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INDEX OF INDUSTRIAL PRODUCTION November 2021

IIP eases to nine-month low YoY growth of 1.4% in November 2021; trails pre-Covid level after three months

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Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Rahul Agrawal
+91 22 6169 3300
rahul.agrawal@icraindia.com

Yash Panjrath
+91 124 4545 399
yash.panjrath@icraindia.com

Aarzoo Pahwa
+91 124 4545 873
aarzoo.pahwa@icraindia.com

Tiasha Chakraborty
+91 124 4545 300
tiasha.chakraborty@icraindia.com

HIGHLIGHTS

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The pace of IIP growth moderated to 1.4% in November 2021 from 4.0% in October 2021

Discouragingly, capital goods and consumer durables contracted in November 2021 even on a low base, suggesting that the sentiment towards big ticket consumption as well as investment activity remains fragile

IIP slipped 0.2% below pre-Covid levels in November 2021

We expect IIP growth to come in sub-1% in the month on account of an unfavourable base

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) eased considerably to a nine-month low of 1.4% in November 2021 (ICRA exp.: +2.0%) from 4.0% in October 2021, with the impact of the slackening momentum after the festive season compounded by the disruption caused by heavy rains in South India, amid the continuing issues afflicting the auto sector. The moderation in industrial growth was broad-based across the three sectors and six use-based categories, with YoY contraction in capital goods and consumer durables deepening in November 2021. Moreover, industrial output slipped below the pre-Covid levels in Nov 2021, led by manufacturing and mining. Further, as many as 18 of the 23 sub-segments of manufacturing posted a lower output in November 2021 vis-à-vis November 2019. Overall, these trends lend support to the Monetary Policy Committee's (MPC's) view that the economic recovery is not yet durable. While the performance of several high frequency indicators such as the generation of GST e-way bills, rail freight traffic, electricity generation and non-oil exports has witnessed an improvement in Dec 2021, we expect IIP growth to print sub-1% in the month on account of an unfavourable base (Dec 2020: +2.2%). Further, with the onset of the third wave of infections, the outlook for activity for Jan 2022 remains bleak.

- **IIP growth slows to nine-month low of 1.4% in November 2021:** Despite a low base, the YoY growth in the IIP slowed to 1.4% in November 2021 (-1.6% in November 2020) from the revised 4.0% in October 2021 (+4.5% in October 2020), as momentum slackened post the festive season and supply disruptions emerged in parts of Southern India owing to heavy rainfall. The moderation was broad-based, with growth dipping across the three sectors- manufacturing (to +0.9% from +3.1%), mining (to +5.0% from +11.5%) and electricity (to +2.1% from +3.1%). Moreover, all six use-based categories witnessed a moderation, in growth in November 2021 vis-à-vis the previous month.

- **Contraction in capital goods and consumer durables accentuates despite favourable base:** The YoY contraction in the output of capital goods widened to 3.7% in November 2021 from 1.5% in October 2021. Likewise, consumer durables witnessed a steeper decline in the month (-5.6% vs. -3.6% in October 2021). The steeper fall in both these segments was despite a favourable base, with output having contracted sharply in November 2020, suggesting that sentiment towards investment activity and big-ticket consumption remains fragile.

- **November industrial output slipped below pre-Covid levels:** Worryingly, the IIP printed 0.2% below pre-Covid levels in November 2021, after a gap of three months. The output of capital goods and consumer durables was a considerable 10.9% and 8.6% lower, respectively, in November 2021 as compared to November 2019. This led to manufacturing output printing 0.8% lower than pre-Covid levels, reflecting the trend in as many as 18 of the 23 sub-segments of this sector. These trends lend support to the MPC's view that the economic recovery has not attained durability.

- **IIP growth may print sub-1% in December 2021:** The performance of some high frequency indicators including the generation of GST e-way bills, rail freight traffic, electricity generation and non-oil exports has witnessed an improvement in December 2021. However, we expect the IIP growth to print sub-1% in this month, on account of an unfavourable base (December 2020: +2.2%).

OVERVIEW

- In YoY terms, the IIP displayed an expected moderation to a feeble nine-month low growth of 1.4% in November 2021 (-1.6% in November 2020; ICRA exp: +2.0%) from the revised 4.0% in October 2021 (+4.5% in October 2020), with the impact of the slackening momentum after the festive season compounded by the disruption caused by heavy rains in South India, amid the continuing issues afflicting the auto sector. Notably, the YoY rise in the broader IIP in November 2021 was lower than that for the core sector (with a weight of 40.3% in the IIP), which had reported a 3.1% YoY growth in output in that month.

