IIP

11 October 2019

Broad based slowdown

IIP growth slipped to (-) 1.1% in Aug'19 vs 4.6% in Jul'19, lowest in this series. Manufacturing output contracted by (-) 1.2% and electricity by (-) 0.9%. Capital goods and consumer durables slowed down the most at (-) 21% and (-) 9.1% respectively. Even infra/construction sector contracted. On FYTD basis, industrial production has increased at 2.4% vs 5.3% last year. A low base effect will prop growth in H2 along with higher spending by government. However, underlying weakness implies another 25bps cut by RBI in Dec'19.

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IIP growth plunges: Industrial output dropped to a low of (-) 1.1% in Aug'19 vs 4.6% in Jul'19. The worse than expected performance was led by manufacturing and electricity. While manufacturing output fell to almost 5-year low of (-) 1.2% vs 4.5% in Jul'19, electricity generation was down by (-) 0.9% vs 4.8% in Jul'19. Mining activity too slowed, albeit less sharply (0.1% vs 4.8% in Jul'19). Industrial growth in Jul-Aug'19 has slipped to 1.8% from 2.9% in Q1FY20. However, with government (Centre + states) capex seen reviving, we can expect some improvement in IIP in the coming months

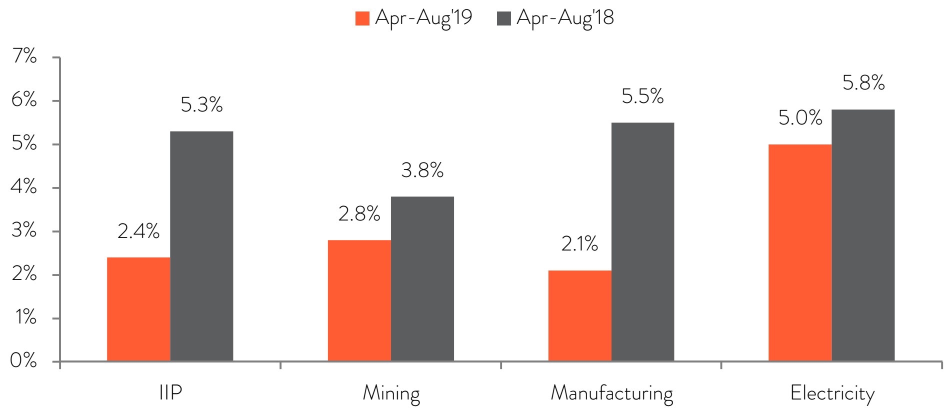
Cap goods and consumer durables dragged growth lower: Capital goods output contracted by (-) 21% in Aug'19 compared with (-) 7.1% in Jul'19. Sharp decline was also seen in consumer durables (-9.1% in Aug'19 compared with -2.7% in Jul'19). Most consumption indicators such as non-oil non-gold imports and passenger car sales point to a slowdown in domestic consumption. Infrastructure and construction goods output has also declined by (-) 4.5% in Aug'19 compared with 3.5% increase seen in Jul'19. Even, consumer non-durables and intermediate goods output has decelerated to 4.1% and 7% in Aug'19 compared with 8.4% and 14.7% growth seen in Jul'19 respectively.

IIP to pick up in H2FY20: IIP growth is expected to pick up in the second half of the FY20 due to base effect (in H2FY19 IIP growth was 2.6% versus 5.2% in H1FY19). In addition, the recently announced hike in Dearness Allowance for central government employees along with expected pick-up in government capex is likely to boost domestic demand. However, muted private sector capex and consumption implies downside risks to growth may continue. We expect another 25bps cut in repo rate by RBI to support growth.

KEY HIGHLIGHTS

- IIP growth falls by (-) 1.1% from 4.6% in Jul'19.
- Manufacturing output declines to nearly 5-year low of (-) 1.2% vs 4.5% in Jul'19.
- Production of capital good and consumer durables act as major drags.

FIG 1 – IIP GROWTH AT BY 2.4% IN FYTD20 VS 5.3% IN FYTD19



Source: CEIC, Bank of Baroda Research

FIG 2 – IIP DECLINES SHARPLY IN AUG'19

Sectoral (%)	Weight	Aug-19	Jul-19	Aug-18	Apr-Aug'19	Apr-Aug'18
IIP	100.0	(1.1)	4.6	4.8	2.4	5.3
Mining	14.4	0.1	4.8	(0.6)	2.8	3.8
Manufacturing	77.6	(1.2)	4.5	5.2	2.1	5.5
Electricity	8.0	(0.9)	4.8	7.6	5.0	5.8
Use-Based						
Primary Goods	34.1	1.1	3.5	2.5	2.4	5.4
Capital Goods	8.2	(21.0)	(7.2)	10.3	(7.9)	7.7
Intermediate Goods	17.2	7.0	14.7	2.9	9.9	1.3
Infrastructure and Construction Goods	12.3	(4.5)	3.5	8.0	(0.1)	8.6
Consumer Durables Goods	12.8	(9.1)	(2.7)	5.5	(4.0)	8.6
Consumer Non-Durables Goods	15.3	4.1	8.4	6.5	6.6	3.4

Source: CEIC, Bank of Baroda Research

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