

IIP Watch: Industrial growth eased to four-month low in December but expected to improve in Q4-FY25

20 February, 2025

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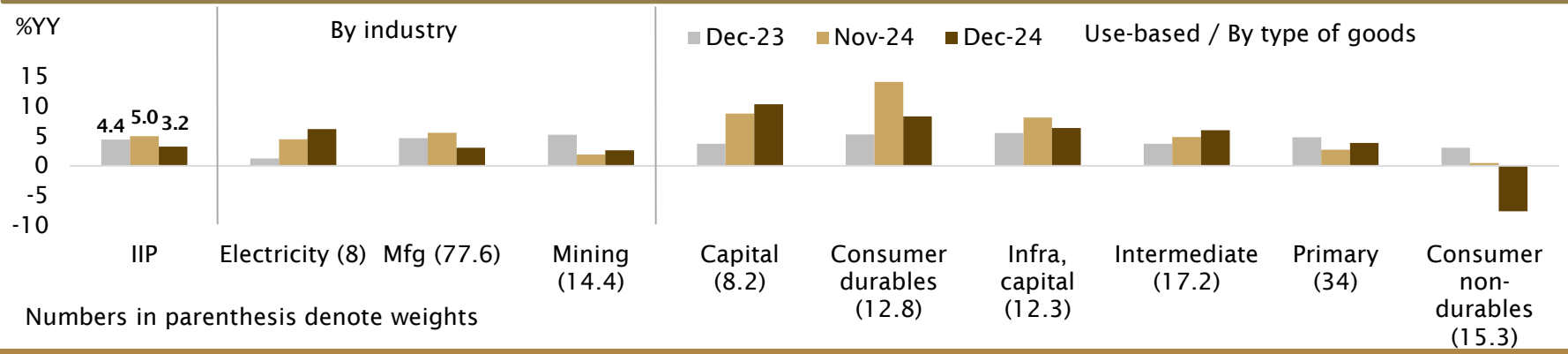
Key takeaways

- In December, industrial output growth eased to 3.2%YY from 5.0% in November (revised down from 5.2%) after improving for three straight months. The latest print was below market estimates (Reuters poll: 3.9%), and dragged by unfavorable base effects that offset positive monthly momentum. In terms of fiscal year-to-date performance, average industrial output growth eased to 4%YY in Apr-Dec FY25 from 6.3% in the same period of FY24.
- The year-on-year production growth in both mining and electricity improved for the fourth straight month but moderated in manufacturing. Despite the strongest month-on-month momentum in FY25 so far at over 6%, unfavorable base effects pushed manufacturing growth to four-month low of 3%.
- By use-based classification, the year-on-year decline in consumer non-durables was the steepest in over two years, and this underperformance stood out in fiscal year-to-date terms. There was moderation in year-on-year output growth of infrastructure goods, and consumer durables but increase in primary, capital, and intermediate goods.
- Industrial growth improved in Q3 from the slump in Q2 but the year-on-year increase lagged the pace of growth in Q3-FY24. High frequency data show continuation of recovery in Q4, but growth is expected to be underwhelming in FY25, compared to FY24. However, the continued thrust on capital expenditure and boost to disposable incomes from the income tax relief in the Union Budget for FY26 are likely to support economic activity in FY26. Rural outcomes are expected to remain positive amid record Kharif output and bright prospects for Rabi crop.
- Risks to outlook continue to stem from the external environment that remains rife with uncertainties pertaining to trade wars and geopolitical tensions. In addition to the direct impact of protectionist policies, it is the indirect effects such as currency depreciation and diversion of goods to other economies, including to India, that need to be watched out for in terms of implications for domestic manufacturing.

The moderation in industrial output to 3.2%YY in December from 5.0% in November was sharper than market estimates



