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

IIP contracts by (-) 8.0% in August 2020

- *The Index of Industrial Production reported a single digit decline of 8 percent in August 2020 on a y-o-y basis – marking the lowest level of contraction over past six months. The corresponding number in July 2020 was (-) 10.8 percent – which saw a revision from the earlier reported quick estimate of (-) 10.4 percent growth. The improvement in numbers is backed by a gradually normalizing economic activity given the phased unlocking and a favorable base effect*

- *However, it may be noted that on a sequential basis, IIP reported a (-)1.3 percent m-o-m fall in August 2020 – after noting three consecutive months of positive m-o-m growth. A spurt in localized lockdowns seen during the month may have led to the deceleration. Nonetheless, the incoming data on some of the lead indicators during September, 2020 has been encouraging and a stronger rebound looks likely during the month*

- *On a cumulative basis, the overall IIP growth reported a 25.0 percent fall over the period April-August, 2020, vis-à-vis a growth of 2.5 percent over the same period last year*

Industrial Performance- Economic Activity - Growth (% YoY)

Month	IIP	Mining & quarrying	Manufac turing	Electricity
	(Wt= 100.00)	(Wt= 14.37)	(Wt= 77.63)	(Wt= 7.99)
Aug-19	-1.4	0.0	-1.7	-0.9
Sep-19	-4.6	-8.6	-4.3	-2.6
Oct-19	-6.6	-8.0	-5.7	-12.2
Nov-19	2.1	1.9	3.0	-5.0
Dec-19	0.5	5.7	-0.3	-0.1
Jan-20	2.2	4.4	1.8	3.1
Feb-20	5.2	9.6	3.8	11.5
Mar-20	-18.7	-1.3	-22.8	-8.2
Apr-20	-57.3	-26.9	-66.6	-22.9
May-20	-33.4	-20.4	-37.8	-14.9
Jun-20	-15.8	-19.6	-16.0	-10.0
Jul-20	-10.8	-12.8	-11.6	-2.5
Aug-20	-8.0	-9.8	-8.6	-1.8

Industrial Performance- Use Based- Growth (% YoY)

	Primary goods	Capital goods	Interme diate goods	Infrastru cture/co nstructio n goods	Consum er goods	Consum er durables	Consum er non-durables
	(Wt= 34.05)	(Wt= 8.22)	(Wt= 17.22)	(Wt= 12.34)	(Wt= 28.17)	(Wt= 12.84)	(Wt= 15.33)
Aug-19	1.0	-20.9	7.4	-5.7	-2.6	-9.7	3.1
Sep-19	-5.2	-20.5	6.8	-7.0	-5.2	-10.5	-1.1
Oct-19	-6.0	-22.4	8.7	-9.7	-10.3	-18.9	-3.4
Nov-19	-0.2	-8.9	17.2	-0.7	0.1	-1.4	1.1
Dec-19	2.4	-18.3	13.1	0.2	-4.1	-5.6	-3.2
Jan-20	1.8	-4.4	15.6	-0.3	-1.8	-3.7	-0.6
Feb-20	8.2	-9.6	23.0	2.8	-2.8	-6.2	-0.3
Mar-20	-4.0	-38.8	-18.6	-24.3	-28.3	-36.8	-22.3
Apr-20	-26.6	-92.7	-64.0	-85.0	-68.6	-95.7	-48.1
May-20	-19.6	-65.9	-39.7	-39.0	-35.6	-70.3	-9.7
Jun-20	-14.5	-37.4	-23.0	-18.8	-6.2	-34.3	14.4
Jul-20	-10.8	-22.8	-11.7	-8.6	-8.8	-23.0	1.8
Aug-20	-11.1	-15.5	-6.8	-2.3	-6.3	-10.3	-3.3

As per Economic Activity wise classification of IIP, all the three broad sub segments noted a narrowing in the level of contraction, supported by favorable base effects. The manufacturing sub segment with a weight of 77.6 percent in the overall IIP was a key drag on the index – reporting a de-growth of 8.6 percent. Furthermore, 20 out of 23 manufacturing sub segments reported a contraction in August 2020. In July 2020, 21 sectors had reported a decline. During August 2020, tobacco products (2.9 percent), basic metals (0.1 percent) and other transport equipment (1.7 percent) posted positive y-o-y growth. Surprisingly, pharmaceuticals, medicinal chemical and botanical products, which had been holding relatively steady reported a (-)1.1 percent contraction in August 2020. Pharmaceuticals, medicinal chemical and botanical products had registered 11.4 percent, 34.8 percent and 4.8 percent y-o-y growth in July, June and May, 2020 respectively.

The Used based Classification of the Index, on the other hand, displayed a mixed recovery trend. While sub segments including capital goods, intermediate goods, infrastructure/construction goods and consumer durables noted a lower y-o-y contraction during August 2020, sectors like primary goods and consumer non durables noted a slippage. The capital goods sector noted the largest contraction in the month of August – a 15.5 percent decline; while the consumer durable category reported the maximum improvement in the extent of decline in contraction.

