Economic Research Section 31 March 2026

Industrial Growth Gains Momentum: IIP Rises to 5.2% in February 2026

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 industrial performance recorded a gradual improvement in February 2026, with the Index of Industrial Production (IIP) expanding at **5.2% year-on-year**, compared to **5.1% in January 2026**. This indicates a slight pickup in momentum over the previous month. On a yearly basis, the index increased from **151.1 in February 2025 to 159.0 in February 2026**, reflecting a steady rise in production levels. The uptick in February compared to January suggests strengthening industrial performance, supported primarily by robust manufacturing activity.

Overall IIP Performance: The overall IIP growth in February 2026 reflects a broad-based expansion across sectors, supported by improved demand and steady economic activity. The rise in industrial output was underpinned by positive contributions from core sectors and use-based industries such as capital goods, infrastructure and intermediate goods, indicating strengthening investment activity and supply chain momentum. Despite some moderation in certain segments, the industrial sector maintained a stable growth trajectory, contributing to the overall economic expansion.

Sector-wise Growth:

(Growth over the corresponding period of previous year in %)

Sector	Feb'25	Mar'25	Apr'25	May'25	Jun'25	Jul'25	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26
Manufacturing	2.8	3.0	3.1	3.2	3.7	6.0	3.8	5.6	1.8	8.5	8.4	5.3	6.0
Mining	1.6	0.4	-0.2	-0.1	-8.7	-7.2	6.6	-0.4	-1.8	5.8	6.9	4.3	3.1
Electricity	3.6	6.3	1.7	-4.7	-1.2	3.7	4.1	3.1	-6.93	-1.5	6.3	5.1	2.3

Sector-Wise Performance Analysis

Sector Indices: Mining:146.3, Manufacturing:157.3 & Electricity:198.4 and overall IIP: 159.0

Manufacturing: The overall IIP growth in February 2026 was largely driven by the **manufacturing sector, which grew by 6.0%**, making it the key contributor to industrial expansion. Within manufacturing, strong performance in industries such as **basic metals (13.2%)**, **motor vehicles (14.9%)** and **machinery and equipment (10.2%)** significantly boosted output. **In terms of industrial performance, within manufacturing, 14 out of 23 industry groups recorded positive growth in February 2026.**

Mining: The mining sector registered a **3.1% growth** in February 2026, indicating moderate expansion compared to other sectors. The performance reflects steady extraction activity, supported by ongoing demand from core industries such as manufacturing and infrastructure. While growth remained relatively subdued, the sector continued to contribute positively to the overall industrial output.

Electricity: The electricity sector grew by **2.3% in February 2026**, showing a stable but relatively slower pace of expansion. The growth in electricity generation reflects consistent demand from industrial and domestic consumers. Although the increase was modest, it played a supportive role in sustaining overall industrial activity by ensuring adequate energy supply.