Numbers in parenthesis denote weights

Unfavorable base effect dragged down industrial production growth

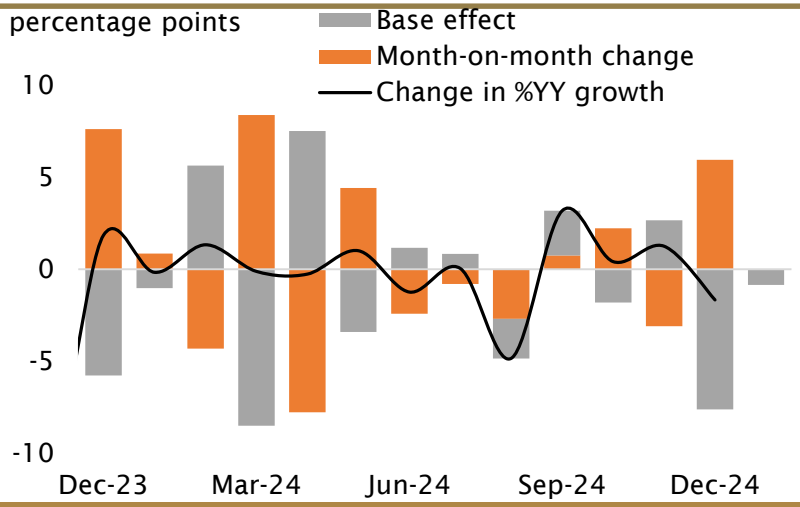
- In December, industrial output growth eased to 3.2%YY from 5.0% in November (revised down from 5.2%). The print was below market estimates (Reuters poll: 3.9%), dragged by unfavorable base effects that more than offset positive monthly momentum.
- In non-seasonally adjusted terms, monthly increase in output at 6.1% was in line with the pre-pandemic average of 6.3% for the month but below historical average (FY12-24) of 6.8%. On a seasonally adjusted basis (accounting for uneven dates of festive season), IIP fell 0.7% after increasing for three straight months. However, in terms of 3-month/3-month seasonally adjusted annualized rate, momentum either strengthened or turned positive across most sub-groups, except for manufacturing (industry side), intermediate goods and consumer non-durables (use-based classification), where momentum eased.

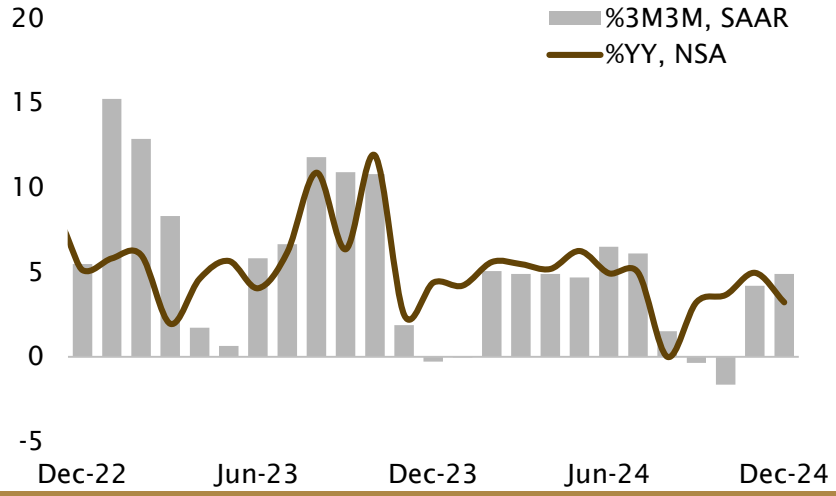
IIP growth in December was below market expectations

%YY	Weight	Oct-24	Nov-24	Dec-24
Industrial production	100.0	3.7	5.0	3.2
Sector-based classification				
Mining	14.4	0.9	1.9	2.6
Electricity	8.0	2.0	4.4	6.2
Manufacturing	77.6	4.4	5.5	3.0
Use-based/type of goods				
Primary goods	34.0	2.5	2.7	3.8
Capital goods	8.2	3.1	8.8	10.3
Intermediate goods	17.2	4.6	4.8	5.9
Infra. /construction	12.3	4.8	8.1	6.3
Consumer durables	12.8	5.7	14.1	8.3
Consumer non-durables	15.3	2.6	0.4	-7.6

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

Unfavorable base effect dragged down year-on-year growth in output, offsetting month-on-month rise in production

