# ECONOMY: AS WE SEE IT

May 2026| Volume No. 22

## 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-second issue of '**ECONOMY: AS WE SEE IT'** comes at a time when the domestic growth was 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, escalating tensions in West Asia continue to disrupt 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 turned volatile, oscillating between US$100-120 per barrel. Elevated oil prices have raised transportation and logistics costs, making global trade more expensive and potentially dampening trade volumes. Oil-importing economies, like India, are particularly vulnerable, as rising import bills widen trade deficits and exert pressure on current account balances.

On the domestic front, while India continues to benefit from relatively robust macroeconomic fundamentals such as strong domestic demand and rising but contained inflation, the near-term outlook remains uncertain due to global headwinds, particularly the ongoing West Asia conflict and associated energy disruptions. Given India's heavy dependence on crude oil imports, elevated global oil prices may significantly increase the import bill, widen the trade deficit and put pressure on the current account. India continues to be in a stable position to withstand the headwinds, but a prolonged crisis could increase vulnerabilities.

Synthesizing the varied trends observed in the 27 high-frequency indicators we track, the **CII-Economic Activity Index (CII-EAI) moved up to 118.4 in April 2026 from a revised 111.6 a month earlier, moving near its long-term average of 118.5**

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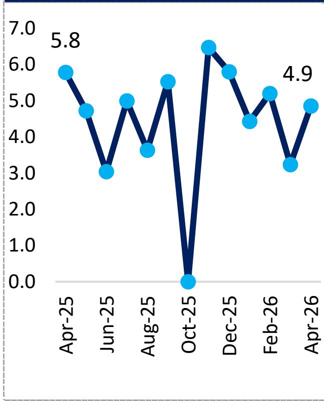
# I. TREND ACROSS KEY HEADS

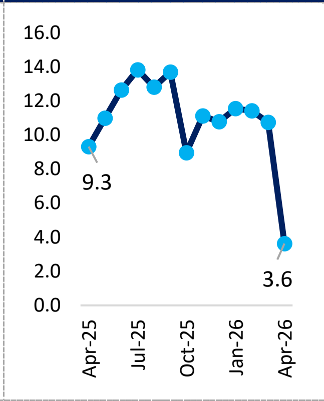
## (A). PRODUCTION

Index of Industrial Production (IIP) growth stood at 4.9 per cent (quick estimates) on year-on-year (y-o-y) basis in April 2026, quickening from 3.2 per cent in March 2026 (the base year was revised from 2011-12 to 2022-23). The growth was primarily driven by the manufacturing sector, which grew at 6.2 per cent and accounts for approximately 76 per cent weightage in the IIP. Crude steel output slowed to 3.6 per cent in April 2026, from 10.7 per cent last month. Power supply growth improved to 3.5 per cent in April 2026. Looking ahead, growth in industrial production is expected to remain uncertain in the coming months due to the West Asia conflict.

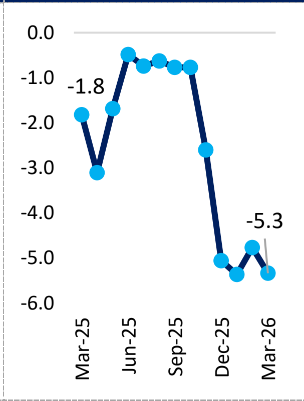
**Industrial Production Growth (y-o-y%)**



