



INDEX OF INDUSTRIAL PRODUCTION July 2022

**IIP growth plunged to four-month low
2.4% in July 2022, led by normalising base
and heavy rainfall**

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HIGHLIGHTS



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The pace of IIP growth eased to a four-month low 2.4% in July 2022, dampened by sharp contraction in mining output

All the use-based categories recorded a moderation in their YoY growth in July 2022

The IIP exceeded the pre-Covid level of July 2019 by a modest 2.1% in July 2022, with consumer goods trailing the July 2019 levels

We expect the IIP growth to rise by ~4-6% in August 2022

The year-on-year (YoY) growth in the Index of Industrial Production (IIP) plunged to a four-month low 2.4% in July 2022, trailing our forecast of 4%, a fallout of the base normalisation, heavy rainfall in some areas, and the shift in discretionary consumption to contact-intensive services. The sharp YoY contraction in mining output (-3.3%) in July 2022 was a surprise, given the double-digit growth in coal output, and is likely to have been led by the excess rainfall seen during the month. Moreover, industrial output was only 2.1% higher than pre-Covid levels of July 2019, with the consumer durables and non-durables segment lagging their pre-Covid levels by 6.8% and 2.5%, respectively. Available data points to a mixed trend in August 2022, with several high frequency indicators such as passenger vehicles (PV) and two-wheeler (2W) output, vehicle registration, GST e-way bill generation and steel consumption displaying an encouraging sequential uptick in growth, whereas coal output, rail freight and ports cargo traffic and non-oil exports moderated on the back of factors such as continued base normalisation, and some flagging in external demand. On balance, we expect the IIP to report a ~4-6% YoY growth in August 2022.

- IIP growth declined to four-month low of 2.4% in July 2022:** The IIP growth moderated to 2.4% in July 2022 from 12.7% in June 2022, led by a broad-based deterioration across all the sub-sectors, such as manufacturing (to +3.2% in July 2022 from +13.0% in June 2022), mining (to -3.3% from +7.8%), and electricity generation (to +2.3% from +16.4%). The moderation was largely expected given the base normalisation and heavy rainfall in several parts of the country in the month. However, the contraction in mining output came as a surprise given the double-digit expansion in coal output seen in July 2022.
- All use-based categories displayed a moderation in YoY performance in July 2022:** Among the use-based categories, all the sub-indices displayed a deterioration in their YoY growth performance in July 2022, including primary goods (to +2.5% from +13.8%), capital goods (to +5.8% from +29.1%), intermediate goods (to +3.6% from +10.5%), infrastructure/construction goods (to +3.9% from +9.3%), consumer durables (to +2.4% from +25.1%) and consumer durables (to -2.0% from +3.0%).
- The IIP exceeded the pre-Covid level by a modest 2.1% in July 2022:** The output of electricity (+10.8%), manufacturing (+1.1%) and mining (+0.9%) all exceeded their corresponding pre-Covid levels in July 2022. Further, ten of the 23 sub-segments within manufacturing (with a substantial weight of 41.3% in the IIP) recorded a higher output in July 2022 as compared to the July 2019 levels. Among the six use-based categories, the consumer durables and non-durables segments lagged their pre-Covid levels by 6.8% and 2.5%, respectively, reflecting the weakness in demand for goods amid a shift in consumption preferences to contact-intensive services.
- IIP to rise by ~4-6% in August 2022:** The available high frequency indicators point to a mixed trend in August 2022 with indicators such as PV and two-wheeler output, vehicle registration, GST e-way bill generation, steel consumption etc. displaying an encouraging sequential uptick in growth, whereas coal output, rail freight and ports cargo traffic etc. moderated on the back of factors such as continued base normalisation, and some flagging in external demand. Overall, we expect the IIP growth to print at ~4-6% in August 2022.

