Fact Sheet – Index of Industrial Production (IIP)
July 2020

IIP growth clocks lower contraction in May 2020

Industrial Performance- Growth (% YoY)

	May-19	Mar-20	Apr-20 (QE)	Apr-20 Revised	May-20 (QE)
By Economic Activity					
Index of Industrial Production	4.5	-18.3	-55.5	**-57.6**	**-34.7**
Mining	2.3	-1.4	-27.4	**-27.0**	**-20.9**
Manufacturing	4.4	-22.4	-64.3	**-67.1**	**-39.3**
Electricity	7.4	-8.2	-22.6	**-23.0**	**-15.4**

	May-19	Mar-20	Apr-20 (QE)	Apr-20 Revised	May-20 (QE)
By Usage					
Primary goods	2.3	-4.1	-26.6	**-26.6**	**-20.0**
Capital goods	-2.1	-38.3	-92.0	**-92.6**	**-64.3**
Intermediate goods	12.5	-18.5	-66.1	**-65.4**	**-44.1**
Infrastructure / construction goods	3.0	-25.2	-83.9	**-84.7**	**-42.0**
Consumer durables	0.2	-36.5	-95.7	**-96.0**	**-68.5**
Consumer non-durables	8.1	-20.2	-36.1	**-48.7**	**-11.7**

Source: Economic Outlook CMIE

The Index of Industrial Production (IIP) released earlier today has reported a lower contraction in the month of May, 2020. On a y-o-y basis IIP clocked a growth of (-) 34.7 percent in May - marking a lower contraction from (-) 57.6 percent growth witnessed April 2020. Moreover, the index reported a m-o-m growth of 64.9 percent in May 2020 – marking a first sequential increase after three months .

Additionally , the CSO has revised the IIP for the month of April 2020. According to the estimates released on June 12, 2020 , IIP for April recorded a 55.5 per cent y-o-y fall. As per data released today, IIP for April was revised further downwards to a 57.6 per cent decline in output.

The month of May was also largely spent under a lockdown - although the lockdown was less stringent than in April 2020. Of course, June onwards the country has embarked on a three phased unlocking. The first phase of unlocking is already behind us and the month of June has witnessed a greater pickup in industrial activity. Some of the recently released lead parameters have been indicative of this.

The PMI index – both Manufacturing and Services for the month of June has shown an improvement. The index though reveals a contraction, the quantum has certainly come down. PMI Manufacturing and Services were reported at 47.2 and 33.7 respectively in June 2020, vis-a-vis the values of 30.8 and 12.6 in April 2020. The E-way bill generation is also moving closer to pre-lockdown levels, with about 4.27 crore e-way bills valued at over Rs 12.40 lakh crore generated in June. An average of 14.26 lakh e-way bills were generated in June each day - which was about 77% of the average number of bills generated per day in the pre-lockdown phase. Consumption of power and petroleum products is inching up as well indicative of pick up in economic activity.

According to the CSO Press Release, the number of units responding has improved in May 2020 as compared to the earlier months of lockdown. The weighted response rate at time of QE of April 2020 was 87 percent which is now revised upwards to 91 percent at first revision. The Quick Estimates for May 2020 have been compiled at a weighted response rate of 86 percent.

Nonetheless, all broad sectors of IIP have continued to face the brunt of the pandemic in May 2020. As per Economic Activity wise classification of IIP – the manufacturing sector continued taking the maximum hit. The growth in manufacturing was reported at (-)39.3 percent on a y-o-y basis in May 2020. Further, out of the 23 manufacturing sub-segments, 13 subsectors accounting for a little over a quarter of manufacturing activity noted a decline by over 50 percent during the month. These included segments like motor vehicles; other transport equipment; computer, electronic & optical products; electrical equipment; machinery equipment; textiles etc. Only manufacture of pharmaceuticals, medicinal chemical and botanical products recorded 2.5 per cent y-o-y growth in May 2020. Further, the Mining and Electricity segments noted a (-) 20.9 percent and (-) 15.4 percent fall in May 2020.

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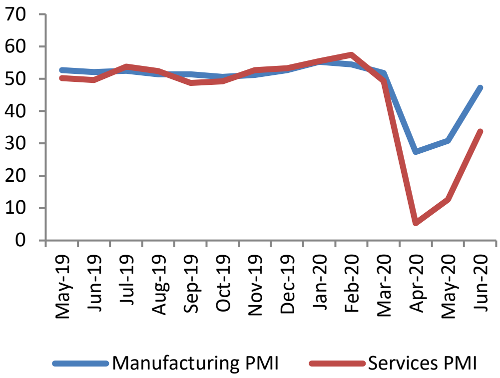
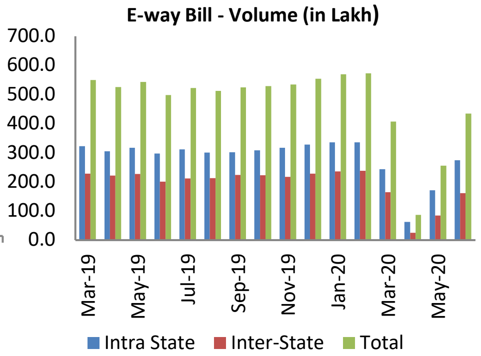
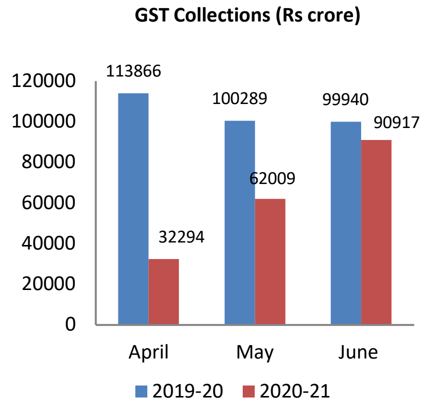
The use based classification of IIP reported deterioration as well – with all the key sub segments being in the red. The growth in capital goods segment declined by (-)64.3 percent in May – the growth for this segment has been in negative terrain since January 2019. With companies operating at sub optimal capacity levels and demand remaining muted (with non-essentials taking a grave hit) – private investments remain far from recovery. In fact, the latest investment (capex) data released by CMIE reported that quarter ending June 2020 recorded just 135 new investment proposals with an envisaged investment of Rs.561 billion. This is the lowest count of new investment proposals in any quarter. This is also the lowest new investments by value in 16 years. Nonetheless, these trends are on expected lines.

