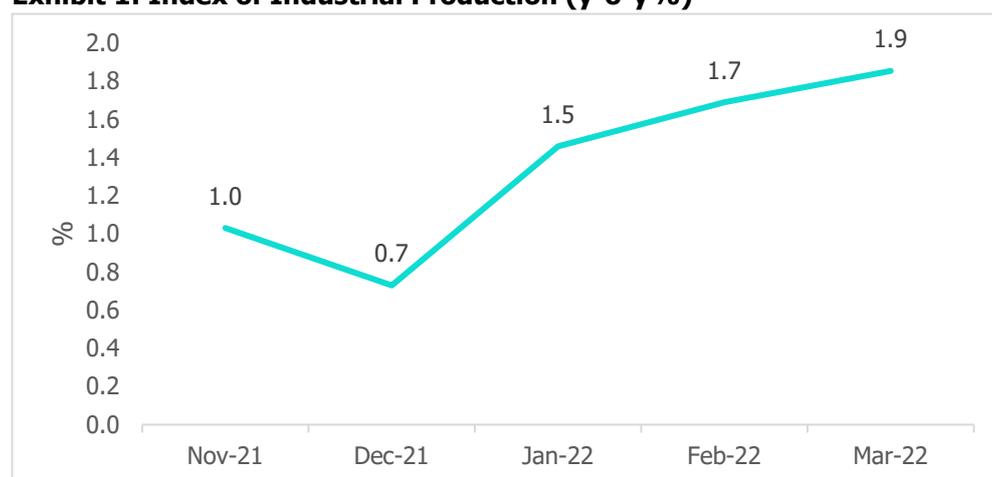


Industrial Output Remains Weak in March 2022

May 12, 2022 | Economics

The pace of IIP growth improved marginally to 1.9% in March 2022 from 1.7% growth recorded in the previous month. The tepid growth is also because of the high base of the corresponding period of the previous year.

Exhibit 1: Index of Industrial Production (y-o-y%)



Source: MOSPI

The growth in electricity output accelerated to 6.1% in March 2022 from 4.5% in the previous month. Electricity demand has surged on the back of improvement in economic activities and heatwave like conditions across several states. Given the rising trend in power demand and the acute coal shortage faced by India's power sector, the expansion in electricity output is encouraging.

The growth in manufacturing sector output (contributing to the largest share of 77.6% in the overall IIP) remained flat at 0.9%. The sustained weakness in manufacturing output growth is reflective of the headwinds from the elevated commodity prices, persistent supply disruptions and weak demand conditions. Within manufacturing, a y-o-y contraction in output was witnessed in 14 out of 23 categories with double-digit contraction recorded in the manufacture of tobacco products (15.5%), leather and related products (11.8%), pharmaceuticals, medicinal chemical and botanical products (12.8%), electrical equipment (15.3%) and transport equipment (11.8%).

Within the use-based classification of IIP, there was healthy growth recorded by the infrastructure and construction goods at 7.3%. However, the disappointing performance in the consumer goods segment continued as the output of consumer durables and non-durables contracted by 3.2% and 5%, respectively.

On a cumulative basis, IIP grew by 11.3% in FY22. However, this high growth is mainly backed by a low base of FY21. The index of industrial production is higher by 1.9% when compared with the pre-pandemic level of FY20, suggesting that while economic recovery is underway, it is still very nascent

Table 1: Component-wise Breakup of IIP Growth (y-o-y%)

	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Sectoral						
Mining & quarrying	11.5	4.9	2.6	2.8	4.5	4.0
Manufacturing	3.3	0.3	0.2	1.3	0.9	0.9
Electricity	3.1	2.1	2.9	0.9	4.5	6.1
Use-based						
Primary goods	9.0	3.5	2.8	1.6	4.6	5.7
Capital goods	-1.6	-2.6	-3.8	1.4	1.1	0.7
Intermediate goods	4.6	2.1	0.5	0.7	4.4	0.6
Infrastructure/construction goods	6.6	3.1	2.1	6.1	9.4	7.3
Consumer durables	-3.2	-5.7	-2.6	-3.6	-8.2	-3.2
Consumer non-durables	0.7	-0.8	-0.1	2.1	-5.5	-5.0
Industrial Output	4.2	1.0	0.7	1.5	1.7	1.9

Source: MOSPI

CareEdge View:

The IIP growth has remained lacklustre at below 2% in the last five months. Manufacturing, with the biggest share in industrial growth, is facing headwinds from global supply bottlenecks and rising input prices, even while demand remains weak. Continued poor performance of consumer durables and the non-durables segment is a cause of concern. For India's economy to recover, it is very critical for consumption expenditure to start improving, which in turn will help improve capacity utilisation levels and encourage the private investment cycle. Rising inflation will be a further dampener for consumption spending. Going forward, the pick-up in industrial activity will be contingent on consumption demand improving. The government's capex plans will help support investment activities, even while private investors remain wary.



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