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INDEX OF INDUSTRIAL PRODUCTION **JULY 2019**

Industrial growth rose to 4.3% in July 2019 driven by mining and manufacturing



HIGHLIGHTS

- The year-on-year (YoY) growth of the Index of Industrial Production (IIP) improved to a higher-than-expected 4.3% in July 2019 (+6.5% in July 2018), from the low 1.2% in June 2019 (+7.0% in June 2018), driven by manufacturing and mining, which offset a deterioration in the performance of electricity generation.
- The 4.2% manufacturing growth in July 2019 was boosted by the double-digit expansion in food products, wearing apparel and basic metals.
- In terms of the use-based categories, the uptick in industrial growth in July 2019 relative to the previous month, was fairly broad-based, with five of the six segments (except capital goods) recording an improved performance in July 2019.
- While the healthy expansion in intermediate goods (+13.9%) and consumer non-durables (+8.3%) in July 2019 is encouraging, the continued contraction in capital goods (-7.1%) and consumer durables (-2.7%) is disappointing.
- While consumer durables recorded an unsurprising YoY contraction in July 2019, dragged down by the performance of the auto sector, the healthy growth in consumer non-durables is likely to have been driven by the sharp 23.4% expansion in the output of food products and the 15.0% growth in wearing apparels, according to the data released by the CSO.
- Early data reveals a contraction in the output of Coal India Limited (CIL) and automobiles, as well as electricity generation in August 2019, suggesting that the next IIP print is likely to be muted. Given the disappointing trends revealed by the high frequency data available for August 2019, we should not conclude that a recovery is underway based on the pickup in industrial growth in July 2019.



OVERVIEW

Industrial growth deteriorated to 4.3% in July 2019 from 6.5% in July 2018 (refer Exhibit 1 and 2), led by consumer durables (to -2.7% from +14.1%), capital goods (to -7.1% from +2.3%), infrastructure/construction goods (to +2.1% from +9.2%), and primary goods (to +3.5% from +6.8%). In contrast, the YoY growth of consumer non-durables and intermediate goods improved to 8.3% and 13.9%, respectively, in July 2019 from 5.3%, and 1.3%, respectively, in July 2018.

However, IIP growth posted a fairly broad-based recovery to 4.3% in July 2019 (+6.5% in July 2018) from the revised 1.2% in June 2019 (+7.0% in June 2018), and printed higher than our forecast (+2.9%). The sequential rise in IIP growth in July 2019 relative to the previous month was driven by consumer durables (to -2.7% from -10.2%), primary goods (to +3.5% from +0.4%), infrastructure/ construction goods (to +2.1% from -1.9%), intermediate goods (to +13.9% from +12.6%) and consumer non-durables (to +8.3% from +7.1%). In contrast, the YoY decline in capital goods worsened somewhat to 7.1% in July 2019 from 6.8% in the previous month. The sequential pickup in industrial expansion in July 2019 was sharper than the uptick in the core sector (with a weight of 40.3% in the IIP) growth (to +2.1% from +0.7%; refer Exhibit 9). While the healthy expansion in intermediate goods (+13.9%) and consumer non-durables (+8.3%) is encouraging, the continued contraction in capital goods (-7.1%), and consumer durables (-2.7%) in July 2019 is disappointing.

In terms of the sectoral classification, growth of manufacturing and electricity generation declined to 4.2% and 4.8%, respectively, in July 2019, from 7.0% and 6.6%, respectively, in July 2018 (refer Exhibit 3). In contrast, the pace of growth of mining rose to 4.9% in July 2019 from 3.4% in July 2018. Ten of the 23 sub-sectors of manufacturing with a weight of 22.4% in the IIP, recorded a YoY contraction in July 2019. The sequential uptick in the pace of industrial expansion in July 2019 relative to June 2019 was led by manufacturing (to +4.2% from +0.2%) and mining (to +4.9% from +1.5%), partly offset by a considerable deterioration in the performance of electricity generation (to +4.8% from +8.2%).

The IIP growth for June 2019 was revised downwards to 1.2% from the initial 2.0%, led primarily by manufacturing (to +0.2% from +1.2%), and to a smaller extent, mining (to +1.5% from +1.6%). In terms of the use-based categories, there was a sharp downward revision in the growth of consumer durables (to -10.2% from -5.5%), and modest revision in consumer non-durables (to +7.1% from +7.8%), capital goods (to -6.8% from -6.5%), infrastructure/construction goods (to -1.9% from -1.8%), and primary goods (to +0.4% from +0.5%).

Overall, the cumulative growth of the IIP eased to a modest 3.3% in April-July FY2020 from 5.4% in April-July FY2019.

OUTLOOK

The YoY contraction in CIL's output worsened to 10.3% in August 2019 from 5.1% in July 2019, which would weigh upon the performance of mining sector in the just-concluded month.

Moreover, the data released by the Society of Indian Automobile Manufacturers indicates that the YoY decline in aggregate auto production widened sharply to 18.5% in August 2019 from 11.0% in the previous month, driven by passenger vehicles (to -24.4% from -16.5%), commercial vehicles (to -42.1% from -26.4%) and two-wheelers (to -17.1% from -9.6%). The weakness in auto production is likely to dampen the performance of manufacturing in August 2019.

Further, tentative data released by the Central Electricity Authority (CEA) indicates that electricity generation recorded a mild contraction of 0.2% in August 2019, in contrast to the YoY growth of 5.8% in July 2019. This was driven by thermal electricity generation (to -3.5% in August 2019 from +6.2% in July 2019), even as the expansion of hydroelectricity generation recorded a rise (to +6.7% from +0.0%).

While the IIP growth recorded an improvement in July 2019 relative to the previous month, this trend is likely to be short-lived. Early data reveals a contraction in the output of CIL and automobiles, as well as electricity generation in August 2019, suggesting that the next IIP print is likely to be muted.

Given the disappointing trends revealed by the high frequency data available for August 2019, we should not conclude that a recovery is underway based on the pickup in industrial growth in July 2019. Accordingly, we continue to expect another rate cut in the October 2019 review of the Monetary Policy Committee.

