

INDEX OF INDUSTRIAL PRODUCTION

YoY IIP growth rose to a higher-than-anticipated 5.9% in May 2024; expected to temper to 4.0-5.0% in June 2024

JULY 2024





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IIP growth rose to seven-month high of 5.9% in May 2024 from 5.0% in April 2024

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

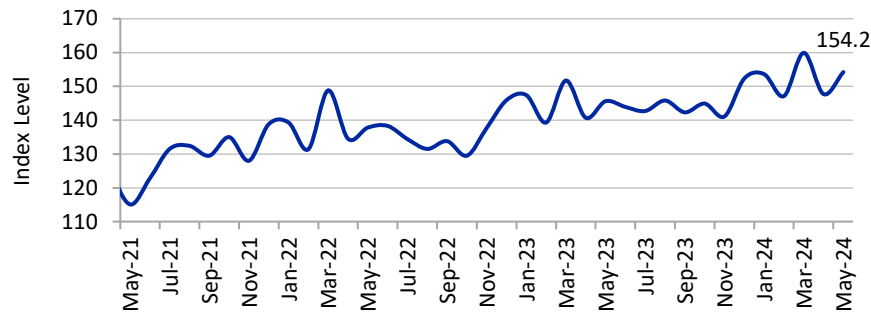
IIP growth likely to ease to 4.0-5.0% in June 2024

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) rose to a seven-month high of 5.9% in May 2024 from 5.0% in April 2024, while exceeding ICRA's expectations (+4.3%) for the month. This was driven by an improvement in the growth of manufacturing output, followed by an uptick in electricity generation, with the latter being supported by the impact of a rise in temperatures and heatwaves across some parts of the country. However, the performance of the use-based categories was mixed, with three of the six categories witnessing an acceleration, including the output of primary and consumer goods, even as the other three saw a deceleration in growth in May 2024 vis-à-vis the previous month. Based on the trends in the available high frequency data for June 2024, ICRA anticipates the YoY IIP growth to ease to 4.0-5.0% in that month.

- **IIP growth rose to a higher-than-expected 5.9% in May 2024:** The YoY growth in the IIP improved to a seven-month high of 5.9% in May 2024 from 5.0% in April 2024, exceeding ICRA's expectation (+4.3%) for the month. This was driven by an uptick in the YoY expansion of manufacturing output (to +4.6% in May 2024 from +3.9% in April 2024) and electricity generation (to +13.7% from +10.2%; demand was boosted by heatwaves across some parts of the country), even as that for mining output (to +6.6% from +6.8%) eased marginally.
- **Sequential uptick in IIP in May 2024 exceeded that seen in May 2023:** In month-on-month (MoM) terms, the IIP rose by 4.4% in May 2024, higher than the 3.5% uptick seen in May 2023. This was driven by a better MoM performance of manufacturing output (+3.8% in May 2024 vs. +3.1% in May 2023) and electricity generation (+8.2% vs. +4.8%; aided by higher demand amid heatwaves) in May 2024 vis-à-vis May 2023. In contrast, the output of mining (+4.3% vs. +4.5%) witnessed a marginally weaker sequential performance in May 2024, relative to 2023.
- **IIP growth to ease to 4.0-5.0% in June 2024:** Based on the trends in the available high frequency data for June 2024, ICRA anticipates the YoY IIP growth to ease to 4.0-5.0% in that month from the healthier-than-expected 5.9% in May 2024.

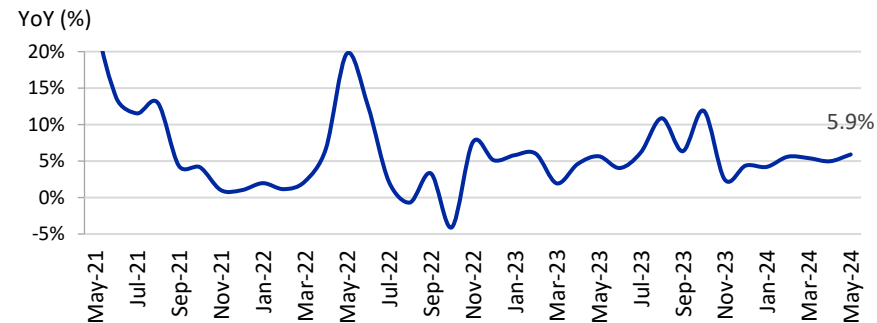
YoY expansion in IIP rose to seven-month high of 5.9% in May 2024 from 5.0% in April 2024, exceeding ICRA's expectations

