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Macroeconomics | First cut

A tad higher

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Healthy manufacturing growth lifts headline IIP

The Index of Industrial Production (IIP) edged up to 5.2% on-year in February from 5.1% in January, driven by stronger growth in manufacturing (6% vs 5.3%) but partially offset by slowdown in electricity (2.3% vs 5.1%) and mining (3.1% vs 4.3%).

A statistical low-base effect also supported the gauge.

While headline IIP growth remained broadly steady at 4.1% in fiscal 2026 (April-February) compared with the year-ago period, manufacturing growth strengthened to 5% from 4.1%. Double-digit growth in infrastructure and construction goods (10.2% vs 6.4%) led manufacturing IIP growth, followed by capital goods (7.5% vs 5.8%) and intermediate goods (5.8% vs 4.3%).

A combination of higher prices and tighter supply of critical inputs due to the ongoing conflict in West Asia has imposed downside risks to industrial output. With gas (natural and liquefied gas) availability under pressure, the government has tried to ration supplies to industries. However, those with heavy dependence on gas and derivatives as key inputs could see disruptions in their output.

The surge in energy prices is another key challenge faced by manufacturers. Over the past three fiscals, a favourable input cost environment and improving domestic demand allowed firms to expand their margins steadily by 18-19%. That trend is now reversing. Rising input costs are emerging as a key pressure point, and uneven pricing power across firms may limit their ability to fully pass through costs.

Healthy domestic demand scenario though provides a crucial buffer currently.

The Ministry of Finance’s Monthly Economic Review report notes supply-side activity has slowed following the energy price and availability shock, but demand has remained resilient.

The uncertainty due to the continuing turmoil in West Asia is not only casting a shadow over India’s macroeconomic outlook but if extended, can also delay business decisions and deter the recovery in private investments.

Data highlights for February

- IIP growth rose marginally to 5.2% on-year in February from 5.1% in January. Sequentially, IIP declined 1% on a seasonally adjusted basis
- Stronger growth in manufacturing (6% vs 5.3%) lifted headline IIP, while electricity (2.3% vs 5.1%) and mining (3.1% vs 4.3%) softened
- Among the industrial and investment use-based sectors, growth strengthened for capital goods (12.5% vs 4.1%) and intermediate goods (7.7% vs 6.3%), but weakened for infrastructure and construction goods (11.2% vs 14.6%) and primary goods (1.8% vs 3.1%)
- Growth in consumer durables picked up marginally (7.3% vs 7.2%), while non-durables continued to decline, albeit at a slower pace (-0.6% vs -2.3%)

Capital goods leads among use-based sectors

- Capital goods saw the strongest growth among use-based sectors, rising to a nine-month high of 12.5% in February from 4.1% in January, lifted by machinery and equipment (10.2% vs 5.7%)
- Intermediate goods (7.7% vs 6.3%) gained support from chemicals (4.5% vs 3.1%) and textiles (0.4% vs -3.5%)
- Growth in infrastructure and construction goods remained strong but slipped to a four-month low of 11.2% (vs 14.6%)
  - Growth in other non-metallic mineral products (7.2% vs 10.4%) and basic metals (13.2% vs 14.1%) also hit a four-month low
- Growth in primary goods, too, slipped to a four-month low of 1.8% from 3.1%
  - Growth in electricity (2.3% vs 5.1%) and mining (3.1% vs 4.3%) moderated. The slowdown in electricity IIP growth was in line with core sector data, which showed electricity production growth slowed to 0.5% in February from 5.2% in January
  - Growth in coke and refined petroleum products remained negative at -0.3%, the same as last month
- While growth softened relative to January in some segments, it remained higher than the fiscal 2026 average (April-February) across the industrial and investment sectors

Consumer non-durables contracts

- Growth in the consumer sector (durables and non-durables) strengthened to 2.7% in February from 1.5% in January
- Growth in consumer durables rose 10 basis points to 7.3%, far higher than the 5.9% average growth in this fiscal so far

- Automobile-related segments saw robust growth, with motor vehicles IIP rising to 14.9% from 11% and other transport equipment soaring to 20.7% from 2.6%
- However, growth in computer, electronics and optical products continued to soften, plunging to a six-month low of 5.4% from 17.7%

- Consumer non-durables output continued to decline on-year (-0.6% vs -2.3%), led by negative growth in pharmaceuticals (-2.3% vs -6.7%), tobacco products (-17% vs 13.3%) and beverages (-1.6% vs -1.5%)

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