Q3FY26 GDP likely growth remained elevated at 8.3% on GST rate cut propelled growth, despite adverse base effect

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GDP data for Q3 FY26, due on 27th February, likely clocked 8.3%, sharply higher from same period previous year (Q3 FY25: 6.4%) but lower than 8.2% clocked in previous quarter. GVA growth for Q3 FY26 likely improved to 8.0% from 6.5% in Q3 FY25 though marginally slower than 8.1% in Q2. More importantly, nominal GDP growth likely slowed further to 8.5% from 8.7% in Q2 and 10.3% same period last year on fall in GDP deflator with declining inflation. Kindly note that given the uncertainty with respect to impact from base year revision on GDP numbers, we have provided our estimates based on old base year.

GST rate cut booster shot propelled growth in Q3 despite adverse base effect

- We estimate that GVA growth in Q3 FY26 likely clocked 8.0% y/y as against 8.1% in Q2 FY26, led by services sector (10.3%) particularly financial services (11.1%) and public administration, defence and other services (11.4%). While industry moderated to 6.9%, agriculture too declined compared to previous quarter but likely remained resilient at 2.9% growth.
- Overall operating profit of manufacturing companies showed a moderation, indicating that the exceptionally strong profit traction of the previous quarter has moderated while the momentum is retained. However, when crude oil is excluded, manufacturing profitability weakened further, reflecting slower momentum across core industrial segments. This contrast highlights that crude-oil-linked sectors continued to perform significantly better in Dec'25 due to healthy refining margins (GRMs), which boosted headline profitability even as the broader manufacturing base softened. Meanwhile, Manufacturing GVA also reflected a slight cooling in activity, suggesting moderated factory-level output growth compared with the previous quarter.
- More importantly, we see private sector activity (GVA ex agri and public administration), a better indicator of economic activity, to stay elevated at 8.6% in Q3 marginally higher than growth seen in Q2 FY26.
- Although first half year growth was robust, the second half of the fiscal year could witness a slowdown as statistical drivers start to fade (base effects and likely uptick in WPI & CPI inflation in Q4) apart from delayed US-India trade deal and lagged impact on exporters as frontloading effects also fade.

New base revision impact remains uncertain even as double deflation may pose slight downward bias

- In the new GDP series, moving away from single deflator, a calibrated shift has been undertaken towards improved and conceptually robust approach. This includes (MOSPI report):

i. ***Transition to Double Deflation & Volume/Single Extrapolation:*** Double deflation is adopted for various industries under the manufacturing sector. Under the double deflation, output and intermediate consumption are separately deflated by concerned price indices to derive Value Added at constant prices. This will improve measurement of GVA. Wherever double deflation is not feasible due to data constraint, the Volume extrapolation and Single extrapolation is applied through reliable indicators.

ii. ***Use of Specific and Disaggregated Deflators:*** The price Indices and Indicators at granular level rather than the broad level is considered while compiling the constant price estimates in the new series. For example, Unit Value Indices (UVI) at commodity-group level rather than the aggregate level are used for the constant price estimates of export and import of goods.

iii. ***Updated series of Deflator:*** New series of CPI (Base = 2024) and UVI (Base: 2022-23) are considered in the new series. Also, the updated series of WPI (Base: 2022-23) or PPI, whenever available, will be used in the new series.

- The revised constant price framework ensures improved alignment between Annual National Accounts (ANA) and Quarterly National Accounts (QNA) in terms of deflators and volume indicators, thereby enhancing consistency.

Consumption and investment boost from GST rate cut and festive demand yet gold import spike may lead to drag from net exports

- Overall demand conditions remained upbeat. Rural demand strengthened further with high-frequency indicators showing resilient rural consumption, supported by positive farm and non-farm activity.
- Urban demand also picked up through the festive season and post-GST adjustments. These consumption drivers are critical for services especially trade and manufacturing GDP sub-segments.
- Investment momentum also saw a pickup primarily led by central government spending even as sector specific pickup visible in private capex. Additionally, spike in gold demand also probably boosted the valuable sub-segment in gross capital formation.
- While domestic demand stayed potent, the external sector may have been a drag. Q3 data show that gold imports rose sharply in value terms, driven by both seasonal household demand and rising global prices.

