

## Industrial production scaled beyond pre-pandemic levels in August 2021

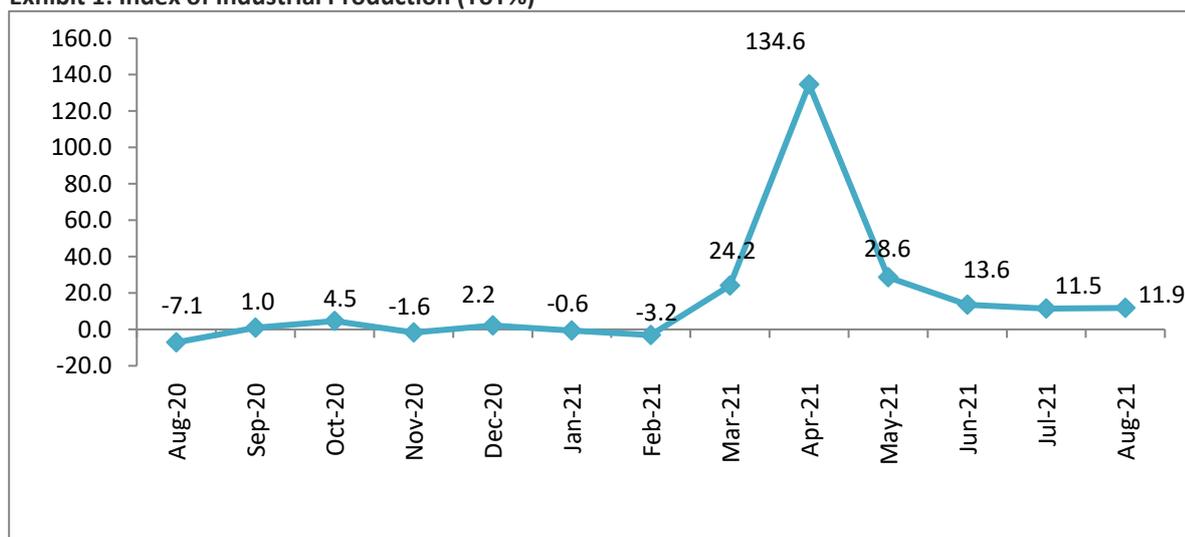
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Industrial production grew by 11.9% in August'21, slightly higher than 11.5% YoY growth in July'21. The double-digit annualised growth during the month is on expected lines due to favourable base support of last year (CARE Ratings' forecast was at 11.5% for August'21). Reversing the trend of previous two months, sequential momentum in IIP receded by 0.2% MoM in August'21. A comparison with 2019 numbers suggests that industrial activities have reached the pre-pandemic levels with IIP growth higher by 3.9% in August'21. This is reflective of a gradual pick-up in industrial activities with easing of restrictions across key states.

All sectors witnessed a y-o-y improvement in August 2021 growth due to a combination of improved demand conditions as well as the negative base last year. However, sequentially only electricity registered positive growth while manufacturing and mining contracted. Amongst use-based categories, infrastructure and consumer non-durables registered positive sequential growth while other categories contracted driving the overall production index lower on MoM basis.

The core sector output accounting for nearly 40% weightage in the IIP basket, grew at 11.6% YoY in August'21. The double-digit expansion was driven by high growth numbers for coal, natural gas, cement and power sectors during the month.

**Exhibit 1: Index of Industrial Production (YoY%)**



Source: MOSPI

### By Economic Activity – August 2021

As indicated by the data, the IIP index seems to have nearly recovered to August'19 levels. However, the recovery has been uneven across the sectors. While electricity and mining were much above the August'19 corresponding levels, manufacturing just about reached the pre-pandemic level in August'21 clocking a growth of 1.4%.

- **Mining** activity was subdued in August'21, sequentially contracting for the third consecutive month by 0.8% typically due to the monsoon season led disruptions in mining activities.
- **Manufacturing** which has the highest weightage (77.6%) in the industrial output index also contracted by 0.5% on month-on-month basis. On YoY basis, the sector grew by 9.7% against a contraction of 7.6% last year.
  - Within manufacturing only three categories witnessed negative growth (YoY) which are electronics, other transport and furniture. These were the better performing sectors last year.
- **Electricity** output recorded an uptick of 2.2% on a month-on-month basis reflective of higher demand and rising power consumption by industries.

## By Use-Based Classification – August 2021

Barring consumer durables, all other use-based categories rebounded above the pre-Covid levels. Sequentially only infrastructure and consumer non-durables segments have recorded positive growth. (Table 1)

- **Capital goods**, which is a proxy for investment, rose 19.9% from a year before in August and surpassed the pre-pandemic level. The recent government initiatives on production linked subsidies and capex focus are expected to provide much-needed impetus in coming months.
- The **consumer durables** segment witnessed a growth of 8% from a year before aided by the base effect. Sequentially, it contracted by 0.3% in August'21 and still trailed the pre-pandemic level by 3%. Going forward, festive season demand is expected to boost the production in this segment.
- The production in **consumer non-durable** segment grew by 5.2% compared with 3.1% degrowth in the corresponding month of the previous year. This segment also registered a positive sequential growth and has reached the pre-pandemic level of August 2019.
- **Infrastructure, intermediate and primary goods** output grew YoY during the current month aided by a low base-effect of last year. Output of primary goods expanded by 17% followed by infrastructure/construction goods (11.1%) and intermediate goods (10.3%).

**Table 1: Component wise breakup of IIP growth**

% Growth		Aug-19/Aug-21	Aug-20/Aug-21	Jul-21/Aug-21
<b>Index of Industrial Production (IIP)</b>		3.9	11.9	-0.2
<b>Sectoral</b>	Mining & quarrying	12.8	23.6	-0.8
	Manufacturing	1.4	9.7	-0.5
	Electricity	13.9	16.0	2.2
<b>Use - based</b>	Primary goods	4.4	17.0	-0.9
	Capital goods	2.6	19.9	-1.6
	Intermediate goods	5.0	10.3	-0.6
	Infrastructure/construction goods	11.1	11.1	1.1
	Consumer durables	-3.0	8.0	-0.3
	Consumer non- durables	2.0	5.2	0.8

### CARE Ratings' View:

Data on industrial production shows that the industrial activity has surpassed/reached pre-covid levels in August 2021. However, the double-digit growth compared to last year's level is mostly indicative of the statistical effect rather than the actual state of the economy and should be interpreted with caution. From September onwards the base effect will normalise resulting in lower growth number. Therefore, we could expect a single-digit year-on-year IIP growth print for the next two months.

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