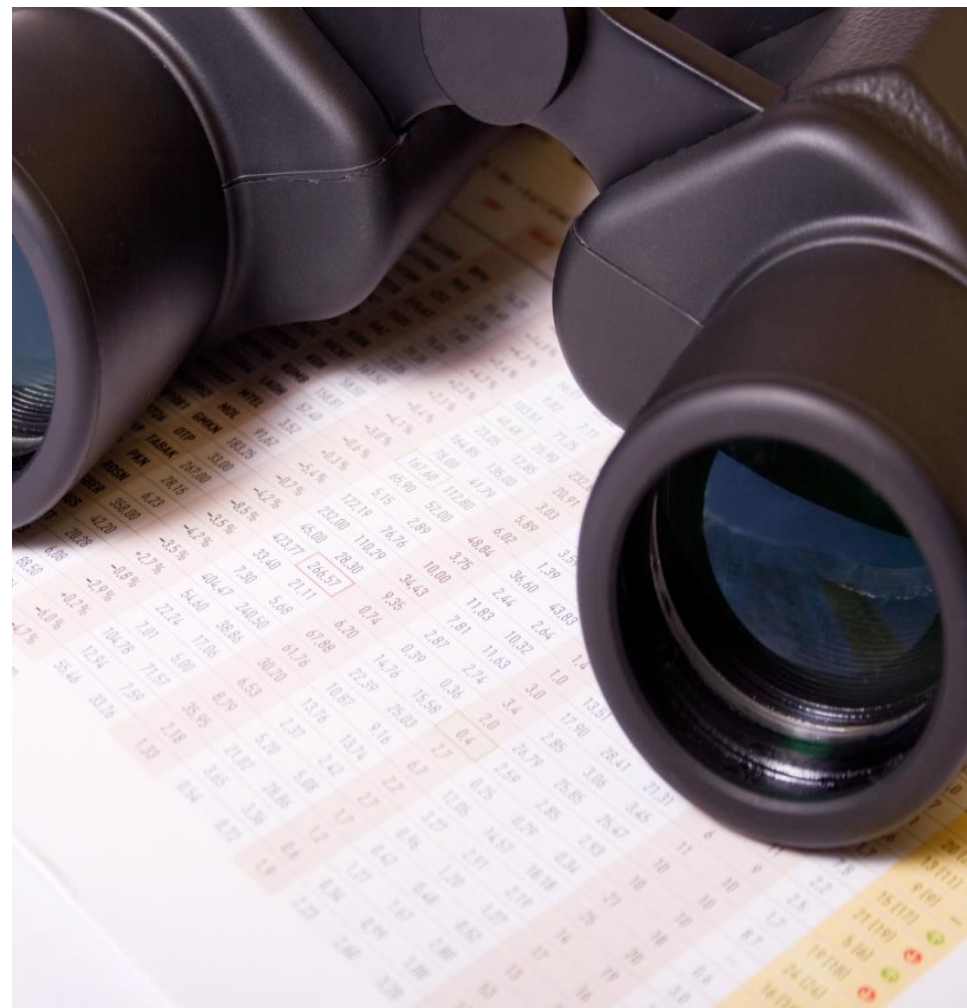
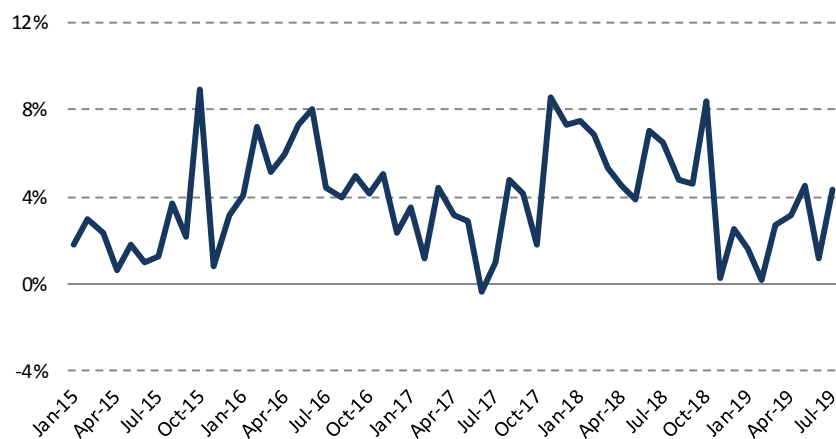


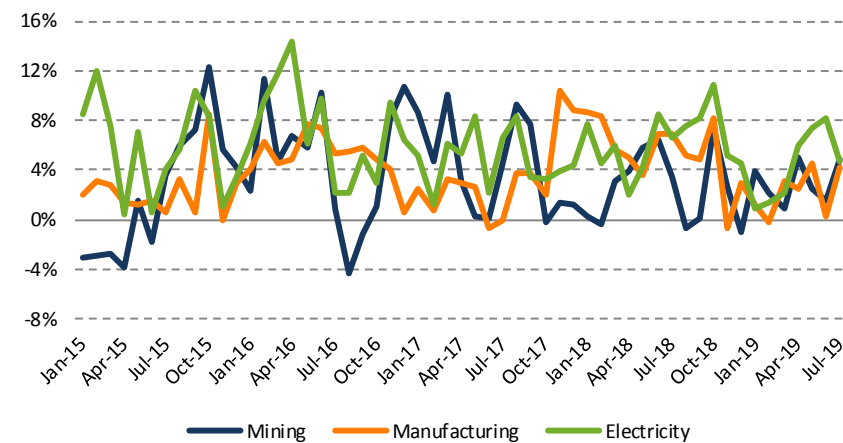
Exhibit 1: Trend in IIP Growth

	IIP	Sectoral			Use-Based Classification					
		Mining	Manufacturing	Electricity	Primary	Capital	Intermediate	Infrastructure/Construction	Durables	Non-Durables
Weight	100.0%	14.4%	77.6%	8.0%	34.0%	8.2%	17.2%	12.3%	12.8%	15.3%
Month										
Jun-18	7.0%	6.5%	6.9%	8.5%	9.2%	9.7%	1.5%	9.4%	13.6%	0.2%
Jul-18	6.5%	3.4%	7.0%	6.6%	6.8%	2.3%	1.3%	9.2%	14.1%	5.3%
Jun-19	1.2%	1.5%	0.2%	8.2%	0.4%	-6.8%	12.6%	-1.9%	-10.2%	7.1%
Jul-19	4.3%	4.9%	4.2%	4.8%	3.5%	-7.1%	13.9%	2.1%	-2.7%	8.3%
April-July FY2019	5.4%	4.9%	5.6%	5.3%	6.1%	7.1%	0.8%	8.7%	9.5%	2.8%
April-July FY2020	3.3%	3.4%	2.8%	6.6%	2.7%	-4.3%	10.8%	0.4%	-2.7%	7.2%

