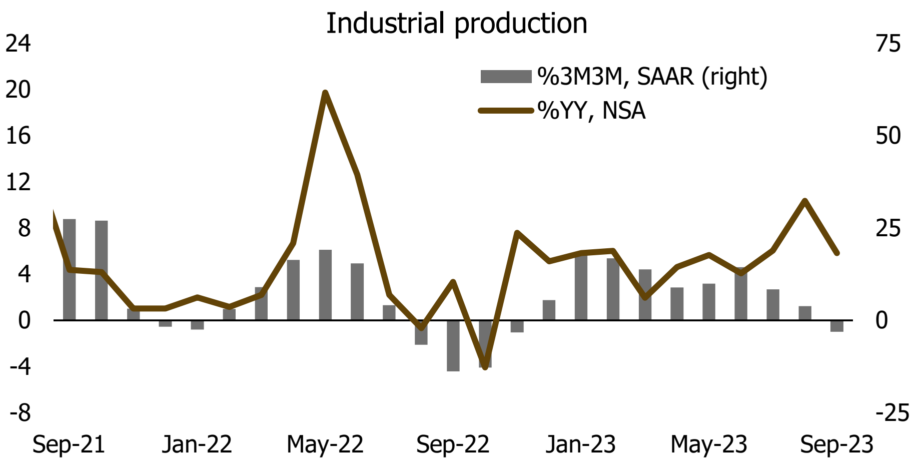
Industrial output growth eased in September; base effect likely to lift October data

Key takeaways: Industrial production growth moderated in September after the double-digit growth in August but was in line with the trend in core sector output. Manufacturing sector growth more than halved, while mining and electricity output remained relatively firm. Infrastructure and capital goods sectors continued to perform relatively better than consumer goods related sectors. Despite the recently reported signs of recovery in rural consumption, outlook remains mixed for Q4:FY24 once the impact of festive season and favorable base effects fade away. The key downside risks to economic activity in the coming months include: 1) shift of focus away from public capital spending to welfare spending ahead of elections that could weaken the momentum in infrastructure related sectors 2) impact of uneven monsoon on agricultural produce and rural incomes 3) lagged impact of monetary policy tightening on consumption.

Summary

- Industrial production growth moderated to 5.8%YY in September from 10.3% in August.
- The growth in output was lower than the Bloomberg survey estimate of 6.9% but in line with the moderation in core sector output (8.1%YY in September versus 12.5% in August), which constitutes over 40% of industrial production.
- A negative base aided the double-digit output growth in August, while the latest print was on a base of 3.3% growth in September 2022.
- In sequential terms (month-on-month change), production fell in September, be it in seasonally (-1.9%) or non-seasonally (-2.4%) adjusted terms. In August, output was up in sequential terms.
- The momentum in industrial production, measured by 3-month/3-month annualized change, declined after staying positive for nine consecutive months.

