

IIP growth jumps to an 8-month high in April due to favourable base



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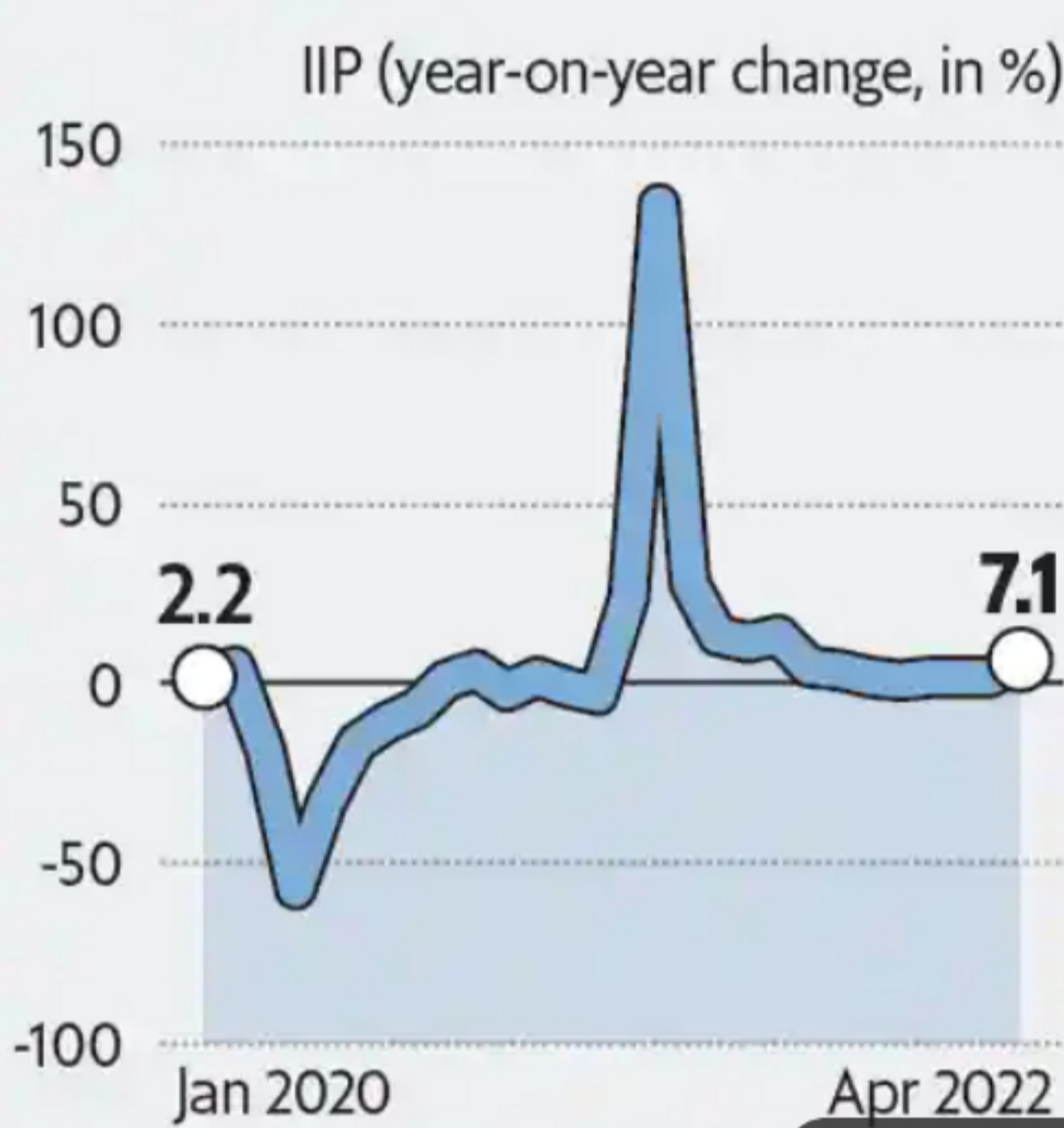
▪ Index of industrial production (IIP) growth rose to 7.1% in April, compared to 2.19% in March on a year-on-year basis

India's industrial activity recovered to an eight month high in April, largely supported by the low base of last year when economic activity was disrupted due to the second Covid-19 wave, even as consumption remains impacted due rising cost pressures in the economy. Index of industrial production (IIP) growth rose to 7.1% in April, compared to 2.19% in March on a year-on-year basis, data released by the National Statistical Office showed on Friday.

Economists caution that rising cost pressures pose downside risks to recovery prospects in the real sense, despite the fact that a low base in the coming months will keep the growth number superficially inflated. "The low base of the second wave of Covid-19 bumped up the IIP growth... in April 2022, although it trailed our expectation...Consumption remains tentative on the whole, with underlying unevenness," said Aditi Nayar, chief economist, ICRA Ltd.

Low base effect

The Index of Industrial Production (IIP) climbed to 7.1% in April.



Source: MOSPI

low base effect

She noted that the daily average generation of GST e-way bills dipped to a four month low in May 2022, which may be an early indication of the disruption being caused by higher prices on household budgets. While the overall IIP is 6.8% higher than the pre-Covid levels of April 2019, even as capital goods and consumer durables show a contraction of 5.8% and 11.8% respectively. "The weak showing of capital goods output relative to the pre-Covid level confirms our view that the uptick in capacity utilisation in the fourth quarter of 2021-22 will not trigger a rapid private sector capacity expansion in light of the uncertainties generated by geo-political developments," added Nayar, who expects IIP growth to be in the range of 17-19% in May on account of very low base.

Manufacturing, which accounts for 77% of the index, reported a 6.3% growth in April compared to a 1.39% growth in the previous month. Capital goods sector grew by 14.7% in April compared to 2.01% in March. Consumer durables, which comprises white goods, posted growth in April after showing contraction for six straight months, growing by 8.5%. compared to a 2.6% decline seen in March. Consumer non-durables, which represents inelastic demand, reported a 0.3% growth in April compared to a 4.6% contraction in March. "The paltry year on year growth in the consumer non-durables...alludes to the K shaped recovery whereby households falling in the lower end of the pyramid are finding their real income being eroded disproportionately by the high inflation," said Sunil Kumar Sinha, Principal Economist, India Ratings and Research.

Infrastructure or construction goods segment grew by 3.8% in April, lower than a 6.6% growth posted in March. Electricity production growth as per the index grew by 11.8% in April, compared to 6.1% growth in the previous month.

Only 5 out of 23 sub-sectors posted a negative growth, with the sharpest decline seen in paper and paper products at 5.4% followed by pharma and medicinal products by 3.6%.

"Though the industrial growth has seen an uptick, it has been very erratic. it needs sustained growth over a long period of time for policymakers to take note of it...A stable industrial growth, inflation within RBI's tolerance range, and a good monsoon year will impact the central bank's decision on interest rates and liquidity," said Nish Bhatt, Founder & CEO, Millwood Kane International. The Reserve Bank of India led Monetary Policy committee this week further hiked repo rate by 50 basis points to 4.9%, a month after an unscheduled rate hike in May by 40 basis points to control inflation.