

# Macroeconomics | **First cut**

## **IIP at a nine-month low**

July 2025

### **IIP growth weakens for the second consecutive month**

Growth in the Index of Industrial Production (IIP) softened to 1.2% on-year in May from 2.6% in April, the lowest since August 2024, impacted by a contraction in the electricity sector and softer growth in manufacturing.

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*Contraction in the consumer-oriented and electricity sectors resulted in the slowdown in IIP growth. Export-oriented sectors displayed a mixed performance. However, pharmaceuticals, chemicals and textiles showed a decline in output on-year. However, investment-related goods experienced a more positive growth trend.*

*External risks to growth from the US tariffs remain high in fiscal 2026. For now, the US administration has paused the hike in reciprocal tariffs, though a 10% increase in universal tariff, along with that on the auto, steel and aluminium sectors is in place. That said, the announced reciprocal tariffs are expected to come into effect from July 9. The tariff hikes are likely to hit goods exports in fiscal 2026, while private investments may be impacted by global uncertainty. S&P Global expects global growth to slow to 2.9% in 2025 from 3.3% in 2024.*

*We expect consumption to improve owing to:*

- The southwest monsoon is expected to support agricultural production, with the India Meteorological Department forecasting an above-normal monsoon for fiscal 2026 (106% of long-period average), which augurs well for agricultural production. This is also expected to ease food inflation from 2024, which will aid discretionary spending. As on June 30, all-India rainfall stands at 109% of the long-period average*
- Rate cuts by the Reserve Bank of India's Monetary Policy Committee (MPC) are expected to support domestic demand. The MPC has already cut rates by 100 basis points in the ongoing easing cycle and bank lending rates have begun to soften. We expect another rate cut in fiscal 2026*
- Income tax cuts and expected spending on rural support schemes as announced in the budget for fiscal 2026 too will support private consumption*

*Net-net we expect gross domestic product (GDP) growth at 6.5% in fiscal 2026, with risks tilted to the downside.*

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## Data highlights for May

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- IIP growth slowed to 1.2% in May from 2.6% in April. Sequentially, the index fell 0.8% on a seasonally adjusted basis
  - IIP growth recorded a sharp on-year fall in the electricity sector (-5.8% vs 1.7%) and softer growth in manufacturing (2.6% vs 3.1%). The mining sector was broadly stable (-0.1% vs -0.2%)
  - Growth in intermediate goods slowed (3.5% vs 4.9%), while it picked up in infrastructure and consumption goods (6.3% vs 4.7%) and capital goods (14.1% vs 14%). On the other hand, output declined in primary goods (-1.9% vs -0.2%)
  - Output contracted on-year in consumer durables (-0.7% vs 6.2%) and consumer non-durables (-2.4% vs 2.7%)
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## Consumer sectors clock a weak performance

- The IIP for consumer durables declined on-year due to a contraction in furniture (-6% vs 1.3%), textiles (-2.7% vs 0.4%), computer and electronic products (-3.4% vs 10.6%), wearing apparel (2.4% vs 8.7%) and automobiles (6.3% vs 16%). The broad-based slowdown suggests subdued discretionary demand, even with a sharp fall in retail inflation in May. Weakness in retail credit growth (11.1% in May vs 11.9% in April) indicates weak demand, especially in urban areas
- Consumer non-durables IIP declined for the fourth straight month, although the pace of contraction slowed from the previous month. Contraction in pharmaceuticals (-3.1% vs -5.3%) and beverages (-4% vs -1.5%) resulted in an on-year decline in output. However, food products improved marginally (1.8% vs 1.1%) with easing food prices

The Periodic Labour Force Survey bulletin shows an increased unemployment rate<sup>1</sup> in rural (5.1% vs 4.5%) and urban (6.9% vs 6.5%) areas, in May.

## Lower output in primary goods drags IIP growth

- Output in the primary goods declined on-year for the second straight month, with the contraction deepening (-1.9% vs 0.2%), given the fall in electricity and mining output. The decline in the electricity sector seems to be affected by cooler weather and a quicker onset of monsoon, compared with the past year. Cool weather also dampened the demand for cooling appliances like air conditioners.
- Growth in intermediate goods was hit by a slowdown in chemical products (-4.8% vs -4.1%) and basic metals (6.4% vs 6.8%)
- On the other hand, investment-related goods performed well.
  - Output growth in infrastructure and construction goods picked up (6.3% vs 4.7%)

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<sup>1</sup> Current weekly status, ages 15 and above

- Output growth in capital goods was healthy, driven by machinery and equipment (11.8% vs 9.5%) and other transport equipment (6.3% vs -0.8%)

The growth in output in investment-related goods reflects a healthy rise in government (centre *plus* states) capital expenditure (capex) in May. Central government capex rose 38.7% (nominal terms) in May. Also, data for 17 major states indicates cumulative capex surged 44.7% on-year in May

## Export-linked sectors show mixed performance

- Several critical export-oriented sectors saw contraction, reflecting the weakness in merchandise exports in May (-2.2% on-year vs 9% April in nominal terms)
- Textiles (-2.7% vs 0.4%), chemicals (-4.8% vs -4.1%) and pharmaceuticals (-3.1% vs -5.3%) experienced an output contraction, while the growth of wearing apparel (2.4% vs 8.7%) slowed sharply
- However, output growth picked up for non-metallic mineral products (6.9% vs 5.4%), machinery and equipment (11.8% vs 9.5%) and petroleum products (1.1% vs -2.1%)

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