EXHIBIT: Trends in index levels of IIP



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

EXHIBIT: Trends in YoY growth of IIP

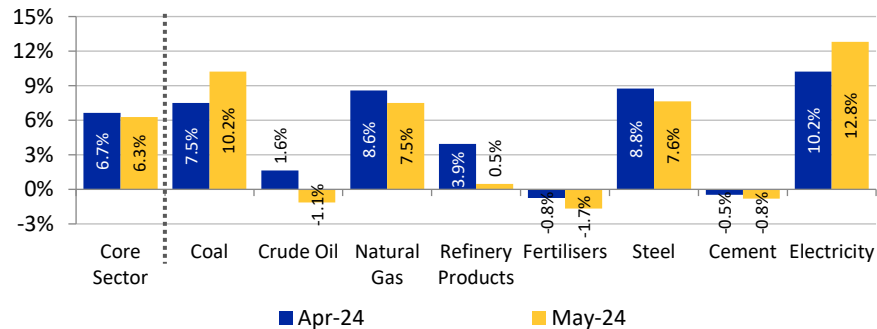


Source: NSO; CEIC; ICRA Research

- Surpassing ICRA's expectations (+4.3%), the YoY growth in the IIP rose to a seven-month high of 5.9% in May 2024 (+5.7% in May 2023) from 5.0% in April 2024 (+4.6% in April 2023), amid a better-than-anticipated growth in manufacturing output.
- The improvement in IIP growth was driven by an uptick in the YoY expansion of manufacturing output (to +4.6% in May 2024 from +3.9% in April 2024) and electricity generation (to +13.7% from +10.2%), with demand for the latter being supported by rising temperatures and heatwaves across some parts of the country in that month. In contrast, the YoY growth in mining output (to +6.6% from +6.8%; in line with moderation in crude oil and natural gas output) eased marginally in May 2024, vis-à-vis April 2024.

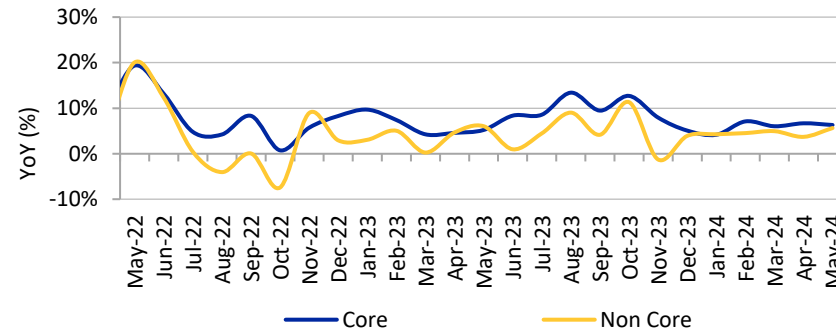
YoY expansion in IIP trailed that of the core sector output in May 2024 for fourth straight month

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

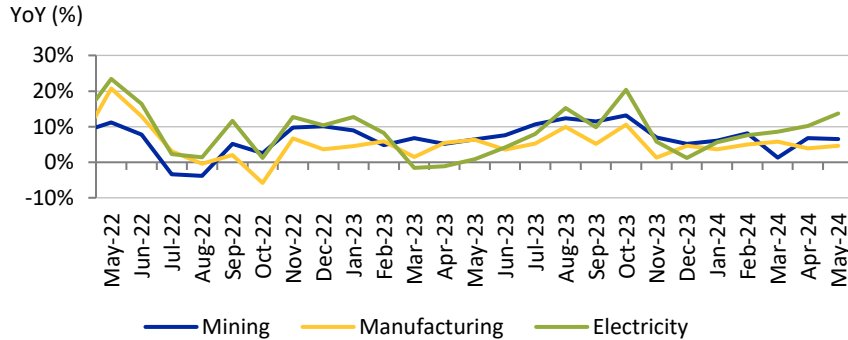


The non-core output is computed by excluding core output from the IIP; Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry; NSO; CEIC; ICRA Research

