



## INDEX OF INDUSTRIAL PRODUCTION JUNE 2022

**IIP growth dampened to 12.3% in June  
2022, led by normalising base**

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Aditi Nayar  
+91 124 4545 385  
[aditin@icraindia.com](mailto:aditin@icraindia.com)

Rahul Agrawal  
+91 22 6169 3353  
[rahul.agrawal@icraindia.com](mailto:rahul.agrawal@icraindia.com)

Yash Panjra  
+91 124 4545 399  
[yash.panjra@icraindia.com](mailto:yash.panjra@icraindia.com)

Aarzoo Pahwa  
+91 124 4545 835  
[aarzoo.pahwa@icraindia.com](mailto:aarzoo.pahwa@icraindia.com)

Tiasha Chakraborty  
+91 124 4545 848  
[tiasha.chakraborty@icraindia.com](mailto:tiasha.chakraborty@icraindia.com)



## HIGHLIGHTS



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*The pace of IIP growth eased to 12.3% in June 2022, led by a normalising base*

*All the use-based categories, apart from consumer non-durables, recorded a moderation in their YoY growth in June 2022*

*The IIP exceeded the pre-Covid level of June 2019 by 6.7% in June 2022*

*We expect the IIP growth to moderate to high single digits in July 2022*

The normalising base resulted in a fairly broad-based dampening of the year-on-year (YoY) growth in the Index of Industrial Production (IIP) to 12.3% in June 2022 from 19.6% in May 2022, as anticipated. Nevertheless, the pace of industrial growth in June 2022 was appreciably higher than our forecast of 10.2%, led by the manufacturing sector. On a sequential basis, the industrial output was flat in June 2022 (+0.1%), relative to the previous month, with a month-on-month (MoM) dip in the output of mining and electricity. The IIP was 6.7% higher in June 2022, relative to June 2019, with the output of capital goods, consumer durables and consumer non-durables exceeding their respective pre-Covid levels for the first time in the current fiscal year. However, consumption demand remains tentative amidst a shift in preferences towards the consumption of services, aided by pent up demand and a normalisation of behaviours. In line with the moderation in YoY performance recorded by most high frequency indicators in July 2022, we expect the IIP growth to ease to high single digits in that month. Overall, industrial growth is expected to moderate to single digits in Q2 FY2023 from 12.7% in Q1 FY2023, as the base effect dissipates.

- **IIP growth eased to 12.3% YoY in June 2022:** The IIP growth moderated to 12.3% in June 2022 from 19.6% in May 2022, led by a broad-based deterioration across all the sub-sectors, such as manufacturing (to +12.5% in June 2022 from +20.6% in May 2022), mining (to +7.5% from +11.2%), and electricity generation (to +16.4% from +23.5%).
- **Most of the use-based categories displayed a decline in YoY growth in June 2022:** Among the use-based categories, all the sub-indices except consumer non-durables (to +2.9% from +1.0%), displayed a deterioration in their YoY growth performance in June 2022; primary goods (to +13.7% from +17.8%), capital goods (to +26.1% from +54.4%), intermediate goods (to +11.0% from +17.5%), infrastructure/construction goods (to +8.0% from +18.1%), and consumer durables (to +23.8% from +58.4%).
- **The IIP exceeded the pre-Covid level by 6.7% in June 2022:** The output of electricity (+13.4%), mining (+6.5%), and manufacturing (+5.7%) exceeded their corresponding pre-Covid levels in June 2022. Further, 13 of the 23 sub-segments within manufacturing (with a substantial weight of 58.2% in the IIP) recorded a higher output in June 2022 as compared to the June 2019 levels. Encouragingly, all the six use-based categories exceeded their respective pre-Covid levels in June 2022, with capital goods (+0.5%), consumer durables (+3.3%) and consumer non-durables (+5.7%) exceeding their respective pre-Covid levels, for the first time in the current fiscal, in June 2022.
- **IIP growth to moderate further to high single digits in July 2022:** In line with the moderation in YoY performance recorded by most high frequency indicators in July 2022, we expect the IIP growth to ease to high single digits in that month. Overall, industrial growth is expected to moderate to single digits in Q2 FY2023 from 12.7% in Q1 FY2023, as the base effect dissipates.

