

Industrial output shrinks in October by 4%, the worst in over two years

Saurav Anand & Subhash Narayan **13 Dec 2022**



India's industrial output contracted by 4% in October, the worst in more than two years, government data released on Monday showed, hobbled by the drop in orders from Western markets, softening demand and weak investment at home.

The Index of Industrial Production (IIP) grew by 4.2% in October 2021 and by 3.1% in September 2022. However, October's IIP number is the lowest in 26 months and comes on the back of poor performance by the manufacturing, capital goods and consumer goods sectors, all critical to propel growth in the economy.

"While IIP growth was expected to slow in October due to the base effect, the sharp contraction comes as a shock. Delving deeper into the data shows a broader slowdown across segments. However, what is specifically worrisome is the continued poor performance of the consumer durables and non-durables segment. The slowdown in external demand has also played a critical role in pulling down IIP," said Rajani Sinha, chief economist at ratings company CareEdge.

According to the ministry of statistics data, manufacturing saw a contraction of 5.6%, while mining and electricity grew 2.5% and 1.2% each in October. Consumer durables sales, an

indicator of demand in the economy, registered a 15.3% decline in October, while production of capital goods contracted by 2.3%.

As many as 17 of 32 manufacturing sectors tracked in the IIP recorded negative growth, led by apparel (-37%), electrical equipment (-33.2%), leather products (-24.3%), pharmaceuticals (-21.4%) and textiles (-18.6%).

Intermediate goods and capital goods production also contracted by 2.8% and 2.3% respectively, while primary goods grew by 2%. Infrastructure/construction goods output rose 1% in October but was 0.7% below September 2022 levels.

Production of consumer durables and non-consumer goods shrank in the double digits, declining 15.3% and 13.4% respectively, the data showed.

According to government data, the manufacturing sector's output rose 1.8% in September as against a 4.3% growth recorded in the year-ago period. Mining output rose by 4.6%, and power generation gained 11.6% during the month.

The external slowdown and the possibility of a global recession may push down India's exports, while the waning of pent-up demand internally could put pressure on the growth prospects of various industrial sectors.

Things may also get tough for the government that is looking at reviving the investment cycle and boosting growth, and prompt it to accelerate reforms across sectors and look for further stimulus to boost the economy.

Terming the October IIP print a surprise, Madan Sabnavis, chief economist at Bank of Baroda, said, "We expected flat growth of 0.5%. There has been a decline in almost all categories. Capital goods have been disappointing as it indicates that investment is lagging. Clearly, private sector investment has not picked up so far."

"Consumer goods continue to disappoint this time, too, as both durable and non-durable goods have witnessed de-growth. This is a let-down, as one would have expected them to be buoyant during the festival month of October. Quite clearly, high nominal consumption has been due to higher inflation. Therefore, future prospects look not so positive as we move to the end of the festival months," he added.