

IIP Watch: Industrial growth at eight-month high but high frequency data remains weak

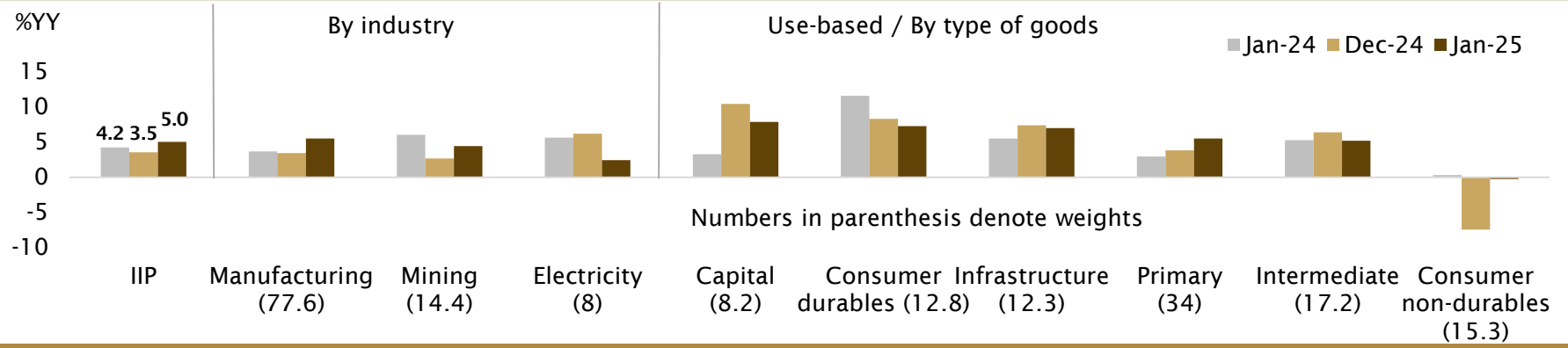
21 March, 2025

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Key takeaways

- Industrial production growth improved to an eight-month high of 5.0%YY in January from 3.5% in December (revised up from 3.2%). The print was above market expectations (Bloomberg survey: 3.5%), and supported by month-on-month momentum that offset mildly unfavorable base effect.
- Compared to December, both mining and manufacturing output grew at faster year-on-year rates in January, while growth in electricity moderated after improving for four successive months. By use-based classification, primary goods posted higher year-on-year growth compared to December. Consumer non-durables growth remained in contraction for the second straight month. Output in other groups rose at slower rates compared to December, though capital, infrastructure, and consumer durables grew at or above 7%YY. The recovery in consumer goods remains uneven, while industrial counterparts are faring better amid pick-up in government's capital expenditure.
- Historical data shows that the month-on-month change tends to be negative in February, though base effects are slated to be favorable that could offset some of the weakness from monthly momentum. Recent signals from high frequency data are mixed amid weakness in many of the indicators after a rebound in January. External risks remain, as trade policy uncertainties upend global growth and inflation prospects.
- Domestically, income tax relief to individuals in the Union Budget for FY26 is expected to support consumption. Easing monetary and regulatory norms are likely to further revive economic activity. However, accounting for the lags with which policies impact the economy, and the sluggish recovery so far amid easing inflation could provide the RBI MPC with space to further ease monetary policy. At the policy meeting in April, the RBI MPC could further trim the policy rate by 25bps to 6%, with certain segments of the market also anticipating a change in stance from 'neutral' to 'accommodative', or at least a change in the tone of the policy statement that suggests an easing bias.

Improvement industrial production growth to 5%YY in January from 3.5% in December was above market expectations



Monthly momentum lifted industrial output growth to 8-month high

- In January, industrial production growth improved to 5.0%YY from 3.5% in December (revised up from 3.2%). The print marked an eight month high and was above market expectations (Bloomberg survey: 3.5%), supported by month-on-month momentum that offset mildly unfavorable base effect.

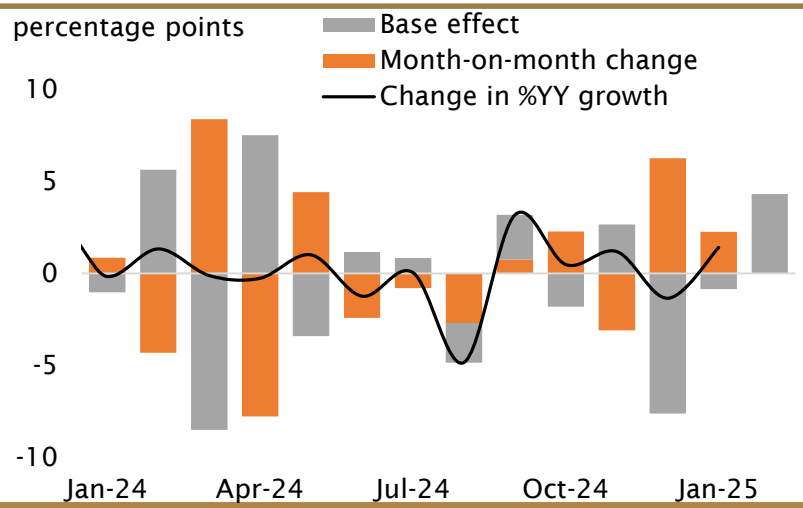
- In non-seasonally adjusted terms, monthly increase in output at 2.3% was higher than the historical average of 0.6% for the month (FY12-24). On a seasonally adjusted basis (accounting for uneven dates of festive season), IIP rose 1.4% after declining in December. In terms of 3-month/3-month seasonally adjusted annualized rate as well, momentum strengthened across sub-groups, except for consumer non-durables (use-based classification), where momentum turned negative after moderating in the previous month.