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Also, non-oil non-gold deficit contributed to widening in the merchandise trade deficit, leading to GDP growth drag from net exports.

Annual estimates for FY26 and FY27 to be revisited post base revision impact clarity

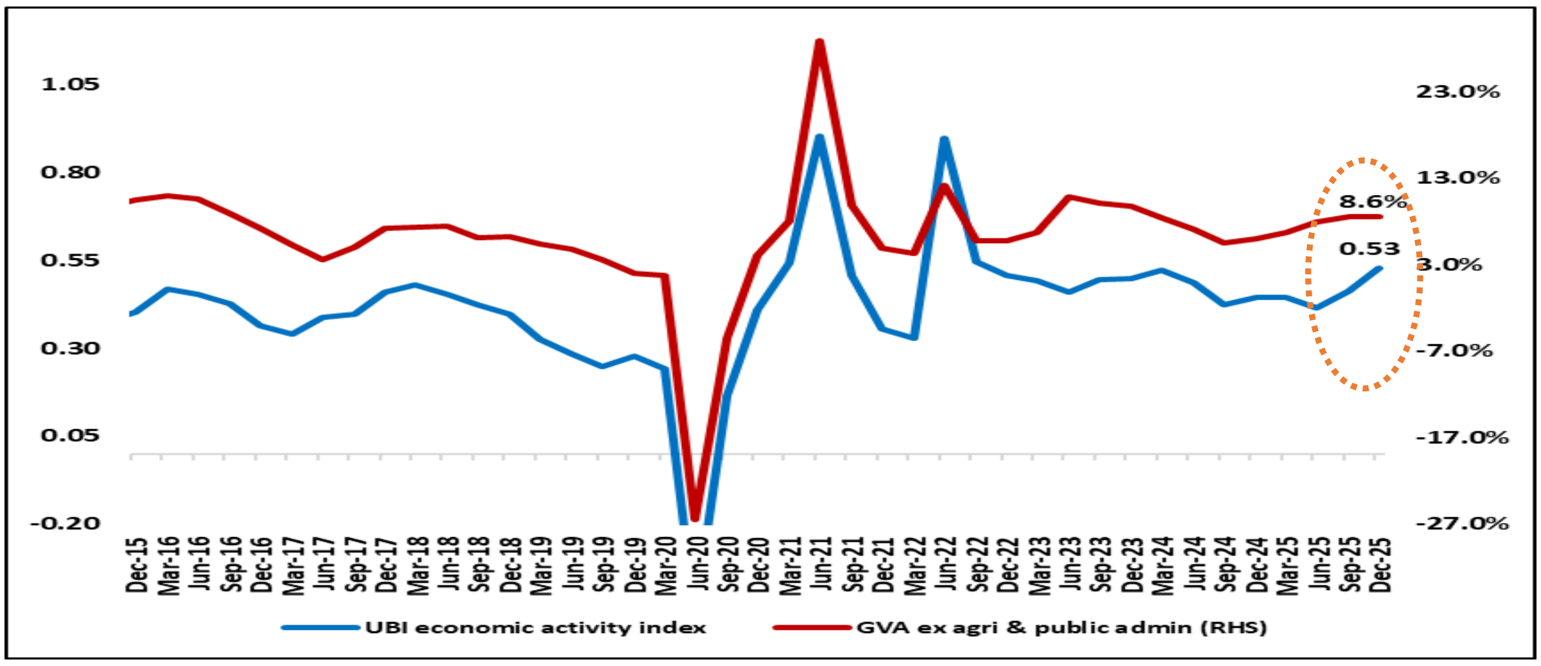
- While the growth outlook for FY26 remains broadly resilient and early indicators for FY27 suggest continued momentum, annual estimates will need to be revisited once clarity emerges on the forthcoming GDP base revision by the Ministry of Statistics and Programme Implementation.
- Base year revisions typically alter sectoral weights within GDP, historical growth trajectories, measurement of formalisation and value addition and deflator methodologies and real growth computation. Such revisions can materially affect both the level and growth rates of GDP, thereby influencing forward projections.
- Moreover, if the revised series incorporates refined deflation techniques, including double deflation, real growth prints for FY26 and projections for FY27 could witness marginal recalibration. Until the magnitude and direction of these statistical adjustments are known, maintaining flexibility in annual forecasts remains prudent. Accordingly, current FY26 and FY27 growth estimates should be treated as provisional and subject to reassessment once the revised national accounts framework is released.