## OVERVIEW

- As anticipated, the normalising base flattened the IIP growth to 12.3% in June 2022 from 19.6% in May 2022, although the same was appreciably higher than our forecast of 10.2%, led by the manufacturing sector. The YoY rise in the broader IIP was slightly lower than that for the core sector output (with a weight of 40.3% in the IIP), which had reported a 12.7% YoY growth in June 2022.
- The moderation in the YoY IIP growth in June 2022 relative to May 2022 was broad-based, led by manufacturing (to +12.5% in June 2022 from +20.6% in May 2022), electricity generation (to +16.4% from +23.5%) and mining (to +7.5% from +11.2%).
- The YoY growth in manufacturing output eased to 12.5% in June 2022 from 20.6% in May 2022. Notably, 21 of the 23 sub-sectors of manufacturing (with a substantial weight of 69.4% in the IIP) displayed a YoY growth in June 2022, while only two sub-sectors (pharma, medicinal chemical and botanical products, and textiles with a weight of 8.3% in the IIP; amidst a deterioration in their export growth performance in June 2022) witnessed a contraction in that month. Moreover, as many as 18 of the 23 sub-sectors of manufacturing (with a substantial weight of 68.7% in the IIP) recorded a deterioration in the YoY performance in June 2022 relative to May 2022; this sub-set includes beverages (to +44.8% in June 2022 from +127.9% in May 2022), motor vehicles, trailers and semi-trailers (to +31.2% from +88.3%), leather and related products (to +0.9% from +47.4%), wood and wood products (to +13.9% from +53.5%), machinery and equipment N.E.C. (to +17.4% from +38.8%), basic metals (+6.1% from +16.3%), coke and refined petroleum products (to +17.6% from +18.1%), other transport equipment (to +30.2% from +128.5%), etc. In contrast, five of the 23 sub-sectors (with a weight of 9.0% in the IIP) recorded an improvement in the YoY performance in June 2022 relative to May 2022; this sub-set includes computer, electronic and optical products (to +44.0% from +28.4%), tobacco products (to +52.8% from +21.5%), pharma, medicinal chemical and botanical products (to -4.1% from -13.5%), printing and reproduction of recorded media (to +43.1% from +41.4%), and other manufacturing (to +27.7% from +19.0%).
- Further, the YoY growth in electricity generation eased to 16.4% in June 2022 from 23.5% in May 2022, reflecting a combination of a high base effect as well as lower demand after the onset of the monsoon rains. As per the data released by the Central Electricity Authority, the YoY growth in thermal electricity generation dipped marginally to 23.6% in June 2022 from 23.9% in May 2022. In addition, hydroelectricity generation slipped into a YoY contraction of 12.9% in June 2022, relative to the YoY growth of 9.6% witnessed in May 2022, as monsoon rainfall witnessed a 7.9% deficit in June 2022, while reservoir levels were 3.0% lower than the corresponding year-ago levels as on June 30, 2022.
- Similarly, the YoY growth in mining output eased to a two-month low 7.5% in June 2022 from the revised 11.2% in May 2022, driven by the trend in the output of crude oil, which reverted to a YoY contraction of 1.7% in June 2022, after recording a growth of 4.6% in the previous month. Moreover, the growth in the output of natural gas moderated to 1.2% in June 2022 from 7.0% in May 2022. Additionally, the pace of expansion in coal output eased slightly to 31.1% in June 2022 from 33.6% in May 2022 but remained quite high (refer Exhibit 5).
- Among the use-based categories, most of the categories (except consumer non-durables) recorded a deterioration in the YoY performance in June 2022 relative to May 2022. However, the growth of consumer non-durables improved to 2.9% in June 2022 (-3.9% in June 2021) from 1.0% in May 2022 (+0.2% in May 2021); this category had witnessed limited disruption to production during the second wave of Covid 19.
- The YoY expansion eased in June 2022 relative to the previous month for primary goods (to +13.7% from +17.8% in May 2022), intermediate goods (to +11.0% from +17.5%), capital goods (to +26.1% from +54.4%) and consumer durables (to +23.8% from +58.4%), given the normalising base. Moreover, the output of infrastructure/ construction goods (to +8.0%

from +18.1%) eased in June 2022, in line with the deterioration in the output growth of the steel sector (to +3.3% in June 2022 from +14.6% in May 2022) as well as the cement sector (to +19.4% from +26.2%).