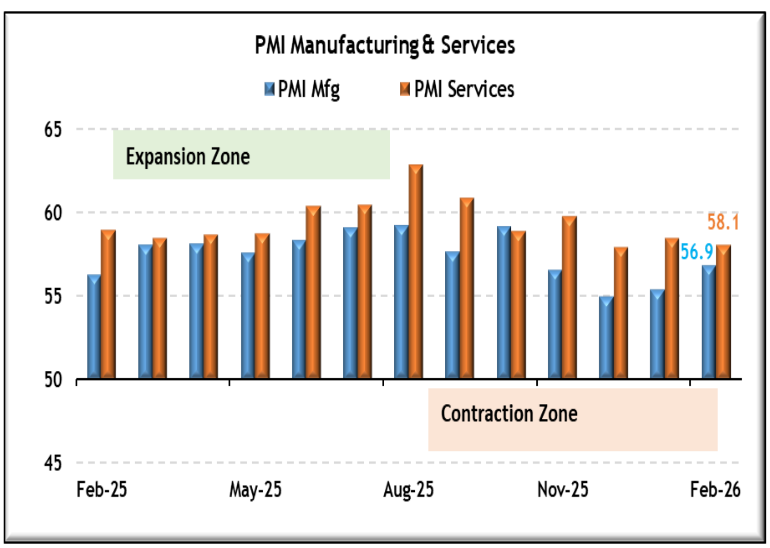
Use-Based Classification Analysis

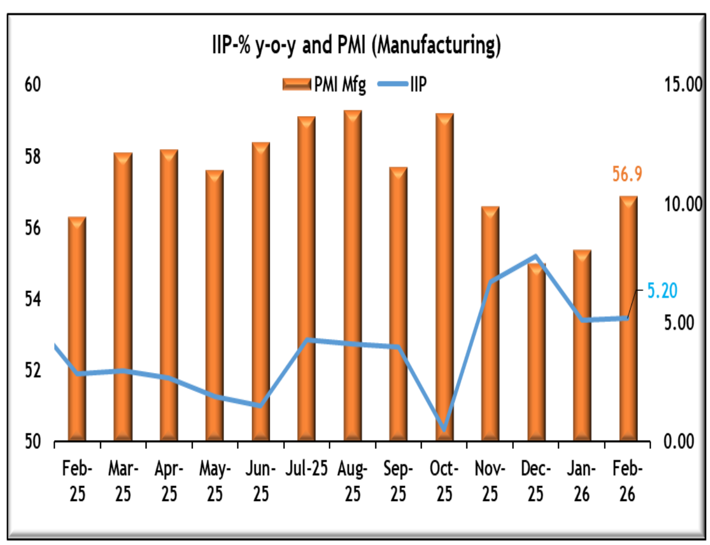
The use-based classification provides deeper insight into demand patterns across the economy.

As per the **use-based classification**, industrial growth in February 2026 was largely driven by investment and infrastructure-oriented segments. **Capital goods** recorded a strong growth of **12.5%**, reflecting a pickup in investment activity, while **infrastructure/construction goods** expanded by **11.2%**, indicating sustained momentum in core sector development. **Intermediate goods** grew by **7.7%**, pointing to improved industrial demand and supply chain activity. On the consumption side, **consumer durables** registered a growth of **7.3%**, suggesting stable discretionary demand, whereas **consumer non-durables** contracted marginally by **(-0.6%)**, highlighting some softness in essential consumption. Meanwhile, **primary goods** grew at a modest **1.8%**, indicating relatively slower expansion in basic goods production. Overall, the pattern suggests that industrial growth was primarily investment-led rather than consumption-driven.

India's manufacturing sector remained strong in February 2026, with the **HSBC Manufacturing PMI** rising to 56.9 from 55.4 in January, though revised down from the initial 57.5. This still marked a four-month high, indicating improved operating conditions. Output grew at the fastest pace in four months, supported by strong domestic demand and rising new orders, while export growth slowed to a 17-month low. Employment increased at the quickest rate in four months as firms responded to higher workloads. Input purchases and inventories rose at a three-month high, reflecting production needs and precautionary stocking. Input cost inflation stayed moderate and unchanged, while output prices rose faster than the long-term trend. Backlogs edged up to a seven-month high, and firms remained optimistic, with 16% expecting higher output over the next year.

The HSBC India Services PMI was revised slightly down to 58.1 in February 2026 from the initial 58.4, below January's 58.5 and forecasts of 58.6, but still indicating robust expansion. New order growth slowed to a 13-month low due to rising competition, while international sales grew at the fastest pace since last August. Firms increased hiring above the long-term trend, even as mild capacity pressures emerged with a second rise in backlogs. Input cost inflation surged to a two-and-a-half-year high, driven by higher food, energy, labour, and commodity costs, with output price inflation rising to a six-month high. Despite this, business confidence reached a one-year high as firms aimed to expand in existing and new markets.





