

INDUSTRIAL PRODUCTION – JANUARY 2023

Slow recovery despite global headwinds

India's industrial growth at 5.2% was slightly ahead of expectation. This was among the top-four G-20 countries performances for the third successive month. Durables and export-oriented industries are facing the heat while staples and infra are doing better. Expect flattish growth in Feb'23. Unless Feb'23 inflation is well above expectations, we expect the RBI to pause rate hikes at its Apr'23 meet.

SLOW RECOVERY: At 5.2%, industrial growth in Jan'23 was slightly ahead of expectations. All the main categories grew but among the use-based categories durables contracted.

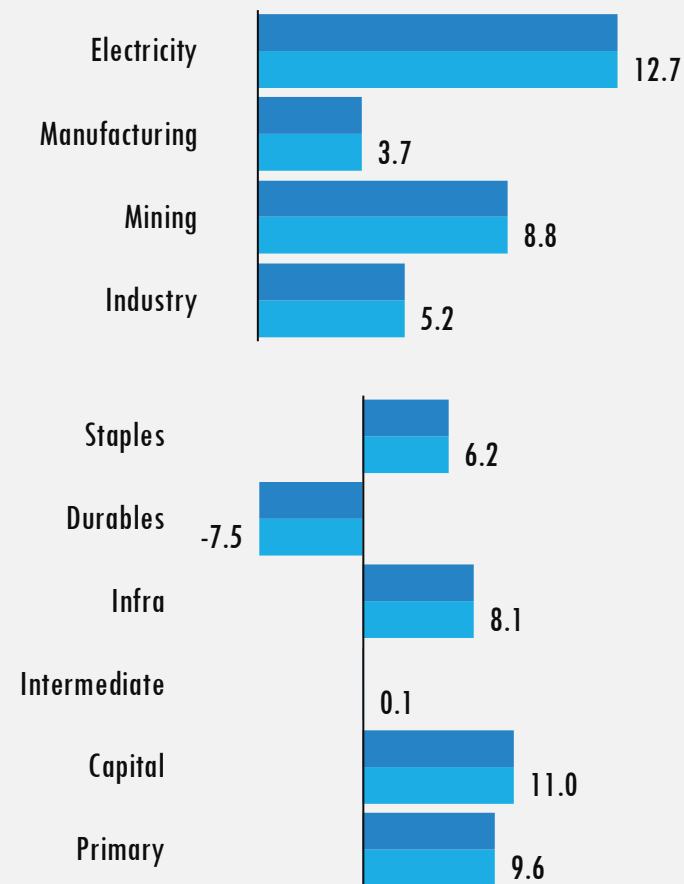
DIVERGENT TRENDS. Among the use-based categories, four – primary, infra, capital goods and staples – grew 6-11%, intermediate was flat while durables contracted sharply. From the worst performer for the most of last 12 months, pharma has emerged as one of the top contributors in recent months. In contrast, durables (e.g., electronics) and export-oriented industries (e.g., textiles and apparel) were major drags. 13 of 23 manufacturing categories recorded growth in Jan'23, with four clocking more than 10% growth.

DOMESTIC DEMAND HOLDING UP, SIGNS OF RURAL REVIVAL. Production of staples was close to the all-time high in Jan'23 and infra too was at the best production level. These two seem to suggest resilient domestic demand despite drag from exports and modest recovery in rural demand which accounts for nearly 55% of demand for staples.

CONCERNS CONTINUE. With a balanced base, we expect flattish industrial growth in Feb'23 in line with large unchanged manufacturing PMI in Jan'23 vs. Feb'23. The headwinds in exports and adverse impact of high interest rates would continue. The government has accelerated spending since Sep'22 and the Union budget FY24 suggests its continuation. This should also help recovery in industrial growth, especially for infra and capital goods.