- The IIP recorded a growth of 6.7% in June 2022 relative to the pre-Covid levels of June 2019, led by the growth in electricity (+13.4%), mining (+6.5%), and manufacturing (+5.7%). As many as 13 of the 23 sub-segments within manufacturing (with a substantial weight of 58.2% in the IIP) recorded a higher output in June 2022 vs. the pre-covid levels; this subset includes computer, electronic and optical products (+20.1%), other manufacturing (+18.5%), chemicals and chemical products (+16.7%), other non-metallic mineral products (+15.9%), tobacco products (+13.0%), motor vehicles, trailers and semi-trailers (+9.2%), coke and refined petroleum products (+6.8%), food products (+6.4%), etc. On the other hand, 10 of the 23 sub-sectors (with a lower weight of 19.4% in the IIP) recorded a lower output in June 2022 relative to June 2019; this sub-set includes leather and related products (-23.0%), wood and wood products (-14.9%), wearing apparel (-13.2%), paper and paper products (-8.9%), other transport equipment (-7.3%), fabricated metal products (-5.2%), etc.
- Additionally, all the six use-based categories exceeded their respective pre-Covid levels in June 2022. This was led by primary goods (+8.9%), intermediate goods (+7.9%), infrastructure/construction goods (+5.9%) and consumer non-durables (+5.7%), followed by a lower growth in consumer durables (+3.3%), and a marginal rise in capital goods (+0.5%). Interestingly, capital goods, consumer durables and consumer non-durables exceeded their respective pre-Covid levels in June 2022, for the first time in the current fiscal.
- In MoM terms, industrial output recorded a flattish growth of 0.1% in June 2022, with the contraction in mining output (-5.8%) and electricity (-1.5%) outweighing the uptick in manufacturing output (+1.3%). The sequential uptick in manufacturing in June 2022 (+1.3%) was marginally higher than the uptick in the generation of GST e-way bills (+1.2%). Moreover, three of the six use-based categories witnessed a lower output in June 2022 relative to May 2022, namely primary goods (-3.8%), infrastructure/ construction goods (-2.7%), and intermediate goods (-2.9%). In contrast, the other three categories recorded an MoM growth in June 2022, i.e. consumer durables (+9.3%), consumer non-durables (+6.5%), and capital goods (+7.1%).
- While the YoY growth in the IIP (+19.6%), manufacturing (+20.6%) and electricity (+23.5%) was unchanged, that for mining (to +11.2% from +10.9%) was revised upwards for May 2022. Amongst the use-based categories, the performance of capital goods (+54.4% vs. +54.0%), consumer non-durables (+1.0% vs. +0.9%), and primary goods (+17.8% vs. +17.7%) was revised upwards. In contrast, the growth for intermediate goods (+17.5% vs. +17.9%), consumer durables (+58.4% vs. +58.5%) and infrastructure/construction goods (+18.1% vs. +18.2%) has been revised downwards in May 2022.
- In quarterly terms, the YoY IIP growth rose to 12.7% in Q1 FY2023 (+44.4% in Q1 FY2022) from 1.8% in Q4 FY2022 (+6.0% in Q4 FY2021), led by manufacturing (to +12.7% in Q1 FY2023 from +1.2% in Q4 FY2022), mining (to +8.9% from +3.8%), and electricity (to +17.1% from +3.9%), reflecting the favourable base-effect. Additionally, among the use-based categories, consumer durables and non-durables recorded a growth of 26.6% and 1.1%, respectively, in Q1 FY2023, in contrast to the contraction of 5.7% and 2.7%, respectively, in Q4 FY2022. Moreover, the remaining use-based categories recorded a base-effect led spike in their respective quarterly performance; capital goods (to +29.4% in Q1 FY2023 from +1.9% in Q4 FY2022), primary goods (to +13.9% from +4.0%), intermediate goods (to +11.7% from +2.8%), and infrastructure/construction goods (to +9.8% from +7.0%).
- Additionally, relative to the pre-Covid level of Q1 FY2020, the IIP recorded a growth of 4.9% in Q1 FY2023, with a broad-based trend across electricity (+15.2%), mining (+7.9%), and manufacturing (+3.0%). However, among the use-based categories, capital goods (-4.8%), consumer durables (-8.6%) and consumer non-durables (-1.3%) trailed their respective pre-Covid volumes in Q1 FY2023.

