

IIP

10 December 2021

Industrial activity stabilizing

Industrial output increased marginally by 3.2% in Oct'21 from 3.1% in Sep'21. Both mining and electricity expanded at a faster pace, while manufacturing output eased. Only production of primary goods and consumer non-durables rose, while others fell. Consumer durable output contracted to a 14-month low in Oct'21. Recovery in domestic demand implies IIP should improve in the coming months, however downside risks to recovery remain on account of Omicron and semi-conductor shortage.

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IIP steady: Industrial output in Oct'21 rose a tad to 3.2% in Oct'21 from 3.1% in Sep'21. Steep gains in mining (11.4% in Oct'21 versus 8.6% in Sep'21) and electricity (3.1% versus 0.9%) production were countered by easing manufacturing (2% versus 2.7%) output. Despite unfavourable base, headline IIP print was broadly stable in Oct'21. Even over a 2-year horizon, IIP index is now 7.8% above the pre-pandemic level. Recovery is broad-based with most gains seen in Electricity output (14.7%), followed by mining (10.3%) and manufacturing (6.7%).

Mixed trends: Within use-based classification, there has been a broad based decline across sectors. Consumer Durable output has contracted to a 14-month low of 6.1% in Oct'21 compared with a decline of 2% in Sep'21. Capital goods output also declined by 1.1% in Oct'21 compared with an increase of 1.3% in Sep'21. Infra and intermediate goods output seems to be losing momentum and moderated by 5.3% (7.4% in Sep'21) and 2.1% (4.9% in Sep'21) respectively in Oct'21. On the other hand, Primary goods output outshined as the output rose by 9% in Oct'21 (4.6% in Sep'21). Consumer non-durable output rebounded and rose by 0.5% compared with a decline of 0.5% in Sep'21. Over a 2-year horizon (pre-pandemic level), all the sectors registered improvement with consumer durables (up by 10.9%) and consumer non-durable goods (up by 7.9%) showing the sharpest improvement.

Downside risk emanating: During Apr-Oct'21, IIP rose by 20% compared with a decline of 17.3% in the same period over the previous year. Overall, IIP growth has improved on a 2-year basis as the economic activity has resumed pace. With pick up in government spending and steady pace of vaccination (more than 50% of the eligible population has already been vaccinated with two-doses) industrial output is expected to improve further. However, fear of new Covid-19 variant, weakening of exports and semiconductor shortage might impinge on this growth and remains key risks to our view.

Key highlights

- Industrial activity improved marginally to 3.2% in Oct'21 from 3.1% in Sep'21.
- Manufacturing output slowed.
- Only primary goods and consumer non-durables rose at faster pace than Sep'21.



Fig 1 – IIP growth steady

Sectoral (%)	Weight	Oct-21	Sep-21	Oct-20	Apr-Oct'21	Apr-Oct'20
IIP	100.0	3.2	3.1	4.5	20	(17.3)
Mining	14.4	11.4	8.6	(1.0)	20.4	(13.2)
Manufacturing	77.6	2.0	2.7	4.5	21.2	(19.4)
Electricity	8.0	3.1	0.9	11.2	11.4	(5.6)
Use-Based						
Primary Goods	34.1	9.0	4.6	(3.1)	14.8	(12.6)
Capital Goods	8.2	(1.1)	1.3	3.2	35.3	(34.4)
Intermediate Goods	17.2	2.1	4.9	3.2	27	(19.0)
Infrastructure and Construction Goods	12.3	5.3	7.4	10.9	31.2	(20)
Consumer Durables Goods	12.8	(6.1)	(2.0)	18.1	28.5	(31.5)
Consumer Non-Durables Goods	15.3	0.5	(0.5)	7.3	7.2	(6.1)

Source: CEIC, Bank of Baroda Research

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