India's Industrial output Growth hits over Two -Year high of 7.8% in Dec'25

The **Index of Industrial Production (IIP)** is a monthly economic indicator that measures the performance of Industrial Sectors and indicates growth or decline in industrial production compared to a base year (Currently 2011-12). The index is a volume based measure which helps the government, economists, investors and analysts to gauge the health of the industrial sector.

The **new base year** for the Index of Industrial Production (IIP) will be updated to **2022-23**. This revised series is scheduled to be officially released by the Ministry of statistics and Programme implementation (MoSPI) on **28th May 2026 with manufacturing and electricity segments likely attracting higher weights while mining is likely to see a reduction**.

Industrial Production (IIP): India's Index of Industrial Production (IIP) recorded a robust year-on-year growth of **7.8% in December 2025** from **6.7% in November 2025**. The recovery was primarily driven by strong **manufacturing growth of 8.1%**, reflecting improved demand conditions, higher production of computer, electronic and optical products, and sustained momentum in the automobile sector.

Additionally, the **Mining sector rebounded to 6.8% growth** following the end of the monsoon season, supported by strong output of metallic minerals such as iron ore, which improved raw material availability for core industries.

Electricity output rose by 6.3% in Dec 2025, rebounding strongly from a decline of around **1.5% in Nov 2025.** This turnaround signals a recovery in power generation demand, contributing to the broader acceleration in industrial activity.

Overall IIP index: The **overall IIP index increased to 170.3 in December 2025**, compared to **158.0 in December 2024**, underscoring a clear expansion in industrial output. The sharp acceleration from the previous month highlights a broad-based revival in industrial activity, driven by improved manufacturing performance.

- **Sector-wise Growth**: (Growth over the corresponding period of previous year in %)

Sector	Jan'25	Feb'25	Mar'25	Apr'25	May'25	Jun'25	Jul'25	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25
Manufacturing	5.8	2.8	3.0	3.1	3.2	3.7	6.0	3.8	5.6	1.8	8.5	8.1
Mining	4.4	1.6	0.4	-0.2	-0.1	-8.7	-7.2	6.6	-0.4	-1.8	5.8	6.8
Electricity	2.4	3.6	6.3	1.7	-4.7	-1.2	3.7	4.1	3.1	-6.93	-1.5	6.3

Manufacturing: Manufacturing momentum was broad-based, with **16 out of 23 industry groups** recording positive growth. The key contributors within manufacturing were **basic metals (12.7%)**, **pharmaceuticals, medicinal chemical and botanical products (10.2%)**, **motor vehicles, trailers and semi-trailers (33.5%) & computer, electronic and optical products (34.9%).** This uptick was supported by significant gains in Electronics, Automotive and other transport equipment production, underscoring broad based industrial momentum.

Mining: The **mining sector grew by 6.8% from 5.8% in Nov 2025**, supported by rising demand for raw material from steel and infrastructure sector. The improvement in mining output, contributing to the broad based IIP expansion alongside manufacturing and electricity.

Electricity: The **electricity generation grew by 6.3%**, this growth reflects rising power demand, increased energy consumption linked to infrastructure and consumption projects, improved capacity utilisation in industrial units and stable fuel availability.

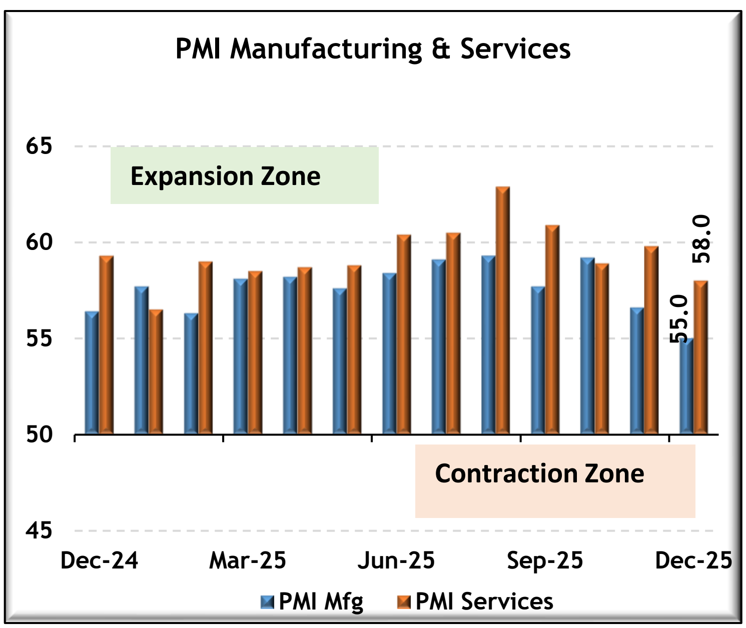
Sector Indices: Mining:153.0, Manufacturing:169.9 & Electricity:204.9 and overall IIP: 170.3.

