

IIP Watch: Base effects lifted industrial output growth to six-month high at 5.2%YY in November

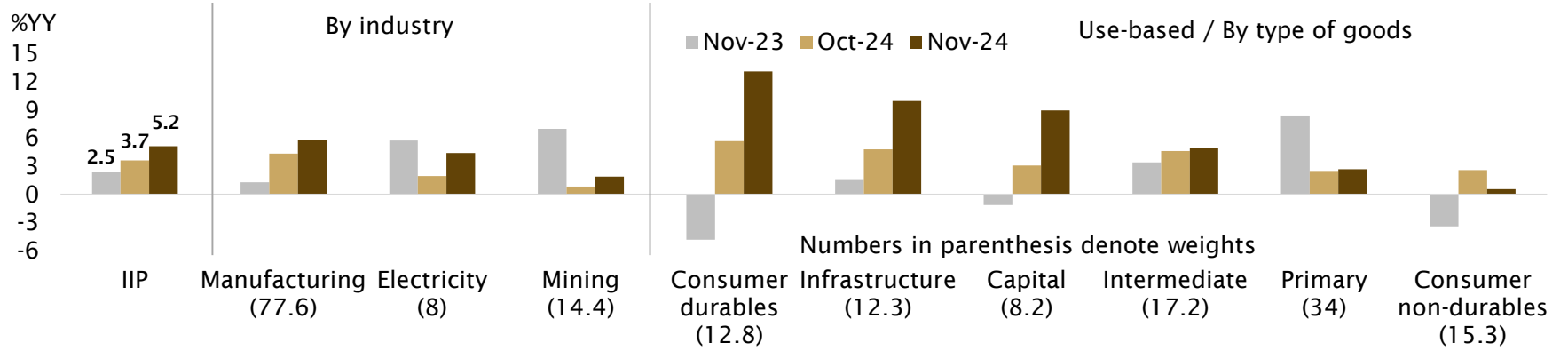
15 January, 2025

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Key takeaways

- In November, industrial production growth improved to a six-month high of 5.2%YY from 3.7% in October. The print was above market expectations (Reuters poll: 4.1%), and supported by favorable base effects that offset the month-on-month fall in output. The year-on-year increase in production marked an improvement for the third straight month, taking the average FYTD growth to 4.2%YY versus 6.5% in Apr-Nov FY24.
- There was improvement in year-on-year growth across key industries, with manufacturing reaching the highest growth in FY25 so far. Within manufacturing, production rose year-on-year in 18 out of 23 sub-sectors, compared to 17 in October. In terms of month-on-month change, output grew in 3 sub-sectors versus 10 in October, reiterating the influence of favorable base effects in lifting year-on-year growth.
- In terms of use-based classification, output grew at faster year-on-year rates across groups, except for consumer non-durables where growth moderated due to unfavorable base effects. Consumer durables was the star performer, being the only category that outperformed vis-à-vis growth in April-November FY24. Both consumer durables and infrastructure/construction goods posted double-digit growth in November.
- Economic activity weakened in H1-FY25, as indicated by moderation in real GDP growth to 6%YY. Prospects for H2 are expected to be better due to improved outlook for farm output in a year marked by La Nina and further pick-up in government capital expenditure after the election-bound slump in H1. However, recovery in economic activity, as suggested by high frequency data, remains sluggish, and clouded by lingering weakness in urban consumption and risks from the external environment. Historical data for FY13-24 shows that though month-on-month gains tend to be strong in December, base effects are slated to be unfavorable, which could partly, if not completely, offset the monthly momentum.

Improvement in industrial output growth to 5.2%YY in November from 3.7% in October was above market expectations