OVERVIEW

- The IIP growth plunged to a four-month low 2.4% in July 2022 from 12.7% in June 2022, trailing our expectation of 4.0%. This was led by base normalisation, heavy rainfall in some areas, and the shift in discretionary consumption to contact-intensive services. The YoY rise in the broader IIP was lower than that for the core sector output (with a weight of 40.3% in the IIP), which had reported a six-month low YoY growth of 4.5% in July 2022.
- The moderation in the YoY IIP growth in July 2022 relative to June 2022 was broad-based across the three sectors, namely mining (to -3.3% in July 2022 from +7.8% in June 2022), manufacturing (to +3.2% from +13.0%), and electricity generation (to +2.3% from +16.4%).
- Surprisingly, the output of the mining sector slipped into a YoY contraction of 3.3% in July 2022 (+7.8% in June 2022), after a gap of 16 months, despite the double-digit growth in coal output in July 2022 (+11.3%) even as it did moderate from June 2022 (+32.1%). The output of natural gas recorded a YoY contraction of 0.3% in July 2022 (+1.2% in June 2022) after a gap of 16 months. Additionally, the YoY performance of crude oil (to -3.7% in July 2022 from -1.6% in June 2022; refer Exhibit 5) recorded a deterioration in July 2022, relative to the previous month.
- Additionally, the YoY growth in manufacturing output eased to a four-month low 3.2% in July 2022 from 13.0% in June 2022. Notably, 14 of the 23 sub-sectors of manufacturing (with a substantial weight of 53.8% in the IIP) displayed a YoY growth in July 2022, while nine sub-sectors (with a weight of 23.8% in the IIP) witnessed a contraction in that month. Moreover, as many as 21 of the 23 sub-sectors of manufacturing (with a substantial weight of 72.5% in the IIP) recorded a deterioration in the YoY performance in July 2022 relative to June 2022; this sub-set includes beverages (to +13.7% in July 2022 from +45.6% in June 2022), food products (to -2.0% from +4.1%), motor vehicles, trailers and semi-trailers (to +17.8% from +31.2%), leather and related products (to -12.8% from +1.3%; amidst a sharp deceleration in exports of leather and leather manufactures), textiles (to -8.6% from -2.9%, following a 22.8% YoY contraction in textile exports in July 2022), wearing apparel (to +15.2% from +42.6%, partly on account of a 0.6% YoY decline in readymade garment exports in July 2022), wood and wood products (to +8.1% from +13.2%), machinery and equipment N.E.C. (to +4.0% from +19.6%), basic metals (+6.1% from +7.2%), coke and refined petroleum products (to +7.2% from +17.4%), other transport equipment (to +0.5% from +36.2%), etc. In contrast, only furniture (to +34.9% from +34.5%) and pharma, medicinal chemical and botanical products (to -3.5% from -3.9%; with the continued contraction on account of a 1.1% decline in pharma exports in July 2022) recorded an improvement in their YoY performance in July 2022, relative to June 2022.
- Similarly, the pace of YoY expansion in electricity generation moderated to a six-month low 2.3% in July 2022 from 16.4% in June 2022, reflecting a combination of a high base as well as lower demand owing to the excess rainfall recorded in that month (117% of LPA in July 2022). As per the data released by the Central Electricity Authority, the YoY growth in thermal electricity generation dipped to a four-month low 2.1% in July 2022 from 23.6% in June 2022. In contrast, hydroelectricity generation reverted to a mild YoY expansion of 3.8% in July 2022 after contracting by 12.9% in June 2022, as reservoir levels were 9.0% higher than the corresponding year-ago levels as on July 28, 2022.
- All the six use-based categories recorded a broad-based deterioration in their YoY performance in July 2022 relative to June 2022, given the normalising base. The output of consumer non-durables slipped into a sobering YoY contraction of 2.0% in July 2022, after a gap of two months (+3.0% in June 2022). Additionally, infrastructure/construction goods output eased in July 2022 (to a seven-month low +3.9% from +9.3% in June 2022), in line with the deterioration in the output growth of the cement sector (to an eight-month low +2.0% in July 2022 from +19.7% in June 2022), even as the steel sector recorded an improvement (to +5.7% from +3.7%).

