

IIP Watch: Industrial production growth improvement to 3.5%YY in October was in line with expectations

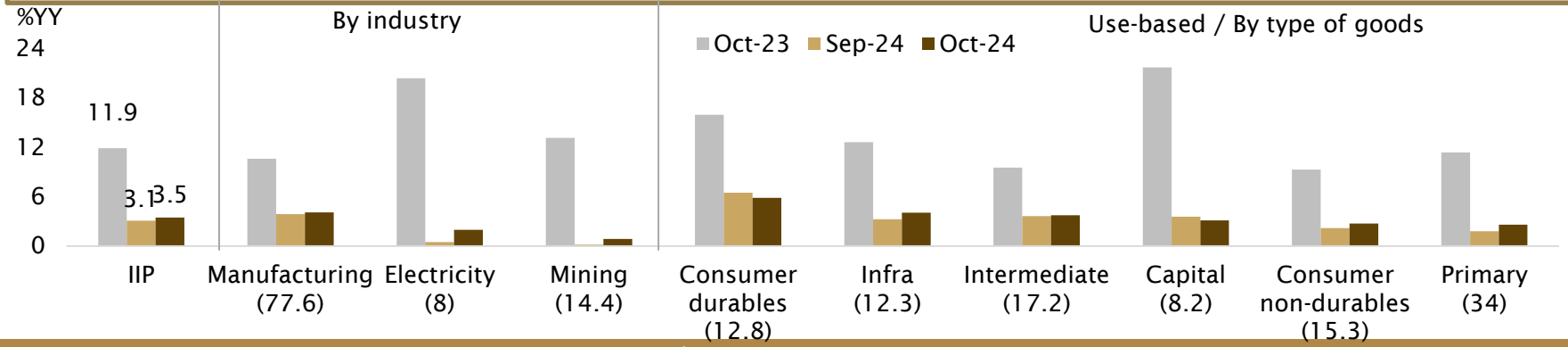
23 December, 2024

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Key takeaways

- Industrial growth improved to 3.5%YY in October from 3.1% in September, and was in line with market expectations (Bloomberg survey: 3.5%). However, the latest print marked a slowdown from 11.9% growth in October 2023, and was supported by month-on-month momentum that offset unfavorable base effects. On a fiscal year-to-date (FYTD) basis, growth averaged 4%YY, down from 7.1% in April-October 2023.
- By industry, all three key sectors posted higher year-on-year growth compared to September. Manufacturing, the index heavyweight, continued to add the most to growth. Within its sub-sectors, electrical equipment contributed the most, while machinery and equipment was a major drag. Compared to pre-pandemic trends, pharmaceuticals and food products have been weak FYTD, reiterating the divergence between consumer durables and non-durables. By type of goods, durables has outperformed other segments FYTD, while non-durables has been a laggard, though output growth in the latter has turned positive in the past two months.
- With Central government capex yet to surpass last year's levels, there is scope for catch up in output of infrastructure-related goods. Also, if the rural recovery gathers further pace, it could support demand, and therefore, production, even as urban demand remains a concern due to lagged impact of policy tightening.
- Base effects are slated to be favorable in November, though momentum tends to be negative for the month that could act as a drag. The high frequency indicators continue to improve, but the rebound in economic activity remains sluggish. A major risk to outlook for domestic production is the external environment due to potential tariff wars that could dampen demand for exports. Another risk is commodity prices and domestic inflation that could continue to hurt profit margins, which are already reeling under pressure. Thus, even if low growth warrants policy rate cuts as early as at the upcoming February RBI MPC meeting, the easing cycle is likely to be a shallow one to curtail, if any, the second order effects of inflation.

Industrial production growth improved to 3.5%YY in October from 3.1% in September and was in line with expectations



Monthly momentum drove improvement in industrial output growth

- Industrial production growth improved in October to 3.5%YY from 3.1% in September. This was in line with market expectations (Bloomberg survey: 3.5%) and supported by month-on-month momentum that offset unfavorable base effects.

