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Impact of Lockdown and Covid -19 on Indian Industrial Sector: An Analysis

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Abstract

Across the globe Covid-19 has created economic hardship for businesses as well as communities and affected the livelihood. Intensive of spread of the corona virus has forced the Indian Government to announce lockdown on March 24, 2020.Indian economy was already struggling with lower growth in Gross Domestic Product (GDP), theCOVID-19 pandemic smashed the Indian industries in an unprecedented and unexpected way. It is the first time in the history that COVID-19 pandemic has influenced industrial demand, supply and availability of workforce in the same time globally. Month's together lockdown and global slowdown has considerably disrupted demand-supply chain and dented the economy as well as industries deeply. Present lockdown has impacted industrial sector enormously with lessened industrial output and lower profitability. The main objective of this paper is to study and analyze the impact of covid 19 on industrial sector of India and to know how industries are striving to cope up with lockdown and its impact. Genuine effort have made in this paper to analyze the current Industrial sectors situation in India.

Keywords: COVID-19, Lockdown, Pandemic, Supply chain

1. Introduction

Covid- 19 pandemic has threatened the world's trade and growth. Its magnitude can be compared to great depression of 1929 as there is similarity in loss of employment and income, falling aggregate demand for goods in all economies.

Corona virus has not only brought health contagion but also economic and industrial contagion too. The Govt. has adopted lockdown strategy to save the life first by social distancing. The aim of the Govt. was to bring down the spreading of corona virus as early as possible. Hence, all the business activities are suspended including transport and educational institutions. Everything was in standstill position and there was a serious setback in demand, production, sales and loss of jobs. Hence, fiscal management was very much challenging for Indian government as there was stand still situation and drastic fall in collection of taxes, import duties and GST. In return Expenditure of government, was increased suddenly for medicine and healthcare and relief measures.

For a healthy economic growth the Government has necessarily and constantly put emphasis on the progress and development of industrial sector. In 2014 'Make in India' campaign was initiated to lift domestic industries and attract foreign investment to boost our Indian Economy. It was intended to ensure that the industrial sector's contribution to GDP is increased to 25% by 2022 (later revised to 2025) and to create 100 million employment opportunities in the sector. However, the global pandemic has created unintended consequences and put all the plans in to crossroads. Worldwide long term strategies are made to combat the situations brought by lockdowns and coronavirus. For this, the Indian government has also come forward with innovative long term tax concession schemes to boost up employment rates in industries and encouraged business activities especially of small and medium scale organizations it reduced the interest rates. Despite of all these necessary measures the activities of business were not boosted well as industrialists morale is still low and lost their confidence due to lockdown and severe uncertainty about second wave and third wave of covid 19 pandemic. During lockdown, there was only demand for medical equipment and .medicines, petroleum and some food items and other major items demand has fallen. It will take time for industrial units to resume back everything and to trade. This worst situation will not be continued for a long period of time, but still there is no clarity that how long this pandemic will force countries to lock their activities.

2. Effect of Lock down on Industry

After lockdown manufacturing units did not come back to normal state immediately as casual labours were not available. Some of the migrant workers did not come back to cities for work. Small enterprises which were operating with a very little margin may not resume quickly. Many export oriented SMEs small and medium enterprises are not getting orders as still there are transportations and travel restrictions in countries. Hence, many industrial units in India are experiencing decline in business because of stagnating economy.

When the lockdown was opened in India industries were struggled to get vehicles for loading goods. More than this, overloaded, busy communication systems, delayed money transactions, lesser working hours have piled up monetary risks. Even customer i.e end user was postponing the purchase of non-essential goods as here is not much cash to manage the things. Small industries were feeling the heat as there capacity to bear risk is less compared to large manufacturing industries. Large manufacturing units which had exceptional operative efficiency, well trained and skilled workers with automated machines were used lockdown as an opportunity. But small scale industries are still struggling for survival. Growth and progressive plans of industries will be pushed back and those industries which have invested in plant and machinery will not get expected returns even after lockdown opened. The businesses which have conserved cash have survived and those who don’t will be out of the race very soon. Getting labour for production would be the greatest challenge even though the rules of lockdown are relaxed. Convincing labour and staff to return or recruit new one is highly challenging. It will be a challenge to convince staff to return or to hire new staff, and the staff turnover is expected to impact negatively on productivity and quality, adding further to financial concerns. Further, industries have took care of avoiding the spread of COVID-19 in the workplace by the movement of material and people.

Manufacturing units especially automobile, engineering and textile industries have experienced a labour crunch. Some of the large industrial enterprises have restarted operations with lesser capacity with small number workforce. Almost everyone in industry is experiencing shortage and disruption in supply of raw materials, parts and components, cancellation of export orders, falling demands, declined production, liquidity crunch leading to falling prices, lower consumer confidence and trust and fear of gloomy future. Lockdown has impacted all most all area like Design, Procurement, Project Management and the physical activity of actual manufacturing. Taking technical clarifications and approval from the clients for various processes is affected by outbreak of COVID-19.

3.Objectives

- To know the situation of industries throughout Covid-19 and lockdown period.
- To analyze the impact of the Covid-19 and lockdown period on Indian industrial sector.
- To study the performance of industry during lockdown and after lockdown in India.