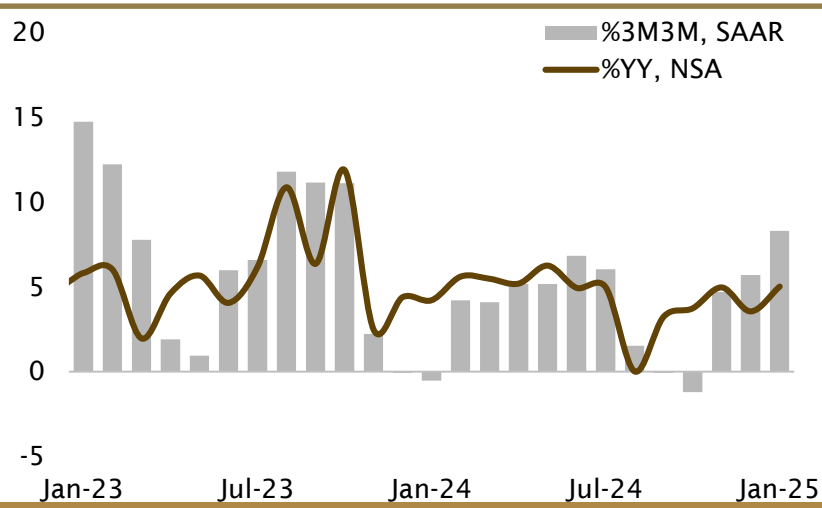
IIP growth in January exceeded market expectations

%YY	Weight	Nov-24	Dec-24	Jan-25
Industrial production	100.0	5.0	3.5	5.0
Sector-based classification				
Mining	14.4	1.9	2.7	4.4
Electricity	8.0	4.4	6.2	2.4
Manufacturing	77.6	5.5	3.4	5.5
Use-based/type of goods				
Primary goods	34.0	2.7	3.8	5.5
Capital goods	8.2	8.8	10.4	7.8
Intermediate goods	17.2	4.8	6.4	5.2
Infra. /construction	12.3	8.1	7.4	7.0
Consumer durables	12.8	14.1	8.3	7.2
Consumer non-durables	15.3	0.4	-7.5	-0.2

Note: Color code is based on %3M3M, SAAR data. Red shows high momentum, blue indicates the opposite.

Month-on-month rise in production lifted year-on-year growth in output and offset mildly unfavorable base effect

