

IIP growth swings upward in Oct'20...

...beating expectations

- Better than both our expectation and market consensus of 0.8% and 1.0%, respectively, IIP grew 3.6% YoY in Oct'20, against growth of only 0.5% in Sep'20 and decline of 6.6% YoY in Oct'19. Notably, IIP contraction for Jul'20/Sep'20 has been revised upward to -10.5%/0.5% from -10.8%/0.2%.
- The upswing in IIP in Oct'20 was led by turnaround in manufacturing activity – it grew 3.5% YoY during the month, for the first time in eight months. Although power generation increased in the double digits, mining activity continued to contract in Oct'20.
- Seven sub-industries within Manufacturing (Food Products, Leather, Chemicals, Pharmaceuticals, Rubber and Plastics, Non-Metallic Mineral Products, and Basic Metals), accounting for 40% weight in the index, exhibited growth in Oct'20.
- Capital goods production grew 3.3% YoY in Oct'20, the first growth seen in two years; infrastructure/construction activity grew at a 22-month fast pace of 7.8% YoY during the month. Consumer goods production also grew at a two-year high of 11.6% YoY, supported by both durables and non-durables.
- Better-than-expected growth in IIP in Oct'20 may have just been a case of high festive demand; whether the growth momentum would continue remains to be seen. In any case, we do not expect the RBI to cut the policy repo rate anytime soon.

- **IIP grows 3.6% YoY in Oct'20...:** Far better than both our expectation and market consensus of 0.8% and 1.0%, respectively, IIP grew 3.6% YoY in Oct'20, against only 0.5% growth in Sep'20 and decline of 6.6% YoY in Oct'19 (*Exhibit 1*). Notably, IIP contraction for Jul'20/Sep'20 has been revised upward to -10.5%/0.5% from -10.8%/0.2%.
- **...largely on account of turnaround in manufacturing activity:** The upswing in IIP in Oct'20 was led by turnaround in manufacturing activity – it grew 3.5% YoY in Oct'20, for the first time in eight months. Although power generation grew in the double digits by 11.2% YoY, mining activity continued to contract during the month (*Exhibit 2*). Within Manufacturing, 15 sub-industries (accounting for 58% weight in the index) grew for the first time (by 0.6% YoY) in eight months in Oct'20. Growth was largely driven by seven of them – Food Products, Leather, Chemicals, Pharmaceuticals, Rubber and Plastics, Non-Metallic Mineral Products, and Basic Metals. These seven industries constituted ~40% of Manufacturing (IIP weight: 78%).
- **Capital goods production grew for the first time in two years:** According to use-based categories, capital goods production grew 3.3% YoY in Oct'20, the first growth seen in two years; infrastructure and construction activity grew at a 22-month fast pace of 7.8% YoY during the month. Additionally, consumer goods production grew at a two-year high of 11.6% YoY, supported by both durables and non-durables. Moreover, while primary goods continued to contract, intermediate goods grew moderately for the first time in eight months in Oct'20 (*Exhibit 3*).
- **Unsure of IIP growth momentum:** Better-than-expected growth in IIP in Oct'20 may have just been a case of high festive demand; whether the growth momentum would continue remains to be seen. In any case, we do not expect the RBI to cut the policy repo rate anytime soon.

Exhibit 1: 3.6% YoY growth in IIP in Oct'20 came in better than expected...

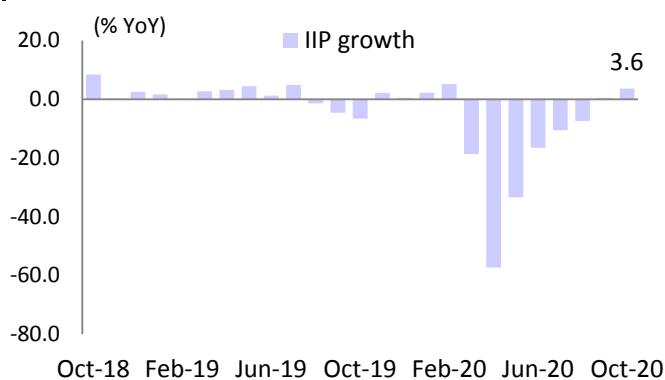
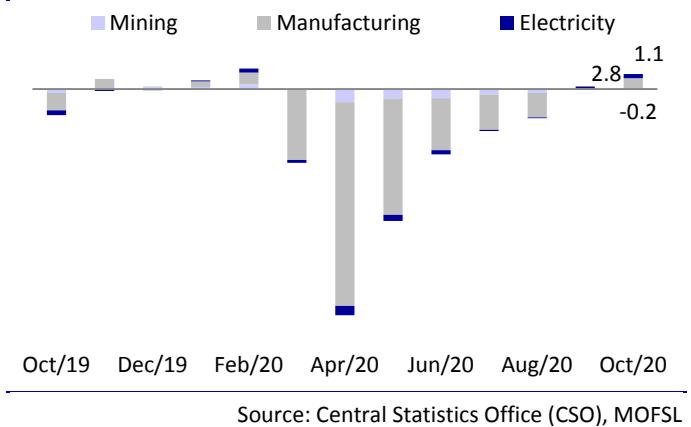


