

## IIP

10 January 2020

**IIP improves marginally**

**Industrial growth rose to 4-month high of 1.8% in Nov'19 from (-) 4% in Oct'19. The improvement was led by manufacturing at 2.7% and mining at 1.7%. Intermediate and FMCG output rose by 17.1% and 2% respectively. While manufacturing PMI did hit a 7-month high of 52.7 in Dec'19 (51.2 in Nov'19), we believe recovery will be gradual as government spending will remain muted. Private sector and household demand will remain lukewarm given, capacity utilisation is at 69% and consumer confidence is at 5-year low.**

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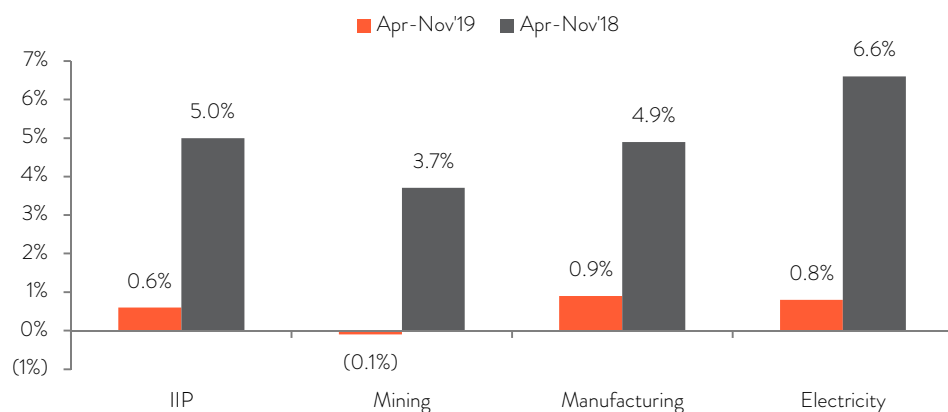
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**IIP growth sees revival:** Industrial output rose by 1.8% in Nov'19 to its highest in 4-months, and up from (-) 4% in Oct'19. Rebound was seen in mining output which expanded by 1.7% from (-) 8% in Oct'19, followed by manufacturing at 2.7% from (-) 2.3% in Oct'19. Within manufacturing the improvement was led by wood & wooden products (23.2%), basic metals (12.9%) and electrical equipment (8.6%). Contraction in electricity output also eased to (-) 5% in Nov'19 from (-) 12.2% in Oct'19. In Q3FY20 so far (Oct-Nov'19), industrial growth remains muted at (-) 1.1% versus (-) 0.3% in Q2. Despite improvement in Nov'19, mining and electricity output is far lower in Q3. Manufacturing output has done a tad bit better at 0.2% versus (-) 0.3% in Q2.

**Intermediate and consumer goods supported the growth:** Intermediate goods output rose by 17.1% in Nov'19 versus 22.9% in Oct'19 within which MS slabs, electric heaters and fragrances/oil essentials were the biggest contributor to growth. FMCG output too rose by 2% in Nov'19 (-1.8% in Oct'19). Infra & Construction goods continued to contract at (-) 3.5% in Nov'19 (-9.7% in Oct'19). Primary goods rebounded, in-line with mining, to (-) 0.3% in Nov'19 vs (-) 6% in Oct'19. Capital goods production declined at a slower pace of (-) 8.6% in Nov'19 from (-) 22% in Oct'19. Consumer durable production also showed some semblance of stability as it dropped by only (-) 1.5% in Nov'19 compared with (-) 18.8% in Oct'19.

**IIP might improve optically in H2FY20:** IIP growth might improve in H2FY20 on the back of base effect and clearance of excess inventory. In H1FY19, IIP growth was 5.2% versus 2.6% in H2FY19. However, recovery is likely to be gradual as domestic and global demand is likely to show gradual improvement. Domestic demand will face headwinds from lower spending by centre and states on the back of muted tax collections.



**FIG 1 – BROAD BASED SLOWDOWN**

Source: CEIC, Bank of Baroda Research

**FIG 2 – IIP IMPROVES MARGINALLY IN NOV'19**

Sectoral (%)	Weight	Nov-19	Oct-19	Nov-18	Apr-Nov'19	Apr-Nov'18
IIP	100.0	1.8	(4.0)	0.2	0.6	5.0
Mining	14.4	1.7	(8.0)	2.7	(0.1)	3.7
Manufacturing	77.6	2.7	(2.3)	(0.7)	0.9	4.9
Electricity	8.0	(5.0)	(12.2)	5.1	0.8	6.6
<b>Use-Based</b>						
Primary Goods	34.1	(0.3)	(6.0)	3.2	0.1	4.8
Capital Goods	8.2	(8.6)	(22.0)	(4.1)	(11.6)	7.2
Intermediate Goods	17.2	17.1	22.9	(4.1)	12.2	0.7
Infrastructure and Construction Goods	12.3	(3.5)	(9.7)	4.8	(2.7)	8.3
Consumer Durables Goods	12.8	(1.5)	(18.8)	(3.0)	(6.5)	7.8
Consumer Non-Durables Goods	15.3	2.0	(1.8)	(0.3)	3.9	4.0

Source: CEIC, Bank of Baroda Research

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