Economy Fact Sheet – Index of Industrial Production
February 2020

IIP contracts by 0.3 percent in December 2019

- *Index of Industrial Production contracted by 0.3 percent in December 2019 vis-à-vis 1.8 percent growth reported in November 2019.*

- *On a cumulative basis, the index reported a weak growth of 0.5 percent during April-December 2019 vis-à-vis 4.7 percent growth reported in the corresponding period previous year.*

- *Manufacturing sector (with a weightage of 77.6 percent) contracted by 1.2 percent in December 2019 vis-à-vis 2.7 percent growth recorded in the previous month. 16 out of 23 manufacturing sub-sectors reported negative growth in December 2019. The industry group 'Manufacture of computer, electronic and optical products' showed the highest negative growth of (-) 24.9 percent followed by (-) 20.3 percent in 'Manufacture of machinery and equipment n.e.c.' and (-) 15.5 percent in 'Printing and reproduction of recorded media'. Electricity generation also remained flat during the month. Mining sector, however, registered a strong growth of 5.4 percent in the month of December as compared to 1.7 percent growth noted in November 2019.*

- *As per used based classification, intermediate goods reported the strongest growth in December 2019. Growth in consumer goods worsened and turned negative after witnessing a slight improvement in the previous month. Both, consumer durables as well as consumer non-durables segment reported contraction. Capital goods, on the other hand, contracted for the twelfth straight month. Primary goods segment, however, witnessed some improvement registering 2.2 percent growth in the month of December.*

Industrial Performance- Monthly (% YoY)

	Dec-18	Oct-19	Nov-19	Dec-19
By Economic Activity				
Mining & quarrying	-1.0	-8.0	1.7	5.4
Manufacturing	2.9	-2.3	2.7	-1.2
Electricity	4.5	-12.2	-5.0	-0.1

Only 7 manufacturing sub sectors reported positive growth in Dec'19	Dec-18	Dec-19
Basic metals	4.4	14.2
Wood and products of wood and cork, except furniture; articles of straw and plaiting materials	10.9	13.2
Leather and related products	-3.6	5.9
Other transport equipment	16.2	3.4
Other non-metallic mineral products	6.0	1.7
Coke and refined petroleum products	-5.4	1.2
Chemicals and chemical products	2.9	0.8

	Dec-18	Oct-19	Nov-19	Dec-19
By Usage				
Primary goods	-1.1	-6.0	-0.3	2.2
Capital goods	4.2	-22.0	-8.6	-18.2
Intermediate goods	-0.8	23.0	17.1	12.5
Infrastructure/ construction goods	9.0	-9.7	-3.5	-2.6
Consumer durables	4.1	-18.8	-1.5	-6.7
Consumer non- durables	6.5	-1.8	2.0	-3.7

Source: Economic Outlook CMIE

- The year 2019 was difficult for the Indian industry and many sectors such as automobile, garments were challenged both by domestic and global factors. The liquidity crisis following the ILF&S episode in August/September 2018 triggered a broad-based and a conspicuous slowdown. Also, demand conditions remained weak and were cited as one of the leading factors bothering businesses. The capacity utilization rates have fallen considerably and a feeling of caution remains to get more investments on board. While we are still recovering from these concerns, the year 2020 seems already beset with difficulties. With the coronavirus outbreak in China, the global supply chains are beginning to get disrupted already.

- Nonetheless, at home there has been some light in sight. The latest data on some lead indicators point towards nascent signs of recovery. The IHS Markit India manufacturing PMI improved to 55.3 in January 2019 while services PMI improved to 55.5. Other indicators like revenue earning freight traffic of major commodities for railways too witnessed improvement in the month of December. The segment reported 4.3% growth during the month. However, the numbers are still too feeble to make any conclusions and a sustained turnaround will take some time.

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FICCI

Performance of Some Key Lead indicators

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
PMI Manufacturing	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3
Air passenger traffic Growth %	10.8	8.4	4.5	-1.1	-5.4	-0.7	4.2	0.8	2.8	0.2	2.9	9.2	1.9	-
Passenger Car Sales Growth %	-9.3	-4.7	-8.4	-6.2	-13.5	-19.8	-20.8	-28.6	-31.6	-26.7	-6.2	-6.9	-6.9	-10.2
Railway Freight Cargo Growth %	3.2	2.8	4.3	6.6	3.2	2.9	2.0	1.6	-6.1	-6.6	-8.1	0.9	4.3	-
Non- Food Credit Growth %	12.8	13.1	13.2	12.3	11.9	11.4	11.1	11.4	9.8	8.1	8.3	7.2	7.0	-
Cement Production Growth %	11.6	11.0	8.0	15.8	2.3	2.8	-1.9	7.7	-5.1	-1.9	-7.7	4.3	5.4	-
Steel Production Growth %	10.1	5.5	4.9	11.4	13.3	13.3	10.8	8.1	3.8	-1.4	-1.9	-0.1	1.9	-
PMI Services Growth %	53.2	52.2	52.5	52.0	51.0	50.2	49.6	53.8	52.4	48.7	49.2	52.7	53.3	55.5
Telecom Subscribers Growth %	0.6	2.5	2.2	-1.9	3.1	2.6	1.5	0.8	0.2	0.3	1.1	-1.5	-	-
Brent Crude $/bbl	56.6	59.4	64.0	66.1	71.2	71.2	64.2	63.9	59.0	62.8	59.7	63.2	67.2	63.7