## OUTLOOK

As expected, the YoY growth of most available high frequency indicators moderated further in July 2022 relative to June 2022, as the base effect faded. This subset includes indicators such as Coal India Limited's output (to a four-month low +11.1% in July 2022 from +28.9% in June 2022), electricity generation (to a six-month low +2.2% from +16.7%), rail freight traffic (to a four-month low +8.3% from +11.3%), generation of GST e-way bills (to a four-month low +17.8% from +36.2%), vehicle registrations (to a five-month low -7.8% from +26.3%), petrol consumption (to a four-month low +6.8% from +23.2%), diesel consumption (to a three-month low +8.2% from +23.9%) and non-oil merchandise exports (to a 20-month low +0.5% from +10.3%; as per the provisional data released by the Ministry of Commerce and Industry). In contrast, the performance of ports cargo traffic (to a 13-month high +15.0% from +13.6%) and finished steel consumption (to a 13-month high +14.1% from +5.9%) recorded an improvement between these two months.

Given the moderation in the YoY performance recorded by most high frequency indicators in July 2022, we expect the IIP growth to ease to high single digits in that month. Overall, industrial growth is expected to moderate to single digits in Q2 FY2023 from 12.7% in Q1 FY2023, as the base effect dissipates.

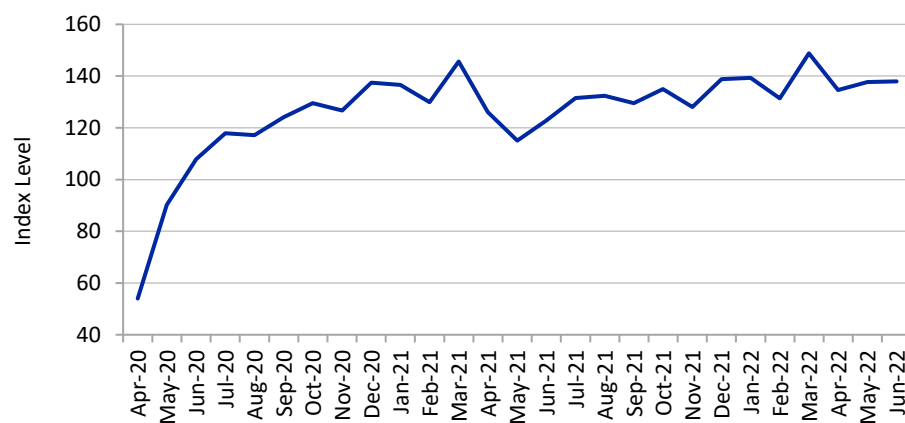
Consumer confidence levels improved in the July 2022 round of the RBI's consumer confidence survey with majority of the households reporting a rise in their current spending as well as expectations of the trend to continue for the year ahead. Besides, households' current, three months and one-year ahead inflation expectations also moderated in July 2022 as compared to the May 2022 round. Nevertheless, we believe that the demand for consumer goods is likely to remain tentative amidst a shift in preferences towards the consumption of services, aided by pent-up demand and a normalisation of behaviours. In addition, the sharp slowdown in non-oil merchandise exports in July 2022 points to slowing external demand (which is also corroborated by the downward revision in global growth projections by the IMF in July 2022); a persistence of this trend is likely to temper the performance of India's manufacturing sector.

