ICRA

INDEX OF INDUSTRIAL PRODUCTION
January 2023

IIP growth witnessed an expected uptick to 5.2% in Jan 2023; early data suggests growth may dip to 3-5% in Feb 2023

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HIGHLIGHTS

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As expected, the YoY IIP growth improved to 5.2% in Jan 2023 from 4.7% in Dec 2022

The YoY performance of manufacturing and electricity improved, while that of mining deteriorated in Jan 2023 relative to Dec 2022

IIP exceeded the pre-Covid level of Jan 2020 by 6.6% in Jan 2023, largely led by electricity and mining

YoY performance of most available high frequency data worsened in Feb 2023 relative to Jan 2023; IIP growth likely to dip to 3-5% in Feb 2023

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) improved to a moderate 5.2% in January 2023 (ICRA's exp.: +5.6%) from 4.7% in December 2022. This was driven by a healthy performance of primary, capital, and infrastructure goods as well as consumer non-durables, which offset the marginal rise in intermediate goods and discouraging contraction in consumer durables. A portion of the continuing, albeit narrower YoY decline in consumer durables stems from weak exports of such goods. Encouragingly, the IIP growth of 5.2% for January 2023 recorded an uptick both in sequential terms (+4.7% in Dec 2022), as well as compared to the tepid average of 2.6% for Q3 FY2023 and stood at the second highest level since July 2022. Despite the subdued base related to the third wave of Covid-19, most of the available high frequency indicators recorded a weaker YoY performance in February 2023, relative to January 2023, such as Coal India Limited's output, rail freight traffic, ports cargo traffic, fuel consumption, electricity generation and auto output. In contrast, vehicle registrations and finished steel consumption witnessed an improved YoY performance in February 2023, relative to the previous month. Based on these trends, ICRA expects the IIP to record a dip in the YoY growth to 3-5% in February 2023.

- **IIP growth printed at an expected 5.2% in January 2023:** In line with ICRA's expectations (+5.6%), the IIP growth rose to 5.2% in January 2023 from 4.7% in December 2022, led by manufacturing (to +3.7% in January 2023 from +3.1% in December 2022) and electricity generation (to +12.7% from +10.4%), even as mining recorded a lower expansion (to +8.8% from +10.0%).

- **Mixed disaggregated trends with half of the six use-based categories witnessing a higher growth:** The YoY performance of consumer durables (to -7.5% from -11.0%, amid continued drag from weak exports), capital goods (to +11.0% from +7.8%) and primary products (to +9.6% from +8.4%) improved in January 2023, relative to the prior month. In contrast, the other three categories, namely, infra/construction goods, consumer non-durables and intermediate goods posted a lower growth in January 2023 vis-à-vis December 2022.

- **IIP was up by 6.6% in January 2023 over pre-Covid levels:** This was led by a double-digit expansion in electricity (+19.9%), followed by mining (+9.3%), and a relatively lower growth in manufacturing (+4.6%); just nine of the 23 sub-segments within manufacturing (albeit with a sizeable weight of 55.1% in the IIP) recorded a higher output in January 2023 as compared to the pre-Covid levels; this subset includes basic metals (over pre-Covid: +20.3%; weight: 12.8%), chemicals and chemical products (+4.2%; 7.9%), food products (+3.6%; 5.3%), etc.

- **Early indicators suggest a dip in YoY IIP growth to 3-5% in February 2023:** Despite the subdued base related to the third wave of Covid-19, most of the available high frequency indicators recorded a weaker YoY performance in February 2023, relative to January 2023, such as Coal India Limited's output, rail freight traffic, ports cargo traffic, electricity generation and auto output. In contrast, vehicle registrations and finished steel consumption witnessed an improved YoY performance in February 2023, relative to the previous month. Based on these trends, ICRA expects the IIP to record a dip in the YoY growth to 3-5% in February 2023 from 5.2% in January 2023.