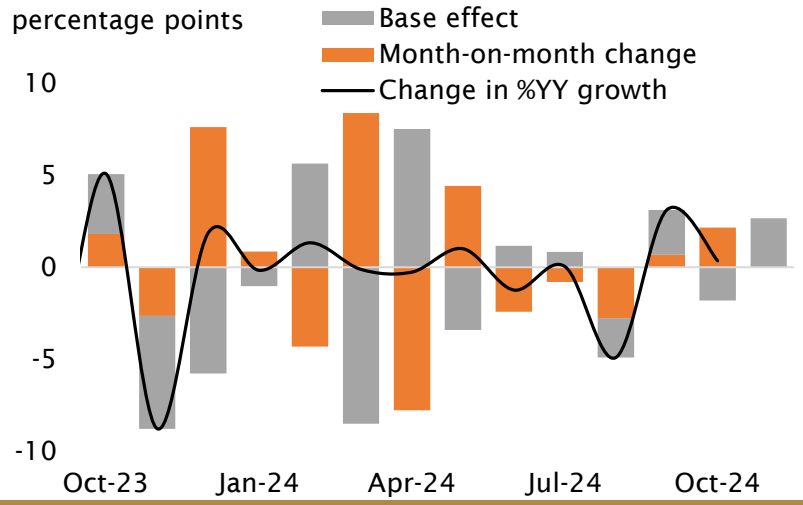
- In non-seasonally adjusted terms, the monthly increase in output at 2.2% was higher than historical trends for the month (FY12-24 ex-COVID 19 years) of October at 0.7% average and 1.3% median. On a seasonally adjusted basis (accounting for uneven dates of festive season), IIP rose month-on-month, though at a tepid pace of 0.3%. In fact, in terms of 3-month/3-month annualized rate, momentum either weakened compared to the previous month or remained negative across sub-groups.

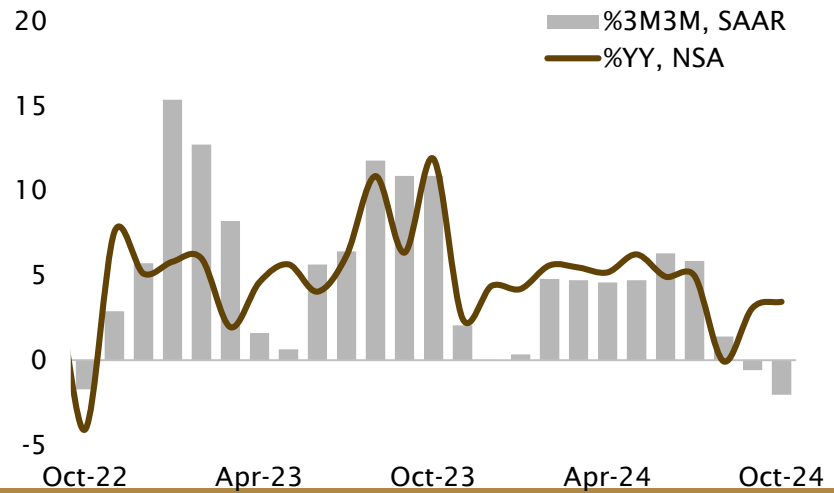
IIP growth in October was line with expectations

%YY	Weight	Aug-24	Sep-24	Oct-24
Industrial production	100.0	-0.1	3.1	3.5
Sector-based classification				
Mining	14.4	-4.3	0.2	0.9
Electricity	8.0	-3.7	0.5	2.0
Manufacturing	77.6	1.1	3.9	4.1
Use-based/type of goods				
Primary goods	34.0	-2.6	1.8	2.6
Capital goods	8.2	0.5	3.6	3.1
Intermediate goods	17.2	3.0	3.6	3.7
Infra. /construction	12.3	2.2	3.2	4.0
Consumer durables	12.8	5.3	6.5	5.9
Consumer non-durables	15.3	-4.5	2.2	2.7

Note: Color code is based on %3M3M, SAAR data. Red shows high momentum, blue indicates the opposite.

