IIP Watch: Industrial production growth eased to five-month low in June

19 August, 2024

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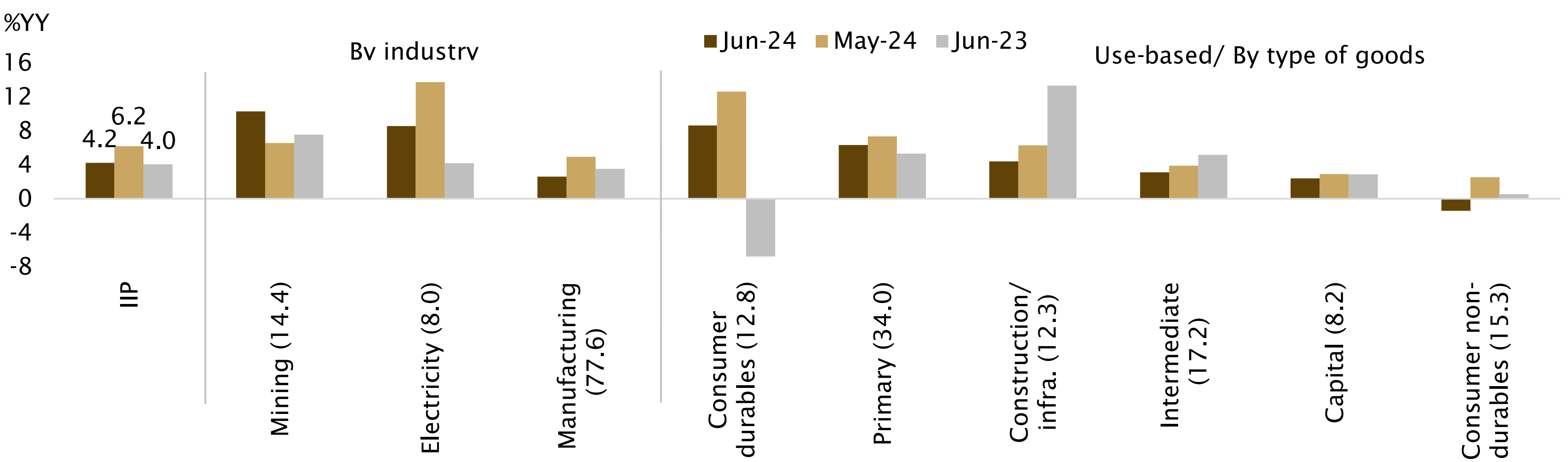
Key takeaways

- Industrial production growth eased to five-month low of 4.2%YY in June from 6.2% in May, and was below market expectations (Bloomberg survey estimate: 5.4%). Lower output growth was due to month-on-month decline in production, which offset a positive base effect. Muted government spending around election time and heatwave conditions are considered to have weighed on output growth during the month.
- By industry, manufacturing production rose at the slowest pace in seven months. Electricity output growth moderated from double-digits in the past two months, but remained high at 8.6%. Mining growth surged by over 10% due to a favorable base amid month-on-month fall in production. In terms of type of goods, year-on-year output growth eased across categories compared to May, and in fact, declined in case of consumer non-durables. Consumer durables posted the strongest increase at 8.6%YY, albeit lower than the double-digit growth in both April and May. However, in terms of contribution to overall IIP growth, primary goods continued to add the most due to its high weight in the index.
- For the quarter as a whole, year-on-year growth in industrial production in Q1 was unchanged from the previous quarter at 5.1%YY. Going forward, an increase in government spending and a pickup in private capex are expected to support growth in infrastructure-related segments. Though progress in monsoon and Kharif sowing bode well for further recovery in rural spending, lagged impact of policy tightening and higher input prices are expected to continue to weigh on consumer and business confidence.

Industrial growth eased to five-month low in June; dragged down by manufacturing output, muted public spending



IIP growth eased in June due to month-on-month fall in output

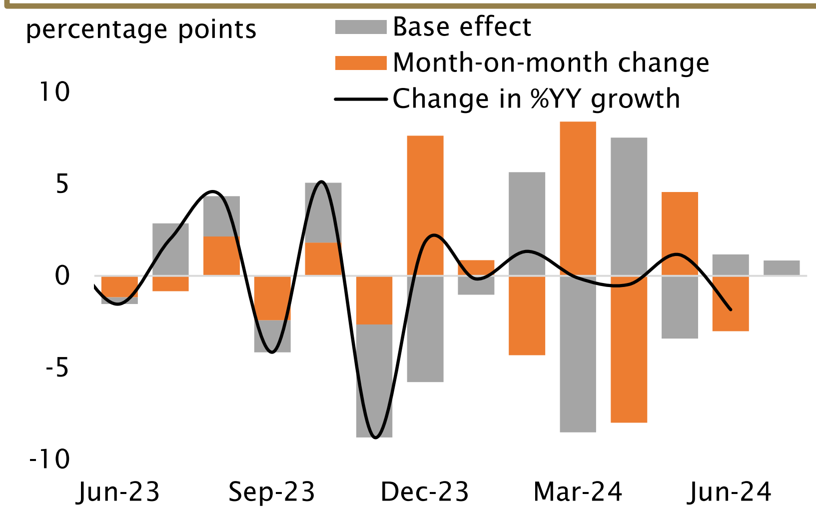
- Industrial production growth moderated to a five-month low of 4.2%YY in June from 6.2% in April due to month-on-month fall in output that more than offset a mildly positive base effect. Production fell 3.0% from the previous month (non-seasonally adjusted), steeper than the median decline of 1.4% for the month.
- On a seasonally adjusted basis (accounting for uneven dates of the festive season), the month-on-month decline in output growth was lower, and in fact, momentum, measured by 3-month/3-month annualized rate, improved from the previous month. Higher momentum in June was supported by mining and electricity sectors, and on the used-based classification side, by primary and consumer goods segments (both durables and non durables).

