

IIP Watch: Industrial growth of 4% in FY25 marked the softest pace of expansion in the post-pandemic period

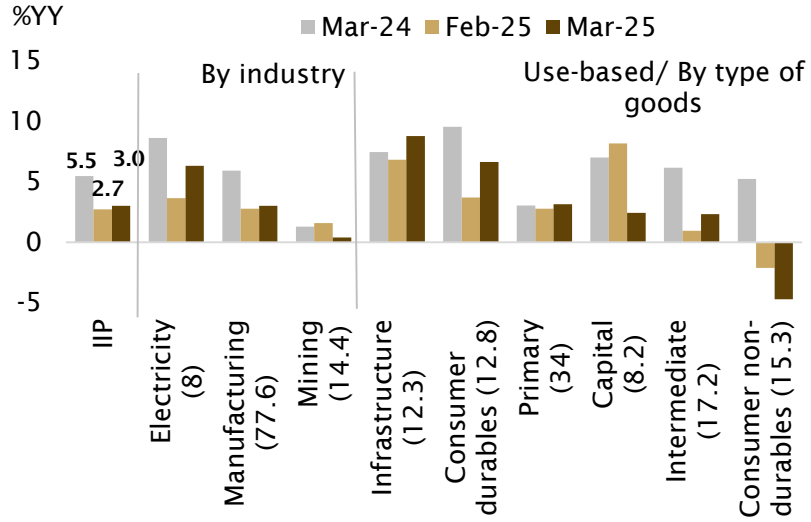
02 May, 2025

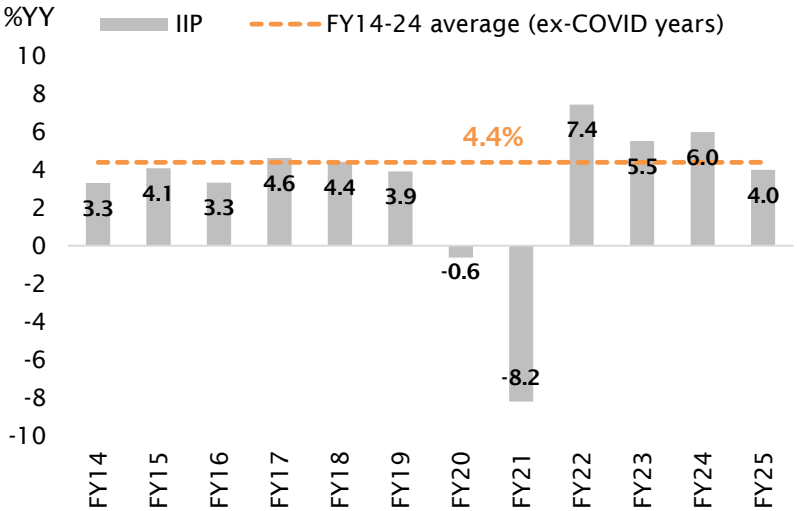
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Key takeaways

- In March, industrial production growth improved to 3.0%YY from 2.7% in February but was below street estimates (Reuters poll: 3.3%) due to unfavorable base effect that weighed on positive monthly momentum. In FY25, growth eased to 4.0%YY from 6.0% in FY24, marking the softest pace of expansion in the post-pandemic period.
- By industry, the year-on-year growth in March improved in case of manufacturing and electricity but moderated in case of mining. In FY25, growth eased across groups relative to FY24 but compared to the pre-pandemic averages, growth was higher in the headline index and the mining and manufacturing categories.
- In terms of use-based classification, the year-on-year growth improved across sub-groups in March except capital goods where it eased and consumer non-durables that remained in contraction for the second straight month. For the entire FY25, the outperformance of consumer durables relative to all sub-groups and the contraction in non-durables was a key feature. Amid this uneven growth in consumer goods categories, the industry-based groups performed better, partly aided by the pick-up in government's infrastructure spending in H2-FY25.
- Other high frequency indicators point to muted GDP growth in Q4 and risks of an undershoot to the government's second advance estimate of 6.5% real GDP growth in FY25. However, there could be some statistical support from potential revisions to previous quarter growth estimates, akin to the ones for FY23 and FY24. In this backdrop of an uncertain external environment amid the ongoing trade wars and improved domestic inflation outlook, the RBI has ample policy space to support growth by further lowering the policy rate and easing monetary conditions.

