ECONOMY: AS WE SEE IT

June 2026| Volume No. 23

Deciphering Monthly Economic Trends

Confederation of Indian Industry

RESEARCH

This report has been prepared by the CII Economic Research team

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INTRODUCTION

Dear Readers,

The twenty-third issue of '**ECONOMY: AS WE SEE IT'** comes at a time when the domestic growth is doing well even as the external landscape was turning increasingly unfavourable. The monthly document captures the underlying trends in the key high-frequency indicators spanning across heads such as Production, Demand, Prices, Financial sector, External, Fiscal and under Miscellaneous.

Often the high-frequency indicators display varying trends, making it difficult to decipher any meaningful trends pertaining to the economic performance at large. To preclude this problem, we have developed **CII Economic Activity Index (CII-EAI)** which serves as a tool for assessing the overall state of the economy by synthesizing information from **27 high-frequency economic indicators**, thereby providing an immediate assessment of the current economic performance. The index has been constructed by employing robust econometric technique and passes the necessary sensitivity tests. The detailed Methodology and list of Indicators used have been captured in the Annexure.

On the global front, uncertainties in West Asia continue to govern trade and logistics, particularly through the Strait of Hormuz, which accounts for over 25 per cent of the world's seaborne oil trade transiting through the strait with very limited alternative routes. This is having repercussions on the oil prices, global trade, inflation, consumption etc. Oil prices have remained volatile, oscillating between US$80-100 per barrel. Oil-importing economies, like India, are particularly vulnerable, as rising import bills widen trade deficits and exert pressure on current account balances. However, a lasting peace deal between US and Iran over the next sixty days could bring some stability to the situation and ease pressures as is also evident from Indian basket of crude oil dipping below US$75/barrel since the announcement of the truce.

On the domestic front, while India continues to benefit from relatively stable macroeconomic fundamentals, domestic demand is facing pressures and there has been an uptick in inflation. The near-term outlook remains uncertain due to global headwinds, particularly the ongoing West Asia conflict and rising energy prices, as well as lower monsoon rainfall outlook due to the El-Nino effect. Given India's heavy dependence on crude oil imports, elevated global oil prices may significantly increase the import bill, while a dampened monsoon can significantly impact agricultural output. India continues to be in a stable position to withstand the headwinds, but a lasting peace deal will significantly improve the outlook going forward.

Synthesizing the varied trends observed in the 27 high-frequency indicators we track, the **CII-Economic Activity Index (CII-EAI) moved up sharply to 126.6 in May 2026 from a revised 118.5 a month earlier, moving near its long-term average of 118.6**

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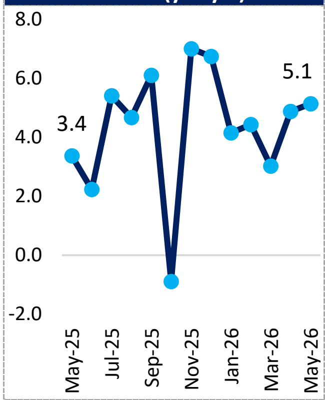
I. TREND ACROSS KEY HEADS

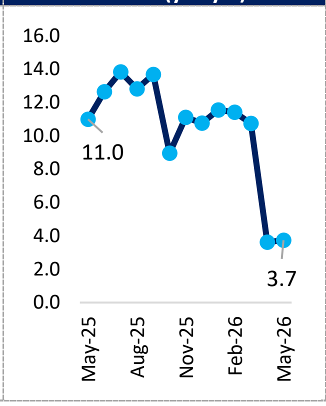
(A). PRODUCTION

Index of Industrial Production (IIP) growth stood at 5.1 per cent (quick estimates) on year-on-year (y-o-y) basis in May 2026, quickening from 4.9 per cent in April 2026 (output PPI used as weights instead of WPI, base at 2022-23). The growth was primarily driven by the manufacturing sector, which grew at 5.5 per cent and accounts for approximately 76 per cent weightage in the IIP. Crude steel output improved slightly to 3.7 per cent in May 2026, from 3.6 per cent last month. Power supply growth increased sharply to 11.2 per cent in May 2026, from 2.9 per cent in April. Looking ahead, growth in industrial production is expected to remain uncertain in the coming months due to the West Asia conflict.