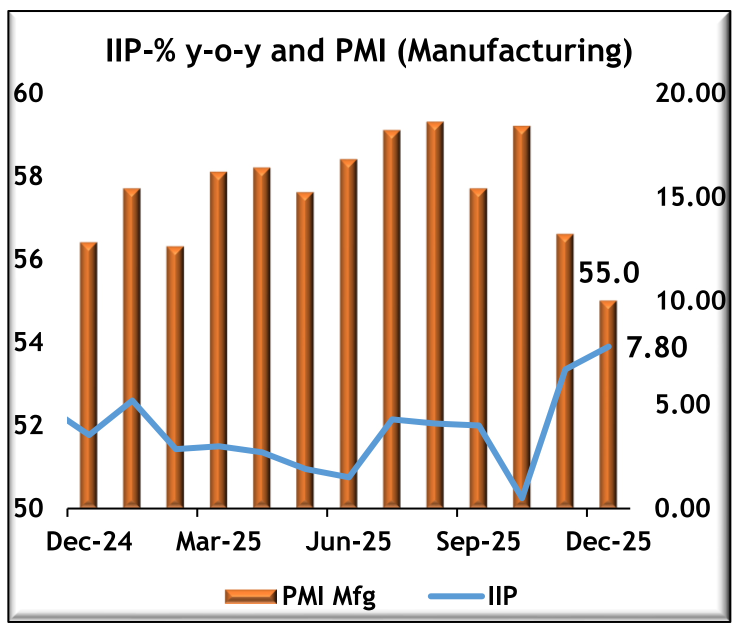
In Dec'25, as per the use-based classification, the data reveals that industrial growth was largely driven by consumer durables and infrastructure- related output. **Consumer Durable recorded the highest growth (12.3%)**, followed by **Infrastructure/ Construction goods (12.1%)**, indicating rising consumer confidence, better income prospects and continues infrastructure spending. **Intermediate goods (7.5%)** and **consumer non-durables (8.3%)** also contributed positively, reflecting stable supply-chain activity and resilient consumption demand. Growth in **capital goods (8.1%)** points to strengthening investment activity, while **primary goods (4.4%)** showed a relative expansion.

For December 2025, the PMI Manufacturing eased to **55.0**, showing slower factory growth from November's 56.6, Services PMI also eased to **58.0**, down from 59.8, indicating slower expansion in services, leading to moderation in **Composite PMI around 58.9 in Dec 2025 decreased from 59.7 in Nov 2025**, indicating a combined slowdown in both sectors though still in expansion territory.

A lower Purchasing Manager's Index (PMI) alongside growth in the Industrial production (IIP) occurred because they measure fundamentally different things, cover different sectors and use different time comparisons.

- **Different methodologies:** PMI reflects monthly sentiments of purchasing managers, whereas IIP measures the actual often lagged physical output of the industrial sector.
- **Timeframe Discrepancies:** PMI compares current data to the previous (month-on-month). IIP generally compares current data to the same month in previous year (Year-on-Year) which gets impacted by base effects.
- **Coverage:** PMI surveys a small panel of purchasing managers, often a larger, private sector companies. The IIP is more comprehensive, larger including public sector and various small industries.





IIP Growth is Lagging bank credit Growth

Growth (YoY %)	IIP growth	Gross Bank Credit to MSME sector YoY growth
Jan-25	5.2	8.0
Feb-25	2.7	7.1
Mar-25	3	7.8
Apr-25	2.6	6.6
May-25	1.9	4.8
Jun-25	1.5	5.5
Jul-25	4.3	6.0
Aug-25	4	6.5
Sep-25	4	7.3
Oct-25	0.4	10.0
Nov-25	7.2	9.6
Dec-25	7.8	NA

Source: RBI -Sectoral Deployment of Bank Credit

Observation:

Despite volatility in IIP growth during 2025, bank credit to industry remained relatively resilient, indicating that lending momentum was not fully aligned with near-term industrial activity. IIP growth weakened sharply during Apr–Jun 2025 (falling to 1.5% in June), yet industrial credit growth stayed in the 4.8–6.6% range, reflecting continued bank support to MSMEs and large industries even amid softer production.

From July onwards, both indicators showed improvement. IIP recovered to 4–4.3% during Jul-Sep, while industrial credit growth accelerated to 6–7.3%, suggesting improving demand conditions. A divergence emerged in Oct–Nov: although IIP dropped sharply to 0.4% in October, credit growth surged to double digits (10%), and remained strong at 9.6% in November, indicating that credit expansion was driven more by capex financing, working capital needs and earlier project sanctions rather than contemporaneous output.

The strong rebound in IIP to 7.2% in November and 7.8% in December reinforces expectations that earlier credit deployment is now translating into real activity, pointing to a positive lagged impact of bank lending on industrial growth.

Implications:

1. **Manufacturing-led recovery** indicates improved capacity utilisation and production ramp-up, even as new order growth moderated.
2. **Capex and Infrastructure Support, growth in capital goods (8.1%)** and infrastructure /construction goods signals revival in investment activity and faster execution of projects.
3. **Mining rebound Strengthens supply** enhances raw material availability, reducing constraints for metals, cements and other core industries.
4. **Energy output growth (6.3%)** reflects rising industrial power consumption, reinforcing the strength in production.
5. **Broad-based expansion across 16 out of 23 manufacturing industries** reflects resilience in industrial activity rather than growth driven by a few sectors.
6. **Improved performance of consumer durables and non-durables** suggests recovering consumption sentiment, supporting demand-driven industrial growth.
7. **Overall IIP acceleration from November** strengthens shows strong industrial momentum, but sectoral divergences and slower PMI readings highlights the need of careful monitoring of demand sustainability.
8. **MPC is unlikely to lower policy rates in the near terms** as the IIP growth, led by capital and consumer durables, signals improving demand and investment momentum, reducing the urgency of monetary easing.
9. **Future GDP growth is likely to strengthen** as rising manufacturing activity boosts value addition and employment, however mining may face a slowdown.

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