Despite mild improvement in March, year-on-year IIP growth in FY25 eased to the softest pace in post pandemic period





Unfavorable base effect kept industrial growth muted in March

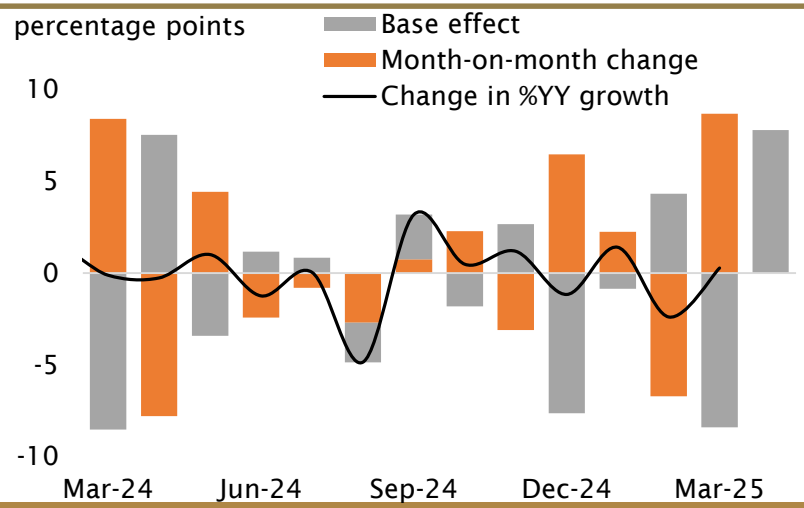
- In March, industrial output growth improved slightly to 3.0%YY from 2.7% in February but was below market expectations (Reuters poll: 3.3%). The print was dragged by unfavorable base effects that weighed on positive month-on-month momentum.
- In non-seasonally adjusted terms, monthly increase in production at 9.1% was largely in line with the historical average of 9.0% for the month (FY12-24). On a seasonally adjusted basis (accounting for uneven dates of festive season), IIP rose 0.3% after declining 1.2% in February. In terms of 3-month/3-month seasonally adjusted annualized rate, momentum weakened in the headline print and across sub-groups, except for electricity (industry-based group) and consumer durables (use-based group). Momentum in consumer non-durables remained negative, though the extent eased vis-à-vis February.

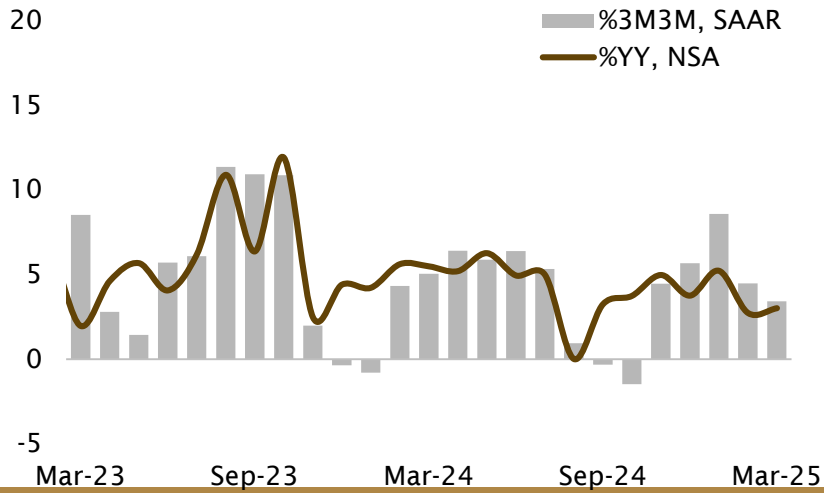
Underwhelming improvement in IIP growth in March

%YY	Weight	Jan-25	Feb-25	Mar-25
Industrial production	100.0	5.2	2.7	3.0
Sector-based classification				
Mining	14.4	4.4	1.6	0.4
Electricity	8.0	2.4	3.6	6.3
Manufacturing	77.6	5.8	2.8	3.0
Use-based/type of goods				
Primary goods	34.0	5.5	2.8	3.1
Capital goods	8.2	10.2	8.2	2.4
Intermediate goods	17.2	5.3	1.0	2.3
Infra. /construction	12.3	7.3	6.8	8.8
Consumer durables	12.8	7.1	3.7	6.6
Consumer non-durables	15.3	0.1	-2.1	-4.7

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

Unfavorable base effect partly offset month-on-month momentum in March, keeping the year-on-year growth muted

