

Industrial production growth eased in April but surpassed market expectations and historical trends

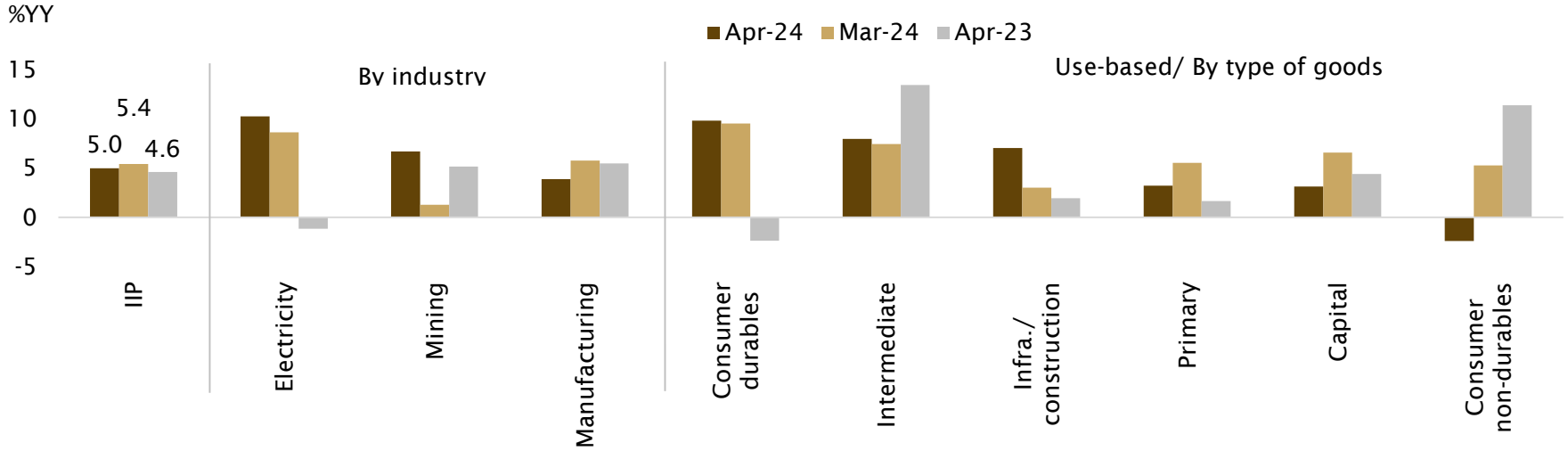
19 June, 2024

TRUST
In Partnership. With Trust.

Key takeaways

- Industrial production growth eased for the third consecutive month to 5.0%YY in April from 5.4% in March (revised up from 4.9%) but was higher than market expectations (Bloomberg estimate: 4.5%). The moderation in growth was driven by month-on-month decline in output in non-seasonally adjusted terms, even as base effect was favorable. However, data indicated positive momentum post seasonal adjustment.
- The moderation in year-on-year industrial production growth was in line with lower manufacturing output growth, even as mining and electricity sectors posted higher growth. In terms of use-based classification, there was moderation in production growth of capital and intermediate goods and decline in consumer non-durable goods output. Primary and infrastructure goods posted higher growth.
- For the month of May, base effect will be unfavorable, so improvement in year-on-year growth will need to be driven by momentum in economic activity. Past data indicates such improvement in May after month-on-month decline in April. High frequency data indicators for May presently paint a mixed picture, while RBI's latest Survey of Professional Forecasters indicates stable growth for the quarter at around April's print of 5%.
- The government's continued thrust on capital expenditure is expected to support industrial activity. The green shoots of revival in rural consumption augur well for improvement in private consumption. Improved prospects for global trade are starting to reflect in PMI export orders. However, higher input costs, lagged impact of monetary tightening, including regulations to tame credit growth pose risks to economic activity.

Moderation in industrial production growth in April due to lower manufacturing output growth