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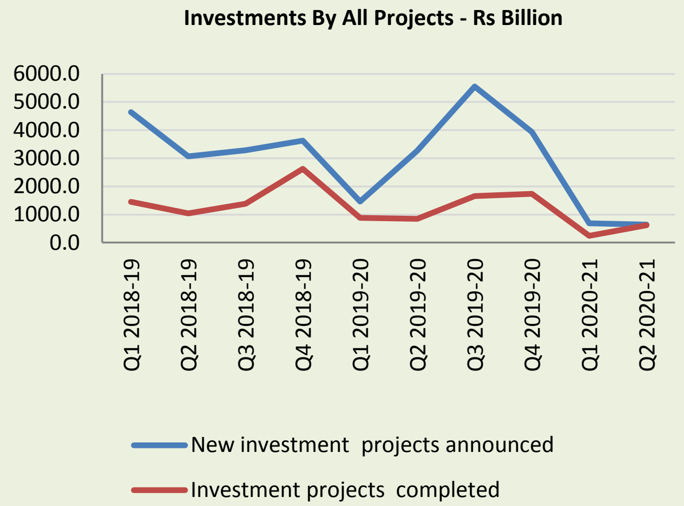
Investments & Capacity Utilization levels – An Abysmal Story

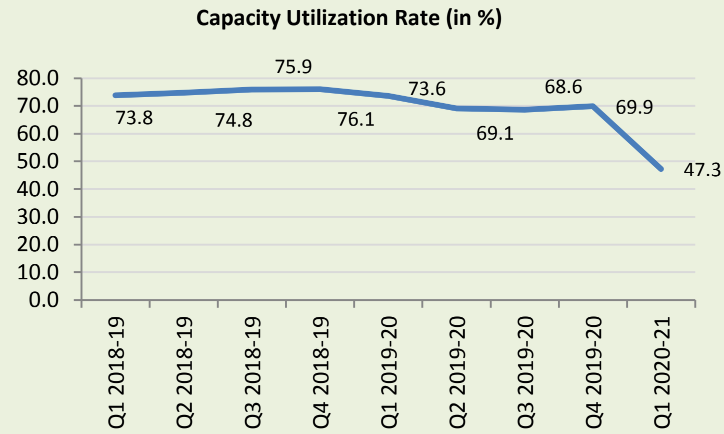


The latest round of Reserve Bank of India's Order Books, Inventories and Capacity Utilisation Survey (OBICUS) reported a sharp fall in capacity utilization rate during the first quarter of 2020-21 – which is on expected lines. At an aggregate level, capacity utilisation dropped from 69.9 per cent in Q4:2019- 20 to 47.3 per cent in Q1:2020-21.

Interestingly, the more recent numbers – post easing of lockdown restrictions – do not indicate much change in capacity utilization levels. In the latest round of FICCI's Business Confidence Survey (August 2020), about 49 percent participants reported capacity utilization rates below 50 percent. Muted demand has persisted to be one of the key concerns for the industry.

According to CMIE data, proposals worth Rs. 645.8 billion were made for investments into the creation of new capacities during the second quarter of 2020-21. This was marginally lower than Rs. 691 billion worth of investment proposals made in the previous quarter ending June 2020. Despite the lockdown being lifted, the investors continue to maintain a cautious stance and remain on the fence as far undertaking new investments is concerned. In pre-Covid times, new investment proposals averaged Rs 3000/4000 billion per quarter and during good times, these averaged twice as high. Thus it may be long before we get to see such numbers once again.

Additionally, manufacturing sector comprised 55 per cent of the new investments in the September 2020 quarter and within manufacturing sector, the chemicals industry attracted most investments. Moreover, 44 per cent of the new investments were made by government agencies and the rest are by the private sector.



Source: OBICUS Survey on the Manufacturing sector – Q1:2020-21, RBI, October 9, 2020, CMIE

Comment

The latest industrial production numbers have been on expected lines. The lockdown shock has been massive and the implications were expected to be prolonged. Even as we continue to grapple with uncertainty, the indications of pick up in industrial activity as manifested in some of the lead indicators released last month does offer some encouragement. At this juncture, it is extremely critical to sustain these nascent signs of a turn around.

FICCI is happy to note the continued support from both the Government and the Reserve Bank of India. The latter in its latest monetary policy announcement has announced several measures which offer continued support to liquidity in the system. In addition to this, the announcements made by the government earlier this week to boost consumption spending were long awaited. In fact, FICCI had been pushing for a strong demand impetus for sometime now. While the supply chains have eased considerably, it is the weak demand that had been a main pain point for the industry.

The Leave Travel Concession (LTC) Cash Voucher Scheme and the Special Festival Advance Scheme are well timed given that the festive season has already begun. Also, the measures taken towards enhancing capital expenditure will have significant backward and forward linkages.