

Industrial growth at nine-month low in May; external woes weigh on outlook despite domestic policy support

11 July, 2025

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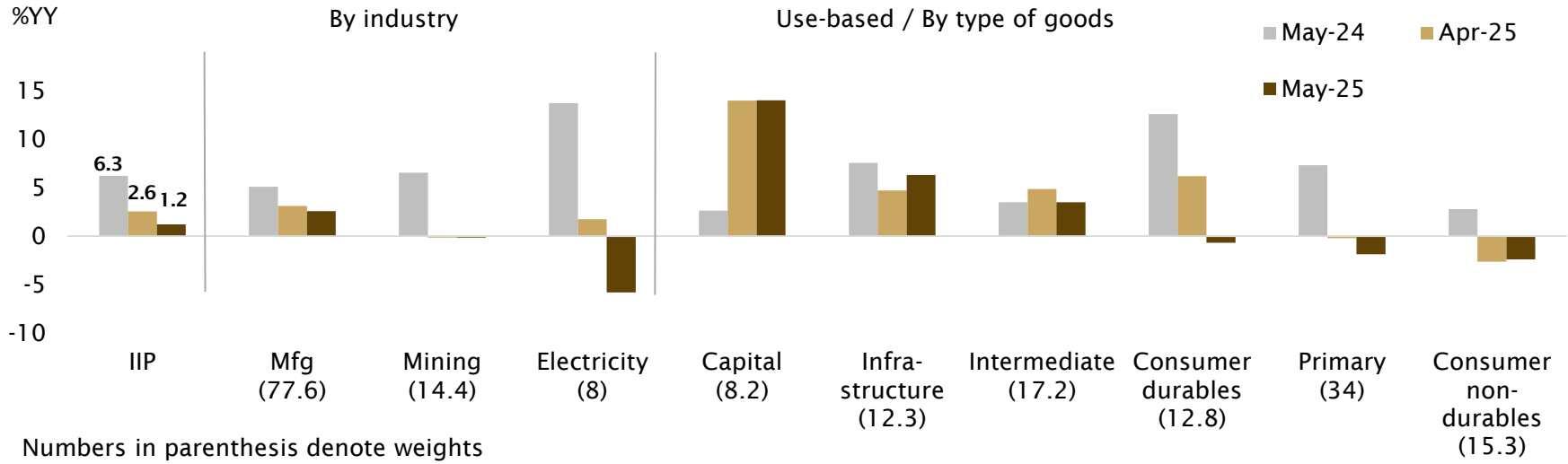
Key takeaways

- In May, industrial production growth slumped to nine-month low of 1.2%YY in May from 2.6% in April. The print was below market estimates (Reuters poll: 2.4%), and dragged by negative base effects that weighed on monthly momentum. In fiscal year-to-date terms (FYTD), industrial growth averaged lower year-on-year in Apr-May FY26 at 1.9%YY, compared to FYTD FY25 (5.7%) and also the pre-COVID trend for the period (3.6%).
- By industry, mining output stayed in contraction for the second straight month, and electricity production fell at the sharpest rate in five years. The broader industrial index mirrored the trend in heavyweight sub-index of manufacturing that posted moderation in output for the second successive month.
- In terms of use-based classification, capital goods stole the show with stellar 14%YY growth for two consecutive months. With the frontloading of Centre's capex, investment-related segments performed better, with the wedge vis-à-vis consumption-related sectors widening in May. Consumer durables output fell for the first time in 1.5 years, while non-durables production remained in contraction for the fourth successive month.
- Most high frequency data on economic activity remains muted for Q1. Amid domestic policy easing and healthy progress in monsoon; external woes persist, with likely implications for the domestic industry. The situation on the US reciprocal tariffs remains fluid, with the pause on tariffs that was due to expire on July 9 being extended to August 1. Amidst this external and domestic backdrop, the RBI MPC is likely to pause in August and wait for more data before it acts again, particularly after the stimulus delivered in June and the change in stance to neutral.

IIP growth eased to nine-month low in May; electricity decline at five-year low; consumer durables fell for first time in 1.5 years



Numbers in parenthesis denote weights

Industrial growth eased to nine-month low in May amid negative base effects, muted month-on-month momentum

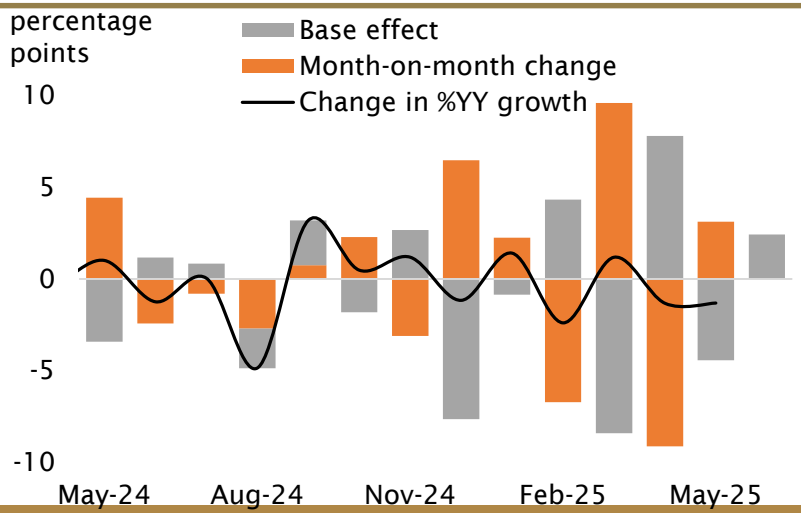
- Industrial growth slumped to nine-month low of 1.2%YY in May from 2.6% in April. The print was below market estimates (Reuters poll: 2.4%), and dragged by negative base effects that weighed on monthly momentum.
- In non-seasonally adjusted terms, monthly increase in output at 3.2% was below historical trends (FY13-25, ex-COVID years FY21-22) for the month at 5.0% (average) – 5.3% (median). On seasonally adjusted basis (accounting for uneven dates of the festive season), IIP remained in contraction for the second consecutive month but at a shallower rate of (-)0.1%MM versus (-)0.4% in April.
- In terms of 3-month/3-month seasonally adjusted annualized rate, momentum improved in overall output, led by manufacturing, and electricity where it remained positive. The momentum either rose or was positive across use-based groups, except for consumer non-durables where it stayed negative for fourth month.

