

Broad based expansion in industrial activity

India's industrial output surprised positively in Oct'20 at 3.6% from an increase of 0.5% in Sep'20. Consumer durables output jumped by 17.6%, a 5-year high, infra goods by 7.8% and FMCG by 7.5%. Even capital goods output increased by 3.3%, first expansion since Jan'19. While high frequency indicators suggest marginal cooling off in Nov'20 as seen in domestic PMIs, E-Way bills, exports and electricity generation. However, government spending is likely to pick-up thus driving growth upwards.

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IIP bounces back: Industrial output jumped to eight month high of 3.6% in Oct'20 compared with 0.5% increase seen in Sep'20. This was driven by sharp pick-up in electricity and manufacturing (both at 8 month high). Electricity production rose by 11.2% from 4.9% in Sep'20 and manufacturing output was up by 3.5% from a 0.2% contraction seen in Sep'20. Only mining output fell, by 1.5% in Oct'20 after increasing by 1.4% last month.

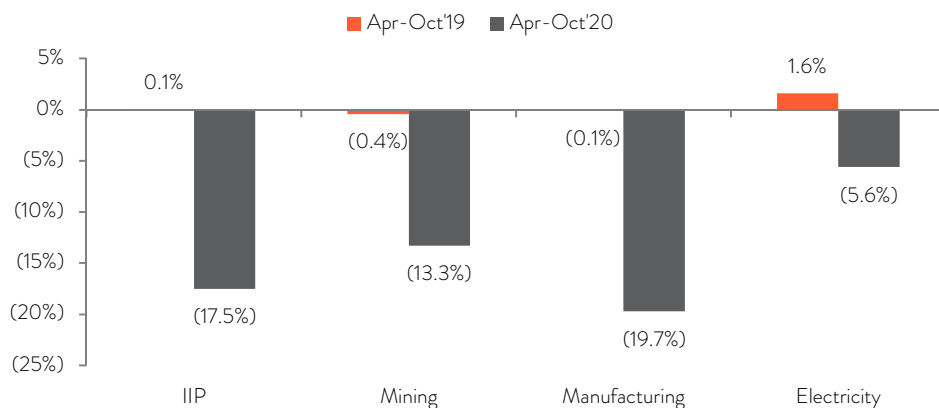
Consumer durables output accelerates: Consumer durables output expanded to a 5-year high of 17.6% in Oct'20 from 3.4% in Sep'20. Both FMCG and infra goods registered sharp growth at 7.5% and 7.8% respectively in Oct'20. So is the case with capital goods which rose by 3.3% in Oct'20 compared with a decline of 1.3% in Sep'20. Even intermediate goods registered positive growth at 0.8% in Oct'20 (decline of 1% in Sep'20). However, growth in primary goods contracted further to 3.3% in Oct'20 from a decline of 1.5% in Sep'20 led by coke and refined petroleum products.

Recovery will be tad slower: While Oct'20 industrial output has surprised positively, growth is showing some signs of tapering off. High frequency indicators such as e-way bills (8.1% in Nov'20 against 21.4% in Oct'20), lower manufacturing PMI (56.3 in Nov'20 from 58.9 in Oct'20), merchandise exports at (-) 9.1% in Oct'20 versus (-) 5.1% in Oct'20 and electricity output (3.5% in Nov'20 against 12.1% in Oct'20) confirms this. However, there is room for upward surprise in government spending which can drive GDP growth. Hence, we believe there is a high probability of upward revision to our GDP growth forecast of (-) 8.2% in FY21.

KEY HIGHLIGHTS

- IIP growth at 3.6% in Oct'20.
- Manufacturing output at 8-month high at 3.5% in Oct'20.
- Consumer durable output rises sharply. Capital goods expands after 21 months.



FIG 1 – IIP GROWTH EASES IN FYTD21

Source: CEIC, Bank of Baroda Research

FIG 2 – IIP GROWTH RISES SHARPLY IN OCT'20

Sectoral (%)	Weight	Oct-20	Sep-20	Oct-19	Apr-Oct'20	Apr-Oct'19
IIP	100.0	3.6	(16.6)	(6.6)	(17.5)	0.1
Mining	14.4	(1.5)	(19.8)	(8.0)	(13.3)	(0.4)
Manufacturing	77.6	3.5	(17.1)	(5.7)	(19.7)	(0.1)
Electricity	8.0	11.2	(10.0)	(12.2)	(5.6)	1.6
Use-Based						
Primary Goods	34.1	(3.3)	(1.5)	(6.0)	(12.7)	0.2
Capital Goods	8.2	3.3	(1.3)	(22.4)	(34.5)	(12.1)
Intermediate Goods	17.2	0.8	(1.0)	8.7	(19.6)	9.4
Infrastructure and Construction Goods	12.3	7.8	2.5	(9.7)	(20.8)	2.7
Consumer Durables Goods	12.8	17.6	3.4	(18.9)	(31.7)	(7.2)
Consumer Non-Durables Goods	15.3	7.5	2.4	(3.3)	(5.9)	3.9

Source: CEIC, Bank of Baroda Research

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