Manufacturing output plummets amid COVID-19 lockdown

Key findings

Record contraction in production

New orders collapse

Firms cut staff numbers at fastest rate on record

April data pointed to an unprecedented contraction in Indian manufacturing output. The result came amid national lockdown restrictions to help stem the spread of the coronavirus disease 2019 (COVID-19), which in turn led to widespread business closures. In an environment of severely reduced demand, new business collapsed at a record pace and firms sharply reduced their staff numbers. Meanwhile, both input costs and output prices were lowered markedly as suppliers and manufacturers themselves offered discounts in an attempt to secure orders.

At 27.4 in April, the seasonally adjusted IHS Markit India Manufacturing PMI® fell from 51.8 in March. The latest reading pointed to the sharpest deterioration in business conditions across the sector since data collection began over 15 years ago.

The decline in operating conditions was partially driven by an unprecedented contraction in output. Panellists often attributed lower production to temporary factory closures that were triggered by restrictive measures to limit the spread of COVID-19.

Amid widespread business closures, demand conditions were severely hampered in April. New orders fell for the first time in two-and-a-half years and at the sharpest rate in the survey’s history, far outpacing that seen during the global financial crisis.

Total new business received little support from international markets in April, as new export orders tumbled. Following the first reduction since October 2017 during March, foreign sales fell at a quicker rate in the latest survey period. In fact, the rate of decline accelerated to the fastest since the series began over 15 years ago.

Deteriorating demand conditions saw manufacturers drastically cut back staff numbers in April. The reduction in employment was the quickest in the survey’s history. There was a similar trend in purchasing activity, with firms cutting input buying at a record pace.

Comment

Commenting on the latest survey results, Eliot Kerr, Economist at IHS Markit, said:

"After making it through March relatively unscathed, the Indian manufacturing sector felt the full force of the coronavirus pandemic in April.

"In the latest survey period, record contractions in output, new orders and employment pointed to a severe deterioration in demand conditions. Meanwhile, there was evidence of unprecedented supply-side disruption, with input delivery times lengthening to the greatest extent since data collection began in March 2005.

"There was a hint of positivity when looking at firms’ 12-month outlooks, with sentiment towards future activity rebounding from March’s record low. That said, the degree of optimism remained well below the historical average.”
Despite firms employing fewer staff, an evaporation of new business saw volumes of outstanding work fall sharply in April. The latest decline continued the downward trend that began in March, but the rate of contraction accelerated to the fastest on record.

Meanwhile, there was evidence of severe supply-side disruption across the manufacturing sector amid the lockdown, with input delivery times lengthening markedly. In fact, the result pointed to the steepest deterioration in vendor performance since data collection began in 2005.

Despite shortages of some products, faltering demand among manufacturers saw input prices drop in April. Moreover, the rate of reduction was the fastest since the survey's inception.

Lower cost burdens gave manufacturers room to decrease their output prices at the start of the second quarter. The marked decline was the quickest since data collection began.

Finally, sentiment regarding the 12-month outlook for production ticked up from March’s recent low on hopes that demand will rebound once the COVID-19 threat has diminished and lockdown restrictions eased. That said, optimism remained relatively muted.

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