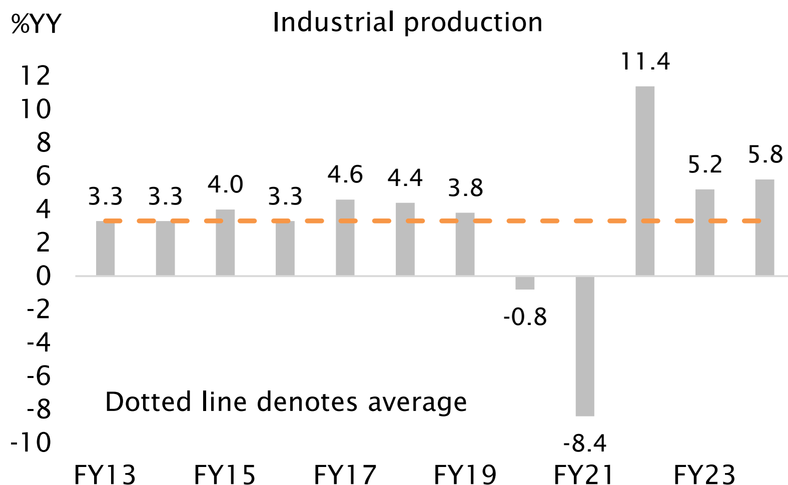
Industrial production growth eased in March but improved for the entire fiscal year 2024

14 May, 2024

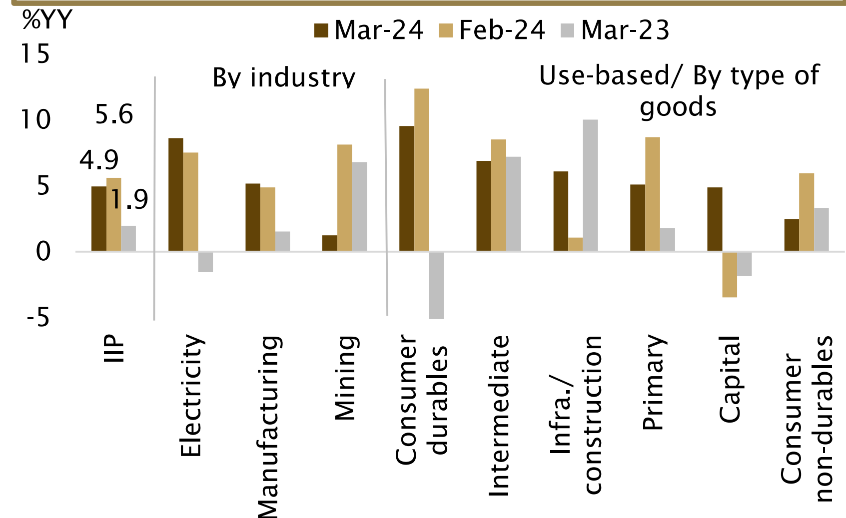
Key takeaways

- Industrial production growth eased to 4.9%YY in March from 5.6% in February (revised down slightly from provisional estimate of 5.7%). Growth was below market expectations (Bloomberg estimate: 5.2%), and lower than the average growth of 9.6% recorded for the month of March from FY13-23. The moderation in year-on-year growth was driven by base effects, even as output increased month-on-month in non-seasonally adjusted terms. For the entire year FY24, production growth improved to 5.8% from 5.2% in FY23.
- During the month, there was a marked deceleration in mining output. In terms of use-based classification, year-on-year production growth moderated across categories, except for infrastructure and capital goods. Also, output of consumer non-durables increased after contracting for two consecutive months. For the year as a whole, infrastructure and capital goods continued to outperform, but there was a reasonable recovery in consumer-related goods. But internal trends were mixed, for instance, within consumer non-durables, recovery was driven by pharmaceuticals, while food and beverages were laggards, attesting to the K-shaped recovery in the economy.
- In FY25, the government's continued thrust on capital expenditure is likely to keep momentum strong for infrastructure and capital goods. Rural consumption is likely to receive a boost from improved agriculture prospects due to forecast of above normal southwest monsoon for the year and the recent increase in MGNREGA daily wages. However, risks remain from higher and volatile commodity prices, and lagged impact on consumption from previous monetary policy tightening and regulatory measures.