- Moreover, the YoY expansion in primary goods eased to a six-month low 2.5% in July 2022 from 13.8% in June 2022. In addition, the YoY growth for three of the six use-based categories eased to a four-month low each in July 2022; this includes intermediate goods (to +3.6% in July 2022 from +10.5% in June 2022), capital goods (to +5.8% from +29.1%) and consumer durables (to +2.4% from +25.1%).
- The IIP recorded a modest growth of 2.1% in July 2022 relative to the pre-Covid levels of July 2019, led by the growth in electricity (+10.8%), followed by a relatively muted growth in mining (+0.9%) and manufacturing (+1.1%). As many as 13 of the 23 sub-segments within manufacturing (with a substantial weight of 36.3% in the IIP) recorded a lower output in July 2022 as compared to the pre-covid levels; this subset includes leather and related products (-25.0%), tobacco products (-24.4%), computer, electronic and optical products (-21.7%), wearing apparel (-19.4%), other transport equipment (-12.4%), paper and paper products (-11.2%), fabricated metal products (-7.7%), textiles (-5.4%), etc. On the other hand, 10 of the 23 sub-sectors (with a weight of 41.3% in the IIP) recorded a higher output in July 2022 relative to July 2019; this sub-set includes basic metals (+10.2%), chemicals and chemical products (+9.8%), machinery and equipment (+9.3%), motor vehicles, trailers and semi-trailers (+8.9%), other non-metallic mineral products (+4.1%), printing and reproduction of recorded media (+2.5%), etc.
- Additionally, four of the six use-based categories exceeded their respective pre-Covid levels in July 2022. This includes infrastructure/construction goods (+7.1%), capital goods (+6.5%), intermediate goods (+6.1%), and primary goods (+2.8%). In contrast, consumer durables (-6.8%) and consumer non-durables (-2.5%) trailed their corresponding pre-Covid levels in July 2022, reflecting the weakness in demand for goods amid a shift in consumption preferences to contact-intensive services.
- In MoM terms, industrial output recorded a decline of 2.7% in July 2022, led by a contraction in the output of mining (-11.1%), electricity (-4.1%), and manufacturing (-1.2%). The sequential dip in manufacturing in July 2022 (-1.2%) was in contrast to the uptick in the generation of GST e-way bills (+1.5%). Moreover, five of the six use-based categories (apart from intermediate goods: +1.6%) witnessed a lower output in July 2022 relative to June 2022, namely capital goods (-6.7%), primary goods (-5.5%), consumer durables (-3.0%), consumer non-durables (-2.1%), and infrastructure/ construction goods (-0.4%).
- The YoY growth in the IIP for June 2022 was revised upwards to 12.7% from the initial 12.3%. This was led by an upward revision in mining (to +7.8% from +7.5%) and manufacturing (to +13.0% from +12.5%), while the growth for electricity remained unchanged at 16.4% in June 2022. Amongst the use-based categories, the performance of capital goods (+29.1% vs. +26.1%), consumer non-durables (+3.0% vs. +2.9%), primary goods (+13.8% vs. +13.7%), infrastructure/construction goods (+9.3% vs. +8.0%), and consumer durables (+25.1% vs. +23.8%) was revised upwards in June 2022. In contrast, the growth for intermediate goods (+10.5% vs. +11.0%) for June 2022 has been revised downwards.

