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IIP growth softens

IIP growth slowed to 2.9% in Feb'25 from 5.6% in Feb'24 and 5.2% in Jan'25. Compared with previous year (Feb'24), moderation was seen across board. Mining sector and electricity output slowed most notably, while softening was less stark in the manufacturing sector. Within manufacturing, majority of the sectors noted a slowdown in Feb'25 versus Feb'24, including certain key sub-industries like basic metals, wearing apparel, chemicals, motor vehicles etc. In contrast, output of pharmaceuticals, textile, and computers/electronics registered an improvement compared with last year. Within use-based classification, only output of capital goods improved in Feb'25 versus Feb'24. On the other hand, output of primary goods, intermediate goods, infrastructure goods and consumer durables eased. Consumer non-durable production fell by Feb'25, albeit at slower pace than Feb'24. Overall, on a FYTD basis, IIP growth weakened to 4.1% against 6% growth registered last year. We expect production to have improved towards the end of last fiscal year (based on high frequency data like manufacturing PMI, GST collection, E-way bill generations). In Q1FY26, growth will get support from reduced cost of borrowings, 90-day pause announced by Trump administration from implementation of country-specific tariffs, weaker commodity prices. However, headwinds still persist, on account of market volatility and uncertainty around escalating trade war between US and China.

Moderation in IIP growth: IIP growth eased to 2.9%in Feb'25 from 5.6% in Feb'24. This was broadly in line with our estimate of 3% increase. The softening was broad-based with mining sector growth slowing to 1.6% in Feb'25 (8.1% in Feb'24), manufacturing sector to 2.9% (4.9%) and electricity output to 3.6% (7.6%). On a FYTD basis, IIP growth eased to 4.1% (6% growth last year) and registered much slower growth across the board. Mining activity growth was down to 3.2% (8.2% in FYTD24), while manufacturing sector output rose by 4.1% down from 5.4%. Even electricity growth turned out to be slower at 5% against 6.9% growth noted last year for the same period.

Within manufacturing, out of 23 sub-sectors, 18 of them reported slower growth compared with Feb'24. These included, manufacture of basic metals, wearing apparel, leather, chemicals, electrical equipment, motor vehicles, other transport equipment, amongst a few. Notably, only 5 sectors have recorded stronger growth during this period including, manufacture of textile, pharmaceuticals, other non-metallic mineral products, computers/electronics, and other manufacturing.

Capital good output strengthens: Within use-based classification, capital good production outshined and registered a growth of 8.2% versus 1.7% in Feb'24. Under all other categories, growth moderated. Output of primary goods slowed to 2.8% in Feb'25 from 5.9% in Feb'24, while that of intermediate goods was down to 1.5% from 8.6%. Production of infrastructure goods eased less sharply (6.6% versus 8.3%). Amongst consumer products, output of durables noted significant moderation (3.8% versus 12.6%) and that non-durables declined to (-) 2.1% following (-) 3.2% decline in Feb'24.

Way forward: Given the latest improvement in manufacturing PMI for Mar'24, along with pick-up in e-way bill generations and GST collections, we expect production to have reported some improvement towards the end of the last fiscal year. In Q1 of the current fiscal year, some headwinds are appearing. Export growth remains a key risk, depending upon the prevailing global trade situation. However, as

RBI has lowered policy rates, cost of credit is expected to come down, which will in turn be positive for the manufacturing sector. A 90-day pause by the Trump administration on implementation of country-specific tariffs, and weaker commodity prices are also positive for the sector.

Table 1: Weaker IIP growth noted in Feb'25

Sectoral (%)	Weight	Dec-24	Jan-25	Feb-25	Apr-Feb'24	Apr-Feb'25
IIP	100.0	3.5	5.2	2.9	6.0	4.1
Mining	14.4	2.7	4.4	1.6	8.2	3.2
Manufacturing	77.6	3.4	5.8	2.9	5.4	4.1
Electricity	8.0	6.2	2.4	3.6	6.9	5.0
Use-Based						
Primary Goods	34.1	3.8	5.5	2.8	6.5	3.9
Capital Goods	8.2	10.4	10.3	8.2	6.2	5.9
Intermediate Goods	17.2	6.4	5.3	1.5	5.2	4.4
Infrastructure and Construction Goods	12.3	7.4	7.4	6.6	10.0	6.4
Consumer Durables Goods	12.8	8.3	7.2	3.8	3.0	8.2
Consumer Non-Durables Goods	15.3	(7.5)	(0.3)	(2.1)	4.0	(1.4)

Source: CEIC, PIB, Bank of Baroda Research

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