

Industrial growth disappoints

IIP growth eased to 0.4% in Dec'21 from 1.3% in Nov'21 led by mining (2.6% from 4.9% in Nov'21) and manufacturing output (declined by -0.1% from an increase of 0.8%). Within manufacturing, output of furniture and electrical equipment disappointed the most. Capital goods output contracted to 11-month low of 4.6% in Dec'21. Notably, IIP growth over a 2-year basis (2.6% in Dec'21) is back up to pre-pandemic levels.

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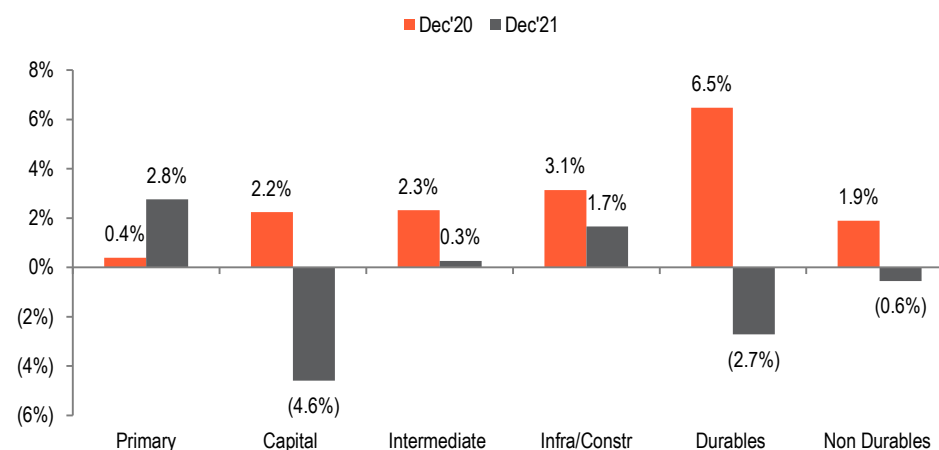
IIP growth moderates: Industrial output softened further for the fourth month in a row to 0.4% in Dec'21 from 1.3% in Nov'21. Mining output moderated to 10-month low of 2.6% in Dec'21 compared with 4.9% in Nov'21. Manufacturing output contracted by 0.1% in Dec'21 compared with an increase of 0.8% in Nov'21. The only bright spot was electricity registering a growth of 2.8% in Dec'21 (2.1% in Nov'21). Notably, over a 2-year horizon, IIP index is 2.6% above the pre-pandemic level. Both manufacturing (increase of 2.5% in Dec'21 versus a contraction of -0.8% in Nov'21) and electricity (up by 8.1% in Dec'21 from a 5.7% in Nov'21) have risen above the pre-pandemic levels. Mining production has contracted at a much slower pace (-0.5% in Dec'21 from -0.8% in Nov'21) on a 2-year horizon.

Manufacturing remains under pressure: Within the 23 broad sectors covered, 10 sectors under manufacturing reported contraction in Output in Dec'21. Amongst these, output of electrical equipment, chemical and chemical products, rubber and plastic products, wood and wood products contracted at a much sharper pace. Moreover, output of wearing apparel (6.1% versus 33.4% in Nov'21), basic metals (1.7% versus from 7.3% in Nov'21), and furniture (9.6% in Dec'21 versus 23.1% in Nov'21) moderated in Dec'21. Over a 2-year horizon, 13 out of the 23 sectors reported contraction in Nov'21.

Capital goods-a drag: Within use-based classification, there has been a broad based decline across sectors. Capital goods output has contracted to 10-month low of 4.6% in Dec'21 compared 2% decline see in Nov'21. Output of primary (2.8% from 3.5% in Nov'21), intermediate (0.3% from 2.4% in Nov'21) and infra goods (1.7% from 3.1% in Nov'21) moderated further as they continued to lose momentum in Dec'21. Output of consumer non-durable contracted to a 5-month low of 0.6% in Dec'21 compared with an increase of 0.5% in Nov'21. However, consumer durable output declined at a much slower pace by 2.75 in Dec'21 (5.4% in Nov'21). Over a 2-year horizon also, there has been a broad-based improvement in all the sectors, with exception of infra goods (4.8% from 5.3% in Nov'21).

Sustainable recovery remains a challenge: During Apr-Dec'21, IIP rose by 15.2% compared with a decline of 13.3% in the same period over the previous year. The rapid spread of Omicron (Covid-19 variant) in Jan'21 had posed a challenge with surge in cases across the country resulting in state-wide restrictions. However, with cases now ebbing and states reopening the economy along with budget announcements, we expect improvement and revival to sustain in Q1FY23.



Fig 1 – Use Based: Growth Rate

Source: CEIC, Bank of Baroda Research

Table 1: IIP growth marginally positive in Dec'21

(% change)	Dec'20	Dec'21	Apr-Dec'20	Apr-Dec'21
Mining	(3.0)	2.6	(11.0)	16.0
Manufacturing	2.7	(0.1)	(14.9)	16.0
Electricity	5.1	2.8	(3.6)	9.4
IIP general	2.2	0.4	(13.3)	15.2

Source: CEIC, Bank of Baroda Research

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