Base effects drove improvement in industrial output growth

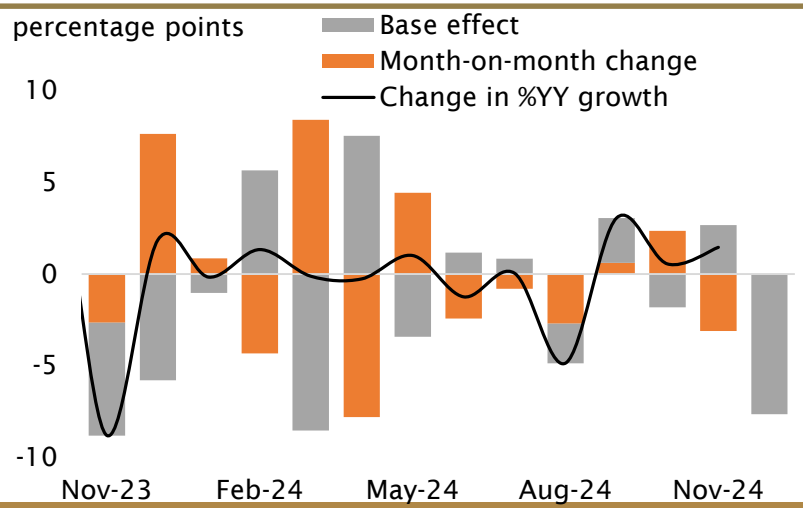
- In November, industrial output increased at the fastest pace in six months at 5.2%YY, compared to 3.7% growth in October (revised up from 3.5%). The latest print marked an improvement in growth for the third straight month and was above market expectations (Reuters poll: 4.1%), supported by base effects amid month-on-month decline in output.
- In non-seasonally adjusted terms, the monthly decline in output at 1.2% was largely in line with historical average fall in production for the month of November (FY12-24) at 1.3%. On a seasonally adjusted basis (accounting for uneven dates of festive season), IIP posted growth for the third straight month, marking an improvement at 1.3% from 0.5% in October. In fact, in terms of 3-month/3-month seasonally adjusted annualized rate, momentum either strengthened or turned positive across most sub-groups.

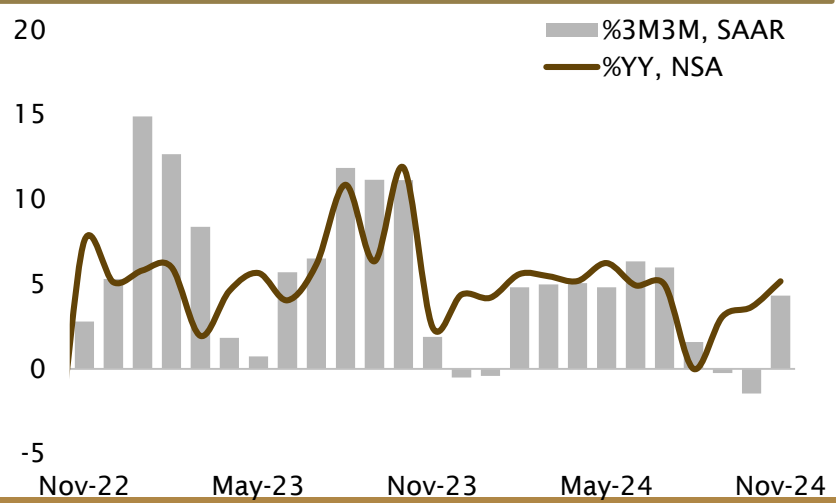
IIP growth in November exceeded market expectations

%YY	Weight	Sep-24	Oct-24	Nov-24
Industrial production	100.0	3.1	3.7	5.2
Sector-based classification				
Mining	14.4	0.2	0.9	1.9
Electricity	8.0	0.5	2.0	4.4
Manufacturing	77.6	3.9	4.4	5.8
Use-based/type of goods				
Primary goods	34.0	1.8	2.5	2.7
Capital goods	8.2	3.6	3.1	9.0
Intermediate goods	17.2	3.6	4.6	5.0
Infra. /construction	12.3	3.2	4.8	10.0
Consumer durables	12.8	6.5	5.7	13.1
Consumer non-durables	15.3	2.2	2.6	0.6

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

Favorable base effect drove improvement in year-on-year growth in output amid month-on-month decline in production