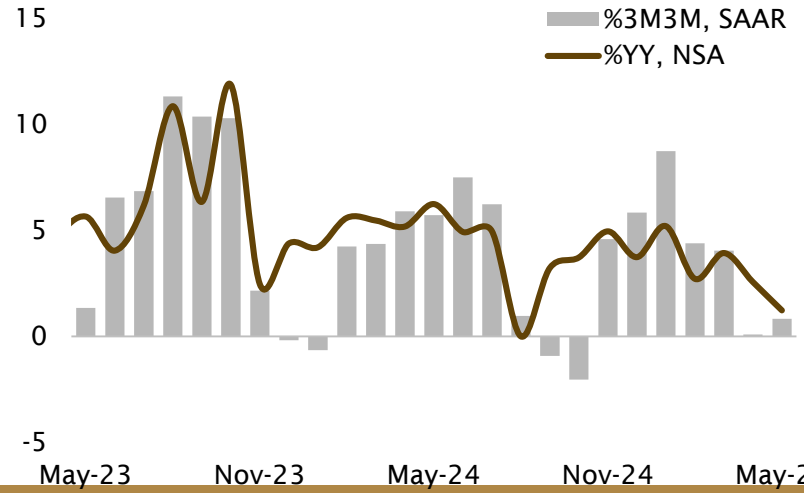
Industrial output grew below market estimates in May

%YY	Weight	Mar-25	Apr-25	May-25
Industrial production	100.0	3.9	2.6	1.2
Sector-based classification				
Mining	14.4	1.2	-0.2	-0.1
Electricity	8.0	7.5	1.7	-5.8
Manufacturing	77.6	4.0	3.1	2.6
Use-based/type of goods				
Primary goods	34.0	3.9	-0.2	-1.9
Capital goods	8.2	3.6	14.0	14.1
Intermediate goods	17.2	3.8	4.9	3.5
Infra. /construction	12.3	9.9	4.7	6.3
Consumer durables	12.8	6.9	6.2	-0.7
Consumer non-durables	15.3	-4.0	-2.7	-2.4

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

Unfavorable base effect weighed on y-o-y industrial growth in May; despite being positive, monthly change was below trends

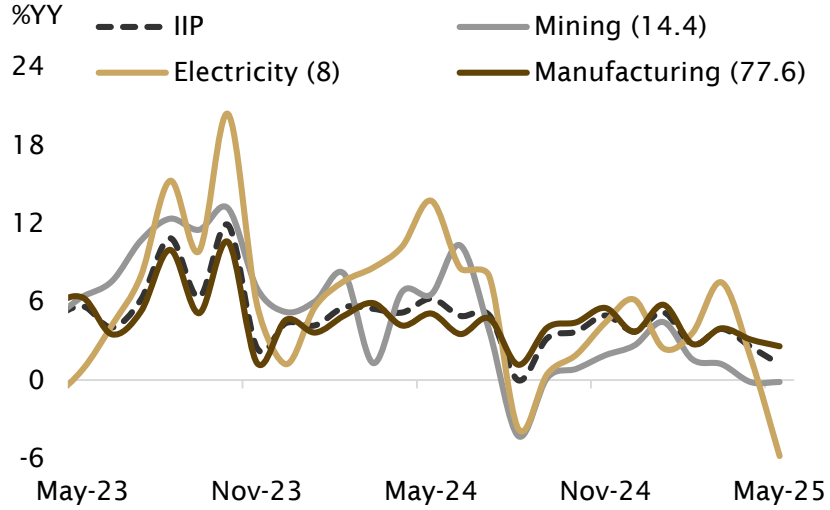


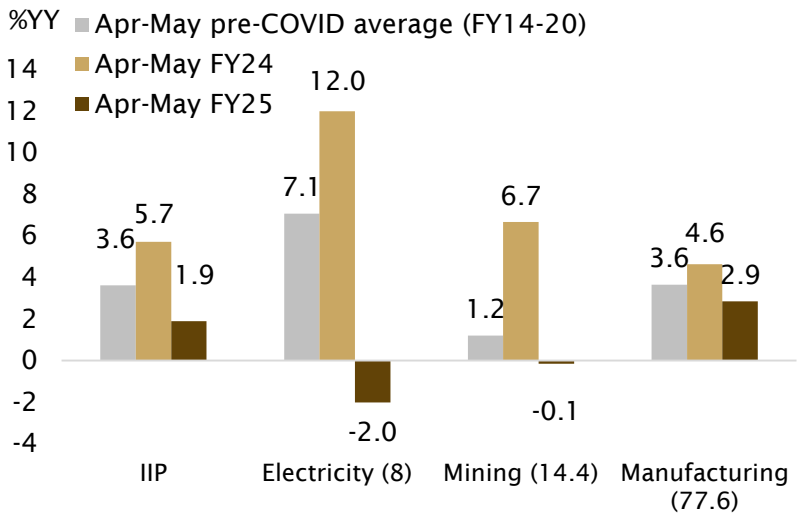


Manufacturing growth eased, mining stayed in contraction, electricity output fell at the sharpest pace in almost five years

