ICRA

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INDEX OF INDUSTRIAL PRODUCTION AUGUST 2021

IIP rose by 11.9% in August 2021, surpassing the pre-Covid level by 3.9%

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HIGHLIGHTS

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The pace of IIP growth improved to 11.9% in August 2021 from 11.5% in July 2021

The index exceeded the pre-Covid level of August 2019 by 3.9%, led by a broad-based improvement in all the sectors, except consumer durables

Excess rainfall and the non-availability of semiconductors are expected to dampen IIP growth to 3-5% in September 2021

As expected, the pace of growth of the Index of Industrial Production (IIP) recorded a mild improvement to 11.9% in August 2021 from 11.5% in July 2021, driven by the positive impact of subdued rainfall on mining and electricity, even as manufacturing growth moderated. In terms of the use-based categories, the improvement was limited to primary goods and consumer non-durables, with all the other categories reporting a moderation in the YoY growth in August 2021 relative to July 2021. The IIP recorded a mild month-on-month (MoM) decline of 0.2% in August 2021, after a gap of two months, led by mining and manufacturing, although infra/construction goods and consumer non-durables displayed a pickup. Encouragingly, the IIP rose by 3.9% in August 2021 relative to the pre-Covid level of August 2019, led by all the categories except consumer durables, highlighting the enduring impact of the pandemic on big-ticket demand. With the excess rainfall affecting mining, electricity and construction activities, and the non-availability of semiconductors impinging upon auto output, we expect the IIP growth to dip sharply to 3-5% in September 2021. Subsequently, the healthy GST e-way bill generation for early October 2021 suggests inventory build-up ahead of the festive season, which augurs well for the IIP print for the current month, even as continued constraints in the auto sector and the looming concerns on availability of coal and power pose risks.

- **IIP rose by 11.9% in August 2021:** The YoY growth of the IIP rose mildly to 11.9% in August 2021 from 11.5% in July 2021, mainly driven by the positive impact of subdued rainfall on mining (to +23.6% from +19.5%) and electricity (to +16.0% from +11.1%), as well as an improvement in the YoY performance of primary goods (to +17.0% from +12.4%) and consumer non-durables (to +5.2% from -2.1%). The pace of IIP growth was in line with our forecast of 12.1%.
- **Industrial output recorded a marginal sequential decline of 0.2% in August 2021:** In MoM terms, the IIP recorded a marginal de-growth of 0.2% in August 2021, led by mining (-0.8%) and manufacturing (-0.5%), while electricity recorded a sequential growth of 2.2%. Moreover, four of the six use-based categories witnessed a lower output in August 2021 relative to July 2021 (apart from infrastructure/ construction goods; +1.1%, and consumer non-durables; +0.8%).
- **IIP in August 2021 was 3.9% higher than the August 2019 level:** The IIP in August 2021 was 3.9% higher than the August 2019 level, driven by all the categories except consumer durables (-3.0%), highlighting the enduring impact of the pandemic on big-ticket demand. Eleven of the 23 sub-sectors of manufacturing (with a weight of 52.2% in the IIP) recorded higher volumes in August 2021, relative to August 2019.
- **IIP growth to dip sharply to 3-5% in September 2021:** With the excess rainfall affecting mining, electricity and construction activities, and the non-availability of semiconductors impinging upon auto output, we expect the IIP growth to dip sharply to 3-5% in September 2021. Subsequently, the healthy GST e-way bill generation for early October 2021 suggests inventory build-up ahead of the festive season, which augurs well for the IIP print for the current month, even as continued constraints in the auto sector and the looming concerns on availability of coal and power pose risks.

OVERVIEW

The pace of growth of the IIP increased to 11.9% in August 2021 (-7.1% in August 2020) from 11.5% in July 2021 (-10.5% in July 2020), in line with our expectations (+12.1%). The improvement in the YoY expansion in August 2021 relative to July 2021 was mainly led by electricity and mining sectors, while the manufacturing sector recorded a sequential dip. Among the use-based categories, only the consumer non-durables and primary goods recorded an improvement over the same period (refer Exhibits 1, 2 and 3). Notably, the YoY expansion in the broader IIP in August 2021 mildly exceeded that for the core sector (with a weight of 40.3% in the IIP), which had reported a 11.6% YoY growth in output in that month.

