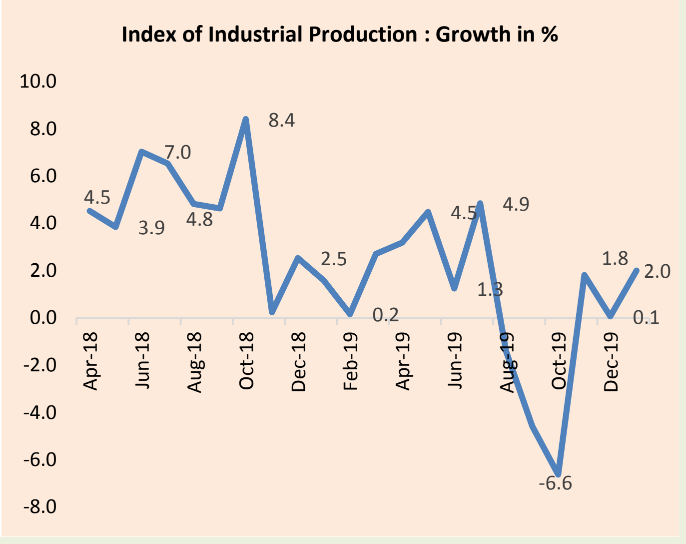
Economy Fact Sheet – Index of Industrial Production
March 2020

IIP inches up to 2.0 percent in January 2020



- *Index of Industrial Production inched up by 2.0 percent in January 2020 vis-à-vis 0.1 percent growth reported in December 2019. In fact, the data point for December 2019 has been revised upwards from (-)0.3 percent growth reported last month (February 2020).*
- *On a cumulative basis, the index reported a weak growth of 0.5 percent over the period April 2019 –January 2020, vis-à-vis 4.4 percent growth reported in the corresponding period previous year.*
- *As per Economic Activity wise classification of IIP, among the three broad segments manufacturing and electricity segments reported an improvement – registering a growth of 1.5 percent and 3.1 percent respectively in January 2020. This marks a recovery from negative growth witnessed in the two sectors in December 2019.*
- *Mining sector, on the other hand, reported moderation in growth after posting a decent recovery in December 2019. The sector reported 4.4 percent growth in January 2020 vis-à-vis 5.7 percent growth recorded in the previous month.*
- *As per used based classification, performance of capital goods segment remained subdued. The segment contracted for the thirteenth straight month. Growth in consumer goods segment reported contraction for second consecutive month in January 2020 with both consumer durables as well as consumer non-durables noting a decline in growth – indicating persistence of muted demand conditions.*

Industrial Performance- Growth (% YoY)

	Jan-19	Nov-19	Dec-19	Jan-20
By Economic Activity				
Mining & quarrying	3.8	1.8	5.7	4.4
Manufacturing	1.3	2.7	-0.7	1.6
Electricity	0.9	-5.0	-0.1	3.1

	Jan-19	Nov-19	Dec-19	Jan-20
By Usage				
Primary goods	1.4	-0.3	2.4	1.8
Capital goods	-3.6	-8.2	-18.0	-4.3
Intermediate goods	-2.8	16.5	13.3	15.8
Infrastructure / construction goods	6.4	-2.4	-2.1	-2.2
Consumer durables	2.5	-1.6	-5.4	-4.0
Consumer non-durables	3.9	1.6	-3.9	-0.3

12 out of manufacturing 23 sub-segments reported negative growth

Manufacturing Sub-segments witnessing highest negative growth in Jan 2020 – Top 3	Jan 2020	Dec 2019
Printing & Recorded Media	-16.3%	-15.5%
Computer, Electronic & Optical Products	-11.6%	-25.0%
Motor Vehicles, Trailers & Semi Trailers	-10.6%	-11.2%

Manufacturing Sub-segments witnessing highest positive growth in Jan 2020 – Top 3	Jan 2020	Dec 2019
Tobacco Products	22.8%	-7.3%
Basic Metals	14.1%	14.5%
Furniture	9.0%	-5.5%

Source: Economic Outlook CMIE

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Non-Food Credit of SCBs: Economic Activity wise – Growth (% Y-o-Y)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
Total	**13.1**	**8.3**	**7.2**	**7.0**	**8.5**
Agriculture and allied activities	**7.6**	**7.1**	**6.5**	**5.3**	**6.5**
Industry	**5.2**	**3.4**	**2.4**	**1.6**	**2.5**
Micro & small	-0.7	-1.4	-0.1	0.1	0.6
Medium	7.0	1.3	-2.4	2.5	2.8
Large	6.1	4.2	3.0	1.8	2.8
Services	**23.9**	**6.5**	**4.8**	**6.2**	**8.9**
Personal loans	**16.9**	**17.2**	**16.4**	**15.9**	**16.9**

Credit growth (y-o-y) slowed to 8.5% In Jan'20, vis-à-vis 13.1% growth in the same month last year. While all major heads have noted a slowdown vis-à-vis January 2019, the fall was most evident in case of services segment.

Besides tourism, hotel & restaurants and real estate sectors, credit to all other segments including transport operators, computer software, shipping, professional services, trade noted a decline.

