



INDEX OF INDUSTRIAL PRODUCTION November 2022

IIP growth rebounded to stronger-than-anticipated 7.1% YoY in Nov 2022; expected to ease to low single digits in Dec 2022

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HIGHLIGHTS



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The IIP reverted to a YoY expansion of 7.1% in Nov 2022, from the contraction of 4.2% in Oct 2022

The output of all the six use-based categories recorded a YoY expansion in Nov 2022

IIP exceeded the pre-Covid level of Nov 2019 by 6.4% in Nov 2022, in spite of a drag from consumer durables

YoY growth of most available high frequency indicators moderated in Dec 2022 relative to Nov 2022; IIP growth is likely to ease to single digits in Dec 2022

The Index of Industrial Production (IIP) reverted to a stronger-than-anticipated year-on-year (YoY) growth of 7.1% in November 2022 (ICRA's exp: +3.5%), as compared to the contraction of 4.2% in October 2022, led by a reversal of the base effect related to an early festive season. Given this, the print should be interpreted with caution; average growth in the IIP remained muted during October-November 2022, at 1.3% YoY, lower than 1.7% seen in Q2 FY2023. Fewer holidays in November 2022, relative to 2021 led to a broad-based improvement across all the sub-sectors as well as use-based categories in November 2022, vis-à-vis October 2022. Relative to the pre-Covid levels of 2019, the IIP reported a 6.4% rise in November 2022, in spite of consumer durables (-4.0%) trailing the pre-Covid volumes. However, the YoY growth of most available high frequency indicators has moderated in December 2022 relative to November 2022, partly reflecting an unfavourable base related to the post-festive season rebound seen in December 2021. In line with this, we expect the overall IIP growth to ease to low single digits in December 2022.

- **IIP surged by 7.1% YoY in November 2022:** Led by the late onset of the festive season in 2021 vis-à-vis 2022, the IIP reverted to a YoY growth of 7.1% in November 2022 (-4.2% in October 2022), led by a broad-based improvement across all the sub-sectors, i.e. manufacturing (to +6.1% from -5.9%), mining (to +9.7% from +2.5%), and electricity generation (to +12.7% from +1.2%). While the print was much higher than expectations, it should be assessed in tandem with the contraction seen in October 2022, given the shift in the holiday calendar; on average, growth remained muted during Oct-Nov 2022, at 1.3% on a YoY basis, slightly lower than the 1.7% rise seen in Q2 FY2023.
- **Output of all six use-based categories rose in November 2022:** All of the six use-based categories displayed an improvement in their YoY performance in November 2022, vis-à-vis October 2022. The output of intermediate goods (to +3.0% from -2.6%) and capital goods (to +20.7% from -1.7%) reverted to a YoY growth in November 2022. Further, the output of consumer non-durables (to +8.9% from -13.4%) and consumer durables (to +5.1% from -17.8%) posted a YoY growth after a gap of four and three months, respectively, in November 2022.
- **IIP exceeded the pre-Covid level by 6.4% in November 2022:** This was led by a double-digit expansion in electricity (+19.2%) followed by mining (+8.9%), and a relatively lower growth in manufacturing (+4.7%), relative to the pre-Covid levels of November 2019. As many as 11 of the 23 sub-segments within manufacturing (with a sizeable weight of 48.8% in the IIP) recorded a higher output in November 2022 as compared to the November 2019 levels. Output of five of the six use-based categories, barring consumer durables (-4.0%) exceeded their respective pre-Covid volumes in November 2022.
- **Early data for high frequency indicators in December 2022 is discouraging:** The YoY growth of most available high frequency indicators deteriorated in December 2022 relative to November 2022, partly reflecting an unfavourable base owing to the post-festive season rebound seen in December 2021. Consequently, we expect the IIP growth to moderate to low single digits in December 2022.