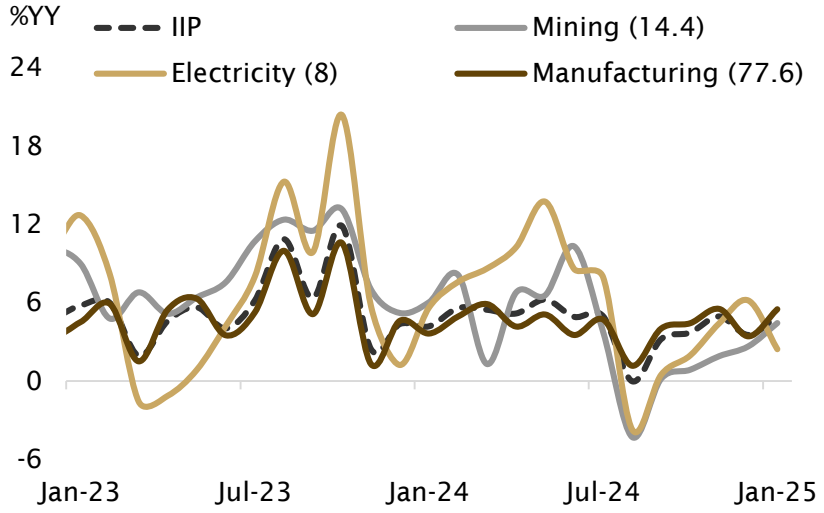


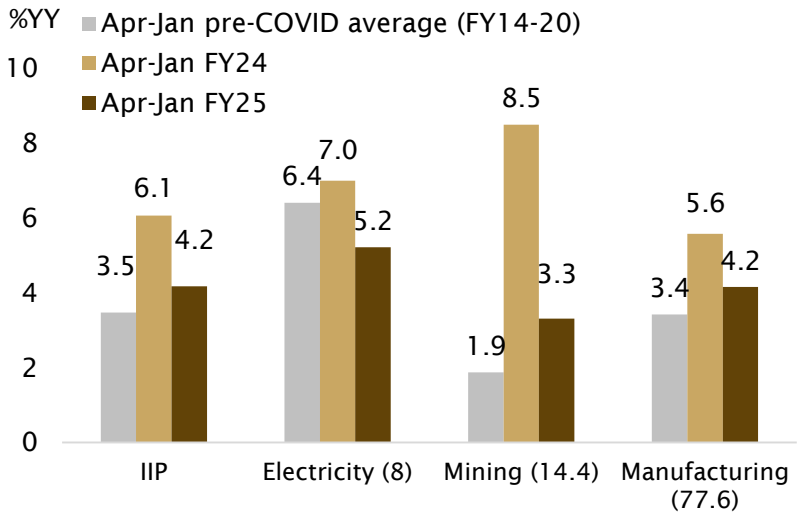


Mining, manufacturing growth improved; electricity output eased

- In January, the year-on-year growth in both mining and manufacturing improved from the previous month, while growth in electricity moderated after increasing for four successive months.
  - **Mining:** Base effect remained unfavorable for the fourth straight month but to a lesser extent than in December. The monthly momentum slower than in the previous month but above the historical average for January, and drove growth to 4.4%YY from 2.7% in December. This marked improvement in year-on-year growth for the fifth straight month after the slump in August due to heavy monsoon.
  - **Manufacturing:** Both base effect and month-on-month momentum were favorable, lifting growth to 5.5%YY from 3.4% in December. The monthly gain eased from the FYTD peak of more than 6% in previous month but was higher than the historical average for January.
  - **Electricity:** After increasing for four straight months, output growth eased to 2.4%YY from 6.2% in December. The monthly momentum was unchanged from the previous month but higher than the historical average for January. However, base effect was negative and steeper than in December.
- **Year-to-date trends:** In terms of fiscal year-to-date performance, average industrial production growth eased to 4.2%YY in Apr-Jan FY25 from 6.1% in the same period of FY24 amid easing across major sectors. However, compared to pre-COVID average, headline IIP growth marks a modest improvement, in line with the trend for manufacturing. The underperformance of electricity seems to be offset by mining growth.

IIP growth improved year-on-year in January; average FYTD growth slower than in FY24, but better than pre-COVID trend