4. Methodology & Data Collection

This study is primarily based on secondary data sources like Ministries of Govt. of India(GOI), Reserve Bank of India(RBI),Centre for Monitoring Indian Economy (CMIE) survey data base and various newspapers, articles and journals. Extensive range of data sources were reviewed and studied to know the impact of lockdown and covid 19 Indian industrial sector. The main purpose of this study is to understand and analyze the changes that happened in Indian industrial sector due to lockdown and covid. And even to facilitate further decision making.

The data used in this study are mostly from 2020 and 2021. Tables and graphical presentations are made wherever necessary to make the interpretation more meaningful. Attempts are made to provide the latest available data to the extent possible.

5. Data analysis and interpretation

Table 1.Real GVA (Gross Value Added) Growth

Years	2016-17	2017-18	2018-19	2019-20	2020-21
Industry	**8.4**	**6.1**	**5.0**	**-2.0**	**-7.4**
i. Mining and Quarrying	9.8	-5.6	0.3	-2.5	-9.2
ii. Manufacturing	7.9	7.5	5.3	-2.4	-8.4
iii. Electricity, Gas, Water Supply and Other Utility Services	10.0	10.6	8.0	2.1	1.8

Source: NSO

As the Indian economy reels from the devastating economic and health effects of two consecutive waves of the Covid-19 pandemic, the latest estimates financial year 2020-21 (January-March) has not brought any relief to policymakers. The industrial sector showed continues deceleration in gross value added (GVA) from when this covid pandemic was started. GVA is essentially a measure of the “net” value of output — deducting the cost of any input that went into its production from its total value.

Hence, GVA growth in industry contracted sharply on a y-o-y basis by -7.4 per cent in 2020-21. This is the fifth year of sequential deceleration, including two successive years of contraction in the industrial sector. During 2019-20 there is continuous de-growth in GVA because of the falling demand, supply interruption in industries as there was reduction in capacity utilization of manufacturing units because of covid lockdown.GVA growth in industries was decelerating in the wake of the pandemic and experiencing further set back in the year 2021.

Table2.IndexofIndustrialProduction:Growth(Y-o-Y)

Apr 202	May 202	June 202	July 202	Aug 202	Se pt	Oct 202	Nov 202	De c	Jan 20	Feb 202	Mar 202	Apr 202	Ma y	Jun e	Jul y

0	0	0	0	0	20 20	0	0	20 20	21	1	1	1	20 21	20 21	20 21
-57.3	-33.4	-16.6	-10.5	-7.1	1.0	4.2	-1.9	1.6	-0.9	-3.6	22.4	134.6	29.3	13.6	11.5

Source: Census and Economic Information Center(CEIC).

Index of Industrial Production (IIP) measures the economic performance of industrial sector of economy. Manufacturing, Mining and Electricity are the three main sectors of the economy in which IIP is measured. IIP measures the short term changes during the given period in the volume of production of industrial goods.

Industrial production had contracted 18.7 per cent due to the corona virus pandemic since March last year(2020). In April 2020, it shrank 57.3 per cent due to a decline in economic activities in the wake of the lockdown to curb the spread of corona virus infections. Even nationwide lockdown was imposed in the last year to curb the first wave of Covid-19 pandemic.

The decline in industrial activity was witnessed in India in the year 2020 and 2021 (Table 2). India witnessed the severest downturn and also there was little bit of revival from contraction in September 2020 and recovery has been impacted by the second wave of the pandemic again.

Industrial production grew by as much as 134.4 per cent (the biggest increase ever)in the month of April 2021 primarily due to a low base in the previous year. Factory output, as measured by the Index of Industrial Production (IIP), was increased to 22.4 per cent in March 2021 and had contracted by a massive 57.3 per cent in the April month last year as there was froze in economic activity due to lockdown induced by corona virus.

