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Macroeconomics | First cut

Slow and shaky

April 2025

February sees slower IIP growth, tariff risks lurk ahead

Industrial growth as measured by the Index of Industrial Production (IIP) slowed to 2.9% in February from 5.2% in January (revised up from 5.0%), driven by lower output growth in the mining and manufacturing sectors, while electricity recorded an uptick.

IIP growth has been volatile in the past few months. On average, IIP growth stood at 4.0% in the fourth quarter as of February, broadly in line with the 4.1% recorded in the December quarter .With data now available for eleven months, the underlying momentum within sub-sectors IIP can be highlighted. First, IIP manufacturing performed better on average in the second half of fiscal 2025. This lifted growth in segments like petroleum products, machinery and textiles during the second half. Second, improved growth in capital, infrastructure and construction goods' output in the second half points at a gradual pick-up in construction /capital expenditure activity in the latter part of the fiscal. Finally, other high-frequency indicators show growth prospects improving in the fourth quarter. The latest Reserve Bank of India (RBI) Quarterly Industrial Outlook survey shows a sequential strengthening in demand in the fourth quarter. The latest RBI Consumer Confidence Surveys indicates an improvement in March, in both rural and urban areas. All these factors corroborate recovery in domestic demand. Healthy rabi output and easing inflation in the fourth quarter also bode well for consumption demand.

That being said, US tariff hikes is a key risk to Crisil's GDP growth forecast for fiscal 2026. Slower global growth, along with anticipated reciprocal tariffs on India after three months, is likely to hit exports. Uncertainty about the duration and frequent changes in tariffs could hinder investments.

We, however, expect the RBI's monetary easing to create some offset to the external headwinds. Interest rate cuts, income tax relief and easing inflation are expected to provide tailwinds to consumption this fiscal, while the expected normal monsoon will support agricultural incomes. Moreover, the anticipated decline in global crude oil prices, resulting from a potential global slowdown, is expected to provide additional support to domestic growth.

Net-net, Crisil expects growth of 6.5% in fiscal 2026, with risks tilted to the downside.

Data highlights for February

- IIP growth moderated to 2.9% on-year in February from 5.2% in January. The index fell 1.0% on-month after seasonal adjustment
- The slowdown in IIP growth was driven by manufacturing (2.9% on-year vs 5.8%) and mining (1.6% vs 4.4%). On the other hand, electricity output picked up slightly (3.6% vs 2.4%)
- February saw a broad-based slowdown in all the six sub-sectors: consumer non-durables (-2.1% vs -0.3% in the previous month), intermediate goods (1.5% vs 5.3%), primary goods (2.8% vs 5.5%), consumer durables (3.8% vs 7.2%), infrastructure and construction goods (6.6% vs 7.4%), and capital goods (8.2% vs 10.3%)

Consumption-oriented sectors paint a disappointing picture

- Consumer non-durables output recorded the third consecutive month of decline (-2.1% in February vs -0.3% in January), driven by broad-based contraction across food products (-6.1% vs 0.1%), beverages (-4.3% vs 2.5%) and tobacco products (-1.6% vs 16.3%)
- The slowdown in consumer durables output growth (3.8% vs 7.2%) was because of worsening performance in wearing apparel (-4.4% vs 2.5%) and furniture (5.8% vs 17.0%). In contrast, output growth in computers and electronic products (10.6% vs 4.5%) and automobiles (8.9% vs 5.6%) picked up

Export-oriented sectors also see a dip

- Export-oriented sectors' performance deteriorated in February, reflecting a deepening contraction in merchandise exports (-10.9% in February in nominal terms vs -2.4% the previous month)
- Among major export sectors, worsening performance was recorded in wearing apparel (-4.4% vs 2.5%), chemicals (-2.9% vs 2.6%), coke and refined petroleum products (0.5% vs 8.6%), textiles (2.4% vs 3.6%), machinery and equipment (3.1% vs 4.8%), and basic metals (5.8% vs 6.7%). However, pharmaceutical output improved (3.1% vs -0.5%)

Industrial goods weaken

- Weak exports and an on-year contraction in government capital expenditure in February contributed to slowdown in industrial goods
- Output growth in primary goods (2.8% vs 5.5% in the previous month) as well as intermediate goods (1.5% vs 5.3%) weakened. The former was driven by declining output growth in coke and refined petroleum products (0.5% vs 8.6%) and mining (1.6% vs 4.4%). The latter was a result of deteriorating performance in chemicals (-2.9% vs 2.6%), rubber and plastic products (4.4% vs 5.2%) in addition to metal-related sectors

- Growth in capital goods output moderated (8.2% vs 10.3%), led by fall in output growth in machinery and equipment (3.1% vs 4.8%), and electrical equipment (9.3% vs 21.6%)
- Slowing output growth in basic metals (5.8% vs 6.7%), fabricated metals (6.7% vs 9.6%) and other non-mineral metallic products (8.0% vs 10.3%) weakened the growth in infrastructure and construction goods (6.6% vs 7.4%) as well as intermediate goods
- Government capital expenditure (central plus state[1]) materially contracted on-year in February (-17.6% vs 21.4% in January), leading to moderate growth in infrastructure and capital goods

[1] *As per data available for 16 states*

Analytical contacts

Dharmakirti Joshi
Chief Economist, Crisil Ltd
dharmakirti.joshi@crisil.com

Dipti Deshpande
Principal Economist
dipti.deshpande@crisil.com

Pankhuri Tandon
Senior Economist
pankhuri.tandon@crisil.com

Bhavi Shah
Economic Analyst
bhavi.shah@crisil.com

Media contacts

Ramkumar Uppara
Media Relations
Crisil Limited
M: +91 98201 77907
ramkumar.uppara@crisil.com

Roma Gurnani
Media Relations
Crisil Limited
M: +91 70662 92142
roma.gurnani1@ext-crisil.com

Sanjay Lawrence
Media Relations
Crisil Limited
M: +91 89833 21061
sanjay.lawrence@crisil.com

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