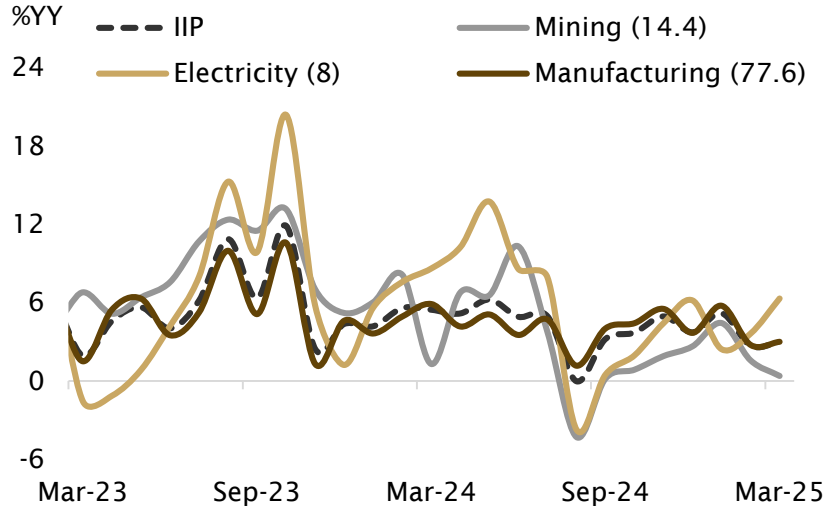


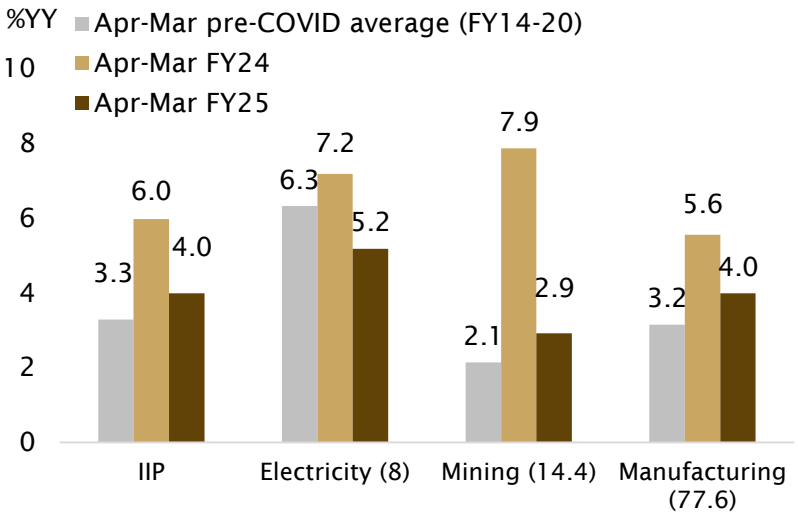


In FY25, IIP growth eased to softest pace in post-pandemic period

- The headline industrial production continued to trace the trend in manufacturing, the index heavyweight, where the year-on-year growth improved from February but modestly. Electricity output grew at a faster pace, while mining growth eased.
  - **Mining:** Base effect was unfavorable, and the month-on-month momentum was weaker than the historical average for March (FY13-24). These effects dragged the year-on-year growth to a six-month low of sub-1%, marking the second successive month of moderation in growth.
  - **Manufacturing:** The monthly increase was higher than historical average for March (FY13-24) but base effect was unfavorable, so that the increase in year-on-year growth rate was modest at 3.0% versus 2.8% in February.
  - **Electricity:** Despite unfavorable base effects, the month-on-month momentum was higher than historical trends, driving the year-on-year growth to an eight-month high of 6.3%.
- **Fiscal year trends:** In FY25, industrial growth eased to 4.0%YY from 6.0% in FY24, though it continued to mark an improvement vis-à-vis the pre-pandemic trend growth of 3.3% (FY14-20). The year-on-year growth rates in headline IIP and across the three major industries moderated to the softest in the post-pandemic period. Being the index heavyweight, manufacturing continued to contribute the most to industrial growth at 3.1percentage points, followed by mining and electricity that both contributed 0.4pp each.

In FY25, IIP growth eased to the softest pace in post-pandemic period, though it stayed above the pre-pandemic average