- The dip in industrial growth in November 2021 relative to October 2021 was broad-based across the three sectors and six use-based categories. Among the sectors, the sequential easing in the YoY IIP growth in November 2021 was led by a moderation in mining (to +5.0% from the revised +11.5%), manufacturing (to +0.9% from the revised +3.1%), and electricity (to +2.1% from +3.1%; refer Exhibits 1, 2 and 3).

- The YoY growth in manufacturing eased to a nine-month low 0.9% November 2021 from the revised 3.1% in October 2021, amid the continuing issues afflicting the auto sector. Notably, 11 of the 23 sub-sectors of manufacturing (with a weight of 37.4% in the IIP) displayed a YoY contraction in November 2021, while 12 sub-sectors (with a weight of 40.2% in the IIP) witnessed a growth in that month. Moreover, as many as 14 of the 23 sub-sectors of manufacturing (with a substantial weight of 39.84% in the IIP) recorded a deterioration in the YoY performance in November 2021 relative to October 2021; this sub-set includes coke and refined petroleum products (to +3.3% in November 2021 from +13.3% in October 2021), paper and paper products (to +11.9% from +21.6%), tobacco products (to +2.5% from +8.9%), food products (to -1.3% from +4.8%), machinery and equipment N.E.C. (to -13.9% from -6.8%), other transport equipment (to -22.4% from -15.7%), other manufacturing (to +4.7% from +38.0%), other non-metallic mineral products (to -2.8% from +10.4%), etc. In contrast, nine sub-sectors (with a weight of 37.80% in the IIP) recorded an improvement in the YoY performance in November 2021 relative to the previous month; including furniture (to +23.1% from +9.4%), computer, electronic and optical products (to +8.5% from +0.1%), fabricated metal products (to -2.1% from -8.0%), motor vehicles, trailers and semi-trailers (to -9.2% from -11.7%), etc.

- The YoY growth in electricity generation eased to 2.1% November 2021 from 3.1% in October 2021, in line with the data released by the Central Electricity Authority, which indicated that the growth in hydroelectricity generation and thermal electricity generation declined to 15.3% and 0.2%, respectively, in November 2021 from 18.2% and 0.5%, respectively, in October 2021.

- In addition, the YoY growth in mining output moderated sharply to a nine-month low 5.0% in November 2021 from the revised 11.5% in October 2021, driven by the trend in the output of coal (to +8.2% in November 2021 from +14.7% in October 2021), natural gas (to +23.6% from +25.9%) and crude oil (to -2.2% from -2.1%; refer Exhibit 5).

- Among the use-based categories, the YoY performance of all the six categories worsened in November 2021 relative to October 2021. The capital goods and consumer durables segments were the worst performers in the month. The YoY contraction in the output of capital goods widened to a nine-month low 3.7% in November 2021 from the revised 1.5% in October 2021. Similarly, consumer durables witnessed a steeper YoY contraction, for the third consecutive month, to 5.6% in November 2021 from the revised 3.6% in October 2021. The sharper fall in both these segments was despite a favourable base, with output having contracted considerably in November 2020 by 7.5% and 3.2%, respectively, suggesting that sentiment towards investment activity and big-ticket consumption remains fragile. Interestingly, capital goods and consumer durables have seen prolonged weakness since 2019 (even prior to Covid); while production levels have averaged higher on a YoY basis during April-November 2022 (owing to the low base), they are slightly lower than levels seen in April-November 2014, i.e. seven years ago.