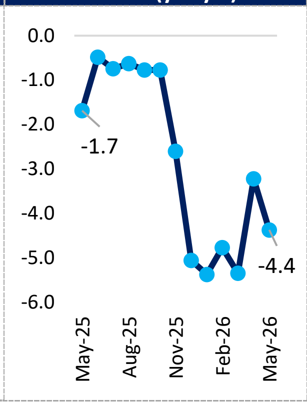
Industrial Production Growth (y-o-y%)



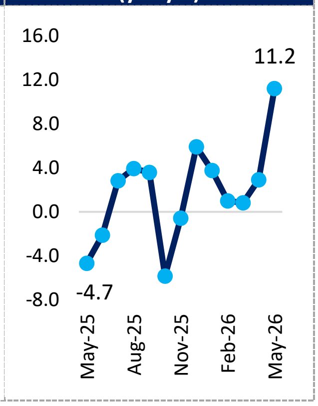
Crude Steel Production Growth (y-o-y%)



Crude Oil Production Growth (y-o-y%)



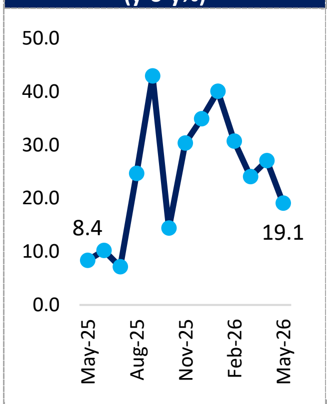
Power Supply Growth (y-o-y%)



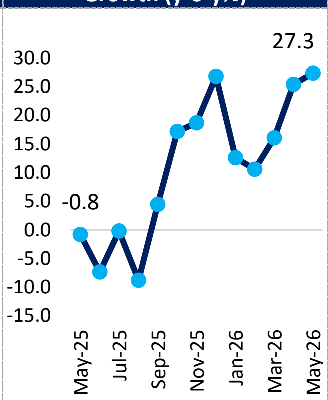
(B). DEMAND

Demand conditions showed ambiguity in May 2026. Rural demand, a key driver of domestic consumption, showed moderation, as reflected in farm tractor sales, slowing to 19.1 per cent in May 2026 from 27.1 per cent in April 2026. Growth in two-wheeler sales also moderated to 14.9 per cent. Urban demand accelerated, with passenger vehicle sales growth further accelerating to 27.3 per cent in May 2026, from 25.4 per cent in April 2026. Further, power demand growth accelerated to 11.2 per cent in May 2026, compared to 3.0 per cent in April.

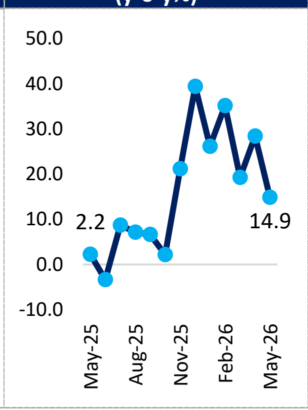
Farm Tractor Sales Growth (y-o-y%)



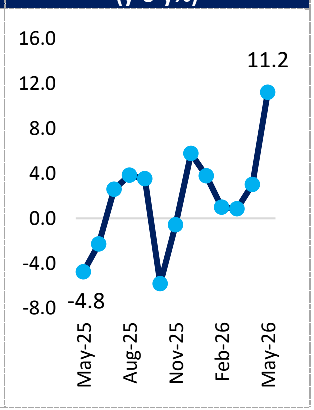
Passenger Vehicle Sales Growth (y-o-y%)



Two-wheeler Sales Growth (y-o-y%)