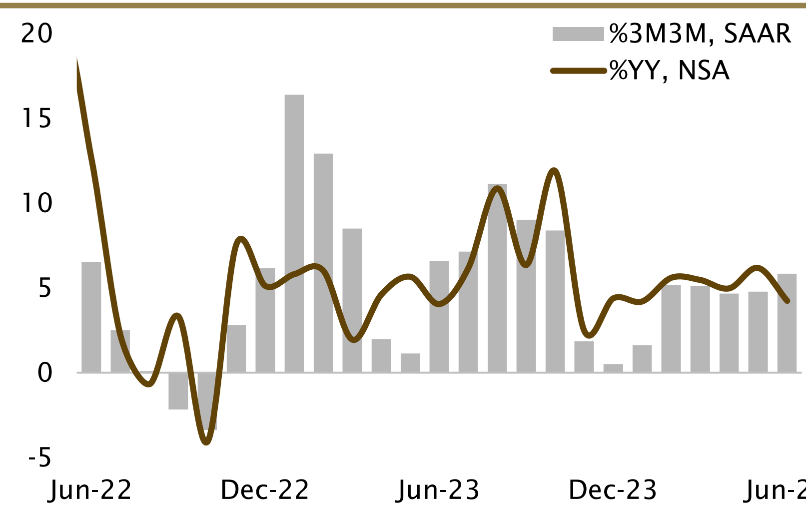
IIP growth eased in June due to monthly fall in output

%YY	Weights	Apr-24	May-24	Jun-24
Industrial production	100.0	5.0	6.2	4.2
Sector-based classification				
Mining	14.4	6.8	6.6	10.3
Electricity	8.0	10.2	13.7	8.6
Manufacturing	77.6	3.9	5.0	2.6
Use-based/type of goods				
Primary goods	34.0	7.0	7.3	6.3
Capital goods	8.2	2.7	2.9	2.4
Intermediate goods	17.2	3.2	3.9	3.1
Infra. /construction	12.3	8.0	6.3	4.4
Consumer durables	12.8	10.0	12.6	8.6
Consumer non-durables	15.3	-2.5	2.5	-1.4

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

Despite year-on-year moderation in output growth, momentum measured by 3M/3M annualized rate improved in June



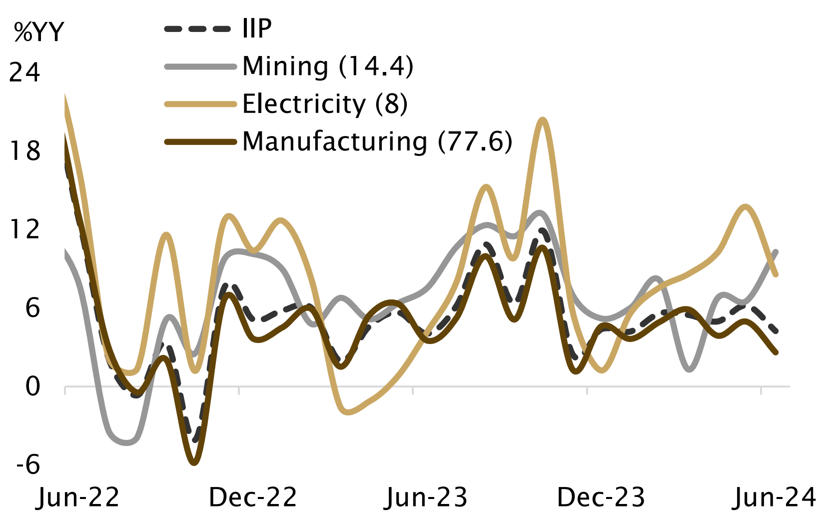


IIP growth stable in Q1-FY25 despite lower manufacturing growth

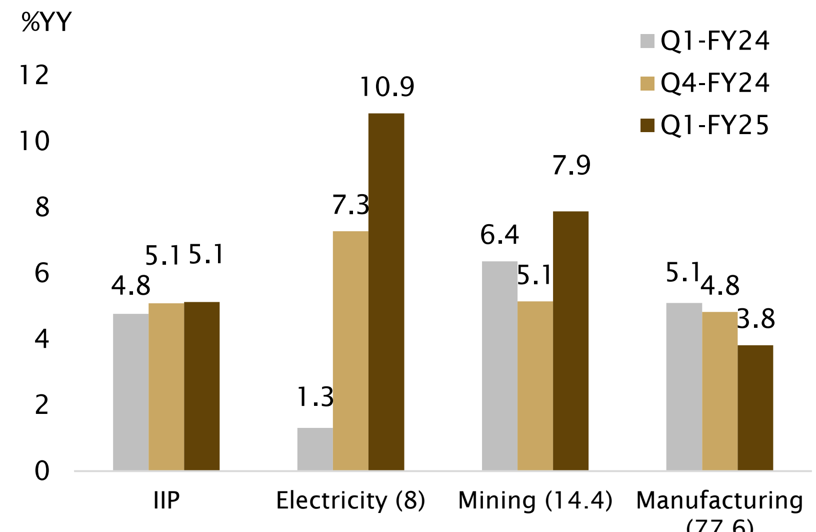
- The moderation in year-on-year industrial production growth in June was due to lower growth in electricity and manufacturing sectors. Growth in manufacturing eased to a seven-month low, with its contribution to overall IIP growth moderating to 48% from an average of over 70% in the past six months. Though growth in electricity output eased from double-digits in the past two months, it still remained high at 8.6%. Mining output growth climbed to double-digits after a gap of seven months, though this was due to a favorable base, as production fell month-on-month. In case of electricity and manufacturing, both base effect and month-on-month change in output were negative.

