IIP – November 2020

Contact

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-6837 4433

Author:
Dr. Rucha Ranadive
Economist
rucha.ranadive@careratings.com
91-22-6837 4406

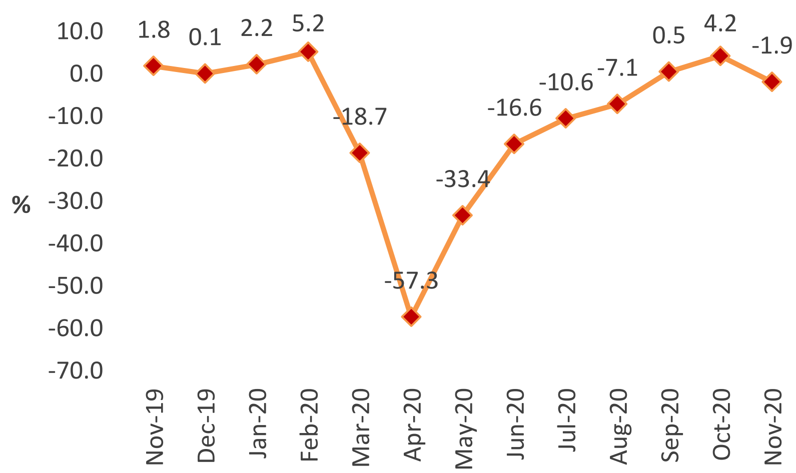
Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3573

After a successive improvement in the previous seven months, the industrial production based on Index of Industrial Production (IIP) fell to a 3 month low registering a contraction by 1.9% in November 2020 as against the 4.2% growth in October 2020 and 1.8% growth in the same month of last year. This is in line with the contraction witnessed in eight core sectors in November 2020 by 2.6%, which has nearly 40% weightage in the IIP. This was against our expectation of 1.5% growth for the month.

As per the first revision for October 2020, the IIP has been revised upwards from 3.6% (QE) to 4.2% supported by upward revision in manufacturing (4.1% v/s 3.5%), intermediate and infrastructure/construction goods.

The growth during the month has been weighed down by a relatively high base effect, moderation in the pent up demand and restriction following surge in infection cases post festive season. The contraction has been broad based with electricity being an exception. Based upon the use-based classification, overall output has also declined across segments barring infrastructure/construction goods, which was primary supported by low base effect.

Exhibit 1: Index of Industrial Production (YoY%)



Source: MOSPI

By Economic Activity – November 2020

- **Mining sector** output contracted at a faster pace by 7.3% in November 2020 (v/s 1.9% growth in November 2019), registering the highest decline in output in the past 3 months. Relative high base and low demand weighed on the production.

- **Manufacturing** which has the highest weightage (77.6%) in the IIP, too contracted in November 2020 by 1.7% as against the 3% growth in November 2019 and 4.1% growth in October 2020. Dissipating pent up demand, intermittent lockdowns announced by the states following surge in the infection cases post festive season must have weighed on the production from the manufacturers.
    - 13 out the 23 sub-industries in the manufacturing segment have recorded a negative growth during the month with double digit growth exhibited by furniture (-26.1%), wearing apparel (-19%), paper products (-23%), beverages (-16%), computer electronic and optical products (-15.4%) among others.
    - The production of manufacture of electrical equipment (0.1%), chemicals (0.2%), other transport equipment (0.4%), motor vehicles, trailers and semi-trailers (0.9%) grew during the month albeit at a lackluster pace.
    - Basic metals which have the highest weightage within the manufacturing sector recorded positive growth of 1.2% in November 2020.
- **Electricity output** grew consistently for a 3rd month in a row albeit at a slower pace supported by favorable base. In November 2020, electricity generation grew by 3.5%, lower than the 11.2% growth in October 2020 though was higher than -5% in November 2019.

By Use-Based Classification – November 2020

- In November 2020, **primary goods** registered sustained contraction in their output for 9 months in a row with output declining by 2.6%, higher than the -0.2% fall in November 2019. The output growth however witnessed improvement sequentially (-3.2% in October 2020).
- After registering growth in the October 2020 (3.5%), the **capital goods** production again contracted by 7.1% in November 2020 indicating subdued investment activities in the country.
- In line with capital goods, the **infrastructure/construction goods** production grew at a lackluster pace of 0.7% in November 2020 when compared with 9.9% growth in October 2020. However, it was better than the -0.7% de-growth witnessed in the month of November 2019.
- **Intermediate goods** contracted by 3% in November 2020 on account of very high base (17.2% growth in November 2019).
- Moderation in the festive demand and restocking activities by the businesses lowered the production in **consumer goods**. Consumer durables and non-durables both contracted by -0.7% in November 2020, the first contraction registered in the past 3 months.

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

	% Growth	Weight	Nov-19	Oct-20	Nov-20	FY20 (Apr-Nov)	FY21 (Apr-Nov)
Sectoral	Mining & quarrying	**14.37**	1.8	-1.3	-7.3	-0.1	-12.5
	Manufacturing	**77.63**	2.7	4.1	-1.7	0.4	-17.3
	Electricity	**7.99**	-5.0	11.2	3.5	0.8	-4.6
Used based	Primary goods	**34.05**	-0.3	-3.2	-2.6	0.1	-11.3
	Capital goods	**8.22**	-8.2	3.5	-7.1	-11.7	-31.1
	Intermediate goods	**17.22**	16.5	2.1	-3.0	10.3	-17.2
	Infrastructure/construction goods	**12.34**	-2.4	9.9	0.7	-2.4	-17.7
	Consumer durables	**12.84**	-1.6	18.0	-0.7	-6.6	-28.1
	Consumer non- durables	**15.33**	1.6	7.1	-0.7	3.5	-5.4

Source: MOSPI

Cumulative – April – November 2020

During April-November 2020, the IIP contracted by 15.5% on cumulative basis when compared with the 0.3% 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 fading of pent up demand and the intermittent lockdowns announced by states is likely to weigh on the industrial production. The industrial output could show nil to marginally negative growth in FY21 from year ago. Investment climate as well as consumer demand would remain subdued for the remainder of the current financial year.

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com