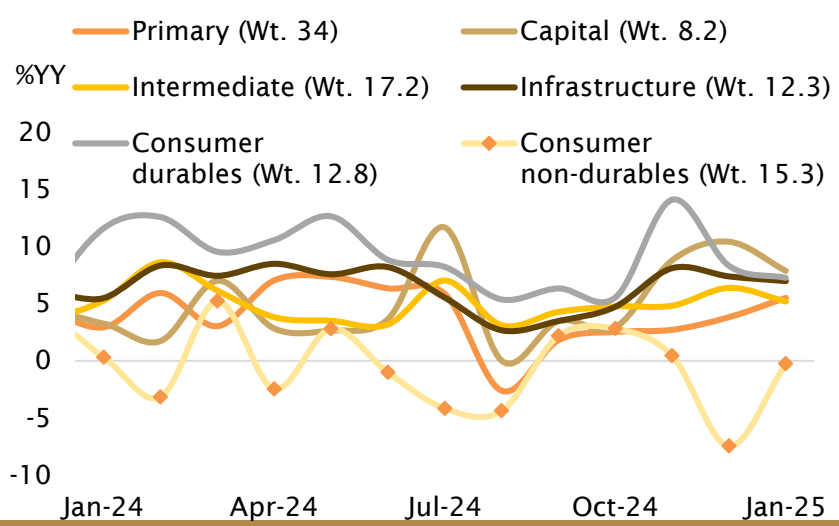


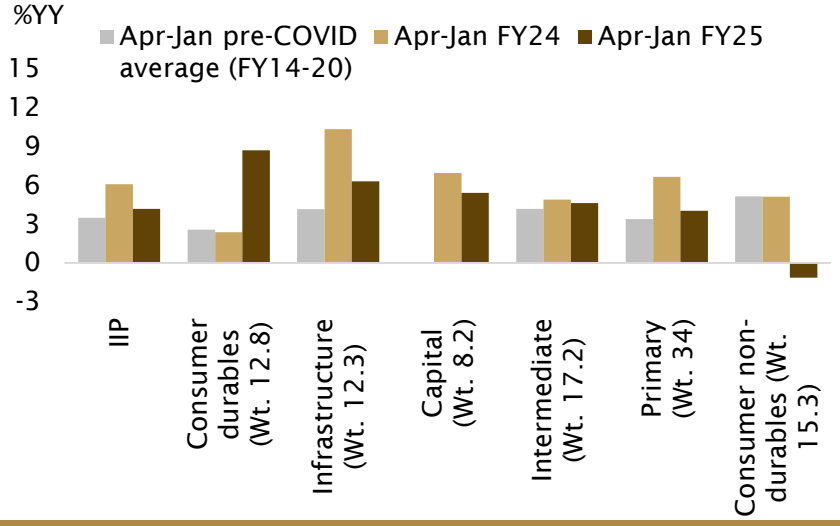


Consumer non-durables underperformed; primary goods growth rose

- **Consumer non-durables:** Production stayed in year-on-year contraction for the second month but the pace of decline eased to (-)0.2% from (-)7.5% in December due to positive base effect. Production fell month-on-month after growing for four months but the rate of decrease was slower than historical average for January.
- **Consumer durables:** The year-on-year growth eased to 7.2% from 8.3% in December. The month-on-month expansion was stronger than historical trend for the month and marked an improvement from December. However, base effect was negative and dragged down year-on-year growth.
- **Infrastructure/construction goods:** The year-on-year growth moderated to 7.0% from 7.4% in December. Base effect was negative, though shallower than in the previous month. The month-on-month increase also eased from 12-month high of 9% in December but was largely in line with the historical trend for the month.
- **Primary, capital, and intermediate goods:** Compared to December, the year-on-year growth improved for primary goods, but eased in case of the other two groups. Base effects were unfavorable across the three categories. The monthly change was positive and better than historical trends but slower than in December.
- **Year-to-date trends:** In fiscal year-to-date (FYTD) terms, consumer durables continued to outperform vis-à-vis Apr-Jan FY24, and non-durables remained the main laggard. This marked a reversal in trend from FY24 and pre-COVID time, when consumer durables underperformed. Other than these two groups, FYTD year-on-year growth was below that in Apr-Jan FY24 but above average in the same FYTD period of pre-COVID years.

Y-o-y growth eased across groups, except primary goods (improved) and consumer non-durables (stayed in contraction)





Uneven recovery in consumer goods; industrial counterparts faring better

- As noted earlier, positive base effect and month-on-month increase lifted year-on-year manufacturing growth to 5.5% from 3.4% in December. The monthly momentum eased from the previous month but was higher than the historical average for January. Production rose year-on-year in 19 out of 23 sub-sectors versus 17 in December. In terms of monthly change in non-seasonally adjusted basis, output was up in 12 sub-sectors versus 20 in December, indicating the impact of positive base effects in lifting headline year-on-year growth.
- Among sub-groups, the year-on-year growth in coke and petroleum products reached a 14-month high and added the most to manufacturing growth in January, surpassing the contribution of electrical equipment and basic metals that were leading in December. On a fiscal year-to-date (FYTD) basis, these three groups have added the most to growth. In FYTD-FY24, basic metals, motor vehicles, and coke and petroleum products had topped the list in terms of contribution to growth. The improvement in electrical equipment stands out vis-à-vis FY24 and also the pre-pandemic average. This trend also holds true for other transport equipment.
- The reverse holds true for pharmaceuticals and food products that fall under consumer non-durables and have underperformed vis-à-vis FY24 and the pre-pandemic average. Also, leather and related items, recorded media, and other manufacturing have been trailing even before the pre-pandemic period.
- In January, there was improvement in in the manufacture of consumer durables such as electronic products, motor vehicles, etc., but the rebound lagged the extent of pick-up seen in recent months in infrastructure and capital goods such as basic metals, non-metallic mineral products, and machinery and equipment.

Top/bottom five sub-sectors by contribution to year-on-year IIP growth (monthly, FYTD basis, pre-pandemic trend comparison)

	Jan-25	Jan-24		FY25 FYTD	FY24 FYTD	FYTD: FY25 vs pre-pandemic average	
Coke, petroleum pdts. (11.8)	1.29	-0.32	Basic metals (12.8)	1.09	2.03	Electrical equipment (3)	0.93
Basic metals (12.8)	1.04	1.26	Electrical equipment (3)	0.95	0.27	Fabricated metal pdts. (2.7)	0.26
Electrical equipment (3)	0.84	0.10	Coke, petroleum pdts. (11.8)	0.57	0.66	Other transport equipment (1.8)	0.20
Other non-metallic mineral pdts. (4.1)	0.54	0.16	Other transport equipment (1.8)	0.32	0.28	Coke, petroleum pdts. (11.8)	0.16
Other transport equipment (1.8)	0.47	0.58	Fabricated metal pdts. (2.7)	0.27	0.22	Motor vehicles, trailers, etc. (4.9)	0.13
Other manufacturing (0.9)	0.01	-0.08	Leather, related pdts. (0.5)	-0.02	0.00	Other manufacturing (0.9)	-0.03
Leather, related pdts. (0.5)	-0.03	0.00	Recorded media (0.7)	-0.05	-0.02	Leather, related pdts. (0.5)	-0.03
Paper, related pdts. (0.9)	-0.04	-0.07	Other manufacturing (0.9)	-0.05	-0.05	Recorded media (0.7)	-0.05
Pharmaceuticals (5)	-0.04	0.04	Pharmaceuticals (5)	-0.07	0.65	Food products (5.3)	-0.33
Recorded media (0.7)	-0.08	0.03	Food products (5.3)	-0.10	0.14	Pharmaceuticals (5)	-0.81