However, in MoM terms, the industrial output recorded a mild decline of 0.2% in August 2021. This was led by mining (-0.8%) and manufacturing (-0.5%), while electricity recorded a sequential uptick of 2.2% in August 2021, with demand rising amidst a deficient monsoon. Moreover, in the use-based categories, four of the six use-based categories witnessed a lower output in August 2021 relative to July 2021 (apart from infrastructure/ construction goods and consumer non-durables).

Encouragingly, the IIP rose by 3.9% in August 2021 relative to the pre-Covid level of August 2019 (refer Exhibit 4), led by all the categories except consumer durables, highlighting the enduring impact of the pandemic on big-ticket demand

Sectoral performance: In terms of the YoY performance, the manufacturing growth decelerated to 9.7% in August 2021 from 10.5% in July 2021, while the output of electricity and mining rose to 16.0% and 23.6%, respectively, in August 2021 from 11.1% and 19.5%, respectively in July 2021, driven by the positive impact of subdued rainfall (24% below long period average or LPA) on mining and electricity.

In MoM terms, the IIP declined by 0.2% in August 2021, led by mining (-0.8%) and manufacturing (-0.5%), whereas electricity (+2.2%) witnessed a mild uptick, reflecting the rise in demand from the agri and household sectors amid the lull in rainfall.

Interestingly, the sequential dip in manufacturing in August 2021 (-0.5%) was in contrast to the pickup in the generation of GST e-way bills (+2.7%) in that month. We believe the latter represents continued inventory clearance as the state-wise restrictions eased. Subsequently, the GST e-way bills have recorded a further MoM rise in September 2021 (+3.1%), led by pre-festive season stocking and further relaxation in the movement of goods. Within manufacturing, 12 of the 23 sub-sectors (with a substantial weight of 45.9% in the IIP) recorded a deterioration in MoM terms in August 2021 relative to July 2021; this sub-set includes motor vehicles, trailers and semi-trailers (-8.0%), leather and related products (-6.4%), coke and refined petroleum products (-4.9%), beverages (-4.5%), paper and paper products (-3.5%), etc. On the other hand, 10 of the 23 sub-sectors (with a substantial weight of 30.4% in the IIP) recorded higher MoM output in August 2021 relative to July 2021; including other manufacturing (+13.1%), electrical equipment (+9.1%), wood and wood products (+7.3%), tobacco products (+6.3%), furniture; manufacturing N.E.C. (+3.6%), etc. Wearing Apparel sub-sector recorded no MoM change in August 2021 relative to July 2021.

The industrial output in August 2021 was 3.9% higher than the August 2019 level, driven by a broad-based improvement in all the sectors (mining: +12.8%, manufacturing: +1.4%, and electricity: +13.9%). Manufacturing output in August 2021 was a mild 1.4% higher than the August 2019 level, led by 11 of the 23 sub-sectors with a substantial weight of 52.2% in the IIP; this sub-set includes electrical equipment (+20.3%), other manufacturing (+15.0%), other non-metallic mineral products (+11.2%), basic metals (+10.6%), machinery and equipment N.E.C. (+8.6%), etc. On the other hand, 12 of the 23 sub-sectors (albeit with a weight of 25.5% in the IIP) recorded a lower output in August 2021 relative to the August 2019 level; this sub-set includes wearing apparel (-26.2%), furniture; manufacturing N.E.C. (-23.4%), printing and reproduction of recorded media (-20.5%), computer, electronic and optical products (-15.6%), paper and paper products (-12.5%), etc. (-%; refer Exhibits 6 and 7).

In addition, electricity generation in August 2021 was a considerable 13.9% higher than August 2019. Data released by the Central Electricity Authority indicates that thermal electricity generation and hydroelectricity generation recorded a growth of 19.1% and 1.7%, respectively, in August 2021, relative to August 2019 level.