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Main category growth during Jan'23, %

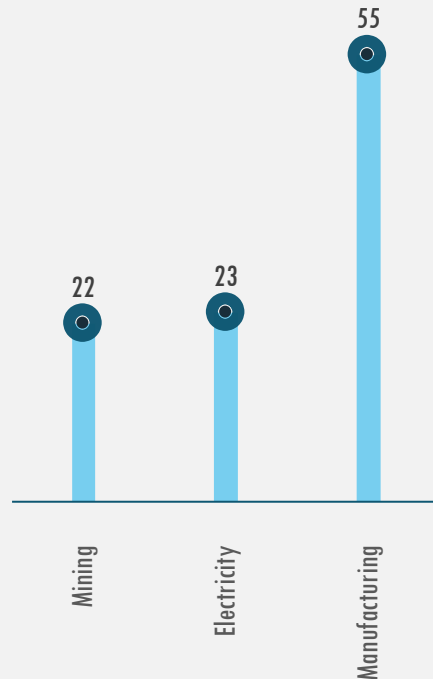


INDUSTRIAL PRODUCTION – CONTRIBUTIONS AND TRENDS

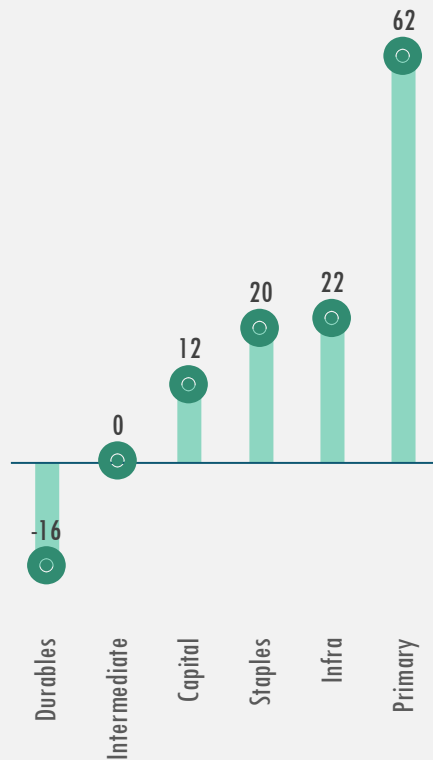
Modest traction in Jan'23

During Jan'23, all three main categories — manufacturing, mining and electricity — recorded growth. Manufacturing contributed half of industrial growth while the rest was almost equally split between mining and electricity. Among use-based categories, primary contributed the most, followed by infra and staples. Durables contributed negatively. The performance looks impressive in the context of a slightly unfavourable base coupled with strong headwinds for exports, which account for over 20% of manufacturing output.

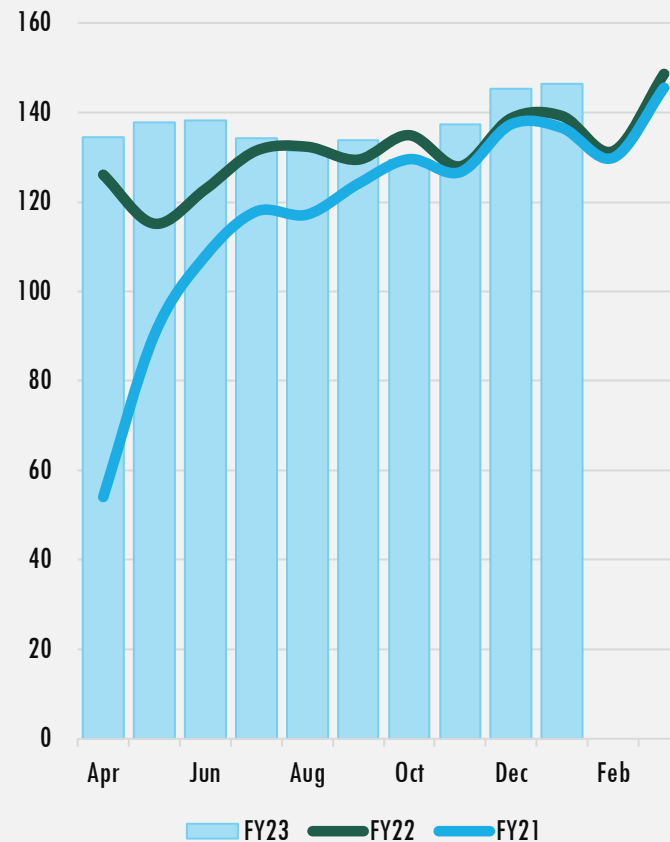
Contribution to growth,
main categories, %



