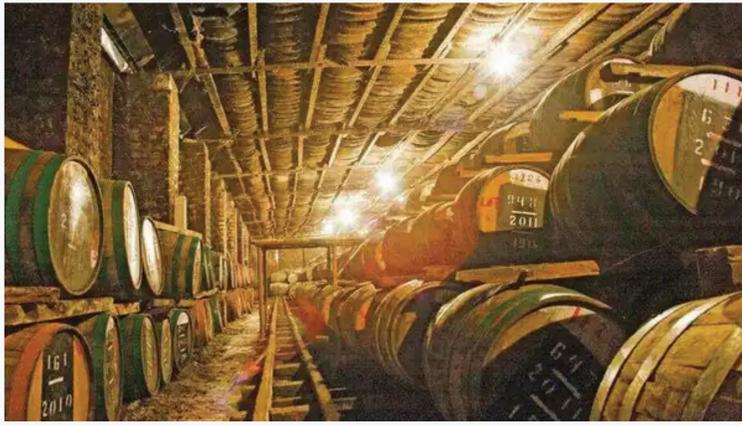


Factory activity moderates on fading favourable base effect

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The tightening of monetary policy may also impact investment in the manufacturing sector. (Photo: HT)

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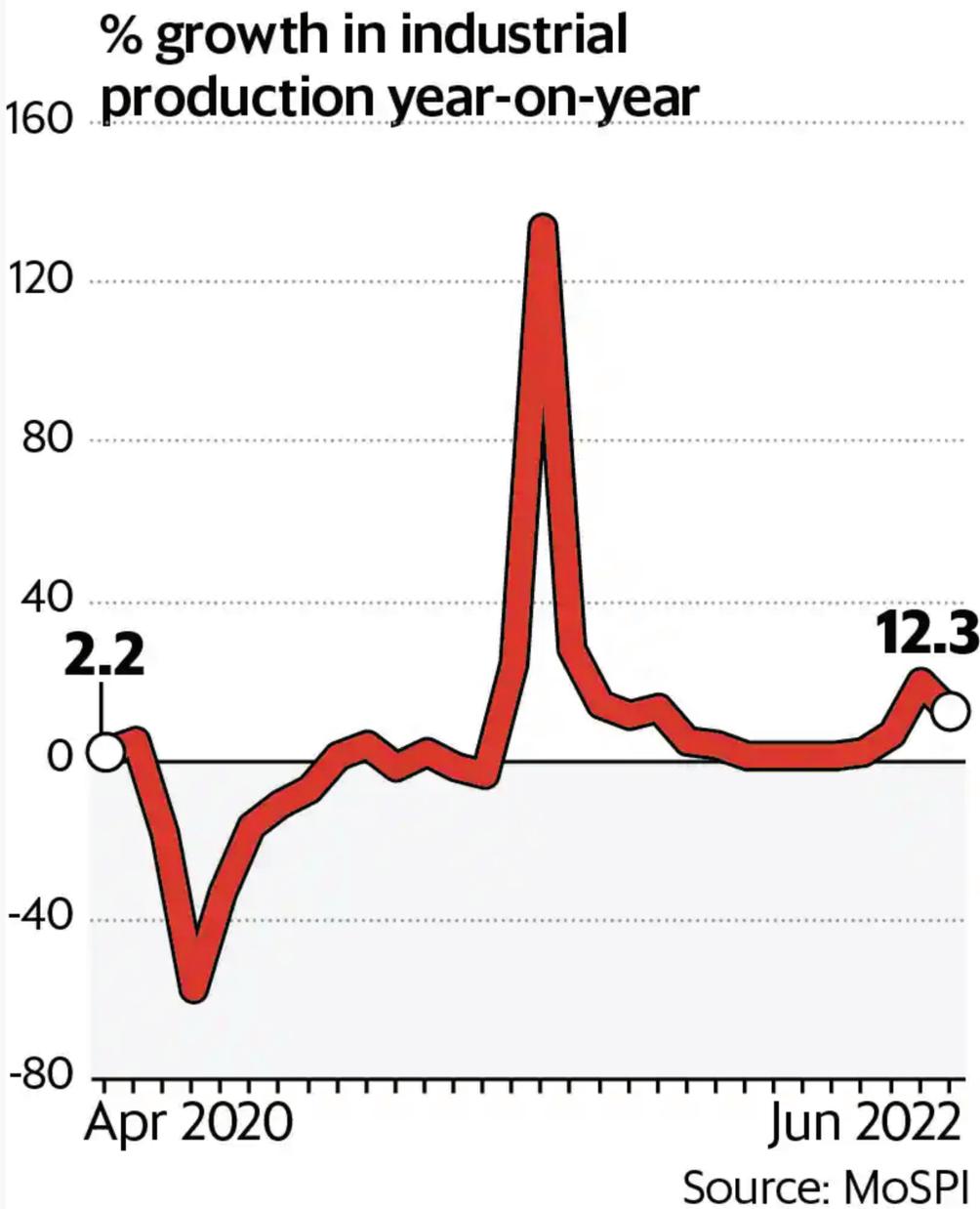
- The growth figure, however, remained in double digits for the second straight month

NEW DELHI : India's industrial activity moderated slightly in June after touching a year's high in the previous month as the favourable base effect faded, but remained in double digits for the second straight month, official data showed.

The manufacturing and electricity sectors posted sharp growth during the month, but economists cautioned that there could be moderation in industrial activity with key indicators such as power generation and exports easing.

The tightening of monetary policy may also impact investment in the manufacturing sector.

Brakes on IIP growth moderated in June as the favourable base effect faded.



The growth in the index of industrial production (IIP) moderated to 12.3% in June from 19.6% in May on a year-on-year basis, data released by the National Statistical Office on Friday showed.

"As anticipated, the normalizing base resulted in a fairly broad-based dampening of the IIP growth in June 2022. Given the moderation in the year-on-year performance recorded by most high-frequency indicators in July 2022, such as electricity generation and non-oil exports, we expect IIP growth to ease to high single digits in that month," said Aditi Nayar, chief economist, ICRA.

The overall IIP for June is 2.8% higher than the pre-covid level of February 2020.

"On a month-on-month basis, the factory output de-grew by 0.12% in June 2022, indicating that a durable recovery is still some distance away. Though the revival of the pace of monsoon in July 2022 is a good sign, moderation in power generation growth to a six-month low of 4.3% in July 2022 indicates some moderation in industrial activity. Therefore, we expect IIP to clock a year-on-year growth of 7%-9% in July 2022," said Sunil Kumar Sinha, principal economist, India Ratings and Research.

Manufacturing, which accounts for 77% of the index, reported a 12.5% growth in June compared to a 20.6% growth in the previous month.

Acceleration in manufacturing growth will have to come from additional investments, but that is likely to be a challenge with rising interest rates, said M. Govinda Rao, chief economic adviser, Brickwork Ratings.

The monetary policy committee of the Reserve Bank of India (RBI) hiked the repo rate by 50 basis points for the third time in a row on 5 August, taking the policy rate to the pre-pandemic levels of 5.4%.

"Though the current economic matrix looks encouraging, the RBI will certainly wait for another month of data to decide on its next steps. The RBI's FY23 inflation forecast is 6.4%, indicating some more rate hikes by the RBI in the remaining part of FY23," said Nish Bhatt, founder and chief executive of real estate investment consultant Millwood Kane International.

IIP in the first quarter of the current fiscal grew by 12.7%. This will contribute to the gross domestic product for the June quarter, which will be released on 31 August.

The capital goods sector grew 26.1% in June from 54.4% in the previous month.