OVERVIEW

- As expected, the YoY IIP growth rose to 5.2% in January 2023 (+2.0% in January 2022; ICRA's exp.: +5.6%) from the revised 4.7% in December 2022 (+1.0% in December 2021). Encouragingly, this was twice as high as the tepid 2.6% seen in Q3 FY2023, led by an improvement across all the sub-sectors and use-based categories (apart from intermediate goods: to +0.1% in Jan 2023 from +0.5% in Q3 FY2023). Regardless, the YoY expansion in the broader IIP trailed the 7.8% YoY growth recorded in the core sector output (with a weight of 40.3% in the IIP) in January 2023, for the second consecutive month.

- The improvement in the IIP performance in January 2023 was driven by a rise in the YoY growth of manufacturing (to +3.7% in January 2023 from +3.1% in December 2022) and electricity generation (to +12.7% from +10.4%). However, mining growth (to +8.8% from +10.0%) eased in January 2023, vis-à-vis December 2022.

- The growth in manufacturing output rose to 3.7% in January 2023 (+1.9% in January 2022) from the revised 3.1% in the previous month (+0.6% in December 2021). However, it remained the worst performing sub-sector, with the YoY growth in output trailing that of the mining sector and electricity generation in the month. Notably, 13 of the 23 sub-sectors of manufacturing (with a weight of 64.5% in the IIP) displayed a YoY growth in January 2023, while the output of 10 sub-sectors (with a lower weight of 13.2% in the IIP) contracted in that month. Moreover, 13 of the 23 sub-sectors of manufacturing (with a substantial weight of 46.8% in the IIP), recorded an improvement in their YoY performance in January 2023 relative to December 2022; this sub-set includes machinery and equipment n.e.c. (to +11.3% in January 2023 from +10.6% in December 2022), beverages (to +13.4% from +6.5%), motor vehicles, trailers and semi-trailers (to +12.9% from +10.2%), coke and refined petroleum products (to +5.1% from +2.1%), etc. In contrast, 10 sub-sectors (with a lower weight of 30.8% in the IIP) witnessed a moderation in their YoY performance in January 2023, relative to the previous month; this sub-set includes paper and paper products (to +2.9% from +3.9%), pharma, medicinal chemical and botanical products (to +9.2% from +16.3%), other non-metallic mineral products (to +1.1% from +7.6%), etc.

- Amid deficient rainfall, the pace of YoY expansion in electricity generation improved to 12.7% in January 2023 from 10.4% in December 2022, owing to a low base (partly on account of significantly high rainfall in January 2022: 229% of LPA). As per the data released by the Central Electricity Authority, the YoY growth in thermal electricity generation rose to 10.5% in January 2023 from 10.3% in December 2022. Additionally, the YoY expansion in hydroelectricity generation improved to a four-month high of 7.6% in January 2023 from 6.5% in December 2022, boosted by a favourable base (-5.9% in January 2022).

- The YoY growth in the output of the mining sector eased to 8.8% in January 2023 from 10.0% in December 2022. This contrasted with the trends in the output of natural gas (to an eight-month high 5.3% in January 2023 from 2.6% in December 2022, coal (to a seven-month high +13.4% from +12.2%) and crude oil (to -1.1% from -1.2%; refer Exhibit 5), all of which recorded an improved YoY performance in January 2023, relative to December 2022.

- The YoY performance of the six use-based categories revealed a mixed trend in January 2023, relative to December 2022, depending upon the extent of the impact of Covid-3.0 on the sub-sectors. The output of primary goods (to +9.6% in January 2023 from +8.4% in December 2022) and capital goods (to +11.0% from +7.8%) recorded an improvement in their YoY performance in January 2023, relative to the previous month. In contrast, the YoY performance of intermediate goods (to +0.1% from +0.6%) and infrastructure/construction goods (to +8.1% from +9.1%) moderated in January 2023, relative to the previous month. This deterioration in the YoY growth of infrastructure/construction goods in January 2023 was led by the trend in the output of cement (to a three-month low +4.6% in January 2023 from +9.5% in December 2022).

- The YoY growth of consumer non-durables eased to 6.2% in January 2023 from 7.6% in December 2022, while consumer durables witnessed a narrower contraction of 7.5%, relative to 11.0% in the previous month. The YoY decline in the exports of textiles (-32.3% YoY in January 2023), cotton yarn/fabrics/made ups/handloom products (-37.4%) and man-made yarn/fabrics/made-ups/handloom products (-21.1%), and plastic and linoleum (-30.8%) is likely to have constrained the performance of consumer durables in January 2023.