- In terms of quarterly data, industrial production growth was stable in Q1 at 5.1%YY compared to Q4-FY24. This seemed to be driven by improved performance of the mining and electricity sectors, even as manufacturing growth dwindled. However, given the high share of manufacturing in IIP, its contribution remained the strongest relative to the two other sectors. Compared to the corresponding quarter a year ago, headline industrial production growth improved in Q1-FY25.

IIP growth eased to five-month low in June…



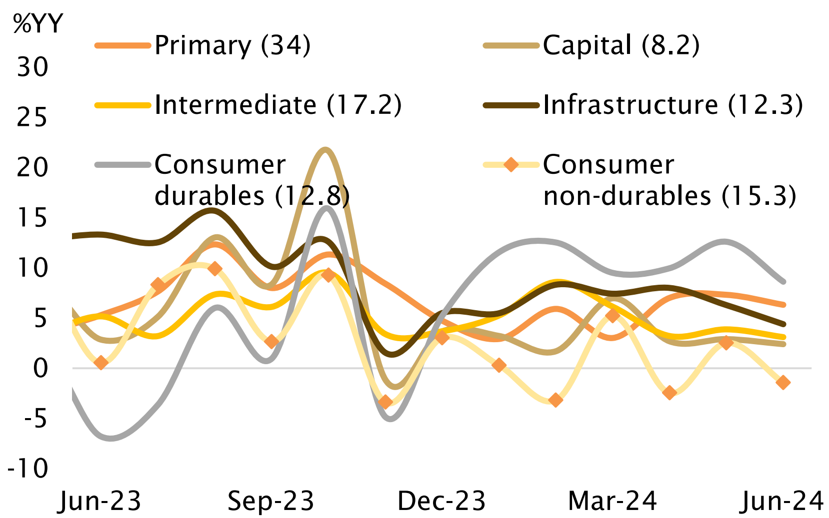
…though stable in Q1 vs Q4, higher than in Q1-FY24



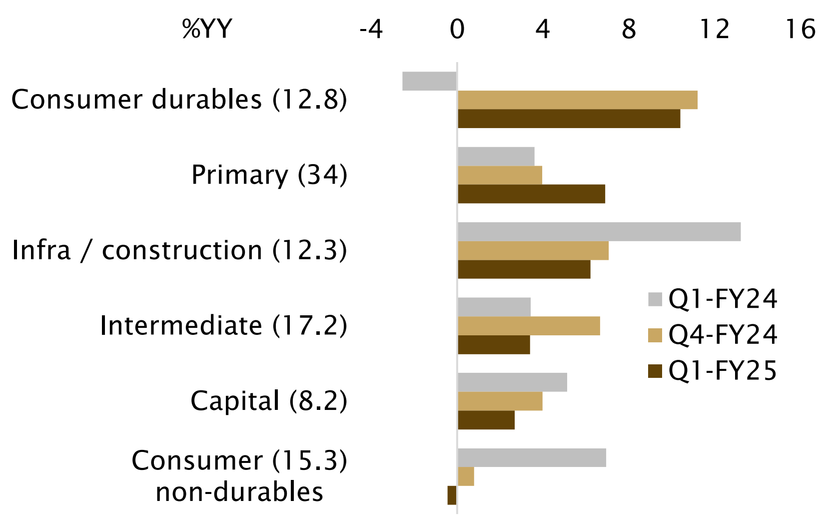
Infra-related sectors, consumer non-durables underperformed in Q1

- In terms of use-based classification, year-on-year production growth moderated across categories in June compared to the previous month, and in fact, declined in case of consumer non-durables. Among groups, consumer durables posted the strongest growth at 8.6%YY, albeit lower than the double-digit growth in both April and May. However, in terms of contribution to overall IIP growth, primary goods continued to add the most due to its high weight in the index. In terms of month-on-month change, output fell across groups, except for capital goods where growth eased from double-digits in May but remained positive.
- The recovery in consumer non-durables remains sluggish, with output falling in three of the last six months. The volatility in output was reflected across groups of food, beverages, tobacco, and pharmaceuticals. As a result, consumer non-durables production fell in Q1 after growing sub-1% in Q4-FY24. This weakness was also reflected in data on FMCG sales volume growth that slowed in the quarter ending June, though remained higher for rural areas relative to their urban counterparts for the second straight quarter.
- Consumer durable goods output rose by double-digits for the second successive quarter, though at a slower rate compared to Q4-FY24. However, in terms of contribution, primary goods not only topped the list being a heavyweight, but also improved in Q1 due to higher growth compared to the previous quarter.
- The muted year-on-year performance of infrastructure-related segments in Q1, including capital goods, compared to Q4-FY24, could be attributable to lower spending by the government around election time.

Consumer non-durables output fell in June



Consumer durables growth was the strongest in Q1



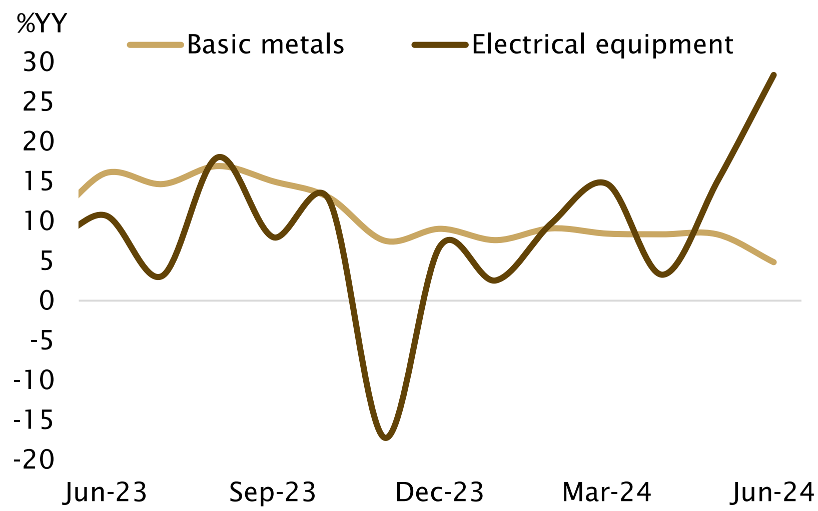
Consumer durables held firm in Q1 despite signs of easing in June