Moreover, mining output was 12.8% higher in August 2021, relative to the August 2019 level. This was driven by the trend in the output of coal (+24.9%) and natural gas (+9.2%), while the output of crude oil witnessed de-growth of 8.4% in August 2021 relative to August 2019 (refer Exhibit 5).

Use-based categories: In terms of the YoY performance, the output of primary goods (+17.0% in August 2021 vs. +12.4% in July 2021) and consumer non-durables (+5.2% vs. -2.1%) recorded a higher output in August 2021 relative to July 2021. On the other hand, the YoY growth moderated in the case of consumer durables (+8.0% vs. +19.4%), capital goods (+19.9% vs. +30.5%), intermediate goods (+10.3% vs. +14.4%) and infrastructure/ construction goods (+11.1% vs. +11.7%) in August 2021 relative to July 2021, partly reflecting a normalising base.

In MoM terms, four of the six use-based categories witnessed a lower output in August 2021 relative to July 2021 (apart from infrastructure/ construction goods, and consumer non-durables). The capital goods category registered a MoM decline of 1.6% in August 2021, followed by primary goods (-0.9%). In addition, the output of intermediate goods and consumer durables displayed a moderate sequential decline of 0.6% and 0.3%, respectively, in August 2021. On the other hand, infrastructure/ construction goods and consumer non-durables witnessed a sequential MoM uptick of 1.1% and 0.8%, respectively, in August 2021, with the former reflecting a longer window for construction activities following the lull in rain.

On an encouraging note, all the use-based categories except consumer durables (-3.0%) surpassed their pre-Covid levels in August 2021. The infrastructure/construction goods output rose by a significant 11.1% in August 2021 relative to August 2019, followed by intermediate goods (+5.0%) and primary goods (+4.4%). Additionally, the output in capital goods (+2.6%) and consumer non-durables (+2.0%) in August 2021 surpassed their pre-Covid levels.

Revised data for July 2021: The YoY growth in the IIP in July 2021 has been retained at the initial 11.5%. While the index levels of sectors remained unchanged for July 2021, that for use-based categories underwent some revisions. For instance, the performance of capital goods (revised: +30.5% vs. initial: +29.5%), intermediate goods (+14.4% vs. +14.1%) and infrastructure/construction goods (+11.7% vs. +11.6%) has been revised mildly upwards for July 2021, offset by downward revision in the output of consumer durables (+19.4% vs. +20.2%) and consumer non-durables (-2.1% vs. -1.8%).

OUTLOOK

Most of the available high frequency indicators for September 2021, such as electricity generation (-11.6%), ports cargo traffic (-6.6%), vehicle registrations (-6.3%), CIL's output (-4.5%), rail freight traffic (-4.2%), petrol consumption (-3.0%), diesel consumption (-1.0%), and non-oil merchandise exports (-0.3%) have displayed a sequential moderation, relative to August 2021. This can partly be attributed to high rainfall (35% above LPA in September 2021) and non-availability of semi-conductors. In contrast, the generation GST e-way bills rose by a modest 3.1% in September 2021, relative to the previous month.

Encouragingly, a majority of the early high frequency indicators for September 2021 rose above their pre-Covid levels, including CIL's output (+32.2%), generation of GST e-way bills (+29.6%), non-oil exports (+26.3%), rail freight traffic (+19.7%), petrol consumption (+9.0%), and electricity generation (+5.1%). However, vehicle registrations (-13.3%), diesel consumption (-6.5%), and ports cargo traffic (-1.4%) displayed lower volumes in September 2021 relative to September 2019.

