बैंक ऑफ़ बड़ौदा Bank of Baroda

IIP

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Industrial growth rebounds in Feb, will slip in March

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Industrial growth rose to a 7-month high of 4.5% in Feb'20 from 2.1% in Jan'20. The acceleration was led by mining at 10% and electricity at 8.1%. Manufacturing output was also higher at 3.2%. Consumption and investment were weak. Next few readings will see a large decline as impact of lockdown will be visible. Barring pharma and a few essential goods, most capacity as of now is lying idle. However, manufacturing sector is likely to rebound faster as shop floors adjust to social distancing. Services sector will take longer.

IIP growth accelerates: Industrial output rose by 4.5% in Feb'20 to its highest in 7-months, from 2.1% in Jan'20. The acceleration was led by mining which expanded by 10% from 4.4% in Jan'20, followed by electricity at 8.1% from 3.1% in Jan'20. Manufacturing output also improved to an increase of 3.2% from 1.6% in Jan'20. Within manufacturing, basic metals (increased by 18%), chemicals products (up by 8%) and other non- metallic products (up by 8%) were the biggest contributors to growth. In Q4FY20 so far (Jan-Feb'20), industrial growth has improved to 0.9% versus (-) 1.6% in Q3. The revival is driven by all three components: electricity output at 1.5% versus decline of 6% in Q3, mining at 1.9% versus drop of 0.1% in Q3 and manufacturing at 0.6% versus dip of 1.3% in Q3.

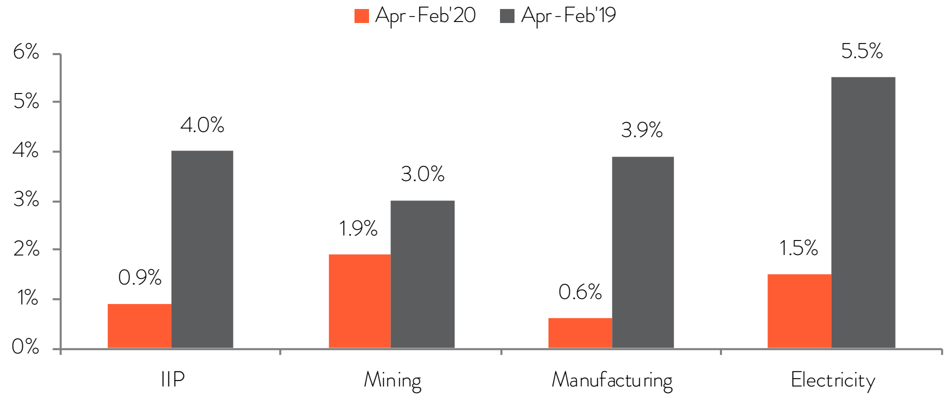
Intermediate and primary goods supported growth: Intermediate goods output rose by 22.4% in Feb'20 versus 15.8% in Jan'20 within which MS slabs, fragrances/oil essentials were the biggest contributor to growth. Primary goods output also rose by 7.4% versus 1.8% in Jan'20 led by electricity and refinery products. Infrastructure & construction goods rose by 0.1% versus a decline of 2.2% in Jan'20. FMCG output remained flat compared to a contraction of 0.3% in Jan'20. Capital and consumer durables both declined sharply by 9.7% in Feb'20 compared with a fall of 4.3% in Jan'20 and 6.4% versus a decline of 4% in Jan'20 respectively.

Industrial output to decline: With most manufacturing facilities apart from essential goods in the country under lockdown to tackle the COVID-19 outbreak, industrial production will be severely impacted in the coming days and weeks. Resumption will be gradual and normalcy will be returned in a phased manner. Given the above backdrop, we believe industrial output will see a decline in Q1FY21.

KEY HIGHLIGHTS

- IIP rose to 4.5% in Feb'20 versus 2.1% in Jan'20.
- Led by mining, electricity, primary and intermediate goods.
- COVID-19 to impact growth lower in near term.

FIG 1 – BROAD BASED SLOWDOWN



Source: CEIC, Bank of Baroda Research

FIG 2 – IIP GROWTH REBOUNDS IN JAN'20

Sectoral (%)	Weight	Feb-20	Jan-20	Feb-19	Apr-Feb'20	Apr-Feb'19
IIP	100.0	4.5	2.1	0.2	0.9	4.0
Mining	14.4	10.0	4.3	2.2	1.9	3.0
Manufacturing	77.6	3.2	1.6	(0.3)	0.6	3.9
Electricity	8.0	8.1	3.1	1.3	1.5	5.5
Use-Based						
Primary Goods	34.1	7.4	1.8	1.3	1.1	3.6
Capital Goods	8.2	(9.7)	(4.3)	(9.3)	(11.4)	4.1
Intermediate Goods	17.2	22.4	15.8	(5.0)	12.2	(0.3)
Infrastructure and Construction Goods	12.3	0.1	(2.2)	1.9	(2.1)	7.5
Consumer Durables Goods	12.8	(6.4)	(4.0)	0.9	(6.2)	6.4
Consumer Non-Durables Goods	15.3	0.0	(0.3)	5.0	2.0	4.3

Source: CEIC, Bank of Baroda Research

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