- In terms of monthly change, output declined in 16 of 23 manufacturing sub-sectors in June, marking an increase from two in May. However, in terms of year-on-year growth, production fell in nine sub-sectors, which was again higher than (from four) in May.

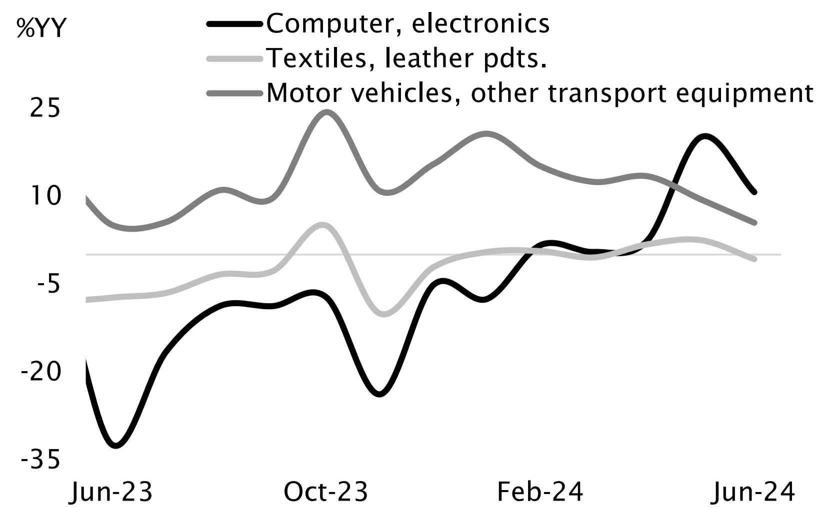
- Though consumer durables output held firm in Q1, there were signs of easing in June. The moderation in motor vehicles production was amid reports of high inventory levels in the passenger vehicles segment. Production growth in computers and electronic products halved from 23-month high of over 20% in May. The performance of export-oriented industries was dragged down by textiles that remained in contraction for the fourth straight month, and manufacturing of leather products that fell during the month.

- The production of electrical equipment, which largely consists of capital goods and consumer durables, surged to the highest year-on-year growth in two years. The category added the most to industrial growth in June, surpassing the contribution of basic metals which, being an index heavyweight, tends to contribute the most. Basic metals output, that mostly comprises of intermediate and infrastructure goods, eased to 22-month low, mostly reflecting muted government spending ahead of and during the general elections.

