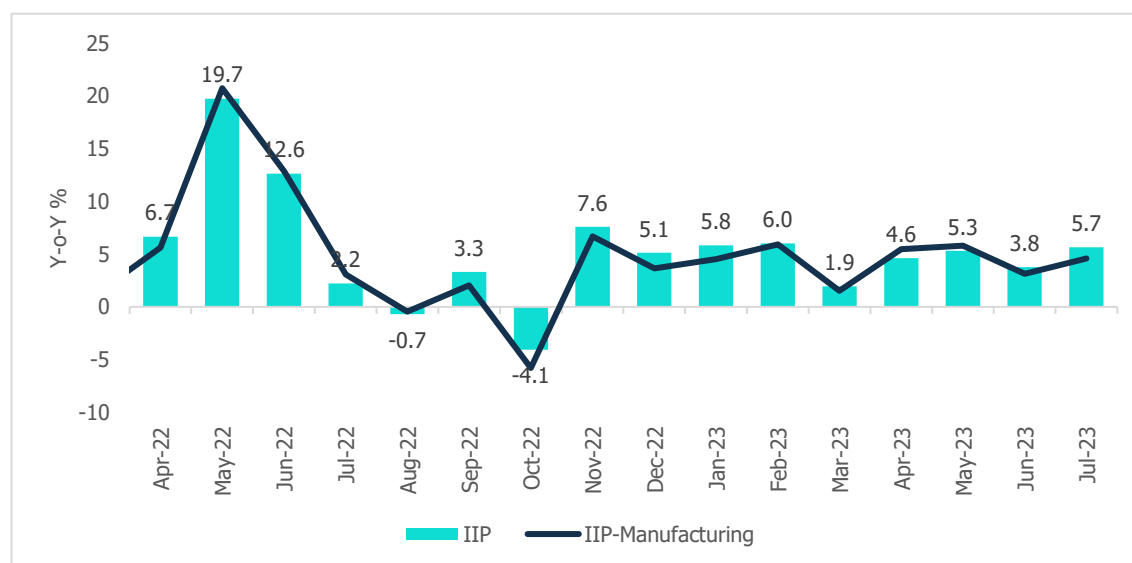


Industrial Output Accelerates to a 5-Month High in July

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India's industrial production rebounded to 5.7% in July from a three-month low of 3.8% in June. This is better than our projection of 5.3% growth during the month. While growth in the mining and electricity sectors continued to be supportive, an improvement in the manufacturing output supported the acceleration in industrial output. The consumer goods segment exhibited a mixed picture with consumer durables output continuing to contract while non-durables output staged an encouraging rebound.

Exhibit 1: Index of Industrial Production (Y-o-Y %)



Source: MOSPI

The manufacturing sector output grew by 4.6% in July, rebounding from a three-month low of 3.1% in the previous month. Year-on-year growth was witnessed in 14 out of the 23 categories within manufacturing. Among the major categories, output of basic metals (constituting a weight of 12.8% in overall IIP) grew by 12.8% in July compared to 15% growth in June. Output of chemicals and chemical products (7.9% weight in IIP) fell sharply by 7.4% in July, contracting for the third consecutive month. Weakness in external demand continued to hurt the performance of export-intensive categories such as wearing apparel (-22.5% growth), and leather and related products (-4% growth). Mining and electricity output recorded an upbeat performance in July, logging a growth of 10.7% and 8%, respectively.

In line with the trend seen in recent months, the infrastructure and construction goods segment continued to put up a strong show rising by 11.4% in July and continuing with the streak of double-digit growth for four months in a row. Factors such as the Central government's strong infrastructure push, and rising capacity utilisation levels have provided an impetus to this segment. The output of consumer goods which have a share of nearly 28% in overall IIP showed a mixed picture. Output of consumer durables continued to contract falling by 2.7% in July. On the other hand, the output of consumer non-durables staged an encouraging rebound growing by 7.4% in July compared to muted growth of 0.3% in the previous month. However, we will have to wait and watch to see if this trend sustains.

Table 1: Component-wise Breakup of IIP Growth (Y-o-Y %)

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Sectoral							
Mining & quarrying	9.0	4.8	6.8	5.1	6.4	7.6	10.7
Manufacturing	4.5	5.9	1.5	5.5	5.8	3.1	4.6
Electricity	12.7	8.2	-1.6	-1.1	0.9	4.2	8.0
Use-based							
Primary goods	9.8	7.0	3.3	1.9	3.6	5.3	7.6
Capital goods	10.5	11.0	10.0	4.4	8.1	2.0	4.6
Intermediate goods	1.4	1.0	1.8	1.7	3.0	4.6	1.9
Infrastructure/construction goods	11.3	9.0	7.2	13.4	11.3	12.9	11.4
Consumer durables	-8.2	-4.1	-8.0	-2.3	1.2	-6.7	-2.7
Consumer non-durables	6.5	12.5	-1.9	11.4	8.4	0.3	7.4
Industrial Output	5.8	6.0	1.9	4.6	5.3	3.8	5.7

Source: MOSPI

Way Forward

The rebound in industrial activity in July is encouraging. The healthy momentum recorded in infrastructure and construction sector is likely to continue aided by the Government's focus on this segment. The consumption demand is likely to see an improvement in the upcoming festive season. However, the elevated food inflation and monsoon-related vagaries could pose a risk for consumption demand. Over a longer period of time, the unfolding of the domestic demand scenario remains critical for industrial activity. External demand is likely to remain weak and that will continue to cast a shadow on export-dependent sectors.

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