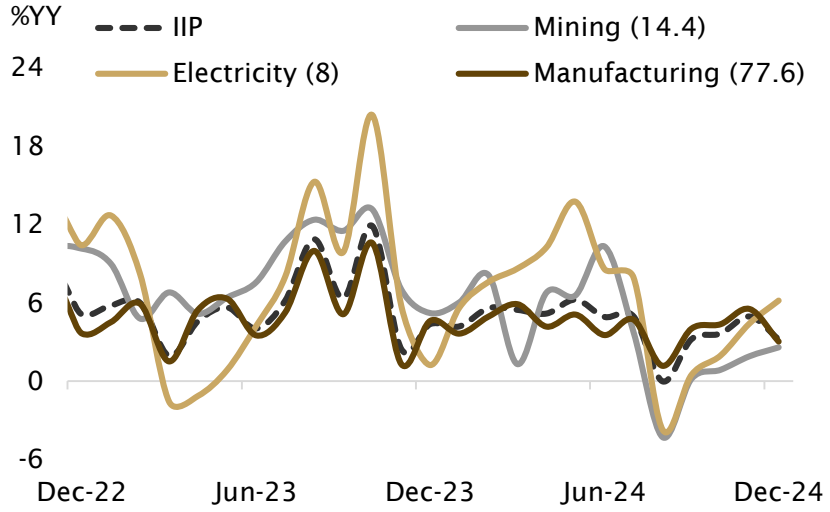


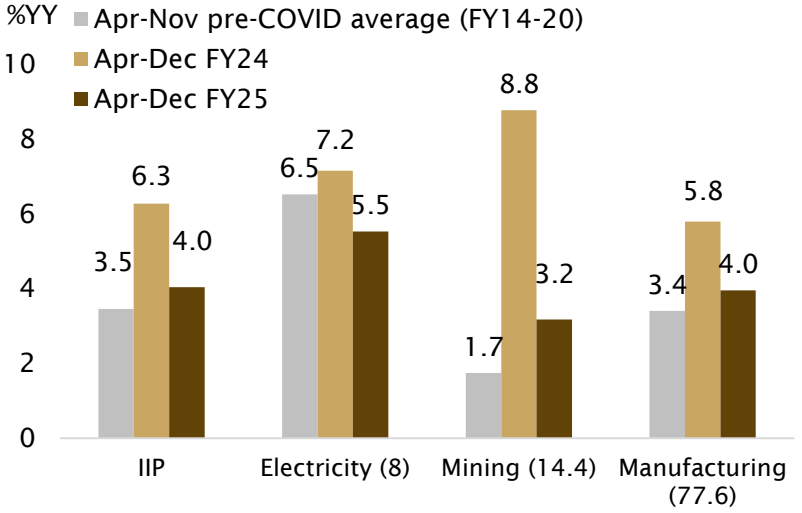


Slowdown in manufacturing offset improvement in mining, electricity

- In December, the year-on-year production growth in both mining and electricity improved for the fourth straight month but moderated in manufacturing after rising for three successive months.
  - **Mining:** Base effect remained unfavorable for the third straight month, and was sharper than in November. The monthly momentum was mildly below historical average for December, but was higher than in the previous month and drove year-on-year growth to 2.6%YY from 1.9% in November.
  - **Manufacturing:** The latest month-on-month print for manufacturing marked the highest monthly momentum in FY25 so far. However, year-on-year growth eased to four-month low of 3% due to unfavorable base effects.
  - **Electricity:** The year-on-year output growth rose to 6.2% from 4.4% in November due to positive monthly momentum that offset unfavorable base effect – a reversal from the trend in November, when base effects drove improvement in year-on-year growth amid month-on-month fall in output.
- **Year-to-date trends:** In terms of fiscal year-to-date performance, average industrial production growth eased to 4%YY in Apr-Dec FY25 from 6.3% 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 eased year-on-year in December; average FYTD growth slower than FY24, but better than pre-COVID trend