Electrical equipment output surged; basic metals eased

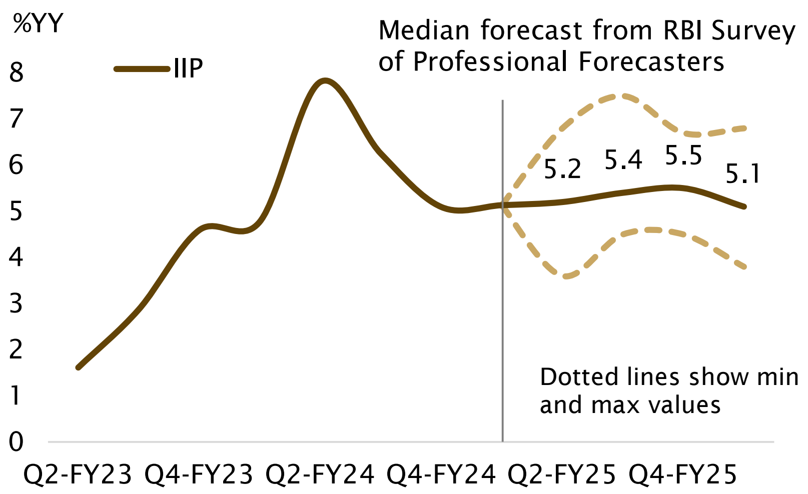


Lower consumer durables output across key categories

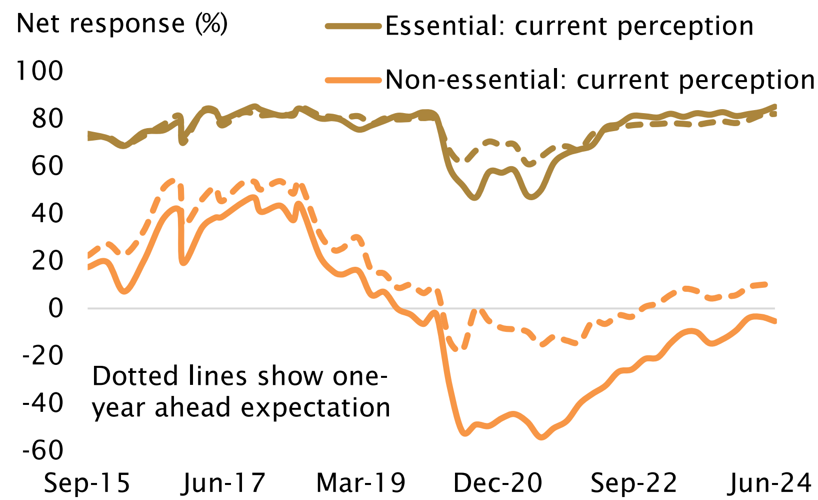


Insights from latest RBI surveys

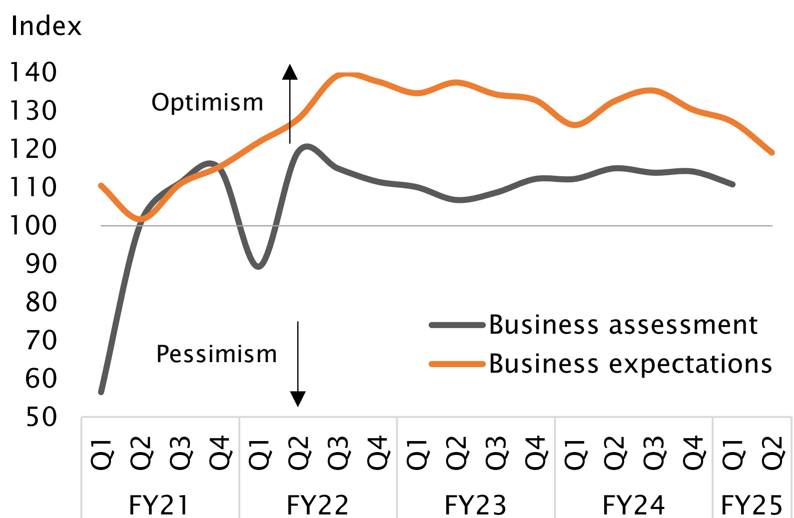
IIP forecast from latest RBI SPF survey



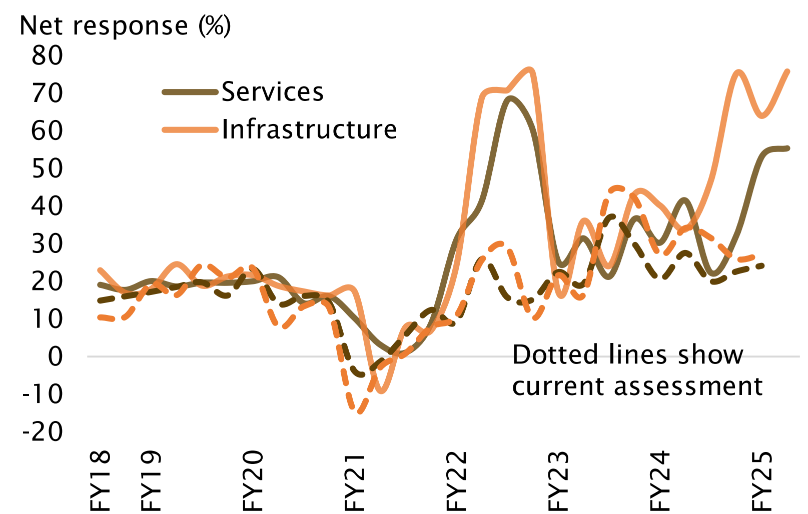
Consumer expectation survey on spending pattern