OVERVIEW

- The IIP reverted to a YoY growth of 7.1% in November 2022 (+1.0% in November 2021; ICRA's exp.: +3.5%), in contrast to the revised contraction of 4.2% in October 2022 (+4.2% in October 2021), reflecting the favourable base owing to the relatively late onset of the festive season in 2021 vis-à-vis 2022. The YoY expansion in the broader IIP exceeded the 5.4% YoY growth recorded in the core sector output (with a weight of 40.3% in the IIP) in November 2022, after a gap of five months.
- The improvement in the IIP in November 2022, relative to the previous month was broad-based across all the sectors, led by manufacturing (to +6.1% in November 2022 from -5.9% in October 2022), mining (to +9.7% from +2.5%), and electricity generation (to +12.7% from +1.2%), reflecting a favourable base.
- The manufacturing sector reverted to a five-month high YoY expansion of 6.1% in November 2022 (+0.3% in November 2021), after contracting by 5.9% in the previous month (+3.3% in October 2021), owing to the higher number of holidays in November 2021 vis-à-vis 2022. However, it continued to remain the worst performing sub-sector, with the YoY growth in output trailing that of the mining sector and electricity generation in the month. Notably, 16 of the 23 sub-sectors of manufacturing (with a substantial weight of 58.9% in the IIP) displayed a YoY growth in November 2022, while the output of seven sub-sectors (with a lower weight of 18.8% in the IIP) declined in that month. Moreover, all of the 23 sub-sectors of manufacturing (with a substantial weight of 65.9% in the IIP), apart from coke and refined petroleum products (to -9.8% in November 2022 from -1.0% in October 2022), recorded an improvement in their YoY performance in November 2022 relative to October 2022; this sub-set includes tobacco products (to -5.0% from -14.3%), machinery and equipment n.e.c. (to +20.8% from -7.2%), beverages (to +8.2% from +2.6%), basic metals (+8.1% from +4.4%), other non-metallic mineral products (to +19.8% from -3.7%), motor vehicles, trailers and semi-trailers (to +22.2% from +12.2%), etc.
- In addition, the YoY growth in the output of the mining sector rose to a six-month high 9.7% in November 2022 from 2.5% in October 2022. This was driven by an improvement in the YoY expansion of coal output to 12.3% in November 2022 (five-month high) from 3.7% in October 2022. Additionally, the YoY contraction in natural gas (to -0.7% from -4.2%), and crude oil (to -1.1% from -2.2%) also narrowed in November 2022, relative to October 2022 (refer Exhibit 5).
- The pace of YoY expansion in electricity generation rose to a five-month high 12.7% in November 2022 from 1.2% in October 2022, owing to a favourable base and higher demand on account of deficient post-monsoon rainfall in that month. As per the data released by the Central Electricity Authority, thermal electricity generation recorded a five-month high YoY expansion of 14.2% in November 2022 (-2.1% in October 2022). On the contrary, the YoY expansion in hydroelectricity generation eased to a five-month low 1.8% in November 2022 from 4.1% in October 2022, amidst a seasonal decline in reservoir storage levels (to 84% of FRL as on November 24, 2022 from 89% of FRL as on October 27, 2022).
- All the six use-based categories recorded a broad-based improvement in their YoY performance in November 2022 relative to October 2022. The output of intermediate goods (to a four-month high +3.0% in November 2022 from -2.6% in October 2022) and capital goods (to a five-month high +20.7% from -1.7%) reverted to a YoY expansion in November 2022, after contracting in the previous month. Additionally, the YoY expansion in infrastructure/construction goods (to a six-month high +12.8% from +1.1%) recorded an improvement in November 2022, relative to October 2022, led by trends in the output of cement (to a 15-month high +28.6% in November 2022 from -4.3% in October 2022) and steel (to a six-month high +10.8% from +6.5%) sectors. Moreover, the YoY growth in the output of primary goods rose to 4.7% in November 2022 from 2.0% in the previous month.