Figure 1: Industrial production growth moderated in September



Source: MoSPI

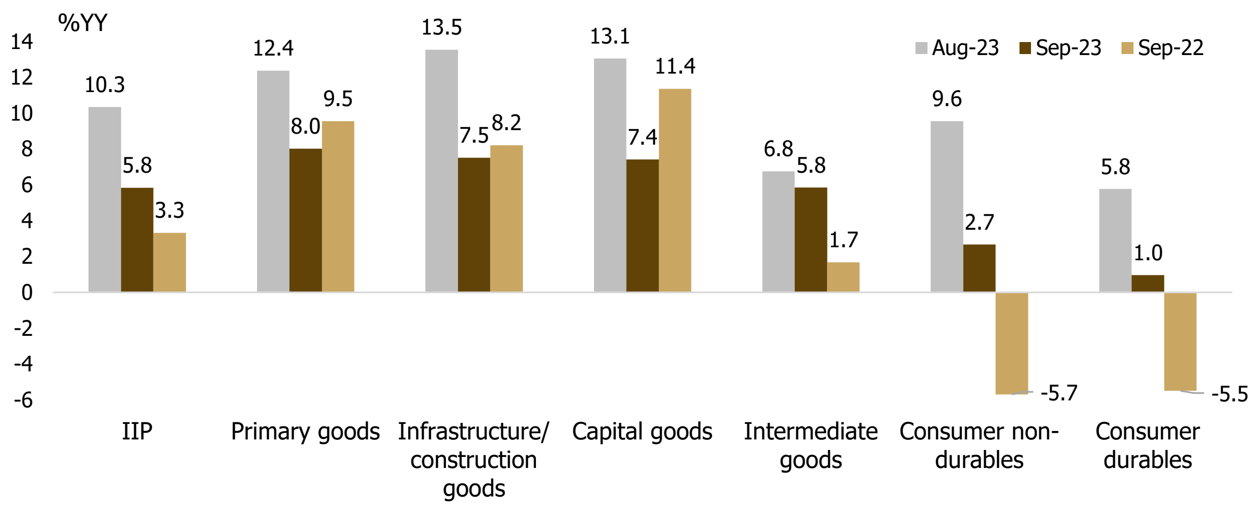
By sector

- Production growth moderated across the major sectors of mining, manufacturing and electricity.
- **Mining output growth remained in double-digits** for the third consecutive month, buoyed by strong coal production.
- Despite easing compared to the previous month, **electricity production also remained strong at 9.9% to meet the concurrent rise in demand.** Electricity demand has been robust since July amid warmer weather conditions, concessional charges in certain states ahead of polls, and firm industrial activity.
- **Manufacturing growth more than halved from the previous month** to 4.5%YY, with growth contracting in nine of the 23 sub-sectors.
- On a seasonally adjusted basis, mining output increased month-on-month, while electricity and manufacturing output contracted.

By use-based classification

- There was moderation in growth across categories of goods in September (Figure 2).
- **Infrastructure and capital goods output grew at a strong pace and continued to outperform the consumer goods categories, as the thrust on public capital expenditure continued to give the required boost to their output.** The easing of output growth compared to August could be attributable to a high base in the corresponding month a year ago.
- However, even a **negative base from a year ago failed to lift consumer goods numbers**.
- On a seasonally adjusted month-on-month basis, output fell across categories of goods, with the sharpest declines in consumer segments.

Figure 2: Consumer goods output grew at a tepid pace despite a negative base last year



Source: MoSPI

Figure 3: Growth momentum continued to weaken in the consumer goods categories

(% year-on-year change)	Weights	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Industrial production	100.0	4.6	5.7	4.0	6.0	10.3	5.8
By sector							
Mining	14.4	5.1	6.4	7.6	10.7	12.3	11.5
Electricity	8.0	-1.1	0.9	4.2	8.0	15.3	9.9
Manufacturing	77.6	5.5	6.3	3.5	5.0	9.3	4.5
By use-based classification							
Industrial production	100.0	4.6	5.7	4.0	6.0	10.3	5.8
Primary goods	34.0	1.9	3.6	5.3	7.6	12.4	8.0
Capital goods	8.2	4.4	8.1	2.9	4.5	13.1	7.4
Intermediate goods	17.2	1.7	3.4	5.2	2.4	6.8	5.8
Infrastructure/construction goods	12.3	13.4	13.0	13.3	12.4	13.5	7.5
Consumer durables	12.8	-2.3	1.5	-6.8	-2.6	5.8	1.0
Consumer non-durables	15.3	11.4	8.9	0.5	7.9	9.6	2.7

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

Source: MoSPI

Assessing manufacturing sub-sectors

- Of the 23 sub-sectors of manufacturing, the major boost to infrastructure goods was from **basic metals that contributed the most to overall industrial production growth.**
- Fabricated metal products, classified mainly into infrastructure and capital goods, was also among the key contributors to total output growth.
- **Motor vehicles remained the silver lining for consumer durable products, as production of other goods such as wearing apparel, and computer and electronic products remained in contraction.**
- Though **pharmaceuticals** production growth eased compared to August, it remained a **key contributor consumer nondurable goods and overall industrial output.**
- However, other goods within consumer nondurables such as manufacture of food products and chemicals were a drag on growth. **Chemicals output remained in contraction for fifth straight month.**
- Amidst moderation in overall industrial output growth during the month, **manufacture of textiles continued to improve** for the third consecutive month, snapping a 12-month declining streak. Some of the mandatory quality norms by the Bureau of Indian Standards, effective January 2024, could further support domestic production of textiles in the coming months.
- Apart from mining and electricity, primary goods includes manufacture of coke and refined petroleum

Top/bottom 5 manufacturing sub-sectors by contribution to IIP (percentage points)	
Basic metals	2.07
Motor vehicles	0.70
Pharmaceuticals	0.44
Coke, refined petroleum products	0.39
Fabricated metal products	0.30
Chemicals	-0.56
Wearing apparel	-0.30
Computer, electronic products	-0.18
Other manufacturing	-0.16
Tobacco products	-0.05

products. The output of mining and electricity held firm and despite moderation in growth, coke and petroleum products was among key contributors to overall output growth. Accordingly, **with a weight of 34%, primary goods contributed around 47% to overall output growth** during the month.