Source: Economic Outlook CMIE

Findings from FICCI Manufacturing Survey

Current Average Capacity Utilization Levels as Reported in Survey (%)

Sector	Average Capacity Utilization in Q-2 2019-20
Automotive	60%
Capital Goods	72%
Cement and Ceramics	73%
Chemicals, Fertilizers & Pharmaceuticals	84%
Electronics & Electricals	74%
Leather & Footwear	50%
Medical Devices	70%
Textiles Machinery	60%
Metals & Metal Products	78%

- Investment outlook subdued
- Export outlook moderate
- Hiring outlook weak
- High cost of finance, uncertainty of demand, shortage of skilled labour, high imports, requirement of technology upgradation, high power tariff, tariff preferences in countries like Bangladesh, Vietnam and Pakistan (duty free access) to major markets - major constraints affecting expansion plans of the respondents
- Average interest rate paid by the manufacturers has remained almost same at 9.8% p.a. as against 9.9% p.a. during last quarter and the highest rate remains as high as 13%

Source: FICCI Manufacturing Survey, October 2019

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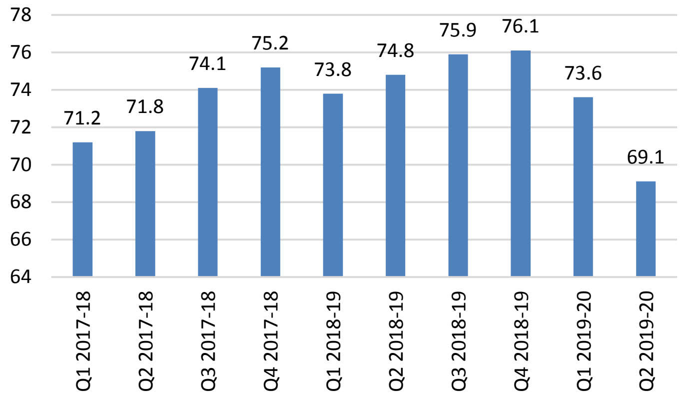
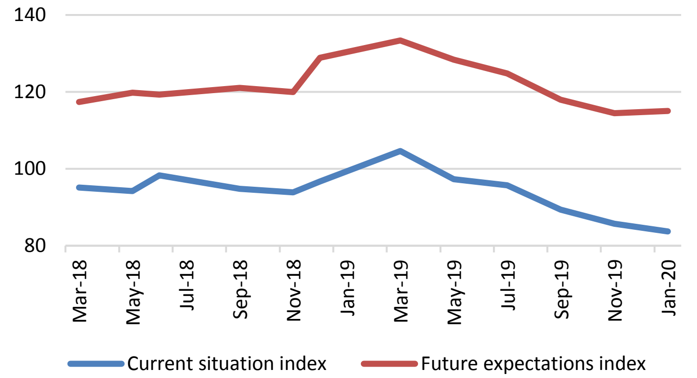
Finding from RBI Surveys





Source: RBI OBICUS & Consumer Confidence Survey

- According to RBI's latest Order Books, Inventories and Capacity Utilisation Survey, at an aggregate level, Capacity Utilization rate declined to 69.1 per cent in Q2:2019-20 from 73.6 per cent in the Q1: 2019-20

- According to RBI's latest Consumer Confidence Survey, the consumer confidence in January 2020 deteriorated further vis-à-vis a year ago, with a decline in current situation index (CSI). The future expectations index, however, indicated a marginal improvement for the year ahead over the previous survey

FICCI Comments

Even though the Index of Industrial Production print for November, 2019 had posted a recovery, the latest numbers for the month of December once again have moved to a negative terrain. The feeble growth pulses reflected in the lead indicators could be difficult to maintain given how the global situation is shaping up. Also, there are no significant signs of a pick up in consumer demand. The festive season gone by was mostly dry – with pick up in both consumer durables and non-durables remaining far from modest.

In the recently announced Union Budget 2020-21, the government did try to do its bit amidst the limited means. The revision in income tax slabs should give some push to the subdued consumption activity. However, we were hoping for a raised corpus for MGNREGA as this would have put more income directly in the hands of people in the rural areas. Also, the government could have considered front-loading the payments under PM-KISAN in the coming year. These could have been be a major sentiment booster. Pushing consumption is critical at this juncture.

Also, more steps were taken in the budget to give a push to investments. Dividend Distribution Tax was abolished, Sovereign Wealth Funds were offered tax concession on investments in priority sectors including infrastructure. Concessional tax regime was extended to the power sector and implementation of the National Infrastructure Pipeline has been expedited. These are all positive measures.

However, a support by the RBI to the government effort could have been a major sentiment booster. While the RBI has lowered the repo rate by 135 basis points since February 2019, the transmission of these rate cuts remains slow and the weighted average lending rates of scheduled commercial banks continue to remain high. Greater support from the central bank by way of a cut in the policy rate by at least 15-25 basis points in the last monetary policy review would have been timely. However, we have noted the steps taken by the central bank to push credit growth particularly in sectors like MSME, automobile and retail through other means at its disposal.