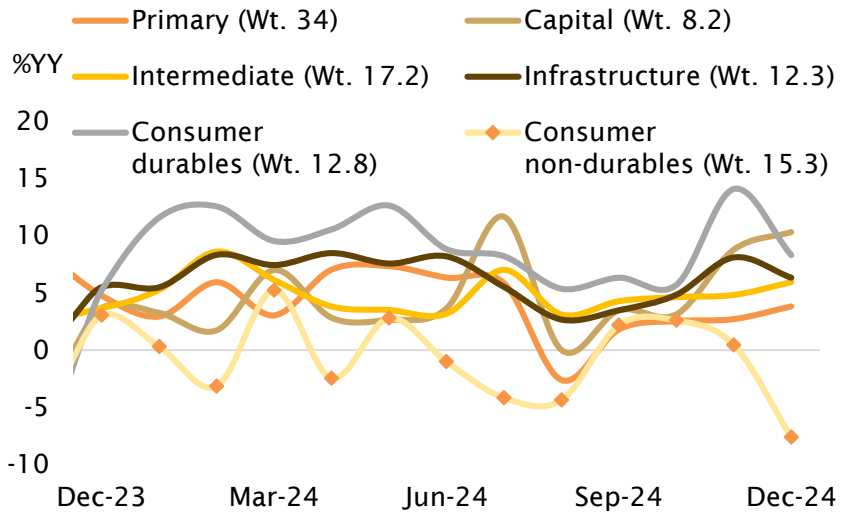


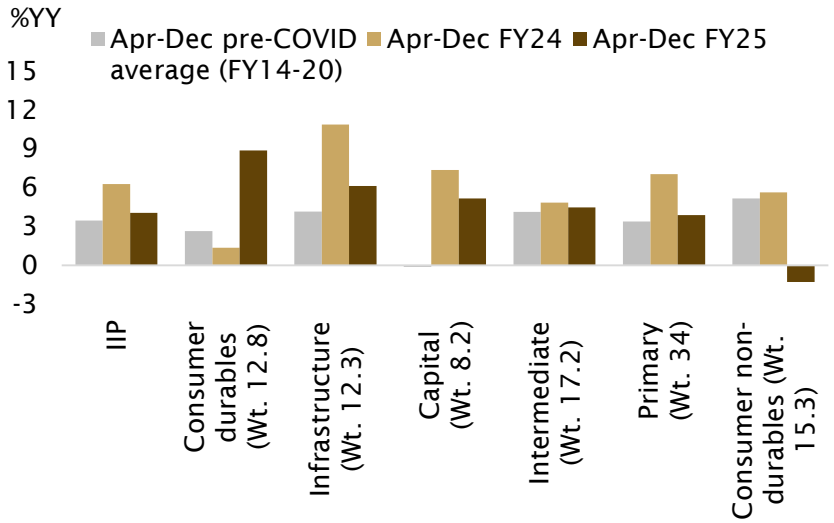


Consumer goods, mainly non-durables, weighed on IIP growth

- **Consumer non-durables:** The year-on-year decline in production was the steepest in more than two years at (-)7.6%YY. The month-on-month momentum remained positive but eased from the previous month and failed to offset unfavorable base effects that dragged year-on-year growth into contraction.
- **Consumer durables:** The year-on-year growth eased to 8.3% from 13-month high of 14.1% in November. An unfavorable base drove the moderation in growth and weighed on monthly change that turned positive after posting contraction for two successive months.
- **Infrastructure/construction goods:** The month-on-month momentum surged to a nine-month high but unfavorable base effects led to easing in year-on-year growth to 6.3% from 8.1% in November.
- **Primary, capital, and intermediate goods:** Despite unfavorable base effects, year-on-year growth improved in December compared to the previous month. This was due to monthly momentum that turned positive after being negative in November.
- **Year-to-date trends:** In fiscal year-to-date (FYTD) terms, consumer durables continued to outperform vis-à-vis April-December FY24, and non-durables remained the main laggard. This marked a reversal in terms of the trend in FY24 and also the pre-COVID period, when consumer durables underperformed compared to non-durables. Other than these two types, FYTD year-on-year growth was below that in April-December FY24 across types of goods but above average growth in the respective FYTD period of pre-COVID years.

In December, consumer goods, particularly non-durables underperformed vis-à-vis other types of goods





Details show improvement in monthly momentum in manufacturing

- As noted earlier, the month-on-month print for manufacturing in December marked the highest monthly momentum in FY25 so far. However, year-on-year growth eased to four-month low of 3% due to unfavorable base effects. Production rose year-on-year in 16 out of 23 sub-sectors, compared to 17 in November. In terms of month-on-month change in non-seasonally adjusted terms, output grew in 20 sub-sectors versus five in November, indicating the influence of unfavorable base effects in lowering year-on-year growth.
- Among the key contributors to year-on-year manufacturing growth, electrical equipment has been on top of the list since August, though on fiscal year-to-date basis, basic metals maintained the lead in December.
  - Electrical equipment mainly consists of consumer durables and capital goods. The outperformance of consumer durables has partly boosted growth in electrical equipment. In recent months, government spending on infrastructure has increased post the election-induced pause earlier in the year. This has improved capital goods output that is also helping to sustain the momentum in electrical equipment.
  - Basic metals mostly contains intermediate and infrastructure/construction goods. The trend in intermediate goods output reflects the impact of pause in government spending, while construction goods seem to be influenced more by monsoon related disruptions. The normalization post these disturbances is likely to drive higher growth in output in the remainder of the fiscal year.
  - The underperformance in production of consumer non-durables vis-à-vis previous fiscal year and the pre-pandemic trend continues to reflect in lower production of food products and pharmaceuticals.