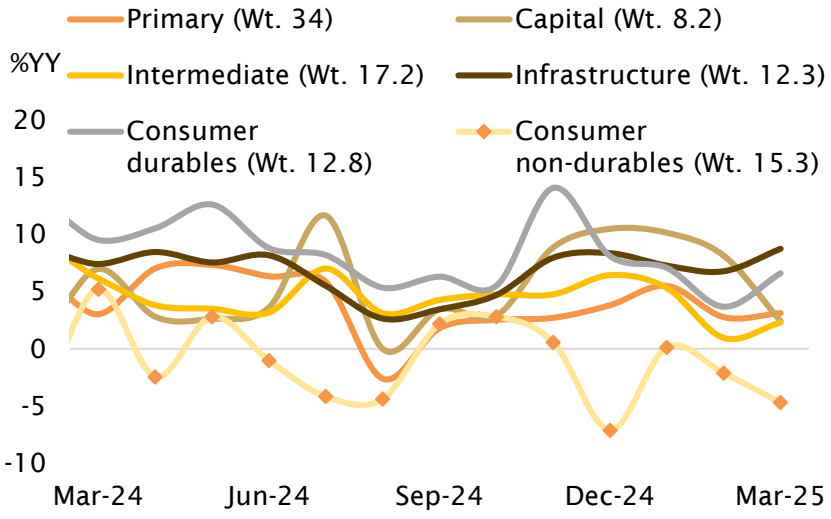


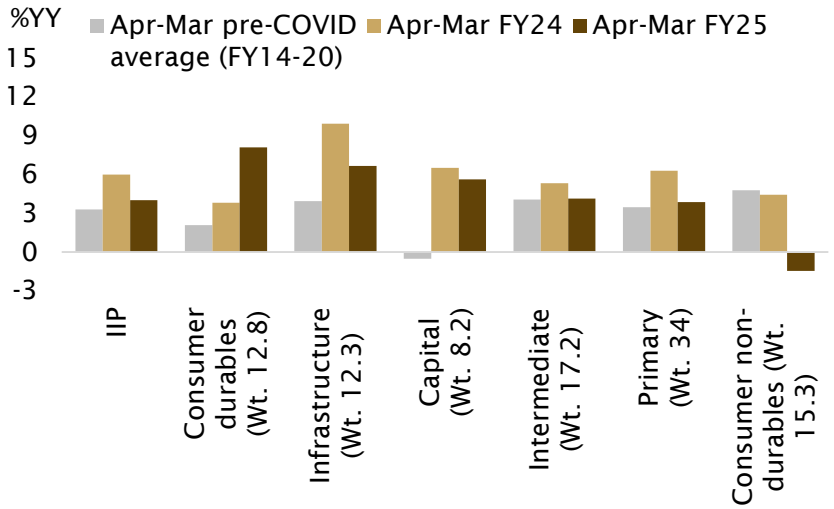


Divergence in consumer durables, non-durables a key feature in FY25

- **Consumer non-durables:** The month-on-month production growth was feeble relative to historical trends and base effect was unfavorable. As a result, the year-on-year contraction in output sharpened to (-)4.7% from (-)2.1% in February. During the fiscal year, production fell year-on-year in seven months.
- **Consumer durables:** The month-on-month increase in output was higher than historical average for March that offset unfavorable base effects and drove year-on-year growth to 6.6% from 3.7% in February.
- **Infrastructure/construction goods:** The year-on-year growth surged to 17-month high of 8.8% from 6.8% in February. The double-digit monthly momentum was above average that offset unfavorable base effects.
- **Primary goods:** The month-on-month change was below historical trends but in double digits that drove the improvement in year-on-year growth to 3.1% from 2.8% in February despite unfavorable base effects.
- **Intermediate goods:** The year-on-year growth improved to 2.3% from 1.0% in February. Though the monthly momentum was below the historical average, it was strong enough to offset an unfavorable base effect.
- **Capital goods:** The year-on-year growth in output slumped to seven-month low of 2.4% from 8.2% in February. Base effect was heavily skewed to the downside that offset higher-than-average monthly change.
- **Fiscal year trends:** In FY25, year-on-year growth across use-based groups was lower than in FY24, except consumer durables where growth surpassed not only that in FY24 but also pre-pandemic average. Consumer non-durables output fell and the divergence vis-à-vis the trend in durables was a key feature in FY25.

Capital goods unexpectedly weakened in March; divergent trends in consumer durables, non-durables was key feature in FY25





Basic metals added most to mfg. growth; pharma, food among laggards

- Within manufacturing, output rose year-on-year in 13 out of 23 sub-sectors versus 14 in February. In terms of monthly change in non-seasonally adjusted terms, output was up in 21 groups, sharply up from five in February, and suggesting the impact of unfavorable base effects in keeping the year-on-year growth muted.
- Basic metals added the most to manufacturing growth in March and also in FY25. This supported the growth in infrastructure goods in both monthly and annualized terms. Post the election-induced slump in H1-FY25, the improvement in non-metallic mineral products output also added to the strength in infrastructure goods.
- The slowdown in capital goods output in March could be partly attributable to the decline in production of fabricated metal products and other transport equipment. On the other hand, the output growth of motor vehicles reached an 11-month high, and added to the improvement in consumer durables production, along with the output of computers and electronics that hit a 33-month high. There was also an improvement in production of electrical equipment vis-à-vis the previous fiscal year and the pre-pandemic trend.
- Chemicals output remained in contraction for the second straight month, dragging down production of intermediate goods and consumer non-durables. The production of pharmaceuticals and food products fell, contributing to the weakness in non-durables output, compared to FY25 and the pre-pandemic average.
- The categories of 1) basic metals, 2) petroleum products, 3) motor vehicles remained the top contributors to manufacturing growth in FY25, but pharmaceuticals, and machinery and equipment that had also topped the list in FY24 were replaced by electrical equipment, and other transport equipment in FY25.

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

	Mar-25	Mar-24		FY25	FY24	FY25 vs pre-pandemic average	
Basic metals (12.8)	1.13	1.40	Basic metals (12.8)	1.08	1.93	Electrical equipment (3)	0.89
Motor vehicles, trailers, etc. (4.9)	0.64	0.41	Electrical equipment (3)	0.87	0.30	Motor vehicles, trailers, etc. (4.9)	0.24
Electrical equipment (3)	0.61	0.57	Coke, petroleum pdts. (11.8)	0.50	0.61	Fabricated metal pdts. (2.7)	0.23
Machinery, equipment (4.8)	0.49	0.18	Motor vehicles, trailers, etc. (4.9)	0.29	0.73	Other transport equipment (1.8)	0.16
Other non-metallic mineral pdts. (4.1)	0.45	0.43	Other transport equipment (1.8)	0.27	0.33	Machinery, equipment (4.8)	0.13
Other transport equipment (1.8)	-0.13	0.60	Leather, related pdts. (0.5)	-0.02	0.00	Leather, related pdts. (0.5)	-0.03
Fabricated metal pdts. (2.7)	-0.18	0.70	Recorded media (0.7)	-0.05	-0.01	Chemicals (7.9)	-0.05
Chemicals (7.9)	-0.25	0.17	Other manufacturing (0.9)	-0.05	-0.07	Recorded media (0.7)	-0.05
Pharmaceuticals (5)	-0.30	1.10	Pharmaceuticals (5)	-0.06	0.58	Food products (5.3)	-0.37
Food products (5.3)	-0.55	-0.22	Food products (5.3)	-0.16	0.12	Pharmaceuticals (5)	-0.79