RBI outlook survey for the manufacturing sector



Firms' expectations regarding physical investment

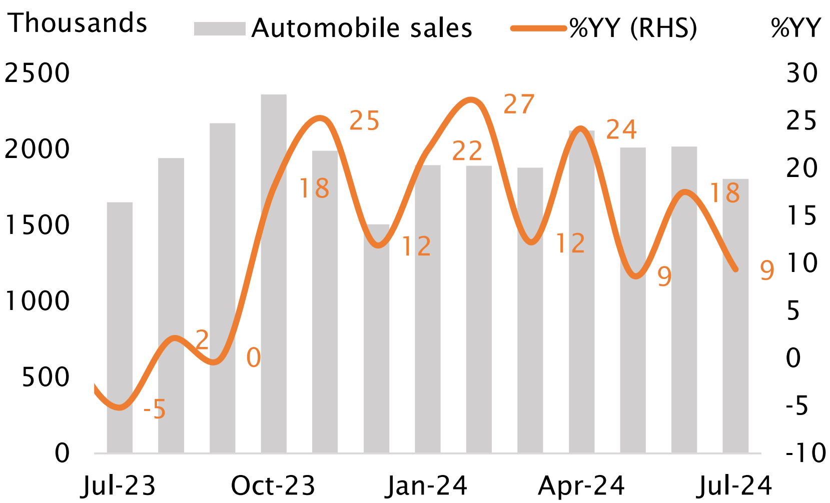


Outlook

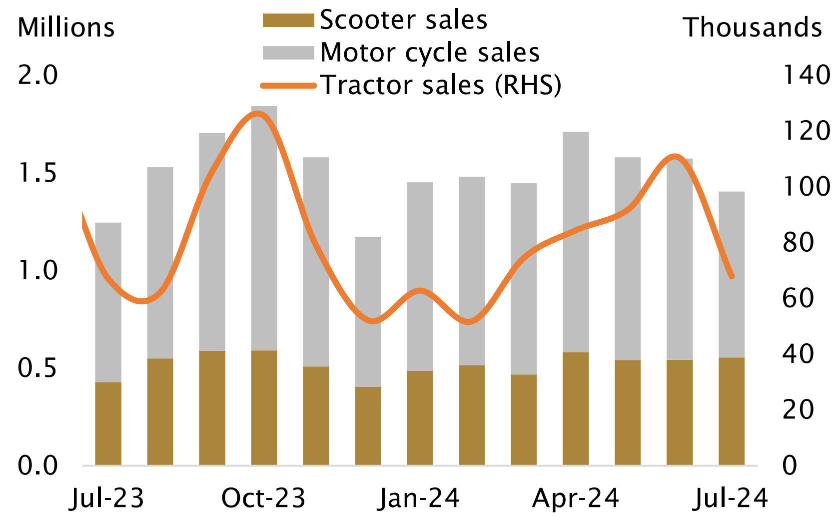
- In the latest monetary policy meeting, the RBI MPC kept real growth forecast for FY25 unchanged at 7.2%, though it trimmed the Q1 forecast by 20 bps on the back of high frequency data that indicated lower than expected corporate profitability, government expenditure and core industries output. However, the outlook remained sanguine compared to the 6.5-7% growth estimated by Ministry of Finance's Economic Survey.
- In RBI's latest Survey of Professional Forecasters (SPF), median GDP growth forecast for FY25 was at 7%, up from 6.8% in the previous round. Accordingly, industrial output growth estimates were also raised from Q1-Q3. Both survey results indicate expectations of firm growth in IIP amid slight easing in Q2 compared to Q1.
- Soft data from the latest round of RBI surveys was muted. Consumer confidence moderated due to concerns regarding inflation and income. This was reflected in perceptions about spending, particularly the non-essential component, which suggests likely challenges in outlook for consumer durables demand. Businesses in the manufacturing sector remained optimistic but expectations for Q2 were lower due to subdued outlook regarding demand conditions, employment, profit margins, and overall financial situation.
- In Q1, lower government spending around election time contributed to underperformance of infrastructure-related segments. While public spending is expected to improve in the remainder of FY25, the upside from it is likely to be capped due to easing of capex growth penciled in for FY25 at 11% (vis-à-vis FY24BE) versus over 30% in the last three years. On the bright side, as per another RBI survey, more services and infrastructure firms expect physical investment to rise in Q2, perhaps a signal of the much-awaited, broad-based pickup in private capex, even as realizations tend to lag expectations for this indicator.
- Among varied factors, the weakness in latest consumer confidence data is attributable to lagged impact of monetary and regulatory tightening, which is expected to linger and is impinging on urban demand. However, the green shoots of recovery in rural spending are expected to grow further amid the ongoing progress in monsoon and sowing. The demand for employment under MGNREGA has declined, a further indication of improved farm activity. The year-on-year growth in tractor sales was positive for the third month in July, and two-wheeler (2W) sales have been growing in double digits for ten months in a row now. The 2W sales were also boosted by the government's Electric Mobility Promotion Scheme that was effective 1 April – 31 July. However, passenger vehicle sales fell year-on-year in July for the first time since March 2022 backed by reports of high inventory levels due to low consumer sentiment and intense competition.
- Among other key high frequency indicators, GST collections stayed strong in July. PMI manufacturing softened marginally from 58.3 in June but remained firm at 58.1 in July, buoyed by new export orders. Historical data shows positive base effect for the month of July that could perhaps offset the slight median decline of 0.1pp for the month (FY13-FY24) and enable year-on-year growth of around 5%.