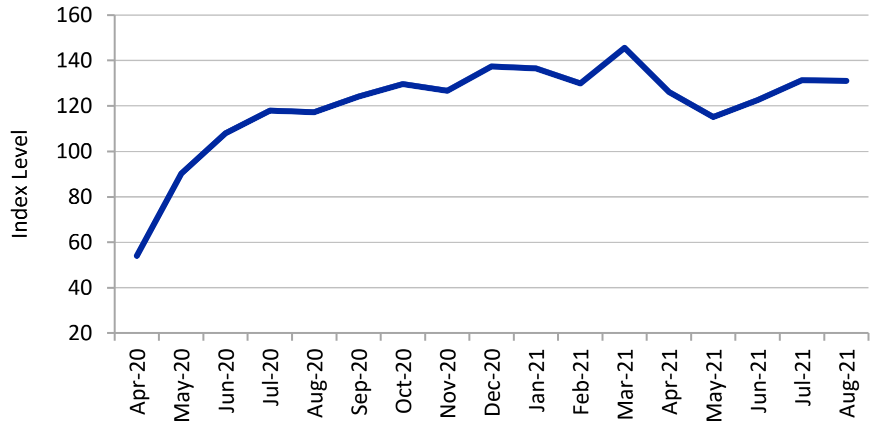
With the excess rainfall affecting mining, electricity and construction activities, and the non-availability of semiconductors impinging upon auto output, we expect the IIP growth to dip sharply to 3-5% in September 2021. Subsequently, the healthy GST e-way bill generation for early October 2021 suggests inventory build-up ahead of the festive season, which augurs well for the IIP print for the current month, even as continued constraints in the auto sector and the looming concerns on availability of coal and power pose risks.

EXHIBIT 1: Trend in IIP Growth

		Sectoral			Use-Based Classification					
	IIP	Mining	Manufacturing	Electricity	Primary	Capital	Intermediate	Infra/ construction	Durables	Non-Durables
Weight	100.0%	14.4%	77.6%	8.0%	34.0%	8.2%	17.2%	12.3%	12.8%	15.3%
YoY (%)										
July-21	11.5%	19.5%	10.5%	11.1%	12.4%	30.5%	14.4%	11.7%	19.4%	-2.1%
August-21	11.9%	23.6%	9.7%	16.0%	17.0%	19.9%	10.3%	11.1%	8.0%	5.2%
MoM (%)										
July-21	7.2%	-0.9%	8.2%	9.2%	5.0%	14.5%	8.1%	4.3%	18.7%	3.5%
August-21	-0.2%	-0.8%	-0.5%	2.2%	-0.9%	-1.6%	-0.6%	1.1%	-0.3%	0.8%
August-21 vs. August-19	3.9%	12.8%	1.4%	13.9%	4.4%	2.6%	5.0%	11.1%	-3.0%	2.0%

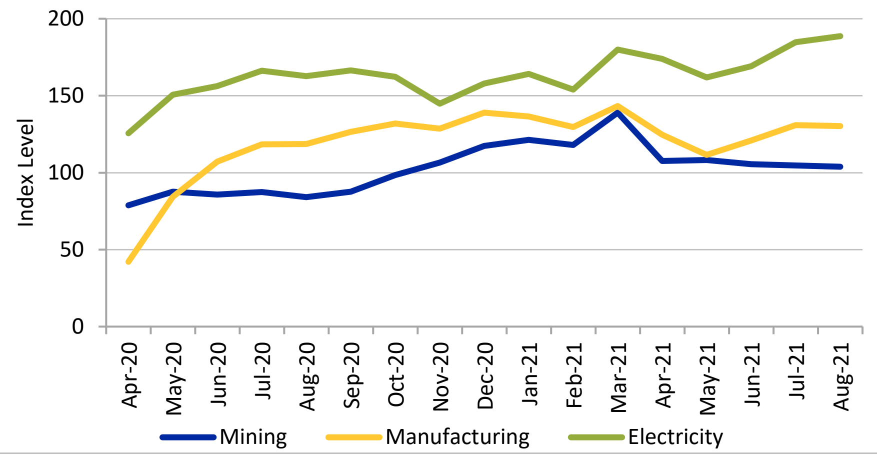
***Source**: National Statistical Office (NSO); CEIC; ICRA research*

