IIP GROWS 6.3% IN APRIL-JULY VERSUS 4% A YEAR AGO

# Investments spur industrial activity as demand falters

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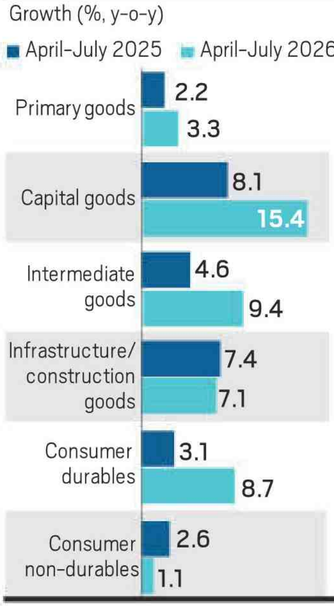
**INDUSTRIAL ACTIVITY IN** India is reviving in the current financial year despite global and geopolitical challenges, with the Index of Industrial Production (IIP) growth averaging 6.3% in the first four months of FY27, higher than 4% in the same period last year. At current pace, IIP growth is likely to be the highest since FY24.

However, a deeper dive shows that this recovery in industrial performance in increasingly led by investments and not consumption, which is likely to face more risks from deficient rainfall and El Nino, economists said.

IIP growth slowed down to 6.7% in July from a 27-month high of 8.8% in June. Manufacturing and electricity growth remained resilient in July despite a slowdown from previous month, while mining output contracted compared to a year ago.

"In our view, the July data point to an economy powered by one engine rather than two: capex is doing the pulling, while mass consumption stays subdued. The variable to watch from here is crude, and how geopolitical developments feed through to prices and, in turn, to demand," said Shashwat Singh, an analyst at Bajaj Broking.

## CONSUMPTION TRAILS




- The rebound is increasingly investment-led, with capital goods output jumping **16.1% in July** and **15.4% in April-July**
- Manufacturing grew **7.3%**, led by electrical equipment, machinery and other capital-intensive segments

Within manufacturing, which grew 7.3% in July, growth was led by capital-intensive subsectors such as electrical equipment, motor vehicles, other transport equipment, and machinery and equipment.

"The item-level detail supports this reading — switchgear and circuit-protection apparatus, UPS and solid-state drives, auto components, passenger and commercial vehicles, construction machinery, pumps of all types and turbines. To our mind, this is an investment- and infrastructure-facing mix rather than a household-demand one, and Capital Goods at 15.4% for April–July reinforces it," Singh said.

In terms of use-based classification, five of the six categories registered year-on-year growth barring consumer non-durables, where output contracted.

Capital goods grew 16.1% in July, the highest among the use-based categories, thanks to higher capital expenditure by government and the private sector, economists said. Infrastructure sector also reported strong growth at 6.9% while intermediate goods grew 10%.

"The July numbers show a widening gap in household spending. Consumer durables, the big-ticket items such as vehicles and appliances, grew 10.5%, while everyday goods such as food and toiletries fell 1%," said Rajeev Sharan, head of research at Brickwork Ratings. "This suggests discretionary and credit-linked purchases remain strong, while everyday items, more closely tied to rural incomes and real wages, remain weak. Headline IIP at 6.7% therefore overstates the breadth of the recovery," Sharan said.

Consumer durables output has grown 8.7% in April-July, continuing to be driven by reduction in Goods and Services Tax in September last year on large items such as vehicles.