Month-on-month growth in production was better than historical trend for the month that offset unfavorable base effect

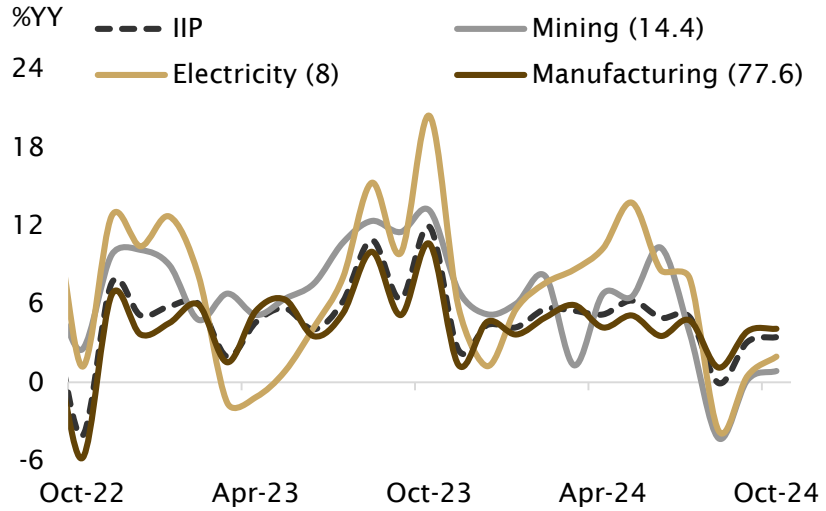


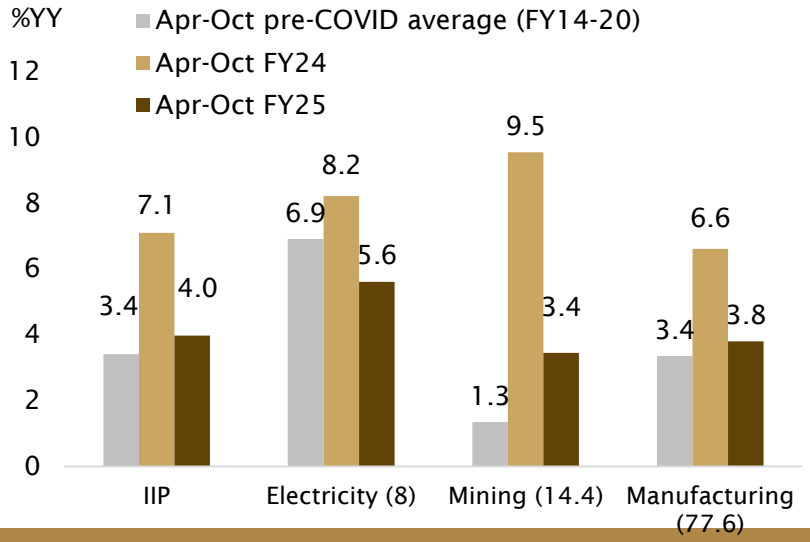


Industrial production growth improved across major sectors

- In October, the year-on-year production growth improved across major sectors. The month-on-month change was higher across each compared to historical trend for the month of October.
- **Mining:** The monthly momentum in mining was the strongest among major sectors and swung to double-digits after remaining weak during the monsoon months of June-September. However, base effects were unfavorable, so that the improvement in year-on-year growth was muted and remained sub-1%.
- **Manufacturing:** Base effects were negative for manufacturing, but higher than average month-on-month change supported modest improvement in year-on-year growth to 4.1% from 3.9% in September.
- **Electricity:** Production fell month-on-month for four consecutive prints, due low demand amid cooler temperatures during the monsoon season but rose in October, and coupled with favorable base effects, lifted year-on-year growth to 2% from 0.5% in September.
- **Year-to-date trend:** In terms of fiscal year-to-date performance, average industrial production growth eased to 4%YY during April-October FY25 from 7.1% in the same period of FY24 amid moderation across major sectors. However, compared to pre-COVID average, the headline IIP growth marks a modest improvement, in line with the trend for manufacturing. The underperformance of electricity seems to be offset by higher mining growth.

IIP growth improved year-on-year in October; average FYTD growth slower than FY24, but better than pre-COVID trend