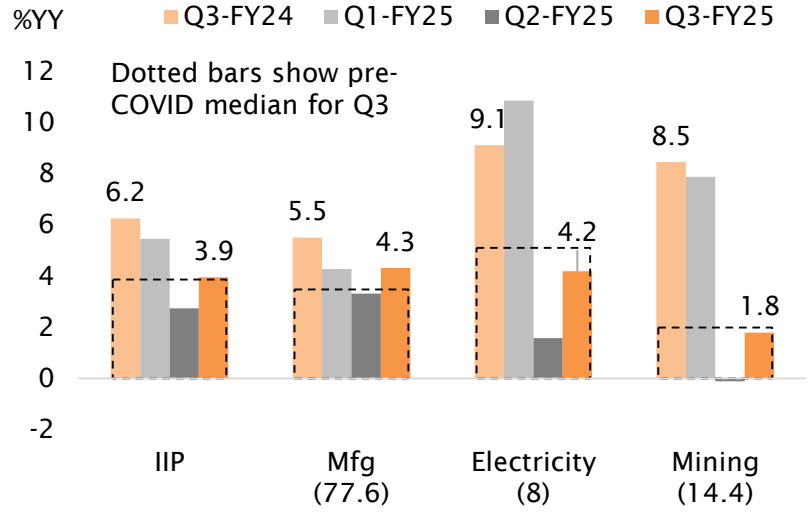
Top/bottom five sub-sectors by contribution to year-on-year IIP growth (monthly, FYTD basis, pre-pandemic trend comparison)

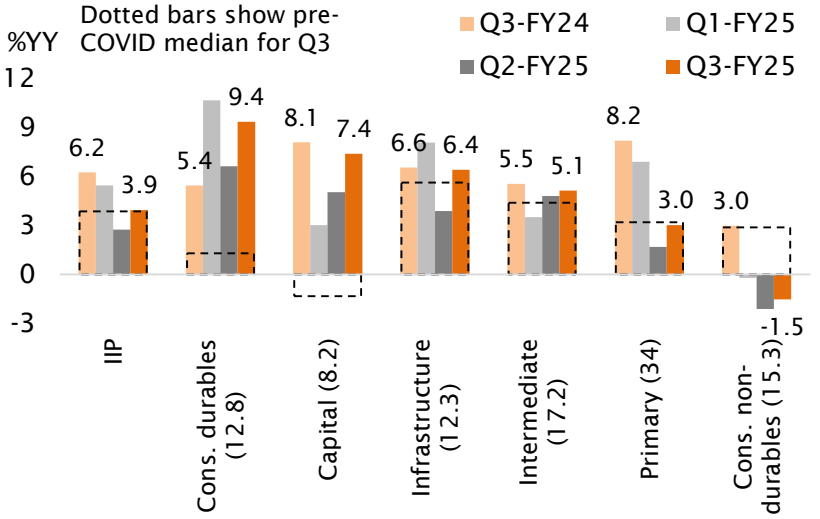
	Dec-24	Dec-23		FY25 FYTD	FY24 FYTD	FY25 FYTD vis-à-vis pre-pandemic average	
Electrical equipment (3)	1.55	0.27	Basic metals (12.8)	1.08	2.11	Electrical equipment (3)	0.94
Basic metals (12.8)	1.10	1.49	Electrical equipment (3)	0.96	0.29	Fabricated metal pdts. (2.7)	0.25
Machinery, equipment (4.8)	0.64	0.00	Coke, petroleum pdts. (11.8)	0.49	0.76	Other transport equipment (1.8)	0.17
Coke, petroleum pdts. (11.8)	0.59	1.10	Other transport equipment (1.8)	0.31	0.25	Motor vehicles, trailers, etc. (4.9)	0.14
Fabricated metal pdts. (2.7)	0.32	0.21	Fabricated metal pdts. (2.7)	0.26	0.19	Rubber, plastic pdts. (2.4)	0.12
Leather, related pdts. (0.5)	-0.05	-0.02	Leather, related pdts. (0.5)	-0.01	0.00	Leather, related pdts. (0.5)	-0.03
Recorded media (0.7)	-0.08	-0.04	Recorded media (0.7)	-0.05	-0.02	Other manufacturing (0.9)	-0.03
Motor vehicles, trailers, etc. (4.9)	-0.11	0.65	Other manufacturing (0.9)	-0.06	-0.05	Recorded media (0.7)	-0.05
Food products (5.3)	-0.38	0.23	Pharmaceuticals (5)	-0.07	0.72	Food products (5.3)	-0.36
Pharmaceuticals (5)	-0.61	0.23	Food products (5.3)	-0.12	0.15	Pharmaceuticals (5)	-0.81