EXHIBIT 2: Trend in IIP since April 2020



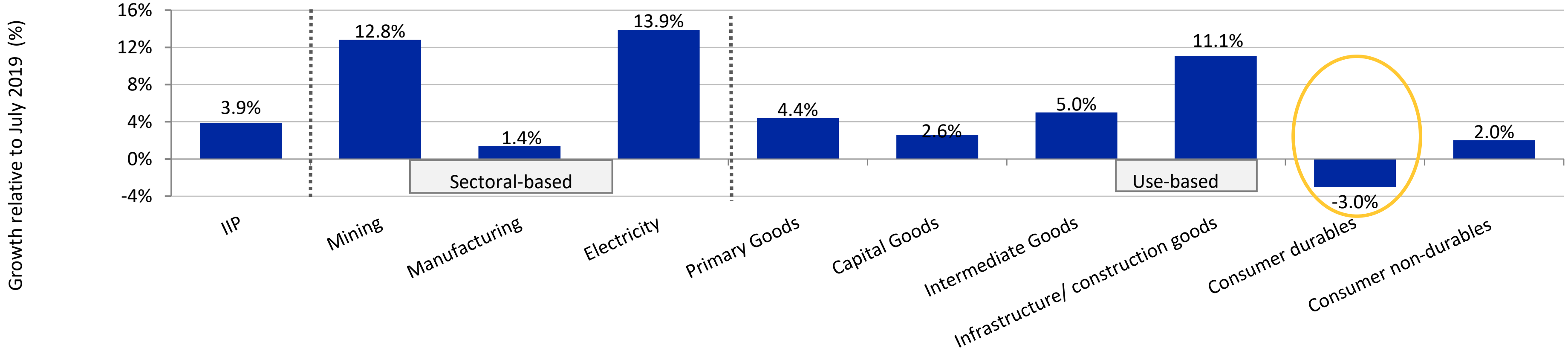
Source: *NSO; CEIC; ICRA research*

EXHIBIT 3: Trend in index levels for mining, manufacturing and electricity since April 2020



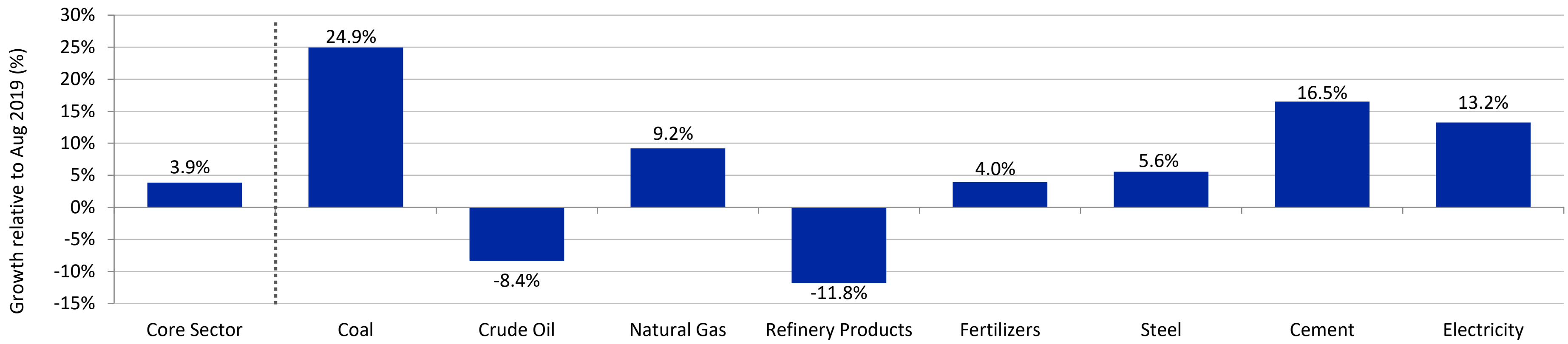
Source: *NSO; CEIC; ICRA research*

EXHIBIT 4: Trend in performance of IIP and its sub-components in August 2021 relative to August 2019



Source*: NSO; CEIC; ICRA research*

EXHIBIT 5: Trend in performance of core sector and its sub-components in August 2021 relative to August 2019