- Industrial growth eased for the second straight month in May, in line with the trend in manufacturing, but the nine-month soft print was also dragged by other sub-indices, particularly electricity.
  - **Mining:** The month-on-month change of 4.3% was stronger than the historical gain (FY13-25 ex-COVID years) for May at 3.8%. But this was outweighed by negative base effect that kept the sub-index in year-on-year contraction for the second month, though at shallower pace of (-)0.1%YY versus (-)0.2% in April.
  - **Manufacturing:** The monthly gain of 3.5% was below the previous trends for May at 4.7% (median)-5.0% (average). Combined with an unfavorable base effect, this led to moderation in year-on-year growth to 2.6%YY from 3.1% in April, marking the second consecutive month of easing.
  - **Electricity:** Base effects were unfavorable, and the sequential gain of 0.1% in the sub-index was tepid vis-à-vis historical trends of 5.5% (median) - 6.0% (average). The sub-index moved into contraction for the first time in nine months, and at (-)5.8%YY marked the sharpest decline in almost five years. This is partly attributable to weak demand amid lower temperatures due to the early onset of monsoon.
- **Fiscal year trends:** In fiscal year-to-date terms (FYTD), industrial growth was lower year-on-year in Apr-May FY26 at an average of 1.9%YY, not just compared to FYTD FY25 (5.7%) but also the pre-COVID average (3.6%). The drag was mainly from the contraction in electricity production, followed by mining. The year-on-year growth in manufacturing remained positive FYTD, but eased, defining the trend in headline index.

Electricity output fell at sharpest rate in five years; industrial growth eased y-o-y FYTD, printed below pre-COVID average

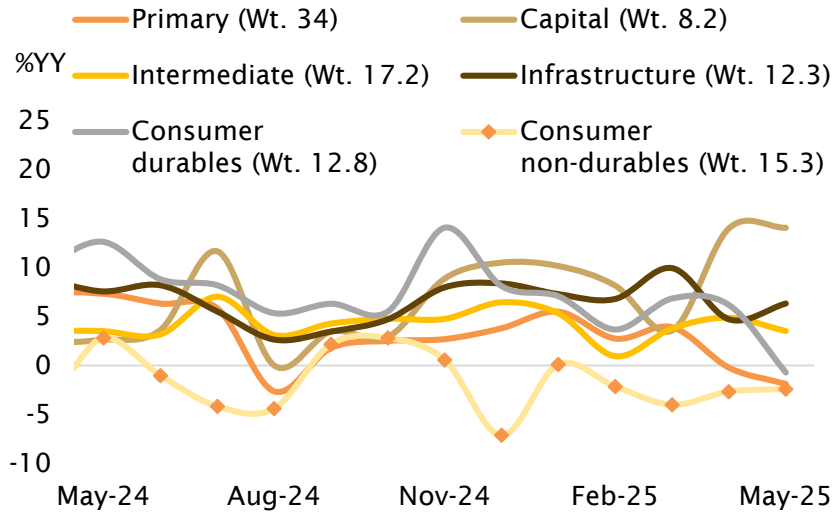


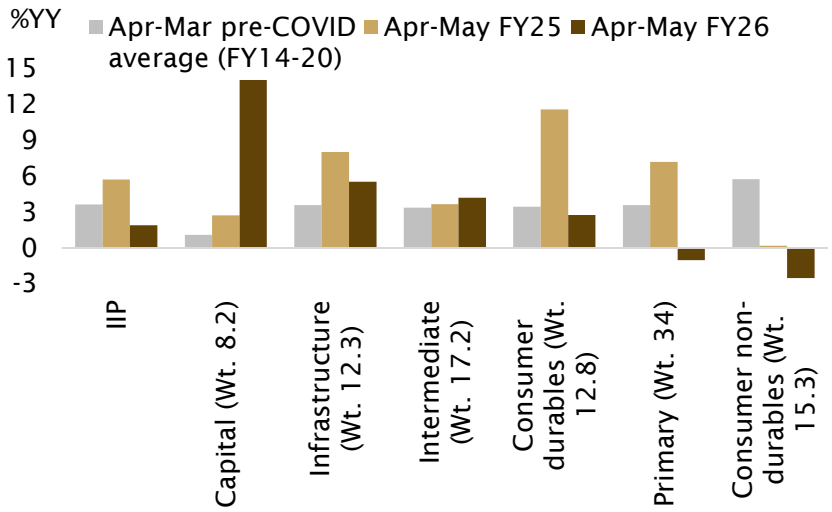


Weakness in consumer goods palpable with durables output also falling y-o-y; capital, intermediate goods held firm FYTD