- Additionally, the output of consumer non-durables (to +8.9% in November from -13.4% in October 2022) and consumer durables (to +5.1% from -17.8%) recorded a YoY expansion in November 2022 after a gap of four and three months, respectively, led by a fewer number of holidays in November 2022 relative to November 2021. In addition, a YoY rise in exports of readymade garments (+11.9% YoY in November 2022) and drugs and pharmaceuticals (+8.7%) aided the growth in output of consumer durables and non-durables in November 2022.
- The IIP recorded a growth of 6.4% in November 2022 relative to the pre-Covid levels of November 2019, led by a double-digit expansion in electricity (+19.2%), followed by mining (+8.9%), and a relatively lower growth in manufacturing (+4.7%). As many as 11 of the 23 sub-segments within manufacturing (with a sizeable weight of 48.8% in the IIP) recorded a higher output in November 2022 as compared to the pre-Covid levels; this subset includes basic metals (over pre-Covid: +18.3%; weight: 12.8%), motor vehicles, trailers and semi-trailers (+14.9%; 4.9%), food products (+14.9%; 5.3%), chemicals and chemical products (+4.3%; 7.9%), etc. On the other hand, 12 of the 23 sub-sectors (with a relatively lower weight of 28.8% in the IIP) recorded a lower output in November 2022 relative to November 2019; this sub-set includes leather and related products (-19.1%; 0.5%), wearing apparel (-15.0%; 1.3%), textiles (-10.4%; 3.3%), coke and refined petroleum products (-9.8%; 11.8%), electrical equipment (-6.3%; 3.0%), etc.
- In addition, five of the six use-based categories (apart from consumer durables: -4.0%) exceeded their respective pre-Covid levels in November 2022. The output of infrastructure/construction goods (+18.7%) reported a double-digit growth over pre-Covid levels of November 2019, followed by capital goods (+8.8%), consumer non-durables (+7.3%; after trailing the corresponding pre-Covid levels in the previous four months), primary goods (+6.4%), and intermediate goods (+3.3%).
- Industrial output reported a sequential uptick of 6.0% in November 2022, driven by the MoM rise in the output of manufacturing (+6.5%, higher than the MoM rise of 5.0% seen in the generation of GST e-way bills) and mining (+9.1%), partly offsetting the sequential decline in electricity generation (-1.5%) in that month. Additionally, all of the six use-based categories witnessed a higher output in November 2022 relative to October 2022, with consumer non-durables (+24.2%) and capital goods (+12.2%) recording a double-digit MoM uptick, followed by consumer durables (+5.2%) and infra/construction goods (+2.8%), while intermediate goods (+1.6%) and primary goods (+1.1%) witnessed a muted growth.
- The YoY contraction in the IIP for October 2022 was revised mildly downwards to 4.2% from the initial 4.0%, led by manufacturing (-5.9% vs. -5.6%). Amongst the use-based categories, there was a downward revision in the performance of consumer durables (-17.8% vs. -15.3%), In contrast, the YoY expansion in infrastructure/construction goods (+1.1% vs. +1.0%), capital goods (-1.7% vs. -2.3%), and intermediate goods (-2.6% vs. -2.8%) was revised upwards for October 2022.

OUTLOOK

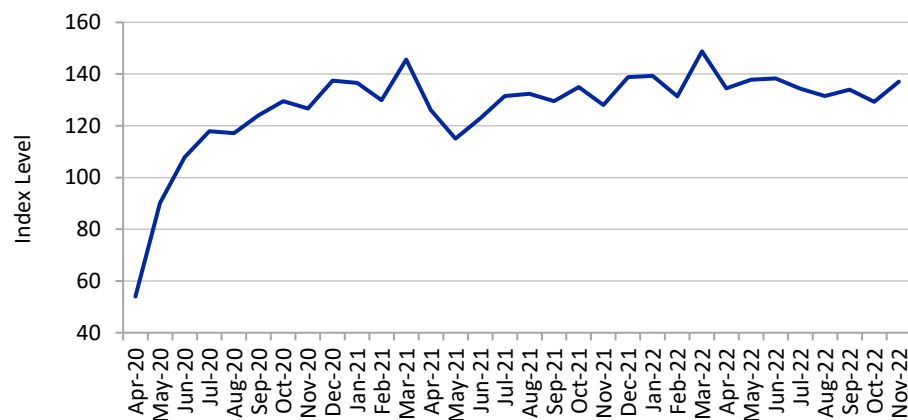
The YoY growth of most available high frequency indicators moderated in December 2022 relative to November 2022, partly reflecting an unfavourable base owing to the post-festive season rebound seen in December 2021. This subset includes indicators such as generation of GST e-way bills (to +17.5% in December 2022 from +32.0% in November 2022), Coal India Limited's output (to +8.2% from +10.3%) finished steel consumption (to +8.2% from +12.3%), diesel consumption (to +6.5% from +19.2%), petrol consumption (to +5.9% from +8.2%), rail freight traffic (to +3.1% from +5.2%) and vehicle registrations (to a five-month low -5.1% from +18.7%, owing to some satiation in demand after the festive season). In contrast, the YoY growth in ports cargo traffic rose to a three-month high of 10.4% in December 2022 from 2.0% in November 2022, led by coking coal, iron ore and fertilisers even as container cargo contracted for the fourth consecutive month.

