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Industrial production remains at a healthy level

Industrial production registered a growth of 6.7% in Jul'26 against 5.4% growth in Jul'25. Compared with previous year (Jul'25), higher growth was noted primarily in manufacturing and electricity generation. Mining growth declined, while growth in output of water supply, and sewage management remained broadly steady. Manufacturing growth came in at 7.3%, supported by manufacture of wearing apparels, chemicals, computer and electronics, electrical equipment, motor vehicles, and other transport equipment. Output of capital goods, intermediate goods, and consumer durables also improved notably in Jul'26 compared with last year. Heatwave conditions have support demand for consumer durables so far. Going forward, as tensions between US and Iran remain escalated, and key shipping routes are still under threat, global commodity prices are volatile. Limited pass-through in output prices implies that margins can expected to remain under pressure for some more time, until shipping activity normalises. Hence, we maintain cautious view on our full year IIP growth forecast. However, domestic measures to boost manufacturing and limited impact of erratic monsoon on consumer demand, will help support growth.

IIP growth accelerates: IIP growth rose to 6.7% in Jul'26 from 5.4% in Jul'25. However, it eased from 8.8% in Jun'26. The faster growth in industrial production was led by manufacturing and electricity growth. Manufacturing sector recorded 7.3% increase compared with 5.1% increase last year (May'25). Within manufacturing, 15 out of 23 sub sectors reported higher growth for Jul'26 versus last year. These include wearing apparels, paper, chemicals, coke & refined petroleum products, rubber, non-metallic mineral products, computer & electronics, electrical equipment, machinery, motor vehicles, and transport equipment, On the other hand, following sectors registered weaker growth including tobacco products, textiles, basic metals, fabricated metal products, pharmaceuticals, and furniture.
Electricity production was also higher at 8.7% versus 2.4%, due to hotter than expected weather conditions on account of El Nino. Pickup in manufacturing activity also contributed higher electricity demand. Electricity generation from non-renewable sources picked up pace, while that from renewable sources slowed. In contrast, mining output fell by (-) 0.9% in Jul'26 following 10.7% growth recorded last year, dragged by non-metallic minerals and fuel minerals. Growth for water supply, sewage and waste management service was broadly stable at 7.4% versus 7.5% in Jul'25.

On a cumulative basis, IIP has registered higher growth of 6.3% in Apr-Jul'26 against 4% growth in during the same period last year, as manufacturing (7% against 4.3%) and electricity (8.7% against -0.8%) output gather pace in the same period.

Capital goods output outperforms: Within use-based classification, improvement was broadly concentrated towards capital goods, intermediate goods and consumer durables. Output of capital goods rose at a sharp double-digit pace of 16.1% in Jul'26 compared to 5.9% in Jul'25. On a cumulative basis (Apr-Jul'26), the run-rate of capital goods output is 15.4%. Intermediate goods output also rose at a sharp pace of 10% in Jul'26 compared to 3.5% in Jul'25. The pickup in output of both these sectors reflect a rising investment demand and pickup in industrial activity. However, infrastructure/construction goods output has showed some moderation to 6.9% in Jul’26 compared to 11.2% in Jul’25. There might be some seasonal impact of the same. However, on a cumulative basis, the run rate of infrastructure/construction goods is broadly retained at 7.1%. Consumer durables also fared well posting growth rate of 10.5% in Jul’26 compared to 3.9% in Jul’25. On a cumulative basis, the run-rate for consumer durables is far higher at 8.7% compared to same period of last year. Consumer non-durables are still showing some signs of stress.

Way forward: In the near term, we expect recovery in industrial production with a pickup expected in consumption demand and manufacturing sector. For consumption, the sowing activity is still on track. The actual area sown as percentage of normal area is at 97% as of 28 Aug 2026, only slightly lower than same period of previous year level of 98.7%. Hence the impact of erratic monsoon is yet not visible on production. Thus, we expect rural demand to support growth. Further consumer durables are on strong footing which speaks of sustained urban demand. Manufacturing activity is also expected to get support from sector-specific policy initiatives in place and India’s attempt to diversify its trade basket. However, the impact on margins of producers is likely to continue as the supply chain normalisation will take some time till the war situation between US and Iran resolves.

Table 1: IIP growth in Jul’26

Sectoral (%)	Weight	Jul-25	Jul-26	Apr-Jul’25	Apr-Jul’26
IIP	100.0	5.4	6.7	4.0	6.3
Mining	11.1	10.7	(0.9)	5.0	(1.1)
Manufacturing	76.1	5.1	7.3	4.3	7.0
Electricity	10.8	2.4	8.7	(0.8)	8.7
Water supply, sewage & waste management	2.0	7.5	7.4	8.1	6.9
Use-Based					
Primary Goods	31.1	4.8	4.1	2.2	3.3
Capital Goods	8.1	5.9	16.1	8.1	15.4
Intermediate Goods	22.4	3.5	10.0	4.6	9.4
Infrastructure and Construction Goods	10.9	11.2	6.9	7.4	7.1
Consumer Durables Goods	11.3	3.9	10.5	3.1	8.7
Consumer Non-Durables Goods	16.1	5.8	(1.0)	2.6	1.1

Source: PIB, Bank of Baroda Research

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