- Among other use-based categories, the YoY growth in primary goods declined substantially to a nine-month low 3.5% in November 2021 from 9.0% in October 2021, while growth in infrastructure/construction goods moderated to 3.8% from the revised 6.6%, owing to the disruption caused by the heavy rainfall in Southern India. Further, the YoY growth in the output of intermediate goods and consumer non-durables moderated to 2.5% (a nine-month low) and 0.8% (a four-month low), respectively, in November 2021 from 3.8% and 0.9%, respectively, in October 2021.
- After a gap of three months, the IIP slipped below the pre-Covid levels in November 2021, printing 0.2% lower than November 2019, driven by manufacturing (-0.8%) and mining (-0.7%) among sectors, and capital goods (-10.9%) and consumer durables (-8.6%) among use-based categories. Further, as many as 18 of the 23 sub-segments within manufacturing (with a substantial weight of 51.8% in the IIP) posted a lower output in the November 2021 vs. pre-Covid levels; this sub-set includes other transport equipment (-22.5%), machinery and equipment N.E.C.(-16.2%), leather and related products (-16.3%), printing and reproduction of recorded media (-14.9%), beverages (-14.6%), paper and paper products (-12.9%), furniture (-10.0%), motor vehicles, trailers and semi-trailers (-9.2%), etc. On the other hand, only five of the 23 sub-sectors (albeit with a weight of 26.5% in the IIP) recorded a higher output in November 2021 relative to the November 2019 level; this sub-set includes basic metals (+10.5%), food products (+6.2%), other manufacturing (+4.9%), pharma, medicinal chemical and botanical products (+1.6%) and rubber and plastics products (+0.5%; refer Exhibits 6 and 7).
- Encouragingly, four out of the six use-based categories surpassed their pre-Covid levels in November 2021, including infrastructure/ construction goods (+5.9%), primary goods (+1.6%), intermediate goods (+0.6%) and consumer non-durables (+0.1%). Among sectors, only the output of electricity in November 2021 surpassed the pre-Covid level by a robust 5.7%.
- In MoM terms, industrial output declined by 4.7% in November 2021, owing to the holidays pertaining to the festive period in the first half of the month. The MoM decline in November 2021 was led by electricity (-11.6%) and manufacturing (-4.8%), while the output of mining witnessed a mild uptick of 1.9% in the month. Interestingly, the sequential decline in manufacturing in November 2021 (-4.8%) was milder than the decline in the generation of GST e-way bills (-16.8%) in the month. In addition, apart from consumer non-durables (+0.2%), all other use-based categories witnessed a lower output in November 2021 relative to October 2021, led by consumer durables (-17.3%), capital goods (-9.7%), infrastructure/ construction goods (-7.2%), intermediate goods (-2.9%) and primary goods (-1.6%).
- The YoY growth in the IIP in October 2021 has been revised upwards to 4.0% from the initial 3.2%, driven by manufacturing (to +3.1% from an initial +2.0%) and mining (+11.5% vs. +11.4%), with the output of electricity remaining unchanged at 3.1%. Amongst the use-based categories, the performance of consumer durables (-3.6% vs. -6.1%), intermediate goods (+3.8% vs. +2.1%), infrastructure/construction goods (+6.6% vs. +5.3%) and consumer non-durables (+0.9%; +0.5%), was revised upwards for October 2021. On the other hand, the performance of capital goods (-1.5%; -1.1%) was revised downwards, while the growth of primary goods remained unchanged at 9.0% in October 2021.

OUTLOOK

After the slowdown related to the holidays in the festive season in November 2021, there was a broad-based improvement in momentum in December 2021. In MoM terms, several high frequency indicators recorded a pick-up in December 2021, such as the output of ports cargo traffic (+5.9%), rail freight traffic (+8.5%), electricity generation (+11.7%), Coal India Limited (CIL; +12.6% in December 2021), generation of GST e-way bills (+17.1%) and non-oil merchandise exports (+21.4%). In contrast, vehicle registrations declined by 14.2% in December 2021 relative to the previous month.

Moreover, the YoY growth of many indicators improved in December 2021, relative to the previous month, such as the generation of GST e-way bills (to +11.6% in December 2021 from +5.9% in November 2021), non-oil merchandise exports (to +27.3% from +18.2%; as per provisional data released by the Ministry of Commerce and Industry), rail freight traffic (to +7.2% from +6.1%) and electricity generation (to +2.5% from +2.1%). In contrast, the YoY performance of vehicle registration (to -16.1% from -2.8%), CIL's output (to +3.3% from +4.1%) and ports cargo traffic (to -0.6% from -0.2%) eased in December 2021 relative to November 2021. Moreover, the YoY growth of most of the indicators in December 2021 remained below the October 2021 growth values, in line with the MPC's prescient view that the economic recovery had not attained durability.