Fig 1: GDP likely clocked 8.3% in Q3 FY26 led by services

% y/y	Q1'FY25	Q2'FY25	Q3'FY25	Q4'FY25	FY25	Q1'FY25	Q2'FY25	Q3'FY25 (Proj)
GDP	6.5%	5.6%	6.4%	7.4%	6.5%	7.8%	8.2%	8.3%
GVA	6.5%	5.8%	6.5%	6.8%	6.4%	7.6%	8.1%	8.0%
Agri	1.5%	4.1%	6.6%	5.4%	4.4%	3.7%	3.5%	2.9%
Industry	8.5%	3.8%	4.8%	6.5%	5.9%	6.3%	7.7%	6.9%
Services	6.8%	7.2%	7.4%	7.3%	7.2%	9.3%	9.2%	10.3%

Source: CEIC, UBI Research Note: Dec'25 figures are UBI estimates

Fig 2: UBI Economic Activity Index mild pickup in private sector growth in Q3 FY26



Source: CEIC, UBI Research Note: Dec'25 figures are UBI estimates

Fig 3: GDP-GVA wedge narrowed in our view; % y/y

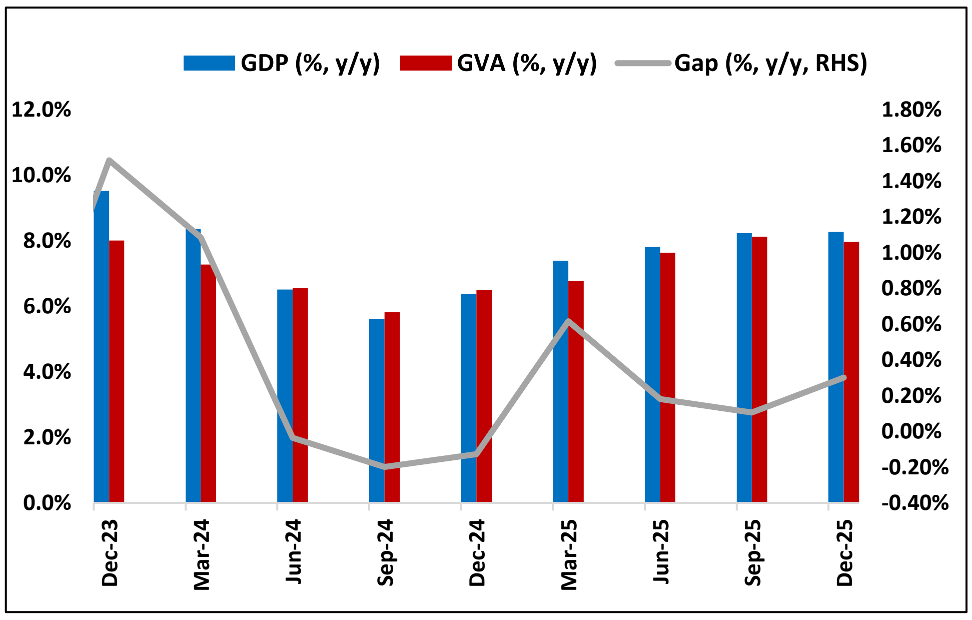


Fig 4: GVA growth recovery in Q3FY26 led by services; % y/y

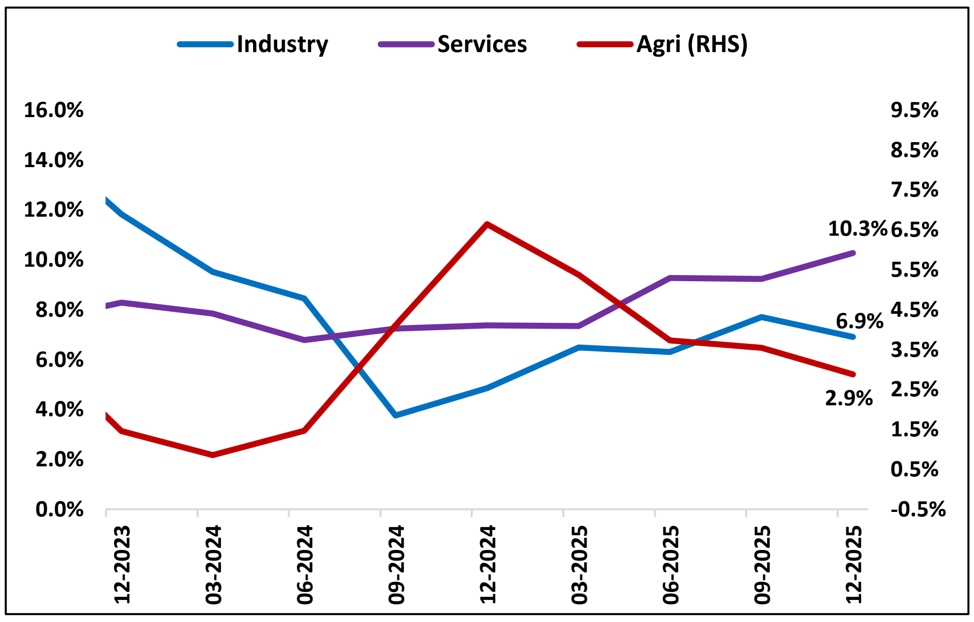


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Fig 5: Industry GVA led by pickup in manufacturing & construction; % y/y