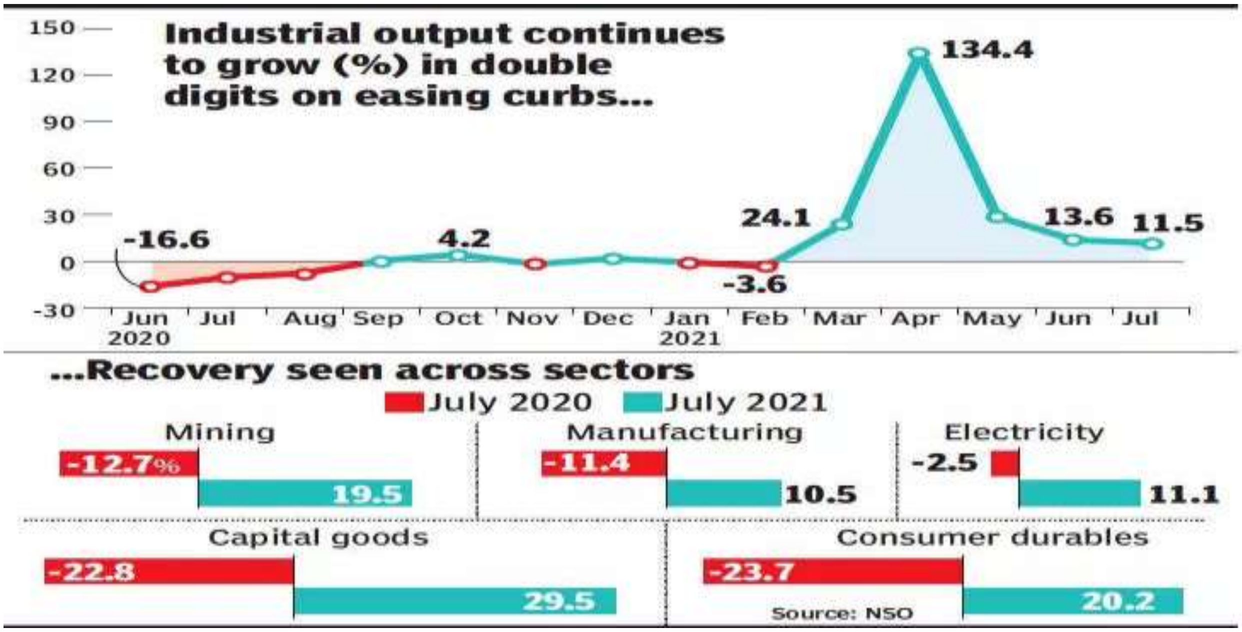
"There were many units which reported 'Nil' production, affecting comparison of the indices for the months of April 2020 and April 2021." Growth of indices for April 2021 need to be ignored as it is exceptionally high. Same situation even continues in May 2021 also and it is only from June 2021 that reasonable sequential momentum may gain pace.

Slow vaccine drive and second wave of covid are delayed economic revival in India. During May 2020 nationwide lockdown was in full force and majority of industries were not operating. There was almost 'Nil' in production. Hence, the indices for May 2020 and May 2021 are not strictly comparable.

This is the third month in succession that IIP has grown at an exorbitant rate. IIP growth was 24.14% in Mar-21, 134.44% in Apr-21 and has come at 29.3% in May-21. The IIP growth of 29.3% may sound astounding, but it is hardly surprising. The yoy IIP number is a comparison of the industrial output of May-21 with May-20; when IIP had dipped by -33.38%. When the IIP contracts by -33.38%, as it did in May-20, even a yoy growth of 29.3% will leave the May-21 IIP level, nearly 14% short of May-19 levels. In short, IIP is yet to recoup pre-COVID levels.

The Industrial Production (IIP) growth for July 2021 stood at 11.5%, lower than the reading of 13.6% in June 2021. The industrial production continued to post double digit growth due to higher favorable statistical base and marginal pickup in industrial activity. Due to low base effects from last year, it is the fifth month of double-digit growth and as the economy recovers from the coronavirus hit.

Table- 3 Recovery across the sector



Industrial production surged 11.5 per cent in July mainly due to a low-base effect. The data showed that industrial production recovered and good performance by manufacturing, mining and power sectors but the output remained slightly below the pre-pandemic level.

In July 2020, manufacturing sector had logged a contraction of 11.4 per cent. The output of Mining sector fell 12.7 per cent in the same month last year. Mining sector output fell 12.7 per cent in the same month last year. The electricity generation and there is decline in electricity generation for 2.5 per cent in July 2020.

In July 2021, the output of capital goods - a indicator of investment, grew 29.5 per cent, compared to a de-growth of 22.8 per cent in July 2020. The output of consumer durables amplified 20.2 cent, compared to a decline of 23.7 cent in the year-ago period.

6. Conclusion

COVID-19 pandemic has brought untold misery to a large section industries across the globe. The uncertainty about future looms heavily in the mind of both consumers and producers. But, the concerted action by the countries in the world will surely turn the tide. To rebuild and to strengthen industries in India, there is a need for adopting a global market and innovation mindset.

The economic impact of the Covid-19 second wave has started taking a toll on many sectors. For some industries it will take years to get back to their normal life. Recovery from the second wave of the pandemic in April-May is expected to be swifter as compared to the first wave in 2020.After coping with the first wave of the pandemic, the economy finally showed some signs of recovery from Q3 FY-21. One needs to be cautious while reading into the industrial growth numbers that are reported on a Year-over-Year (YoY) basis, especially those which are reported from March-21 onwards. The low base effect will continue to impact economic and industrial data in the coming months and will obscure the true reflection of the Indian economy. YoY-based growth parameters like quarterly GDP figures, Index of Industrial Production (IIP), and external trade would yield stellar, outlier performance for these months, which is why one should read Q1-Q3 FY22 numbers from a different perspective. An alternative approach could be to compare the FY22 numbers with pre-pandemic years.

From July 2021 there is pickup in growth in India's industrial output towards the returning to pre-pandemic levels. This rebound is initiated by the manufacturing sector as IIP growth came in somewhat ahead of expectations. Relative control over the virus outbreak, strong external demand and an easing of the curbs on movement has paved the way for industrial growth normalization. While the risks of a third wave still persist, steady progress in vaccination has raised hopes for a steady rebound of the IIP trajectory from Q2FY22.

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