Easing in production growth due to month-on-month drop in output

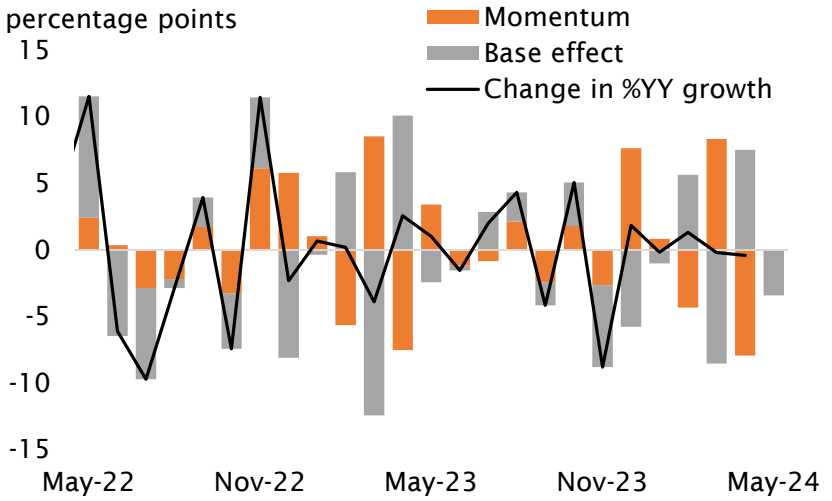
- The moderation in industrial output growth in April (5.0%YY) compared to the previous month (5.4%) was due to 7.6% month-on-month decline in output in non-seasonally adjusted terms, even as base effect was favorable. However, the drop in production was lower than the historical average for the month (FY14-24, excl. FY21-22) at around 11%. On a seasonally adjusted basis (accounting for uneven dates of the festive season), production growth was positive month-on-month after declining in March, and the momentum, as measured by 3-month/3-month annualized rate, was higher.
- In terms of sectors, higher momentum was driven by electricity, while by type of goods, improvement in momentum was noted in case of primary, capital and infrastructure goods. Within manufacturing, momentum either weakened or was negative in 13 of 23 sub-sectors.

%YY	Weights	Feb-24	Mar-24	Apr-24
Industrial production	100.0	5.6	5.4	5.0
Sector-based classification				
Mining	14.4	8.1	1.3	6.7
Electricity	8.0	7.5	8.6	10.2
Manufacturing	77.6	4.9	5.8	3.9
Use-based/type of goods				
Primary goods	34.0	5.9	3.0	7.0
Capital goods	8.2	1.0	6.6	3.1
Intermediate goods	17.2	8.7	5.5	3.2
Infra. /construction	12.3	8.5	7.4	8.0
Consumer durables	12.8	12.4	9.5	9.8
Consumer non-durables	15.3	-3.5	5.3	-2.4

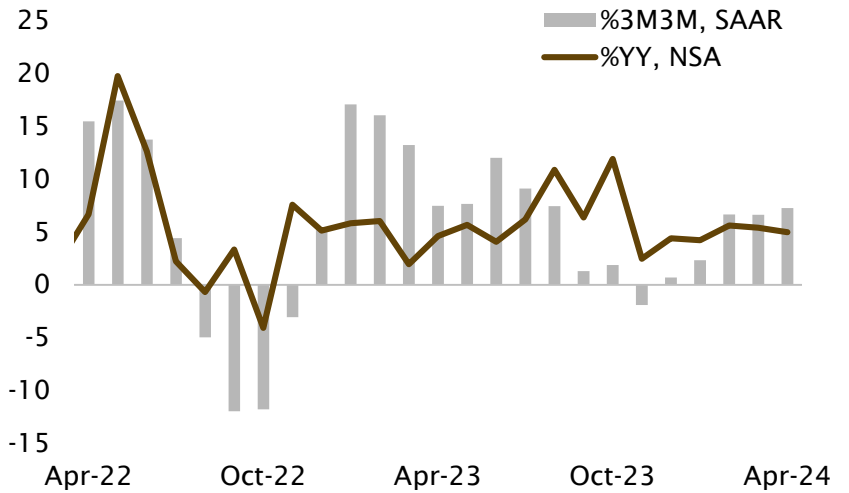
Note: Color code is based on %3M3M, SAAR data.

Red denotes high momentum, blue indicates the opposite.

Negative momentum drove easing in output growth



Industrial output growth eased for third straight month



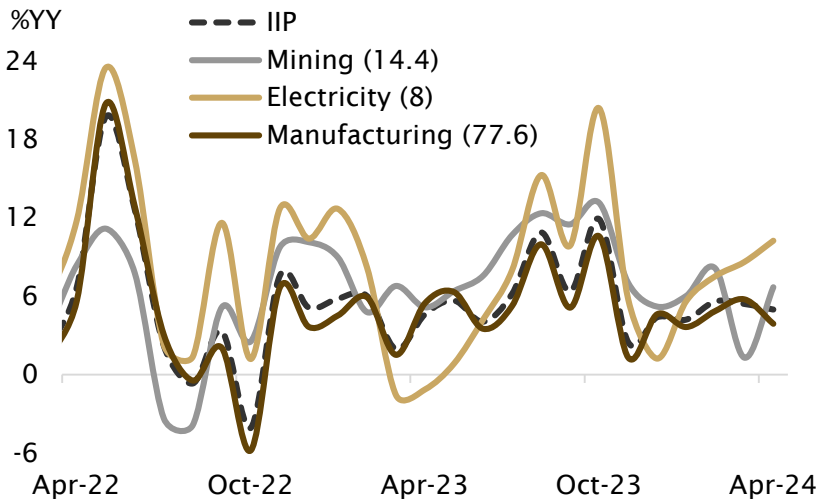
Lower manufacturing production drove overall easing in output

