

Industrial production rebounds

IIP growth rose by 3.1% in Sep'24, following (-) 0.1% decline in Aug'24. Manufacturing growth improved to 3.9%. Mining and electricity sector output rebounded, helped by withdrawal of monsoon and onset of festive season, respectively. Within manufacturing, jump was led by sectors such as pharma, machinery, fabricated metals, motor vehicles and other transport equipment. In terms of use-based classification, both output of both primary and consumer non-durables registered a rebound. Other sub-heads also noted improvement, led by consumer durables and capital goods. However on FYTD basis, in H1FY25, growth eased to 4% from 6.2% last year. Going forward, led by festive demand and onset of harvest season, we expect further improvement in production in the coming months. In addition, as government spending recovers, we expect private investment to also follow. With the end of the monsoon season, construction activity will also pick up pace. Overall, we expect headline IIP growth to perform better in H2 compared with H1.

IIP growth steady: IIP growth rose by 3.1% in Sep'24, following (-) 0.1% decline in Aug'24. This was much higher than BoB's estimate of 2.1% increase. Favourable base effect helped. All three sub-heads recorded an improvement. Manufacturing output rose by 3.9% in Sep'24 versus 1.1% in Aug'24. Helped by onset of festive demand, electricity production was up by 0.5% (-3.7% in Aug'24), and due to withdrawal of southwest monsoon, mining activity also began picking up pace (0.2% versus -4.3%).

Within manufacturing, a total of 17 sub-sectors noted higher growth in Sep'24, and 6 sub-sectors recorded softer growth. Major bump up in production was due to sectors such as- fabricated metal & products, machinery and equipment, other transport equipment, motor vehicles, furniture, pharma, and food & beverages. On the other hand, production of textiles, apparels, leather & products, wood & products, basic metals, computers & electronics fell in Sep'24.

This implies, on FYTD basis (Apr-Sep), in H1FY25 IIP growth (4%) is slightly lower than what was seen last year during the same period (6.2%). Main drag to overall growth came from slowdown in output of mining (4.1% versus 8.7%) and manufacturing (3.7% versus 5.9%). In contrast, electricity output has remained stable in this fiscal so far (unchanged at 6.1%) due to record summer heat this year and withdrawal of monsoon.

Use-based classification: Within use-based classification also, improvement was seen across the board. Output of primary goods (1.8% versus -2.6% in Aug'24) and consumer non-durables (2% versus -4.5%) rebounded in Sep'24, following decline in Aug'24. Amongst the other sub-heads, capital goods (2.8% versus 0.5%) and consumer durables (6.5% versus 5.3%) picked up pace the most. This was followed by improvement in output of intermediate (4.2% versus 3%) and infra/construction goods (3.3% versus 2.2%). Companies improved their production ahead of festive demand. Investment also began reviving, spearheaded by improvement in government spending.

Way forward: IIP growth in H1FY25 was muted compared with last year. While this is partly due to base effect, it also signals demand side pressures during that time. We believe this was due to seasonal factors and from Sep'24 onwards improvement is visible. With withdrawal of Southwest monsoon and

the onset of festive season, companies have begun ramping up their production. Government spending (both centre and states) is also seeing a revival. Helped by improved rural demand and recovery in government and private investment, we expect growth in H2 to be higher than H1.

Table 1: IIP growth bounces back in Sep'24

Sectoral (%)	Weight	Jul-24	Aug-24	Sep-24	Apr-Sep'23	Apr-Sep'24
IIP	100.0	4.7	(0.1)	3.1	6.2	4.0
Mining	14.4	3.8	(4.3)	0.2	8.7	4.1
Manufacturing	77.6	4.4	1.1	3.9	5.9	3.7
Electricity	8.0	7.9	(3.7)	0.5	6.1	6.1
Use-Based						
Primary Goods	34.1	5.9	(2.6)	1.8	6.1	4.8
Capital Goods	8.2	11.8	0.5	2.8	6.7	4.3
Intermediate Goods	17.2	6.4	3.0	4.2	4.2	3.9
Infrastructure and Construction Goods	12.3	4.6	2.2	3.3	13.6	5.9
Consumer Durables Goods	12.8	8.3	5.3	6.5	(1.2)	9.0
Consumer Non-Durables Goods	15.3	(4.3)	(4.5)	2.0	7.7	(2.0)

Source: CEIC, Bank of Baroda Research

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