Source: Central Statistics Office (CSO); CEIC; ICRA research

Exhibit 2: YoY Growth in IIP

Source: CSO; CEIC; ICRA research

Exhibit 3: YoY Growth in Sectoral Indices

Source: CSO; CEIC; ICRA research

SECTORAL CLASSIFICATION

Manufacturing: The pace of growth of the manufacturing sector improved to 4.2% in July 2019, from the revised marginal 0.2% in June 2019. Moreover, the manufacturing sector was the biggest contributor to IIP growth in July 2019 (refer Exhibit 7). Despite the YoY uptick in July 2019, the cumulative manufacturing growth has halved to 2.8% during April-July FY2020 from 5.6% in April-July FY2019, and was inferior to the performance of the other two sectors during this period.

Ten sub-sectors (with a weight of 22.4% in the IIP) of manufacturing displayed a YoY contraction in July 2019 (refer Exhibit 4 and 5), as compared to 16 sub-sectors (with a higher weight of 51.2% in the IIP) in June 2019. However, the combined de-growth of these sub-sectors widened to 7.5% in July 2019 from 7.0% in June 2019.

The YoY contraction in motor vehicles, trailers and semi-trailers eased mildly to 13.3% in July 2019 from 14.0% in June 2019 (refer Annexure B). Data released by the CSO indicated that the steep contraction in commercial vehicles and auto components, spares and accessories pulled down the IIP growth by 0.4% in July 2019.

Similarly, the YoY decline in the output of machinery and equipment narrowed to 5.3% in July 2019 from 7.2% in June 2019, partly benefitting from the favourable performance in separators, including centrifuge (+57.9%). However, the 69.8% contraction in harvesters and threshers weighed upon the performance of this sub-group in July 2019.

Paper and paper products continued to record a double-digit contraction of 15.4% in July 2019, albeit narrower than the 18.7% displayed in June 2019, dampened by the performance of newsprint (-37.1%).

The output of rubber and plastic products, other manufacturing, and furniture manufacturing also recorded a narrower contraction of 1.0%, 1.1% and 10.0%, respectively, in July 2019, compared to 4.1%, 8.2% and 11.2%, respectively, in June 2019.

Exhibit 4: Sub-Sectors Displaying Contraction in July 2019

	May 2019	June 2019	July 2019
Number of Sub-Sectors	9	16	10
Weight in the IIP	34.5%	51.2%	22.4%
Combined Growth	-3.1%	-7.0%	-7.5%

Source: CSO, CEIC; ICRA research

Exhibit 5: Sub-Sectors Displaying Contraction in July 2019

	Weight (%)	Growth in July 2019	Comment
Motor Vehicles, Trailers and Semi-Trailers	0.49	-13.3%	Contracted in July 2019
Machinery and Equipment N.E.C.	0.48	-5.3%	
Textiles	0.33	-4.5%	
Fabricated Metal Products ex Machinery and Equipment	0.27	-10.4%	
Rubber and Plastics Products	0.24	-1.0%	
Other Transport Equipment	0.18	-4.2%	
Other Manufacturing	0.09	-1.1%	
Paper and Paper Products	0.09	-15.4%	
Printing and Reproduction of Recorded Media	0.07	-10.9%	
Furniture; Manufacturing N.E.C.	0.01	-10.0%	

Source: CSO, CEIC; ICRA research

In contrast, the de-growth worsened in July 2019 compared to the previous month for textiles (to -4.5% from -1.7%), other transport equipment (to -4.2% from -3.5%), and printing and reproduction of recorded media (to -10.9% from -5.6%).

The YoY contraction in the output of fabricated metal products (except machinery and equipment) stood at 10.4% in July 2019, in line with the print in the previous month.

Thirteen sub-sectors of manufacturing, with a weight of 55.2% in the IIP, recorded a YoY expansion in July 2019 (refer Exhibit 6).

The pace of growth in the output of basic metals rose to 17.3% in July 2019 from 16.9% in June 2019. The performance of this sub-sector was bolstered by the substantial uptick in MS slabs (+141.0%) and copper bars, rods and wire rods (+50.8%) in July 2019; the former boosted the IIP growth by 1.7% in July 2019. However, the YoY decline in the output of bars and rods of alloy and stainless (-46.0%), and steel structurals, together dampened the IIP growth by 0.7% in July 2019.

The pace of expansion in food products improved to a 16-month high 23.4% in July 2019 from 16.3% in June 2019. The performance of this sub-sector was supported by the healthy growth in vanaspati and other vegetable oils (+66.8%), as well as sunflower oil in July 2019. Notably, the favourable performance of sunflower oil also boosted the IIP growth by 0.6% in July 2019, according to the CSO.

The output of chemical and chemical products recorded a YoY growth of 6.4% in July 2019, in contrast to the YoY decline of 0.9% in the previous month, bolstered by the strikingly high expansion in fragrance and oil essentials (+260.3%).

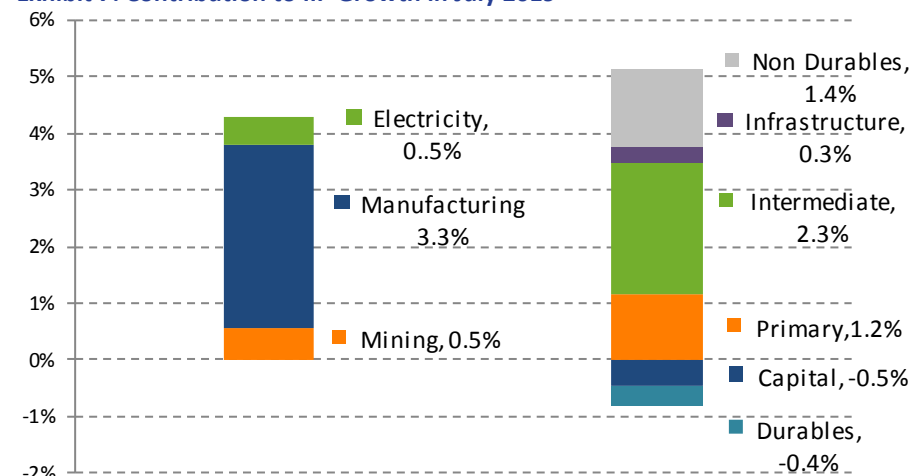
Similarly, there was a substantial improvement in the performance of other non-metallic mineral products (to +7.1% from -3.8%) and wearing apparels (to +15.0% from +6.2%) in July 2019 compared to June 2019.