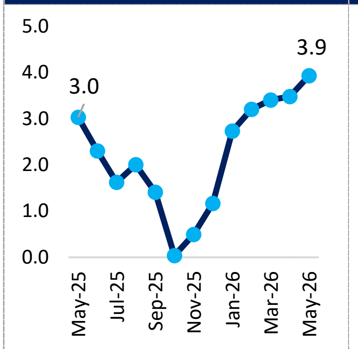
Power Demand Growth (y-o-y%)



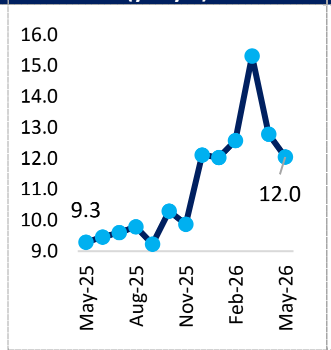
(C). MONETARY & FINANCIAL MARKETS

CPI inflation quickened to 3.9 per cent on a year-on-year basis in May 2026 from 3.5 per cent in April 2026, on higher food inflation as Consumer Food Price Index increased to 4.78 per cent in May 2026. Core inflation increased to 3.9 per cent, indicating the heightened underlying price pressures, particularly due to rising energy prices arising from the disruptions due to the West Asia crisis. Looking ahead, continued pressure on oil & gas prices may pose upside risks to inflation in the coming months as consumer fuel prices are hiked. Liquidity conditions remain stable, with M3 growth slightly moderating to 12.0 per cent in May 2026 from 12.8 per cent in April 2026. Due to the ongoing West Asia crisis, financial markets remain volatile, with the Nifty 50 index contracting by 4.9 per cent during May 2026.

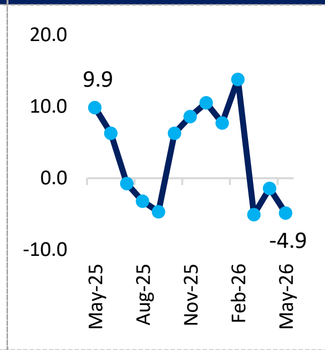
CPI Inflation (y-o-y%)



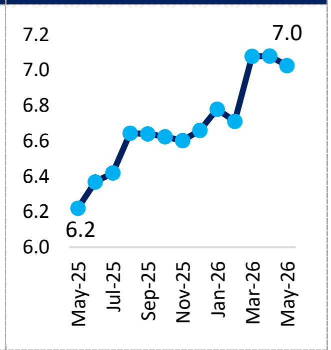
Money Supply M3 Growth (y-o-y%)



Nifty 50 Index (y-o-y%)



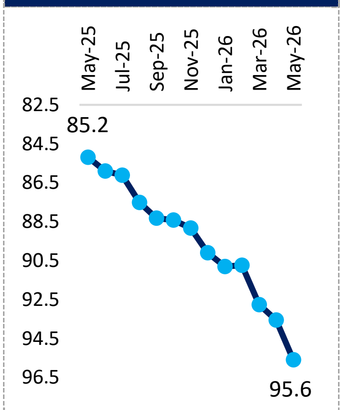
10-year G-sec Yield (%)



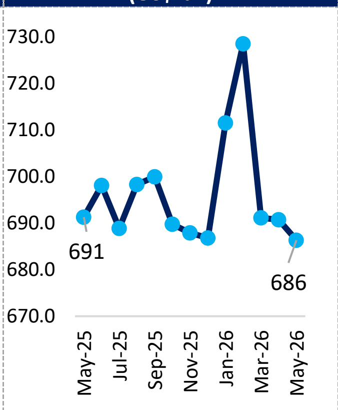
(D). EXTERNAL

Indian Rupee averaged Rs 93.6/US$ in April 2026 and weakened to an average of Rs 95.6/US$ in May 2026 from 85.2 in May 2025. The continued weakness of the rupee reflects cautious foreign investor sentiment amid portfolio outflows. Foreign exchange reserves stabilised at around US$686 billion at end-May 2026. On the trade front, total exports accelerated by 15.8 per cent in May 2026, while total imports grew by 19.2 per cent. The overall increase in exports was likely driven by an increase in prices, and efforts by Indian exporters to diversify their export markets amid the West Asia crisis. Going forward, the crisis could continue to disrupt key maritime routes, raise freight costs, insurance premiums and transit times.