Outlook

- **Assessing historical trends:** Historical data shows that month-on-month change tends to be negative in February to the extent of more than four percentage points drop (FY13-24), though slightly less in terms of the pre-pandemic average. However, base effects are slated to be positive next month that could offset some of the weakness from monthly momentum.

- **Weak signals from domestic high frequency data:** Many indicators of economic activity eased in February after rebounding in January, though some of them were strong. The anticipated recovery post the slump in Q2-FY25 is turning out to be rather tepid and uneven. Some of the latest positive data prints included:
  - Tractor sales surged over 30%YY in February. Port cargo traffic and toll volumes continued to expand year-on-year, with toll volume growth being the sharpest in two years. The uptick in GST revenue growth seen in January eased in February but stayed firm. Latest prints on steel consumption and cement production showed double-digit year-on-year growth.

  There are pockets of weakness in data, painting a rather mixed picture on pick-up in growth momentum.
  - The 9%YY decline in two-wheeler sales in February was the steepest in almost three years and growth in passenger vehicle sales remained subdued at sub-4%.
  - Fuel consumption and railway freight traffic fell in February. Manufacturing PMI stayed in expansion, but eased to the lowest level in 14 months amid mild loss of momentum in new orders and output.
  - Data till January shows that direct tax revenues, including both income and corporate taxes, are lagging the levels reached in the same period of FY24 in terms of percent of budget estimates. In fact, corporate tax revenues remain down year-on-year.
  - Post the increase in risk weights on bank loans to certain categories in Nov-2023, the slowdown in non-food credit growth is palpable. The year-on-year growth in consumer credit has eased to one-third of the pace in mid-2023 from over 30%YY to around 10% as per the latest print. By industry, the largest share of credit (around one-third) typically goes to infrastructure and the year-on-year growth in credit to this segment has dwindled to 1.6% in Jan-2025 from an average of 10% growth in 2022.
  - The Centre's capital expenditure has rebounded in recent months to 68% of FY25BE in Apr-Jan FY25, compared to 72% of FY24BE in the same period of FY24. Revenue spending is in line with the previous year's levels. However, there are challenges at the State level. As per combined data on 21 States, capital spending remained in year-on-year contraction, while revenue spending grew at a faster pace, compared to Apr-Jan FY24. This suggests weakening in the quality of expenditure at the State level.

Policy implication

- **External headwinds:** In its interim outlook note published this month, the OECD cut global growth forecasts for 2025 and 2026 amid heightened policy uncertainties, particularly pertaining to the ongoing tariff wars, that are weakening consumer and business sentiments. The resultant spillovers to growth and inflation outlook across economies are likely to keep both monetary and fiscal policymakers on edge, as they respond to evolving scenarios and align policies to minimize the impact from these external risks.

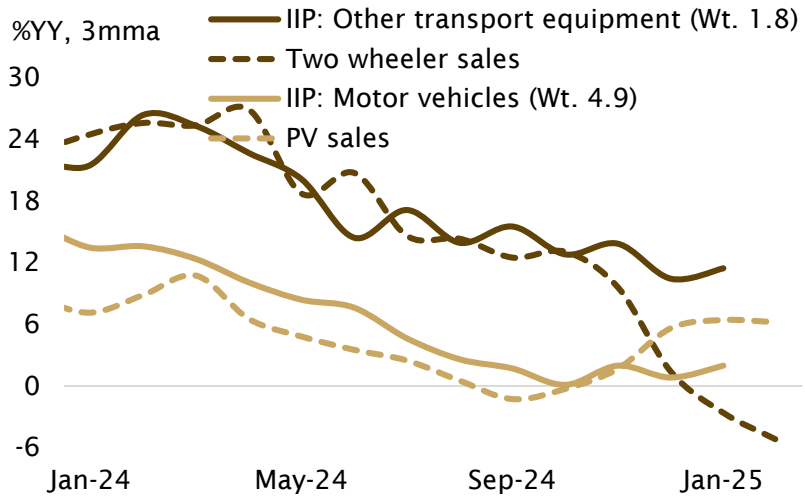
  In addition to financial market volatility that tends to rise during periods of uncertainties, studies show that the largest impact of an uncertain policy or economic environment tends be on investment, as businesses await clarity and for the various risks to abate before committing funds for investment. This could be a challenge for the domestic economy to account for, more so in a scenario when the private sector capex revival remains nascent and yet to become broad-based.