- The IIP rose 6.6% in January 2023 relative to the pre-Covid levels of January 2020, led by a double-digit expansion in electricity (+19.9%), followed by mining (+9.3%), and a relatively lower growth in manufacturing (+4.6%). Only nine of the 23 sub-segments of the manufacturing sector (albeit with a sizeable weight of 55.1% in the IIP) recorded a higher output in January 2023 as compared to the pre-Covid levels; this subset includes basic metals (over pre-Covid: +20.3%; weight: 12.8%), chemicals and chemical products (+4.2%; 7.9%), food products (+3.6%; 5.3%), etc. In contrast, the output of as many as 14 of the 23 sub-sectors (with a relatively lower weight of 22.5% in the IIP) trailed in January 2023 relative to January 2020; this sub-set includes textiles (-10.7%; 3.3%), wearing apparel (-25.9%; 1.3%), leather and related products (-22.5%; 0.5%), computer, electronic and optical products (-17.3%; 1.6%), etc.

- In addition, five of the six use-based categories (apart from consumer durables: -11.6%, owing to a continued lower demand appetite for durables amid shift in consumer preferences towards services, and a decline in exports for such goods) exceeded their respective pre-Covid levels in January 2023. The output of infrastructure/construction goods (+17.0%) and primary goods (+12.1%) reported a double-digit growth over pre-Covid levels of January 2020, followed by modest increases in intermediate goods (+4.6%), consumer non-durables (+3.6%) and capital goods (+2.8%).

- Industrial output has risen sequentially for three months in a row, although the extent of increase was mild at 0.8% in January 2023 – reflecting a healthy trend in electricity generation (+4.0%) and mining (+2.6%), amidst a marginal 0.1% uptick in manufacturing output (albeit in contrast to the MoM decline of 2.0% seen in the generation of GST e-way bills). Additionally, five of the six use-based categories (barring consumer non-durables: -5.7%) witnessed a higher output in January 2023 relative to December 2022. The MoM growth in the output of capital goods (+5.2%) primary goods (+3.2%) and infra/construction goods (+2.2%) was higher in January 2023 relative to the 0.6% each recorded in the case of intermediate goods and consumer durables.

OUTLOOK

Despite a low base, some of the available high frequency indicators recorded a moderation in their YoY performance in February 2023, relative to January 2023. This subset includes indicators such as Coal India Limited's output (to +7.0% in February 2023 from +11.5% in January 2023), output of passenger vehicles (to +7.9% from +21.1%) and motorcycles (to -12.7% from -5.3%), rail freight traffic (to +3.6% from +3.8%; on account of cement, coal, and POL), ports cargo traffic (to 12.0% from +12.2%; led by thermal and coking coal), electricity generation (to +6.9% from +10.0%; excluding renewable energy generation), petrol sales (to +8.8% from +14.3%), and diesel sales (to +7.4% from +12.7%). In contrast, scooter output (to +12.0% from +5.1%), vehicle registrations (to +15.5% from +13.6%) and finished steel consumption (to +11.1% from +4.4%) witnessed an improved YoY performance in February 2023, relative to the previous month.

Given the deterioration in the YoY performance of most high frequency indicators in February 2023 as compared to January 2023, ICRA expects the IIP to record a dip in the YoY growth to ~3-5% in February 2023.