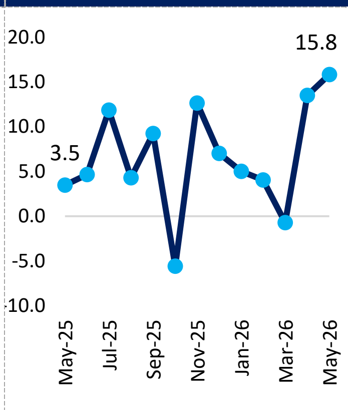
Foreign Exchange Rate ($/Rs)



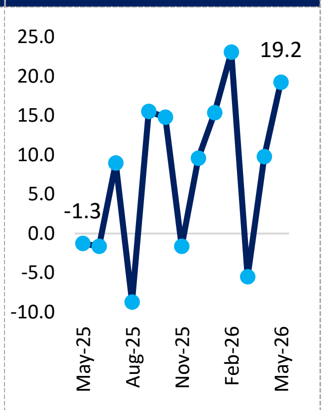
Foreign Exchange Reserves (US$ bn)



Total Exports Growth (y-o-y%)



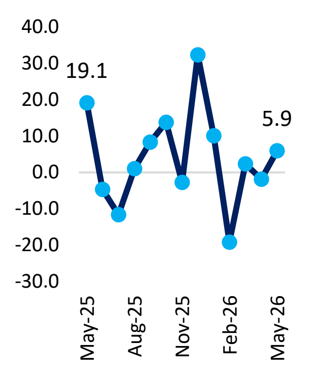
Total Imports (y-o-y%)



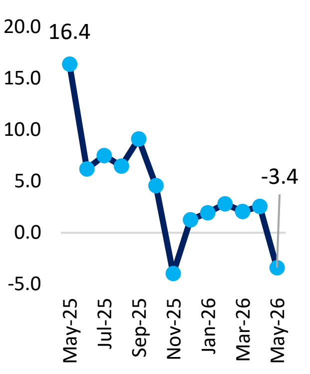
(E). FISCAL

Gross tax revenue growth slightly improved to 5.9 per cent in May 2026, compared to the earlier contraction of 1.9 per cent in April 2026. Gross GST revenue growth contracted by 3.4 per cent in May 2026 from a growth of 2.6 per cent in April 2026, due to a moderation in domestic sales. On the expenditure side, capital expenditure by the Central government contracted by 0.6 per cent in May 2026, compared to a growth of 18.8 per cent in April 2026, reflecting the government's subdued momentum in the infrastructure sector. State government capital expenditure also contracted in May 2026.

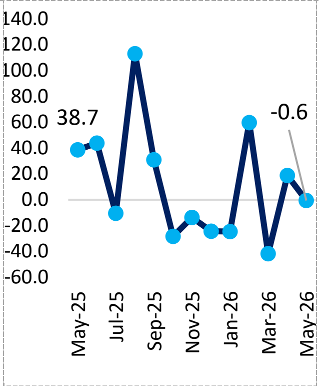
Gross Tax Revenue Growth (y-o-y%)



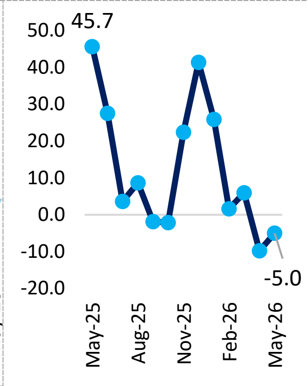
Gross GST Revenue Growth (y-o-y%)



Central Govt Capex Growth (y-o-y%)