Exhibit 6: Contribution to the Manufacturing Sector by Sub-Sectors

Sub-Sectors	Weight (%)	Growth in July 2019	Contribution to Manuf. Growth
Basic Metals	12.8	17.3%	3.0%
Food Products	5.3	23.4%	1.2%
Chemicals and Chemical Products	7.9	6.4%	0.6%
Other Non-Metallic Mineral Products	4.1	7.1%	0.3%
Wearing Apparel	1.3	15.0%	0.3%
Others Displaying Expansion	23.9	1.9%	0.7%
Others Displaying Contraction	22.4	-7.5%	-2.0%
Manufacturing	77.6	4.2%	4.2%

Source: CSO, CEIC; ICRA research

Exhibit 7: Contribution to IIP Growth in July 2019



Source: CSO; CEIC; ICRA research

Mining: The pace of growth of the mining sector rose to a three-month high 4.9% in July 2019 (+3.4% in July 2018) from the revised 1.5% in June 2019 (+6.5% in June 2018), partly on account of a favourable base effect. There was a narrower contraction in the output of crude oil (to -4.4% in July 2019 from -6.8% in June 2019) and natural gas (to -0.5% from -2.1%) in these months. However, the performance of coal deteriorated to a contraction of 1.4% in July 2019 from the growth of 3.2% in June 2019 (refer Exhibit 8).

Overall, mining output growth moderated to 3.4% in April-July FY2020 from 4.9% in the corresponding months of FY2019.

Electricity: The pace of growth of electricity generation worsened to a four-month low 4.8% in July 2019 (+6.6% in July 2018) from 8.2% in June 2019 (+8.5% in June 2018).

Data released by the CEA indicates that the sequential slowdown in electricity generation in July 2019 relative to the previous month was driven by a substantial moderation in the growth in hydroelectricity generation (to +0.0% from +7.5%), and a milder slowdown in thermal electricity generation (to +6.2% from +8.7%).

In addition, the PLF for coal and lignite-based plants fell sharply to 55.5% in July 2019 from 62.2% in June 2019.

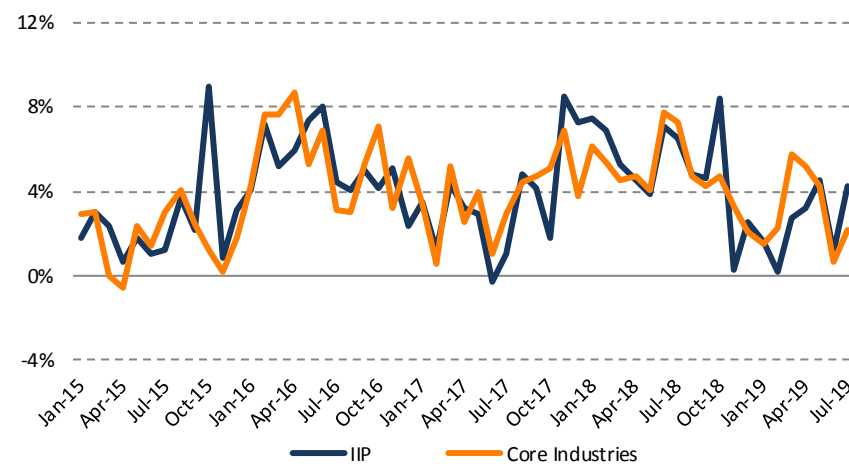
Nevertheless, the cumulative growth in electricity generation rose to 6.6% in April-July FY2020 from 5.3% in April-July FY2019, and was superior to the performance of the other two sectors in the first four months of this fiscal.

Exhibit 8: YoY Growth of Coal, Crude Oil and Natural Gas

	Coal	Crude Oil	Natural Gas
Weight	10.33%	8.98%	6.88%
May-18	12.0%	-2.9%	-1.4%
Jun-18	11.5%	-3.4%	-2.7%
Jul-18	9.8%	-5.4%	-5.2%
May-19	1.9%	-6.9%	0.0%
Jun-19	3.2%	-6.8%	-2.1%
Jul-19	-1.4%	-4.4%	-0.5%

Source: Index of Eight Core Industries, Ministry of Commerce and Industry, Office of the Economic Advisor; ICRA research

Exhibit 9: YoY Growth in IIP and Core-Sector Industries



Source: CSO; CEIC; ICRA research

USE-BASED CLASSIFICATION

Primary Goods: The pace of growth of the primary goods sub-index increased to a three month high 3.5% in July 2019 (+6.8% in July 2018) from 0.4% in June 2019 (+9.2% in June 2018). The expansion in the output of electricity and mining (with a cumulative weight of 22.36% in the IIP), bolstered the IIP growth by 1.0% in July 2019 (refer Exhibit 10 and Annexure A), according to data released by the CSO.

Nevertheless, the growth of primary goods output has declined substantially to 2.7% in April-July FY2020 from 6.1% in April-July FY2019.

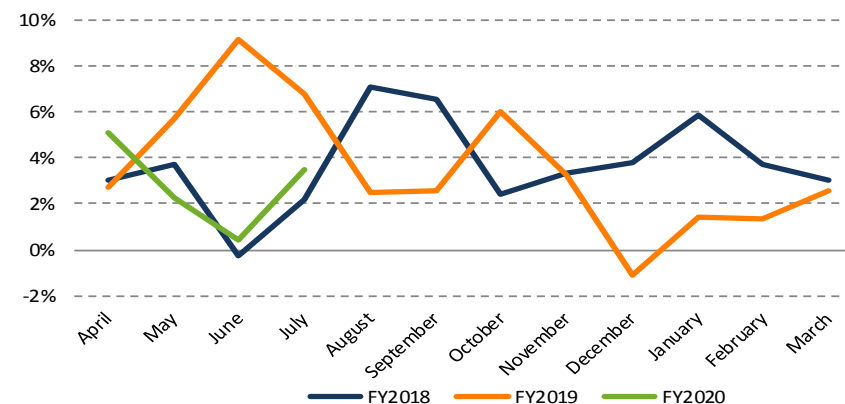
Capital Goods: The contraction in the output of capital goods worsened to 7.1% in July 2019 (+2.3% in July 2018) from 6.8% in June 2019 (+9.7% in June 2018; refer Exhibit 11), despite a favourable base effect. Notably, capital goods remained in contraction since 2019, which underscores the weak investment activity in the economy.

