

## **Industrial production stable**

*IIP growth rose a tad to 4.8% in Jul'24 from 4.7% in Jun'24, supported by jump in manufacturing sector. Mining and electricity output eased in Jul'24, due to monsoon activity. On FYTD basis as well, growth remains stable at 5.2% so far (Apr-Jul'24). Within manufacturing, boost has been provided by industries like refinery products, machinery, and other transport equipment. In terms of use-based classification, only capital goods and intermediate goods recorded an improvement in Jul'24, while other sectors continued to register a slowdown. Going forward, as monsoon activity was strong in Aug'24 as well, we expect some softening in electricity output. However, as government spending has seen picking up pace (capex for centre and revenue for states), we expect revival in construction activity and thus increase in output of related products. Improvement in Kharif sowing is also expected to boost rural demand.*

**IIP growth steady:** IIP growth rose marginally to 4.8% in Jul'24, from downwardly revised 4.7% in Jun'24. This was much lower than BoB's estimate of 6% growth. Barring manufacturing (4.6% in Jul'24 versus 3.2% in Jun'24), other two sub-sectors noted moderation in growth. Mining sector growth eased considerably to 3.7% from 10.3%, while electricity output growth slowed to 7.9% from 8.6% last month. In case of electricity production, good monsoon in Jul'24 led to some moderation in demand. The trend is expected to be similar in Aug'24 as well, and uptick will be visible from Sep'24 onwards with the onset of festive season and retreating monsoon.

Within manufacturing, a total of 13 sub-sectors noted higher growth in Jul'24, and 10 sub-sectors recorded a slowdown. Major bump up in production was visible on account of sectors like tobacco, leather/fabricated metal & products, coke and refined petroleum products, machinery and other transport equipment. On the other hand, production of food products, wood/rubber and products, and basic metals fell in Jul'24

This implies, on FYTD basis (Apr-Jul), IIP growth this year (5.2%) is broadly similar to what was seen last year during the same period (5.1%). Growth has managed to hold ground due to overall increase in electricity output during peak summer months (10.1% versus 2.9%). In contrast, both mining (6.9% versus 7.3%) and manufacturing (4.2% versus 5.1%) sector growth has seen moderation.

**Use-based classification:** Within use-based, except capital goods (12% in Jul'24 versus 3.8% in Jun'24) and intermediate goods (6.8% versus 3.0%), all other categories continued to record a slowdown. Significant moderation was registered in production of consumer non-durables (-4.4% versus -1.5%) and infrastructure and construction goods (4.9% versus 7.1%), followed by consumer durables (8.2% versus 8.7%) and primary goods (5.9% versus 6.3%). Slowdown in output of consumer non-durables indicates that consumption demand remains under pressure. Rainfall activity also seems to have impacted construction activity (private and government), which in turn led to moderation in output of infra and construction goods.

**Way forward:** IIP growth continues to hold ground both on monthly and FYTD basis. Although some demand side pressures impacted production of non-durables, and rainfall activity had an impact on

construction and electricity demand, we expect this trend to reverse in the coming months. Higher than normal monsoon and improvement in Kharif sowing is expected to revive rural demand. Solid improvement in services sector activity in Aug'24 is also a reflection of this. As monsoon was strong in the month of Aug'24 as well, and Markit manufacturing PMI also eased a tad in Aug'24, however it still remains much above its long term average. With the onset of festive season from Sep'24 onwards, revival in central government's capex spending, and retreating monsoon, we expect IIP growth to pick up in the coming months.

**Table 1: IIP growth slows down in Jun'24**

Sectoral (%)	Weight	May-24	Jun-24	Jul-24	Apr-Jul'23	Apr-Jul'24
IIP	100.0	6.2	4.7	4.8	5.1	5.2
Mining	14.4	6.6	10.3	3.7	7.3	6.9
Manufacturing	77.6	5.0	3.2	4.6	5.1	4.2
Electricity	8.0	13.7	8.6	7.9	2.9	10.1
<b>Use-Based</b>						
Primary Goods	34.1	7.3	6.3	5.9	4.6	6.6
Capital Goods	8.2	2.9	3.8	12.0	5.1	5.4
Intermediate Goods	17.2	3.9	3.0	6.8	3.4	4.4
Infrastructure and Construction Goods	12.3	6.3	7.1	4.9	13.1	6.7
Consumer Durables Goods	12.8	12.6	8.7	8.2	(2.9)	10.0
Consumer Non-Durables Goods	15.3	2.5	(1.5)	(4.4)	7.2	(1.5)

Source: CEIC, Bank of Baroda Research

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