- The YoY rise in the core sector output sustained above 6% for the fourth consecutive month, even as the pace of expansion moderated slightly to 6.3% in May 2024 from 6.7% in April 2024, with a deterioration across all constituents, apart from coal output (to +10.2% from +7.5%) and electricity generation (to a seven-month high +12.8% from +10.2%) amid the heatwave-led uptick in power demand.
- In contrast, a combination of factors including the heatwave over parts of the country and the phased Parliamentary Elections is likely to have curtailed activity and execution in the remaining sub-sectors. Consequently, the YoY growth in the output of crude oil (to a 12-month low -1.1% in May 2024 from +1.6% in April 2024), natural gas (to +7.5% from +8.6%), refinery products (to a four-month low +0.5% from +3.9%), fertilisers (to -1.7% from -0.8%), steel (to +7.6% from +8.8%), and cement (to -0.8% from -0.5%) moderated in May 2024 vis-à-vis April 2024.
- Notably, the overall YoY IIP growth (+5.9%) trailed the 6.3% YoY expansion seen in the core sector output (weight in IIP: 40.3%), for the fourth consecutive month in May 2024, owing to the slower growth in the output of the non-core sector (+5.6%).

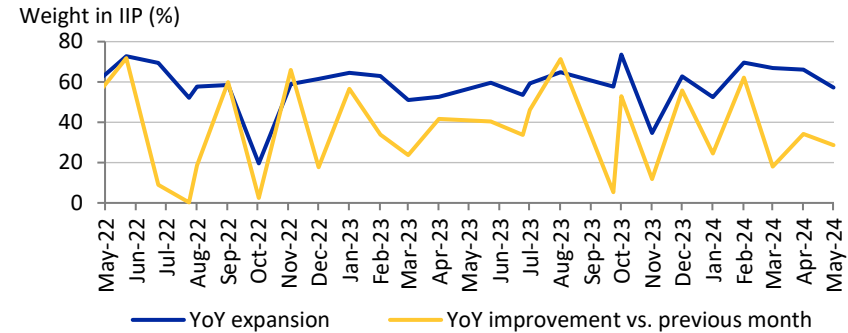
Uptick in manufacturing output growth in May 2024 vis-à-vis April 2024 was not broad based

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

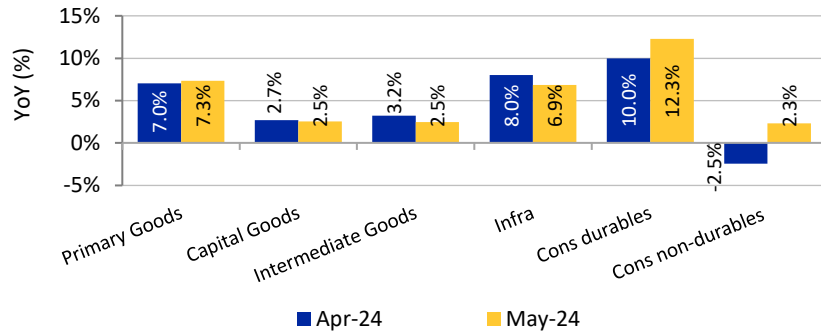


Source: NSO; CEIC; ICRA Research

- Within the manufacturing segment, the YoY performance of 11 of the 23 sub-sectors of manufacturing (with a large weight of 49.0% in the IIP) weakened in May 2024 relative to April 2024; this subset includes chemicals and chemical products, basic metals, coke and refined petroleum products, etc. In contrast, the output of the remaining 12 sub-sectors (albeit with a lower weight of 28.6% in the IIP) saw an improvement in their YoY performance in May 2024, vis-à-vis April 2024. This sub-set includes food products, pharma, medicinal chemical and botanical products, textiles, etc. This implies that the uptick in the YoY expansion in manufacturing output in May 2024 vs. April 2024 was not broad-based.
- Notably, the production of 17 of the 23 sub-sectors of manufacturing (with a sizeable weight of 57.1% in the IIP) increased on a YoY basis in May 2024, while the output of the remaining six sub-sectors (with a lower weight of 20.5% in the IIP) contracted in that month.