Outlook

- **Assessing historical trends:** Historical data (FY14-24 ex-COVID year of FY21) shows that industrial output tends to contract sequentially by more than 10% in the first month of the fiscal year. However, base effect is slated to be favorable and partly offset the month-on-month decline in production. Also, domestic policy efforts are likely to provide support and counter some of the local and external headwinds.

- **Mixed signals from high frequency data:** There was improvement in some of the high frequency indicators of economic activity in March vis-à-vis February, though the overall trend was mixed and continued to point to muted recovery in growth in Q4. Some of these are noted below.
  - Two-wheeler sales swung to double-digit year-on-year growth in March after remaining muted since Nov-2024. Commercial vehicle sales growth improved to 1.7% in Q4-FY25 from 1.2% in Q3, though for the entire year FY25, CV sales fell (-)1.1% due to the contraction in Q2. The year-on-year growth in passenger vehicle sales was stable in February and March at 3.7%. However, fuel consumption declined for the second straight month in March, albeit at a shallower pace than in February.
  - Port cargo traffic grew at the fastest year-on-year pace since end-2023, and railway freight traffic rebounded after falling in the previous month. The trends in air passenger and cargo traffic were mixed. Compared to February, the year-on-year growth in GST revenue accelerated.
  - Construction activity related indicators were mixed in March. After growing by around 11%YY in both January and February, steel consumption fell in March. However, cement production has been posting double-digit year-on-year growth for five months in a row now.
  - Rural activity indicators remained firm. The household work demand under MGNREGA moderated in February and March, reflecting high labor demand conditions in rural areas amid Rabi harvest and summer sowing. Tractor sales remained robust despite weak registrations data.
  - Results from one of the RBI surveys point to seasonally adjusted capacity utilization in the manufacturing sector sustaining above the long-term average levels. In another RBI survey, there was a pick-up in both actual and one-quarter ahead investment intentions of infrastructure companies amid a moderation in case of services firms.
  - Amid continued uncertainty in the external backdrop, details of the latest PMI manufacturing print showed the second-fastest upturn in new export orders in 14 years, potentially signaling a shift in production to India. This was partly corroborated by an uptick in the export-oriented textiles segment production in March that grew at the fastest year-on-year pace in 17 months. The output of computers and electronic products has also been expanding rapidly in the past two months.

Policy implication

- **External headwinds:** Though the latest PMI data indicates potential for a shift in demand for certain goods towards India, the external environment remains fluid amid the ongoing tariff wars and the US-India trade deal yet to be inked in a few months' time. In its latest outlook update, the IMF cut global growth forecasts, including for India. Compared to its outlook in January, the IMF trimmed growth forecasts for India for FY25 and FY26 by 0.3pp and 0.2pp, respectively to 6.2% and 6.3%, respectively. The agency expects growth to be supported by private consumption, particularly in rural areas.

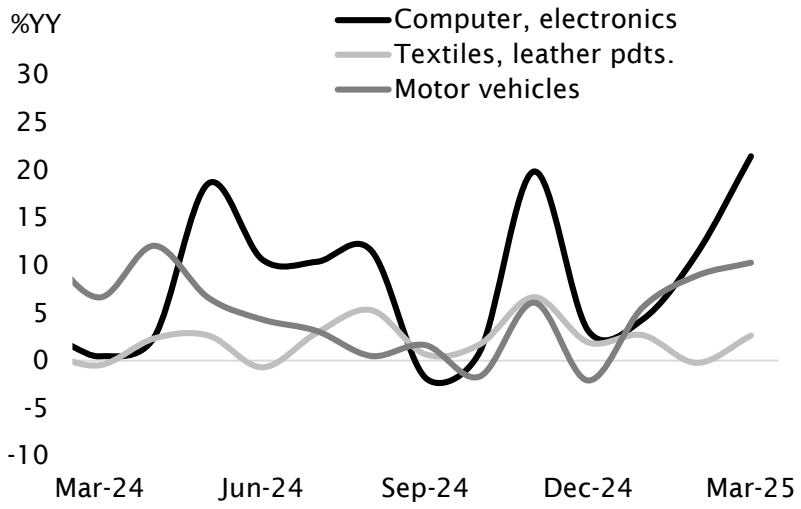
- **Policy implications:** To summarize domestic conditions, despite expectations of strong recovery in Q4-FY25, industrial growth averaged 3.6%, compared to 4.1% in Q3. In Q2, output growth had slumped to 2.7% from 5.5% in Q1 due to pause in government spending during general elections and heavier-than-expected rains that obstructed industrial activity. The underwhelming recovery in H2-FY25 is reflected in other high frequency data that point to muted GDP growth in Q4 and risks of an undershoot to the government's second advance estimate of 6.5% real GDP growth in FY25. However, there could be some statistical support from potential revisions to the previous quarter growth estimates, akin to the ones for FY23 and FY24.