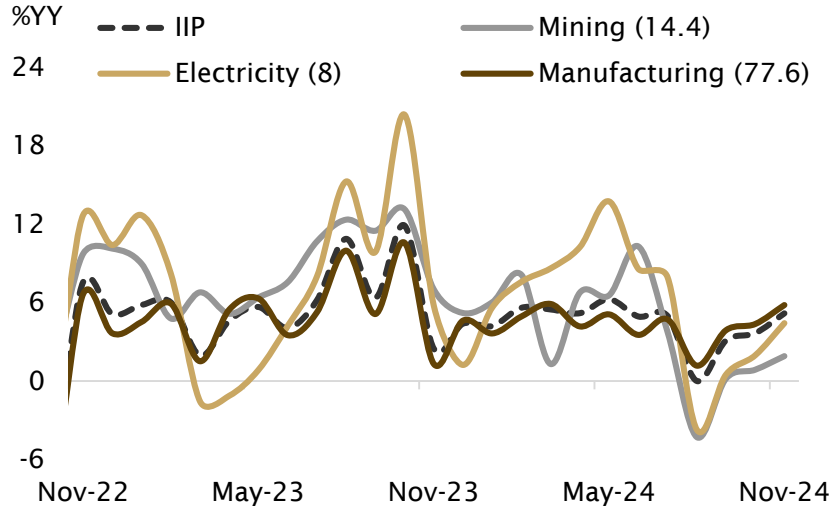


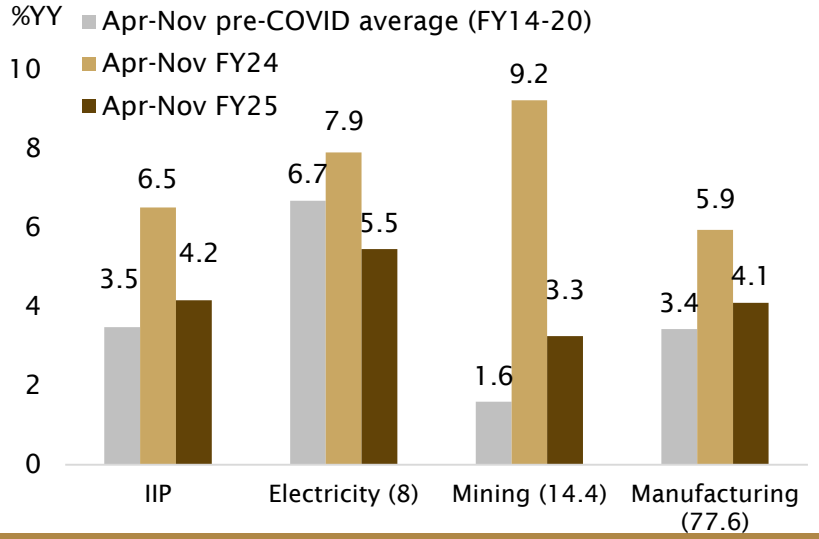
Industrial production growth improved across major sectors

- In November, there was improvement in year-on-year output growth across key sectors but the underlying factors of momentum versus base effects supporting these trends were different for these groups.
  - **Mining:** The monthly momentum dwindled to single digits after surging 15% in October. However, base effects remained unfavorable, offsetting some of the month-on-month gains. Nonetheless, year-on-year growth at 1.9% marked a three-month high.
  - **Manufacturing:** The improvement in output to 5.8%YY from 4.4% in October marked the highest growth in FY25 so far and was driven by favorable base effects amid month-on-month fall in output.
  - **Electricity:** The month-on-month double-digit decline in output was steeper than historical average for the month but favorable base effects lifted year-on-year growth to 4.4% from 2% in October.

- **Year-to-date trends:** In terms of fiscal year-to-date performance, average industrial production growth eased to 4.2%YY during April-November FY25 from 6.5% 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 November; average FYTD growth slower than FY24, but better than pre-COVID trend