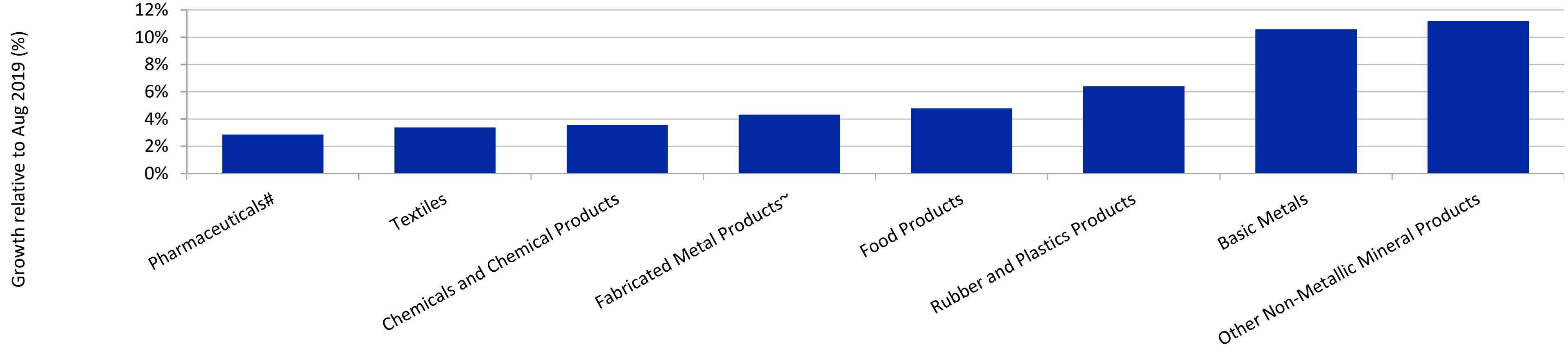


***Source**: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA research*

EXHIBIT 6: Trend in performance of manufacturing sub-sectors in August 2021 relative to August 2019 (PART-I)

**Excluding furniture, manufacture articles of straw and plaiting materials;*
***Source**: NSO; CEIC; ICRA research*

EXHIBIT 7: Trend in performance of manufacturing sub-sectors in August 2021 relative to August 2019 (PART-II)



~Excluding machinery and equipment #Also includes medicinal chemical and botanical products;
***Source**: NSO; CEIC; ICRA research*

EXHIBIT 8: Sub-groups with major contribution in IIP Growth on the basis of use-based classification

Use-Based Classification	Item Group	Sub-group	Weight (%)	Use-Based Classification	Item Group	Sub-group	Weight (%)
Primary Goods	Diesel	Coke and refined petroleum products	5.71	**Infrastructure /Construction Goods**	Cement	Other non-metallic mineral products	2.16
	Petrol/Motor Spirit	Coke and refined petroleum products	1.66		Bars and Rods of Mild steel	Basic Metals	1.35
	LPG	Coke and refined petroleum products	0.84		HR coils and sheets of mild steel	Basic Metals	1.35
Capital Goods	Commercial Vehicles	Motor vehicles, trailers and semi-trailers	0.94	**Consumer Durables**	Auto components/ spares and accessories	Motor vehicles, trailers and semi-trailers	2.59
	Stationary and internal combustion piston engines not for motor vehicles	Machinery and equipment n.e.c.	0.51		Two-wheelers (motorcycles/ scooters)	Other transport equipment	1.36
	Generators / Alternators	Electrical Equipment	0.46		Readymade Garments	Wearing Apparel	1.01
Intermediate Goods	Naphtha	Coke and refined petroleum products	1.15	**Consumer Non-durables**	API & formulations of vitamins	Pharmaceuticals, medicinal chemical and botanical products	0.85
	MS blooms/ billets/ ingots/ pencil ingots	Basic Metals	0.95		Sugar	Food Products	0.76
	MS slabs	Basic Metals	0.84		Steroids and hormonal preparations	Pharmaceuticals, medicinal chemical and botanical products	0.72

***Source**: NSO; CEIC; ICRA research*

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ABOUT ICRA

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- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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