IIP

10 May 2019

Recovery will have to wait

IIP growth slowed down to a 21-month low of (-) 0.1% in Mar'19 led by mining and manufacturing sector. Within manufacturing, consumer and capital goods slowed down the most. Industrial growth has decelerated in FY19 to 3.6% from 4.4% in FY18. The downward trajectory started in Nov'18 as exports cooled-off and has been accentuated with a domestic consumption slowdown. The above backdrop may persist in H1 after which a recovery is likely to play out as government spending and rural consumption kick-starts the economy.

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KEY HIGHLIGHTS

- IIP contracts to 21-month low
- Manufacturing pull IIP growth down
- IIP growth to remain muted in H1FY20

IIP slips to contraction in Mar'19: IIP slowed down to a 21-month low of (-) 0.1% in Mar'19 from 0.1% in Feb'19 led by mining and manufacturing sector. Manufacturing sector declined by (-) 0.4% in Mar'19, unchanged from Feb'19 and mining output increased by only 0.8% in Mar'19 from 2.2% in Feb'19. On the other hand, electricity production improved to 2.2% in Mar'19 from 1.3% in Feb'19.

The decline in IIP was led by capital goods and consumer durables at (-) 8.7% and (-) 5.1% compared with (-) 8.9% and 1.2% respectively in Feb'19. FMCG output also decelerated to 0.3% in Mar'19 from 4.2% in Feb'19. Notably, intermediate goods production continued to contract for the fifth consecutive month. On the brighter side, primary goods at 2.5% and infra/ construction at 6.4% have seen an acceleration.

IIP slips to 3.6% in FY19: IIP growth eased to 3.6% in FY19 compared with 4.4% in FY18 on the back of deceleration in manufacturing activity. Manufacturing output increased by 3.5% in FY19 compared with 4.6% in FY18. Manufacturing output started to dip from Nov'18 onwards led by exports and has been accentuated with a domestic slowdown. Other indices such as electricity and mining also show a similar decelerating trend since Nov'18.

H2 likely to see up-tick in growth: With an escalation of global trade war between US and China, exports are unlikely to see a revival soon. However, domestic consumption demand is likely to rebound on the back of a normal monsoon, stable government, kick-start of government spending and normalisation of stress in NBFC sector. Most of the above factors will play out favourably in H2. Rising oil prices remain a key risk to our view.

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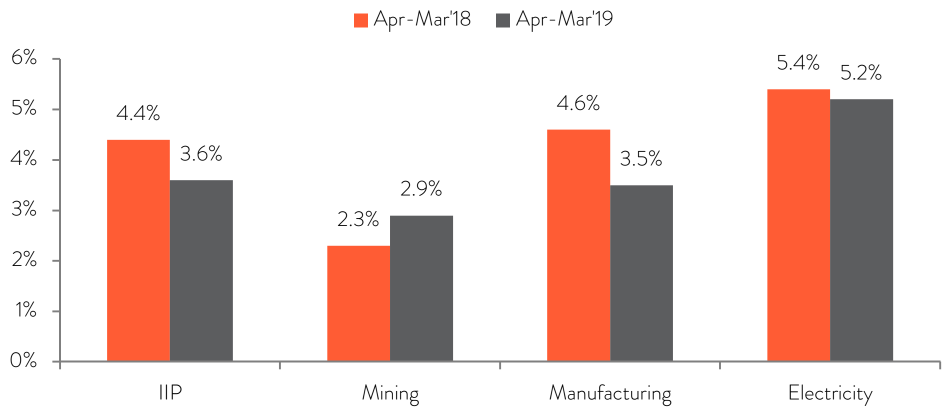
FIG 1 – IIP GROWTH EASES IN FY19



Source: CEIC, Bank of Baroda Research

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

Sectoral (%)	Weight	Mar-19	Feb-19	Mar-18	Apr-Mar'19	Apr-Mar'18
IIP	100.0	(0.1)	0.1	5.3	3.6	4.4
Mining	14.4	0.8	2.2	3.1	2.9	2.3
Manufacturing	77.6	(0.4)	(0.4)	5.7	3.5	4.6
Electricity	8.0	2.2	1.3	5.9	5.2	5.4
Use-Based						
Primary Goods	34.1	2.5	1.3	3.0	3.5	3.7
Capital Goods	8.2	(8.7)	(8.9)	(3.1)	2.8	4.0
Intermediate Goods	17.2	(2.5)	(5.0)	2.5	(0.6)	2.3
Infrastructure and Construction Goods	12.3	6.4	2.1	9.1	7.5	5.6
Consumer Durables Goods	12.8	(5.1)	1.2	6.2	5.3	0.8
Consumer Non-Durables Goods	15.3	0.3	4.2	14.1	3.8	10.6

Source: CEIC, Bank of Baroda Research

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