In Q3-FY25, production growth improved from the slump in Q2

- In terms of quarterly trends, industrial production growth improved in Q3 from the slump in Q2 but the year-on-year increase in output lagged the pace of growth in the respective quarter of last fiscal year. This trend held true across major industry groups of mining, manufacturing and electricity. However, though the year-on-year growth in headline industrial production, including mining and electricity, was lower than in Q1-FY25, manufacturing growth and contribution to IIP in Q3 was marginally higher than in Q1, marking Q3 as the strongest quarter in FY25 so far.
- By types of goods, consumer durables was the only category with higher year-on-year growth in Q3-FY25 compared to the respective quarter in FY24. There was an improvement in year-on-year production growth compared to Q2-FY25, but growth remained lower than in Q1-FY25. Infrastructure and primary goods also reflected similar trends. In case of capital and intermediate goods, year-on-year growth improved across quarters in FY25, but stayed lower than in Q3-FY24. Consumer non-durables remained a laggard, with production remaining in year-on-year contraction across quarters in FY25, though the extent of decline eased in Q3 compared to Q2.
- The improvement in performance in Q3 was reflected in corporate results as well. As noted in the latest RBI bulletin's State of the Economy article, sales of listed private manufacturing firms increased by 7.6%YY in Q3-FY25, up from 3.5% in Q2. Operating profit margin also improved marginally.

In Q3, year-on-year industrial production growth improved from the slump in Q2 but remained lower than in Q3-FY24





Outlook

- **Insights from official surveys and forecasts:** Results from RBI"s latest Industrial Outlook Survey show that businesses remain optimistic amid mild softening in expectations for Q4-FY25. This is corroborated by results from RBI's latest survey of professional forecasters (SPF) that show median estimate of IIP growth at 4.5%YY in Q4-FY25, up from 3.9% in Q3, indicating mild improvement in growth in H2 at 4.2% versus 4.1% in H1. However, for full fiscal year FY25, these estimates imply average IIP growth at 4.2% versus 6% in FY24. This easing in growth is captured in manufacturing GVA forecast for FY25 based on initial estimate of GDP by the national statistical office at 5.3%YY, down from 9.9% in FY24. Manufacturing has 77.6% weight in IIP.

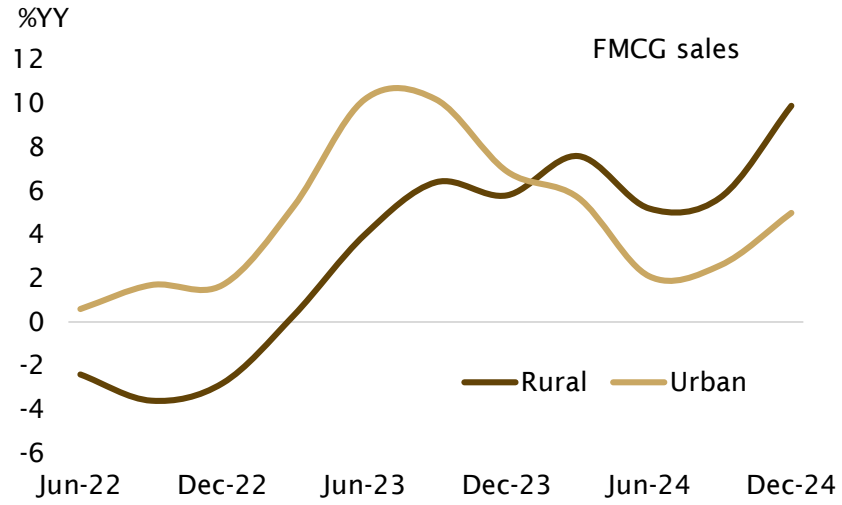
- **Assessing historical trends:** Historical data for FY13-24 shows that month-on-month gains tend to weaken in January after the surge in December. Base effects are slated to remain unfavorable, though to a lesser extent than in December. These trends indicate further moderation in year-on-year growth in January but there are reasons to expect improvement in coming months due to 1) resurgence in government capital expenditure post the election-induced slump at the beginning of FY25, and 2) income tax relief announced in the Union Budget FY26 that could boost consumption, resulting in the required fillip to output growth.

