

## IIP improves further

**India's industrial output declined by 10.4% in Jul'20 as against a decline of 15.8% in Jun'20. Higher capital and durable goods production drove the recovery. FMCG output registered second consecutive month of positive growth, albeit marginally lower than last month. Broader economic activity continues to improve as seen in domestic and global manufacturing PMIs, E-Way bills and domestic vehicle output. However, rising domestic COVID-19 cases remains a key risk to recovery in economic output.**

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**IIP on path to recovery:** Industrial output contracted by 10.4% in Jul'20 compared with a decline of 15.8% seen in Jun'20. Electricity output now is only 2.5% lower than last year compared with 10% in Jun'20. Mining output is now 13% lower than last year compared with 19.6% decline seen in Jun'20. Manufacturing output too is now 11.1% lower than last year compared with 16% fall seen in Jun'20. We expect further improvement in the coming months given India's manufacturing PMI inched up to 52 in Aug'20 from 46 in Jul'20. During FYTD21, industrial growth is down by 29.2% versus an increase of 3.5% last year.

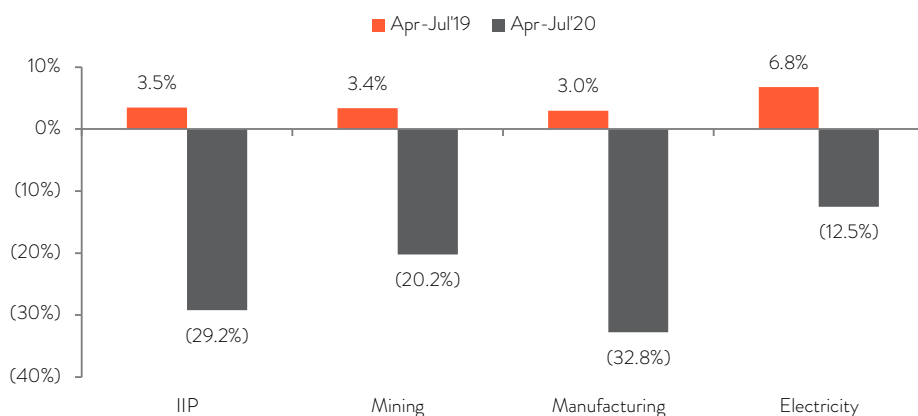
**Broad based recovery:** Across the board recovery was seen with capital goods output declining at a much slower pace of 22.8% in Jul'20 compared with a decline of 37.4%. So is the case with durable goods which contracted by 23.6% in Jul'20 compared with a decline of 34.3% in Jun'20. Even intermediate and construction goods saw quick recovery with a decline of 12.5% (from 23% in Jun'20) and 10.6% (from 18.8% in Jun'20) respectively. However, growth in FMCG output moderated to 6.7% in Jul'20 from 14.3% in Jun'20, while remaining in the positive territory.

**Gradual recovery insight:** With the gradual removal of restrictions, an overall pickup in economic activity is visible with high frequency indicators such as e-way bills (contraction of 3.5% in Aug'20 against 7.3% in Jul'20), higher manufacturing PMI (52 in Aug'20 from 46 in Jul'20) and auto production (decline of 5% in Aug'20 against 31% in Jul'20) showing signs of traction. However, uncertainty over COVID-19 vaccine, recent surge in cases and lower general government capex spending remain a downside risk to India's recovery.

### KEY HIGHLIGHTS

- IIP growth fell at a slower pace of 10.4% in Jul'20.
- FMCG growth moderated. Capital and consumer durables goods recovered.
- With gradual removal of restrictions, industrial activity will gain momentum.



**FIG 1 – IIP GROWTH SIGNIFICANTLY DOWN IN FYTD21**

Source: CEIC, Bank of Baroda Research

**FIG 2 – IIP GROWTH SEES BROAD BASED RECOVERY IN JUL'20**

| Sectoral (%)                          | Weight | Jul-20 | Jun-20 | Jul-19 | Apr-Jul'20 | Apr-Jul'19 |
|---------------------------------------|--------|--------|--------|--------|------------|------------|
| IIP                                   | 100.0  | (10.4) | (15.8) | 4.9    | (29.2)     | 3.5        |
| Mining                                | 14.4   | (13.0) | (19.6) | 4.9    | (20.2)     | 3.4        |
| Manufacturing                         | 77.6   | (11.1) | (16.0) | 4.8    | (32.8)     | 3.0        |
| Electricity                           | 8.0    | (2.5)  | (10.0) | 5.2    | (12.5)     | 6.8        |
| <b>Use-Based</b>                      |        |        |        |        |            |            |
| Primary Goods                         | 34.1   | (10.9) | (14.5) | 3.6    | (17.9)     | 2.8        |
| Capital Goods                         | 8.2    | (22.8) | (37.4) | (7.0)  | (54.8)     | (4.4)      |
| Intermediate Goods                    | 17.2   | (12.5) | (23.0) | 15.7   | (34.2)     | 10.8       |
| Infrastructure and Construction Goods | 12.3   | (10.6) | (18.8) | 2.9    | (38.4)     | 1.0        |
| Consumer Durables Goods               | 12.8   | (23.6) | (34.3) | (2.4)  | (56.0)     | (2.7)      |
| Consumer Non-Durables Goods           | 15.3   | 6.7    | 14.3   | 8.5    | (9.5)      | 7.3        |

Source: CEIC, Bank of Baroda Research

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