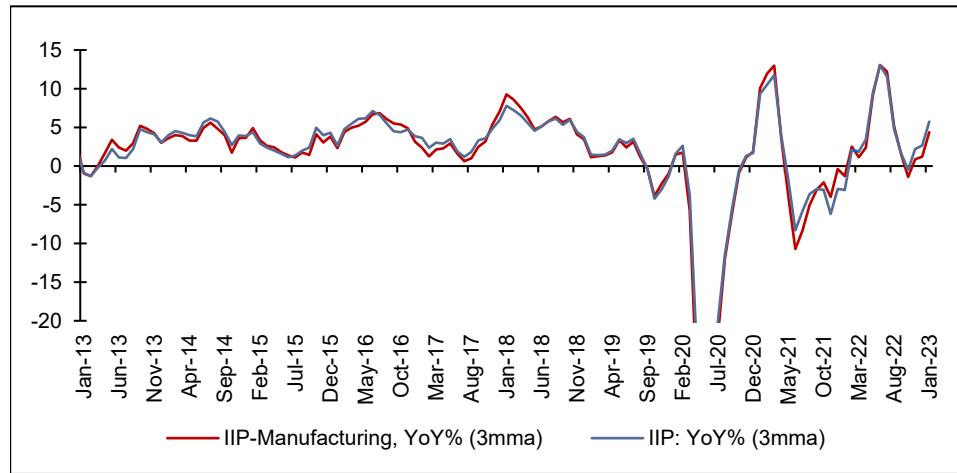


Economy

Industrial output accelerates in Jan'23, spurred by capex; labour-intensive manufacturing remains a drag

- ▶ Industrial output accelerated to 5.2% YoY growth in Jan'23, led by electricity (+12.7% YoY) and mining (+8.8% YoY). Manufacturing, which was the weak link holding down real GDP growth in the previous two quarters, accelerated to 3.7% YoY growth in Jan'23, from average growth of 1.4% YoY in Jul-Dec'22. Manufacturing and industrial output are poised to accelerate further in the final two months of FY23, which should enable real GDP to grow slightly more than the 7% officially estimated for FY23.
- ▶ Primary goods (+9.6% YoY), capital goods (+11% YoY) and infrastructure/construction goods (+8.1% YoY) led the industrial acceleration in Jan'23. Mining, electricity and refined petroleum products (+5.1% YoY) were key contributors to the robust growth in primary goods. Consumer non-durables ended a 2-year slump, growing 7.6% YoY in Nov'22-Jan'23. But consumer durables declined 7.5% YoY in Jan'23, primarily because of the persistent weakness in textiles and apparel, which offset the strong rebound in motor-vehicle output (+12.9% YoY). The weakness in key labour-intensive subsectors (also evident in decade-long near-stagnation in textile and garment exports) is worrying from a longer-term perspective, especially given their employment potential.
- ▶ Having endured a decade of near-stagnation, capital goods output grew 11% YoY in Jan'23 and 13.6% YoY in the first 10 months of FY23. Importantly, the level of capital goods output in Apr'22-Jan'23 was 3% higher than the pre-covid level in Apr'19-Jan'23. Capital goods imports also grew a healthy 7.4% YoY in Nov'22-Jan'23 (and were 22% higher than in the pre-covid period, Nov'19-Jan'20) — affirming the steady recovery in fixed investment spending. A sustained rebound in fixed investment is, in our view, the key factor that will enable India's real GDP to grow 7.2% in FY24.

