Manufacturing drags IIP growth to 4.3% in Dec

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Growth in factory output decelerated to a two-month low of 4.3 per cent in December as manufacturing dragged the overall growth in the Index of Industrial Production (IIP) even as mining and electricity production grew at a robust pace.

Data released by the National Statistical Office (NSO) on Friday showed mining and electricity sectors grew at 9.8 per cent and 10.4 per cent, respectively, while manufacturing managed to grow by 2.6 per cent.

In the first three quarters of FY23 (April- December), IIP grew 5.4 per cent against 15.2 per cent during the year-ago period.

Eleven of 23 manufacturing sectors in the IIP, such as tobacco, textiles, apparel, leather, wood, metals, computers, electrical, transport, furniture, and other manufacturing sectors, registered contraction during December.

Aditi Nayar, chief economist at ICRA, said the growth in December was largely in line with the growth prospects and displays a step up from the anaemic average rise in the previous two months.

"The individual performances of the previous two months were besieged by base effects related to a shift in the festive calendar. However, the disaggregated use-based data remains decidedly uneven. The growth of most available high frequency indicators improved in January 2023 relative to December 2022, partly reflecting a favourable base owing to the onset of the third wave of Covid-19 witnessed in January 2022, based on which we expect the overall IIP growth to rise to 5-7 per cent in the month," she added.

According to the use-based industries, infrastructure goods and capital goods, which are a proxy for investment demand in the economy, grew at a robust 8.2 per cent and 7.6 per cent, respectively.

Consumer non-durables comprising fast-moving consumer goods (FMCG) grew at 7.2 per cent in December, signaling recovery in rural demand. After contracting for four consecutive months, the consumer non-durables sector picked up since November.

However, output in consumer durables (-10.4 per cent) contracted sharply again in December after a one-month gap, indicating the growing weakness in urban demand amid hardening interest rates. Output in consumer durables, which have been contracting from August to October, expanded in November.

Madan Sabnavis, chief economist at Bank of Baroda, said the negative growth in consumer durables was due to volatile demand because the festival season was over and the pent-up demand got diluted.

"On the whole, the infra-related industries are showing good traction, whereas industries like auto, non-electrical machinery, non-metallic minerals, and pharma have witnessed sharp increases. These tend to get linked with infrastructure push provided largely by the government and partly private sector," he added.

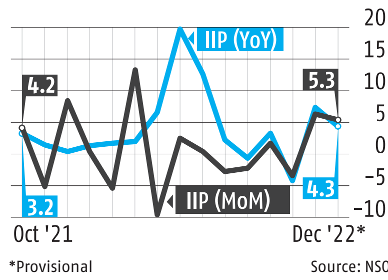
Sabanvis said the growth would continue to be narrowly focused rather than broad-based in the next three months of the year as firms have been raising prices of their products, which will come in the way of demand as will the series of interest rate hikes invoked by the Reserve Bank of India (RBI).

The expansion in the factory output comes in the backdrop of RBI's projection that the Indian economy would grow at 6.4 per cent in 2023-24. Last week, the Economic Survey had cast a wide net for FY23 GDP growth projection between 6-6.8 per cent.

On Wednesday, RBI Governor Shaktikanta Das announced a repo rate hike of 25 basis points, taking the key benchmark interest rate to 6.5 per cent.

MODERATION

Figures in percentage



*Provisional

Source: NSO