The steep 69.8% contraction in the output of harvesters and threshers (with a weight of 0.21% in the IIP), dampened the performance of the capital goods segment in July 2019, whereas the YoY decline in the output of commercial vehicles (with a weight of 0.94% in the IIP), pulled down the IIP growth by 0.2% during the month, according to the CSO.

However, there was a robust expansion in separators, including decanter centrifuge (+57.9%; with a weight of 0.16% in the IIP) during the month of July 2019.

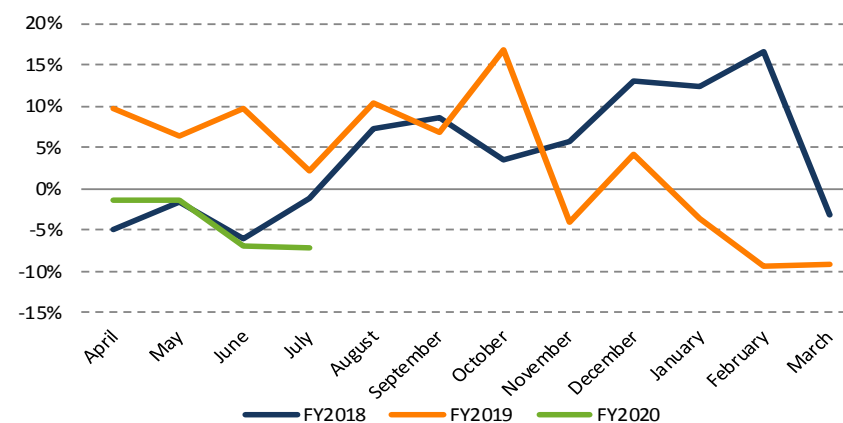
Cumulatively, capital goods output recorded a contraction of 4.3% in April-July FY2020, a sharp deterioration from the healthy 7.1% expansion in the same months of the previous fiscal. Notably, capital goods stood out as the worst performing use-based category in April-July FY2020.

Exhibit 10: YoY Growth of Primary Goods



Source: CSO, CEIC; ICRA research

Exhibit 11: YoY Growth of Capital Goods



Source: CSO, CEIC; ICRA research

Intermediate Goods: The pace of YoY expansion in the output of intermediate goods improved to a 76-month high 13.9% in July 2019 (+1.3% in July 2018) from 12.6% in June 2019 (+1.5% in June 2018; refer Exhibit 12). Intermediate goods remained the fastest growing use-based category for the third month in a row.

The performance of this sub-index in July 2019 was bolstered by the robust YoY growth in fragrances and oils (+260.3%), MS slabs (+141.0%), and copper bars, rods and wire rods (+50.8%). Further, the healthy expansion in MS slabs boosted the IIP growth by 1.7% in July 2019, according to the data published by the CSO.

However, the impact of the same was partly offset by the sharp 37.1% contraction in newsprint in July 2019.

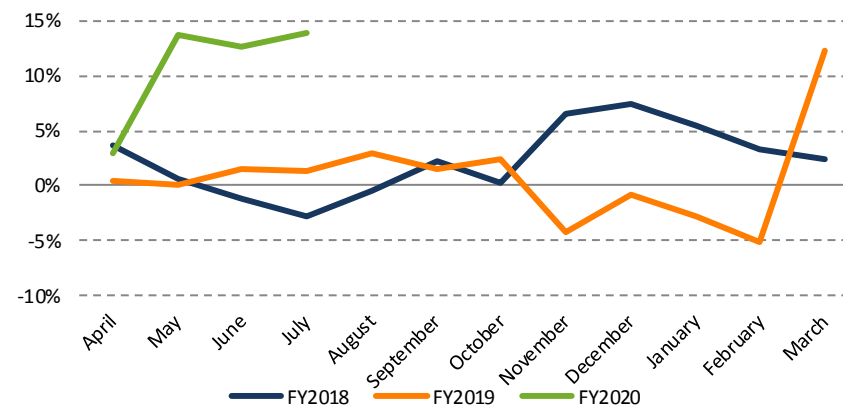
The growth of intermediate goods output improved sharply to 10.8% in April-July FY2020 from 0.8% in April-July FY2019, led by the double-digit expansion in May-July 2019. In addition, the growth performance of this sub-index was superior amongst the use-based indices in April-July FY2020.

Infrastructure/construction goods: The performance of infrastructure/construction goods improved to a growth of 2.1% in July 2019 (+9.2% in July 2018) from the contraction of 1.9% in June 2019 (+9.4% in June 2018; refer Exhibit 13). This segment has displayed some volatility in FY2020, with a contraction in April 2019 and June 2019, interspersed with low growth in May 2019 and July 2019.

However, bars and rods of alloy and stainless steel and steel structurals recorded a contraction in July 2019, together dampening the IIP growth by 0.7% in that month, as per the data released by the CSO.

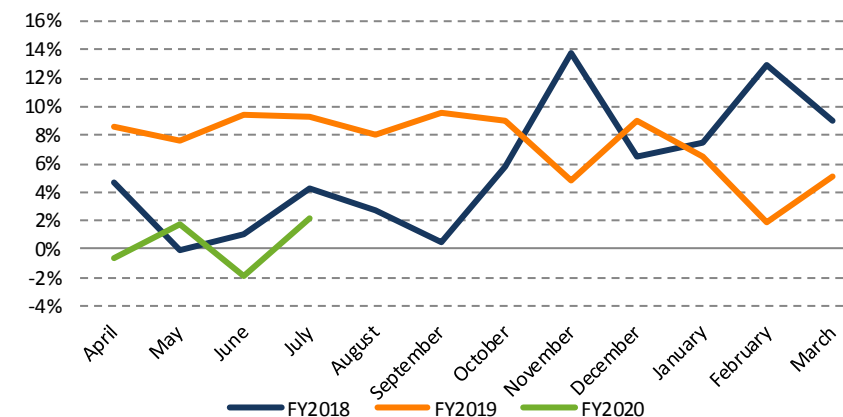
Overall, the pace of growth of infrastructure/construction goods has deteriorated significantly to a marginal 0.4% in April-July FY2020 from the healthy 8.7% in April-July FY2019.