- The moderation in industrial production growth in April was due to lower output growth in manufacturing (3.9%YY vs 5.8% in March). Double-digit output growth in electricity was supported by higher demand during the summer season. Mining output growth improved after easing to a 19-month low in March. However, in terms of contribution, manufacturing continued to lead due to its higher weight in the index.

- In terms of use-based classification, year-on-year production growth was higher in April compared to March in case of primary, infrastructure/construction, and consumer durable goods and it moderated in case of capital and intermediate goods. Production growth of intermediate goods moderated to a 12-month low. Consumer non-durable goods production fell due to month-on-month decline in output and also an unfavorable base.

- Within manufacturing, production fell in six out of 23 manufacturing sub-sectors, up from five in March and four in April. Basic metals continued to add the most, though growth moderated from the previous month. This continued to boost output of infrastructure/construction goods. Higher growth in coke and refined petroleum products aided performance of primary goods.

Manufacturing output growth eased in April



Numbers in parenthesis denote weights

Lower output growth in 6 of 23 manufacturing sub-groups

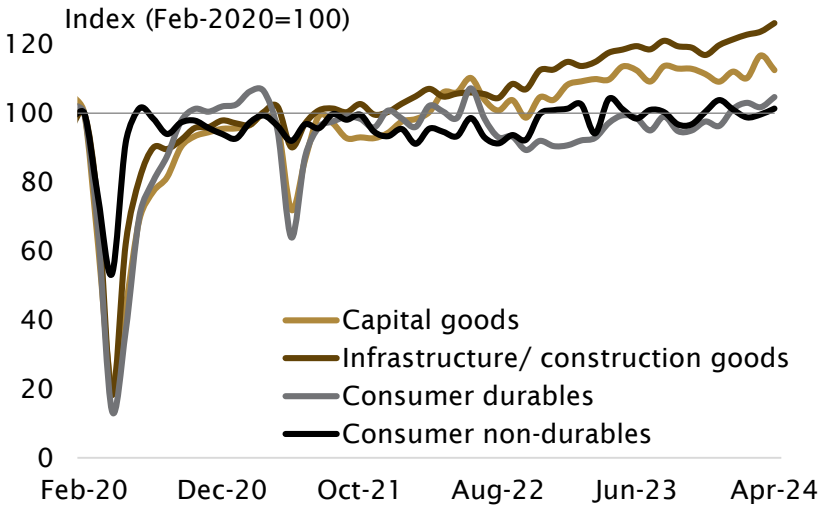
Top / bottom manufacturing sub-sectors by contribution to IIP growth (percentage pts.)	
Basic metals (12.8)	1.33
Coke, refined petroleum pdts. (11.8)	0.74
Motor vehicles, trailers, etc. (4.9)	0.71
Other transport equipment (1.8)	0.40
Fabricated metal pdts. (2.7)	0.35
Food products (5.3)	-0.87
Tobacco products (0.8)	-0.09
Leather products (0.5)	-0.06
Printing, reproduction of recorded media (0.7)	-0.05
Paper, related pdts. (0.9)	-0.05

Numbers in parenthesis denote weights

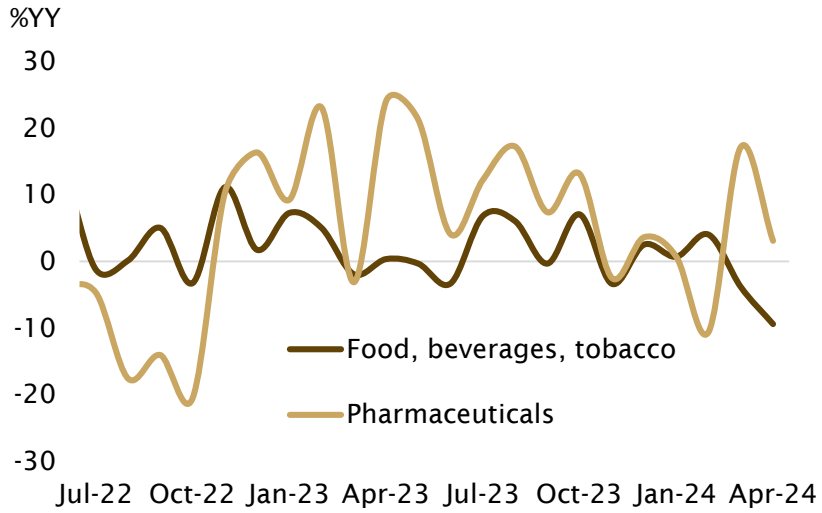
Consumer durables continued to outpace non-durables growth