  Amid the ongoing fiscal consolidation efforts, the government's continued thrust on capital expenditure is expected to support industrial activity. Some recent media reports suggest that the Ministry of Finance has nudged other ministries to front load capex in FY26 to avoid a repetition of the scenario in FY25 when the election-induced slump in public spending in H1-FY25 weighed on economic output. For FY25, data till February shows that capital expenditure both at the Centre and State levels has been unable to catch-up to the levels seen in FY24 (as percent of budget estimates). At the same time, revenue spending has increased at higher rates, so that the quality of expenditure has weakened.

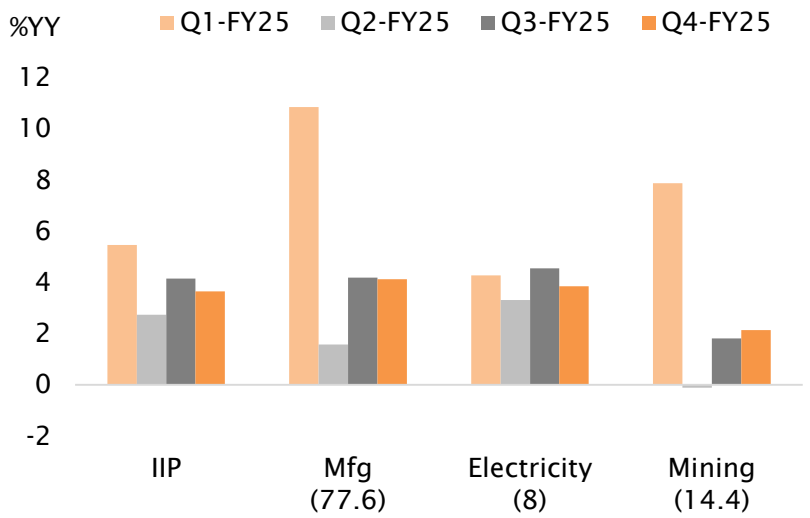
  The personal income tax relief provided to middle-income households in the latest Union Budget is expected to provide a fillip to urban consumption in FY26. Rural demand is expected to continue its recovery amid bumper crop output, moderating inflation, and forecast of an above normal monsoon this year. The RBI has been playing its role to create supportive conditions for growth in the economy. In addition to cutting the policy repo rate cumulatively by 50bps to 6.0% in 2025, the central bank continues to aggressively infuse liquidity in the system to enable faster transmission of lower rates. In this backdrop of an uncertain external environment amid the ongoing trade wars and improved domestic inflation outlook, the RBI has ample policy space to support growth by further lowering the policy rate and easing monetary conditions.

Despite green shoots, details show underwhelming recovery in IIP

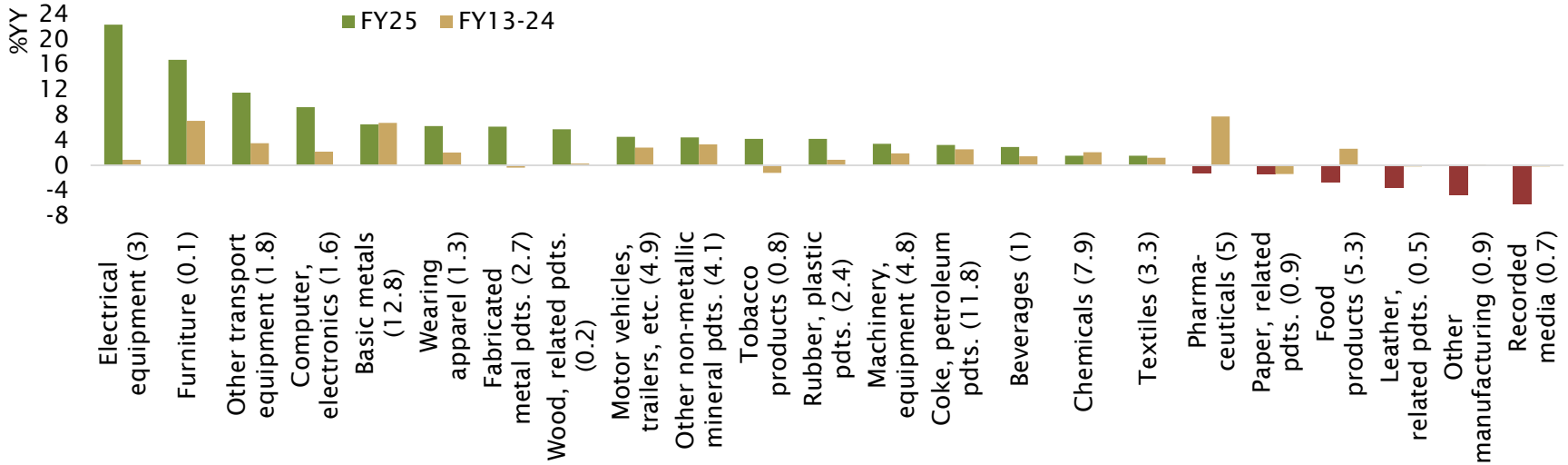
Computer, electronic output at 33-month high in March