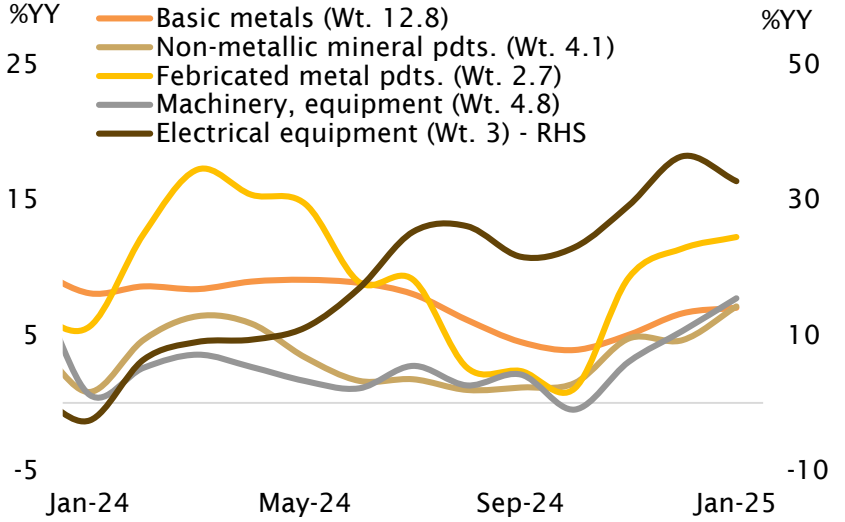
- **Policy implication:** Perhaps as a preemptive measure to counter the anticipated external headwinds, the government, in its Union Budget for FY26, announced income tax relief for middle-income households that is expected to balance drivers of growth in the domestic economy by supporting consumption. Urban consumption had been reeling under pressure from the impact of tight monetary and regulatory policies. At its latest meeting, the RBI MPC furthered this policy easing by lowering the policy repo rate by 25bps to 6.25%. Additionally, the RBI announced a slew of measures to enhance system liquidity (to enable smoother transmission of policy easing) and scaled back some of the regulatory tightening in terms of risk weights on banks loans to NBFCs. These measures are expected to boost credit growth and lift consumption in the economy. If consumption rises, it could give businesses the required impetus to invest more, thereby raising the probability of the investment cycle becoming more broad-based or at least holding at current levels.

  However, policy changes typically work with a lag, so the expected fillip to consumption and investment could still be a few quarters away. In the interim, monetary policy could still have room for further easing in the backdrop of muted high frequency data and easing inflation pressures. At the policy meeting scheduled in April, the RBI MPC could further trim the policy repo rate by 25bps to 6%, with certain segments of the market also anticipating a change in stance from 'neutral' to 'accommodative', or at least a change in the tone of the policy statement that suggests an easing bias. With pick up in economic activity remaining sluggish, the quantum of easing in the current cycle could be steeper than earlier envisaged (of 75bps, taking the repo rate to 5.75%), though exact extent would also depend on the evolving external backdrop.

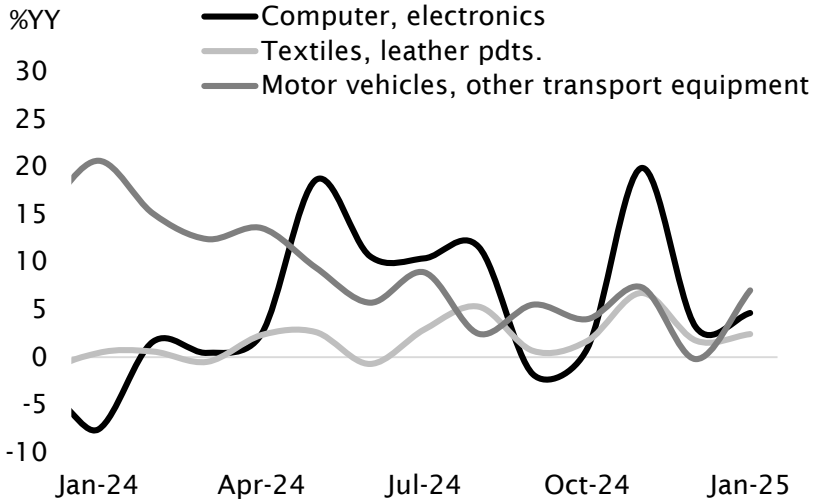
Details show uneven recovery in industrial production