Exhibit 12: YoY Growth of Intermediate Goods



Source: CSO; CEIC; ICRA research

Exhibit 13: YoY Growth of Infrastructure/Construction Goods



Source: CSO; CEIC; ICRA research

Consumer Durables: The consumer durables output continued to record a YoY contraction in July 2019, although the pace of the same narrowed considerably to 2.7% (+14.1% in July 2018), from 10.2% in June 2019 (+13.6% in June 2018; refer Exhibit 14).

The contraction in auto components/ spares and accessories (with a weight of 2.6% in the IIP) pulled down the IIP growth by 0.2% in July 2019, according to the data released by the CSO. In addition, the production of TV sets (with a weight of 0.31%) recorded a sharp YoY decline of 39.6% in July 2019, weighing upon the performance of this category.

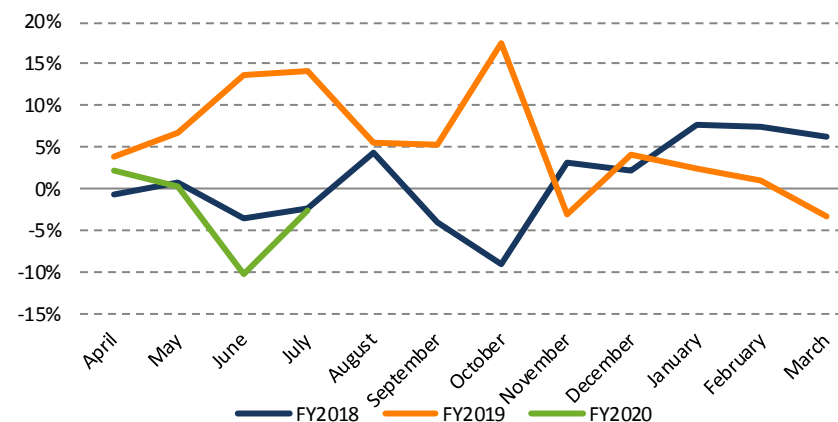
In cumulative terms, consumer durables output has recorded a 2.7% contraction in April-July FY2020. This is in sharp contrast to the healthy 9.5% expansion in April-July FY2019.

Consumer Non-Durables: The growth of consumer non-durables output rose to a nine-month high 8.3% in July 2019 (+5.3% in July 2018) from 7.1% in June 2019 (+0.2% in June 2018; refer Exhibit 15).

The healthy expansion in digestive enzymes and antacids (incl. PPI drugs) and sunflower oil together boosted the IIP growth by 1.1% in July 2019. However, this was offset somewhat by the significant contraction in vaccine for veterinary medicine (-39.0%) which dampened the IIP growth by 0.3% in July 2019.

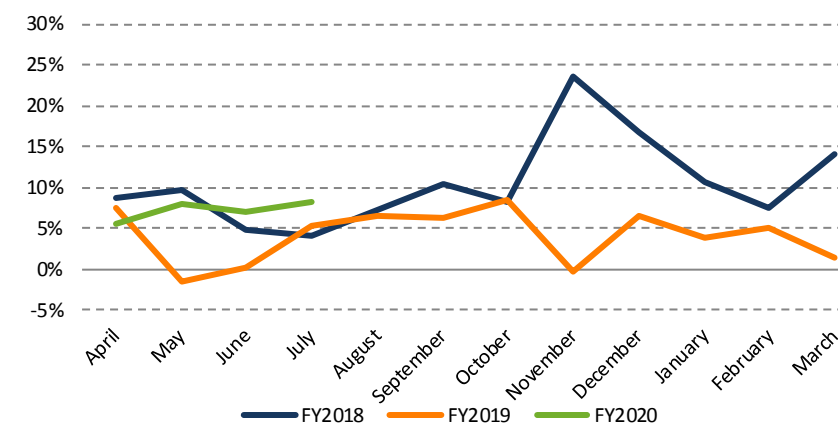
Overall, the growth in consumer non-durables output has improved significantly to 7.2% in April-July FY2020 from 2.8% in April-July FY2019.

Exhibit 14: YoY Growth of Consumer Durables



Source: CSO; CEIC; ICRA research

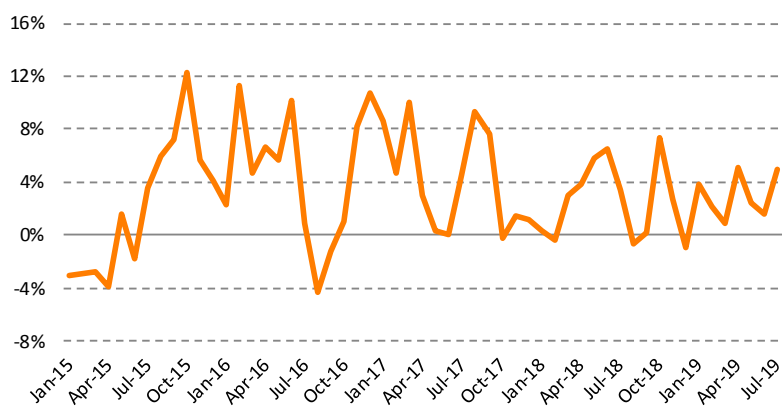
Exhibit 15: YoY Growth of Consumer Non-Durables