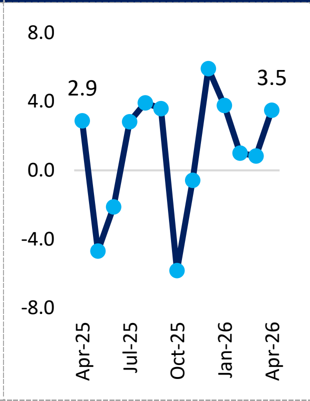

**Crude Steel Production Growth (y-o-y%)**




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



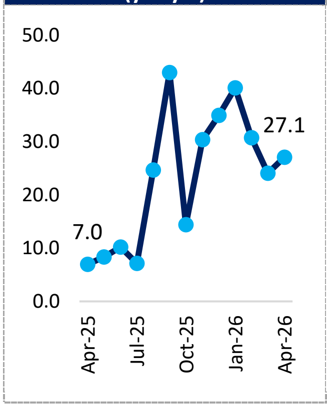

**Power Supply Growth (y-o-y%)**



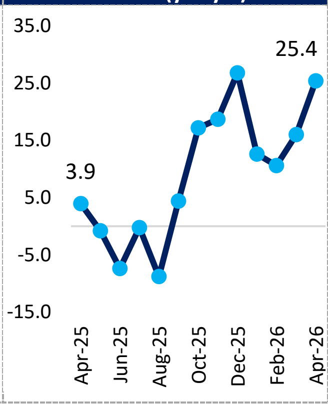

## (B). DEMAND

Demand conditions showed significant improvement in April 2026. Rural demand, a key driver of domestic consumption, showed an uptick, as reflected in farm tractor sales, with growth rising to 27.1 per cent in April 2026 from 24.0 per cent in March 2026. Moreover, growth in two-wheeler sales also increased in April 2026 to 28.4 per cent. Urban demand accelerated, with passenger vehicle sales growth increasing to 25.4 per cent in April 2026, from 16 per cent in March 2026. Further, power demand growth showed an uptick to 3.7 per cent in April 2026.

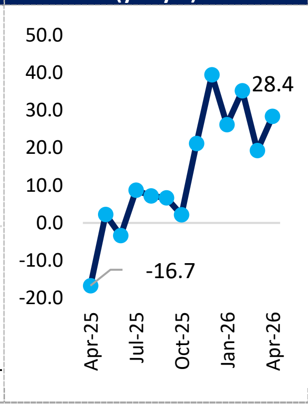
**Farm Tractor Sales Growth (y-o-y%)**



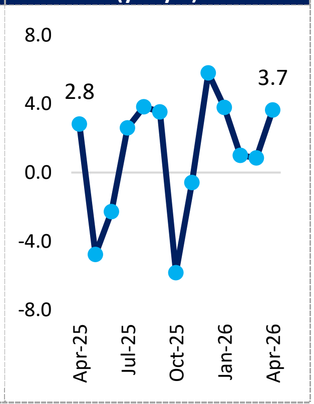

**Passenger Vehicle Sales Growth (y-o-y%)**




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



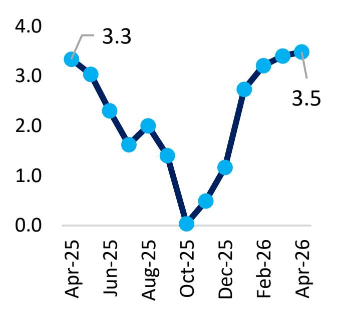

**Power Demand Growth (y-o-y%)**



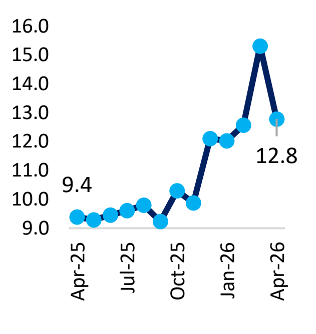
## (C). MONETARY & FINANCIAL MARKETS

CPI inflation quickened to 3.5 per cent on a year-on-year basis in April 2026 from 3.4 per cent in March 2026, on higher food inflation as Consumer Food Price Index increased to 4.2 per cent in April 2026. Core inflation remained stable at 3.4 per cent, indicating that underlying demand price pressures remain moderate. 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 12.8 per cent in April 2026 from 15.3 per cent in March 2026. Due to the ongoing West Asia crisis, financial markets remain volatile, with the Nifty 50 index contracting by 1.4 per cent during April 2026.