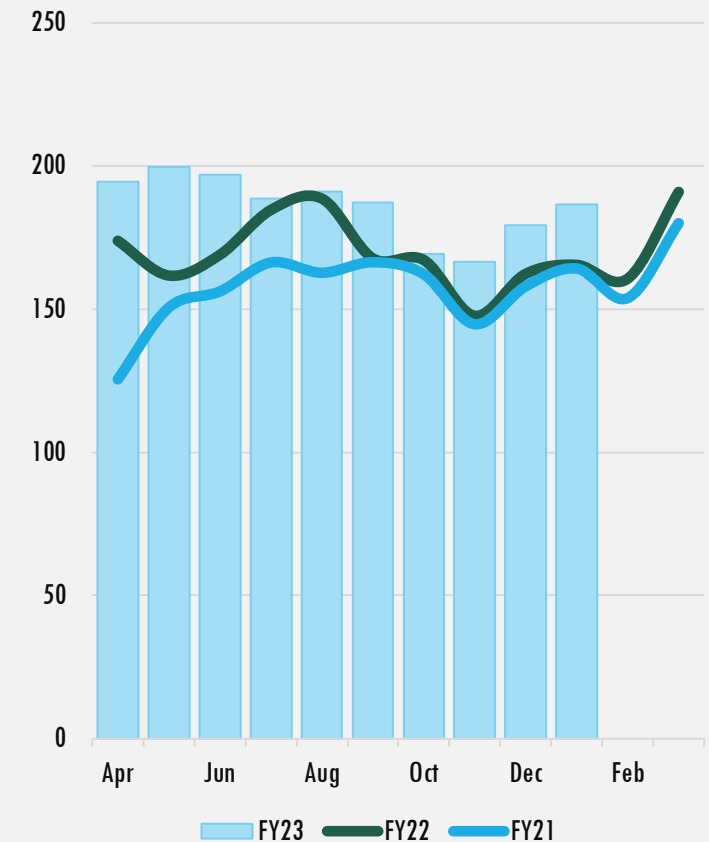
Contribution to growth,
use-based, %



Industrial production index



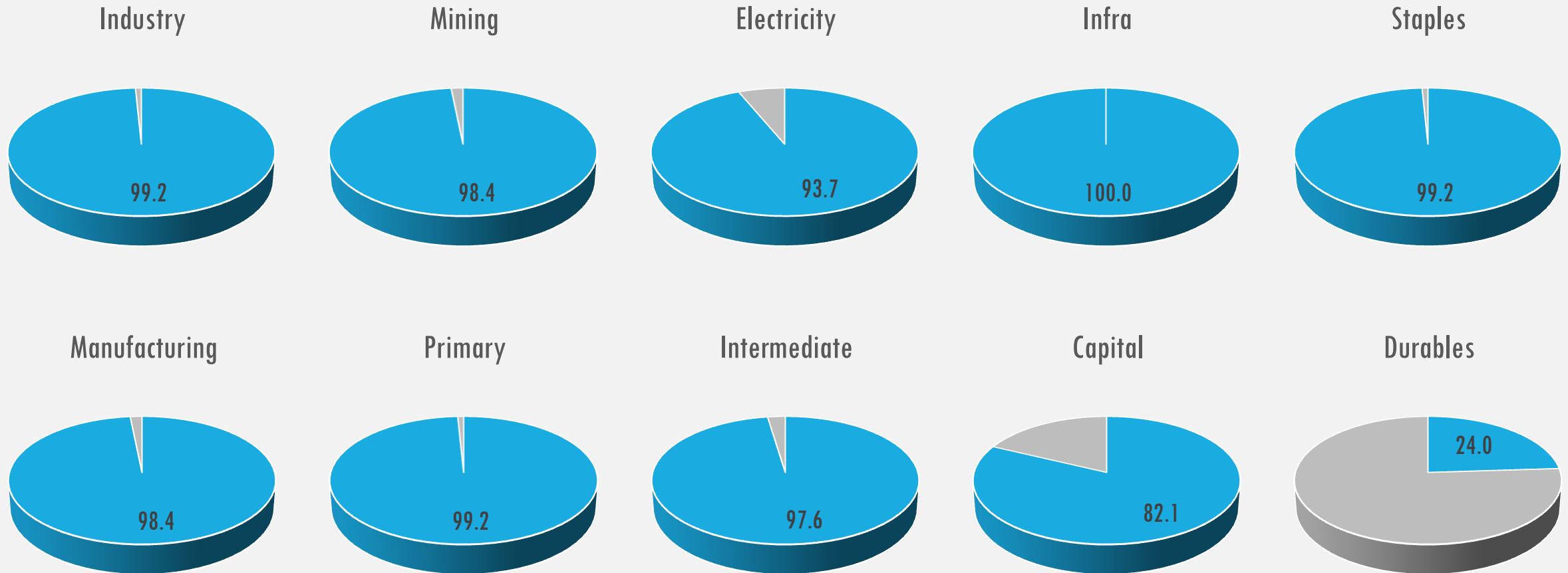
Electricity index



PRODUCTION LEVEL DURING THE LATEST MONTH VERSUS THE MAXIMUM

Infra and staples surprised positive, durables disappointed

Seasonally, January generally is one of the best activity months of the year for industry, with the exception of electricity. This year, electricity production at the 94 percentile and mining and manufacturing at the 98 percentile, did better than expected. Among the use-based categories, infra and staples were at or close to record-high output. Others except capital goods and durables also recorded high output levels. Durables did badly and even capital goods did not