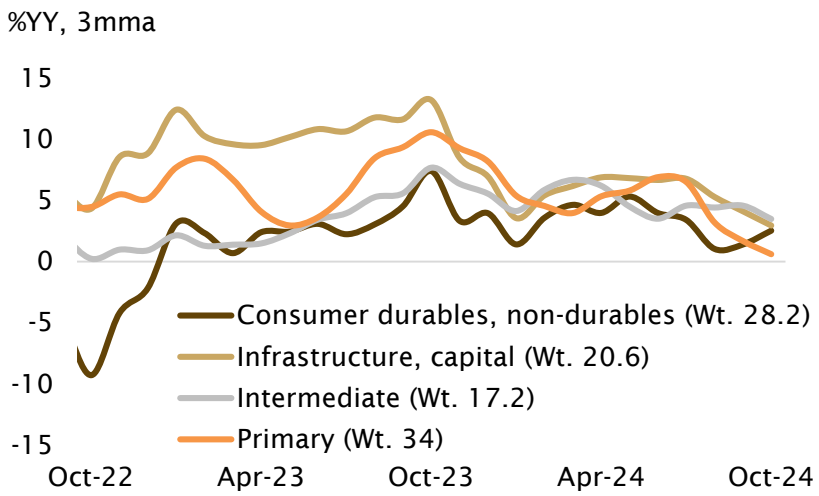


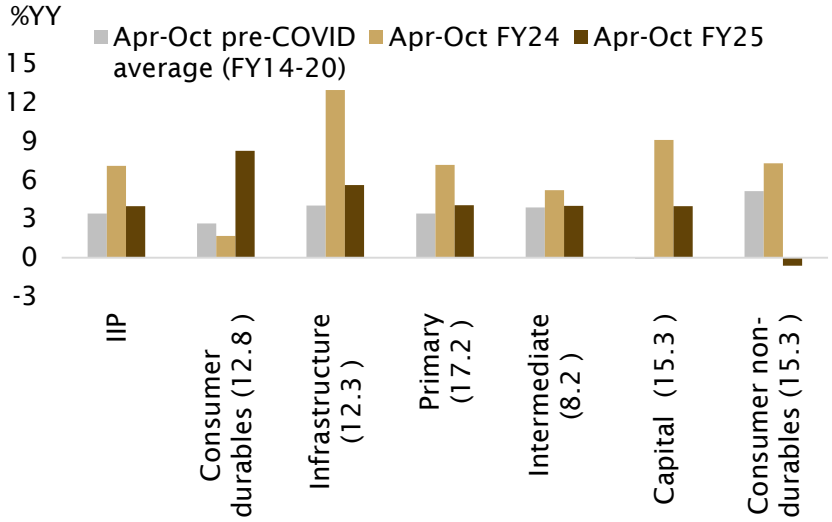


Improvement in consumer goods, infra-related continued to lag

- In terms of use-based classification, consumer goods output growth, including both durables and non-durables, has improved in recent months (as measured by 3-month moving average of year-on-year growth). By the same metric, growth has moderated in infrastructure and capital goods.
- The year-on-year growth in consumer goods was stable and unchanged from September at 4%YY. However, infrastructure and capital goods output improved to 3.8%YY in October from 3.3% in the previous month.
  - Compared to September, year-on-year growth improved across types of goods, except capital goods and consumer durables, where growth eased as output fell month-on-month and offset favorable base effects. However, consumer durables, continued to add firmly to overall output growth.
  - The remaining four types of goods – primary, intermediate, capital, and consumer non-durables – that recorded an improvement in year-on-year growth, were supported by month-on-month momentum that was better than historical trends, thereby offsetting mostly unfavorable base effects.
- On fiscal year-to-date (FYTD) basis, consumer durables continued to be the only segment that outperformed vis-à-vis growth in April-October FY24, and non-durables remained the main laggard, a reversal not only in terms of the trend in FY24 but also pre-COVID period, when consumer durables underperformed, compared to the production of non-durables. Other than these two types, FYTD year-on-year growth was below that in April-October FY24 but above the average growth in the respective FYTD period of pre-COVID years.

Consumer goods output has improved in recent months, while that of infra and capital-related goods remains a laggard





Detailed manufacturing data shows deviation in consumer goods trends

- Manufacturing growth (wt. in IIP: 77.6) improved to 4.1%YY from 3.9% in September. Production increased year-on-year in 18 out of 23 sub-sectors, compared to 19 in September. In terms of month-on-month change in non-seasonally adjusted terms, output grew in 11 sub-sectors, compared to 14 in September.