Outlook

- Industrial production contracted in October 2022 and grew firmly in November, so these **base effects could boost numbers for October, while having the opposite effect in November.**
- The government's focus on capital expenditure has been boosting output of capital and infrastructure goods so far this fiscal year. During H1-FY24, the centre's capital expenditure was up 43.1%YY, accounting for nearly half of budget estimates for FY24. During the same period, combined capital expenditure of 23 states increased 50.2%. Though there is room for further spending in H2, **the front loading of capital expenditure and the election cycle could shift focus on welfare spending in the remainder of the year, thereby providing relatively lower support to capital and infrastructure sectors.**
- Recent reports by companies such as NielsenIQ and Bizom suggest that there have been signs of recovery in FMCG sales in rural areas in recent months. In addition to the **festive season; decline in retail inflation in recent months, including the drop in LPG prices; is giving a fillip to rural consumption.** However, **outlook remains mixed** amid the impact of uneven monsoon on agricultural produce, and therefore on incomes, and the likely offset from government's relief spending measures ahead of elections such as the recent extension of food subsidy.
- The high frequency data for October is mixed, particularly on vehicle sales and registrations. **Though data on GST was buoyant for the month, it came in the backdrop of its extension to online gaming companies.**
- The latest PMI prints, both for manufacturing and services sectors, decelerated amid rising inflation expectations and sticky input price pressures that could hit margins and impact profitability.
- **Though the festive season and favorable base effects could boost consumption and economic activity for a couple of months, the impact of an uneven monsoon on rural sector incomes and lagged impact of monetary policy tightening could weigh on growth in Q4:FY24.**

Select high frequency economic indicators								
(%YY, unless mentioned otherwise)		Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Agriculture and rural sector	Fertiliser sales	-13.9	2.1	1.7	4.4	2.7	5.7	
	Tractor sales	-13.0	-2.4	-0.7	0.0	-4.1	-15.6	-5.3
	Tractor registrations	1.5	9.6	41.0	21.1	13.6	-9.7	6.1
	Two wheeler sales	15.1	17.4	1.7	-7.2	0.6	0.8	20.1
	Two-wheeler registrations	-7.3	9.3	6.8	8.2	6.3	21.7	-12.6
	Three-wheeler registrations	57.2	78.6	75.5	74.3	66.1	48.6	45.6
Industry, construction and urban sector	Industrial production	4.2	5.2	3.7	5.7	10.3	5.8	
	Core sector output	3.5	4.3	8.2	8.0	12.1	8.1	
	Cement production	12.4	15.9	9.9	6.9	19.3	4.7	
	Natural gas production	-2.9	-0.1	3.4	8.3	9.3	6.1	
	Electricity requirement	-3.1	-0.8	2.8	7.5	17.5	10.2	
	Steel consumption*	9.4	9.6	6.7	11.9	20.5	20.0	
	Fuel consumption	1.4	12.6	5.2	3.1	8.1	8.2	3.7
	Passenger vehicle sales	12.9	14.9	1.6	2.9	11.6	3.1	17.3
	Passenger vehicle registrations	-1.3	4.3	4.8	4.0	6.5	19.0	-1.4
Services	Commercial vehicle sales		-3.3			1.9		
	Commercial vehicle registrations	1.9	7.2	0.4	2.0	3.2	4.9	10.3
	Railway freight traffic	3.5	1.9	-2.0	1.6	6.4	6.8	
	Port cargo traffic	1.3	3.2	-2.0	4.2	4.1	0.3	
	Domestic air cargo traffic	7.6	-4.5	-5.6	-4.1	6.1	-4.5	
	International air cargo traffic	-4.8	2.7	2.7	1.0	7.4	2.7	
	Domestic air passenger traffic	22.6	15.8	19.2	26.4	23.6	19.4	
	International air passenger traffic	43.3	37.1	26.5	23.5	21.6	19.5	
	Tourist arrivals	53.7	41.3	24.0	13.6	22.6	17.5	
	GST e-way bills (total)	12.2	19.7	15.5	16.4	19.5	9.5	30.5
	GST e-way bills (intra-state)	16.2	23.0	18.8	20.8	22.6	12.4	30.0
	GST e-way bills (inter-state)	5.9	14.3	9.9	9.1	14.4	4.9	31.2
	GST revenue collection	11.6	11.5	11.7	10.8	10.8	10.2	13.4
PMI (Index)	PMI Manufacturing	57.2	58.7	57.8	57.7	58.6	57.5	55.5
	PMI Services	62.0	61.2	58.5	62.3	60.1	61.0	58.4

Note: * Based on provisional estimates from Ministry of Steel monthly notes. Source: National Offices, Bloomberg, Refinitiv

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