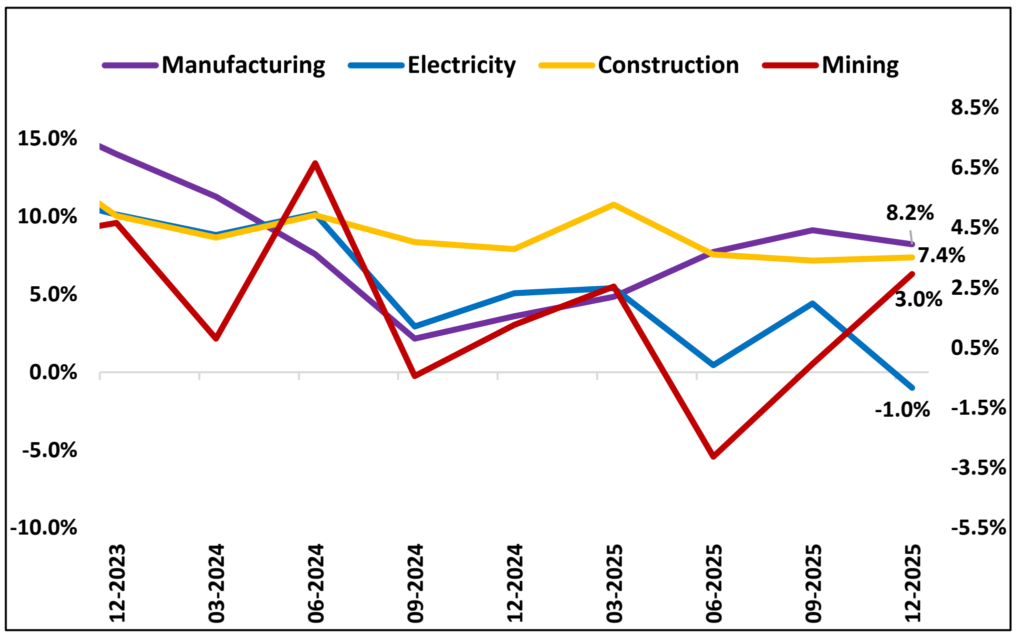
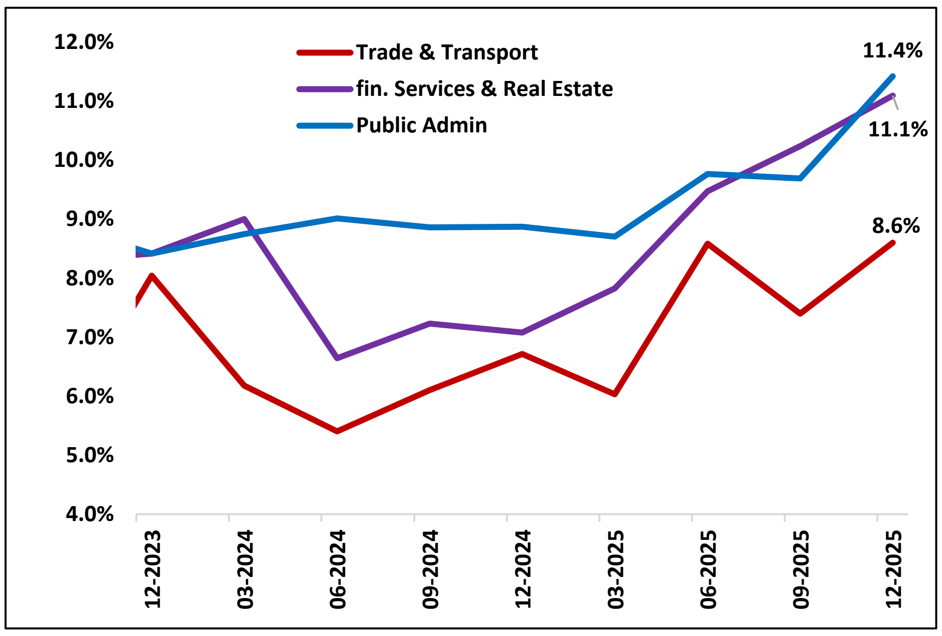
