Bank of Baroda
India's International Bank

IIP

09 August 2019

IIP growth moderates

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Industrial growth edged down to a four month low of 2% in Jun'19 compared with 4.6% in May'19. An unfavourable base coupled with subdued domestic consumption and capex along with muted exports acted as a drag. Electricity and FMCG were the bright spots. Capital goods, durables and infra slowed the most in Jun'19. Even so, industrial growth in Q1FY20 has fared better than Q4FY19. A similar trend will be seen in H2 on the back of base effect. However, underlying drivers of demand remain weak for now.

KEY HIGHLIGHTS

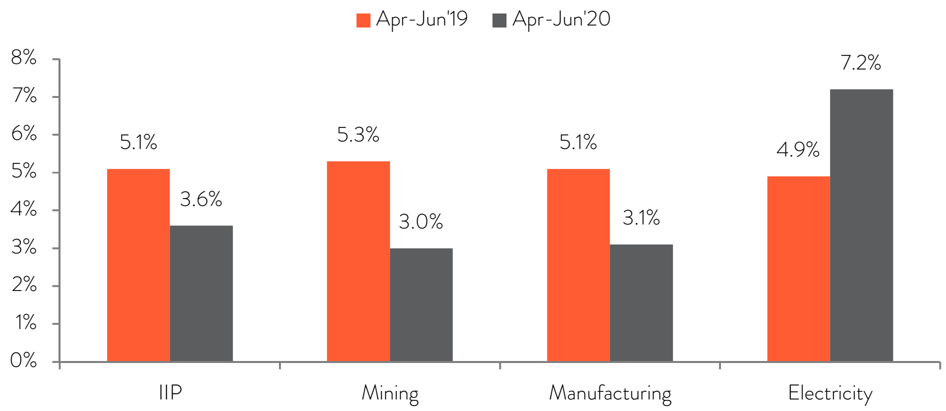
- IIP slows to 4-month low
- Manufacturing and mining pull IIP growth down
- IIP growth to remain subdued in H1FY20

IIP growth slips: Industrial output slowed to a 4-month low of 2% in Jun'19, from 4.6% in May'19 led by manufacturing and mining sectors. While manufacturing growth slipped to 1.2% in Jun'19 from 4.5% in May'19, mining growth fell to 1.6% in Jun'19 from 2.4% increase seen in May'19. Electricity generation was a bright spot at 8.2% in Jun'19 compared with 7.4% in May'19. A part of the dip in IIP growth is attributable to base effect as IIP growth had increased to 7% in Jun'18 from 3.8% in May'18. Industrial growth for Q1FY20 now stands at 3.6% compared with 1.5% in Q4FY19.

Cap goods and durables remain a drag: Capital goods output continued to fall for 2nd consecutive month at (-) 6.5% in Jun'19 compared with (-) 1.4% in May'19. Sharp decline was also seen for consumer durables at (-) 5.5% in Jun'19 compared with 0.3% in May'19. The current consumption and investment slowdown is visible in decline in capital goods output and postponement of consumer discretionary spending. Infrastructure and construction goods output has also fallen by (-) 1.8% in Jun'19 compared with an increase of 1.8% seen in May'19 as centre and states have reduced capex spending. Amidst, the slowdown consumer non-durables or FMCG sector managed to report much better growth at 7.8% in Jun'19 (8.1% in May'19).

H2 growth to be higher than H1: IIP grew by 5.6% in H1FY19 versus 2.6% in H2FY19. Hence, the low base is likely to pull growth higher in H2FY20. Lower oil prices will also act as a positive catalyst. However, the underlying drivers of aggregate demand—domestic consumption and investment and exports remain weak for now. Recovery will be visible once benefit of lower interest rates and oil prices work through the economy.

FIG 1 – IIP GROWTH EASES IN Q1FY19



Source: CEIC, Bank of Baroda Research

FIG 2 – SLOWDOWN IN MANUFACTURING AND MINING IN JUN'19

Sectoral (%)	Weight	Jun-19	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
IIP	100.0	2.0	4.6	7.0	3.6	5.1
Mining	14.4	1.6	2.4	6.5	3.0	5.3
Manufacturing	77.6	1.2	4.5	6.9	3.1	5.1
Electricity	8.0	8.2	7.4	8.5	7.2	4.9
Use-Based						
Primary Goods	34.1	0.5	2.2	9.2	2.6	5.9
Capital Goods	8.2	(6.5)	(1.4)	9.7	(2.4)	8.6
Intermediate Goods	17.2	12.4	13.7	1.5	9.4	0.7
Infrastructure and Construction Goods	12.3	(1.8)	1.8	9.4	2.3	8.5
Consumer Durables Goods	12.8	(5.5)	0.3	13.6	(1.1)	8.0
Consumer Non-Durables Goods	15.3	7.8	8.1	0.2	7.3	1.8

Source: CEIC, Bank of Baroda Research

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