do too well. High production levels for staples (including textiles and apparel) is impressive as a large portion of these are exported.



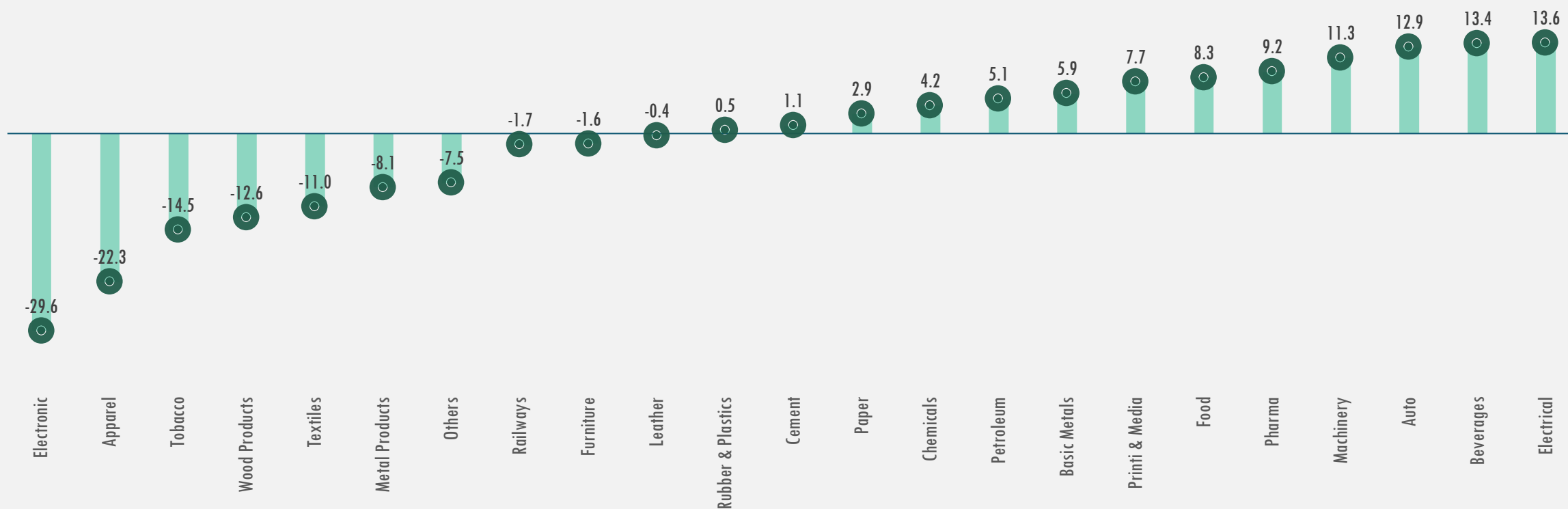
The percentile rank of the production index for the current month in the current IIP series (since Apr'12)

MANUFACTURING – SEGMENTAL GROWTH

Slow recovery underway

Growth in the manufacturing sector during Jan'23 was not uniform, with 13 of 23 segments recording growth, against four of 23 categories recording 10%+ growth last month. In Jan'23 also, four categories recorded similar growth rates. The contraction was most marked for major durables/export items such as electronics, apparel and textiles. In contrast, electricals, beverages, auto and machinery recorded strong growth.

