

IIP nosedives, case for another rate cut

Industrial growth declined by (-) 4.3%, lowest in the current series. The decline was led by capital goods at (-) 20.7%, followed by mining at (-) 8.5% and consumer durables at (-) 9.9%. Given the extent of the slowdown, even services sector has been impacted with services PMI contracting for Sep'19 and Oct'19. The sharp slowdown will not only impact Q2FY20 GDP print, but also growth in the coming months as consumer demand and credit off-take remains weak. The above backdrop calls for another rate cut by RBI in Dec'19.

Sameer Narang

Jahnvi | Dipanwita Mazumdar

chief.economist@bankofbaroda.com

IIP growth slumps: Industrial output contracted by (-) 4.3% in Sep'19, lowest in the current series, from (-) 1.4% in Aug'19, led by a drop across all sectors. Mining output slipped to more than 5-year low of (-) 8.5% in Sep'19. Manufacturing output too dropped by (-) 3.9% in Sep'19 compared with (-) 1.6% in Aug'19. Within manufacturing the decline was led by motor vehicles (-24.8%), furniture (-23.6%) and fabricated metals (-22%). Electricity generation fell to (-) 2.6% in Sep'19 (-0.9% in Aug'19). In H1FY20, industrial growth now stands at 1.3% versus 5.2% in H1FY19. The slowdown is driven by broad-based drop across sectors. Manufacturing at 1% vs 5.4% last year, mining at 1% vs 3.2% and electricity at 3.8% from 6.2%.

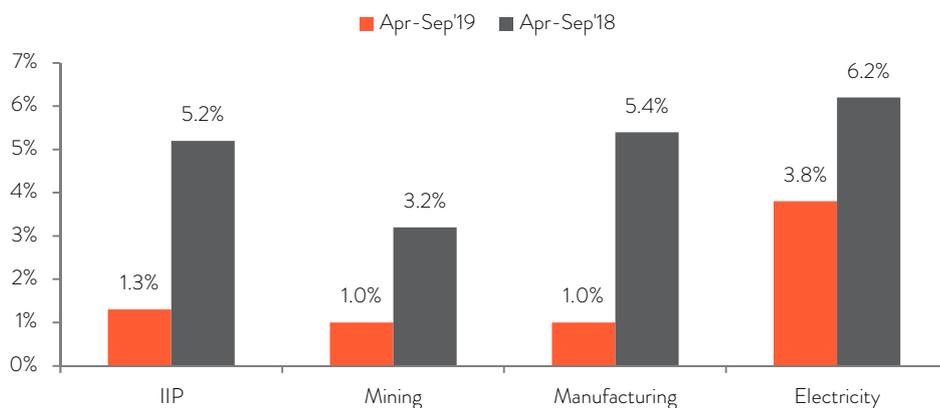
Cap goods and durables dragged growth lower: Capital goods production continued its double digit decline at (-) 20.7% in Sep'19 vs (-) 21.4% in Aug'19. It's the 9th consecutive month of decline. In H1FY20, capital goods output has fallen by (-) 10.2% compared with an increase of 7.6% in H1FY19. Except intermediate goods, all other use based components declined in Sep'19. Even FMCG goods output which was seeing a mild recovery declined by (-) 0.4% in Sep'19 (increase of 3.1% in Aug'19). FMCG output has increased by 5.3% in H1FY20 vs 4% in H1FY19. Consumer durables output also fell at a sharper pace of (-) 9.9% vs (-) 9.1% in Aug'19 (-5% in H1FY20 vs increase of 8.1% in H1FY19). Infra/construction goods also declined by (-) 6.4% in Sep'19 vs (-) 4.8% in Aug'19 (-1.1% in H1FY20 vs increase of 8.7% in H1FY19).

Base may support IIP in H2: Owing to base effect, IIP growth is expected to improve in H2. IIP increased by 5.2% in H1FY19 and 2.6% in H2FY19. However, weak demand and sluggish credit off-take suggests that recovery process may take longer and extend into next financial year. The current growth outlook calls for another rate cut by RBI in Dec'19.

KEY HIGHLIGHTS

- IIP slumps to (-) 4.3%.
- Broad based decline in IIP.
- IIP growth may improve in H2FY20.



FIG 1 – IIP GROWTH EASES IN H1FY20

Source: CEIC, Bank of Baroda Research

FIG 2 – BROAD BASED SLOWDOWN

Sectoral (%)	Weight	Sep-19	Aug-19	Sep-18	Apr-Sep'19	Apr-Sep'18
IIP	100.0	(4.3)	(1.4)	4.6	1.3	5.2
Mining	14.4	(8.5)	0	0.1	1.0	3.2
Manufacturing	77.6	(3.9)	(1.6)	4.8	1.0	5.4
Electricity	8.0	(2.6)	(0.9)	8.2	3.8	6.2
Use-Based						
Primary Goods	34.1	(5.1)	1.0	2.6	1.2	4.9
Capital Goods	8.2	(20.7)	(21.4)	6.9	(10.3)	7.6
Intermediate Goods	17.2	7.0	6.9	1.5	9.3	1.3
Infrastructure and Construction Goods	12.3	(6.4)	(4.8)	9.5	(1.1)	8.7
Consumer Durables Goods	12.8	(9.9)	(9.1)	5.4	(5.0)	8.1
Consumer Non-Durables Goods	15.3	(0.4)	3.1	6.4	4.0	5.2

Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com