- Electrical equipment added the most to growth, followed by coke and refined petroleum products, and basic metals. On a fiscal year-to-date basis (FYTD), though basic metals added the most to growth, similar to the same period of FY24, the contribution of this sub-sector has moderated the most, followed by machinery and equipment. This suggests scope for catch-up in production of infrastructure-related goods, and therefore, investment in the economy. The contribution to IIP has improved the most from wearing apparel, and computer and electronic goods. During the month, machinery and equipment, and other manufacturing were a drag on growth, and on a FYTD basis, food products has been a major laggard.

- Compared to the pre-pandemic average (FY14-20), the FYTD contribution has improved the most in case of electrical equipment and other transport equipment, both of which include durable goods components. On the other hand, the contribution of pharmaceuticals and food products has dwindled the most, reiterating the weakness in consumer non-durables production.

Top/bottom five sub-sectors by contribution to year-on-year IIP growth (monthly, FYTD basis, pre-pandemic trend comparison)

	Oct-24	Oct-23		FY25 FYTD	FY24 FYTD	FY25 FYTD vis-à-vis pre-pandemic average	
Electrical equipment (3)	1.28	0.49	Basic metals (12.8)	1.00	2.32	Electrical equipment (3)	0.82
Coke, petroleum pdts. (11.8)	0.86	0.37	Electrical equipment (3)	0.82	0.43	Other transport equipment (1.8)	0.21
Basic metals (12.8)	0.58	2.15	Coke, petroleum pdts. (11.8)	0.50	0.52	Fabricated metal pdts. (2.7)	0.20
Other transport equipment (1.8)	0.40	0.53	Other transport equipment (1.8)	0.35	0.19	Motor vehicles, trailers, etc. (4.9)	0.17
Food products (5.3)	0.33	0.49	Motor vehicles, trailers, etc. (4.9)	0.24	0.73	Rubber, plastic pdts. (2.4)	0.16
Leather, related pdts. (0.5)	-0.02	0.12	Leather, related pdts. (0.5)	-0.01	0.02	Recorded media (0.7)	-0.04
Recorded media (0.7)	-0.08	0.03	Pharmaceuticals (5)	-0.02	0.91	Other manufacturing (0.9)	-0.05
Motor vehicles, trailers, etc. (4.9)	-0.10	1.55	Recorded media (0.7)	-0.04	-0.01	Other non-metallic mineral pdts. (4.1)	-0.06
Other manufacturing (0.9)	-0.14	0.37	Other manufacturing (0.9)	-0.07	0.01	Food products (5.3)	-0.34
Machinery, equipment (4.8)	-0.14	1.57	Food products (5.3)	-0.08	0.19	Pharmaceuticals (5)	-0.74

Outlook and policy implication

- Due to weaker-than-expected growth in Q2 and Q3, the RBI MPC, at its latest policy meeting in December, lowered real GDP growth forecast for FY25 by 60bps to 6.6%YY from 7.2% projected in October. Despite cutting estimates across quarters, the MPC expects GDP growth to rebound in H2-FY25, averaging 7%, compared to 6% in H1. At the latest RBI MPC meet, the Governor's statement noted that the weakness in manufacturing, as indicated by moderation in GVA growth in Q2, was not broad-based but limited to specific sectors such as petroleum, iron and steel, and cement. The latest high frequency indicators continue to show improvement compared to the slump in August-September, but the rebound remains uneven and sluggish compared to the strength in economic activity in Q1.

- Historical data on industrial production shows base effects are slated to be favorable in November, though momentum tends to be negative for the month that could act as a drag. In December though, both base effects and month-on-month momentum (based on historical trends) are likely to be favorable and support growth. Results from the RBI's latest survey of professional forecasters (SPF) show median forecast of 4.8%YY IIP growth in Q3, up from 2.7% in Q2 but lower than 5.3% forecast in the previous survey round.

- Monthly data on Centre's fiscal accounts shows capital expenditure at 42% of FY25BE during April-October, lower than 54.7% in the same period of FY24. As such, FYTD capital spending remained below the level in the same period of FY24, indicating scope for catch-up, which could boost infrastructure-related and capital goods production in H2. Also, hopes hinge on rural recovery gathering momentum amid record Kharif output this year and good prospects for Rabi crop.

- One of the major risks to outlook for 2025 that has emerged particularly post the US Presidential election outcome is the external environment due to potential tariff wars that could dampen demand for exports.