Growth rate of manufacturing segments, %

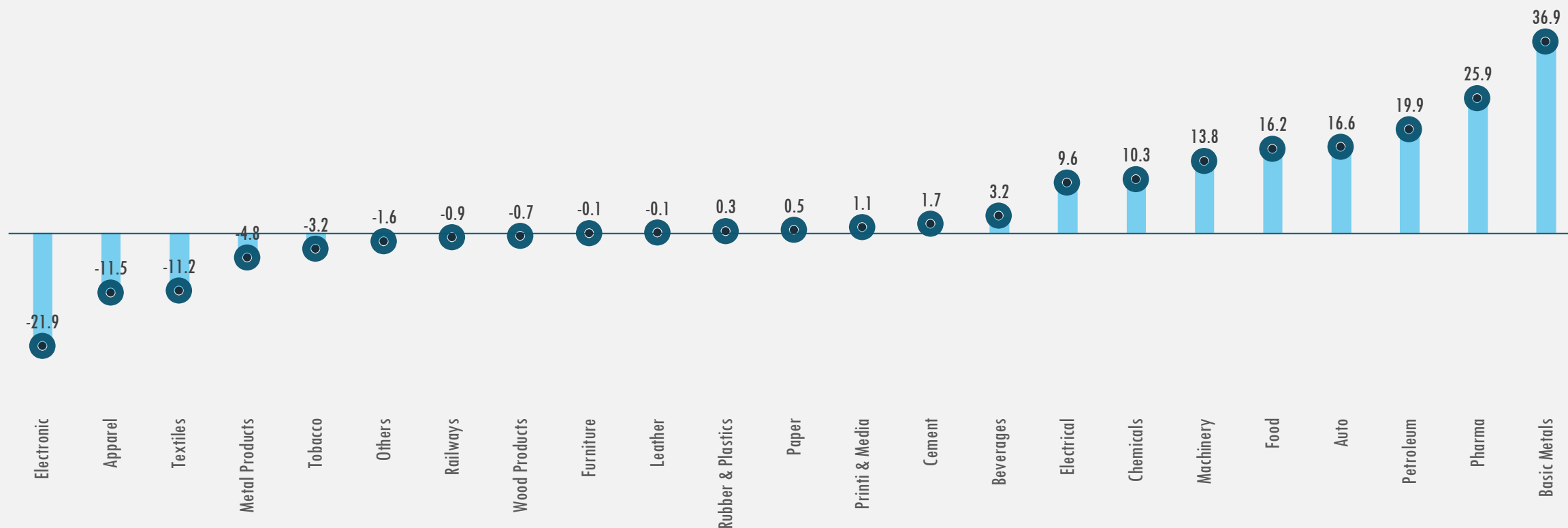


MANUFACTURING – SEGMENTAL GROWTH CONTRIBUTION

Pharma, heavy industries contributed

Base metals, pharma, petroleum and auto contributed strongly to manufacturing growth. After prolonged underperformance, pharma has been contributing positively in recent months. In contrast, electronics, textiles and apparel were drags on industry growth. The latter largely reflects subdued global demand weighing on India's manufactured-product exports.