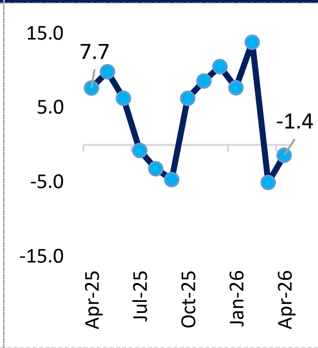
**CPI Inflation (y-o-y%)**



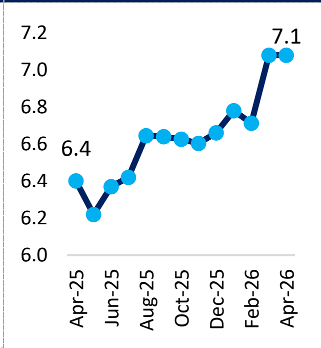

**Money Supply M3 Growth (y-o-y%)**




**Nifty 50 Index (y-o-y%)**



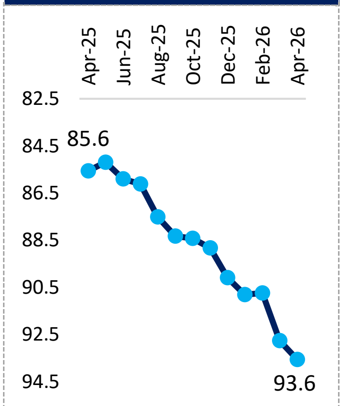

**10-year G-sec Yield (%)**



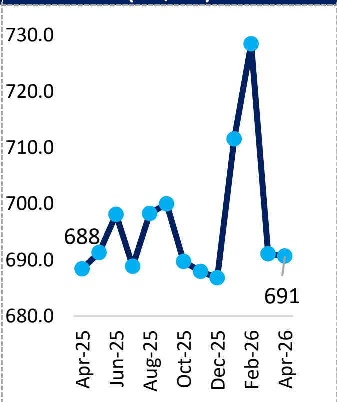

## (D). EXTERNAL

Indian Rupee averaged Rs 93.6/US$ in April 2026, weakening to Rs 95.24/US$ by end-April 2026 from 85.6 in April 2025. The continued weakness of the rupee reflects cautious foreign investor sentiment amid portfolio outflow and rise in trade deficit due to increase in oil prices. Foreign exchange reserves stabilised at around US$691 billion at end-April 2026. On the trade front, total exports accelerated by 13.3 per cent, while total imports grew by 9.8 per cent in April 2026. 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.