- Due to the government's continued thrust on public capital expenditure and infrastructure building, the post-pandemic outperformance of infrastructure and capital goods compared to consumer goods sectors continued to persist. Another trend that has emerged over the past five months is the higher output growth of consumer durables relative to that of consumer non-durables.
- Double-digit growth in output of motor vehicles and other transport equipment enabled higher production growth of consumer durables. Increase in production of computers and electronics at 3.9%YY was the highest in almost two years and also supported growth in consumer durables. However, muted performance of pharmaceuticals and contraction in manufacture of food, beverages and tobacco products for the second straight month dragged down output of consumer non-durables.

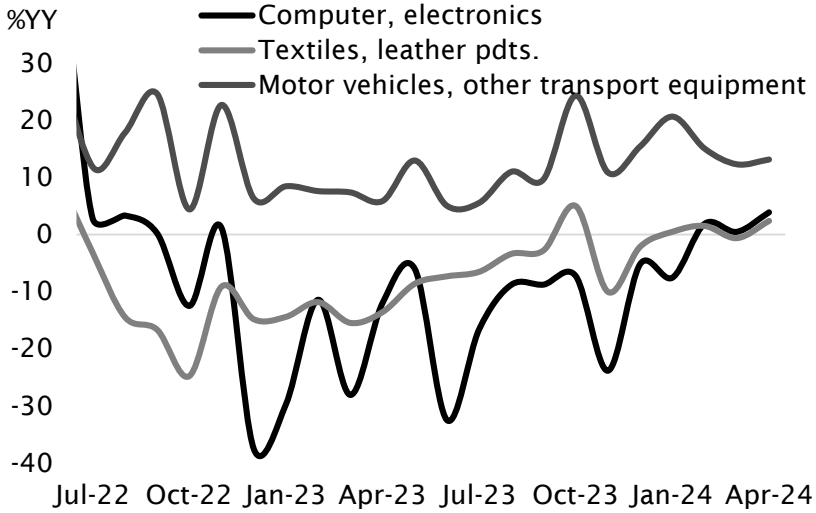
Recovery in consumer goods sectors remains muted