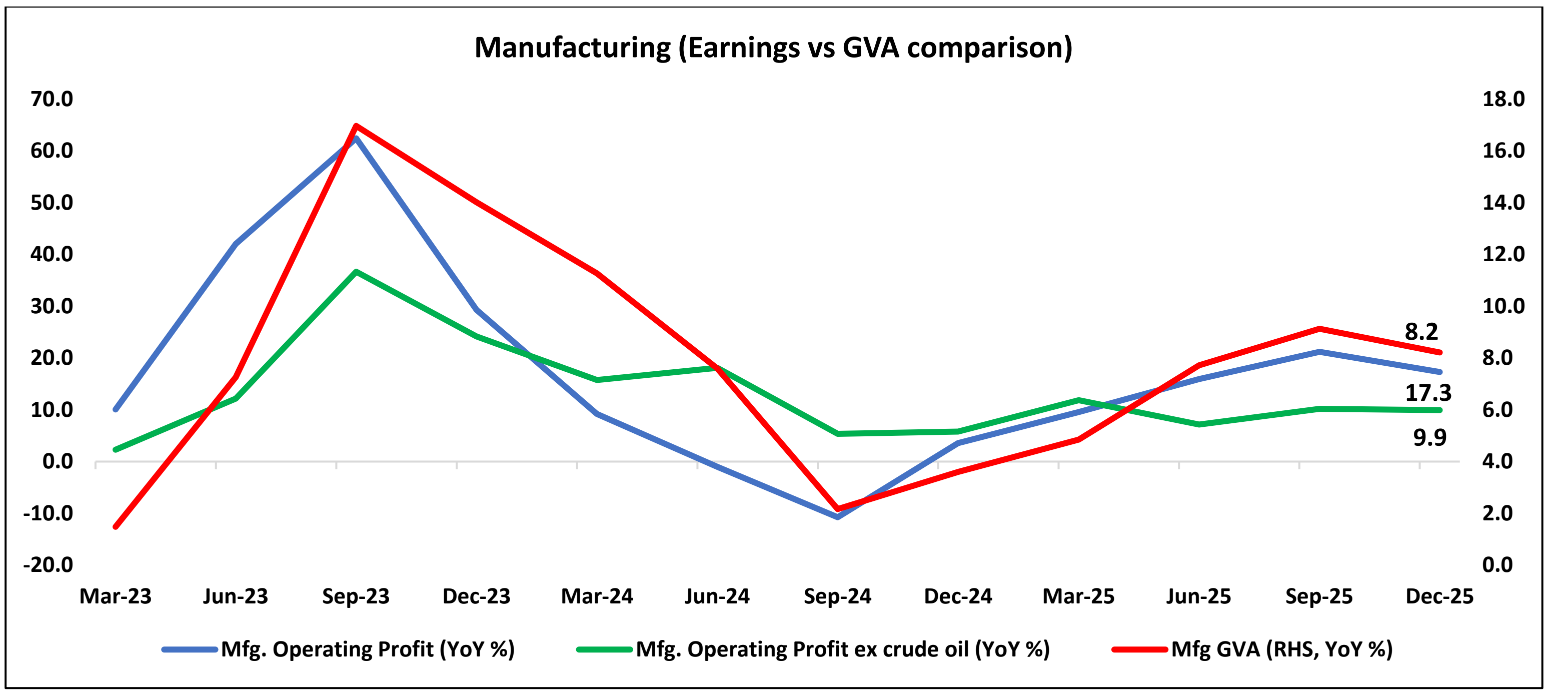


