

IIP

10 July 2020

First signs of recovery

India's industrial output declined by 34.7% in May'20 as against a decline of 57.6% in Apr'20. While recovery in FMCG goods is encouraging, capital and durable goods continue to show steep declines. Discretionary and investment demand will recover with a lag. However, broader economic activity is improving as seen in higher manufacturing PMI, electricity demand and E-Way bill generation in Jun'20. We see further improvement in activity in coming months, though rising COVID cases imply risks of local shutdowns.

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IIP contracts: Industrial output declined at a slower pace of 34.7% in May'20 from 57.6% in Apr'20. This was led by contraction in manufacturing which dropped by 39.3% from 67.1% in Apr'20, followed by mining at 21% from 27% in Apr'20. Electricity output too declined at a much slower pace of 15.4% in May'20 from 23% in Apr'20. Early signs of recovery can be seen across other indicators too with gradual improvement in manufacturing PMI to 47.2 in Jun'20 indicating a pickup in economic activity. Even export growth rebounded and improved to 36.5% in May'20 from 60.3% in Apr'20. In Q1FY21 so far (Apr-May'20), industrial growth has declined by 46.2% owing to lockdown imposed due to COVID-19 pandemic versus a decrease of 3.6% in Q4FY20.

Capital and durables goods continue to see steep decline: While capital goods output declined at a slower pace of 64.3% in May'20 as against 92.6%, it was still a steep decline. So is the case with durable goods which contracted by 68.5% in May'20 from a decline of 96% in Apr'20. On the other hand, FMCG goods reported a decline of 11.7% in May'20 as against 48.7% in Apr'20. Even construction goods saw a recovery with a decline of 42% from 84.7% in Apr'20. Intermediate goods production also fell at a slower pace of 44% in May'20 from 65.4% in Apr'20.

Industrial output to recover gradually: With the gradual removal of restrictions, improvement in mobility indices and re-opening up of businesses, industrial production is likely to improve further. Overall pickup in economic activity is further visible with slower pace of decline in both electricity demand (13.6% in Jun'20 from 21.4% in May'20) and E-way bills (12.7% decline in Jun'20 from 53% in May'20). However, uncertainty over COVID-19 vaccine and a possible surge in cases leading to local lockdowns remains a downside risk to this recovery.

KEY HIGHLIGHTS

- IIP growth declined at a slower pace of 34.7% in May'20.
- Pace of decline moderated across the board.
- With gradual removal of restrictions, industrial activity will gain momentum.



FIG 1 – IIP GROWTH SHRINKS AT A LOWER PACE

Sectoral (%)	Weight	May-20	Apr-20	May-19
IIP	100.0	(34.7)	(57.6)	4.5
Mining	14.4	(21.0)	(27.0)	2.3
Manufacturing	77.6	(39.3)	(67.1)	4.4
Electricity	8.0	(15.4)	(23.0)	7.4
Use-Based				
Primary Goods	34.1	(20.0)	(26.6)	2.2
Capital Goods	8.2	(64.3)	(92.6)	(2.1)
Intermediate Goods	17.2	(44.1)	(65.4)	12.5
Infrastructure and Construction Goods	12.3	(42.0)	(84.7)	3.0
Consumer Durables Goods	12.8	(68.5)	(96.0)	0.2
Consumer Non-Durables Goods	15.3	(11.7)	(48.7)	8.1

Source: CEIC, Bank of Baroda Research

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