Underwhelming recovery in H2-FY25 post slump in Q2

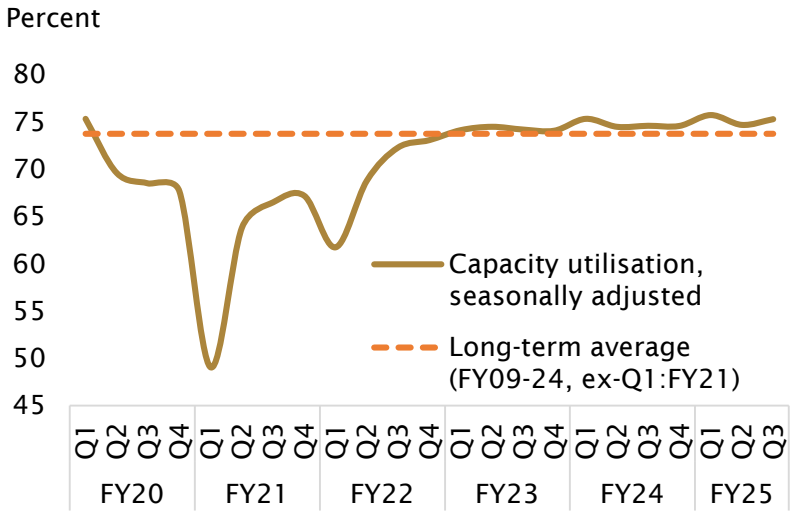


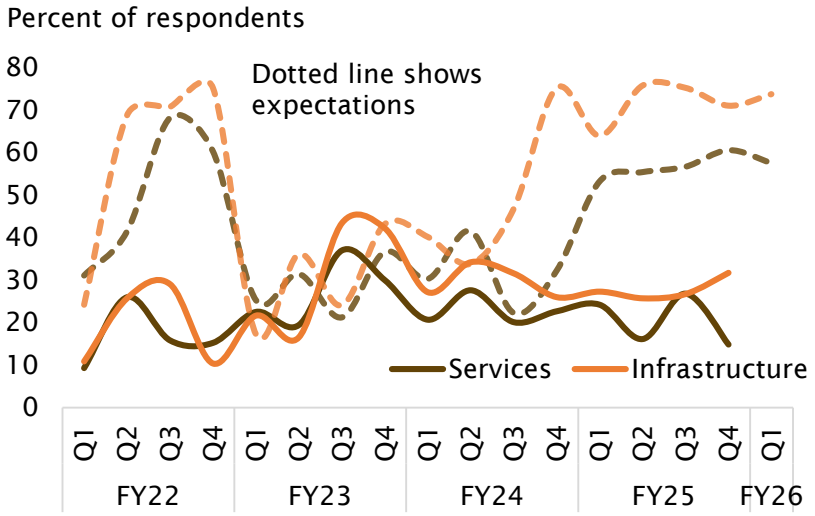
In manufacturing, strongest improvement in output was in electrical equipment vis-à-vis FY24 and long term trends



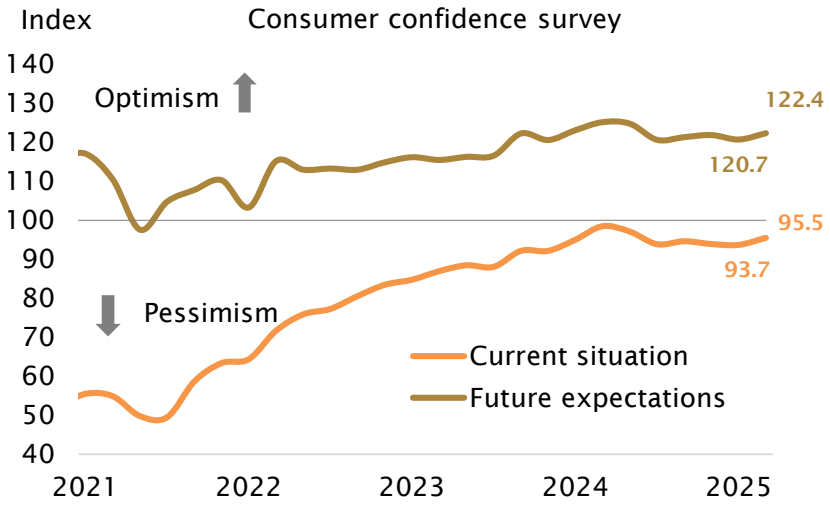
RBI surveys show some silver linings amid cloudy external backdrop