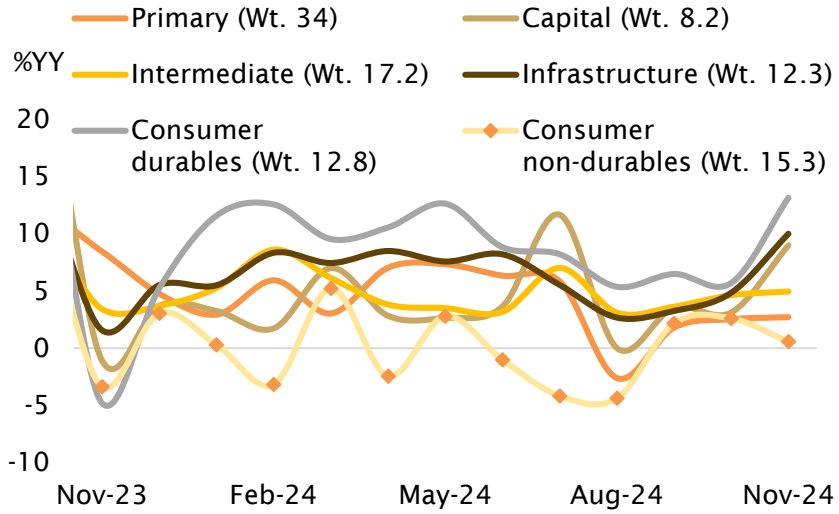


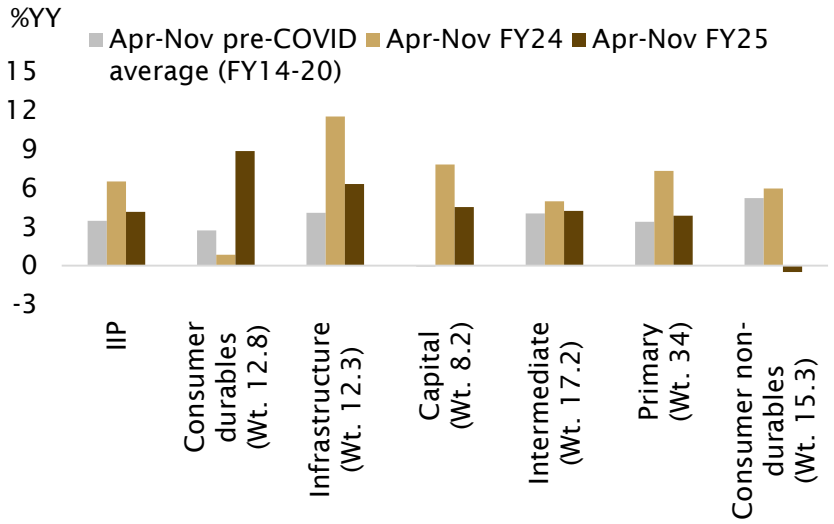


Output improved across goods, except consumer non-durables

- In terms of use-based classification, year-on-year production growth across most types of goods was higher compared to the previous month due to favorable base effects that more than offset the month-on-month declines in output. The only exception was consumer non-durables, where growth moderated due to unfavorable base effect that weighed on positive month-on-month momentum.
  - Both infrastructure/construction goods and consumer durables posted double-digit year-on-year growth, and contributed the most to the increase in industrial output. Being index heavyweights, primary and intermediate goods also added firmly to overall gains in production despite mild improvement in year-on-year growth compared to October.
  - Capital goods posted strong gains in output growth at 9%YY compared to 3.1% in October, but with the least weight in the index, the improvement in contribution to IIP growth was only around 0.4pp.
- On fiscal year-to-date (FYTD) basis, consumer durables continued to be the only segment that outperformed vis-à-vis growth in April-November 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-November FY24 but above average growth in the respective FYTD period of pre-COVID years.

In November, there was improvement in year-on-year output growth across types of goods, except consumer non-durables





Details confirm improvement in infra-related, consumer durables output

- Manufacturing growth (wt. in IIP: 77.6) at 5.8%YY in November marked the highest in current fiscal year so far, compared to 4.4% in October. Production rose year-on-year in 18 out of 23 sub-sectors, compared to 17 in October. In terms of month-on-month change in non-seasonally adjusted terms, output grew in 3 sub-sectors versus 10 in October, indicating the influence of favorable base effects in lifting year-on-year growth.

- Among the top five contributors to year-on-year manufacturing growth in November, electrical equipment topped the list, followed by basic metals, fabricated metal products, other non-metallic mineral products, and machinery and equipment. While electrical equipment predominantly consists of consumer goods, it also includes capital and infrastructure goods, which are the mainstay of the other four sub-sectors that added to growth.

