

IIP

11 September 2021

Industrial activity continues to recover

Industrial output increased by 11.5% in Jul'21 from 13.6% in Jun'21. Electricity output expanded at a faster pace than Jun'21. Adjusting for the base, even mining and manufacturing output have been resilient. Capital and primary goods maintained sequential momentum. Only FMCG output has shown a contraction. Steady opening up of domestic economy and exports are likely to ensure that industrial activity improves further. Recovery in capital goods and durables will take time as these segments are 18.6% and 26.4% below Jul'19 level.

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IIP moderates: Industrial output eased marginally to 11.5% in Jul'21 from 13.6% in Jun'21. While mining and manufacturing output eased to 19.5% (from 23.1% in Jun'21) and 10.5% (13% in Jun'21) respectively, electricity output actually inched up to 11.1% in Jul'21 (8.3% in Jun'21). Adjusting for the base effect, even mining and manufacturing have been resilient in Jul'21. Over a 2-year horizon, IIP index is now only 0.3% lower and seems to have recouped the impact of second wave. Electricity and Mining output are now in positive territory over a 2-year period. Manufacturing output is still 2.1% below Jul'19 level.

FMCG output declines: Capital goods output rose by 29.5% in Jul'21 from 26.6% in Jun'21. Same was the case with primary goods index which increased by 12.4% in Jul'21 from 12% in Jun'21. While intermediate goods (14.1% versus 22.7%), infrastructure (11.6% versus 19.8%) and durables goods (20.2% versus 27.9%) segments seem to be losing momentum in Jul'21 versus Jun'21, adjusted for the base all these segments have been resilient. Only consumer non-durables output reported a decline in Jul'21 at 1.8% versus a decline of 4.3% in Jun'21. Over a 2-year horizon (pre-pandemic level), consumer durables (down by 26.4%) and capital goods (down by 18.6%) have shown the sharpest decline.

Rebound to sustain: During Apr-Jul'21, IIP rose by 34.1% compared with a decline of 29.3% in the same period over the previous year. The low base will also ensure higher growth rate in H1 (-20.7% in Apr-Sep'20). A steady pace of vaccination with as much as 60% of the country being vaccinated by Dec'21 and sustained growth in exports implies underlying revival in industrial output is likely to sustain. However, concerns over 3rd wave remains a risk to our view.

KEY HIGHLIGHTS

- Industrial activity eased marginally to 11.5% in Jul'21 from 13.6% in Jun'21.
- Electricity output maintained sequential momentum.
- Capital and primary goods grew at a faster pace than Jun'21.



FIG 1 – IIP GROWTH MODERATES

Sectoral (%)	Weight	Jul-21	Jun-21	Jul-20	Apr-Jul'22	Apr-Jul'21
IIP	100.0	11.5	13.6	(10.5)	34.1	(29.3)
Mining	14.4	19.5	23.1	(12.7)	25.3	(20.1)
Manufacturing	77.6	10.5	13.0	(11.4)	39	(32.9)
Electricity	8.0	11.1	8.3	(2.5)	15.2	(12.5)
Use-Based						
Primary Goods	34.1	12.4	12.0	(10.8)	18.5	(17.8)
Capital Goods	8.2	29.5	26.6	(22.8)	77.7	(55)
Intermediate Goods	17.2	14.1	22.7	(10.7)	50.5	(32.9)
Infrastructure and Construction Goods	12.3	11.6	19.8	(8.2)	57.2	(37.2)
Consumer Durables Goods	12.8	20.2	27.9	(23.7)	79.2	(56.4)
Consumer Non-Durables Goods	15.3	(1.8)	(4.3)	1.8	12	(12.1)

Source: CEIC, Bank of Baroda Research

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