Source: CSO; CEIC; ICRA research

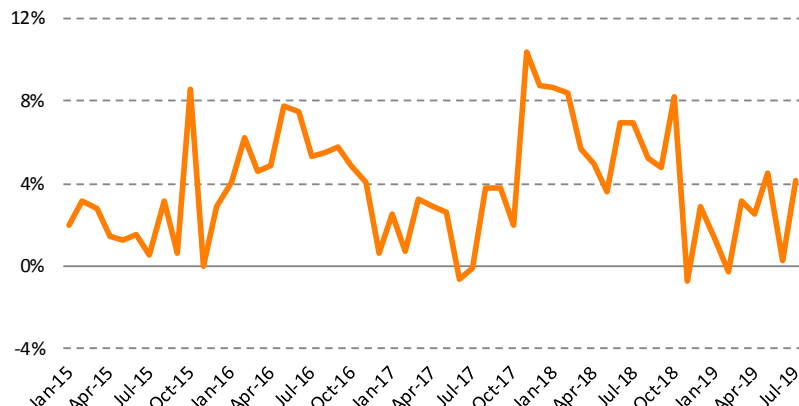
ANNEXURE A

Exhibit 16: YoY Growth in Mining



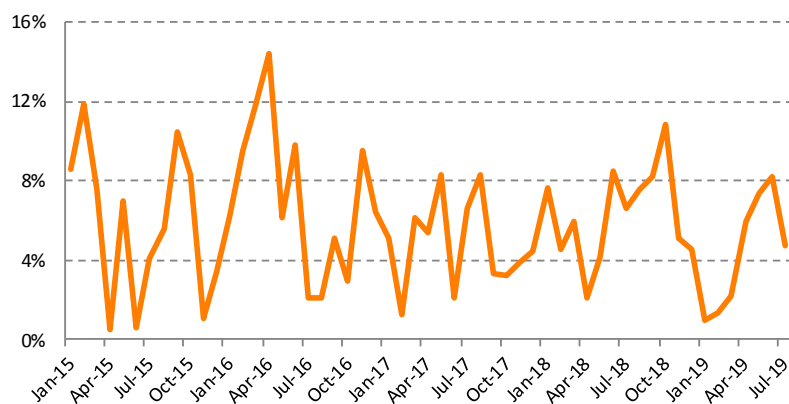
Source: CSO; CEIC; ICRA research

Exhibit 17: YoY Growth in Manufacturing



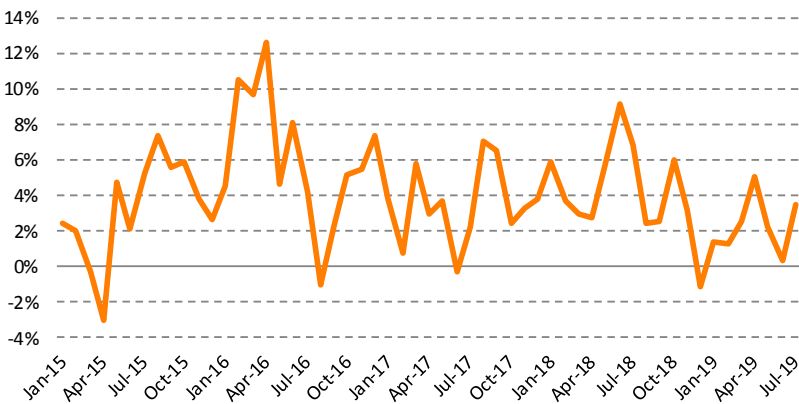
Source: CSO; CEIC; ICRA research

Exhibit 18: YoY Growth in Electricity

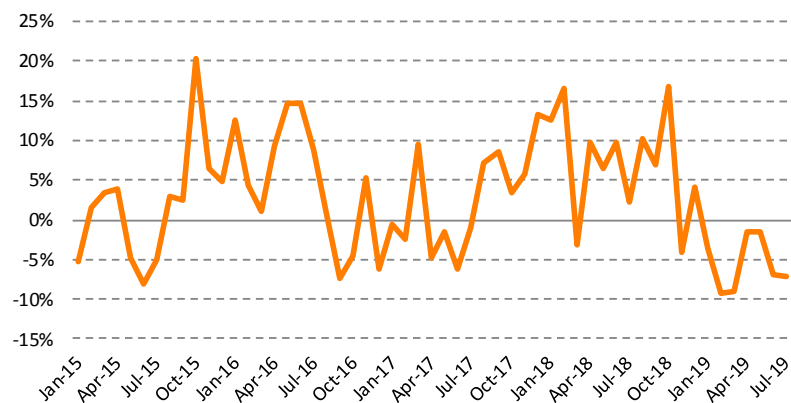


Source: CSO; CEIC; ICRA research

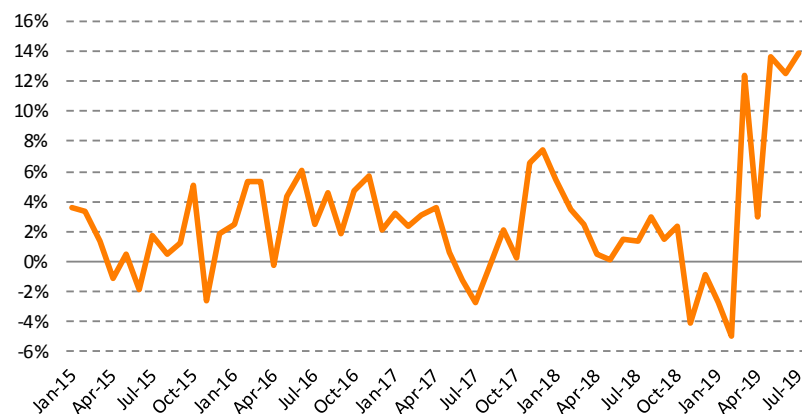
Exhibit 19: YoY Growth in Primary Goods



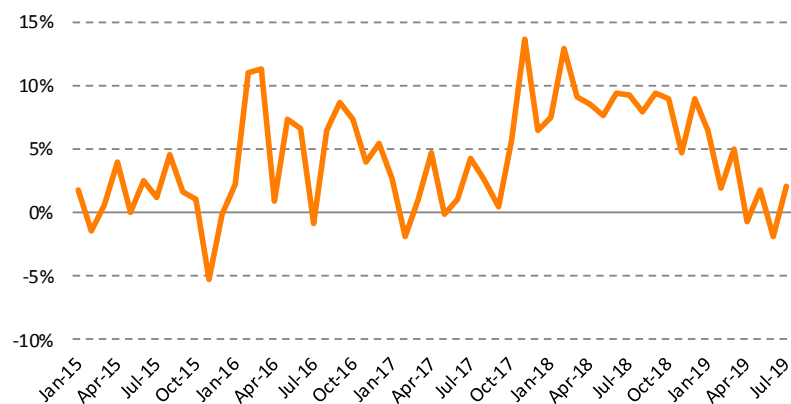
Source: CSO; CEIC; ICRA research

Exhibit 20: YoY Growth in Capital Goods

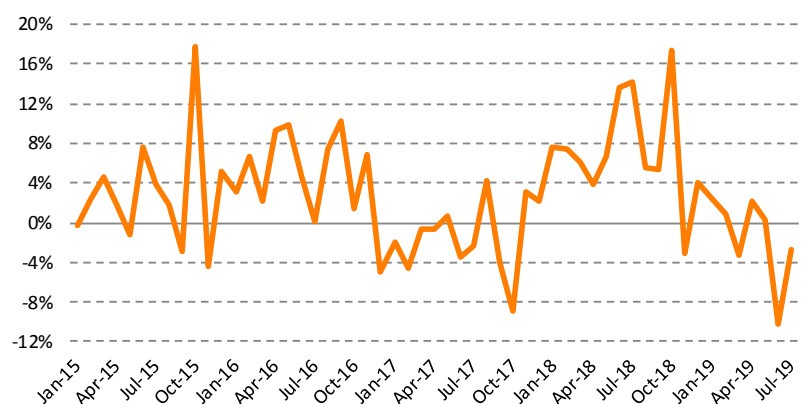
Source: CSO; CEIC; ICRA research

Exhibit 21: YoY Growth in Intermediate Goods

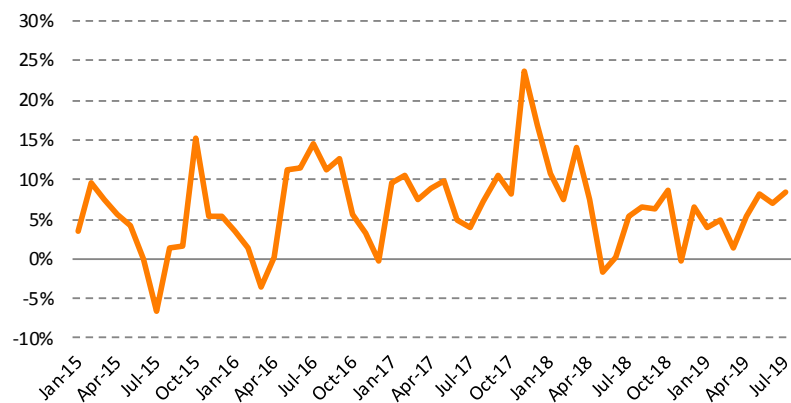
Source: CSO; CEIC; ICRA research

Exhibit 22: YoY Growth in Infrastructure/Construction

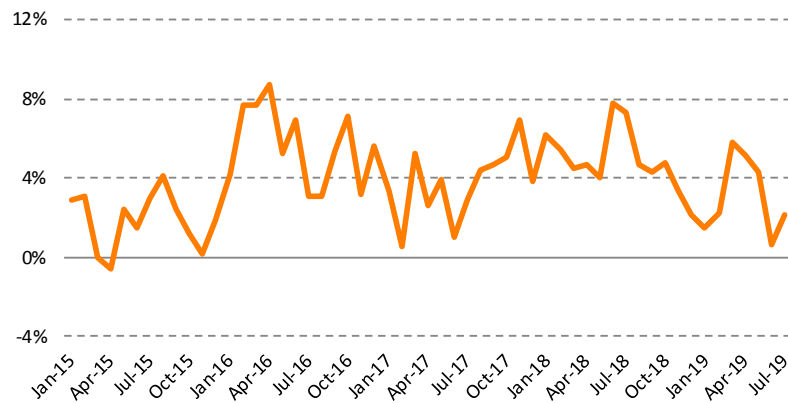
Source: CSO; CEIC; ICRA research

Exhibit 23: YoY Growth in Consumer Durables

Source: CSO; CEIC; ICRA research

Exhibit 24: YoY Growth in Consumer Non-Durables

Source: CSO; CEIC; ICRA research

Exhibit 25: YoY Growth in Core Sector

Source: CSO; CEIC; ICRA research

ANNEXURE B

Items	Weight (%)	Growth in July 2019	Manufacturing Sub-Sector	Used-Based Classification
Separators including decanter centrifuge	0.16	57.9%	Machinery and equipment N.E.C.	Capital goods
Harvesters and threshers	0.21	-69.8%	Machinery and equipment N.E.C.	
Fragrances & Oil essentials	0.2	260.3%	Chemicals and chemical products	Intermediate goods