Muted performance of consumer non-durables sectors

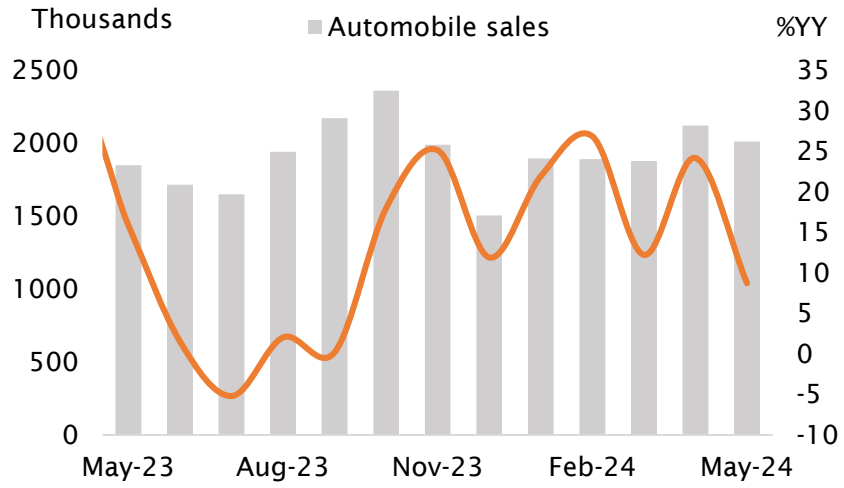


Improvement in select consumer durable goods sectors

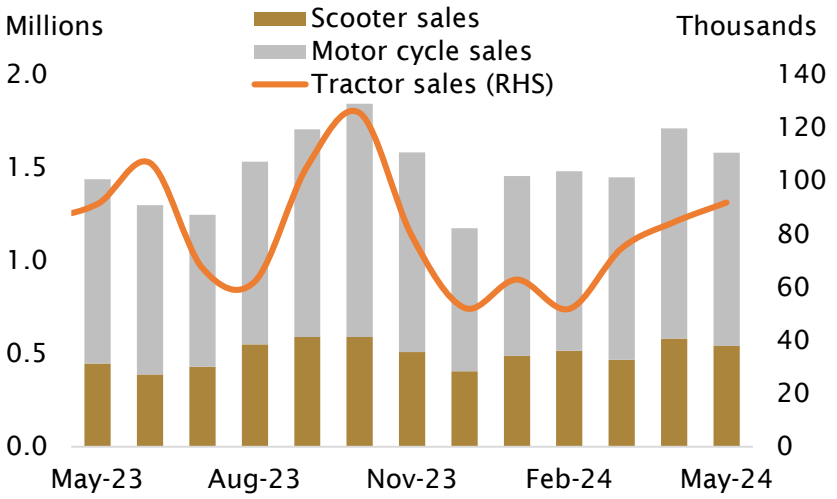


High frequency data: Slight moderation in auto demand in May

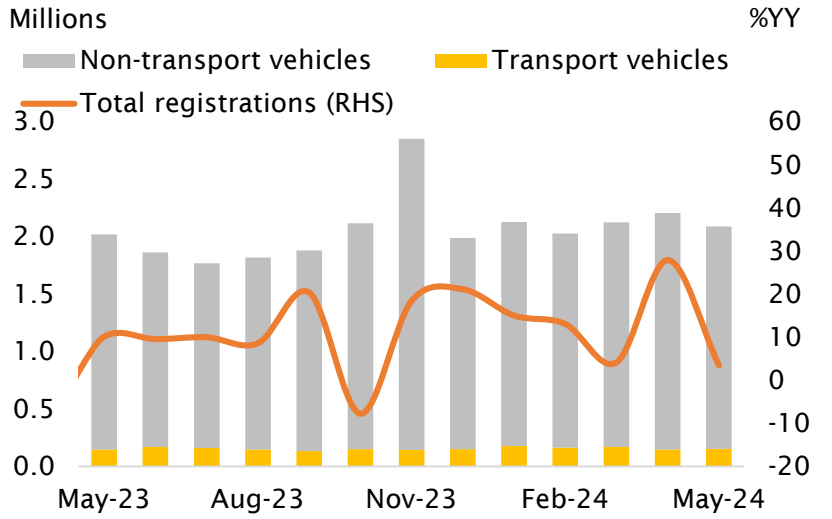
Automobile sales