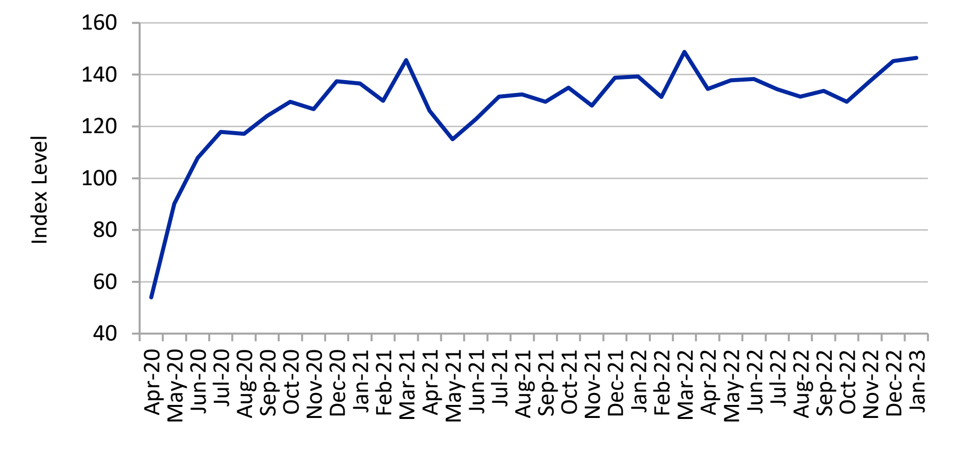
Nevertheless, the YoY growth in the IIP is likely to witness an uptick in the ongoing quarter from the 2.4% seen in Q3 FY2023, partly boosted by the typical year-end push in volumes to achieve targets as well as a low base of the third wave of Covid-19. However, ICRA remains watchful of the impact of the ongoing slowdown in external demand and the consequent decline in merchandise exports on the performance of the manufacturing sector.

Exhibit 1: Trend 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 (%)										
December-22	4.7%	10.0%	3.1%	10.4%	8.4%	7.8%	0.6%	9.1%	-11.0%	7.6%
January-23	5.2%	8.8%	3.7%	12.7%	9.6%	11.0%	0.1%	8.1%	-7.5%	6.2%
MoM (%)										
December-22	5.7%	8.0%	5.1%	7.6%	9.3%	0.3%	4.6%	4.9%	-2.9%	7.8%
January-23	0.8%	2.6%	0.1%	4.0%	3.2%	5.2%	0.6%	2.2%	0.6%	-5.7%
Jan-23 vs. Jan-20	6.6%	9.3%	4.6%	19.9%	12.1%	2.8%	4.6%	17.0%	-11.6%	3.6%

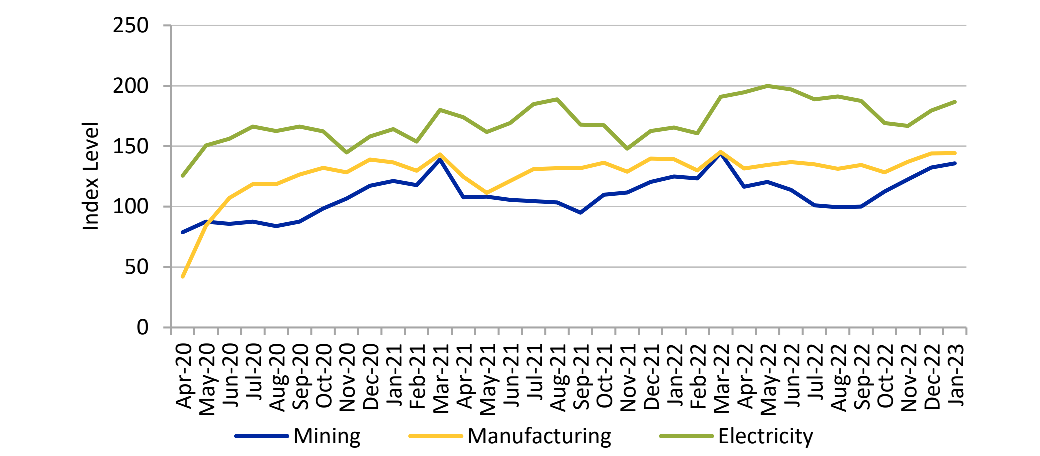
Source: *National Statistical Office (NSO); CEIC; ICRA Research*

