

Macroeconomics | **First cut**

IIP picks up, again

January 2026

Grows 7.8% on-year in December, its fastest pace in 26 months

Growth in the Index of Industrial Production (IIP) accelerated for the second straight month to a 26-month high of 7.8% on-year in December, compared with an upwardly revised 7.2% in November, driven by robust consumer demand. Domestic consumption benefitted from Goods and Services Tax (GST) rationalisation, while export-oriented sectors took a hit from United States (US) tariffs.

Within manufacturing, GST rationalisation benefitted sectors such as food products and automobiles, but export-oriented sectors such as wearing apparel, textiles saw IIP growth moderate.

IIP growth rose to 5.2% in the December quarter from 4.3% in the previous quarter, led by consumer durables (7.4% vs 6.9%), consumer non-durables (3.7% vs -2.1%) and capital goods (6.8% vs 5.5%). IIP growth has been particularly strong in November and December at 7.5% on average.

Looking ahead, domestic macro tailwinds should continue to support demand in consumer segments for few more quarters. However, the adverse impact of higher US tariffs on export segments may become more pronounced. A trade deal with the US that allows for an immediate reduction in tariffs closer to levels imposed on peers could help matters. We expect India's gross domestic product (GDP) growth to moderate to 6.7% next fiscal from the National Statistics Office's first advance estimate of 7.4% for this fiscal, weighed down by a challenging trade environment and the waning benefits from statistical factors, such as a low deflator.

That said, GDP growth is normalising towards the decadal trend. It will get support from healthy consumption, a supportive monetary policy, a mild pick-up in private investment, and low crude oil prices.

The upcoming Union Budget will provide further clarity on fiscal support to growth next fiscal.

Data highlights for December

- IIP growth accelerated to 7.8% in December from 7.2% in November, its highest level since October 2023. Sequentially, growth softened to a seasonally adjusted 1% from 4.3%
 - On a sectoral basis, mining (6.8% vs 5.8%) and electricity (6.3% vs -1.5%) were drivers of higher IIP growth in December, while manufacturing growth moderated a tad (8.1% vs 8.5%)
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- As per the use-based classification, growth was driven by primary goods (4.4% vs 2.2%) and the consumer sectors — consumer durables rose 12.3% (vs 11.2%) and consumer non-durables grew 8.3% (vs 8%)
 - Growth in intermediate goods was broadly steady (7.5% vs 7.4%), while capital goods (8.1% vs 10.1%) and infrastructure and construction goods (12.1% vs 13%) softened
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Consumer sectors continue to surge

- Cumulatively, the consumer sectors (consumer durables and consumer non-durables) saw growth accelerate to 9.8% in December from 9.3% in November
- Growth in consumer durables output was at its highest level since November 2024
 - Transport-related sectors saw growth accelerate sharply, benefitting from GST rationalisation. Growth in motor vehicles and other transport equipment soared to 33.5% (vs 11.8%) and 25.1% (vs 17.8%), respectively. This is in line with high-frequency data, which indicates domestic sales of passenger vehicles and two-wheelers surged in December
 - Computer, electronics and optical products saw higher growth of 34.9% (vs 15.2%)
 - Wearing apparel, an export-oriented sector, saw output decline 8.1% (vs -4.5%)
- Growth in consumer non-durables was at its highest level since October 2023, driven by food products (8% vs 7.4%). Pharmaceuticals saw growth moderate to 10.2% (vs 10.9%)

Primary goods drive industrial and investment sectors

- Primary goods output growth saw the sharpest pickup in growth relative to November within the industrial and investment sectors
 - Growth in mining hit an 18-month high of 6.8% (vs 5.8%)
 - Electricity growth turned positive after two months of degrowth (6.3% vs -1.5%). Core sector data indicates electricity production rose 5.3% in December, compared with a decline of 1.5% in November
 - Growth in coke and refined petroleum products, an export-oriented sector, turned negative (-0.4% vs 0.4%)
- Growth in intermediate goods was broadly steady at 7.5% (vs 7.4%), but export-oriented sectors such as chemicals (1.1% vs 6.3%) and textiles (-2.5% vs 3.6%) saw growth decelerate
- Infrastructure and construction goods continued to clock double-digit growth, though slower than the previous month. While growth accelerated in basic metals (12.7% vs 11.3%), it softened in non-metallic mineral products (12% vs 12.7%)
- Softer growth in capital goods was led by fabricated metal products (8.1% vs 11.6%), while growth in machinery and equipment was largely stable (7.5% vs 7.6%)
- The weakness in export-oriented sectors is in line with the trade data released by the Ministry of Commerce and Industry. In December, India's merchandise exports rose a mere 1.9% on-year

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