29 July 2026

# India manufacturing

**Economics**
India

## On a front-loading high

- Renewed Middle East tensions and looming US Section 301 tariffs are driving another bout of inventory front-loading
- June industrial production surprised to the upside; output of select segments like electrical equipment, electronics and plastics strengthened in 2Q
- July PMI, too, points to the fastest finished-goods stock build-up since 2015, alongside rising input inventories; new export orders also picked up

**Renewed tensions in the Middle East** have once again prompted firms to build buffers to manage the uncertainties around the longevity of the supply-side shock. At the same time, there were worries around higher tariffs linked to the implementation of Section 301. The government of India estimates that about 55% of exports will attract the additional 10% duty (PIB, 25 July 2026). Back in April-May, manufacturers were building inventories to hedge against the risk of energy-input shortages. We're now seeing a similar front-loading dynamic in the recently released June industrial production and July Flash PMI data.

**June industrial production rose 7.3% y-o-y**, much higher than our above-consensus estimate of 6.3%. On a seasonally adjusted basis, the sequential momentum grew by 1.6% m-o-m sa after staying flat in May. The underlying growth momentum continues to look up, underscoring resilient industrial activity.

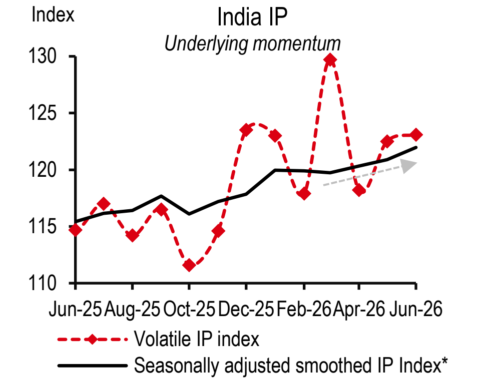
**Consumer goods grew while capital goods contracted** on a sequential basis. Within consumer goods, output of durables rose faster than non-durables, suggesting that front-loading was concentrated in categories where consumers may prefer to buy ahead of any meaningful retail price increases. A more granular industry breakdown also points to strength in select segments such as electrical equipment, electronics, non-metallic mineral products and plastic, where output rose by an average of c3.5% m-o-m sa in 2Q26.

**The July Flash PMI signalled a sharp rise in finished goods stocks** – the fastest rate of expansion since 2015 – reversing June's decline. Input inventories, too, increased alongside a pick-up in purchasing volumes. New export orders also picked up ahead of US tariff implementation, even as overall manufacturing growth eased slightly.

**The big question for 2H**. With a possible pivot from resilient manufacturing (c20% of GDP) to uncertain agriculture (c20% of GDP), where could growth come from? We look at the remaining 55% of GDP – services. What could help? A possible pullback in oil prices towards pre-war levels should help lift the trade and transport sector (which makes up c15% of GDP). Easier financial conditions on the back of the FX package could help lubricate the financial sector (which makes up c25% of GDP). Even before the package induced capital inflows have started in earnest, yields across a variety of instruments have eased.

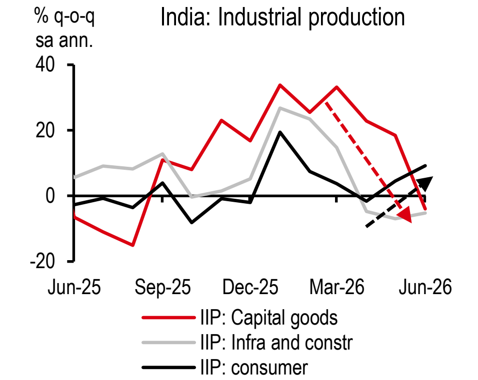
HSBC

**1. Underlying momentum of industrial production continues to look up**



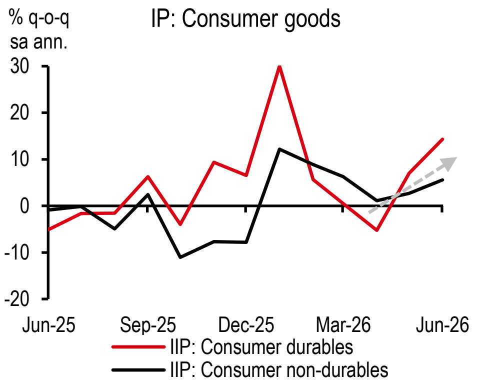

Source: CEIC, HSBC. *The original IP Index is very volatile. To read through the noise, we first seasonally adjust the series and then take a 3-month moving average

**2. Consumer goods grew while capital goods contracted**



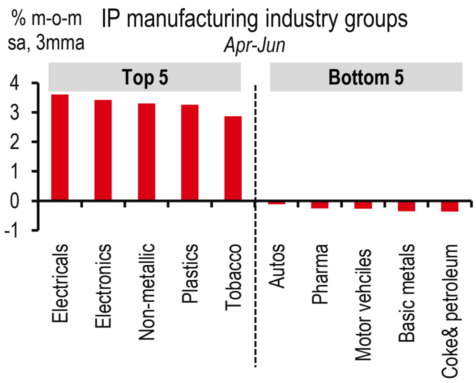

Source: CEIC, HSBC

**3. Within consumer goods, output of durables rose faster than non-durables**



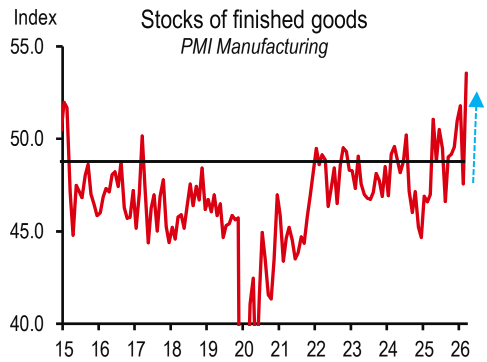

Source: CEIC, HSBC

**4. Granular industry breakdown also points to strength in select segments**



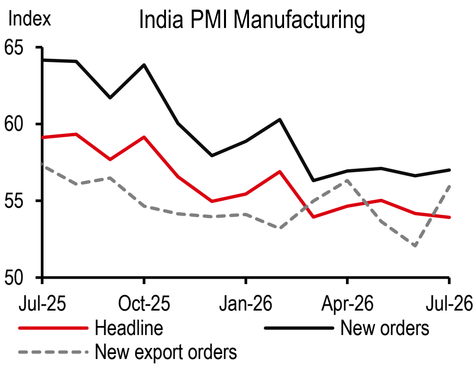

Source: CEIC, HSBC

**5. Finished goods stocks recorded the fastest rate of expansion since 2015**




Source: S&P Global PMI, HSBC

**6. Output and new export orders rose, even as overall manufacturing growth eased slightly**




Source: S&P Global PMI, HSBC

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