Chart 1: Modest acceleration in industrial and manufacturing output

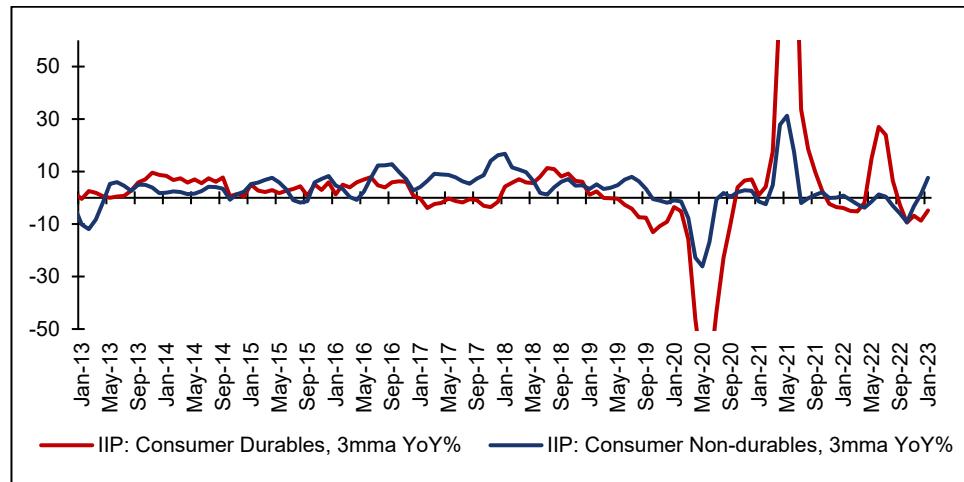
Source: I-Sec, based on data from MOSPI

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Industrial output accelerated in Jan'23 from the modest pace of the previous 2 quarters. Industrial production expanded 5.2% YoY in Jan'23, accelerating from the 2.7% YoY growth in Q3FY23 (Oct-Dec'22) and 1.7% YoY in Q2FY23 (both of which were revised up slightly). The acceleration in Jan'23 was broad-based, led by 12.7% YoY growth in electricity, 8.8% YoY in mining, and a relatively modest 3.7% YoY growth in manufacturing (which still represented an acceleration from the 1.2% YoY growth eked out in Q3FY23 and 1.6% YoY in Q2FY23). For the first 10 months of FY23, industrial output expanded 5.4% YoY, with manufacturing up 4.8% YoY, mining +5.8% YoY and electricity up 10.7% YoY. Industrial output in Jan'23 was 6.6% higher than in the pre-covid month 3 years ago (Jan'20), while manufacturing output was a modest 4.6% higher than in Jan'20.

Primary goods output (which comprises more than a third of the IIP) increased 9.6% YoY in Jan'23, and was up 8% YoY in Apr'22-Jan'23. Primary goods include minerals, electricity, fuels (petrol, diesel, kerosene, ATF), fertilisers and petrochemicals. Mining (+8.8% YoY) and electricity (+12.7% YoY growth) shored up primary goods output in Jan'23. Export duties imposed in May'22 aimed to contain domestic prices of petroleum products, but had also constrained external demand. Refined petroleum products grew 5.1% YoY in Jan'23, and 6.3% YoY in the first 10 months of FY23, but could do better if they regained access to external markets at competitive prices (i.e., in the absence of export duties).

Chart 2: Consumer goods output troughed in Oct'22

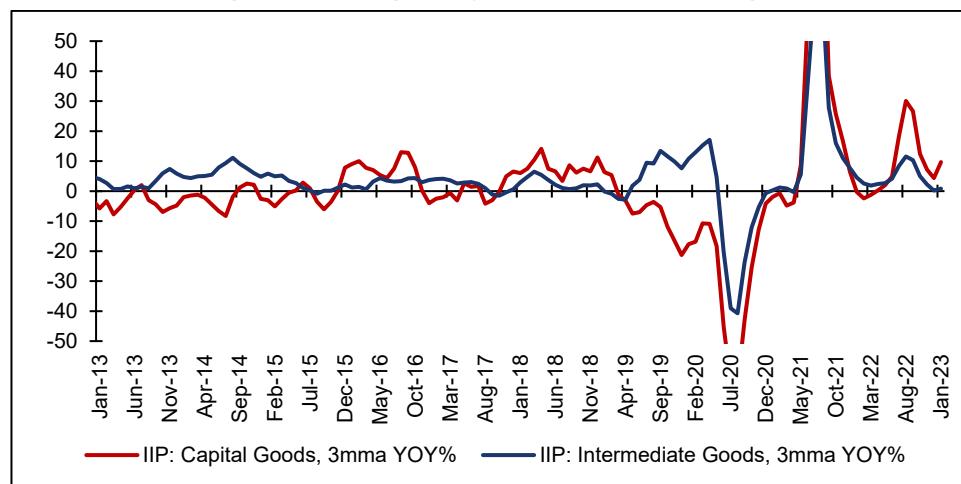


Source: I-Sec, based on data from MOSPI

Signs of a turnaround in consumption in Nov'22-Jan'23. Consumer non-durables output has been weak in FY23, declining 0.2% YoY in Apr'22-Jan'23, but it has been recovering since Nov'22, growing 6.2% YoY in Jan'23, and 7.6% YoY in Nov'22-Jan'23. For the latest 3 months, consumer non-durables output was 7% higher than in Nov'19-Jan'20 (pre-covid). India's consumer durables sector isn't dominated by vehicles, but includes items such as bed-linen, curtains, etc. Motor-vehicles output was up 12.9% YoY in Jan'23 and 22.2% YoY in Apr'22-Jan'23, but textiles (-11% YoY) and apparel (-23.2% YoY) output remained in the doldrums in Jan'23, causing consumer durables output to decline 7.5% YoY in Jan'23 (albeit still up 2.2% YoY in the first 10 months of FY23). The persistent weakness of textile and garments output and exports remain a worrying lacuna in India's industrial story, especially given their employment potential.