- **Signals from high frequency indicators:** Latest data on FMCG sales for Q3-FY25 shows further rise in rural demand and also an improvement in urban sales. Coupled with the income tax relief announced in the Union Budget for FY26, the recent trends indicate that sales momentum could continue in CY26.
  At a time when global manufacturing PMI is struggling to remain in expansion, India manufacturing PMI rose to six-month high in January. Vehicle sales and registrations; including passenger vehicle, commercial, and two-wheeler; continue to show signs of recovery. In January, year-on-year growth in GST revenue collection reached 11-month high, marking the fastest pace of increase in FY25 so far.

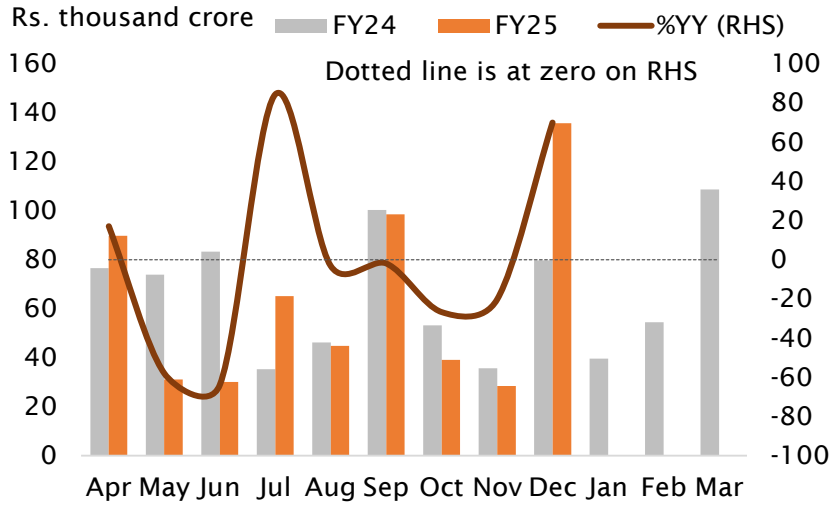
- **Risks to outlook:** Amid signs of recovery in domestic demand in Q4-FY25 that are expected to strengthen in FY26, the current risks to outlook mainly stem from the external environment. The global backdrop is rife with uncertainties pertaining to trade wars and geopolitical tensions that are imparting volatility to financial markets, including commodity prices and currency movements. In its latest outlook update, the IMF cut forecasts for global trade volume growth by 20bps for 2025 to 3.2% and by 10bps for 2026 to 3.3%.
  In addition to the direct impact of protectionist policies by major economies, it is the indirect effects such as the recent INR depreciation amid dollar strength and diversion of goods to other economies, including to India, that need to be watched out for in terms of implications for domestic manufacturing.

High frequency, survey data indicate industrial growth recovery

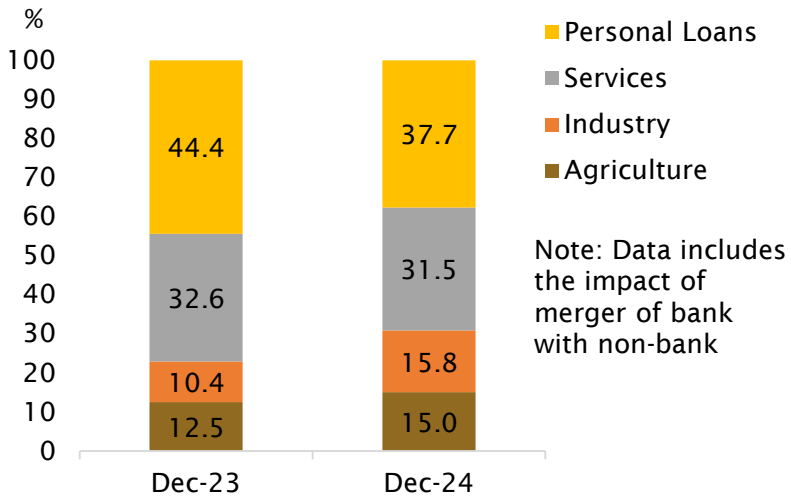
Both urban, rural consumption show signs of recovery