Exhibit 2: ...with maximum contribution from the Manufacturing sector



Source: Central Statistics Office (CSO), MOFSL

Exhibit 3: While capital goods production grew for the first time in two years, infrastructure activity rose at a 22-month fast pace

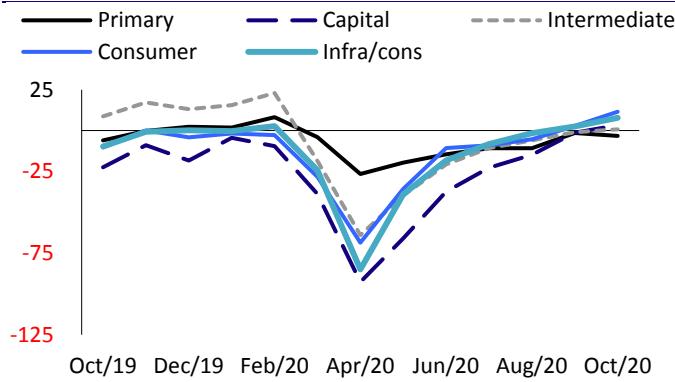
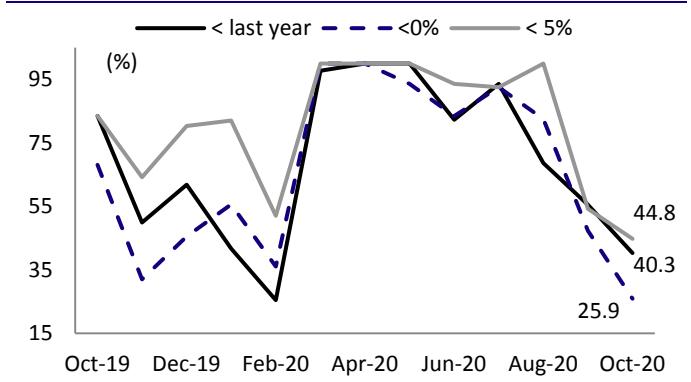


Exhibit 4: Only ~26% of manufacturing sub-industries witnessed decline in Oct'20



Source: CSO, MOFSL

Exhibit 5: IIP and key components (% YoY)

% Y-o-Y	Weight	FY18	FY19	FY20	Oct'19	Aug'20	Sep'20	Oct'20
Industry-based classification								
Mining	14.4	2.3	2.8	1.5	(8.0)	(9.0)	1.4	(1.5)
Manufacturing	77.6	4.7	3.8	(1.4)	(5.7)	(7.9)	(0.2)	3.5
Electricity	8.0	5.3	5.2	0.9	(12.2)	(1.8)	4.9	11.2
IIP	100.0	4.4	3.8	(0.8)	(6.6)	(7.4)	0.5	3.6
Use-based classification								
Basic Goods	34.0	3.7	3.5	0.7	(6.0)	(10.8)	(1.5)	(3.3)
Capital Goods	8.2	4.0	2.7	(13.9)	(22.4)	(14.8)	(1.3)	3.3
Intermediate Goods	17.2	2.3	0.9	9.1	8.7	(6.0)	(1.0)	0.8
Infrastructure/Construction	12.3	5.6	7.3	(3.7)	(9.7)	(1.6)	2.5	7.8
Consumer Goods	28.2	6.2	4.6	(3.7)	(10.3)	(5.3)	2.8	11.6
Durable Goods	12.8	0.8	5.5	(8.7)	(18.9)	(9.6)	3.4	17.6
Non-Durable Goods	15.3	10.5	4.0	0.0	(3.3)	(2.3)	2.4	7.5
Other classifications								
IIP excl Food Products	94.7	4.2	3.4	(1.0)	(6.7)	(7.6)	0.6	3.7
IIP excl Capital Goods	91.8	4.5	3.9	0.0	(5.4)	(6.9)	0.6	3.6

Source: CSO, MOFSL

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