Industrial production growth improved in FY24



Lower-than-expected industrial output growth in March



Industrial production growth moderated in March due to base effects

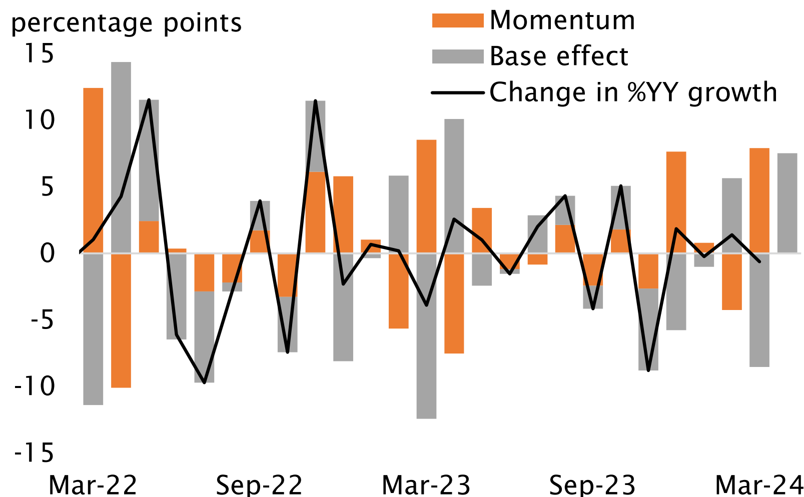
- Industrial production growth moderated to 4.9%YY in March from 5.6% in February (revised down moderately from 5.7%). This easing in output growth was driven by unfavorable base effects, as production improved month-on-month. However, on a seasonally adjusted basis (accounting for uneven dates of the festive season), output growth continued to improve for the fifth consecutive month.

- Momentum, measured by 3-month/3-month seasonally adjusted annualized rate, eased marginally but remained strong, reflecting the trend in manufacturing sector, even as momentum weakened in mining sector. In terms of type of goods, momentum improved across categories, except in case of primary goods and consumer non-durables.

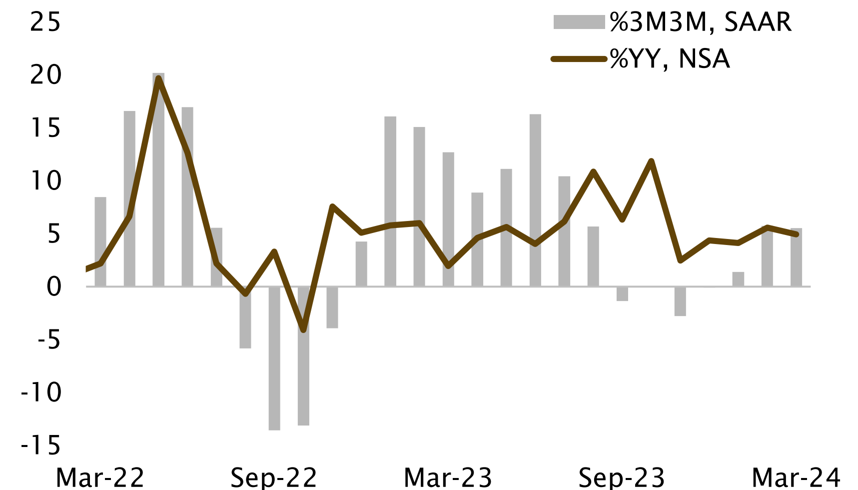
%YY	Weights	Jan-24	Feb-24	Mar-24
Industrial production	100.0	4.1	5.6	4.9
Sector-based classification				
Mining	14.4	5.9	8.1	1.2
Electricity	8.0	5.6	7.5	8.6
Manufacturing	77.6	3.6	4.9	5.2
Use-based/type of goods				
Primary goods	34.0	2.9	5.9	2.5
Capital goods	8.2	3.4	1.0	6.1
Intermediate goods	17.2	5.3	8.7	5.1
Infra. /construction	12.3	5.5	8.5	6.9
Consumer durables	12.8	11.9	12.4	9.5
Consumer non-durables	15.3	-0.2	-3.5	4.9

