverages.
- High frequency indicators indicate continued momentum in domestic economic activity, with real GDP growth likely to be closer to 8% in FY24. On the global front, there has been an upturn in the manufacturing cycle in recent months, including in the US and China. While this bodes well for global economic outlook, economic resilience and an improvement in global manufacturing could translate into higher demand for and prices of commodities that are already reeling under the pressure due to geopolitical tensions. These risks could translate into further increases in input costs for the manufacturing sector going forward.

Improvement in industrial production growth in February driven by base effects rather than monthly increase in output



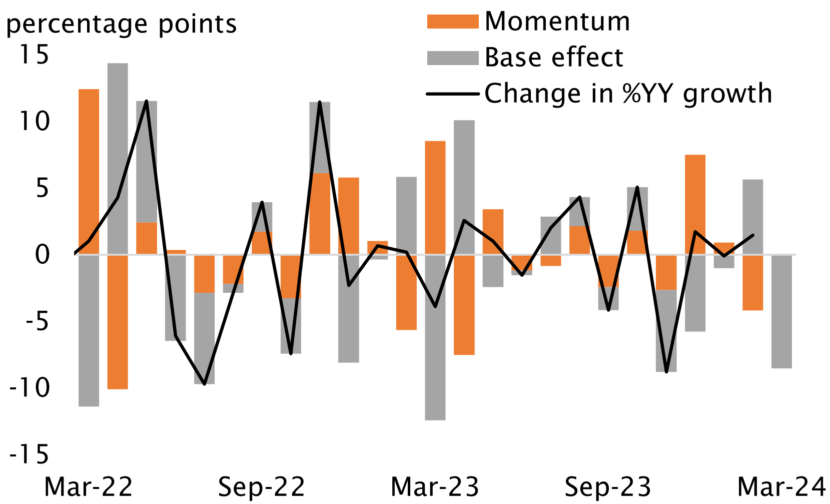
Improvement in February production growth driven by base effects

- The improvement in year-on-year industrial production growth in February (5.7%) compared to the previous month (4.1%) was driven by base effects amid a month-on-month decline in output in non-seasonally adjusted terms. However, on a seasonally adjusted basis (accounting for uneven dates of the festive season), output growth was flat, while momentum, as measured by 3-month/3-month annualized rate, improved.
- In terms of sectors, the improvement in momentum was driven by manufacturing, while in terms of type of goods, momentum turned positive in case of intermediate, infrastructure/construction goods, and consumer durables.
- Within manufacturing, momentum improved across sub-sectors except for pharmaceuticals, motor vehicles, and other transport equipment.

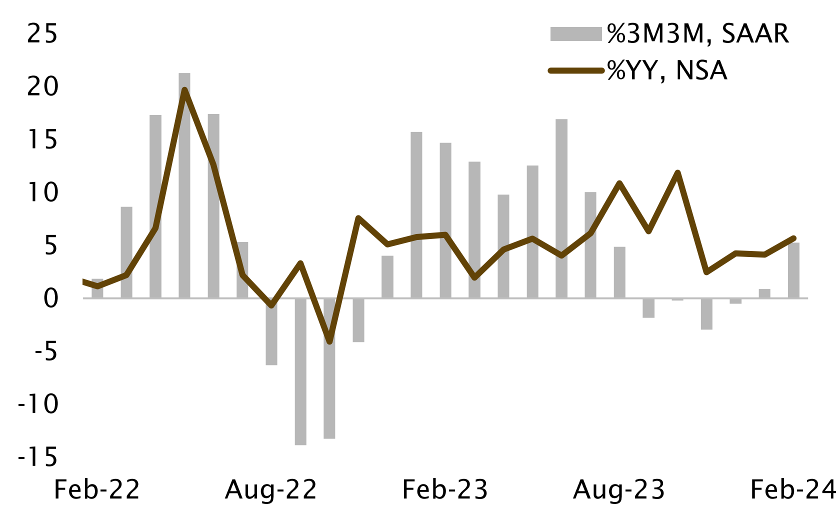
%YY	Weights	Dec-23	Jan-24	Feb-24
Industrial production	100.0	4.2	4.1	5.7
Sector-based classification				
Mining	14.4	5.2	5.9	8.0
Electricity	8.0	1.2	5.6	7.5
Manufacturing	77.6	4.5	3.6	5.0
Use-based/type of goods				
Primary goods	34.0	4.8	2.9	5.9
Capital goods	8.2	3.6	3.4	1.2
Intermediate goods	17.2	3.9	5.3	9.5
Infra. /construction	12.3	5.1	5.5	8.5
Consumer durables	12.8	5.3	11.9	12.3
Consumer non-durables	15.3	2.4	-0.2	-3.8

Note: Color code is based on %3M3M, SAAR data.
Red denotes high momentum, blue indicates the opposite.