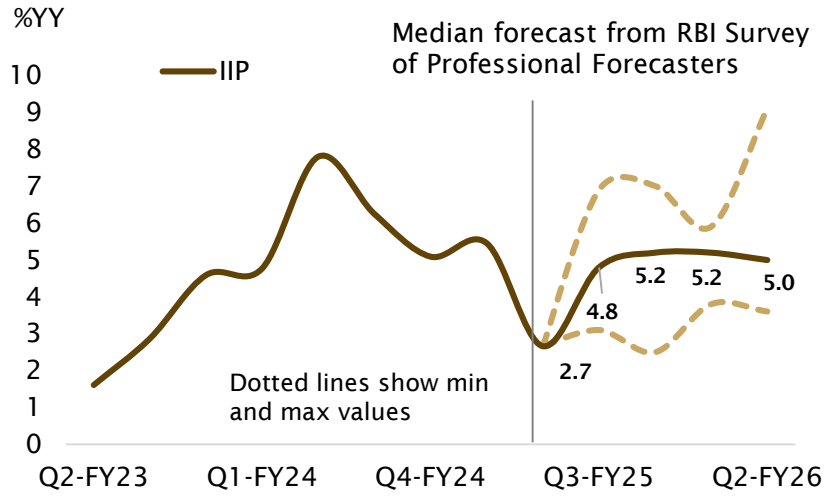
- Another source of risk is commodity prices. Though broader indices such as the Bloomberg commodity index remain around the same levels as at the start of 2024, and energy prices are, in fact, muted, industrial metal prices remain vulnerable to growth outlook of major global economies. If this trend sustains, it could continue to impinge on corporate margins. The 'state of the economy' article in the October edition of RBI bulletin also noted that domestic inflation needs to be watched, among other effects, for its impact on profit margins. Under these circumstances, even if low growth warrants policy rate cuts as early as at the February meeting, the easing cycle is likely to be a shallow one to curtail, if any, the second order effects of inflation.

Appendix I

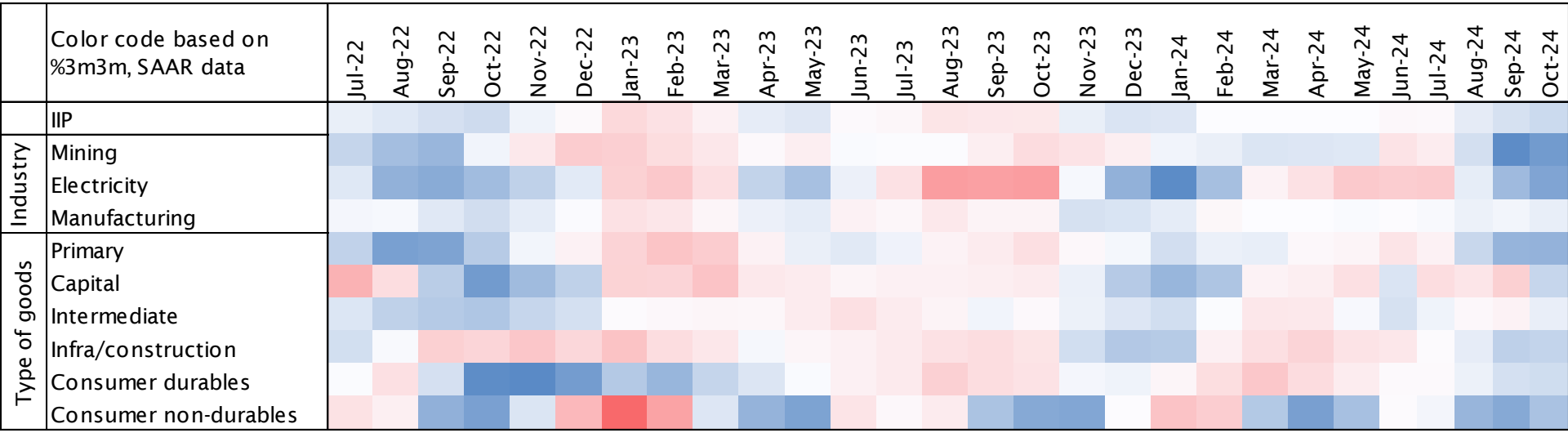
Operating profit (%YY) – select industries/industry groups