OUTLOOK

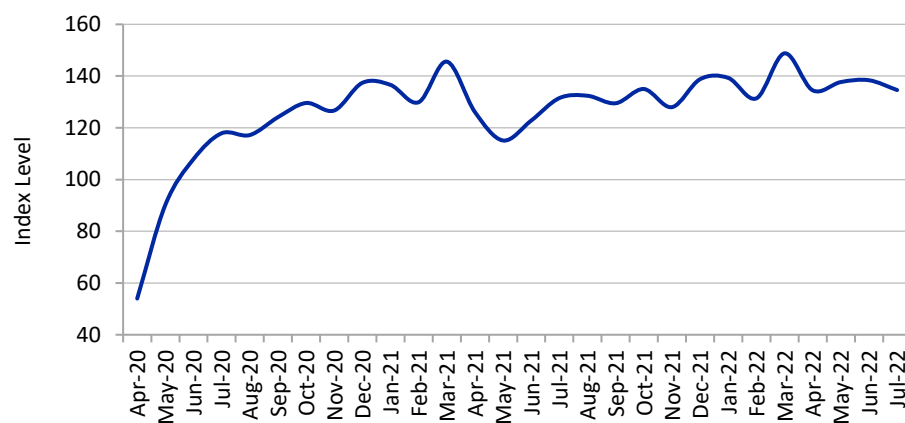
The YoY growth of several high frequency indicators improved in August 2022 relative to July 2022. This subset includes indicators such as output of PVs (to +25.0% in August 2022 from 7.7% in July 2022) and 2Ws (to +13.2% from 4.9%), vehicle registrations (to +5.5% from -7.5%), generation of GST e-way bills (to +18.7% from +17.8%), finished steel consumption (to +13.1% from +12.5%), petrol consumption (to +11.6% from +6.8%), and diesel consumption (to +13.0% from +8.2%). In contrast, Coal India Limited's output (to a five-month low +8.5% from +11.1%), electricity generation (to an 18-month low +0.9% from +2.4%; led by surplus rainfall), rail freight traffic (to a five-month low +7.9% from +8.3%), ports cargo traffic (to a four-month low +8.0% from +15.0%), and non-oil merchandise exports (to -2.2% from +0.8%, contracting after a gap of 23 months; as per the provisional data released by the Ministry of Commerce and Industry) recorded a deterioration in YoY performance in August 2022, relative to the previous month. While a normalising base led to a moderation in the YoY performance for some of the indicators in August 2022, the deterioration in ports cargo traffic and non-oil merchandise exports reflects the slowdown in external demand.

Overall, we expect the IIP to grow by ~4-6% in August 2022. In the ongoing quarter, we continue to expect that the demand for consumer goods to remain tentative amidst a shift in preferences towards the consumption of services, aided by pent-up demand, normalisation of behaviours and increased confidence for availing leisure and travel-related services owing to a wider vaccination coverage. This is expected to weigh on the growth in output of goods relative to that of services. In addition, flagging external demand, as evinced by the decline in merchandise exports in August 2022, is likely to temper the performance of India's manufacturing sector. Industrial growth is expected to moderate to single digits in Q2 FY2023 from 12.8% in Q1 FY2023, as the base effect dissipates.

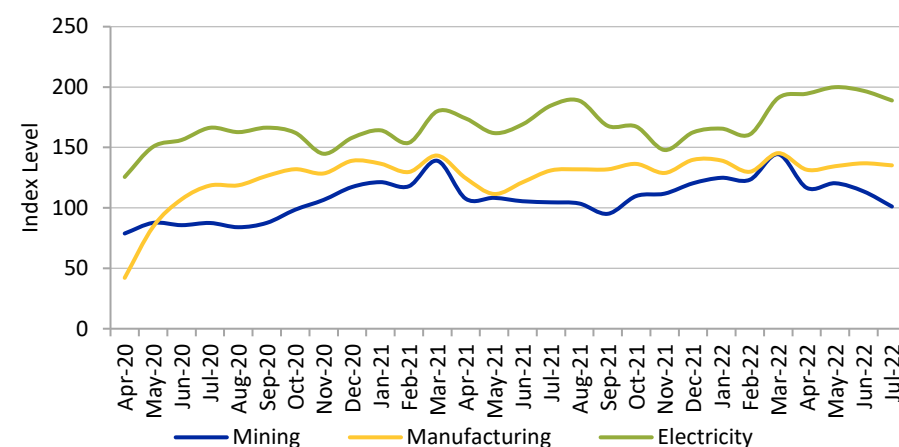
EXHIBIT 1: Trend in IIP Growth

		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 (%)										
June-22	12.7%	7.8%	13.0%	16.4%	13.8%	29.1%	10.5%	9.3%	25.1%	3.0%
July-22	2.4%	-3.3%	3.2%	2.3%	2.5%	5.8%	3.6%	3.9%	2.4%	-2.0%
MoM (%)										
June-22	0.5%	-5.6%	1.8%	-1.5%	-3.7%	9.6%	-3.4%	-1.5%	10.4%	6.6%
July-22	-2.7%	-11.1%	-1.2%	-4.1%	-5.5%	-6.7%	1.6%	-0.4%	-3.0%	-2.1%
July-22 vs. July-19	2.1%	0.9%	1.1%	10.8%	2.8%	6.5%	6.1%	7.1%	-6.8%	-2.5%