### EXHIBIT 1: Trend in IIP Growth

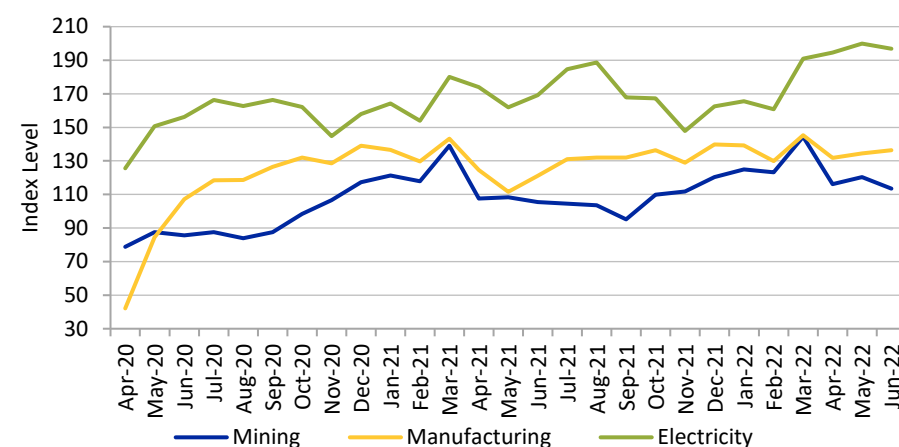
		Sectoral			Use-Based Classification					
	IIP	Mining	Manufacturing	Electricity	Primary	Capital	Intermediate	Infra/ construction	Durables	Non-Durables
Weight	100.0%	14.4%	77.6%	8.0%	34.0%	8.2%	17.2%	12.3%	12.8%	15.3%
YoY (%)										
May-22	19.6%	11.2%	20.6%	23.5%	17.8%	54.4%	17.5%	18.1%	58.4%	1.0%
June-22	12.3%	7.5%	12.5%	16.4%	13.7%	26.1%	11.0%	8.0%	23.8%	2.9%
MoM (%)										
May-22	2.3%	3.6%	2.0%	2.8%	3.9%	6.8%	1.5%	2.1%	2.3%	-1.6%
June-22	0.1%	-5.8%	1.3%	-1.5%	-3.8%	7.1%	-2.9%	-2.7%	9.3%	6.5%
Quarterly Growth (%)										
Q1 FY2023 vs. Q1 FY2022	12.7%	8.9%	12.7%	17.1%	13.9%	29.4%	11.7%	9.8%	26.6%	1.1%
Q1 FY2023 vs. Q1 FY2020	4.9%	7.9%	3.0%	15.2%	9.8%	-4.8%	12.4%	7.4%	-8.6%	-1.3%
June-22 vs. June-19	6.7%	6.5%	5.7%	13.4%	8.9%	0.5%	7.9%	5.9%	3.3%	5.7%

