

**Industrial Production in May'25 falls to 1.2% YoY, 9-month low**

- IIP growth declined to 1.2% YoY in May'25, from downwardly revised 2.6% in previous month, on contraction in mining and electricity. It was also lower than 6.3% in May'24, on broad-based weakness.
- The data was lower than our estimate of 2.4%, with lead indicators showing mild recovery in growth during the month. Weaker than expected performance in mining and manufacturing were the key drivers of negative data surprise.
- From a sectoral perspective, the improvement was led by manufacturing (2.6% vs. 3.1% in Apr'25). Meanwhile, electricity at -5.8% (1.7% in Apr'25) and mining were a drag at -0.1% (-0.2% in Apr'25).
- Within the manufacturing sector, 13 out of 23 industry groups have recorded a positive growth in May'25 over May'24. The top three positive contributors are basic metals (6.4%), machinery and equipment (11.8%) and other non-metallic products (6.9%). The major losers were chemical products, pharma, textiles, printing & reproduction of recorded media, and computer products.
- From a use-based classification perspective, capital goods and infra/construction goods showed strong momentum thereby driving IIP even as sequential fall was seen in primary goods, intermediate goods, and consumer durables.
- Capital goods IIP growth continued to show strong momentum at 14.1% in May'25 similar to previous month (14.0%) on high base effect (2.6% in May'24), as year 2024 saw lagged govt. spending during elections. Infrastructure and construction goods growth rose to 6.3% vs. 4.7% in Apr'25. This is likely led by sustained momentum in government spending on capex.
- However, weak growth in consumer demand continued to remain a drag, with consumer goods IIP slipping to negative growth of 1.7% YoY. Urban demand (proxied by durables) contracted in May by 0.7% (vs. 6.2% in Apr'25), after leading overall consumption demand for close to two years. Rural demand (proxied by non-durables) persisted in negative zone at -2.4%, for the fourth consecutive month, a cause for concern. Interestingly, as per RBI Bulletin, the outlook for the rural demand has improved as signaled by high frequency indicators and forward-looking surveys while urban demand is under pressure.
- With May'25 core sector growth coming in at a nine-month low, the IIP growth too was widely expected to be weak in May. Industrial production growth in May'25 is likely to have been adversely affected by the ongoing global trade and tariff uncertainty. Nearly 30-35% of weight in IIP is attributed to exports which is likely to come under pressure till some trade clarity is achieved. Further, due to the negative hit on sentiment, investment decisions are likely to be deferred and consumption (especially for discretionary goods). Hence, going forward, strengthening of industrial activity would therefore depend on how the tariff/trade negotiations would pan out and the resultant impact on manufacturing, export growth and private investment. Progress in much-touted US-India trade deal earlier widely speculated to close by first week of July remains on watch.

Fig 1: IIP slows in May'25; % y/y

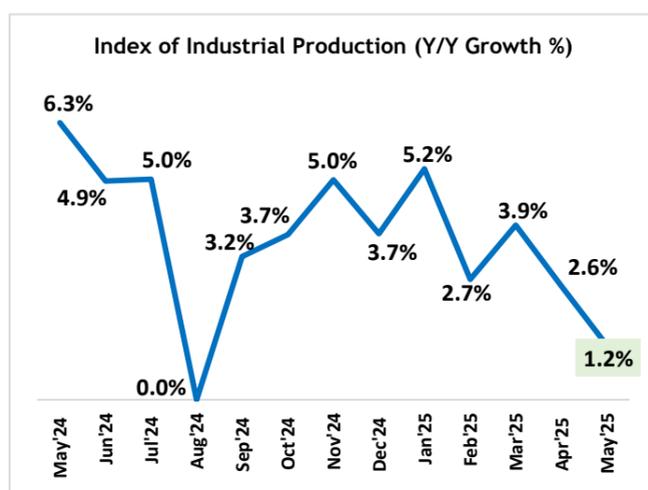


Fig 2: Manufacturing growth led May'25 IIP; % y/y

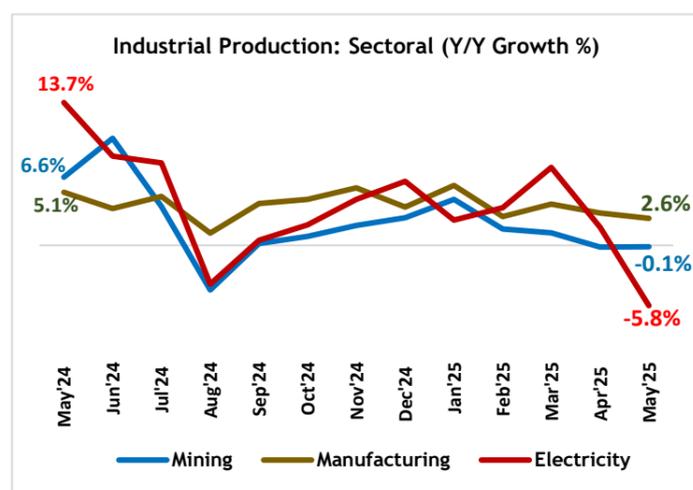


Fig 3: Consumption IIP remains a cause of concern while infra/capital goods support IIP; % y/y

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Mar'25	Apr'25	May'25
Mining	14.4	1.2%	-0.2%	-0.1%
Manufacturing	77.6	4.0%	3.1%	2.6%
Electricity	8.0	7.5%	1.7%	-5.8%
Industrial Production: Use-based				
Primary goods	34.0	3.9%	-0.2%	-1.9%
Capital goods	8.2	3.6%	14.0%	14.1%
Intermediate goods	17.2	3.8%	4.9%	3.5%
Infrastructure / Construction Goods	12.3	9.9%	4.7%	6.3%
Consumer durables	12.8	6.9%	6.2%	-0.7%
Consumer non-durables	15.3	-4.0%	-2.7%	-2.4%

Source: CEIC, UBI Research

By:

Kanika Pasricha  
[kanika.pasricha@unionbankofindia.bank](mailto:kanika.pasricha@unionbankofindia.bank)

Jovana Luke George  
[jovana.george@unionbankofindia.bank](mailto:jovana.george@unionbankofindia.bank)

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

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