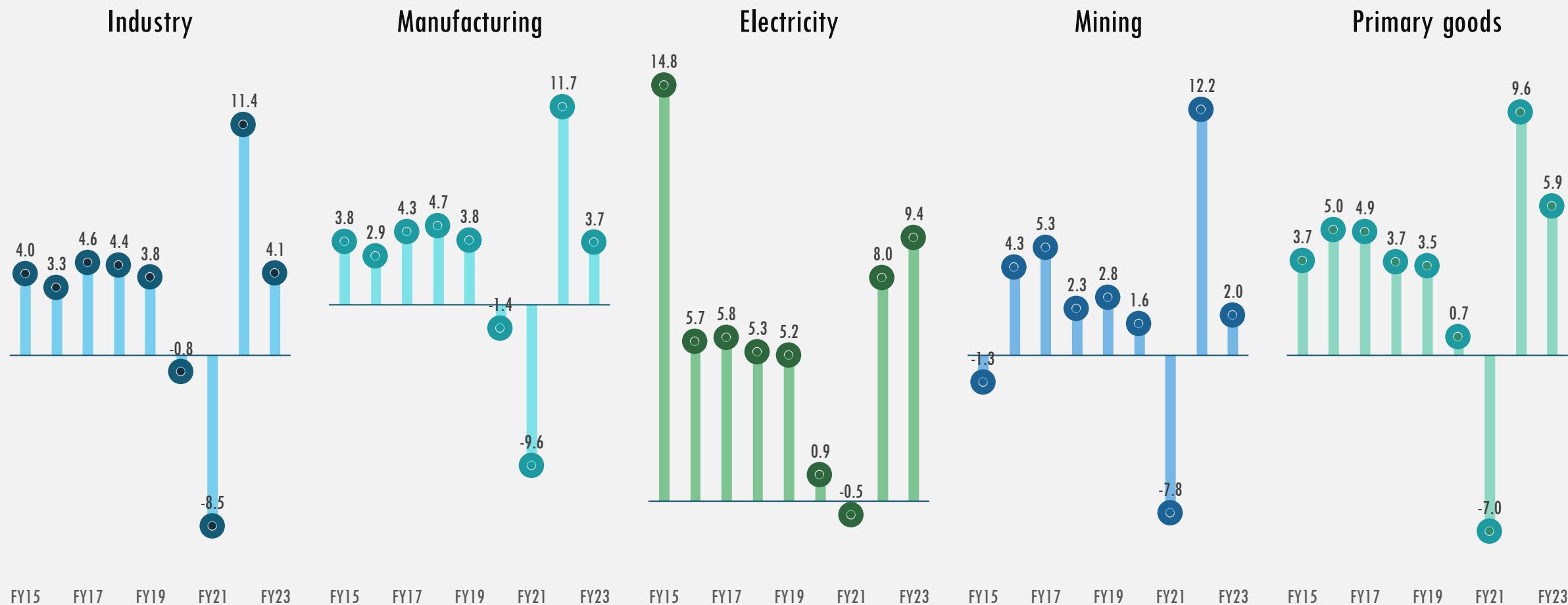
Segmental contribution to manufacturing sector contraction, %



INDUSTRIAL PRODUCTION – YEARLY TREND

Sharp jump in electricity FY23 YTD vs. average of FY22, manufacturing growth modest, mining contracting

On the top of 11.4% growth in FY22, in Jan'23 ytd industry grew 4.1% versus the average of last year. Electricity production growth in Jan'23 ytd was 9.4% higher than the average for FY22. Manufacturing recorded subdued growth of 3.7% in Jan'23 ytd versus the average of FY22. After long, mining recorded modest but positive growth.