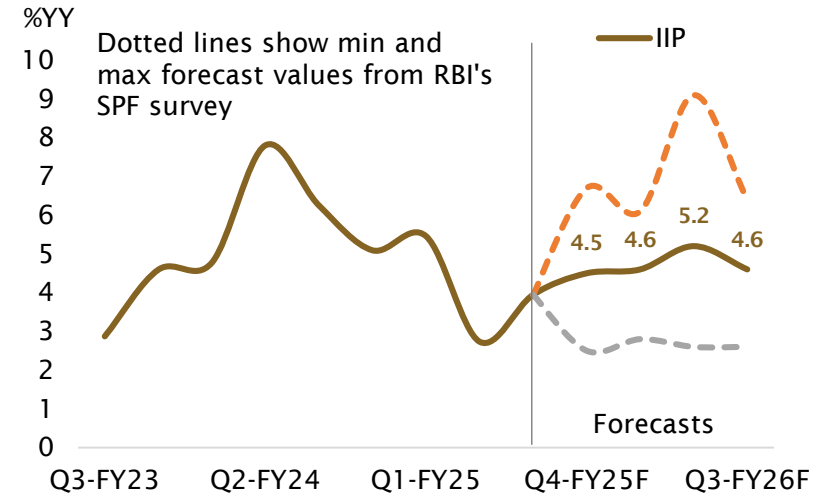
Centre's capex (excl. loans) surged in December



Larger share of incremental non-food credit to industry



IIP expected to grow 4.5%YY in Q4, up from 3.9% in Q3



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)		Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Agriculture and rural sector	Fertiliser sales	7.3	-1.4	-9.4	-7.7	-7.8	4.6	12.2	
	Tractor sales	3.5	1.4	-5.5	2.4	21.0	-0.9	13.3	
	Tractor registrations	-28.4	-11.9	-11.4	14.7	3.1	29.9	25.8	5.2
	Two wheeler sales	21.3	12.5	9.3	15.8	14.2	-1.1	-8.8	2.1
	Two-wheeler registrations	4.7	17.2	6.3	-8.5	36.3	15.8	-17.6	4.2
	Three-wheeler registrations	5.1	12.9	1.6	0.7	11.5	4.2	-4.6	6.9
	Household work demand under MGNREGA	-21.7	-19.5	-16.0	-13.4	-7.6	3.9	8.2	14.4
Industry, construction and urban sector	Industrial production	4.2	4.8	-0.1	3.1	3.5	5.2	3.2	
	Core sector output	4.0	6.1	-1.8	2.0	3.1	4.3	4.0	
	Cement production	1.8	5.1	-2.5	7.6	3.1	13.5	4.0	
	Natural gas production	2.9	-1.4	-3.7	-1.6	-1.6	-5.5		
	Electricity requirement	8.0	4.0	-5.4	1.2	0.5	4.0	5.2	1.6
	Steel consumption	19.5	14.4	10.0	11.8	8.9	9.5	5.2	5.8
	Fuel consumption	2.3	10.7	-3.1	-4.4	4.1	10.6	2.3	3.1
	Passenger vehicle sales	12.9	-1.9	-1.6	-0.4	1.1	4.3	11.4	3.5
	Passenger vehicle registrations	-6.8	10.2	-4.5	-18.8	32.4	-13.7	-2.0	15.5
Services	Commercial vehicle sales	3.3			-10.7			1.2	
	Commercial vehicle registrations	-4.7	5.9	-6.0	-10.4	6.4	-6.1	-5.2	8.2
	Railway freight traffic	11.2	4.9	-5.0	-0.1	0.8	1.4	1.6	1.7
	Port cargo traffic	6.8	5.9	6.7	5.8	-3.4	-4.9	3.5	6.1
	Toll collection (volume)	5.8	9.4	6.8	6.5	11.3	11.9	9.8	14.8
	Domestic air cargo traffic	10.3	8.8	0.6	14.0	8.9	0.3	4.3	
	International air cargo traffic	19.6	24.4	20.7	20.5	18.4	16.2	10.5	
	Domestic air passenger traffic	6.9	7.5	6.7	7.4	9.6	13.8	10.8	
	International air passenger traffic	11.4	8.9	10.9	11.2	10.3	10.8	9.2	
	Tourist arrivals	9.0	-1.3	-4.2	0.4	-1.4	0.0	-6.4	
	GST e-way bills (total)	16.3	19.2	12.9	18.5	16.9	16.3	17.6	23.1
	GST revenue collection	7.6	10.3	10.0	6.5	8.9	8.5	7.3	12.3
PMI (Index)	PMI Manufacturing	58.1	58.1	57.5	56.5	57.5	56.5	56.4	57.7
	PMI Services	60.3	60.3	60.9	57.7	58.5	58.4	59.3	56.5

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