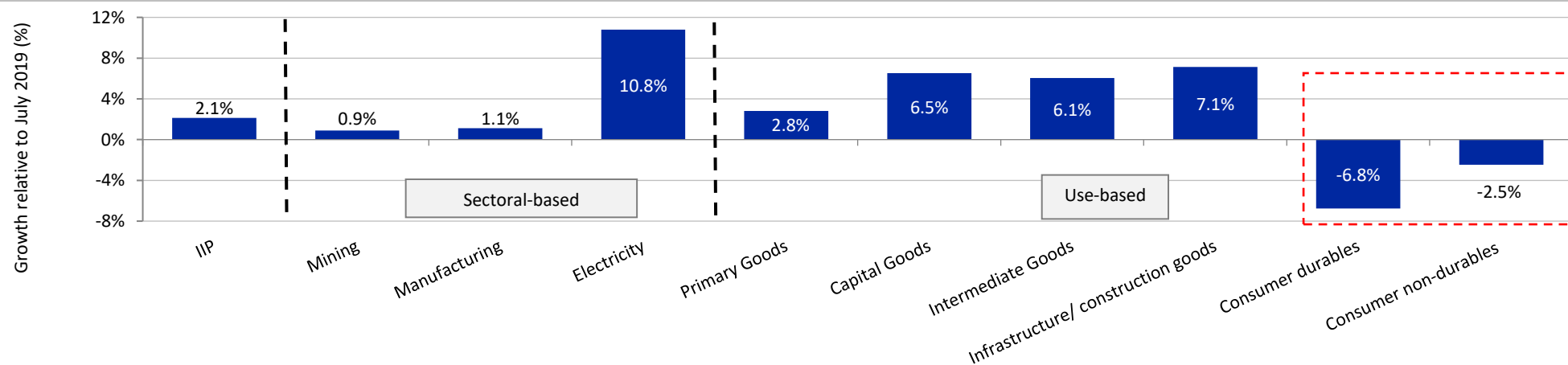
Source: National Statistical Office (NSO); CEIC; ICRA Research