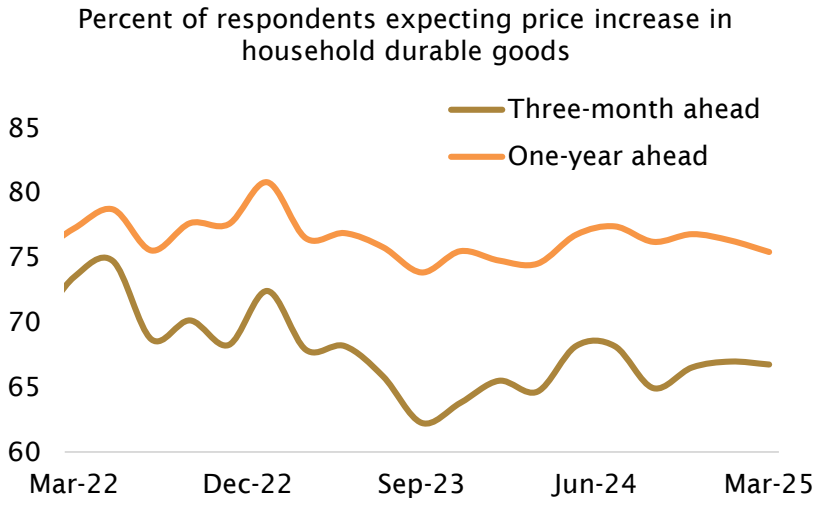
Manufacturing firms' capacity utilization above average; uptick in infra firms' investment assessment and intentions





Improvement in latest consumer confidence survey and anchoring of households' inflation expectations





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)	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Agriculture and rural sector	Fertiliser sales	-7.7	-7.8	4.6	12.2	8.2			
	Tractor sales	2.4	21.0	-0.9	13.3	11.1	30.9	21.6	
	Tractor registrations	14.7	3.1	29.9	25.8	5.2	-14.5	-5.7	
	Two wheeler sales	15.8	14.2	-1.1	-8.8	2.1	-9.0	11.4	
	Two-wheeler registrations	-8.5	36.3	15.8	-17.6	4.2	-6.3	-1.8	
	Three-wheeler registrations	0.7	11.5	4.2	-4.6	6.9	-1.9	-5.7	
	Household work demand under MGNREGA	-13.4	-7.6	3.9	8.2	14.4	2.8	2.2	
Industry, construction and urban sector	Industrial production	3.1	3.5	5.2	3.2	5.0	2.9	3.0	
	Core sector output	2.0	3.1	4.3	4.0	4.6	2.9	3.8	
	Cement production	7.6	3.1	13.1	10.3	14.6	10.8	11.6	
	Natural gas production	-1.6	-1.6	-5.5	-2.1	-2.3	-6.7	-4.8	
	Electricity requirement	1.2	-1.0	3.7	5.1	1.3	2.0	5.7	
	Steel consumption	11.8	8.9	9.5	5.2	10.9	10.9	-0.5	
	Fuel consumption	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	
	Passenger vehicle sales	12.9	1.1	4.3	11.4	3.5	3.7	3.7	
	Passenger vehicle registrations	-18.8	32.4	-13.7	-2.0	15.5	-10.3	6.3	
Services	Commercial vehicle sales	-10.7			1.2			1.7	
	Commercial vehicle registrations	-10.4	6.4	-6.1	-5.2	8.2	-8.6	2.7	
	Railway freight traffic	-0.1	0.8	1.4	1.6	1.7	-2.4	2.9	
	Port cargo traffic	5.8	-3.4	-4.9	3.4	7.6	3.6	13.8	
	Toll collection (volume)	6.5	11.3	11.9	9.8	14.8	18.7	11.9	
	Domestic air cargo traffic	14.0	8.9	0.3	4.3	6.9	-2.5	4.9	
	International air cargo traffic	20.5	18.4	16.2	10.5	7.1	-6.3	3.3	
	Domestic air passenger traffic	7.4	9.6	13.8	10.8	14.0	12.1	9.9	
	International air passenger traffic	11.2	10.3	10.8	9.2	11.0	7.7	6.7	
	Tourist arrivals	0.4	-1.4	-0.1	-6.6	-0.2	-8.6		
	GST e-way bills (total)	18.5	16.9	16.3	17.6	23.1	14.7	20.2	
	GST revenue collection	6.5	8.9	8.5	7.3	12.3	9.1	10.2	
PMI (Index)	PMI Manufacturing	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.4
	PMI Services	57.7	58.5	58.4	59.3	56.5	59.0	58.5	59.1

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