Research

Angst in April

CRISIL First Cut | June 2020

What's unsaid in the April IIP figures

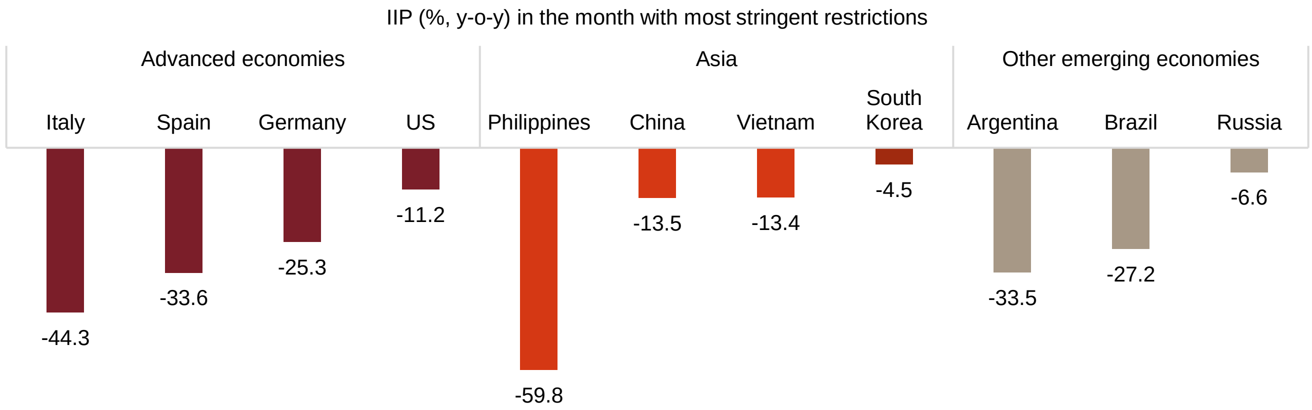
The National Statistical Office (NSO) released quick estimates for the Index of Industrial Production (IIP) for April 2020 with the caveat that they must not be compared with the previous months', as they are thinly estimated based on low response rates in view of the lockdown. April's estimates – of IIP at 56.3, mining at 78.3, manufacturing at 45.1, and electricity at 126.1 – do not reveal much information on the plight of the industrial sector in the month that saw the most stringent lockdown in India.

The estimates for March, however, were revised to an 18.3% contraction in industrial output (against 16.7% earlier), with manufacturing plunging the most by 22.4%.

That said, a few inferences could be drawn using data from other sources:

- Core infrastructure sector[1] data released earlier saw output falling 38.1% on-year in April, led by sharp contraction in steel (-84%) and cement (-86%) sectors, followed by refinery products (-24.2%), electricity (-22.7%) and coal (-15.4%)
- Within manufacturing, sectors such as textiles, engineering goods, gems and jewellery, leather, and petroleum products suffered massive declines on the exports front. With the lockdown and domestic demand drying up, these have faced a double whammy. Others like automobiles too have faced a blow, as plants were shut and there were practically no sales (except tractors), signalling low production in subsequent months. The Purchasing Managers' Index (PMI) for manufacturing fell to an all-time low of 27.4 for April, while railway freight cargo transport (categorised as an essential service), though operational, fell 35.3%
- For a better view of how industrial output might look like in April, we also delved into cross-country data. The chart below shows severity of lockdown vs industrial output for a few countries. This suggests that in the months when lockdowns were most severe or implemented widely, industrial production across countries fell in the range of -11 to -60%. Philippines, where stringency[2] conditions are more comparable to India's, saw IIP fall 60%

Down and out: How industrial production fared during lockdowns globally



Source: CRISIL

[1] *The core infrastructure sector index comprises indices for coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity, and has 40.3% weight in IIP*
2 Oxford Covid-19 Government Response Stringency Index constructed by Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira shows India and Philippines experiencing the severest lockdown in April

Outlook

The first quarter of this fiscal is expected to be the worst affected by the Covid-19 pandemic. India’s lockdown was one of the most stringent in Asia during April. Despite the easing, June too is unlikely to see major relaxations as the Covid-19 affliction curve is yet to flatten. All this is weighing on gross domestic product (GDP) growth.

We see the Indian economy contracting 5% on-year in fiscal 2021. While we expect non-agricultural GDP to de-grow 6%, agriculture could cushion the blow by growing at 2.5%. This is premised on the following: an extension of restrictions and lockdown, especially in states where Covid-19 cases are still rising; a normal monsoon that supports the kharif crop and agriculture incomes; softer crude oil prices; and limited fiscal support to prop up an immediate growth revival.

Overall, risks remain tilted to the downside and hinge on further extension in containment measures, slipping of global growth and a sub-normal monsoon.

Analytical contacts

Dharmakirti Joshi
Chief Economist, CRISIL Ltd.
dharmakirti.joshi@crisil.com

Dipti Deshpande
Senior Economist, CRISIL Ltd.
dipti.deshpande@crisil.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.