In line with the deterioration in the YoY expansion for most high frequency indicators, we expect the overall IIP growth to moderate to low single digits in December 2022, partly reflecting the high base. Overall, we expect the YoY growth in the IIP to remain muted in Q3 FY2023 (+1.7% YoY in Q2 FY2023), led by the continued base normalisation as well as the impact of a flagging external demand on the performance of the manufacturing sector.

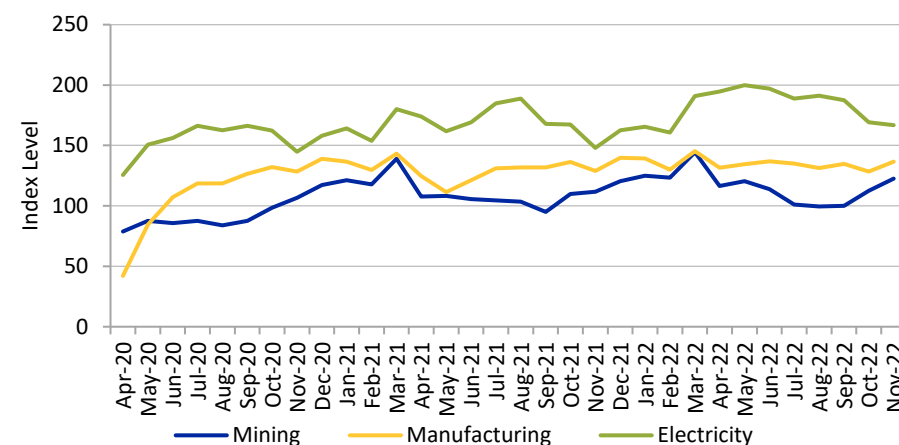
Exhibit 1: Trend in IIP Growth

| | | 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 (%) | | | | | | | | | | |
| October-22 | -4.2% | 2.5% | -5.9% | 1.2% | 2.0% | -1.7% | -2.6% | 1.1% | -17.8% | -13.4% |
| November-22 | 7.1% | 9.7% | 6.1% | 12.7% | 4.7% | 20.7% | 3.0% | 12.8% | 5.1% | 8.9% |
| MoM (%) | | | | | | | | | | |
| October-22 | -3.5% | 12.5% | -4.8% | -9.7% | 2.1% | -15.0% | -1.4% | -0.6% | -16.0% | -6.0% |
| November-22 | 6.0% | 9.1% | 6.5% | -1.5% | 1.1% | 12.2% | 1.6% | 2.8% | 5.2% | 24.2% |
| Nov-22 vs. Nov-19 | 6.4% | 8.9% | 4.7% | 19.2% | 6.4% | 8.8% | 3.3% | 18.7% | -4.0% | 7.3% |