High frequency data: Auto sales continued to show rural recovery

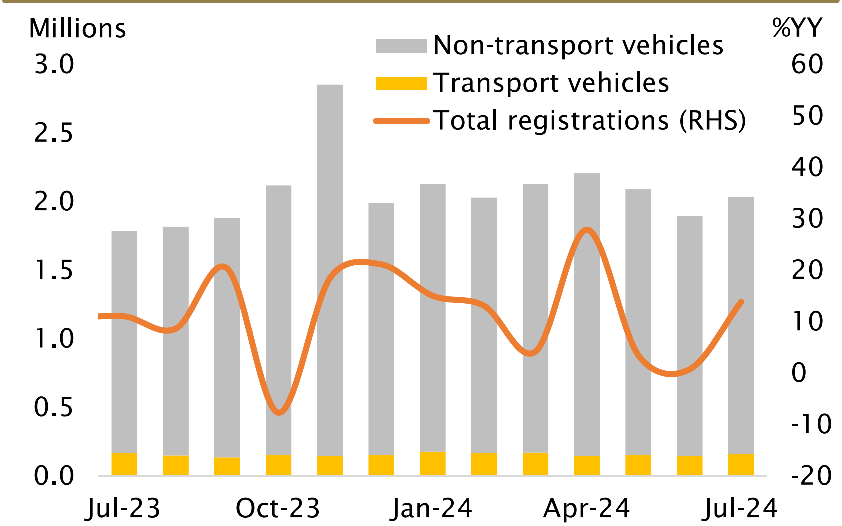
Automobile sales



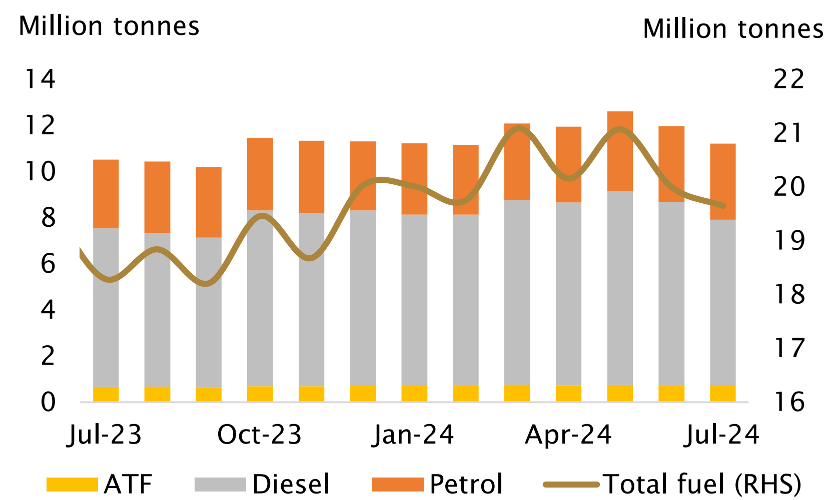
Rural demand



Vehicle registrations

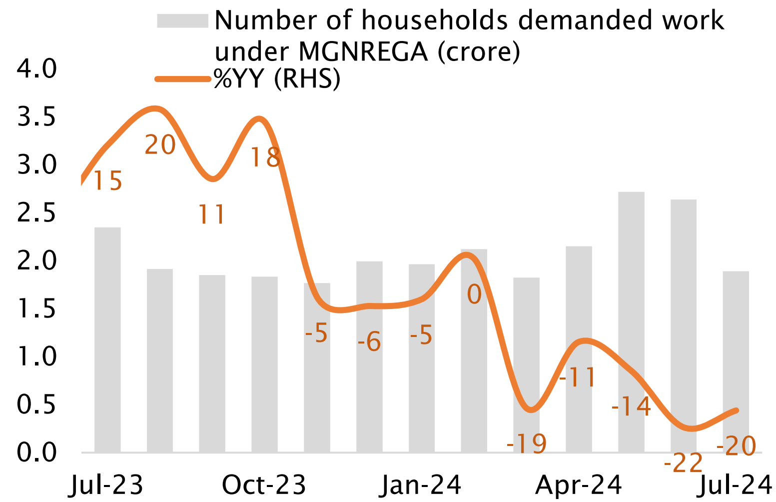


Fuel consumption

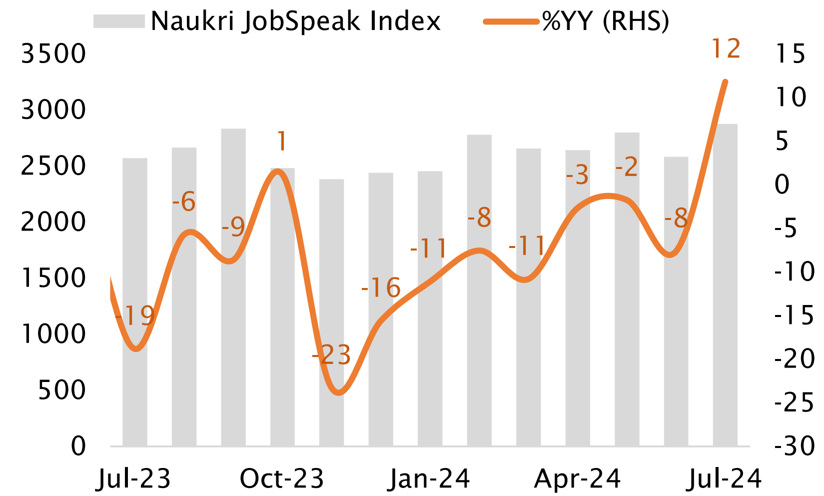


High frequency data: White collar hiring increased in July

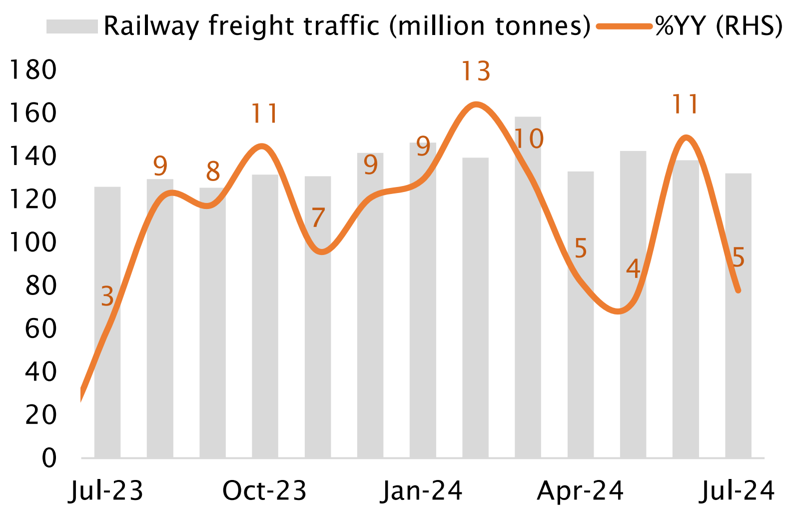
Demand for work under MGNREGA has weakened