- The month-on-month production growth was positive but below historical trends for May across use-based groups, except for capital goods, where growth surpassed previous patterns. Base effects were unfavorable across categories, though the extent varied, as reflected in the impact on year-on-year growth rates.
- **Consumer non-durables:** Production stayed in contraction for fourth straight month, albeit at a shallower pace of (-)2.4%YY, compared to (-)2.7% in April. Growth averaged (-)2.5%YY FYTD vs. 0.2% in Apr-May FY25.
- **Consumer durables:** Production fell year-on-year for the first time since Dec-2023 by (-)0.7%YY versus 6.2% growth in April. Average growth in FYTD FY26 was 2.8%, sharply down from 11.6% in Apr-May FY25.
- **Infrastructure/construction goods:** Production growth improved to 6.3%YY from 4.7% in April. In FYTD FY26, growth averaged 5.5%YY versus 8.0% in Apr-May FY25.
- **Primary goods:** Production fell for the second successive month, and at a steeper rate of (-)1.9%YY versus (-)0.2% in April. In FYTD terms, average growth dwindled to (-)1.0%YY from 7.2% in FYTD FY25.
- **Intermediate goods:** Output growth eased to 3.5%YY from 4.9% in April. On FYTD basis, growth improved to 4.2%YY from 3.7% in Apr-May FY25. In addition to capital goods, this was the only category where growth was higher year-on-year in FYTD terms.
- **Capital goods:** Production growth held strong at around 14%YY, same as April, and was higher than the average growth of 2.7%YY in Apr-May FY25.

Consumer durables output fell for first time since end-2023; capital, intermediate goods output growth higher y-o-y in Apr-May





Machinery lifted capital goods output; computers, textiles dragged consumer durables; chemicals, pharma hit non-durables

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- Within manufacturing, output increased year-on-year in 13 out of 23 sub-sectors versus 14 in April. In terms of monthly change in non-seasonally adjusted terms, output was up in 18 groups, up from two in April, and suggesting the impact of negative base effects that drove easing in year-on-year growth to nine-month low.
- Basic metals continued to add the most to industrial growth in May, and also on FYTD basis. For the second straight month, growth stayed above 6%YY but marked a moderation from over 9%YY average growth in Apr-May FY25. Machinery and equipment, which mostly includes capital goods, posted double-digit y-o-y growth in May – the highest in 19 months. In FYTD terms, growth averaged over 10%YY versus 1% in Apr-May FY25.
- Both motor vehicles and electrical equipment are mainly included in consumer durables, and also capital goods to some extent. These categories had posted double-digit year-on-year growth in Mar-Apr 2025 that eased in May but remained around 6%-8%. But the drag on consumer durables in May stemmed from computers and electronics, and textiles. The production of computers and electronics fell year-on-year after surging by double-digits for three straight months, while textiles output fell for the first time in 11 months.
- The production of other transport equipment, which includes bicycles and two-wheelers, grew after falling for two successive months. This bodes well from the perspective of rural demand. The output of other non-metallic mineral products, mainly included under infrastructure goods, rose 6.1%YY on average in FYTD FY26 versus sub-1% growth in FYTD FY25. In addition to pharmaceuticals, chemicals and products have emerged as a new pain point under consumer non-durables, dragging output year-on-year in Apr-May FY26.

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

	May-25	May-24	FYTD	FY26	FY25	FY26 vs pre-pandemic average (FYTD)	
Basic metals (12.8)	1.05	1.57	Basic metals (12.8)	1.08	1.55	Motor vehicles, trailers, etc. (4.9)	0.60
Machinery, equipment (4.8)	0.72	0.10	Motor vehicles, trailers, etc. (4.9)	0.70	0.58	Machinery, equipment (4.8)	0.52
Motor vehicles, trailers, etc. (4.9)	0.39	0.41	Machinery, equipment (4.8)	0.65	0.06	Electrical equipment (3)	0.37
Other non-metallic mineral pdts. (4.1)	0.36	0.02	Electrical equipment (3)	0.42	0.36	Basic metals (12.8)	0.31
Rubber, plastic pdts. (2.4)	0.31	-0.01	Other non-metallic mineral pdts. (	0.32	0.05	Rubber, plastic pdts. (2.4)	0.22
Textiles (3.3)	-0.11	-0.02	Coke, petroleum pdts. (11.8)	-0.08	0.52	Food products (5.3)	-0.16
Recorded media (0.7)	-0.14	0.03	Recorded media (0.7)	-0.11	-0.02	Other manufacturing (0.9)	-0.21
Other manufacturing (0.9)	-0.20	-0.10	Other manufacturing (0.9)	-0.22	0.01	Coke, petroleum pdts. (11.8)	-0.60
Pharmaceuticals (5)	-0.20	0.48	Pharmaceuticals (5)	-0.27	0.34	Chemicals (7.9)	-0.67
Chemicals (7.9)	-0.49	-0.05	Chemicals (7.9)	-0.45	-0.01	Pharmaceuticals (5)	-1.15