Fig 6: Services sector likely remained resilient; % y/y



Source: CEIC, UBI Research; Note: Dec'25 figures are UBI estimates

Fig 7: Financial performance of manufacturing companies signalled slight moderation in Q3 FY26 growth



Source: ACE Equity, UBI Research
Note: Dec'25 figures are UBI estimates

Fig 8: Lead indicators indicate continued resilience in Q3 FY26

Sector (%, y/y)	Indicator	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Urban Demand	Passenger Vehicle Sales	2.8%	-1.9%	5.0%	2.4%	-1.4%	-1.5%	20.9%
Rural Demand	Two Wheeler Sales	20.7%	12.5%	1.4%	1.5%	-6.0%	7.5%	20.9%
	Three Wheeler Sales	13.8%	6.8%	1.2%	8.4%	0.4%	10.4%	14.9%
	Tractor Sales	0.2%	-0.2%	11.7%	16.8%	9.1%	27.2%	27.3%
Trade, Hotels, Transport, Communications	Commercial Vehicle Sales (Qtrly)	3.3%	-11.0%	1.2%	1.8%	-0.4%	8.7%	21.9%
	Railway Freight Traffic	5.2%	-0.3%	1.5%	-0.6%	2.4%	4.1%	3.3%
	Port cargo Traffic	4.0%	6.2%	-1.6%	8.9%	5.7%	6.0%	13.1%
	Domestic Air Cargo Traffic	7.0%	7.8%	4.5%	3.1%	7.2%	4.9%	7.5%
	International Air Cargo Traffic	18.3%	21.9%	15.0%	1.6%	4.8%	3.6%	7.6%
	Domestic Air Passenger Traffic	5.6%	7.3%	11.4%	12.0%	5.3%	-1.9%	1.9%
	International Air Passenger Traffic	14.3%	10.3%	10.0%	8.5%	7.1%	6.8%	7.7%
	GST E-way Bills (Total)	15.9%	16.9%	16.9%	19.4%	20.5%	23.1%	19.8%
Construction	Steel Consumption	15.3%	12.1%	8.1%	11.2%	7.8%	8.8%	4.6%
	Cement Production	0.4%	3.4%	8.9%	12.4%	8.1%	7.3%	11.2%
PMI Index#	Services	60.5	59.6	58.7	58.0	59.3	61.4	58.9

** levels, Source: RBI, CEIC, SIAM, HVS Anarock, UBI Research*

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