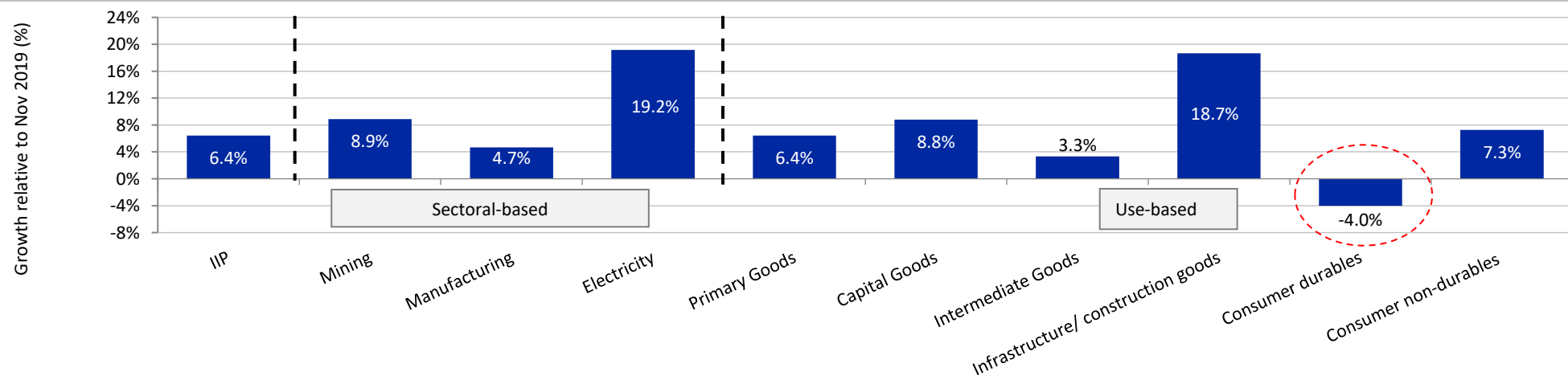
Source: National Statistical Office (NSO); CEIC; ICRA Research