- Food products was the main drag on growth, not only in November but in fiscal year-to-date terms, though pharmaceuticals is the major laggard compared to pre-pandemic trends (April-November average for FY13-20), with the two sub-sectors weighing on consumer non-durables growth. On the other hand, the improvement in growth of consumer durables in November was led by computer, electronic and optical products; motor vehicles, trailers, and semi-trailers; and wearing apparel.

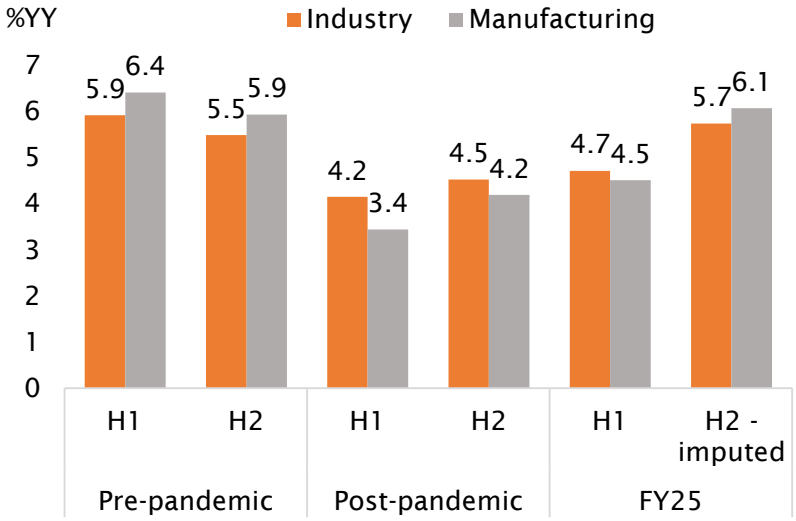
Top/bottom five sub-sectors by contribution to year-on-year IIP growth (monthly, FYTD basis, pre-pandemic trend comparison)

	Nov-24	Nov-23		FY25 FYTD	FY24 FYTD	FY25 FYTD vis-à-vis pre-pandemic average	
Electrical equipment (3)	1.44	-0.66	Basic metals (12.8)	1.07	2.19	Electrical equipment (3)	0.88
Basic metals (12.8)	1.25	1.25	Electrical equipment (3)	0.90	0.29	Fabricated metal pdts. (2.7)	0.25
Fabricated metal pdts. (2.7)	0.67	-0.21	Coke, petroleum pdts. (11.8)	0.47	0.72	Other transport equipment (1.8)	0.20
Other non-metallic mineral pdts. (4.1)	0.63	-0.19	Other transport equipment (1.8)	0.34	0.20	Motor vehicles, trailers, etc. (4.9)	0.17
Machinery, equipment (4.8)	0.48	-0.08	Fabricated metal pdts. (2.7)	0.26	0.18	Rubber, plastic pdts. (2.4)	0.13
Leather, related pdts. (0.5)	-0.02	-0.11	Pharmaceuticals (5)	0.00	0.78	Leather, related pdts. (0.5)	-0.02
Rubber, plastic pdts. (2.4)	-0.04	0.05	Leather, related pdts. (0.5)	-0.01	0.00	Recorded media (0.7)	-0.04
Recorded media (0.7)	-0.07	-0.06	Recorded media (0.7)	-0.05	-0.02	Other manufacturing (0.9)	-0.06
Other manufacturing (0.9)	-0.13	-0.18	Other manufacturing (0.9)	-0.08	-0.02	Food products (5.3)	-0.34
Food products (5.3)	-0.22	-0.26	Food products (5.3)	-0.09	0.14	Pharmaceuticals (5)	-0.74