MS slabs	0.84	141.0%	Basic Metals	
Copper bars, rods & wire rods	0.64	50.8%	Basic Metals	
Newsprint	0.39	-37.1%	Paper and Paper products	
Bars and Rods of Alloy and Stainless Steel	0.57	-46.0%	Basic Metals	Infrastructure/ construction goods
T.V.set	0.31	-39.6%	Computer, electronic and optical products	Consumer durables
Vanaspati and other vegetable oils & fats	0.22	66.8%	Food products	Consumer non-durables
Vaccine for veterinary medicine	0.45	-39.0%	Pharmaceuticals, medicinal chemical and botanical products	

Source: CSO; ICRA research

ANNEXURE C

Growth in Index of Core Industries	Index of Core Industries	Coal	Crude Oil	Natural Gas	Refinery Products	Fertilizers	Steel	Cement	Electricity
Weight	100.00%	10.33%	8.98%	6.88%	28.04%	2.63%	17.92%	5.37%	19.85%
Month									
May-18	4.1%	12.0%	-2.9%	-1.4%	4.9%	8.4%	-0.1%	13.0%	4.1%
Jun-18	7.8%	11.5%	-3.4%	-2.7%	12.1%	0.9%	4.2%	14.2%	8.5%
Jul-18	7.3%	9.8%	-5.4%	-5.2%	12.3%	1.3%	6.9%	11.2%	6.7%
May-19	4.3%	1.9%	-6.9%	0.0%	-1.5%	-1.0%	15.3%	2.8%	7.4%
Jun-19	0.7%	3.2%	-6.8%	-2.1%	-9.3%	1.5%	8.4%	-1.7%	8.1%
Jul-19	2.1%	-1.4%	-4.4%	-0.5%	-0.9%	1.5%	6.6%	7.9%	4.2%
FY2019 YTD	5.9%	12.1%	-3.1%	-1.1%	8.0%	3.7%	3.4%	15.0%	5.3%
FY2020 YTD	3.1%	1.9%	-6.3%	-0.7%	-2.1%	-0.5%	10.9%	2.7%	6.4%

Source: Index of Eight Core Industries, Ministry of Commerce and Industry, Office of the Economic Advisor; CEIC; ICRA research

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ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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