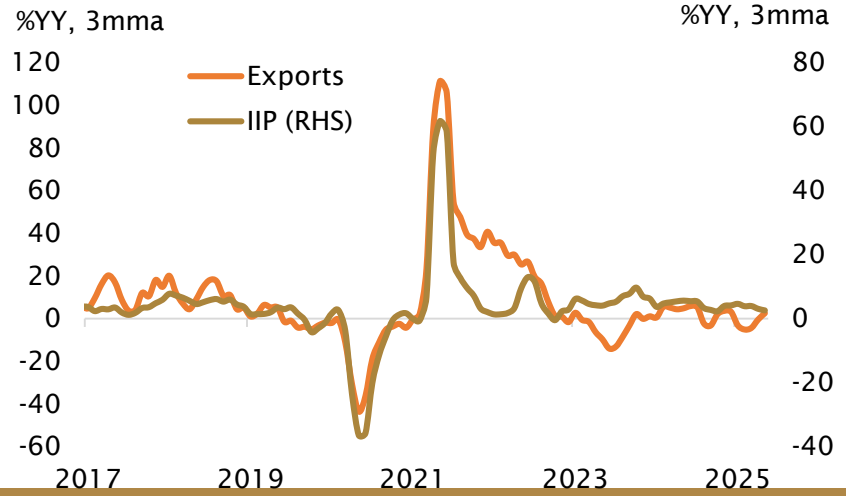
Historical data indicates improved but muted outlook for June; most high frequency indicators remain subdued

- **Assessing historical trends:** Historical data shows that industrial output tends to fall month-on-month in June by around 1.9% (median) – 2.3% (average). But base effects are slated to be favorable that could offset some of the downside from sequential contraction. These calculations indicate year-on-year growth in the range of 1.3% - 1.7% in June. Policy support on the monetary, regulatory, and fiscal fronts could push the upcoming print beyond the stated range but external uncertainties from the ongoing tariff wars are likely to continue weighing on sentiment and cap the upside to growth in coming months.
- **Signals from high frequency data:** High frequency indicators of economic activity remained mixed from Mar-Jun, indicating continuation of underwhelming recovery in Q1-FY26. Some of these are noted below.
  - GST revenue growth eased to the slowest pace in four years to 6.2%YY in June, taking Q1 average to 11.8%YY from 10.0% in Q1-FY25. The slowdown in June was in domestic revenue and not imports.
  - Electricity requirement and supply remained in contraction for the second straight month in June. Lower temperatures due to unseasonal rains and early onset of the monsoon kept power demand muted.
  - Two-wheeler sales increased year-on-year in May, following double-digit contraction in April, and was led by scooter. Tractor sales also grew at a higher rate than in April. Household work demand growth under MNGREGA was stable compared to April. Rural retail sales growth also stayed above 8% in April.
  - Passenger vehicle sales growth eased in May to sub-1%YY. Both domestic and international passenger traffic growth eased to the slowest in the post-pandemic period in May. Fuel consumption growth improved for the third straight month in June but averaged around 1%YY in Q1 versus 4% in Q1-FY25.
  - The year-on-year growth in port cargo traffic improved in June from May, and was higher on average in Q1 at 5.7%YY versus 3.9% growth in Q1-FY25. Railway freight traffic growth eased in June, and also in Q1 to an average of 2.9%YY versus 7.0% average growth in Q1-FY25.
  - Within construction, cement output growth is now outpacing steel consumption trends in FYTD terms. Cement production growth averaged 7.8%YY in Apr-May FY26 versus (-)0.2% decline in FYTD FY25. Steel consumption growth eased to an average of 6.9%YY in Apr-May FY26 from 13.1% in FYTD FY25.
  - The year-on-year growth in credit remained in single digits for the second straight month in May, with consumer credit growing at the softest pace since early 2021. Credit for consumer durables has been in contraction since Dec-24 (excluding Feb-25). Credit to industry grew at the softest pace in more than three years due to slowdown in credit to large industries, even as credit to MSMEs grew by double digits.
  - Monthly data on the Centre's fiscal accounts shows acceleration in capex to 20% of FY26BE in Apr-May, up from 14% of FY25RE in FYTD FY25. The increase was led by defence spending. On the revenue front, corporate tax collections were down year-on-year but the trend was in line with FYTD FY25 in terms of share in budget estimates.

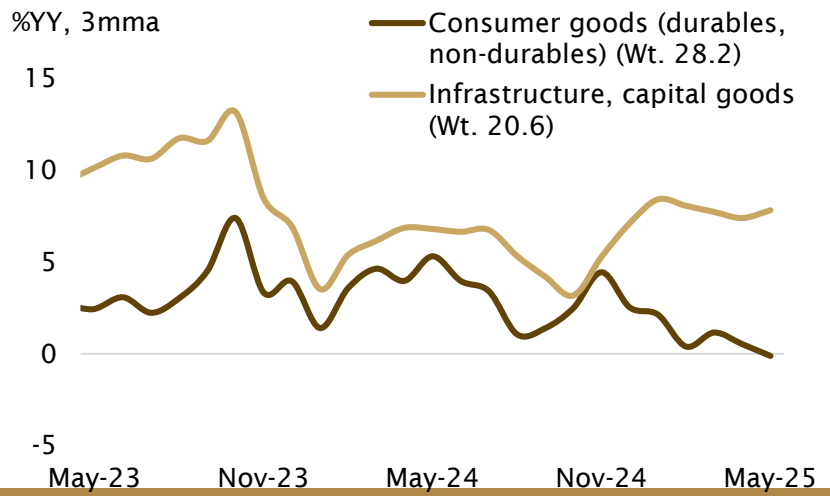
Survey data shows mixed signals; external uncertainties could weigh on domestic industry