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

Base effect to be favorable in April



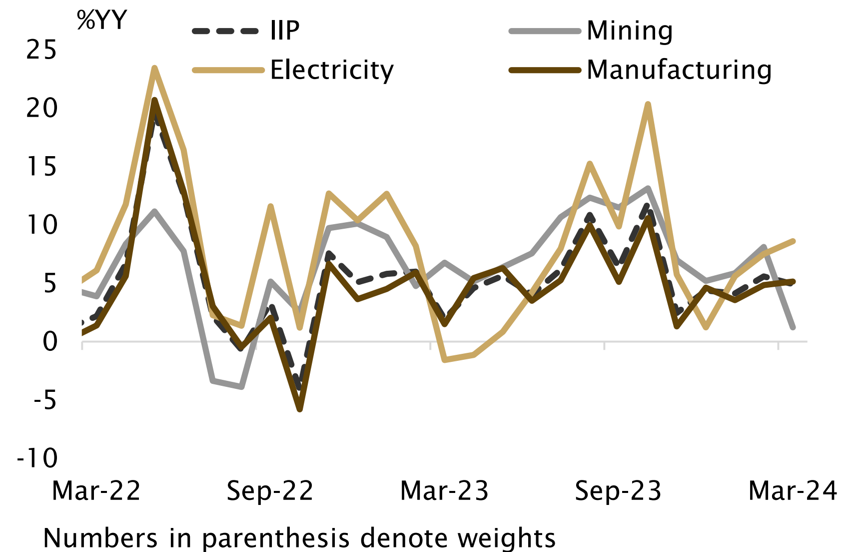
Momentum eased slightly but stayed strong in March



Higher IIP growth in FY24 driven by strong growth across key sectors

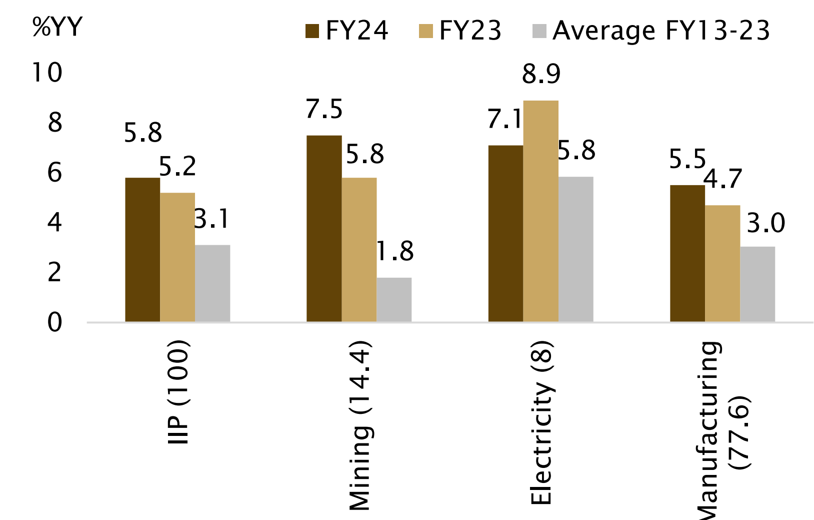
- By sector, the moderation in industrial production during the month was due to deceleration in mining output growth to the slowest pace since September 2022 to 1.2%YY from 8.1% in February. There was an improvement in output of manufacturing and electricity.
- For the entire year FY24, industrial production growth improved to 5.8%YY from 5.2% in FY23, driven by higher output growth in mining and manufacturing sectors, even as electricity sector output growth moderated but stayed above the long-term average. Overall IIP growth in FY24 was above the long-term average of around 3% and the strongest in the current series (base 2011-12) except for the post-COVID rebound year of FY22 when IIP growth had peaked at 11.4%.
- Within manufacturing, output fell year-on-year in eight out of 23 sub-sectors in March, up from four in the previous month. For the entire year FY24, production fell in 10 out of 23 sub-sectors, the same as FY23. There is some overlap of sub-sectors where output contracted in both FY23 and FY24. These include computer and electronic products (1.6), wearing apparel (1.3), other manufacturing (0.9), tobacco products (0.8), leather and related products (0.5), and wood and related products (0.2). There was an improvement in production in these sub-sectors of manufacturing compared to FY23 – basic metals (12.8), pharmaceuticals (5.0), other non-metallic mineral products (4.1), textiles (3.3), electrical equipment (3.0), fabricated metal products (2.7), rubber and plastic products (2.4), and other transport equipment (1.8). Of the 23 sub-sectors, output is yet to recover to the pre-COVID levels in 9 sub-sectors.

