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IIP growth moderates

IIP growth eased to 4.3% in Dec'22 from 7.3% in Nov'22, led by a sharp moderation in manufacturing. Within manufacturing, a broad-based slowdown was visible led by computers, wearing apparel and tobacco. Within use-based classification, consumer durable output plunged sharply. With rising fears of a global slowdown, industrial output may come under pressure as exports slowdown. Domestic demand also continues to remain muted, especially in the rural area. Also, with the opening of China, some upward pressure on commodity prices cannot be ruled out which will further impact profitability and production.

IIP growth lags: IIP growth slowed down to 4.3% in Dec'22 from 7.3% in Nov'22. This was below our estimate of a 5% increase. *A sharp decline in exports in the same period (exports fell 12.2% in Dec'22) may explain the lower print.* Manufacturing output moderated to 2.6% in Dec'22 from 6.4% in Nov'22. Slowdown in manufacturing output was broad-based with 20 out of the 23 sub-industries under this group showing a deceleration. Within this, production of computers and other electricals fell sharply by 37% versus an increase of 3% in Nov'22. Manufacture of wearing apparel (-21.9% versus -11.7%) and tobacco products (-12.1% versus -5%) continued to contract. On the other hand, 3 industries, i.e., pharma and chemicals (+16%), paper and paper products (+4.1%) and coke and refined products (+2.1%) showed an improvement.

Moderation was also seen in electricity production (10.4% versus 12.7% in Nov'22). Mining production was virtually stagnant at 9.8% (9.7% in Nov'22). In Q3FY23, IIP growth averaged 2.5% versus 0.7% in Q2FY23 and 2.1% in Q3FY22. On a FYTD basis, IIP growth stands at 5.4%.

Consumer durable output declines sharply: Within use-based, while primary goods output accelerated to 8.3% in Dec'22 from 4.8% in Nov'22, all output in all other segments lost momentum. *Output of consumer durables fell sharply by 10.4% in Dec'22 from 5.3% in Nov'22 due to weakness in global demand.* Intermediate goods output also contracted by 0.3% against an increase of 3.3% in Nov'22. Capital goods production also moderated to 7.6% in Dec'22, after increasing by 21.6% in Nov'22. Output of non-consumer durable segment also slowed down to 7.2% compared with 9.1% in Nov'22. *High inflation and weakness in rural demand may explain this. Similar moderation was also seen in infrastructure and construction goods sector.*

External headwinds rising: It must be noted that while core sector growth improved by 7.4% in Dec'22, exports growth had dipped sharply by 12.2% in the same period, which could explain the lower than expected number. *With global growth expected to slowdown, exports are likely to remain weak which will also impact industrial production. Interestingly, India's manufacturing PMI eased from 57.8 in Dec'22 to 55.4 in Jan'23 as growth in new export orders eased to a 10-month low. This suggests some pressure on IIP growth going forward. Further, re-opening in China has raised the likelihood of a possible resurgence in commodity prices suggesting a further squeeze on profit margins.*

Table 1: IIP growth edge upwards

Sectoral (%)	Weight	Dec-22	Nov-22	Dec-21	Apr-Dec'22	Apr-Dec'21
IIP	100.0	4.3	7.3	1.0	5.4	15.3
Mining	14.4	9.8	9.7	2.6	5.4	16.0
Manufacturing	77.6	2.6	6.4	0.6	4.8	16.1
Electricity	8.0	10.4	12.7	2.8	9.9	9.4
Use-Based						
Primary goods	34.1	8.3	4.8	2.8	7.8	11.8
Capital goods	8.2	7.6	21.6	(3.0)	14.1	24.3
Intermediate goods	17.2	(0.3)	3.3	1.0	4.5	20.8
Infrastructure and construction goods	12.3	8.2	13.2	2.0	7.6	23.9
Consumer durables goods	12.8	(10.4)	5.3	(1.9)	3.4	20.6
Consumer non-durables goods	15.3	7.2	9.1	0.3	(1.2)	5.4

Source: CEIC, Bank of Baroda Research

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