- **Signals from survey data:**
  - In June, manufacturing PMI hit a 14-month high, led by gains in output, new orders and job creation. Export orders surged on continued front-loading of imports, mainly by the US. But the outlook survey pained a somber picture, with business confidence slipping to the lowest in a year due to clouded outlook on output and profits. There were silver linings though, with rise in capex and hiring plans.
  - Results from RBI's latest survey of professional forecasters (SPF) shows median estimate for IIP growth above 4%YY in each of the quarters from Q2-Q4. The forecast for FY26 stands at 4.3%YY, mildly above the actual growth of 4.1% in FY25. But to meet the estimate of 3.8%YY growth in Q1, industrial output will need to grow by almost the same extent month-on-month in June. This could be a tad difficult, considering historical trends, implying a likely undershoot to Q1 growth estimate.
- **Additional insights:**
  - As noted earlier, the weakness in consumer goods output is palpable, with durables production slipping into contraction for the first time since end-2023. The production of consumer non-durables also remained in year-on-year contraction for the fourth straight month in May. These trends have accentuated the divergence in production growth of consumer versus investment-related goods. Also, a large portion of domestic industrial output is exported, resulting in the IIP tracking the trends in exports growth, the outlook for which remains uncertain amid the ongoing tariff wars.

Industrial growth highly correlated with exports



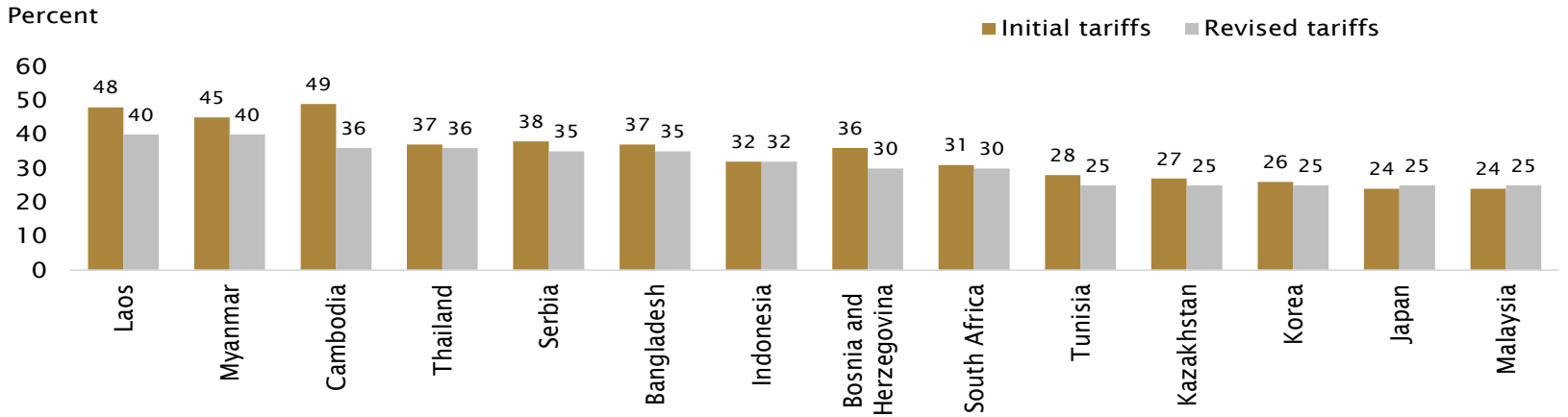
Divergent trends in consumer vs. investment goods



Policy implication

- **US tariff developments:** The situation on the US reciprocal tariffs remains fluid. The pause on tariffs that was due to expire on July 9 has been extended by the US administration by three weeks to August 1, with revision to tariffs on 14 economies. The baseline 10% tariff across economies continues in the meantime. While the extension gives India additional time to negotiate an interim deal with the US, hiccups remains on access to India's diary and farm sectors. The bilateral FTA between the two economies is slated to be inked by fall 2025. These developments remain critical, given the interlinkages between India's trade and industry. Also, the US is India's largest export destination, with around 20% share in India's total exports in FY24. Reports also abound on likely imposition of additional tariffs by the US on copper (50%) and pharmaceuticals (up to 200%). In addition to the existing US tariffs on auto and parts (25% imposed on March 26), and steel and aluminum (raised to 50% from 25% on June 3), the overall outlook remains uncertain for global trade.
- **Policy implication:** The high frequency data on economic activity remained muted in Q1, but the RBI MPC will have access to one more data point each for IIP and CPI before it meets again in August. Monsoon and Kharif sowing are progressing well, and some green shoots have emerged in labor market data. Combined with the income tax relief announced in the Union Budget for FY26, the monetary and regulatory easing could give a fillip to domestic consumption in the coming quarters. The government's continued push on capex, and frontloading with 20% of BE already met in Apr-May, could continue to support construction and infrastructure-related sectors. But with the policy stimulus announced in June and the change in stance to neutral, the RBI MPC is likely to pause in August and wait for more data points before it decides to act again.

US revised tariffs on 14 economies, and extended July 9 reciprocal tariff pause deadline to August 1



Data continues to show pockets of weakness in economic activity; though improvement is expected in coming quarters

