

India's index of industrial production jumps to 5.2% in May 2023, highest in three months

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India's Industrial production growth (IIP) slipped to a five-month low of 1.1% in March

The index of industrial production in India grew by 5.2% in May 2023 from 4.2% measured in April 2023, according to data released by the Ministry of Statistics and Programme Implementation on Wednesday. In May 2022, the factory output, measured by the Index of Industrial Production (IIP) was at all time high-growth of 19.6%.

India's industrial production growth (IIP) declined to its lowest level in five months at 1.1% in March. However, the figure has been revised to 1.7%. The previous lowest growth rate was observed in October 2022 when it contracted by 4.1%.

According to data from the National Statistical Office (NSO), the manufacturing sector, which contributes to more than three-fourths of the IIP, witnessed a growth of 5.7% in May up from 4.9% in April 2023.

The **power generation sector** which witnessed a decline of 1.1% in April saw a marginal growth of 0.9% in May 2023 year on year. Mining output increased by 6.4% in May from 5.1% in April.

As per Use-based classification, the indices stand at 149.8 for Primary Goods, 102.7 for Capital Goods, 154.1 for Intermediate Goods, and 174.7 for Infrastructure/ Construction Goods for the month of May 2023. Further, the indices for Consumer durables and Consumer non-durables stand at 115.2 and 148.0 respectively for the month of May 2023.

In May, India witnessed remarkable growth in its core sector output which contributes more than 40% of the IIP. The core sector witnessed a substantial jump of 18.1% compared to the same period last year. This surge can be attributed to the amplified production in key industries such as cement, coal, fertilizers, and electricity, surpassing the growth rate of 8.4% recorded in April.

Reactions to the IIP numbers

"5.2% growth in industrial production was supported by growth in capital goods and consumer durables in May 2023, indicating a healthy investment cycle in the economy. Average industrial production growth in the last one year has surpassed the pre-pandemic average growth thus hinting at stronger revival in the Indian economy post pandemic. Infrastructure and construction goods output has continuously grown in the last few months, reflecting an expanding infra and **real estate** sector in the country. The infra push by the government along with the growing demand for real estate in India will further boost the segment," Vivek Rathi, Director Research, Knight Frank India said.

"The IIP growth rose to a three-month high of 5.2% in May 2023, in line with our expectations, led by all the use-based industries except consumer non-durables and infra/construction goods," Aditi Nayar, Chief Economist, Head - Research & Outreach, **ICRA** opined.

"The YoY performance of several high frequency indicators related to freight and traffic movement deteriorated in June 2023 relative to May 2023 such as generation of **GST** e-way bills, cargo traffic at major ports, rail freight traffic, petrol and diesel sales, PV and 2W production as well as vehicle registrations. However, the YoY growth in electricity generation, output of **Coal India** Limited, and finished steel consumption improved in June 2023, relative to the previous month. Based on these trends, ICRA expects the YoY IIP growth to moderate to ~3-4% in June 2023," Aditi added.

June CPI inflation higher-than-estimates

The **CPI inflation** numbers for June 2023 were recorded at 4.81% which was higher than the estimations. This is the fourth month in a row when the inflation numbers are within the tolerance band of the Reserve Bank of India (RBI) of 2% to 6%.

The Consumer Food Price Index (CFPI) has seen a significant jump to 4.4% in June 2023 from 2.9% in May.