IIP

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# IIP showing signs of recovery

**India's industrial output declined by 16.6% in Jun'20 as against a decline of 33.9% in May'20. After a span of six months, FMCG output reported a positive growth of 14%. Capital goods, consumer durables, construction and intermediate goods did report lower pace of contraction, which is encouraging. While PMI for Jul'20 has decelerated, a few other indicators are pointing to underlying recovery. Notably, we do expect a weak state government capex which implies muted investment spending in the near-term.**

Sameer Narang
+91 22 6698 5713
chief.economist@bankofbaroda.com

Sonal Badhan
sonal.badhan@bankofbaroda.com

Dipanwita Mazumdar
dipanwita.mazumdar@bankofbaroda.com

**IIP a tad better:** Industrial output fell at a slower pace of 16.6% in Jun'20 versus a decline of 33.9% in May'20. While mining output continued to see a visible contraction of 19.8% in Jun'20 versus 20.5% in May'20, manufacturing output witnessed an improvement with pace of decline now at 17.1% versus 38.4% in May'20. Electricity output too reported a decline of 10% versus 14.9% in May'20. This translates into 35.9% drop in industrial activity in Q1FY21 compared with 3.8% decline in Q4FY20 and a 3% increase in Q1 last year. Q2FY21 might have started on a weaker footing. Manufacturing PMI has eased in Jul'20 to 46 from 47.2 in Jun'20. While we expect contraction to continue in the coming months, the pace of decline will be lower.

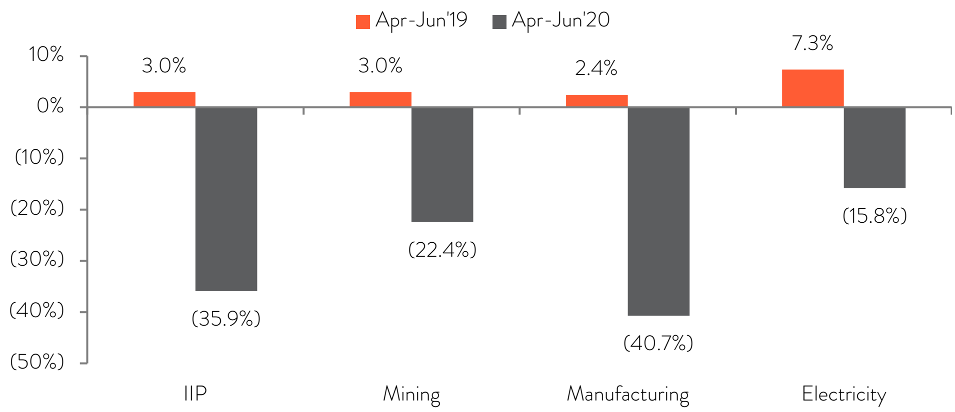
**FMCG output expands:** FMCG goods output rose sharply (after 6 consecutive months of decline) by 14% in Jun'20 from a decline of 11.1% in May'20. Consumer durables output declined at a slower pace of 35.5% against 69.4% in May'20. So was the case with capital goods which declined by 36.9% against 65.2% in May'20. Even construction goods saw a recovery with a decline of 21.3% from 40.7% in May'20. Intermediate goods production also fell at a slower pace of 25.1% against 40.6% in May'20.

**Modest recovery may be visible:** We see a modest recovery playing out in coming months as visible in improvement in electricity demand (8% contraction in Jul'20 against 13.6% decline in Jun'20), E-way bills (48.4mn in Jul'20 against 43.4mn in Jun'20) and auto sales (18.6% decline against 43% in Jun'20). However, further improvement may require unlocking of remaining parts of the economy such as travel, hospitality and entertainment. This is likely to normalise with a lag. In addition, given the sharp decline in capex by states, we believe investment demand will remain weak in the near-term.

## KEY HIGHLIGHTS

- IIP growth fell at a slower pace of 16.6% in Jun'20.
- Pace of decline moderated mainly in manufacturing.
- We expect slower pace of deceleration in the coming months, as domestic and global economy reopens.

### FIG 1 – IIP DECLINED BY 35.9% IN Q1FY21 AGAINST 3% GROWTH IN THE SAME PERIOD OF PREVIOUS YEAR




Source: CEIC, Bank of Baroda Research

### FIG 2 – IIP CONTRACTS AT A SLOWER PACE IN JUN'20

| Sectoral (%) | Weight | Jun-20 | May-20 | Jun-19 | Apr-Jun'20 | Apr-Jun'19 |
|---|---|---|---|---|---|---|
| IIP | 100.0 | (16.6) | (33.9) | 1.3 | (35.9) | 3.0 |
| Mining | 14.4 | (19.8) | (20.5) | 1.5 | (22.4) | 3.0 |
| Manufacturing | 77.6 | (17.1) | (38.4) | 0.3 | (40.7) | 2.4 |
| Electricity | 8.0 | (10.0) | (14.9) | 8.6 | (15.8) | 7.3 |
| **Use-Based** | | | | | | |
| Primary Goods | 34.1 | (14.6) | (19.7) | 0.6 | (20.2) | 2.6 |
| Capital Goods | 8.2 | (36.9) | (65.2) | (6.9) | (64.3) | (3.5) |
| Intermediate Goods | 17.2 | (25.1) | (40.6) | 12.1 | (43.0) | 9.2 |
| Infrastructure and Construction Goods | 12.3 | (21.3) | (40.7) | (1.3) | (48.4) | 0.4 |
| Consumer Durables Goods | 12.8 | (35.5) | (69.4) | (10.2) | (67.6) | (2.7) |
| Consumer Non-Durables Goods | 15.3 | 14.0 | (11.1) | 7.4 | (15.3) | 7.0 |

Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

**Economics Research Department**

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com