

Broad based slowdown

IIP growth slipped to (-) 1.1% in Aug'19 vs 4.6% in Jul'19, lowest in this series. Manufacturing output contracted by (-) 1.2% and electricity by (-) 0.9%. Capital goods and consumer durables slowed down the most at (-) 21% and (-) 9.1% respectively. Even infra/construction sector contracted. On FYTD basis, industrial production has increased at 2.4% vs 5.3% last year. A low base effect will prop growth in H2 along with higher spending by government. However, underlying weakness implies another 25bps cut by RBI in Dec'19.

Sameer Narang | Sonal Badhan
Jahnvi

chief.economist@bankofbaroda.com

IIP growth plunges: Industrial output dropped to a low of (-) 1.1% in Aug'19 vs 4.6% in Jul'19. The worse than expected performance was led by manufacturing and electricity. While manufacturing output fell to almost 5-year low of (-) 1.2% vs 4.5% in Jul'19, electricity generation was down by (-) 0.9% vs 4.8% in Jul'19. Mining activity too slowed, albeit less sharply (0.1% vs 4.8% in Jul'19). Industrial growth in Jul-Aug'19 has slipped to 1.8% from 2.9% in Q1FY20. However, with government (Centre + states) capex seen reviving, we can expect some improvement in IIP in the coming months

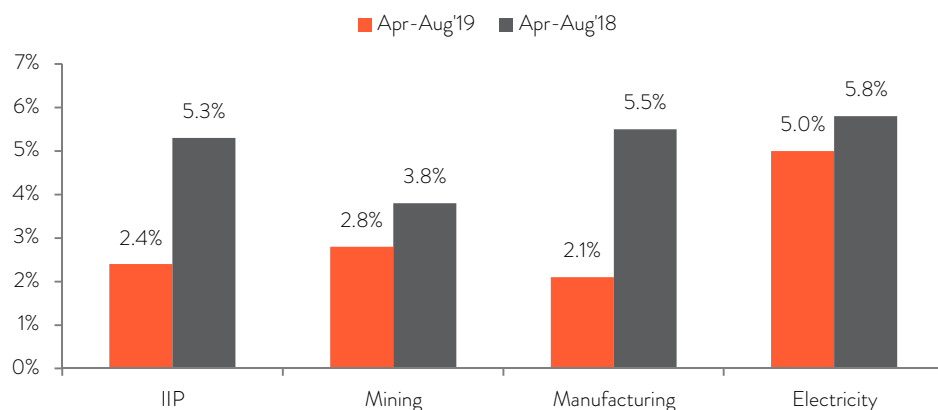
Cap goods and consumer durables dragged growth lower: Capital goods output contracted by (-) 21% in Aug'19 compared with (-) 7.1% in Jul'19. Sharp decline was also seen in consumer durables (-9.1% in Aug'19 compared with -2.7% in Jul'19). Most consumption indicators such as non-oil non-gold imports and passenger car sales point to a slowdown in domestic consumption. Infrastructure and construction goods output has also declined by (-) 4.5% in Aug'19 compared with 3.5% increase seen in Jul'19. Even, consumer non-durables and intermediate goods output has decelerated to 4.1% and 7% in Aug'19 compared with 8.4% and 14.7% growth seen in Jul'19 respectively.

IIP to pick up in H2FY20: IIP growth is expected to pick up in the second half of the FY20 due to base effect (in H2FY19 IIP growth was 2.6% versus 5.2% in H1FY19). In addition, the recently announced hike in Dearness Allowance for central government employees along with expected pick-up in government capex is likely to boost domestic demand. However, muted private sector capex and consumption implies downside risks to growth may continue. We expect another 25bps cut in repo rate by RBI to support growth.

KEY HIGHLIGHTS

- IIP growth falls by (-) 1.1% from 4.6% in Jul'19.
- Manufacturing output declines to nearly 5-year low of (-) 1.2% vs 4.5% in Jul'19.
- Production of capital good and consumer durables act as major drags.



FIG 1 – IIP GROWTH AT BY 2.4% IN FYTD20 VS 5.3% IN FYTD19

Source: CEIC, Bank of Baroda Research

FIG 2 – IIP DECLINES SHARPLY IN AUG'19

Sectoral (%)	Weight	Aug-19	Jul-19	Aug-18	Apr-Aug'19	Apr-Aug'18
IIP	100.0	(1.1)	4.6	4.8	2.4	5.3
Mining	14.4	0.1	4.8	(0.6)	2.8	3.8
Manufacturing	77.6	(1.2)	4.5	5.2	2.1	5.5
Electricity	8.0	(0.9)	4.8	7.6	5.0	5.8
Use-Based						
Primary Goods	34.1	1.1	3.5	2.5	2.4	5.4
Capital Goods	8.2	(21.0)	(7.2)	10.3	(7.9)	7.7
Intermediate Goods	17.2	7.0	14.7	2.9	9.9	1.3
Infrastructure and Construction Goods	12.3	(4.5)	3.5	8.0	(0.1)	8.6
Consumer Durables Goods	12.8	(9.1)	(2.7)	5.5	(4.0)	8.6
Consumer Non-Durables Goods	15.3	4.1	8.4	6.5	6.6	3.4

Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com