EXHIBIT 2: Trend in IIP since April 2020


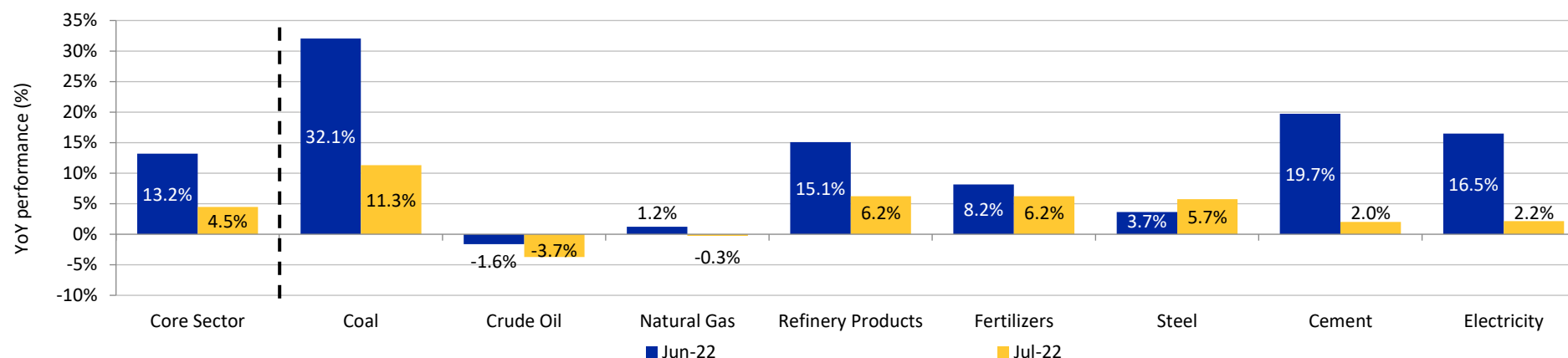
Source: NSO; CEIC; ICRA Research

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


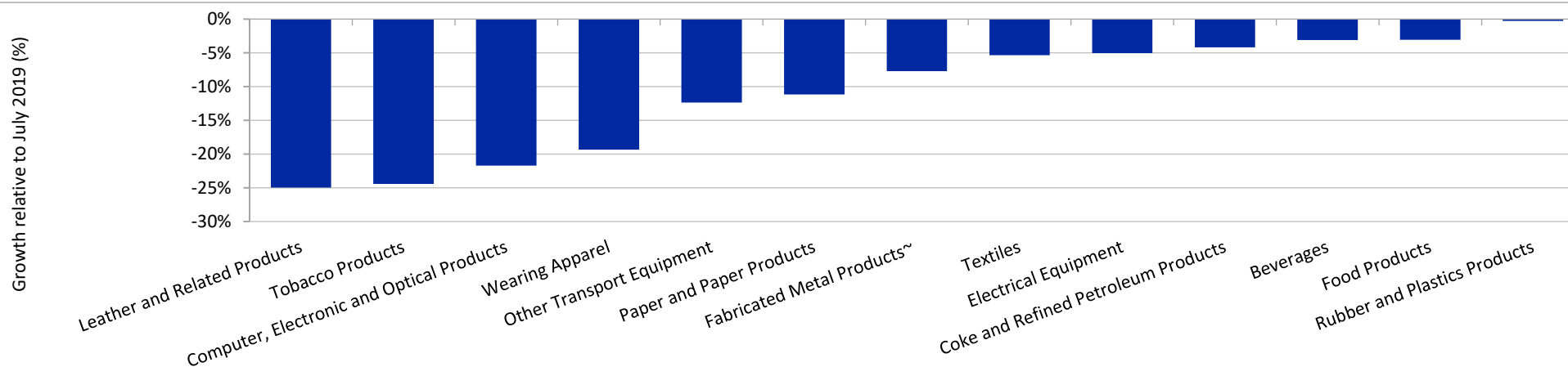
Source: NSO; CEIC; ICRA Research

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


Source: NSO; CEIC; ICRA Research

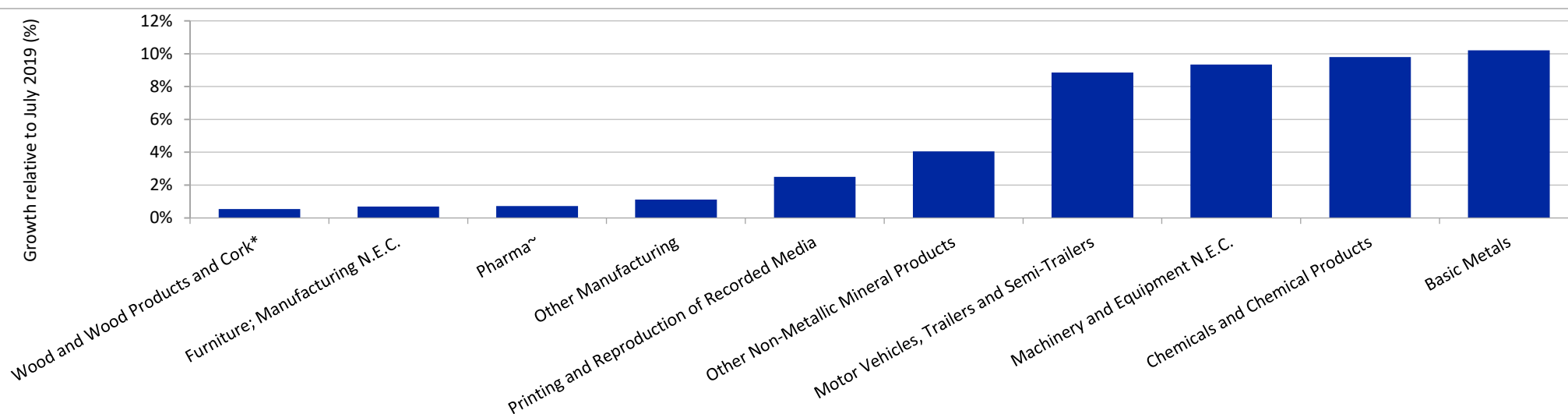
EXHIBIT 5: YoY performance of core sector and its sub-components in June 2022 and July 2022


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 July 2022 relative to July 2019 (PART-I)


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

EXHIBIT 7: Trend in performance of manufacturing sub-sectors in July 2022 relative to July 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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