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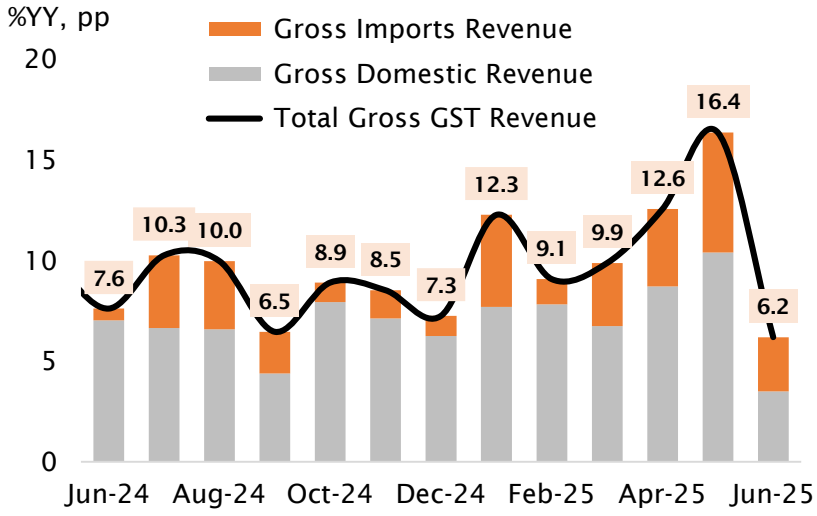
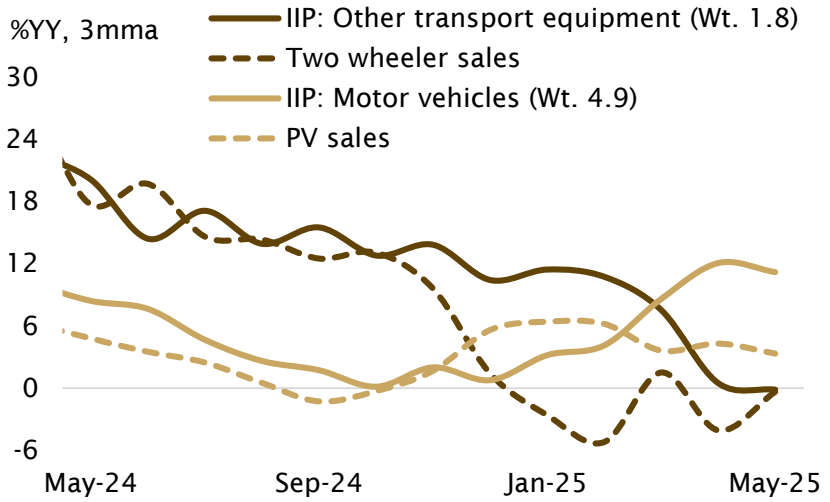
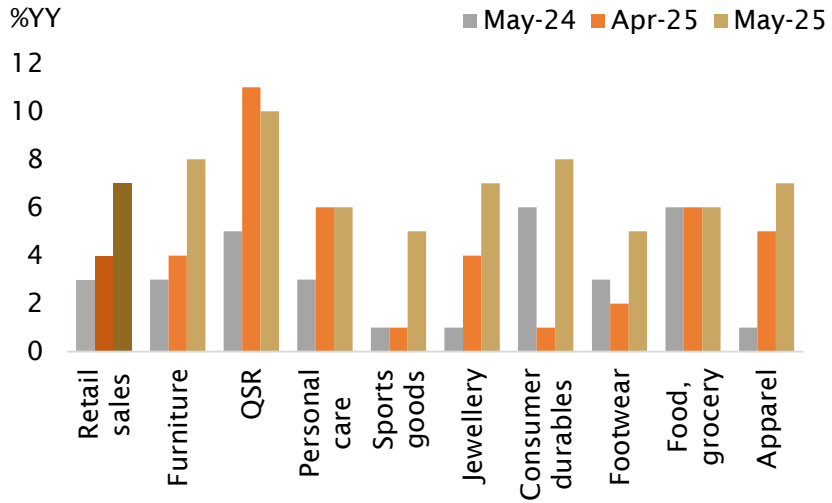
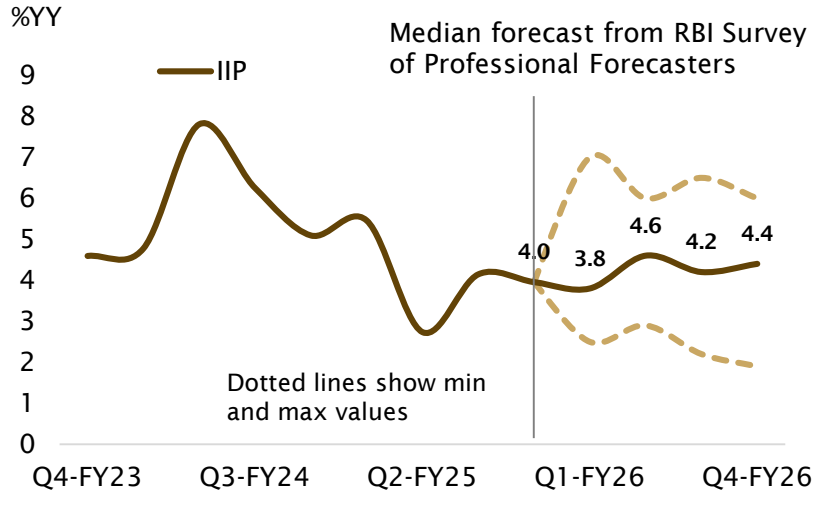
GST revenue growth slumped to four year low in June; auto sales trends remain mixed and mostly muted





