

Industrial production dips

IIP growth fell by (-) 0.1% in Aug'24, from 4.7% in Jul'24, mainly driven by base effect. Mining and electricity output dropped in Aug'24, due to continued monsoon activity, while manufacturing production slowed. On FYTD basis as well, growth eased to 4.2% so far (Apr-Aug'24) from 6.2% last year. Within manufacturing, laggard growth was seen in case of vehicles, electronic/machinery/other transport equipment and basic/fabricated metal & products. In terms of use-based classification, primary and consumer non-durables registered a decline in output, while other sub-heads noted moderation. Going forward, as monsoon activity slowed in Sep'24, we expect some improvement in electricity output. Further, as government spending has seen picking up pace, we expect revival in construction activity and thus increase in output of related products. Also, as festive and harvest season begins, and base effect turns more favorable, we expect headline IIP growth to pick up in the coming months.

IIP growth steady: IIP growth fell by (-) 0.1%, following 4.7% growth in Jul'24, (downwardly revised from 4.8%). This was much lower than BoB's estimate of 0.5% increase. Base effect was also at play (10.9% in Aug'23). Due to the same reason, both mining (-4.3% versus 3.8% in Jul'24) and electricity (-3.7% versus 7.9%) output recorded a decline in Aug'24. Apart from the base effect, continued rains in Aug'24 also impacted electricity demand and mining activity. Manufacturing production also slowed (1% versus 4.4%).

Within manufacturing, a total of 14 sub-sectors noted slower growth in Aug'24, and 9 sub-sectors recorded improvement in growth. Major drag in production was visible on account of sectors like machinery and other transport equipment, basic/fabricated metal & products, motor vehicles and electrical equipment. On the other hand, production of food products, textiles and apparels improved in Aug'24. Textile sector may have garnered momentum due to political tensions in Bangladesh at that time.

This implies, on FYTD basis (Apr-Aug), IIP growth this year (4.2%) is slightly lower than what was seen last year during the same period (6.2%). Main drag to overall growth has come from slowdown in output of mining (4.8% versus 8.3%) and manufacturing (3.6% versus 6%). In contrast, electricity output has remained higher in this fiscal so far (7.1% versus 5.4%) due to record summer heat this year.

Use-based classification: Within use-based, primary goods (-2.6% versus 5.9% in Jul'24) and consumer non-durables (-4.5% versus -4.3%) recorded a decline in output in Aug'24, while other sub-heads noted moderation. Significant easing was registered in production of capital goods (0.7% versus 11.8%), and consumer durables (5.2% versus 8.3%). This was followed by slowdown seen in production of intermediate (3% versus 6.4%) and infra goods (1.9% versus 4.6%). Slowdown in both consumer durables and non-durables is worrying. However we expect a turnaround from next month.

Way forward: IIP growth is showing signs of lagging behind on FYTD basis. While this is partly due to base effect, it also signals demand side pressures. We believe this is due to seasonal factors. Excess rains starting from July end and continuing well into Aug'24, impacted both industrial and personal consumption demand. However, with improvement in Kharif sowing, onset of festive season in the country, and revival in government spending, we expect this trend to reverse in the coming months. Growth will also get support from fading unfavorable base effect.

Table 1: IIP growth dips in Aug'24

Sectoral (%)	Weight	Jun-24	Jul-24	Aug-24	Apr-Aug'23	Apr-Aug'24
IIP	100.0	4.7	4.7	(0.1)	6.2	4.2
Mining	14.4	10.3	3.8	(4.3)	8.3	4.8
Manufacturing	77.6	3.2	4.4	1.0	6.0	3.6
Electricity	8.0	8.6	7.9	(3.7)	5.4	7.1
Use-Based						
Primary Goods	34.1	6.3	5.9	(2.6)	6.1	4.8
Capital Goods	8.2	3.8	11.8	0.7	6.7	4.3
Intermediate Goods	17.2	3.0	6.4	3.0	4.2	3.9
Infrastructure and Construction Goods	12.3	7.1	4.6	1.9	13.6	5.9
Consumer Durables Goods	12.8	8.7	8.3	5.2	(1.2)	9.0
Consumer Non-Durables Goods	15.3	(1.5)	(4.3)	(4.5)	7.7	(2.0)

Source: CEIC, Bank of Baroda Research

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