Exhibit 2: Trend in IIP since April 2020


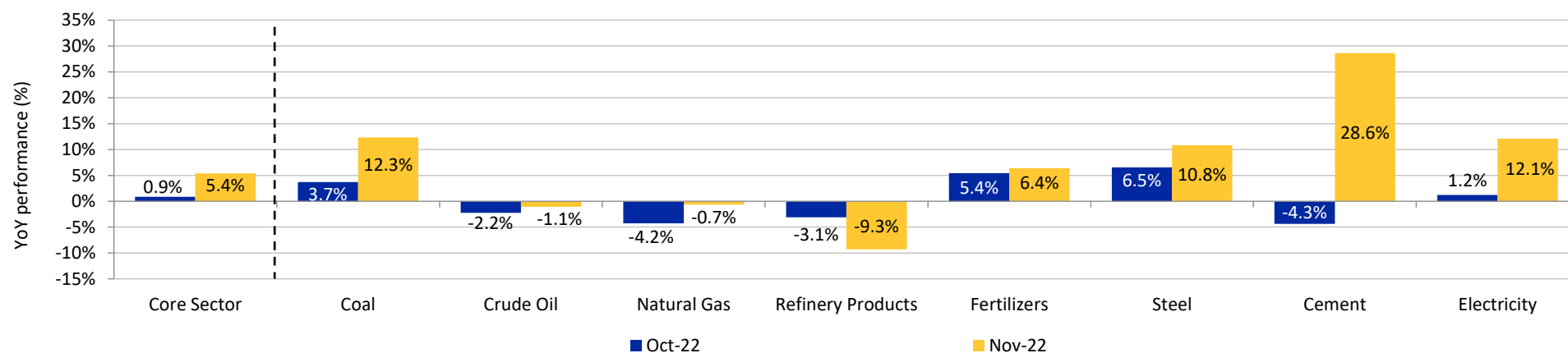
Source: NSO; CEIC; ICRA Research

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


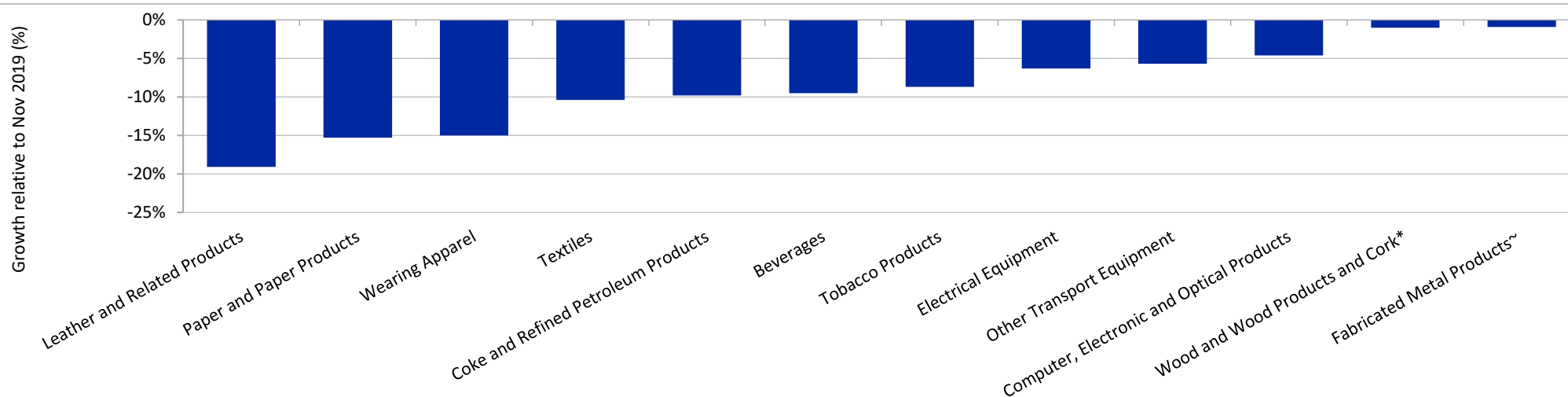
Source: NSO; CEIC; ICRA Research

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


Source: NSO; CEIC; ICRA Research

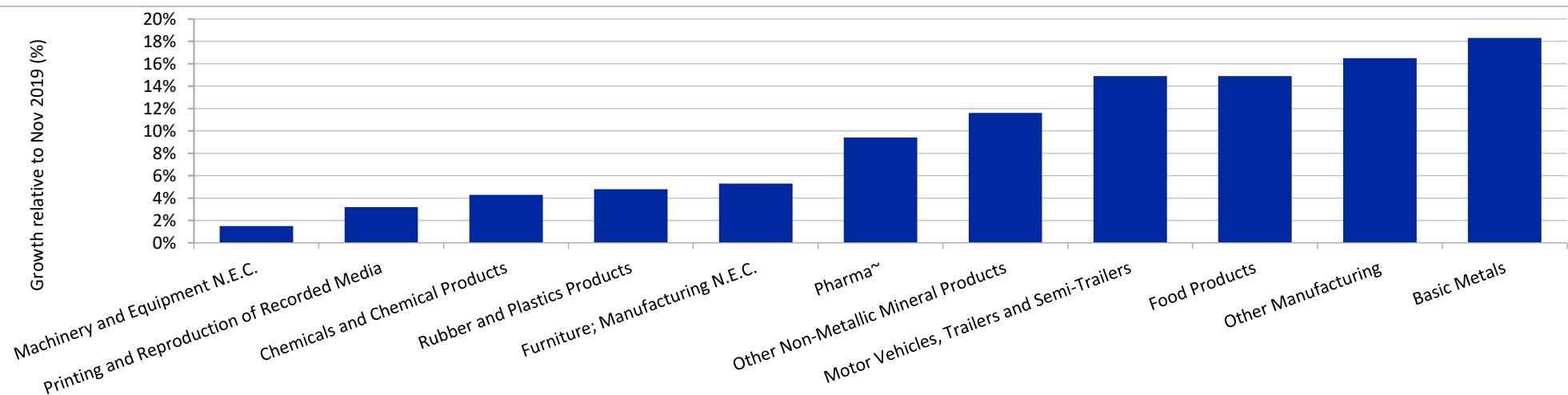
Exhibit 5: YoY performance of core sector and its sub-components in October 2022 and November 2022


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 November 2022 relative to November 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 November 2022 relative to November 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 (%) |
|---|--|--|------------|---|---|--|------------|
| 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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