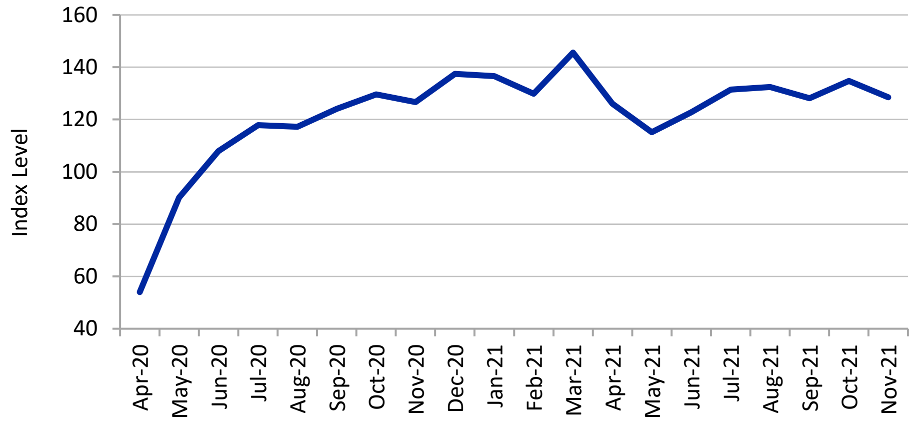
While the performance of many high frequency indicators such as GST e-way bills, rail freight traffic, electricity generation and non-oil exports has witnessed an improvement in December 2021, we expect IIP growth to print sub-1% in the month on account of an unfavourable base (December 2020: +2.2%). Further, with the onset of the third wave of infections, the daily average generation of GST e-way bills has eased to 2.0 million in January 1-9 2022 relative to the average of 2.3 million recorded in the previous month, which does not augur well for economic activity in January 2022.

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 (%)										
Oct-21	4.0%	11.5%	3.1%	3.1%	9.0%	-1.5%	3.8%	6.6%	-3.6%	0.9%
Nov-21	1.4%	5.0%	0.9%	2.1%	3.5%	-3.7%	2.5%	3.8%	-5.6%	0.8%
MoM (%)										
Oct-21	5.1%	15.5%	4.5%	-0.4%	9.5%	-2.8%	4.1%	7.3%	2.0%	1.6%
Nov-21	-4.7%	1.9%	-4.8%	-11.6%	-1.6%	-9.7%	-2.9%	-7.2%	-17.3%	0.2%
Nov-21 vs. Nov-19	-0.2%	-0.7%	-0.8%	5.7%	1.6%	-10.9%	0.6%	5.9%	-8.6%	0.1%

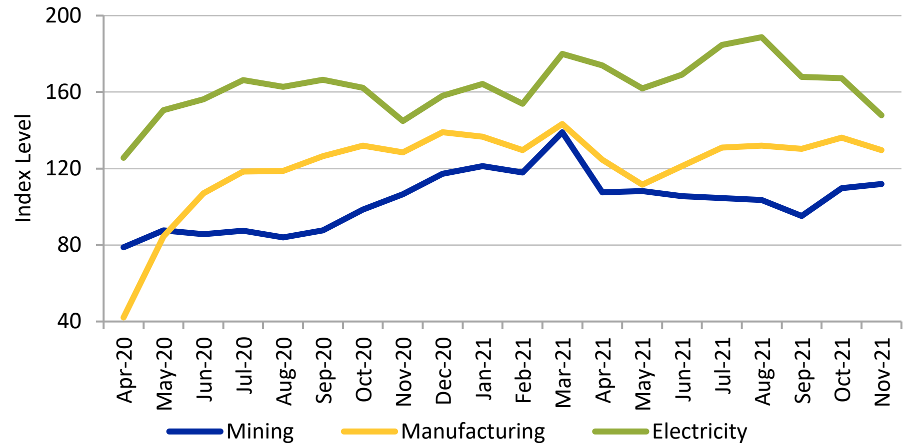
***Source**: National Statistical Office (NSO); CEIC; ICRA Research*