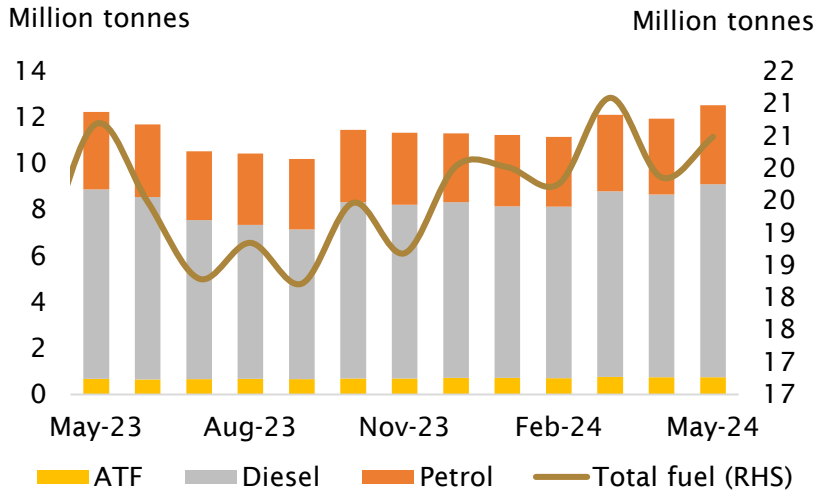
Rural demand



Vehicle registrations

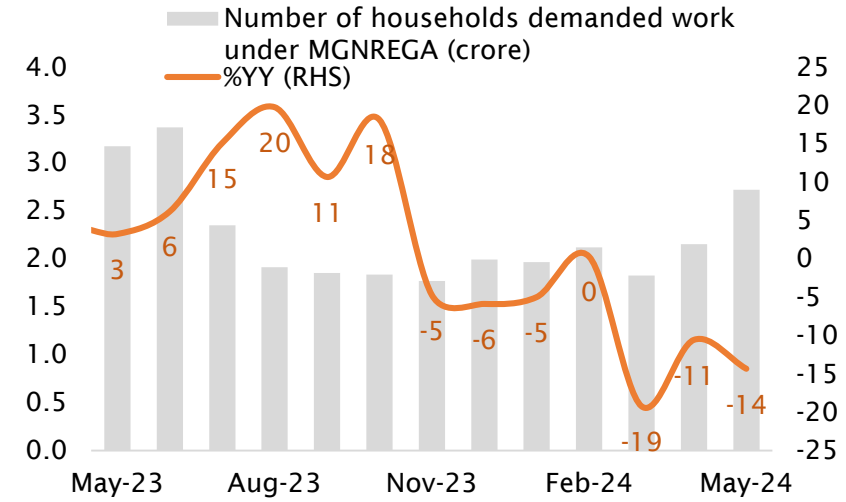


Fuel consumption

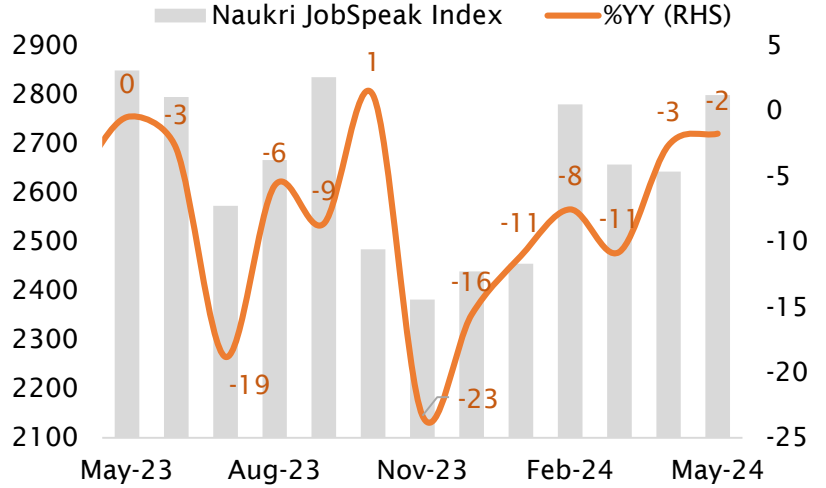


High frequency data: Monthly growth in hiring, goods movement

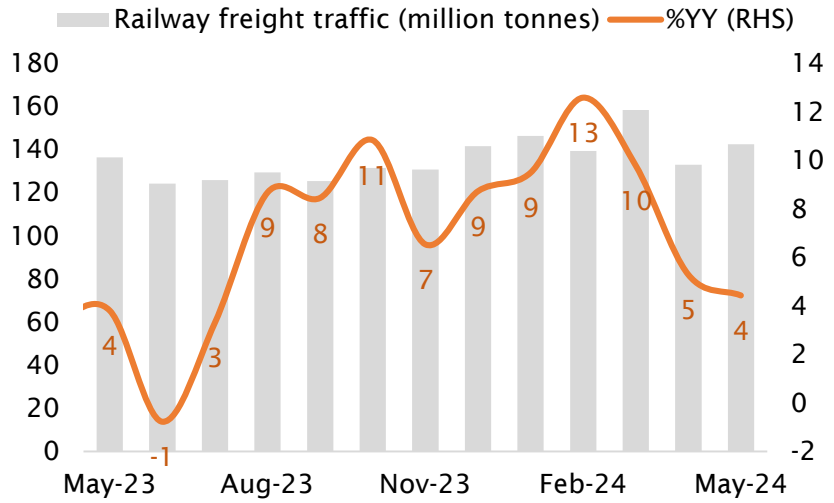
More households demanded work in May amid y-o-y fall