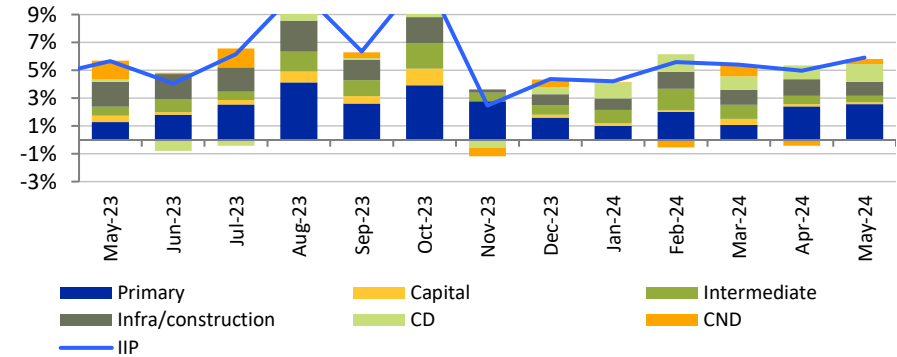
YoY performance of use-based categories revealed mixed trends in May 2024 vis-à-vis April 2024

EXHIBIT: YoY trends in IIP (use-based)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Contribution to IIP growth by use-based categories

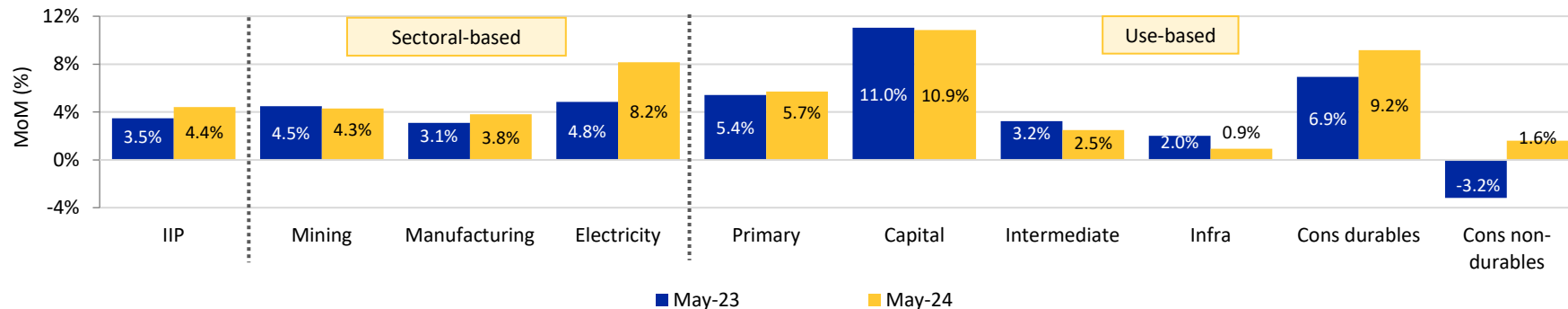


*CD: Consumer durables; CND: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- Three of the six use-based categories recorded a higher YoY performance in May 2024 vis-à-vis April 2024. This sub-set includes primary goods (to a six-month high +7.3% in May 2024 from +7.0% in April 2024), consumer durables (to +12.3% from +10.0%), and consumer non-durables (to +2.3% from -2.5%; partly owing to a favourable base).
- On the contrary, the YoY expansion in the output of infrastructure/construction goods (to a four-month low +6.9% from +8.0%; owing to the implementation of Model Code of Conduct amid General Elections), capital goods (to +2.5% from +2.7%), intermediate goods (to a 13-month low +2.5% from +3.2%), deteriorated in May 2024, vis-à-vis April 2024.
- Interestingly, the output of consumer durables (-3.0%) trailed the corresponding pre-Covid levels of May 2019, even as the other categories of the IIP exceeded the same in May 2024.