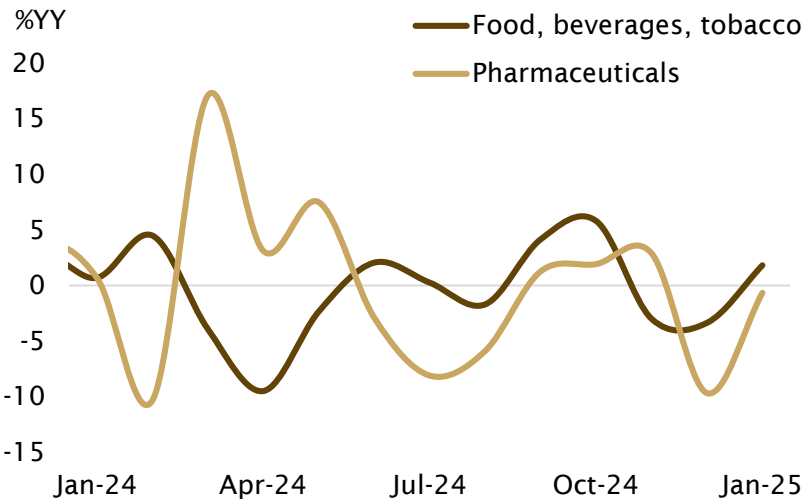
Two-wheeler sales slumped even as output picked up; post-monsoon and election revival in some segments of industry





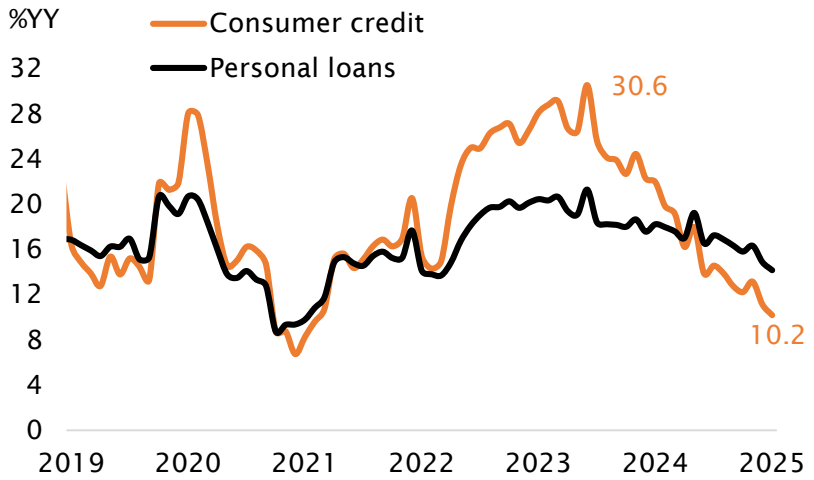
Consumer durables recovery sluggish vis-à-vis industrial goods; non-durables output stayed in year-on-year contraction





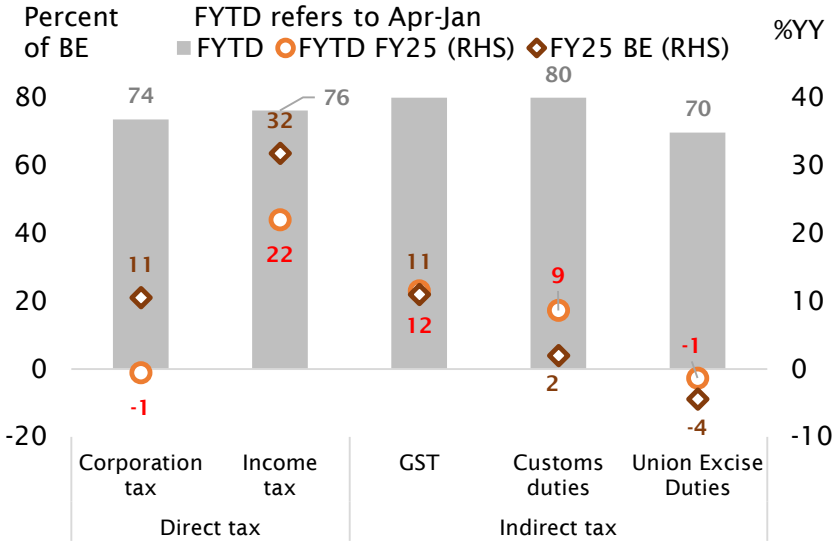
Policy measures to support growth amid mixed activity signals

Sharp slowdown in consumer credit growth

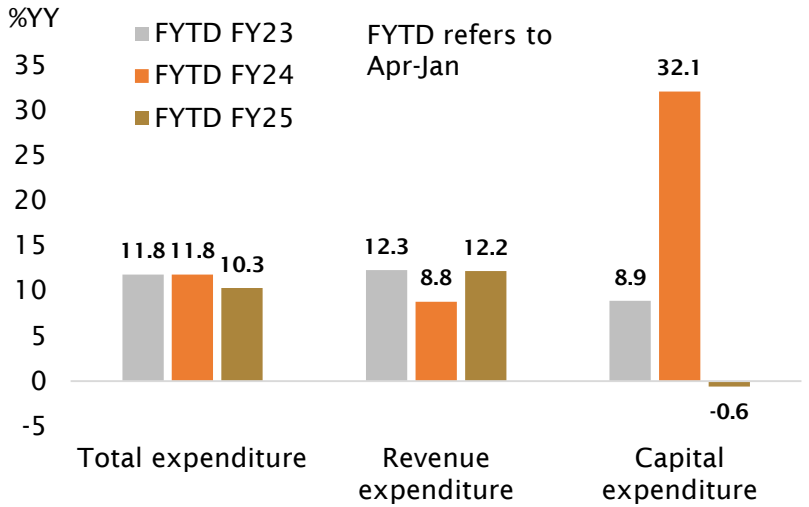


Note: Consumer credit includes personal loans for consumer durables, advances against FDs and shares, credit card o/s, other personal loans.