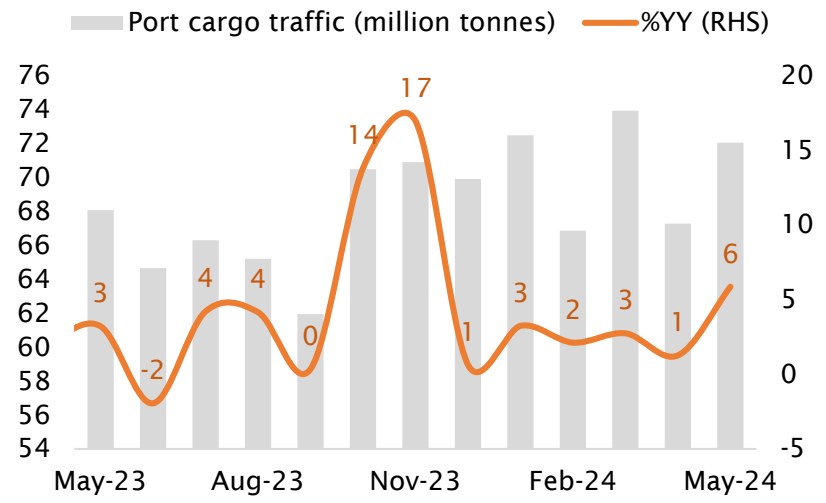
Improvement in white-collar hiring



Monthly pick up in rail freight amid year-on-year easing

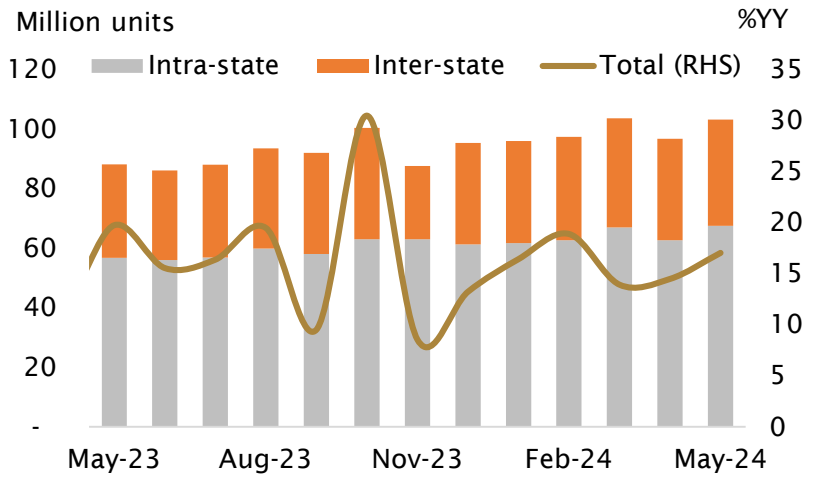


Monthly and annual improvement in port cargo traffic

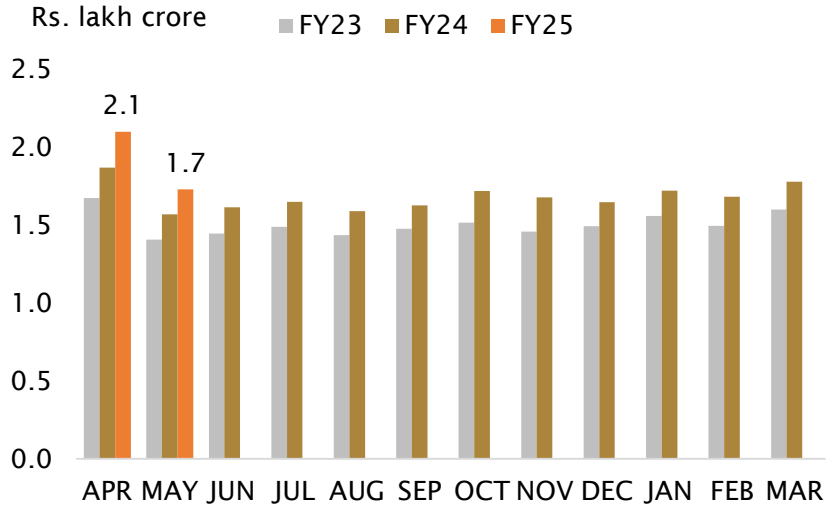


High frequency data: Higher GST collections, PMI indicators softened

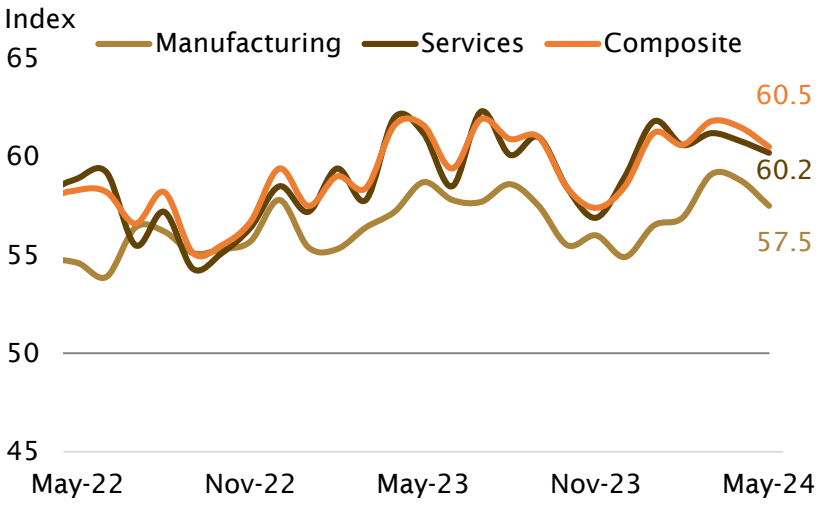
GST e-way bill



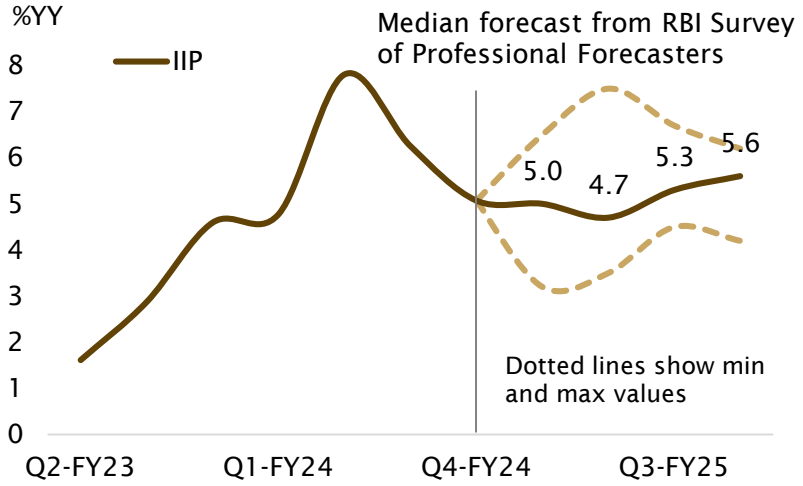
Monthly GST revenue collection



India PMI



IIP forecast from latest RBI SPF survey



Improvement in economic activity momentum needed to support growth in May amid unfavorable base effect

- Latest India PMI indices, including manufacturing and services, moderated for the third straight month in May, though they remained firmly above the expansion mark of 50. Business sentiment remained upbeat, and new overseas orders prompted firms to hire. However, both input and output cost pressures rose, with firms being able to pass on only a part of the input price increases that led to squeeze in margins. There was also some impact of heatwave conditions on output volume.
- Lower profit margin, particularly for manufacturing firms in Q1-FY25, was in line with RBI's latest industrial outlook survey published in April. RBI's latest Survey of Professional Forecasters (SPF), published in June, indicates median forecast of 5% growth for IIP in Q1-FY25, which matches the print for the month of April. However, average IIP growth for the entire FY25 at 5.2% is lower than 6% in FY24, indicating some softening in growth.
- Past IIP data shows that base effect will be unfavorable for the month of May, so any improvement in year-on-year growth compared to April will need to be driven by positive momentum in activity. Historical data (FY13-24, excl. FY21-22) shows average month-on-month growth of around 5% for the month of May, compared to the decline of around 11% for the month of April (actual for April 2024 at -7.6%). This suggests that despite unfavorable base effect, year-on-year growth could improve in May.