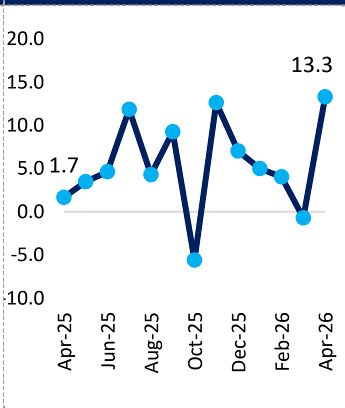
**Foreign Exchange Rate ($/Rs)**



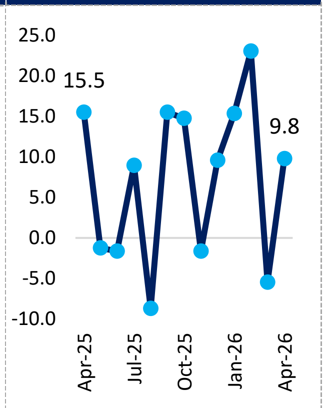

**Foreign Exchange Reserves (US$ bn)**




**Total Exports Growth (y-o-y%)**



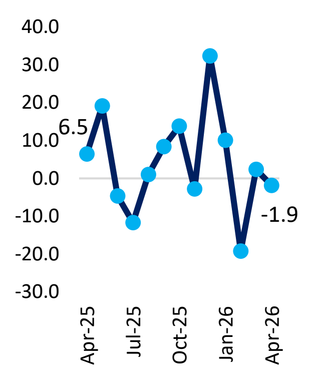

**Total Imports (y-o-y%)**



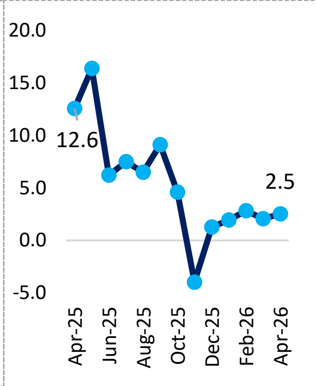
## (E). FISCAL

Gross tax revenue growth declined to 1.9 per cent in April 2026 from 2.3 per cent in March 2026. Gross GST revenue growth increased to 2.5 per cent in April 2026 from 2.1 per cent in March 2026, due to increase in domestic sales. On the expenditure side, capital expenditure by the Central government increased to 18.8 per cent in April 2026, reflecting the government's continued momentum in the infrastructure sector.

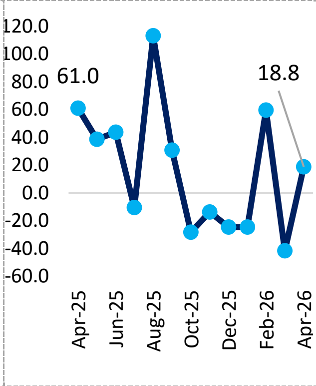
**Gross Tax Revenue Growth (y-o-y%)**



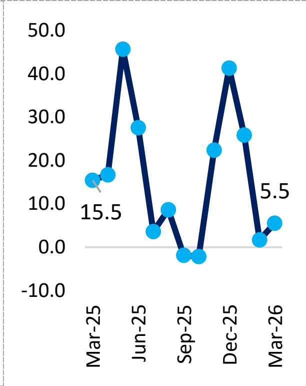

**Gross GST Revenue Growth (y-o-y%)**




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



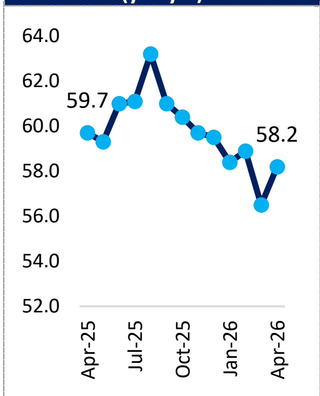

**State Govt Capex Growth (y-o-y%)**



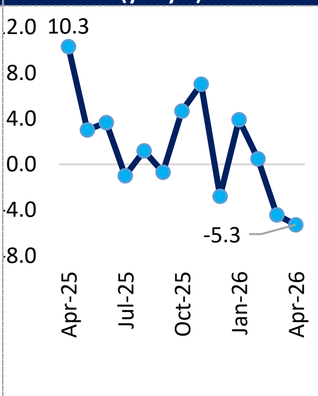

## (F). MISCELLANEOUS

Composite PMI remained in expansionary at 58.2 in April 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 moderated to 2.5 per cent in April 2026 as trade and logistics movement slowed down amid the West Asia crisis. Bank credit growth slightly moderated, but remained strong at 16.4 per cent during April 2026, indicating continued support to economic activity and demand.