EXHIBIT 2: Trend in IIP since April 2020



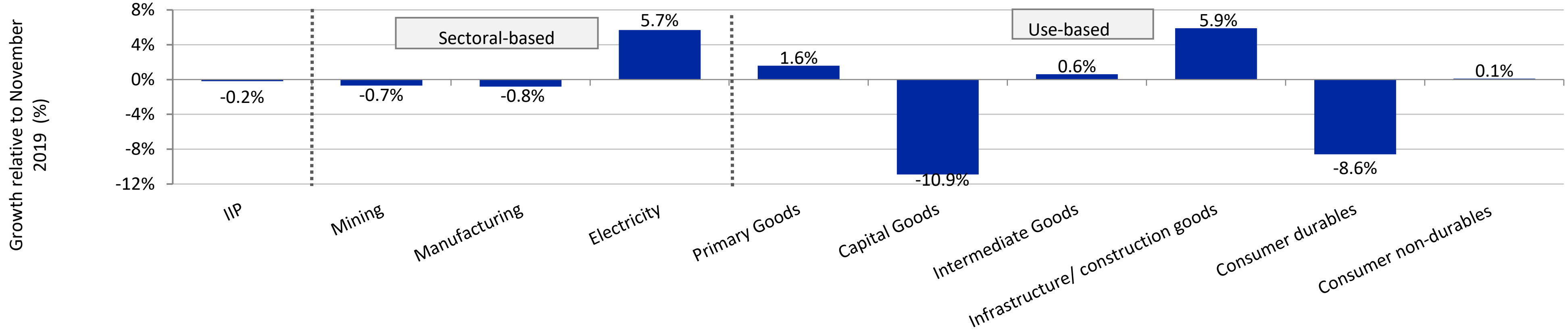
Source: *NSO; CEIC; ICRA Research*

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



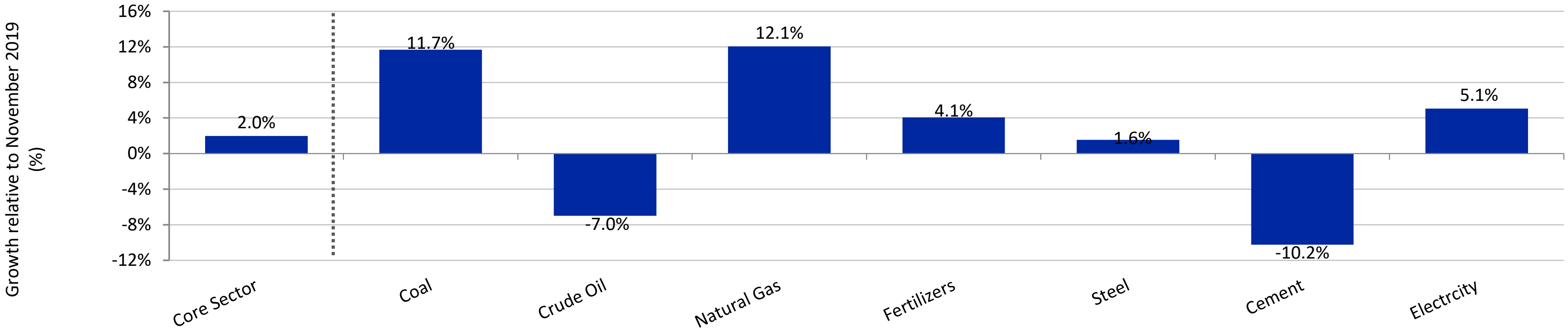
Source: *NSO; CEIC; ICRA Research*

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



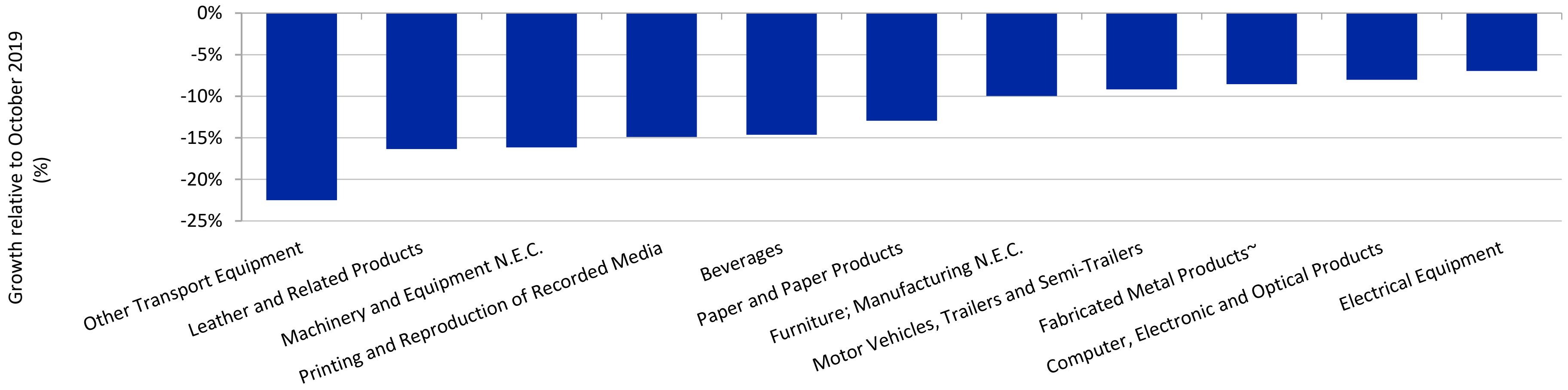
Source*: NSO; CEIC; ICRA Research*

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



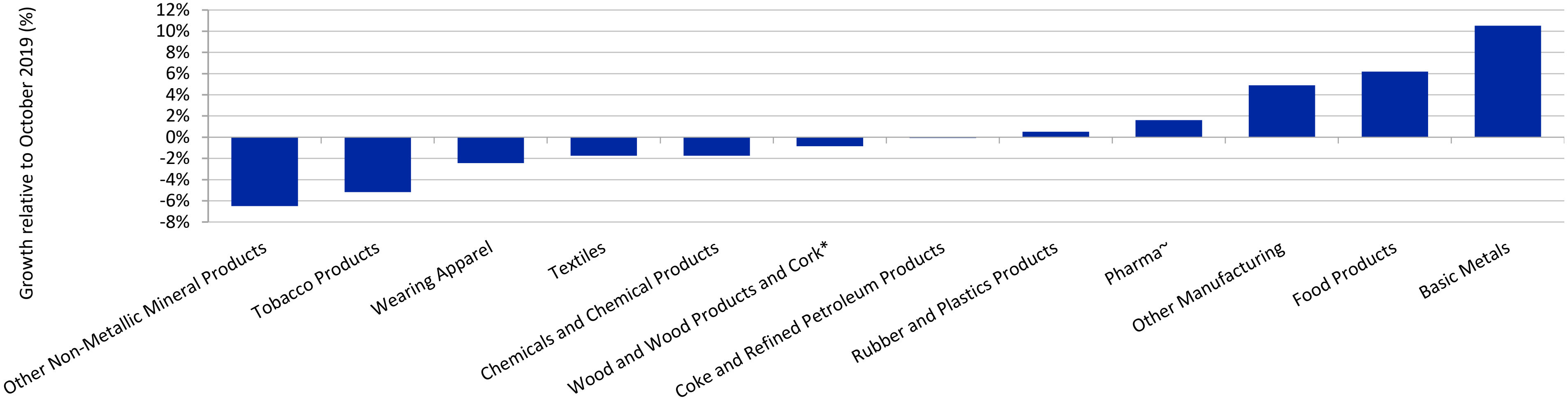
***Source**: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research*

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



*~ex Machinery and Equipment; **Source:** NSO; CEIC; ICRA Research*

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



ex Furniture; Articles of Straw and Plaiting Materials; ~Including Medicinal Chemical and Botanical Products;* ***Source**: NSO; CEIC; ICRA Research*

EXHIBIT 8: Sub-groups with major contribution in IIP 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 (Wt.=34.0%)	Diesel	Coke and refined petroleum products	5.71	**Infrastructure /Construction Goods (Wt.=12.3%)**	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 (Wt.=8.2%)	Commercial Vehicles	Motor vehicles, trailers and semi-trailers	0.94	**Consumer Durables (Wt.=12.8%)**	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 (Wt.=17.2%)	Naphtha	Coke and refined petroleum products	1.15	**Consumer Non-durables (Wt.=15.3%)**	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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ICRA

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: Jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: Communications@icraindia.com
Tel: +91 124 4545 860

Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

4th Floor, 'Shoban'
6-3-927/A&B. Somajiguda
Raj Bhavan Road,
Hyderabad - 500 082
Tel: +91 40 4067 6500

Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: Info@icraindia.com
Helpdesk: 9354738909
Website: www.icra.in/ www.Icraresearch.in