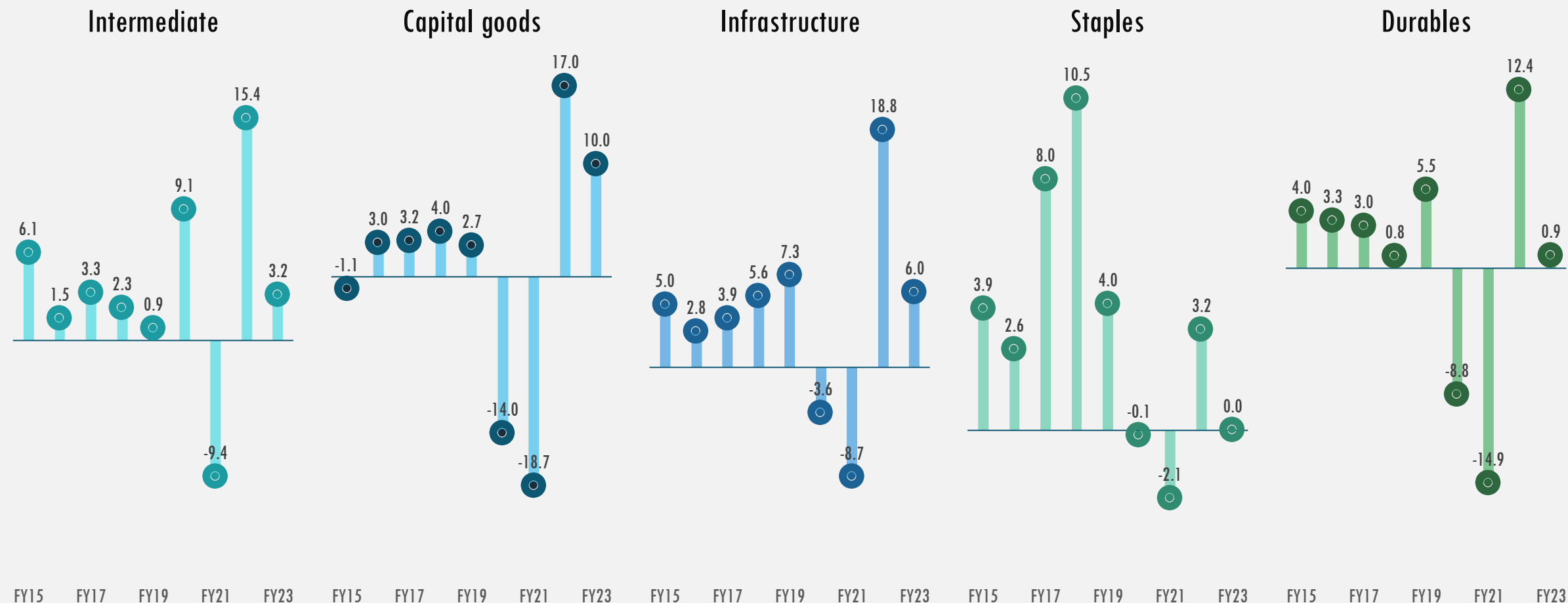


Data for FY23 is year till date, and the growth rate is versus the average for FY22

INDUSTRIAL PRODUCTION – YEARLY TREND

Consumer-facing segments under pressure, capital goods outperforming on a ytd basis

Primary goods recorded moderate growth in FY23 ytd versus FY22 average on top of a strong performance in FY22. After strong growth in FY22, growth rates for infra and intermediates in FY23 ytd versus FY22 averages were low. Encouragingly, after strong growth in FY22, capital goods maintained strong growth in Jan'23 ytd vs. averages of FY22. In contrast, staples was flat in Jan'23 ytd versus the averages of FY22. Durables slowed sharply in ytd FY23.



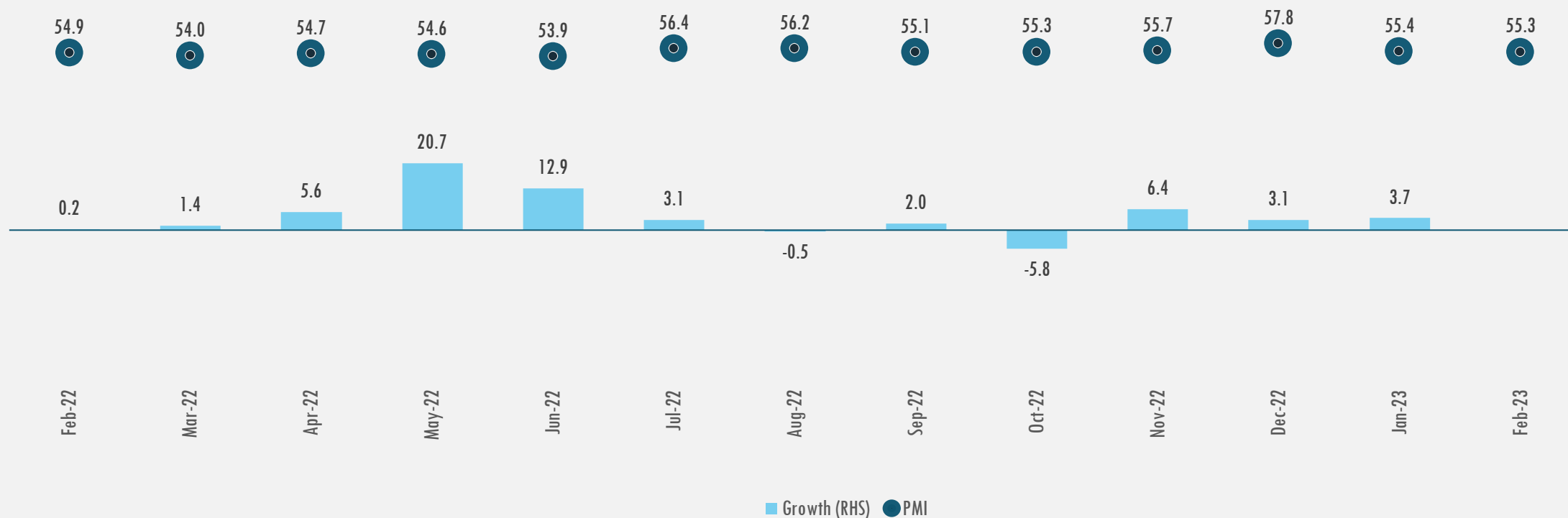
Data for FY23 is year till date, and the growth rate is versus the average for FY22