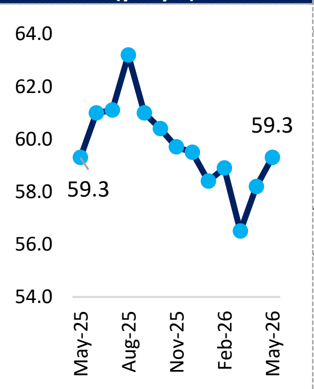
State Govt Capex Growth (y-o-y%)



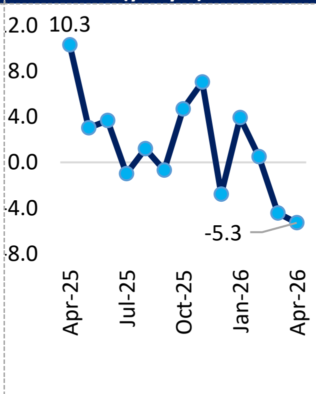
(F). MISCELLANEOUS

Composite PMI remained in expansionary zone at 59.3 in May 2026, signalling continued strength in manufacturing and services. Air passenger traffic growth has been volatile, and contracted by 5.3 per cent in April 2026, signalling decline in travel demand. Port cargo traffic increased to 4.6 per cent in May 2026, compared to 2.5 per cent in April 2026. Bank credit growth increased to 17.7 per cent during May 2026, compared to 16.4 per cent in April 2026, indicating continued support to economic activity and demand.

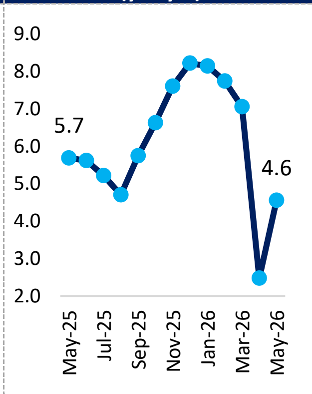
Composite PMI (y-o-y%)



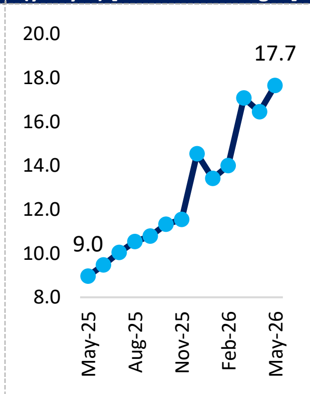
Air Passenger Traffic Growth (y-o-y%)



Port Cargo Traffic Growth (y-o-y%)

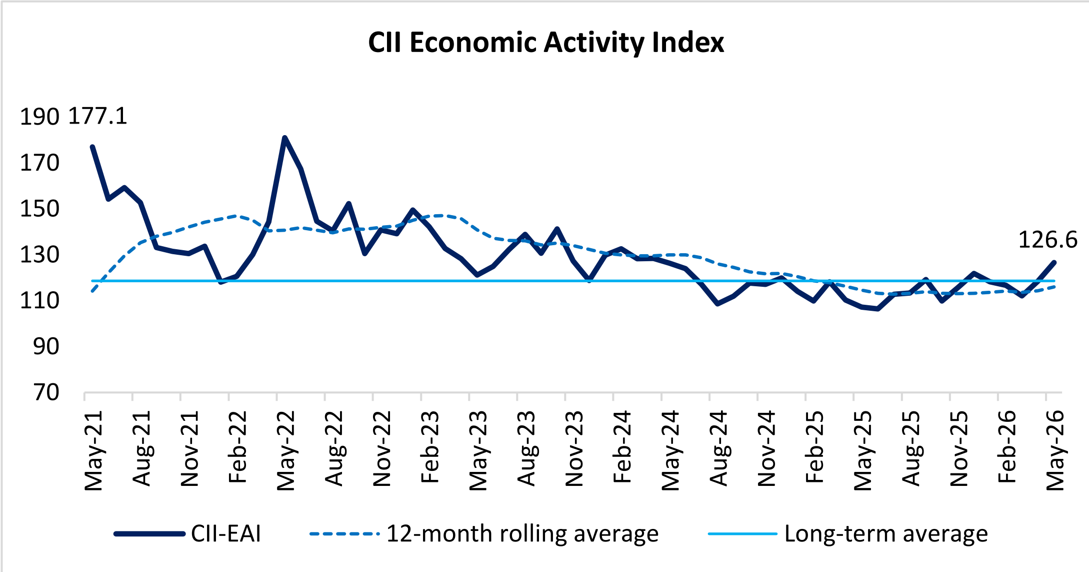


Bank Credit Growth (y-o-y%) [Incl HDFC merger]