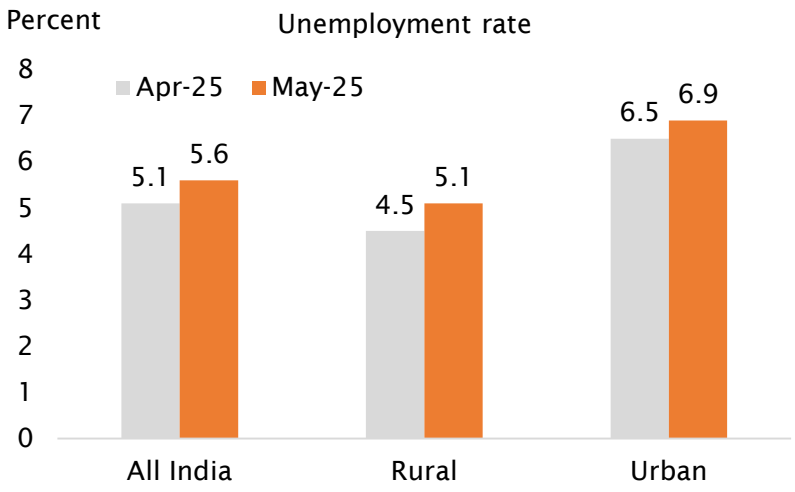
Retail sales growth improved in May; RBI survey shows median estimates of over 4% IIP growth in quarters Q2-Q4 FY26

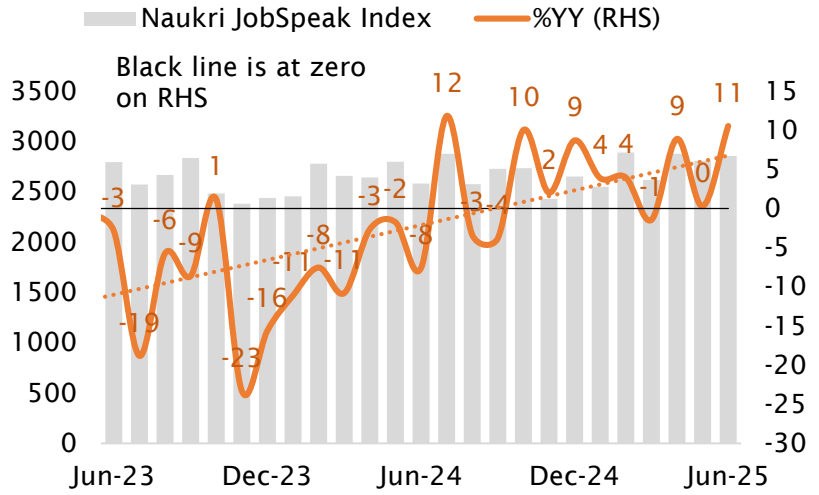




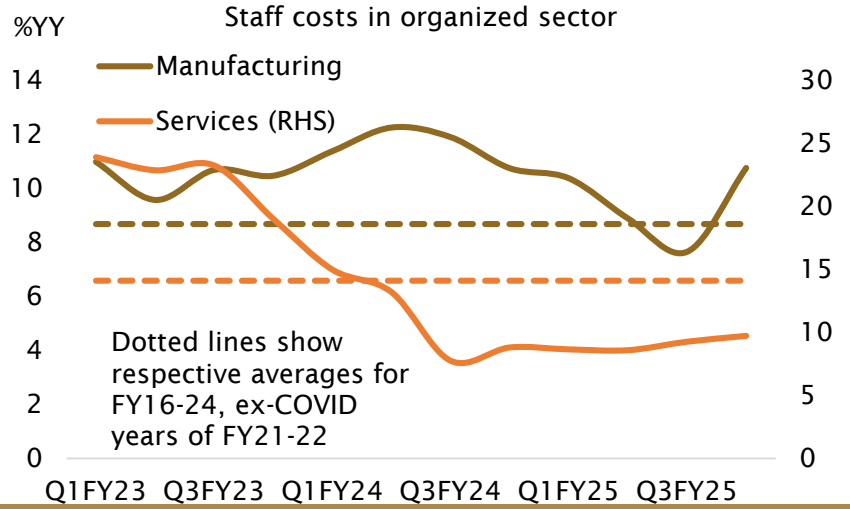
Labor market data remains mixed but green shoots suggest scope for support to consumption

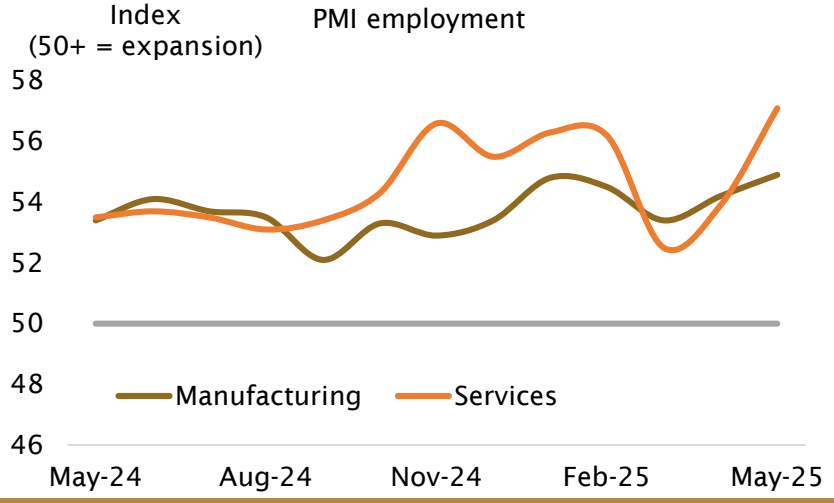
Unemployment increased in May, remained high in urban parts; despite volatile trends, white-collar hiring on an uptrend





Higher staff costs in manufacturing bode well from consumption perspective amid improving trends in PMI employment





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