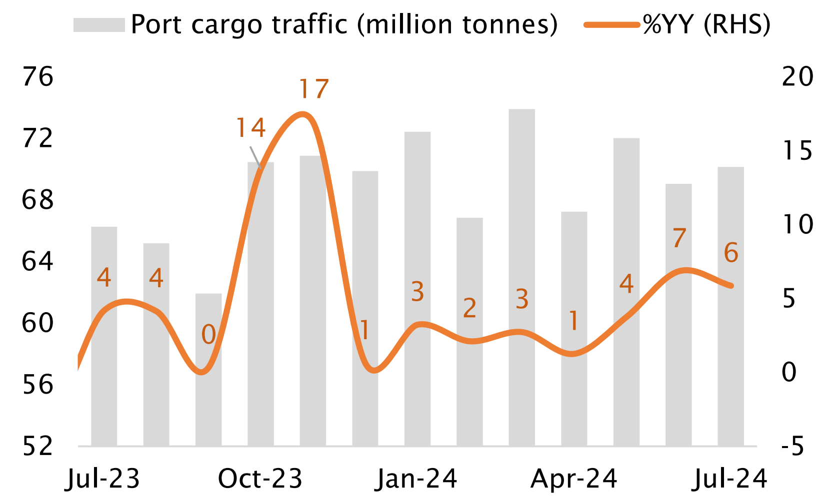
White-collar hiring increased in July



Railway freight traffic eased y-o-y and m-o-m

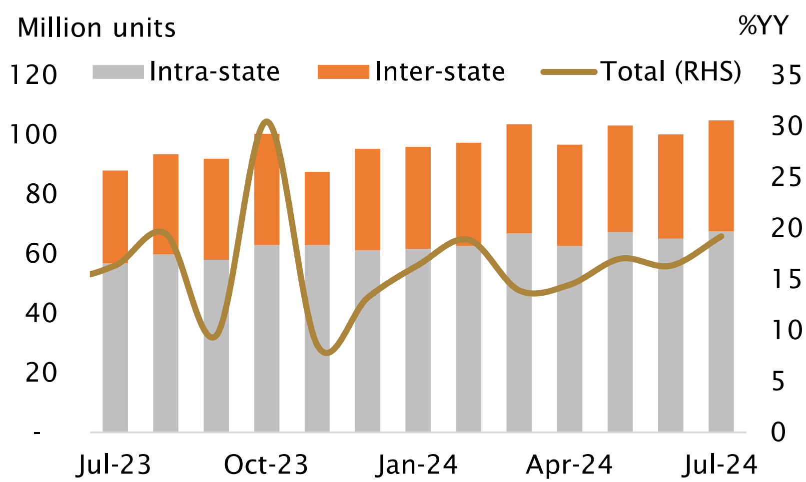


Port cargo traffic rose m-o-m, eased year-on-year

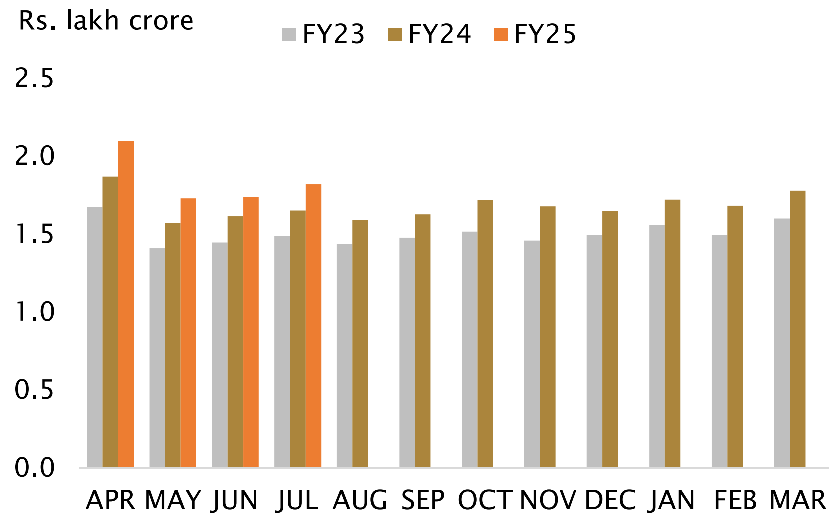


High frequency data: GST collections, PMI data remained solid

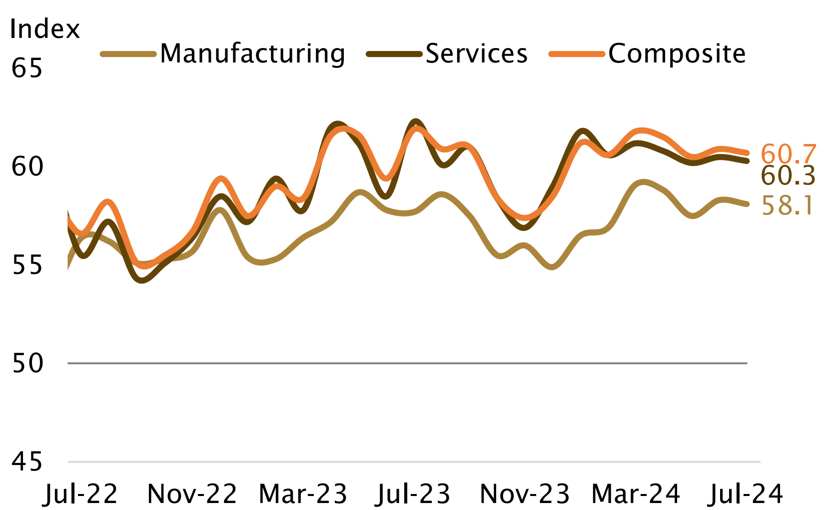
GST e-way bill



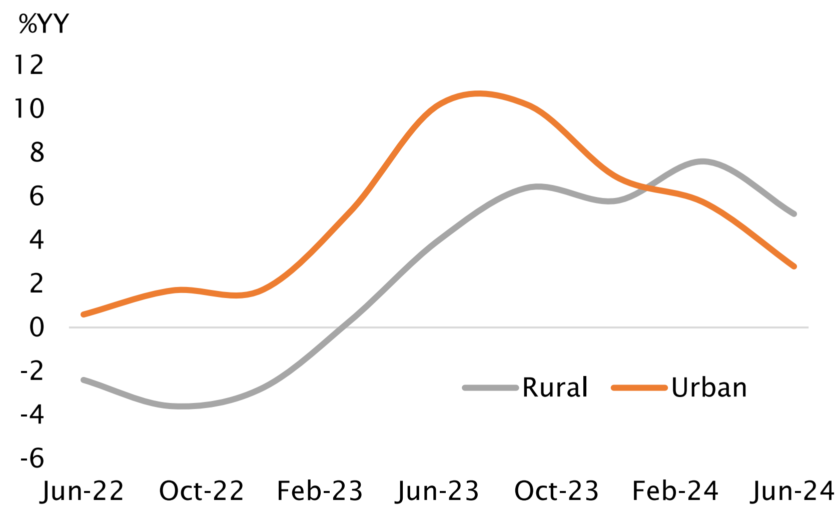
Monthly GST revenue collection



India PMI



FMCG sales volume



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