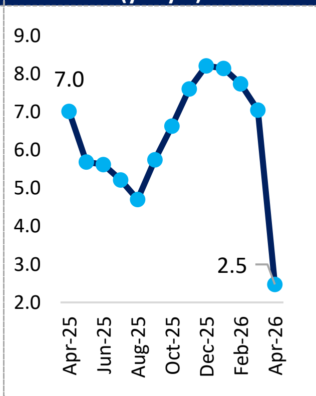
**Composite PMI (y-o-y%)**



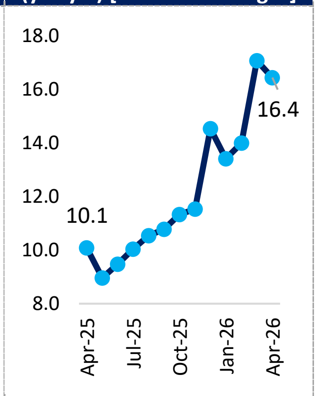

**Air Passenger Traffic Growth (y-o-y%)**




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

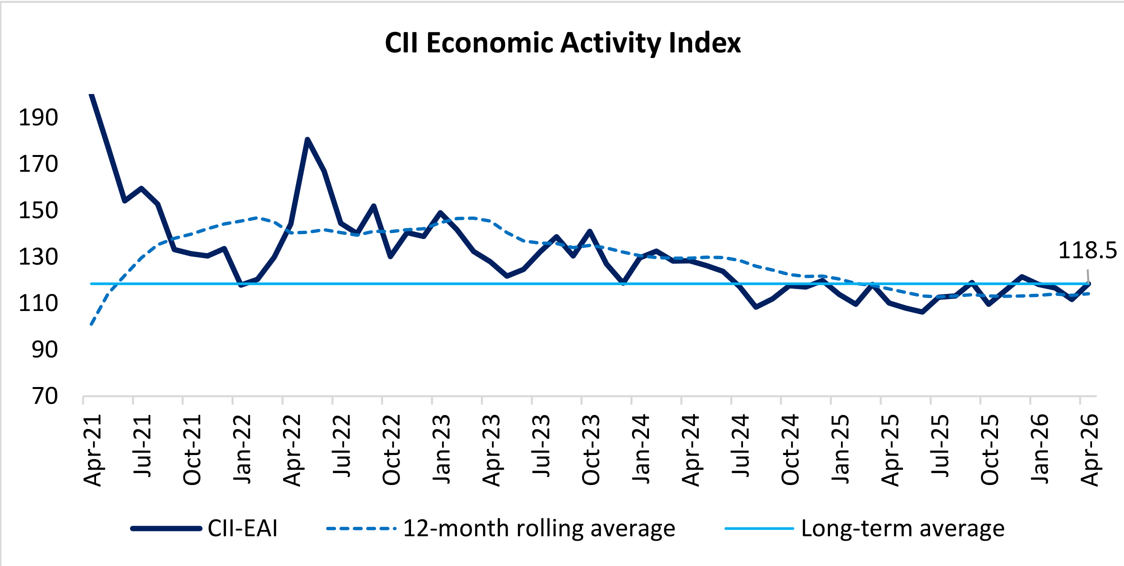



**Bank Credit Growth (y-o-y%) [Incl HDFC merger]**



## 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 to at 118.5 in April 2026 as compared to 111.6 in the previous month, moving near its long-term average of 118.5, 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, accelerated to 4.9 per cent in April from 3.2 per cent in March, driven by stronger growth in manufacturing and electricity production. Domestic demand remained resilient, as evident in auto sales, retail credit, electricity demand and other indicators, despite headwinds from the West Asia conflict.

- Both rural and urban demand indicators picked up pace in April 2026 after posting a slower growth in March. The double-digit growth in sales of passenger vehicles, two-wheeler & tractor were the key drivers.

- Retail inflation moved to a 14-month high of 3.48 per cent in April as compared with previous month's print of 3.4 per cent. Inflation has printed below estimate on the back of much more muted food inflation.

- The external sector has also shown resilience with double-digit growth in both good and services exports in April, while good imports remained subdued at ~10 per cent.

*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 April 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 | 23.2 | 23.2 |
| PC 2 | 12.5 | 35.7 |
| PC 3 | 12.4 | 48.1 |
| PC 4 | 8.0 | 56.1 |
| PC 5 | 5.3 | 61.4 |
| PC 6 | 7.0 | 68.4 |
| PC 7 | 6.1 | 74.5 |

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

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# NOTES

Confederation of Indian Industry

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.

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