II. CII ECONOMIC ACTIVITY INDEX (CII-EAI)

OVERVIEW OF THE INDEX



Note: Long term average is the average value of the index starting from Apr-12 when it has been constructed

HIGHLIGHTS:

- The CII-Economic Activity Index (CII-EAI) moved up sharply to 126.6 in May 2026 as compared to 118.5 in the previous month, much above its long-term average of 118.6, mirroring the strong macro fundamentals of the Indian economy despite external headwinds.

- Industrial production, as measured by the revised Index of Industrial Production (IIP) series, continued to accelerate to 5.1 per cent in May from 4.9 per cent in April 2026, driven by stronger growth in manufacturing and electricity production.

- Domestic demand has continued to remain resilient, as evident in healthy PV sales, retail credit, electricity demand, despite headwinds from the West Asia conflict.

- Retail inflation moved up to 3.9 per cent in May 2026 as compared with previous month's print of 3.5 per cent on higher food inflation.

- The external sector has also shown resilience with double-digit growth in both good and services exports in May, while goods imports also held up well at around 20 per cent during the month, indicating healthy domestic demand.

Note: From August 2025, the CII-EAI has been expanded to include six additional variables: Central Government Capital Expenditure, State Government Capital Expenditure, Gross GST Revenue, Composite PMI, Manufacturing PMI, and Services PMI

III. METHODOLOGY FOR CONSTRUCTION OF CII-EAI

1. **Data:** The CII-EAI is constructed using a set of **27 high frequency economic indicators**, categorized into broad groups, including production, demand, monetary, prices, financial, external, fiscal and miscellaneous, to capture the various dimensions of the economic performance. The dataset spans from **April 2012 to May 2026 at monthly frequency**. To address potential inconsistencies due to missing or delayed data for some indicators, forecasts are generated using Auto-regressive Integrated Moving Average (ARIMA) model.
2. **Data Sources:** The data for the various indicators have been compiled from the various sources such as Ministry of Statistics and Programme Implementation (MoSPI), Joint Plant Committee (JPC), Society of Indian Automobile Manufacturers (SIAM), Tractor and Mechanization Association (TMA), Reserve Bank of India (RBI), The Clearing Corporation of India Limited (CCIL), Controller General of Accounts (CGA), Comptroller and Auditor General of India (CAG), Goods and Services Tax Network (GSTN), Ministry of Commerce & Industry, Airport Authority of India (AAI), India Meteorological Department (IMD), Indian Ports Association, National Stock Exchange (NSE) and S&P Global. New base series of CPI and IIP has been used.
3. **Methodology:** The EAI is constructed using **Principal Component Analysis (PCA),** a statistical technique that reduces dimensionality of a complex dataset while retaining the most significant variance. It allows summarizing a large set of correlated variables into a set of unobserved uncorrelated components, each of which is a linear combination of original variables. To estimate EAI, following steps are performed:
    i. The variables are seasonally adjusted using Census X-13 procedure to remove seasonal effects, ensuring that the index reflects underlying trends rather than seasonal variations.
    ii. Monthly growth rates of seasonally adjusted series are computed by estimating annual percentage changes.
    iii. Outliers, if any, are replaced with largest/smallest value in the data (excluding outlier) using winsorization method. For variables with missing data for the recent month(s), forecasts are generated using ARIMA model.
    iv. Each indicator is standardized to have mean 0 and variance 1. This ensures that all indicators have the same scale, preventing any single variable from disproportionately influencing the results due to its scale or variance.
    v. Principal Components Analysis is performed to obtain unobserved factors. The first k factors whose eigenvalues (i.e., amount of variance explained by the component) are greater than 1 and that cumulatively explain more than 70 per cent of the total variation in the dataset are chosen.
    vi. The selected principal components are combined to form the Economic Activity Index. Specifically, this composite index is constructed by taking a weighted sum of the chosen factors, where weights are the proportion of variance of each factor in total variance.