Corporate tax revenues still down year-on-year



States' capex remains in year-on-year contraction



RBI durable liquidity measures during Q4-FY25

(Rs. crores)

Measure	Description	Auction date	Amount injected
OMO purchase	Through NDS-OM	Jan-25	38,825
OMO purchase auction		30-Jan-25	20,020
		13-Feb-25	40,000
		20-Feb-25	40,000
		12-Mar-25	50,000
		18-Mar-25	50,000
Term repo auctions	56-day VRR auction	07-Feb-25	50,010
	49-day VRR auction	14-Feb-25	75,003
	45-day VRR auction	21-Feb-25	57,951
USD/INR buy sell swap auction	Tenor: 6 months	31-Jan-25	~ 44,000 *
	Tenor: 3 years	28-Feb-25	~ 88,000 **
		Total	**~ 5,53,809**

Note: *(USD 5.10 bn); **(USD 10.06 bn). Source: RBI bulletin

Select high frequency indicators

Colour codes based on minimum and maximum Z-score values since April 2023 for respective variables; green shows improvement, red indicates weakening. (Reversed for MGNREGA data where a fall implies improved farm activity)

(%YY, unless mentioned otherwise)		Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Agriculture and rural sector	Fertiliser sales	-1.4	-9.4	-7.7	-7.8	4.6	12.2	8.2	
	Tractor sales	1.4	-5.5	2.4	21.0	-0.9	13.3	11.1	30.9
	Tractor registrations	-11.9	-11.4	14.7	3.1	29.9	25.8	5.2	-14.5
	Two wheeler sales	12.5	9.3	15.8	14.2	-1.1	-8.8	2.1	-9.0
	Two-wheeler registrations	17.2	6.3	-8.5	36.3	15.8	-17.6	4.2	-6.3
	Three-wheeler registrations	12.9	1.6	0.7	11.5	4.2	-4.6	6.9	-1.9
	Household work demand under MGNREGA	-19.5	-16.0	-13.4	-7.6	3.9	8.2	14.4	2.8
Industry, construction and urban sector	Industrial production	4.8	-0.1	3.1	3.5	5.2	3.2	5.0	
	Core sector output	6.1	-1.8	2.0	3.1	4.3	4.0	4.6	
	Cement production	5.1	-2.5	7.6	3.1	13.5	4.6	14.5	
	Natural gas production	-1.4	-3.7	-1.6	-1.6	-5.5	-2.1	-2.3	-6.7
	Electricity requirement	4.0	-5.4	1.2	0.5	4.0	5.2	1.9	2.6
	Steel consumption	13.8	10.3	10.9	8.8	8.9	7.7	9.1	11.2
	Fuel consumption	10.7	-3.1	-4.4	4.1	10.6	2.3	3.0	-5.4
	Passenger vehicle sales	12.9	-1.6	-0.4	1.1	4.3	11.4	3.5	3.7
	Passenger vehicle registrations	10.2	-4.5	-18.8	32.4	-13.7	-2.0	15.5	-10.3
Services	Commercial vehicle sales			-10.7			1.2		
	Commercial vehicle registrations	5.9	-6.0	-10.4	6.4	-6.1	-5.2	8.2	-8.6
	Railway freight traffic	4.9	-5.0	-0.1	0.8	1.4	1.6	1.7	-2.4
	Port cargo traffic	5.9	6.7	5.8	-3.4	-4.9	3.4	7.6	6.8
	Toll collection (volume)	9.4	6.8	6.5	11.3	11.9	9.8	14.8	18.7
	Domestic air cargo traffic	8.8	0.6	14.0	8.9	0.3	4.3	6.9	
	International air cargo traffic	24.4	20.7	20.5	18.4	16.2	10.5	7.1	
	Domestic air passenger traffic	7.5	6.7	7.4	9.6	13.8	10.8	14.0	
	International air passenger traffic	8.9	10.9	11.2	10.3	10.8	9.2	11.0	
	Tourist arrivals	-1.3	-4.2	0.4	-1.4	-0.1	-6.6		
	GST e-way bills (total)	19.2	12.9	18.5	16.9	16.3	17.6	23.1	14.7
	GST revenue collection	10.3	10.0	6.5	8.9	8.5	7.3	12.3	9.1
PMI (Index)	PMI Manufacturing	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3
	PMI Services	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0

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