- So far, high frequency indicators for the month of May paint a mixed picture. Automobile sales moderated month-on-month, though there was an improvement in tractor sales. More households demanded work under MGNREGA compared to April, though the number was lower than the corresponding month in FY24. This number could ease in the coming months, as farm sector activity improves with the onset of the monsoon. Coupled with the downtrend in inflation, this could support rural demand. White-collar jobs, indicated by the Naukri JobSpeak Index, increased month-on-month, as also suggested by hiring gains in PMI services data. Higher momentum was also noted in port cargo and railway freight traffic. GST collections remained buoyant.
- Going forward, the central government's continued thrust on capital expenditure is expected to support industrial activity in the economy, and also pave the way for private capex. The green shoots of revival in rural consumption augur well for improvement in private consumption in the upcoming quarters. Improved prospects for global trade are already starting to reflect in exports orders under PMI data. However, higher input cost pressures, lagged impact of monetary policy tightening, and macro prudential regulations to tame credit growth pose risks to economic activity.
- On the global front, manufacturing PMI remained in expansion for the fifth straight month in May, and was led by strength in emerging market economies. Manufacturing PMI for developed economies touch the 50-level mark in May after a gap of 19 months, with gains in the UK, US and Japan, even as Eurozone PMI remained in contraction.

DISCLAIMER:

We are committed to providing completely independent views to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendary nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Group has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Group, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Group. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Copyright in this document vests exclusively with Trust Group.

Trust Group

1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in