4. Results: The PCA analysis identified a total of 7 principal components that together explain more than 75 per cent of the cumulative variation in the dataset. The EAI is constructed by taking a weighted sum of the principal components, with the variation explained by each component serving as weights.

	Variation Explained (%)	Cumulative Variation Explained (%)
PC 1	23.1	23.1
PC 2	12.5	35.6
PC 3	12.4	48.0
PC 4	7.9	55.9
PC 5	5.3	61.2
PC 6	7.0	68.2
PC 7	6.2	74.4

The index, thus formed, is normalized and rescaled for easier interpretation. Values of the EAI above the long-term average indicate stronger economic performance, suggesting a period of robust economic activity. Conversely, values below the long-term average reflect weaker economic performance, indicating contraction in economic activity.

4. List of variables considered for constructing CII-EAI

Category	Variable	Source
Production	Industrial Production Index	MoSPI
	Crude Steel Production	Joint Plant Committee
	Crude Oil Production	Ministry of Petroleum and Natural Gas
	Power Supply	Central Electricity Authority
Demand	Farm Tractor Sales	Tractor and Mechanization Association [TMA]
	Passenger Vehicle Sales	Society of Indian Automobile Manufacturers [SIAM]
	Power Demand	Central Electricity Authority
	Two-Wheeler Sales	Society of Indian Automobile Manufacturers
Monetary and Prices	Consumer Price Index	Reserve Bank of India
	Money Supply M3	Reserve Bank of India
	Repo Rate	Reserve Bank of India
Financial Market	Nifty 50 Index	Exchange Data International Limited
	10-year Government Securities Yield	The Clearing Corporation of India Limited [CCIL]
External	Foreign Exchange Rate	Reserve Bank of India
	Foreign Exchange Reserves	Reserve Bank of India
	Total Exports	Ministry of Commerce and Industry
	Total Imports	Ministry of Commerce and Industry
Fiscal	Gross Tax Revenue	Controller General of Accounts (CGA)
	Gross GST Revenue	Goods and Services Tax Network (GSTN)
	Central Government Capex	Controller General of Accounts (CGA)
	State Government Capex	Comptroller and Auditor General of India
Miscellaneous	Composite PMI	S&P Global
	Manufacturing PMI	S&P Global
	Services PMI	S&P Global
	Air Passenger Traffic	Airports Authority of India
	Port Cargo Traffic	Indian Ports Association
	Scheduled Commercial Bank Credit	Reserve Bank of India

NOTES

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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society through advisory and consultative processes.

For more than 130 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. With its extensive network across the country and the world, CII serves as a reference point for Indian industry and the international business community.

In the journey of India's economic resurgence, CII facilitates the multifaceted contributions of the Indian Industry, charting a path towards a prosperous and sustainable future. With this backdrop, CII has identified "Accelerating Competitiveness: Growth, Resilience, Inclusion, Sustainability, Trust" as its theme for 2026-27, prioritising five key pillars. During the year, CII will align its policy advocacy, institutional initiatives, partnerships, and outreach to support Indian industry in strengthening these five interconnected pillars of competitiveness.

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CII Research is an Industry think-tank providing thought leadership on strategic economic and industry issues critical to national growth and development. Drawing on a deep reservoir of industry leaders and industry associations spanning all sectors and present across the country, CII Research originates analytical reports in consultation with stakeholders. Based on strategic perceptions and data, these in-depth insights suggest specific policies and action plans that would enhance the role of Indian industry in nation-building.

CONFEDERATION OF INDIAN INDUSTRY

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