Lower IIP growth due to deceleration in mining output



Numbers in parenthesis denote weights

Higher growth in FY24 vs FY23, except for electricity



Mixed recovery in consumer goods-related manufacturing sub-sectors

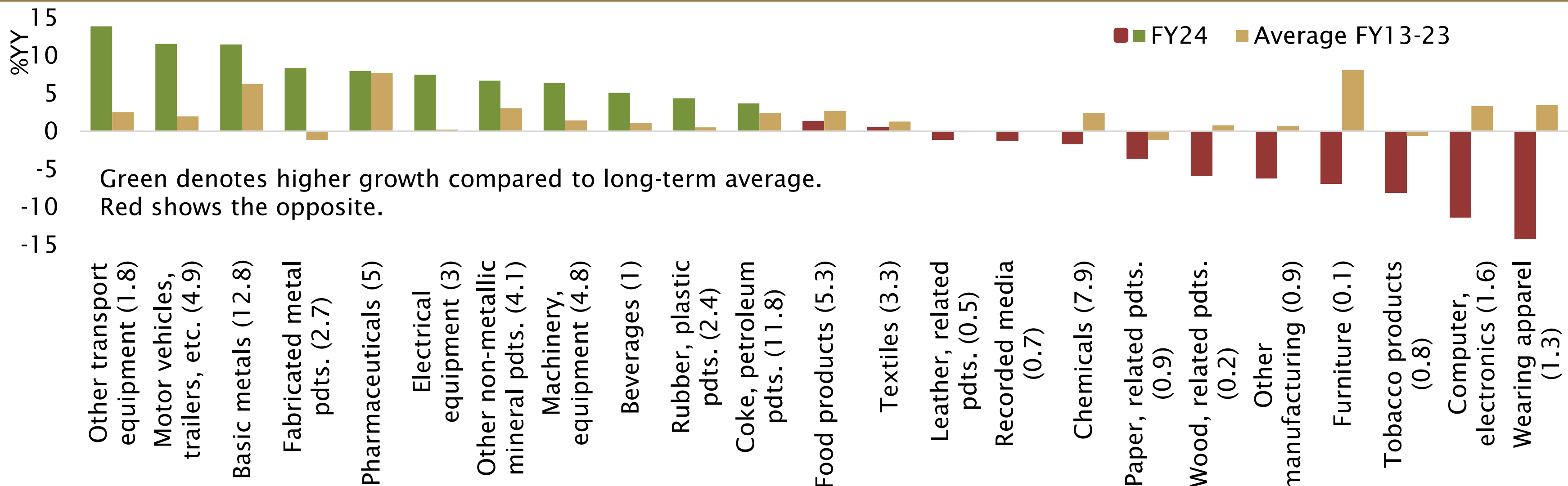
- In March, basic metals and pharmaceuticals added the most to manufacturing growth , while food and tobacco products dragged down growth. For FY24 as a whole, even as computers and electronics, and wearing apparel were laggards, sub-index heavy-weights such as chemicals, food products and textiles posted lower than average growth recorded in FY13-23.
- Even as the laggards in manufacturing sub-sectors reflect weakness in consumer-related goods output in FY24, these sectors performed better compared to FY23 due to strong growth in sub-sectors such as motor vehicles, other transport equipment and pharmaceuticals. Also, though sectors such as textiles posted lower than average growth in FY24, there was an improvement compared to FY23. The outperformance of infrastructure and capital goods-related sub-sectors continued in FY24.

In March, metals, pharma added the most to growth

Top / bottom manufacturing sub-sectors by contribution to IIP growth (percentage pts.)	
Basic metals (12.8)	1.27
Pharmaceuticals (5.0)	1.07
Fabricated metal pdts (2.7)	0.70
Other transport equipment (1.8)	0.58
Electrical equipment (3.0)	0.54
Food products (5.3)	-0.26
Other manufacturing (0.9)	-0.21
Tobacco products (0.8)	-0.18
Coke, refined petroleum pdts. (11.8)	-0.16
Leather products (0.5)	-0.07

