

Industrial Production contracts in Aug'24 by 0.1%

- Industrial production growth, as indicated by IIP, came in negative by 0.1% in Aug'24, from 4.7% in previous month and vs 10.9% in Aug'23. The reading indicated a sharper slowdown, than our estimate of 0.4%. This was the index's first contraction since Oct'22, mainly attributed to high base effect (Aug'23 was driest in more than 100 years thereby boosting IIP) as well as impact of monsoon over industrial activity. Also, auto production and exports in contraction zone has affected manufacturing growth.
- The slowdown was witnessed across sectors with four sectors (mining, electricity, primary goods and consumer non-durables) in the negative zone.
- While manufacturing YoY growth was marginally positive at 1.0% (slowest in 22 months), mining and electricity was negative by 4.3% and 3.7%, respectively.
- Mining growth fell to its lowest level since Feb'21, whereas electricity had contracted to a 50-month low. The decline is likely due to heavy rainfall in Aug'24.
- Within the manufacturing sector, top three positive contributors were basic metals (3.0%), electrical equipment (17.7%), and chemicals (2.7%). Out of the 23 distinct sectors in manufacturing, eleven showed negative growth. IIP growth excluding Pharma which was consistently been below 1.0% since May'24, came in at 0.5% in Aug'24 vs 9.6% in Aug'23.
- Under use-based classification, both primary goods and consumer non-durables growth was negative m-o-m as well as Y-o-Y, indicating skewed demand in the economy. The contraction in primary goods was the first since Feb'21.
- While consumer durables growth at 5.2% slowed compared to previous month, consumer non-durables was negative for the third consecutive month in Aug'24, signaling downward pressure on rural demand and divergence.
- Growth under capital goods, intermediate goods, and infrastructure/construction goods were also lower in Aug'24, compared to previous month as well as corresponding month last year.
- The growth may have slowed in August due to impact of above normal monsoons and lag in capex expenditure growth after the elections.
- Private consumption demand is expected to pick up with the starting of the festive season. Media reports have shown a 26% Y-o-Y jump in e-commerce sales in just one week starting 26th Sep'24, which made up for about 55% of the total e-commerce sales expected during the current season. Going forward, we expect IIP growth to pick up, with a watch on monsoon effect on rural demand along with domestic private sector capex recovery, pickup in exports and overall industrial sector momentum.

Fig 1: IIP contracts in Aug'24; % y/y

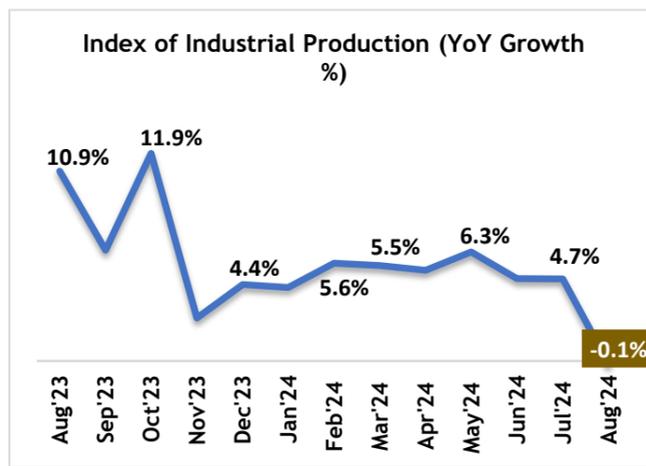


Fig 2: Weakness seen in sectoral Aug'24 IIP growth; % y/y

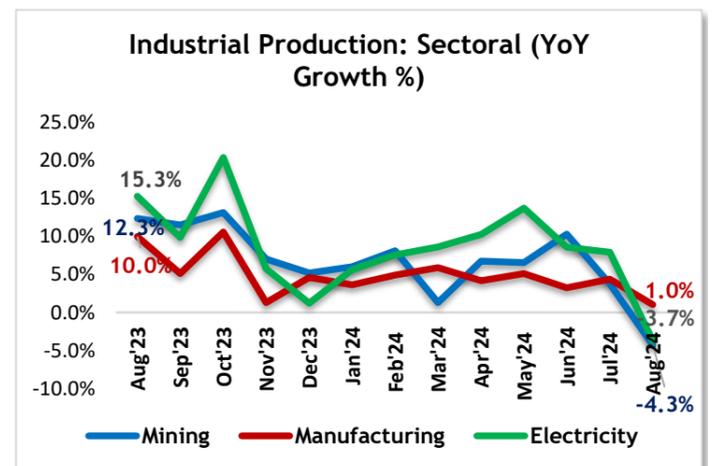


Fig 3: Aug'24 growth weakens under Use-based sectors

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Jun'24	Jul'24	Aug'24
Mining	14.4	10.3%	3.8%	-4.3%
Manufacturing	77.6	3.2%	4.4%	1.0%
Electricity	8.0	8.6%	7.9%	-3.7%
Industrial Production: Use-based				
Primary goods	34.0	6.3%	5.9%	-2.6%
Capital goods	8.2	3.8%	11.8%	0.7%
Intermediate goods	17.2	3.0%	6.4%	3.0%
Infrastructure / Construction Goods	12.3	7.1%	4.6%	1.9%
Consumer durables	12.8	8.7%	8.3%	5.2%
Consumer non-durables	15.3	-1.5%	-4.3%	-4.5%

Source: CEIC, MOSPI, UBI Research

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