	Q2:FY24	Q1:FY25	Q2:FY25
Cement and products	86.1	-7.1	-32.1
Petroleum products	59.3	-17.5	-28.9
Iron and steel	81.8	0.9	-14.7
Chemicals and products	-4.1	3.8	0.4
Leather	-9.1	-8.5	2.8
Tobacco products	2.7	0.3	5.2
Motor vehicles, transport equipment	45.3	26.2	6.0
Food products, beverages	23.8	18.4	6.7
Fabricated metal products	15.0	12.8	8.9
Textiles	-10.4	16.6	9.0
Electrical machinery	28.7	27.2	13.1
Machinery, tools	18.0	23.4	18.0
Pharmaceuticals	14.5	22.7	26.0
Precious, non-ferrous metals	28.3	54.7	44.2

IIP forecast at 4.8%YY for Q3, below 5.3% in prior survey



In October, output momentum (measured by 3M/3M SAAR) either weakened or was negative across industries and type of goods



Red shows high momentum, blue indicates the opposite

Select high frequency indicators

Colour codes based on minimum and maximum Z-score values since April 2023 for respective variables; green shows improvement, red indicates weakening. (Reversed for MGNREGA data where a fall implies improved farm activity)

(%YY, unless mentioned otherwise)		Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
Agriculture and rural sector	Fertiliser sales	-3.7	10.5	7.3	-1.4	-9.4	-7.7	-7.8	4.6
	Tractor sales	-2.9	0.5	3.5	1.4	-5.5	2.4	21.0	-0.9
	Tractor registrations	1.4	-1.0	-28.4	-11.9	-11.4	14.7	3.1	29.9
	Two wheeler sales	30.8	10.1	21.3	12.5	9.3	15.8	14.2	-1.1
	Two-wheeler registrations	33.6	2.8	4.7	17.2	6.3	-8.5	36.3	15.8
	Three-wheeler registrations	12.9	23.7	5.1	12.9	1.6	0.7	11.5	4.2
	Household work demand under MGNREGA	-10.6	-14.3	-21.7	-19.5	-16.0	-13.4	-7.6	3.9
Industry, construction and urban sector	Industrial production	5.0	5.9	4.2	4.8	-0.1	3.1	3.5	
	Core sector output	6.2	6.3	4.0	6.1	-1.8	2.0	3.1	
	Cement production	0.2	-0.6	1.8	5.1	-3.0	7.2	3.3	
	Natural gas production	7.8	6.7	2.9	-1.4	-3.7	-1.6	-1.6	
	Electricity requirement	9.0	17.3	8.0	4.0	-5.4	1.2	0.5	4.0
	Steel consumption	11.5	13.0	21.1	13.8	10.3	10.5	9.0	
	Fuel consumption	7.8	1.9	2.3	10.6	-2.3	-1.6	2.9	9.3
	Passenger vehicle sales	12.9	4.3	5.0	-1.9	-1.6	-0.4	1.1	4.3
	Passenger vehicle registrations	18.6	1.5	-6.8	10.2	-4.5	-18.8	32.4	-13.7
Services	Commercial vehicle sales			3.3			-4.2		
	Commercial vehicle registrations	6.0	7.7	-4.7	5.9	-6.0	-10.4	6.4	-6.1
	Railway freight traffic	5.3	4.4	11.2	4.9	-5.0	-0.1	0.8	1.4
	Port cargo traffic	1.3	3.8	6.8	5.9	6.7	5.8	-3.4	-4.6
	Toll collection (volume)	7.6	3.6	5.8	9.4	6.8	6.5	11.3	11.9
	Domestic air cargo traffic	0.3	10.4	10.3	8.8	0.6	14.0	8.9	
	International air cargo traffic	16.2	19.2	19.6	24.4	20.7	20.5	18.4	
	Domestic air passenger traffic	3.9	5.9	6.9	7.5	6.7	7.4	9.6	
	International air passenger traffic	16.7	14.6	11.4	8.9	10.9	11.2	10.3	
	Tourist arrivals	7.7	0.3	9.0	-1.3	-4.2			
	GST e-way bills (total)	14.5	17.0	16.3	19.2	12.9	18.5	16.9	16.3
	GST revenue collection	12.3	10.1	7.6	10.3	10.0	6.5	8.9	8.5
PMI (Index)	PMI Manufacturing	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5
	PMI Services	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4

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