INDUSTRIAL PRODUCTION – ACTUAL VERSUS EXPECTED

Flat in PMI for Feb'23, we expect flattish growth as well

Despite a flattish manufacturing PMI reading (54-56) since Jan'22, with the base effect, manufacturing sector growth was on an upswing during Feb-May'22, but lost momentum thereafter. The PMI reading for Jan'23 was substantially higher vs. Dec'22 although manufacturing growth accelerated. Feb'23 PMI was flat versus the previous month. With a balanced base, we expect flattish growth in Feb'23.

Manufacturing growth and PMI

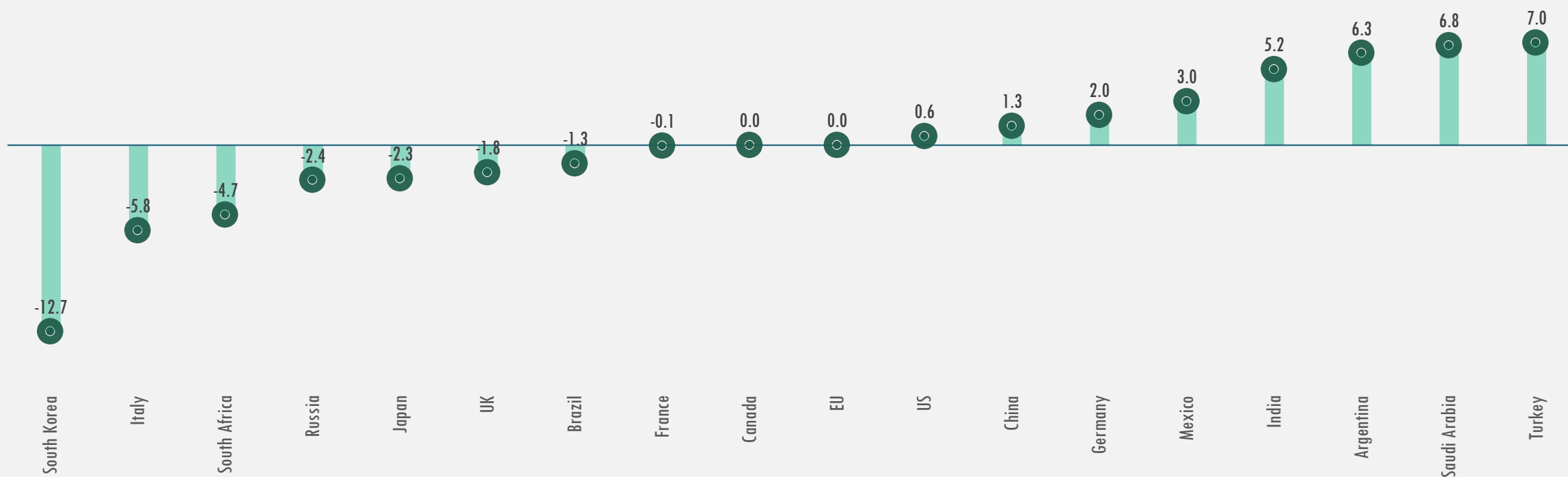


INDUSTRIAL PRODUCTION – CROSS-COUNTRY COMPARISON

Indian industry improved ranking among G-20

With 5.2% industry growth in Jan'23, India remained among the top-four of the G-20 countries for the third successive month. With the war continuing and uncertainties in Europe, recession fear in the US and the subdued situation in China, most G-20 members are faced with industrial contractions. Slow global trade growth is a key risk for Indian industry as 75%+ of India's exports are manufactured products and over 20% of production is for exports

Global industrial growth, %



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