The data on consumer goods also remained abysmal , reporting a growth of (-)36.0 percent during the month. Both consumer durable and non-durable categories have been adversely impacted – with the former witnessing a sharper plunge. Nonetheless, some of recent reports from industry indicate signs of uptick in sales – especially in segments like FMCG, consumer electronics, and passenger cars. Also, the upcoming festive season – which begins in August 2020 – is likely to give some impetus.

India Unlocks: Signs of Pick-up on a Sequential Basis….



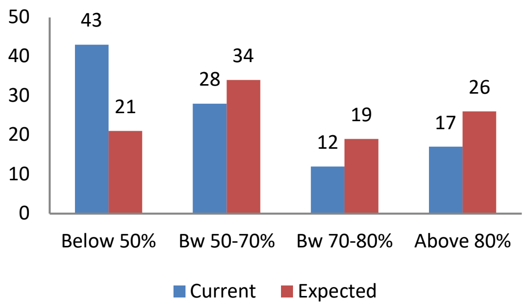




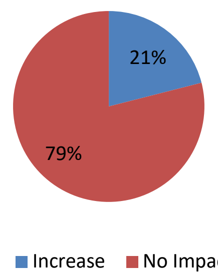
….However FICCI-Dhruva Advisors latest survey reports mixed results*

% of respondents

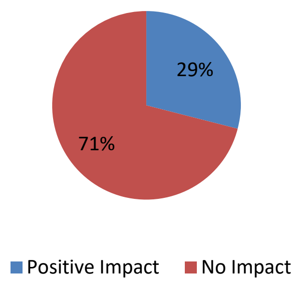
What is the current and expected capacity utilisation for your business post unlocking? (%)



Has the unlocking had a positive impact on your company's cashflows? (%)



Has the unlocking had a positive impact on your company's supply chain? (%)



FICCI- Dhruva Survey on 'Rebooting the Indian Economy' to gauge the impact of unlocking on industry was concluded earlier thus week. The survey results indicated a positive impact of unlocking on exports, cash flows, order books and supply chains. Even though the percentage of participants reporting an improvement is low – but this certainly marks an improvement from the April round of the Survey. About 22% of the respondents said that exports have improved in recent times, while 25% and 21% reported a positive impact of unlocking on order books and cash flows respectively. In April only 5% of the companies were expecting an increase in exports, 7% had reported increase in order books and 10% expected an improvement in cash flows.

Nonetheless, managing costs, weak demand, financial liquidity, supply chain issues and manpower availability remained the top five concerns - with 60%, 59%, 57%, 40% and 43% participants reporting the same respectively. Some of the firms also expressed concerns about a probable second wave of Covid-19 and possible sudden stop on certain imports from China.

** FICCI Dhruva Advisors Survey, July 2020*

Moreover, on the impact of announced stimulus measures, the participants reported a limited impact and a majority 70 percent said that they would want to see more tax relief and incentives going ahead. Another 58 percent participants said that more focus is required on ease of compliances.

A majority 57 percent of the companies said that the expected time frame for the economy to be back to normalcy is 12 months. Another 24 percent saw recovery in 9 months and 19 percent in 6 months.

Comments

The exit from lockdown has led to a pick-up on a sequential basis, however the path ahead is likely to remain challenging. There is significant amount of excess capacity in the system and the prognosis for an uptick in demand remains under strain. There have mixed signals of recovery so far and it is too soon to make any firm conclusions. A return to normalcy will take time and will have to be aided with further policy support from the Government and the Central Bank.

The next round of monetary policy is on anvil and is to be announced in the first week of August. In line with the demands of the ground situation, the Reserve Bank so far has done some exemplary work to address the crisis. Going ahead, we would like to see further continuation of this approach.

Our feedback from members indicate that companies are in dire need of liquidity and need complete support from banks. The banks have adopted a risk averse stance and a significant increase has been noted in the amount of funds that banks have parked with the Central Bank. These are exceptional times and funding support to companies is critical at this hour especially the MSMEs.

Government data shows that public and private sector banks have sanctioned Rs 1.14 lakh crore under the 100 per cent Emergency Credit Line Guarantee Scheme of the central government and of which Rs 56,091 crore have already been disbursed – which is positive. However, further support is required.

Limits on lending via TLTRO schemes must be set to enable accessibility of funds for non-AAA investment grade companies as well.

Also, announcements related to specific offer of support to sectors such as aviation, tourism, retail and hospitality remain pending.