Sequential uptick in May 2024 was higher than that seen in May 2023

EXHIBIT: MoM trends in IIP and its sub-components

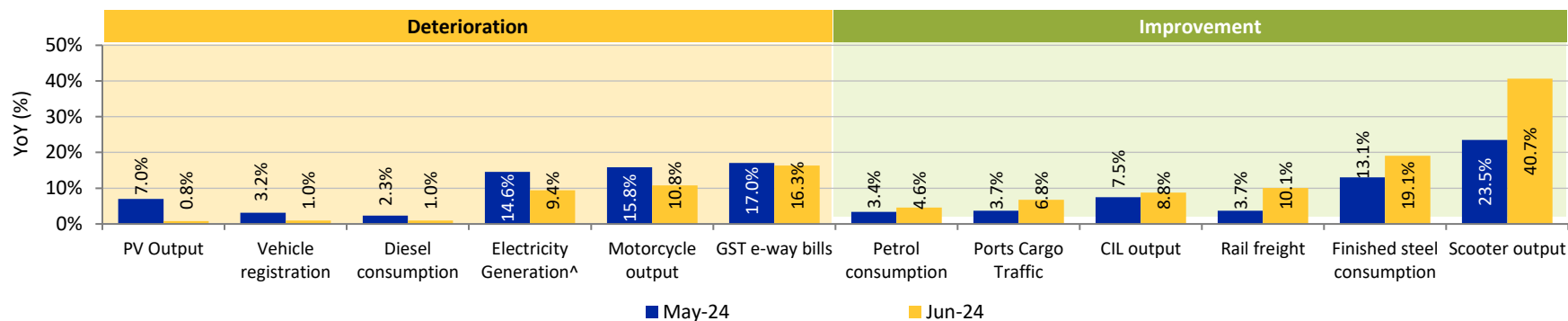


Infra: Infrastructure/ construction goods; Cons durables: Consumer durables; Cons non-durables: Consumer non-durables; Source: NSO; CEIC; ICRA Research

- In sequential terms, industrial output rose by 4.4% in May 2024, higher than the 3.5% uptick seen in May 2023. The stronger MoM uptick was driven by a better performance of manufacturing output (+3.8% in May 2024 vs. +3.1% in May 2023) and electricity generation (+8.2% vs. +4.8%; aided by elevated demand owing to heatwaves across some parts of the country) in May 2024 vis-à-vis May 2023. In contrast, the output of mining (+4.3% vs. +4.5%) witnessed a marginally weaker sequential performance in May 2024, relative to 2023.
- Moreover, three of the six use-based categories of the IIP, namely, consumer durables (+9.2% in May 2024 vs. +6.9% in May 2023), consumer non-durables (+1.6% vs. -3.2%), and primary goods (+5.7% vs. +5.4%) witnessed a higher MoM expansion in May 2024 relative to the year ago level. In contrast, the MoM uptick in the output of infrastructure/construction goods (+0.9% vs. +2.0%), intermediate goods (+2.5% vs. +3.2%), and capital goods (+10.9% vs. +11.0%) in May 2024 was weaker than the levels seen in May 2023.

OUTLOOK: IIP growth to print at 4.0-5.0% in June 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: JPC; CMIE; Indian Railways; CIL; CEA; PPAC; Vahan Portal; CEIC; ICRA Research

- The YoY performance of the available high frequency indicators reveals a mixed trend in June 2024 relative to May 2024. Growth in scooter output (to a six-month high +40.7% in June 2024 from +23.5% in May 2024, partly owing to a low base), finished steel consumption (to +19.1% from +13.1%), output of Coal India Limited (to +8.8% from +7.5%; to cater to elevated electricity demand), railway freight traffic (to a four-month high +10.1% from +3.7%, primarily driven by coal), cargo traffic at major ports (to a seven-month high +6.8% from +3.7%, led by shipments of coal and containers), and petrol consumption (to +4.6% from +3.4%) improved in June 2024 vis-à-vis May 2024.
- In contrast, the pace of expansion in the output of PVs (to a seven-month low +0.8% from +7.0%) and motorcycles (to +10.8% from +15.8%), vehicle registrations (to an eight-month low +1.0% from +3.2%; amid the impact of heatwaves on walk-ins), electricity generation (to +9.4% from +14.6%, on account of an adverse base), diesel consumption (to a six-month low +1.0% from +2.3%), and generation of GST e-way bills (to +16.3% from +17.0%) moderated in June 2024 relative to May 2024.
- **Based on the trends in the available high frequency data for June 2024, ICRA anticipates the YoY IIP growth to ease to 4.0-5.0% in that month from the healthier-than-expected 5.9% in May 2024.**

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 (%)										
April-24	5.0%	6.8%	3.9%	10.2%	7.0%	2.7%	3.2%	8.0%	10.0%	-2.5%
May-24	5.9%	6.6%	4.6%	13.7%	7.3%	2.5%	2.5%	6.9%	12.3%	2.3%
MoM (%)										
May-23	3.5%	4.5%	3.1%	4.8%	5.4%	11.0%	3.2%	2.0%	6.9%	-3.2%
May-24	4.4%	4.3%	3.8%	8.2%	5.7%	10.9%	2.5%	0.9%	9.2%	1.6%
May-24 / May-19	13.9%	24.0%	10.2%	29.6%	22.0%	1.3%	15.9%	27.7%	-3.0%	2.3%

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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