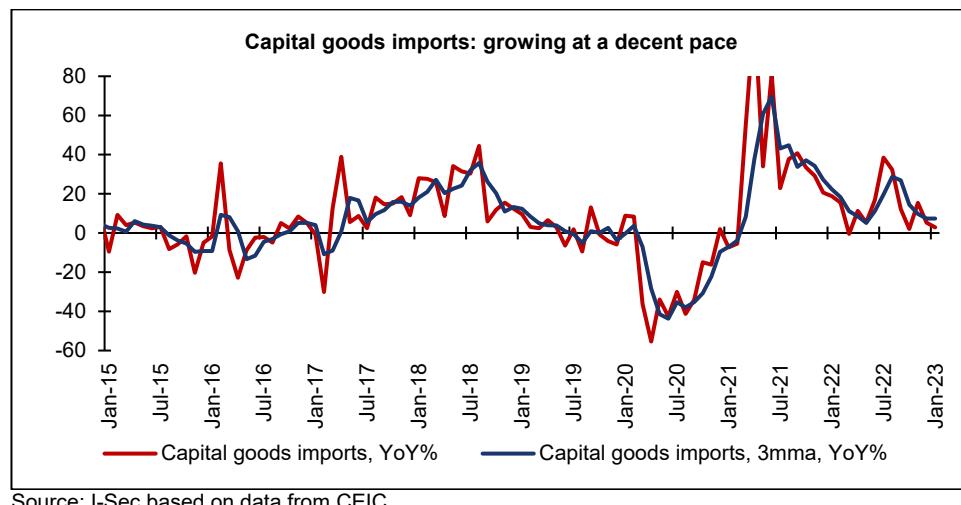
Rebounding capital goods output indicates a steady turnaround in fixed investment spending... Capital goods output had endured a prolonged slump since Q1CY19, as part of a decade-long period of near-stagnation, but has rebounded strongly in FY23, growing 13.6% YoY in Apr'22-Jan'23, with capital goods output up 11% YoY in Jan'23. The level of capital goods output in Jan'23 was a modest 2.8% higher than in Jan'20 (the pre-covid level) and the level for Apr'22-Jan'23 was 3% higher than Apr'19-Jan'20, indicative of a genuine but mild recovery in capital goods output this year. Infrastructure/construction goods have also rebounded, growing 8.1% YoY in Jan'23, contributing to 7.8% YoY growth in Apr'22-Jan'23. Intermediate goods output was more sluggish, up just 0.1% YoY in Jan'23, and 4.1% YoY in Apr'22-Jan'23.

Chart 3: Capital goods strong this year, after a near-stagnant decade



Source: I-Sec, based on data from CEIC

...as does the strength of capital goods imports. Our measure of capital goods imports (aggregating machinery, machine tool and project goods imports) grew 7.4% YoY in Nov'22-Jan'23, albeit decelerating in Jan'23 to 2.9% YoY growth. Comparing with the last pre-covid year, India's capital goods imports in Nov'22-Jan'23 were 22% higher than in Nov'19-Jan'20, while they were 12.9% higher in Apr'22-Jan'23 than in Apr'19-Jan'23 (and the Jan'23 level of capital goods imports was 13.2% higher than in Jan'20). The evidence from the rebound in both capital goods output and imports suggests a steady, robust recovery in fixed investment spending – the key factor that will deliver 7% real GDP growth in FY23, and also enable the economy to grow 7.2% in FY24 despite the recession in developed economies (US, EU, UK).