Exhibit 2: Trend in IIP since April 2020



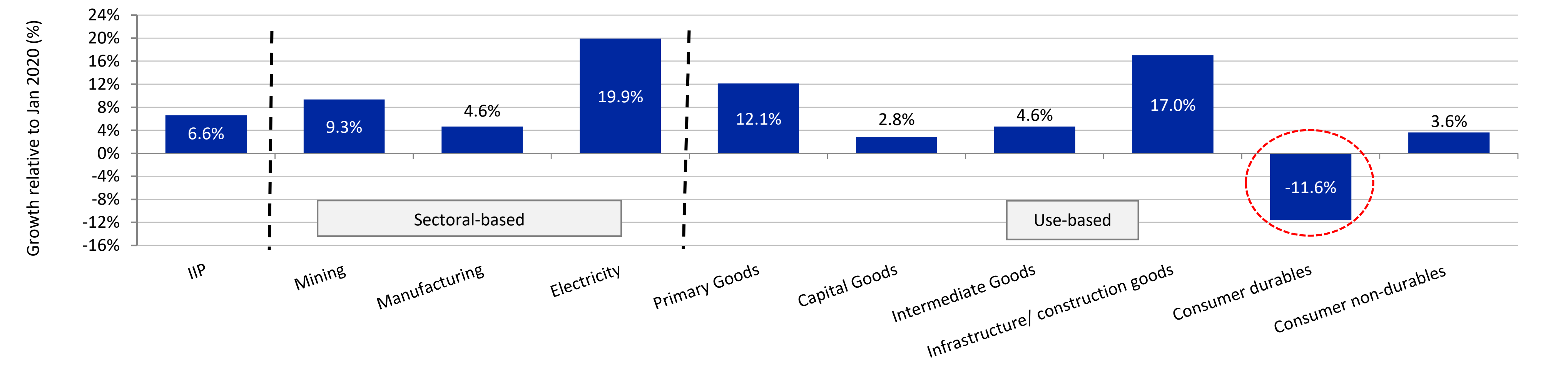
Source: *NSO; CEIC; ICRA Research*

Exhibit 3: Trend in index levels for mining, manufacturing and electricity since April 2020



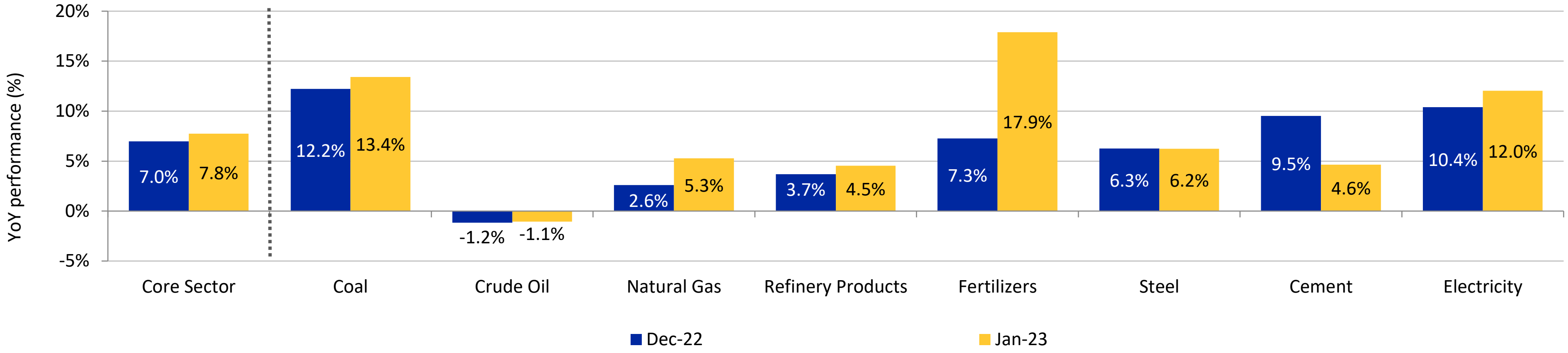
Source: *NSO; CEIC; ICRA Research*

Exhibit 4: Trend in performance of IIP and its sub-components in January 2023 relative to January 2020



