

IIP – October 2020

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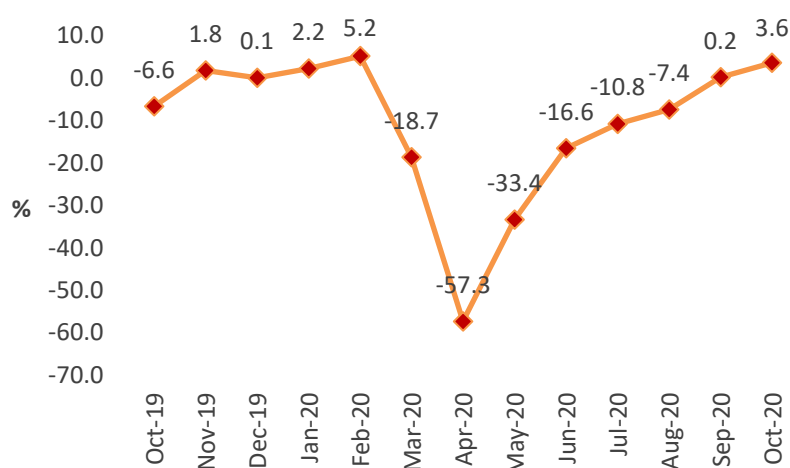
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In October 2020, the industrial production based on Index of Industrial Production (IIP) rebounded to a 8 month high and grew by 3.6% yoy as against a contraction by 6.6% in the corresponding month of last year and the 0.2% growth in September 2020. The industrial output grew despite contraction in eight core sectors by 2.5% in October 2020, which has nearly 40% weightage in IIP and was *also against CARE Ratings' expectations of a fall by (-)1.2% in October 2020.*

The growth during the month has been supported by favorable base effect which resulted in significant growth registered by the manufacturing and electricity segment. Manufacturing activities rebounded with resumption of activities, festive season pick-up along with favorable base. Based upon the use-based classification, 5 year high growth in consumer durables, capital goods and infrastructure/construction goods output growth at a near 2 year high has aided the overall output to expand suggestive of recovery in investment activities as well as consumer demand during festive season. While the resumption of business activities have played a major role it also needs to be noted that low base too has led to higher growth numbers in October 2020.

Exhibit 1: Index of Industrial Production (YoY%)



Source: MOSPI

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By Economic Activity – October 2020

- **Mining sector** output contracted by 1.5% in October 2020 after registering a growth by 1.4% in September 2020. However, the pace of decline in October 2020 was lower than the 8% fall in October 2019. While lower demand weighed on production, resumption of activities partially capped the downside.

- **Manufacturing** which has the highest weightage (77.6%) in the IIP registered a positive growth for the first time in the past 8 months. The output grew by 3.5% in October 2020 as against a decline by 5.7% in October 2019 and -0.6% de-growth in September 2020. Resumption of business activities with ease in restrictions, festive season and favorable base supported the output during the month.
 - 14 out the 23 sub-industries in the manufacturing segment have recorded a positive growth during the month of October 2020 with double digit growth exhibited by other transport equipment (26.6%), electrical equipment (20.3%), motor vehicles (17.7%), rubber and plastic products (15.5%) among others.
 - 5 industries however witnessed a decline in production namely; paper and paper products (-20.2%), coke and refined petroleum products (-17.3%), reproduction of recorded media (-12.6%), textiles (-7.7%) to name a few.
 - Basic metals which have the highest weightage within the manufacturing sector recorded positive growth of 5.6% in October 2020.
- **Electricity output** increased by 11.2% in October 2020 the highest growth in the past 8 months sustaining expansion for 2nd consecutive month. In October 2019, it had contracted by 12.2%. Increase in power demand from businesses post resumption of activities along with favorable base has supported the double digit growth during the month.

By Use-Based Classification – October 2020

- In October 2020, **primary goods** registered sustained contraction in their output for 8 months in a row while the contraction expanded when compared with the previous month (-1.5% in September 2020). The output de-grew by 3.3%, marginally higher than the 6% decline in October 2019.
- For the first time in nearly 2 years, **capital goods** production increased by 3.3% in October 2020 as against 22.4% contraction in the same month last year suggestive of pick up in investment activities in the country.
- In line with capital goods, the **infrastructure/construction goods** production too grew considerably by 7.8%, highest in the past 22 months supported by favorable base and pick up of infrastructure activities.
- **Intermediate goods** too witnessed positive growth at 0.8% for the first time in the past 8 months though was lower compared with 8.7% growth in October 2019.
- At 17.6%, **consumer durables** output growth was at a 5 year high supported by festive demand pickup and favorable base. In October 2019, consumer durables had contracted by 18.9%.
- **Consumer – non durables** too grew by 7.5% during the month higher than the 4.1% growth a month ago and -3.4% in October 2019.

Table 1: Component wise breakup of IIP growth (YoY%)

	% Growth	Weight	Oct-19	Sep-20	Oct-20	FY20 (Apr-Oct)	FY21 (Apr-Oct)
Sectoral	Mining & quarrying	14.37	-8.0	1.4	-1.5	-0.4	-13.3
	Manufacturing	77.63	-5.7	-0.6	3.5	-0.1	-19.7
	Electricity	7.99	-12.2	4.9	11.2	1.6	-5.6
Used based	Primary goods	34.05	-6.0	-1.5	-3.3	0.2	-12.7
	Capital goods	8.22	-22.4	-3.3	3.3	-12.1	-34.5
	Intermediate goods	17.22	8.7	-1.4	0.8	9.4	-19.6
	Infrastructure/construction goods	12.34	-9.7	0.7	7.8	-2.7	-20.8
	Consumer durables	12.84	-18.9	2.8	17.6	-7.2	-31.7
	Consumer non- durables	15.33	-3.4	4.1	7.5	3.9	-5.9

Source: MOSPI

Cumulative – April – October 2020

During April-October 2020, the IIP contracted by 17.5% on cumulative basis when compared with the 0.1% growth during the corresponding period of last year. The drag has mainly emanated from broad based contraction across sectors – mining, manufacturing and electricity as well as used based segregation – primary, capital, infrastructure, intermediate and consumer goods. Coronavirus pandemic induced nation-wise lockdown and subsequent disruptions in the industrial activities has heavily dragged down the industrial output. The sharp fall in industrial production of capital goods reflects the slowdown in investment activities while decline in consumer durables highlights the weak consumer sentiments in the economy.

CARE Ratings' View:

The expansion in industrial output in October 2020 is encouraging. However, the momentum may moderate in the month of November as surge in coronavirus infection cases during the festive period had resulted in the imposition of lockdown restrictions in certain regions of the country. Base effect will be less favourable in November. We need to see if a positive growth rate can be sustained for the next two months to conclude that the worst is over and that industry will move on the positive trajectory.

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