Investment by All projects– Rs trillion

Quarter	New investment projects announced	Investment projects completed	Investment projects dropped
Q1 2018-19	4.3	1.5	3.9
Q2 2018-19	2.5	1.0	4.1
Q3 2018-19	3.1	1.4	5.7
Q4 2018-19	3.0	2.6	7.1
Q1 2019-20	1.1	0.9	4.3
Q2 2019-20	1.8	0.8	3.7
Q3 2019-20	4.8	1.6	2.2

Source: Economic Outlook CMIE

The third quarter of 2019-20 saw a spike in new investment projects announced. During the quarter the number stood at Rs 4.8 trillion which was the highest in about eleven quarters. The increase comes as a surprise amidst a sentiment of cautiousness among investors. The sudden jump in the value of new projects was led by the proposal of Interglobe Aviation to purchase 300 A320 neo family aircraft. The company made an announcement pertaining to this investment in October 2019. The other large projects announced during the period included a refinery project by Reliance Industries at Jamnagar, Gujarat; a 4,000 MW solar power project by Government of Andhra Pradesh in Kurnool district and a private sector hydel power plant in Chittaurgarh in Rajasthan. These three projects along with the Indigo project together account for over 80 per cent of the total new investment proposed during the September-December 2019 quarter.

FICCI Feedback on Coronavirus Impact on Industry: Sectors Affected

Sectors	Impact
Pharmaceuticals	By and large, Indian drug-makers have two to three months' stock. However, it is worth noting that India depends on China for around 70% of its bulk drugs and drug intermediates (according to some one industry estimate). So, if supplies are not restored beyond 2 months or so, it may adversely affect drug production in India.
Smart Phones	Industry estimates indicate that China accounts for some 85% of the total value of parts and components used in smartphones in India (e.g. cells, display panels, camera modules and printed circuit boards). India imports mobile phone components worth Rs 7,000-8,000 crore from China every month.
Solar Industry	Bulk of solar cells, modules, inverters and robotic module cleaning systems for the solar energy projects are imported from China. The current production rate of the solar cell and panel manufacturing industry in China is way less than the average production rate and a delay of 1-2 months in supplies of modules, cells, inverters and transformers is expected. Solar Developers have already entered into contracts with suppliers for projects which are scheduled for commissioning in FY- 21. Such suppliers have started notifying the Developers on delivery delays due to the current situation in China. Further, as of now it is unknown when their normal operations will resume.

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Sectors	Impact
Refrigerator/Washing machines	Finished good will not be impacted severely. Inputs like compressors, MDI, Thermostats etc. which are imported from China will get impacted. Usually, the build-up of inventory for refrigerators happens between December-January as production to meet summer demand starts in Jan-Feb. Hence, the outbreak of coronavirus will adversely impact this category.
Air Conditioners	Finished good would be hit in this category as almost all brands have some dependence on imports, even though the eco-system is gradually moving more and more towards local value add. However, the industry is wholly reliant upon imports from China for compressors, heat exchangers, and controllers. Like refrigerators, this is the time when there is a build-up of inventory to meet the peak summer demand. If the supply chain is not restored soon, this category will get adversely impacted
Microwaves	The industry, though not growing, is entirely dependent on imports. Some players import the Magnetron (85407100) and assemble in India but most players import the finished good. However, the peak selling season is behind us and hence the disruption in supply chain should be manageable
Readymade Garments	Garments is another sector that may come under pressure since a large number of ready-made garments (RMG) manufacturers and exporters depend on accessories and embellishments (such as buttons, zips besides blended fabrics) imported from China. If the disruption in supply chain continues, then the RMG price of Indian manufacturers will go up, because sourcing the relevant materials from other countries may cost 50% higher.

Comments

The performance of industrial production index continues to display volatility. The latest data announced for the month of January 2020 has reported a higher growth than the December print. However, the possibility of a deeper momentum building in has moved further away with the rapid spread of coronavirus. With over 100 countries affected by the virus and a greater number of countries resorting to more and more stringent measures, the trade and investment linkages are being deeply affected. According to a recently released report by UNCTAD a slowdown in the global economy to under two per cent for this year is envisaged and it is expected to cost about $1 trillion.

Already, COVID-19 has led to widespread shutdown and disruption in production in the Chinese factories and this is impacting particularly those using intermediate products imported from China. This is significant because China is the single largest source of import of intermediate goods into India. Imports from China constitute over 15% of India's total import of intermediate products. Based on feedback from industry we have gathered, major intermediate items imported by India from China pertain to the areas/sectors of Pharmaceuticals (API); Mobile/Telecom; Electronic Parts/Components; Textile Fibres/Intermediates; and Chemical Products and the same are being impacted.

In fact, reports suggests that automakers and electronic goods manufacturers in India are resorting to extreme measures and are flying down spares and components from China and South Korea on very high rates. Likewise pharmaceutical companies are airlifting raw material and are placing 'irregular orders' with vendors as several companies run close to exhausting their inventories.

The current times are exceptional, and it is still unknown when normalcy will return. Until then the pressure on industry sectors looks imminent. We appreciate the proactive approach displayed by the government in handling this peril. Hon'ble Finance Minister had taken a meeting with industry members last month to understand the challenges being faced by various sectors of the economy. We already see some action taking place to give reprieve to some of the sectors and hope that this approach will continue going forward.