IIP Growth Vs Bank Credit Growth Vs Core Industries Growth			
	IIP growth % (YoY)	Gross Bank Credit to Industry growth % (YoY)	Core industries growth % (YoY)
Feb-26	5.2	13.5	2.3
Jan-26	5.1	12.1	4.7
Dec-25	7.8	13.3	4.7
Nov-25	7.2	9.6	2.1
Oct-25	0.4	10	-0.1
Sep-25	4	7.3	3.3
Aug-25	4	6.5	6.5
Jul-25	4.3	6	3.7
Jun-25	1.5	5.5	2.2
May-25	1.9	4.8	1.2
Apr-25	2.6	6.6	1
Mar-25	3.0	7.8	4.5
Feb-25	2.7	7.1	3.4

Source: RBI & PIB

The data shows a clear divergence between industrial activity (IIP) and credit growth, with core industries acting as a volatile intermediary. Bank credit to industry has remained consistently strong, accelerating from 5–7% in mid-2025 to double-digit growth (12–13.5%) in recent months, indicating robust liquidity and lending appetite. However, IIP growth has not kept pace, fluctuating sharply peaking at 7-8% in Nov-Dec 2025 but moderating to 5% in Jan–Feb 2026—suggesting that higher credit is not fully translating into proportional industrial output yet.

Meanwhile, core industries show high volatility, moving from contraction (-0.1% in Oct-25) to moderate recovery but again softening to 2.3% in Feb-26, indicating uneven demand in key sectors like steel, cement, and energy. Overall, the trend reflects strong financial support to industry, but patchy transmission into real economic activity, with core sector inconsistency acting as a drag on sustained IIP acceleration.

Implications on Economy and Banking Sector:

The 5.2% YoY growth in IIP (up from 4.8% in January) signals a steady strengthening of industrial activity, with manufacturing (6.0%) acting as the primary growth driver. The fact that **14 out of 23 manufacturing industries recorded positive growth** reflects broad-based recovery, though not uniformly strong across all segments.

Strong growth in **capital goods (12.5%) and infrastructure/construction goods (11.2%)** indicates a revival in investment activity and continued government-led capex push. This is a positive signal for medium-term economic growth, suggesting capacity expansion and improved business confidence.

However, the contraction in **consumer non-durables (-0.6%)** points to lingering weakness in mass consumption, especially in rural or lower-income segments. This creates a mixed demand environment—investment demand is strong, but consumption recovery remains uneven.

Moderate growth in **primary goods (1.8%)** and **electricity (2.3%)** suggests that core sector momentum is stable but not accelerating sharply, which may cap the pace of industrial expansion in the near term.

Overall, the IIP data supports continued industrial credit growth with manageable risk levels.

For banks, the data is broadly positive, especially from a **credit growth perspective**:

- Strong growth in capital goods and infrastructure implies **higher demand for project financing**, benefiting corporate lending portfolios.
- Manufacturing expansion and rising inventories indicate **increased working capital requirements**, supporting short-term credit demand.
- Improvement in industrial activity reduces **stress in corporate balance sheets**, potentially lowering NPAs in sectors like metals, machinery and automobiles.

However, some caution remains:

- Weakness in consumer non-durables suggests **muted demand for retail loans in certain segments**, especially rural consumption-linked credit.
- Uneven sectoral growth (only 14/23 sectors positive) means **credit risk remains selective**, requiring banks to be cautious in exposure to weaker industries.
- If input cost pressures rise later, it could impact margins and repayment capacity of firms, indirectly affecting asset quality.

Overall, banks are likely to see **improved credit offtake, better asset quality trends and stronger corporate lending pipelines**, but with continued vigilance on consumption-linked and weaker industrial segments.

Global Risk Outlook (Geopolitical Developments)

The escalation of geopolitical tensions following the US–Iran-Israel conflict beginning late February 2026 introduces a key external risk to the industrial outlook. Potential volatility in crude oil prices, global supply chains and shipping routes could impact input costs for Indian industries, particularly in energy-intensive sectors such as metals, chemicals and transportation.

A sustained rise in crude prices may increase cost pressures for manufacturers, widen trade deficit and imported inflation and impact consumption indirectly via higher fuel prices
However, the extent of impact will depend on duration and intensity of the conflict. In the near term, India's industrial growth remains domestically driven, but prolonged geopolitical stress could moderate the pace of recovery.

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Economic Research Vertical

Dr. Madhavankutty G (Chief Economist), Jaya Kumari (Senior Manager)

For Suggestions and views please contact, Economic Research Vertical

080-2222 3169 (Chief Economist)
080-2227 3275 (Section)

chiefeconomist@canarabank.com
hoersection@canarabank.com