Numbers in parenthesis denote weight in IIP

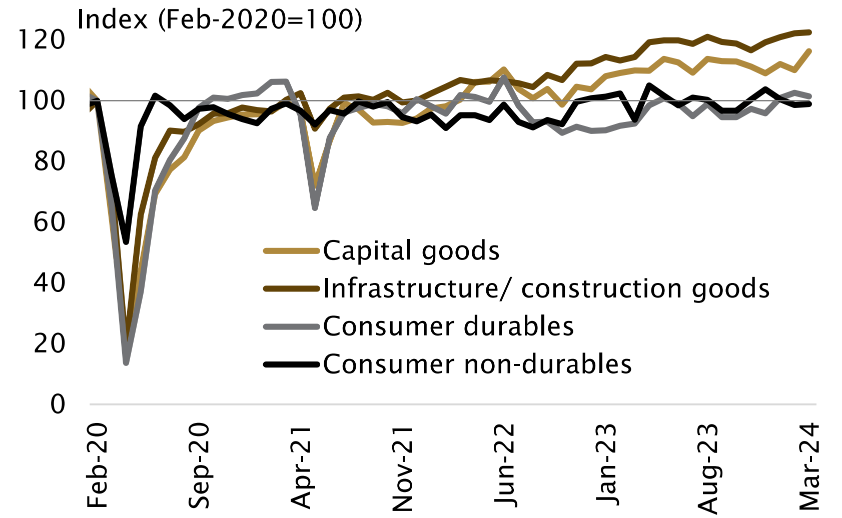
Mixed trends in recovery of consumer goods-related sub-sectors in FY24; with some segments remaining sluggish



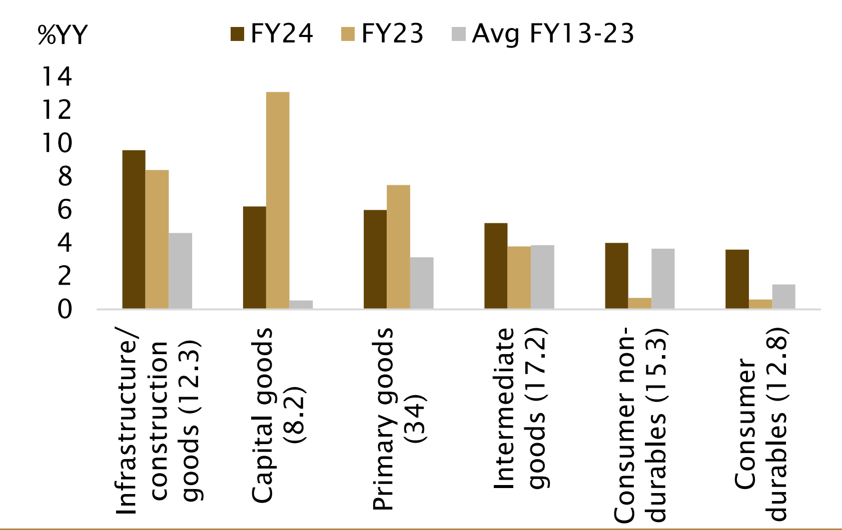
Infrastructure, capital goods continued to outperform in FY24

- In terms of use-based classification or by type of goods, there was moderation in year-on-year output growth across categories in March except for capital goods and consumer non-durables. Capital goods output growth rose to a six-month high, boosted by production of electrical equipment and fabricated metal products. The divergence in output growth of consumer durables and non-durables seen in January and February snapped in March, with consumer durables growth moderating after posting double-digit growth in the past two months, and production of consumer non-durable goods rebounding after contracting for two consecutive months.
- For the entire year FY24, infrastructure/construction and capital goods sectors continued to outperform relative to consumer goods-related sectors. The trend in consumer goods-related sectors has been flat in recent months, though for the year as a whole, these sectors fared better compared to FY23 and also relative to long-term average.
- Within consumer non-durables, recovery in FY24 was largely driven by pharmaceuticals, while output growth was weaker compared to FY23 in case of food, beverages and tobacco products, attesting to the notion of K-shaped economic recovery. Within consumer durables, production of motor vehicles and other transport equipment was strong, while that of computer and electronics, wearing apparel, and leather products remained in contraction for the second straight year.
- There was broad-based improvement within categories of primary goods, while output of intermediate goods was supported by basic metals, even as chemicals output fell at the steepest rate (-1.7%) in the current series, except for the COVID-related downturn in FY21 (-2.1%).