Chart 4: Capital goods imports sustain steady growth

Recent reports

Date	Report
28-02-2023	US inflation shock implies more aggressive tightening ahead, while a recession remains imminent
16-02-2023	Trade deficit likely to narrow sharply in Jan-Sep'23, but labour-intensive export revival remains elusive
14-02-2023	Inflation spike illusory (distorted by food-grain weights), but could induce a hawkish policy response
10-02-2023	RBI stays hawkish; we expect inflation to recede faster than RBI projects, requiring no more hikes in CY23
08-02-2023	US Economy: Recession imminent, but more monetary tightening needed to tame inflation
02-02-2023	FY24 Budget: Balancing act achieves fiscal prudence while boosting capex further
31-01-2023	Twin Deficit Watch: Revenue strength provides room for manoeuvre on the Budget; CAD set to moderate
13-01-2023	Goldilocks economy? Industrial growth rebounds and inflation continues to abate
29-12-2022	Twin Deficit Watch: CAD likely peaked in Q2FY23; fiscal improvement persists despite higher subsidies
15-12-2022	Recession inevitable amid Fed hawkishness; inflation will wane and rate cuts are likely in H2CY23
13-12-2022	A positive real rate is restored, as inflation abates and industrial output also wanes
13-12-2022	Foreign exchange reserves being rebuilt, as INR holds steady against a depreciating USD
07-12-2022	RBI tightens monetary policy as expected; no further rate hikes are likely in FY23, in our view
01-12-2022	Fixed investment spending is being crowded-in as government borrowing stays below target
24-11-2022	Period of surging USD over, but India likely to persist with mildly weaker NEER
12-11-2022	Crises of domestic overcapacity and external overlending loom as Xi Jinping reduces focus on the economy
05-11-2022	Holding up half the sky: Developed economies head to recession, but emerging economies remain resilient
19-10-2022	Twin Deficit Watch: Sep'22 saw a positive shift in goods trade, while surging direct taxes buoyed the fiscal position
13-10-2022	Dismal industrial performance amid high food-driven inflation
03-10-2022	RBI raises repo rate as expected; external balances to improve as inflation differentials begin favouring INR
28-09-2022	Low external debt is underpinned by large voluntary capital inflows
22-09-2022	FOMC implicitly acknowledges its policy error; to front-load further rate hikes
21-09-2022	Supply-side measures sacrifice growth to slay inflation
01-09-2022	Investment-led recovery to buoy the economy amid global slowdown
30-08-2022	US Economy: Far from recession now, but clearly headed toward one by Q1CY24
22-08-2022	Growth will be marginally less robust as India sacrifices external strength to tackle inflation
28-07-2022	The global investment drought & China's quarter-century of over-investment
28-07-2022	FOMC surprises (a bit) positively, with another 75bps hike; suggests smaller hikes in future
15-07-2022	Twin Deficit Watch: Both deficits remain on a stable path, despite the noise
13-07-2022	Growth gains ground, but inflation remains troubling
16-06-2022	Tight labour market obliges the Fed to quickly reverse its policy error
08-06-2022	RBI hikes 50bp as expected; policy to focus on bringing inflation into line
01-06-2022	China faces the perfect storm: global tightening, capital flight, over-capacity
01-06-2022	Rebounding GFCF a positive in Q4FY22; will take the growth baton from exports in FY23

Date	Report
31-05-2022	IPEF and new FTAs to add medium-term dynamism to India's export engines
24-05-2022	Growth was under-estimated in CY21, but reforms will spur strong growth in CY22 and CY23
05-05-2022	MPC's inter-meeting rate hike: countering commodity inflation, and containing fallout from USD strength
30-04-2022	US Economy: Weak GDP print for Q1 ironically reflects ample evidence of an overheating economy
13-04-2022	Twin Deficit Watch: BoP current account to improve; revenue surge provides fiscal leeway for FY23
09-04-2022	Monetary policy remains accommodative, but with a subtly hawkish twist
07-04-2022	Monetary Policy errors have raised the risk of recession by 2024
30-03-2022	Firing on all monetary cylinders, China's "selection-year" rebound is being derailed by covid
25-03-2022	Global GDP to decelerate as FOMC tightens faster; robust external balances bolster India's monetary autonomy
16-03-2022	Binary risks from revival of the JCPOA (Iran nuclear deal) and the wider impact of financial sanctions on Russia
11-03-2022	A pro-incumbent win for BJP in 4 states, but longer-term challenger rises in Punjab
03-03-2022	Higher oil prices in H1CY22 (and lower in H2) to bring forward India's rate hikes
23-02-2022	The Risks from a Russia-Ukraine war: Higher oil prices, European recession
11-02-2022	RBI is in calm seas despite the storm of imminent US tightening
10-02-2022	A credible path toward crowding-in private investment
31-01-2022	Budget Preview: Robust fiscal health opens numerous policy options
25-01-2022	US Economy: Inflation is a monetary phenomenon; FF rate at 1.25% by end-2022 to contain it
21-01-2022	Re-globalisation to drive growth momentum in 2022

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