Favorable base effect drove higher year-on-year growth



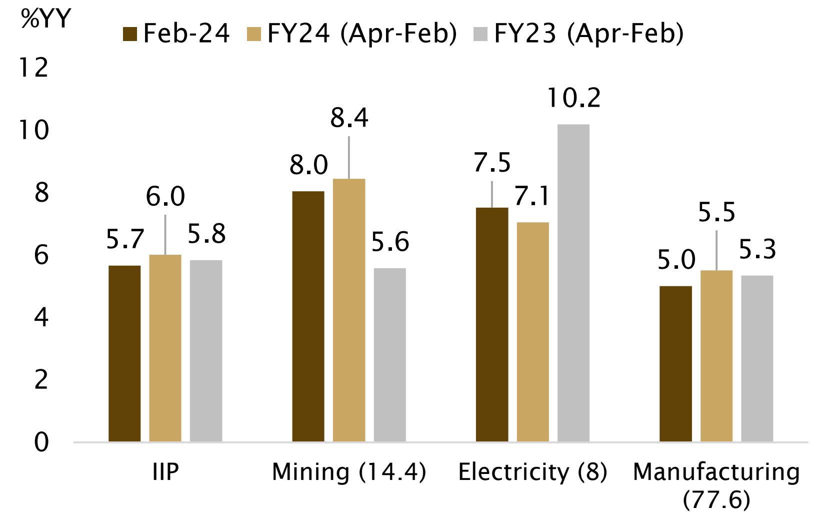
Positive output momentum post seasonal adjustment



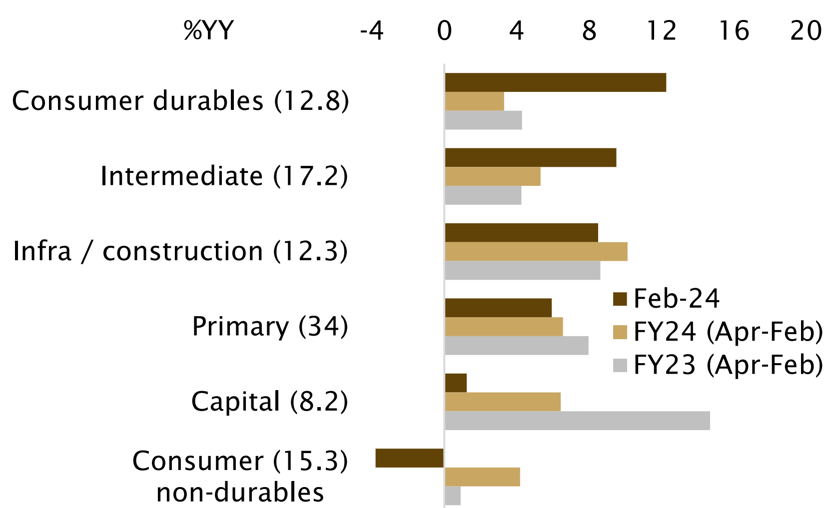
Double-digit output growth in consumer durables for second month

- The year-to-date growth (Apr-Feb) in industrial output stands higher than in the corresponding period in FY23.
- In February, production in **all three major sectors grew at a faster year-on-year pace compared to January.** Year-to-date data indicates higher growth in case of mining and manufacturing compared to the same period in FY23. Provisional estimates from respective ministries indicate electricity generation to increase 7.7%YY in March and coking coal output to grow 7.6%.
- In terms of use-based classification, **consumer durables posted the strongest growth,** improving for the third consecutive month and driven by higher production across sub-sectors such as textiles, motor vehicles and other transport equipment. **Manufacturing of computers and electronic products posted positive output growth after contracting for 14 straight months.**
- On the other hand, **consumer non-durables and capital goods were laggards,** both of which had increased at a robust pace in February 2023. The **decline in consumer non-durables production in the latest data was due to a double-digit contraction in pharmaceuticals output, even as production of food products and beverages rose.** However, the improvement in year-to-date output of consumer non-durables was mainly driven by pharmaceuticals output that had contracted in FY23.
- Though capital goods output moderated for the second consecutive month, year-to-date growth remained strong despite the high base of FY23. Prospects for both capital and infrastructure goods remain strong amid government's continued thrust on capital expenditure.