Continued higher growth in construction, capital goods



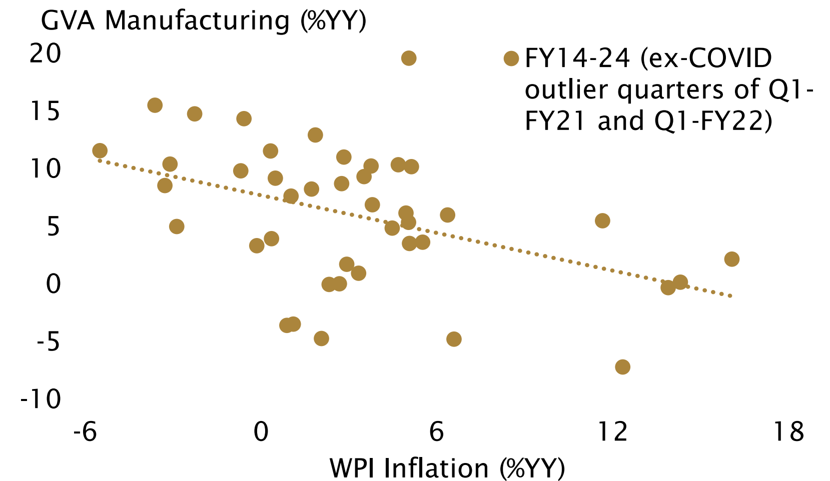
Improvement in consumer goods output in FY24



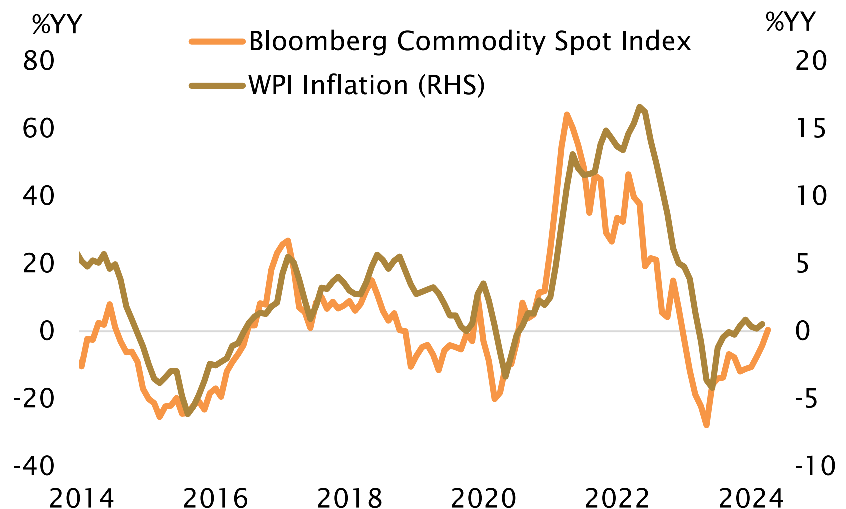
Public capex, rural spending to aid growth; commodity prices pose risk

- After surging to 16-year high in March at 59.1, manufacturing PMI moderated in April but remained strong at 58.8, signaling a robust start for the fiscal year 2025. Other high frequency indicators also signaled continued momentum in economic activity. GST revenue collection in April hit a record high of Rs. 2.10 lakh crore, up 12.4%YY.
- As per RBI's latest bulletin (April), the authors' nowcast model indicated real GDP growth of 7.3%YY for Q4-FY24, marginally up from 7.2% in its March bulletin. This could imply real GDP growth of 8% for FY24. NSO's provisional estimates for the quarter and full year are due on May 31.
- In FY25, the central government's continued thrust on capital expenditure is likely to sustain output momentum in case of infrastructure and capital goods. Also, the forecast of above average southwest monsoon during the year and the hike in daily wages under MGNREGA from April 1, 2024 bodes well for rural consumption.
- However, risks remain from higher global commodity prices that tend to reflect in wholesale prices and impact industrial output. While WPI inflation fell year-on-year for FY24 as a whole, there has been an uptick in recent months. Geopolitical tensions and their impact on supply chain pressures will remain key risks to watch out for to assess the trajectory of industrial production. The impact on producers will largely hinge on their ability to pass on higher input costs to consumers, and demand will, in turn, remain vulnerable to consumers' price sensitivity – something that is being offset by higher demand, as per the latest PMI survey. Risks to consumption also remain from the lagged impact of monetary policy tightening and other central bank regulatory measures.

Low WPI inflation supportive of manufacturing growth



Tailwind from lower commodity prices is diminishing



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