Outlook

- The first advance estimates of GDP for FY25 by the national statistical office suggest a slowdown in growth to a four-year low of 6.4%YY. Real GVA, which includes manufacturing, is also projected to grow at the same rate. Though real GDP growth eased to 6%YY in H1-FY25, prospects for H2 are expected to be better at 6.7% due to improved outlook for farm output in a year marked by La Nina and further pick-up in government capital expenditure after the election-bound slump in H1.
  - Monthly data on Centre's fiscal accounts shows capital expenditure at 46% of FY25BE during April-November, below 59% 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 is expected to further boost infrastructure-related and capital goods production in H2.
  - In addition to record Kharif output as per initial estimates, data (as on January 10) shows that Rabi sowing is progressing well and already above previous year's levels across most major crops, except for oilseeds. This is expected to boost rural incomes and support consumption recovery.
- The moderation in real GDP growth to 6.4% penciled in by the national statistical office for FY25 is sharper than the latest RBI MPC estimate of 6.6%. The MPC expects GDP growth to rebound in H2-FY25, averaging 7%, compared to 6% in H1. However, recovery in economic activity, as suggested by high frequency data, remains sluggish, and clouded by lingering weakness in urban consumption and risks from the external environment.
- Historical data for FY13-24 shows that the month-on-month gains tend to be strong in December, to the tune of around 6.8% (average) -7.0% (median) (including COVID years). However, base effects are slated to be unfavorable, which could partly, if not completely, offset the monthly momentum.

Manufacturing GVA growth expected to improve in H2



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)		May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Agriculture and rural sector	Fertiliser sales	10.5	7.3	-1.4	-9.4	-7.7	-7.8	4.6	
	Tractor sales	0.5	3.5	1.4	-5.5	2.4	21.0	-0.9	13.3
	Tractor registrations	-1.0	-28.4	-11.9	-11.4	14.7	3.1	29.9	25.8
	Two wheeler sales	10.1	21.3	12.5	9.3	15.8	14.2	-1.1	-8.8
	Two-wheeler registrations	2.8	4.7	17.2	6.3	-8.5	36.3	15.8	-17.6
	Three-wheeler registrations	23.7	5.1	12.9	1.6	0.7	11.5	4.2	-4.6
	Household work demand under MGNREGA	-14.3	-21.7	-19.5	-16.0	-13.4	-7.6	3.9	8.2
Industry, construction and urban sector	Industrial production	5.9	4.2	4.8	-0.1	3.1	3.5	5.2	
	Core sector output	6.3	4.0	6.1	-1.8	2.0	3.1	4.3	
	Cement production	-0.6	1.8	5.1	-2.5	7.2	3.1	13.0	
	Natural gas production	6.7	2.9	-1.4	-3.7	-1.6	-1.6	-5.5	
	Electricity requirement	17.3	8.0	4.0	-5.4	1.2	0.5	4.0	
	Steel consumption	13.0	21.1	13.8	10.3	11.8	8.9	10.0	
	Fuel consumption	1.9	2.3	10.7	-3.1	-4.4	4.1	9.5	2.1
	Passenger vehicle sales	12.9	5.0	-1.9	-1.6	-0.4	1.1	4.3	11.4
	Passenger vehicle registrations	1.5	-6.8	10.2	-4.5	-18.8	32.4	-13.7	-2.0
Services	Commercial vehicle sales		3.3			-10.7			1.2
	Commercial vehicle registrations	7.7	-4.7	5.9	-6.0	-10.4	6.4	-6.1	-5.2
	Railway freight traffic	4.4	11.2	4.9	-5.0	-0.1	0.8	1.4	1.6
	Port cargo traffic	3.8	6.8	5.9	6.7	5.8	-3.4	-4.9	3.5
	Toll collection (volume)	3.6	5.8	9.4	6.8	6.5	11.3	11.9	9.8
	Domestic air cargo traffic	10.4	10.3	8.8	0.6	14.0	8.9	0.3	
	International air cargo traffic	19.2	19.6	24.4	20.7	20.5	18.4	16.2	
	Domestic air passenger traffic	5.9	6.9	7.5	6.7	7.4	9.6	13.8	
	International air passenger traffic	14.6	11.4	8.9	10.9	11.2	10.3	10.8	
	Tourist arrivals	0.3	9.0	-1.3	-4.2	0.4	-1.4		
	GST e-way bills (total)	17.0	16.3	19.2	12.9	18.5	16.9	16.3	17.6
	GST revenue collection	10.1	7.6	10.3	10.0	6.5	8.9	8.5	7.3
PMI (Index)	PMI Manufacturing	57.5	58.3	58.1	57.5	56.5	57.5	56.5	57.4
	PMI Services	60.2	60.5	60.3	60.9	57.7	58.5	58.4	60.8

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