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

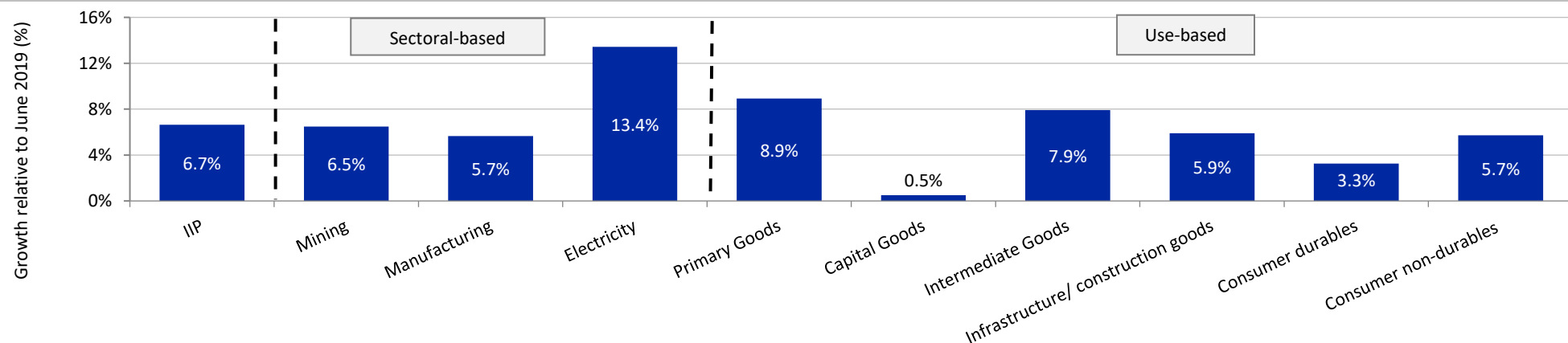


**EXHIBIT 2: Trend in IIP since April 2020**


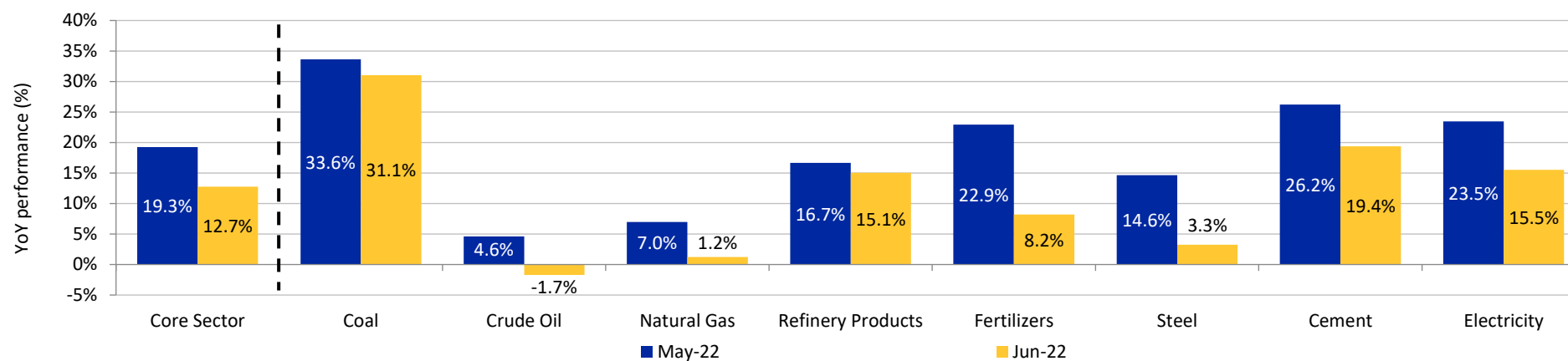
Source: NSO; CEIC; ICRA Research

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


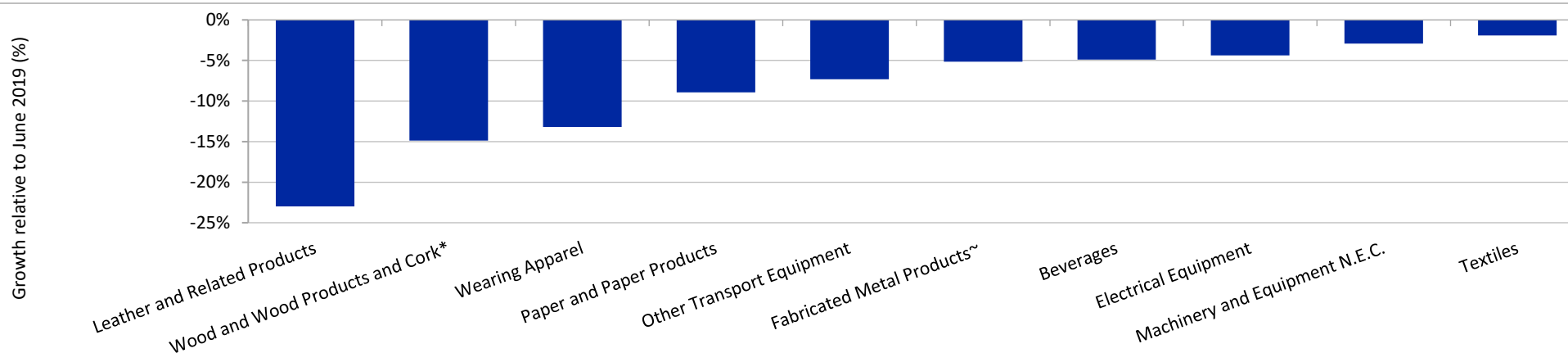
Source: NSO; CEIC; ICRA Research

**EXHIBIT 4: Trend in performance of IIP and its sub-components in June 2022 relative to June 2019**


Source: NSO; CEIC; ICRA Research

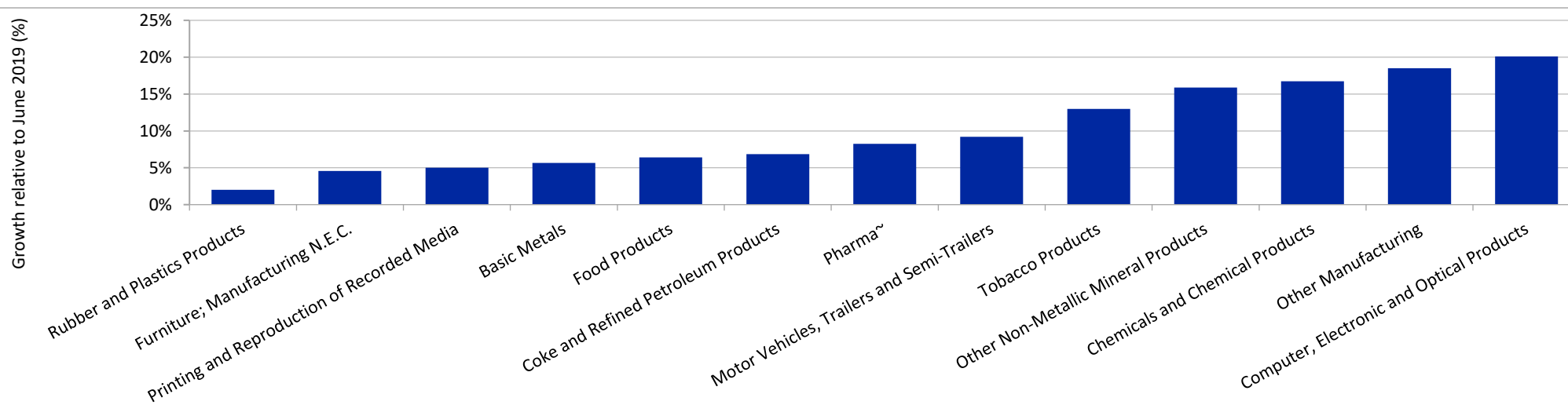
**EXHIBIT 5: YoY performance of core sector and its sub-components in May 2022 and June 2022**


**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 June 2022 relative to June 2019 (PART-I)**


\*ex Furniture; Articles of Straw and Plaiting Materials; ~ex Machinery and Equipment; **Source:** NSO; CEIC; ICRA Research

**EXHIBIT 7: Trend in performance of manufacturing sub-sectors in June 2022 relative to June 2019 (PART-II)**



~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 (%)
<b>Primary Goods (Wt.=34.0%)</b>	Diesel	Coke and refined petroleum products	5.71	<b>Infrastructure /Construction Goods (Wt.=12.3%)</b>	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
<b>Capital Goods (Wt.=8.2%)</b>	Commercial Vehicles	Motor vehicles, trailers and semi-trailers	0.94	<b>Consumer Durables (Wt.=12.8%)</b>	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
<b>Intermediate Goods (Wt.=17.2%)</b>	Naphtha	Coke and refined petroleum products	1.15	<b>Consumer Non-durables (Wt.=15.3%)</b>	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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## Business Contacts

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

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

## Media and Public Relations

Ms. Naznin Prodhani  
E-mail: [Communications@icraindia.com](mailto: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](mailto:Info@icraindia.com)

**Helpdesk:** 9354738909

**Website:** [www.icra.in/](http://www.icra.in/) [www.lcraresearch.in](http://www.lcraresearch.in)