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Uptick in IIP growth

IIP growth improved to 5.2% in Jan'23 from 4.7% in Dec'22, led by improvement in manufacturing and electricity output. Our forecast was 5.1%. Within manufacturing, a broad-based improvement was visible led by electrical, coke and chemical products. Within use-based classification, capital, primary and consumer durable output outshined, signaling steam in the economic engines. However, concerns from global economy continues to impinge on this story. Exports continue to remain a drag, with subdued demand from global quarters. Industrial growth is likely to witness headwinds. The uptick in capex and thrust to infra and construction sector might not be enough and hence the growth in H2FY23 might be lower than anticipated.

IIP growth improves: IIP growth edged upwards to 5.2% in Jan'23 compared with a growth of 4.7% in Dec'22. This was above our estimate of a 5.1% increase. This was led by manufacturing output rising to 3.7% in Jan'23 from 3.1% in Dec'22. Manufacturing sector gained momentum with over 14 out of 23 sub-industries registering improvement. Bulk of this gain was accounted by production of electrical equipment (13.6% versus -0.8%), beverages (13.4% versus 3.3%) and food products (8.3% versus 1.2%). Manufacture of coke (5.1% versus 2.1%) and chemicals (4.2% versus 2%) continued to clock higher growth. Slower pace of contraction was also noticed in manufacture of computers (-29.6% against -37%) and leather products (-0.4% against -11.4%). On the other hand, manufacture of wood products (-12.6%) and wearing apparel (-22.3%) disappointed. Production of pharma goods decelerated down to 9.2% (16% in Dec'22).

Electricity production accelerated to 12.7% against a growth of 10.4% in Dec'22. Moderation was seen in mining production at 8.8% against 10% in Dec'22. On a FYTD basis, IIP growth stands at 5.4%.

Capital and consumer goods shines: Within use-based, capital goods output accelerated to 4-month high to 11% in Jan'23 compared with a growth of 7.8% in Dec'22, led by government push. Primary goods output also improved to 7-month high to 9.6% from 8.4%. Intermediate and infra goods output eased down by 0.1% and 8.1% respectively. Output of consumer non-durable goods also registered moderation at 6.2% (7.6% in Dec'22) noting concerns over rural demand. On other hand, consumer durable goods output contracted at a much slower pace of (-) 7.5% in Dec'22 (-11% in Dec'22) signaling some pickup in domestic demand.

Risk remain for Q4: Concerns over global economic slowdown and elevated inflation remains tantamount to India's growth story too. Exports have been sharply hit as a result of the lackluster demand and is likely to remain worrisome in the coming months. This as result would also hit manufacturing growth, going ahead. Weakness in this sector was also witnessed as manufacturing PMI slowed down to 4-month low of 55.3 in Feb'23. *Against the above backdrop, we expect IIP growth to be much lower than anticipated in H2FY24.*

Table 1: IIP growth edge upwards

Sectoral (%)	Weight	Jan-23	Dec-22	Jan-22	Apr-Jan'23	Apr-Jan'22
IIP	100.0	5.2	4.7	2.0	5.4	13.7
Mining	14.4	8.8	10.0	3.0	5.8	14.3
Manufacturing	77.6	3.7	3.1	1.9	4.8	14.4
Electricity	8.0	12.7	10.4	0.9	10.1	8.5
Use-Based						
Primary goods	34.1	9.6	8.4	1.6	8.0	10.6
Capital goods	8.2	11.0	7.8	1.8	13.6	21.3
Intermediate goods	17.2	0.1	0.6	2.5	4.1	18.5
Infrastructure and construction goods	12.3	8.1	9.1	5.9	7.8	21.6
Consumer durables goods	12.8	(7.5)	(11.0)	(4.4)	2.2	17.3
Consumer non-durables goods	15.3	6.2	7.6	3.1	(0.4)	5.1

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