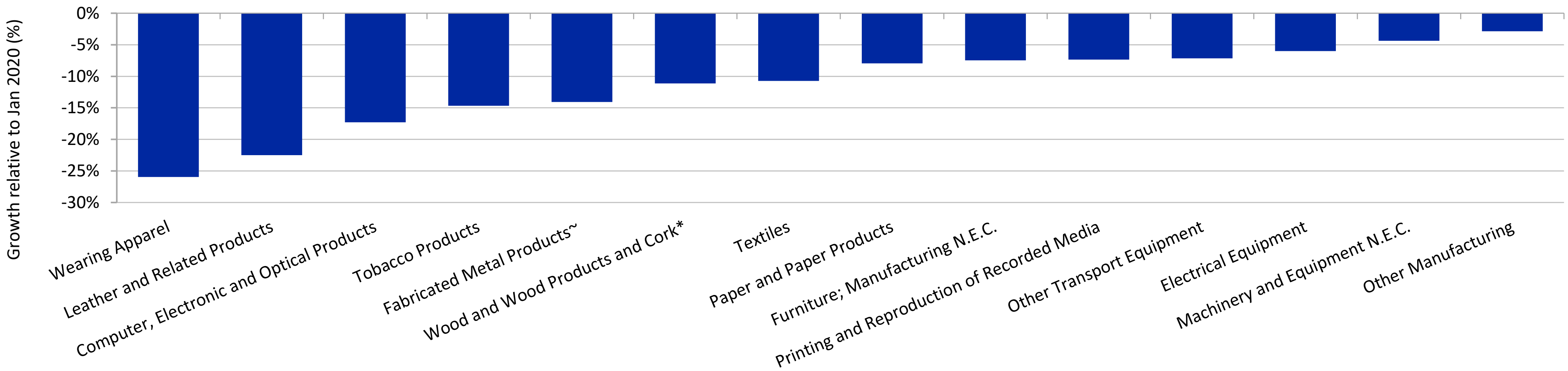
Source: *NSO; CEIC; ICRA Research*

Exhibit 5: YoY performance of core sector and its sub-components in December 2022 and January 2023



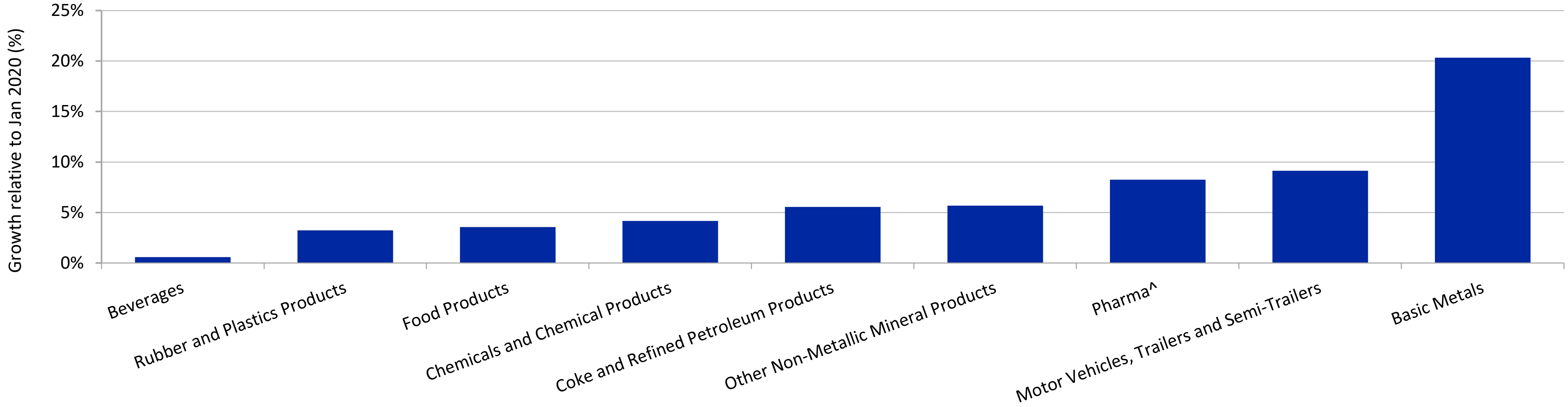
***Source**: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research*

Exhibit 6: Trend in performance of manufacturing sub-sectors in January 2023 relative to January 2020 (PART-I)



ex Furniture; Articles of Straw and Plaiting Materials; ~ex Machinery and Equipment;* ***Source:* *NSO; CEIC; ICRA Research*

Exhibit 7: Trend in performance of manufacturing sub-sectors in January 2023 relative to January 2020 (PART-II)



^Including Medicinal Chemical and Botanical Products; ***Source****: NSO; CEIC; ICRA Research*

Exhibit 8: 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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