Year-to-date output growth higher than in FY23



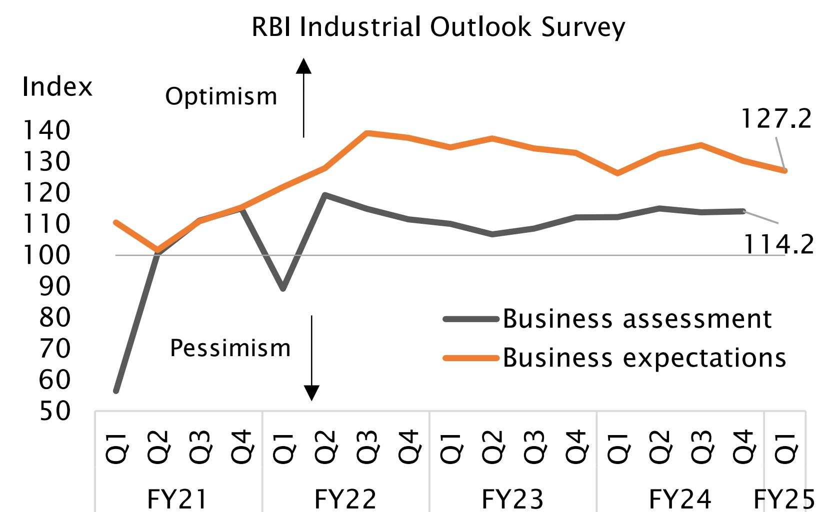
Consumer durables posted strong growth in February



High frequency, survey data indicate continued growth momentum

- As per RBI's latest industrial outlook survey, **manufacturing firms remained optimistic regarding business outlook** for Q1, though slightly less than the previous round of survey. Capacity utilization in Q3-FY24 increased from the previous quarter and stayed above the long term average. **Manufacturing PMI for India surged to a 16-year high at 59.1 in March**, buoyed by strong increases in production and new orders.
- The central **government's continued thrust on capital expenditure** is likely to sustain output momentum in case of infrastructure and capital goods. While spending is projected to have increased almost 30% (ex-loans to states) in FY24, it is budgeted to grow 16% in FY25.
- **In RBI's March bulletin, research authors noted that their nowcast model was indicating growth to be 7.2% for Q4-FY24, higher than the imputed growth of 5.9% as per national statistical office's second advanced estimate (SAE) for FY24.** This suggests a higher probability of growth being closer to 8% in FY24, higher than NSO's 7.6% SAE estimate.
- **On the global front, manufacturing PMI expanded in February, breaching the neutral 50 mark for the first time since August 2022**, and continued to rise in March. Gains were led by China, the US and India even as the Eurozone continued to be a drag. China manufacturing PMI continued to expand for the fifth consecutive month in March, with the first quarter GDP growth surprising on the upside.
- In the US, the Atlanta Fed's nowcast is currently projecting real GDP growth at 2.8% annualized rate for Q1. For the entire year, the Fed's latest dot plot (March) pegs median real GDP growth at 2.1%, up from 1.4% in its December projections.
- **Noting the resilience in the global economy, the IMF, in its latest World Economic Outlook update (April), upgraded global growth forecast by 0.1pp to 3.2% for 2024**, same as for 2023 but higher than its earlier estimates. In addition to geopolitical tensions, economic resilience is starting to reflect in demand for and prices of commodities, more recently, in case of industrial metals. This could have further spillovers to input costs for manufacturing and economies' disinflation process.

Manufacturing firms remain optimistic about business



DISCLAIMER:

We are committed to providing completely independent views to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendary nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Group has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Group, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Group. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Trust Group

1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in