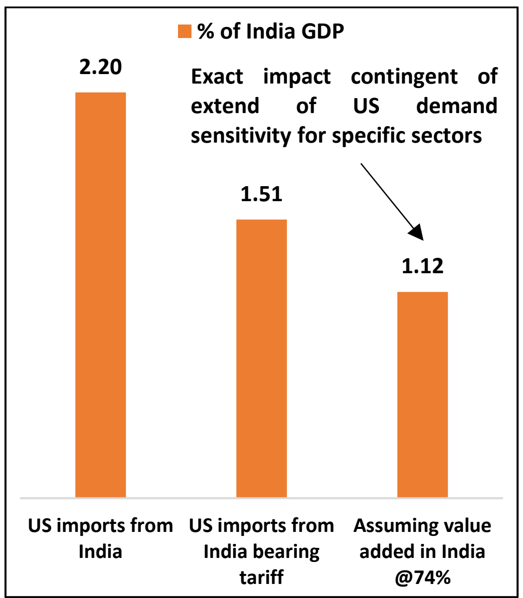
# India: Q1-FY26 GDP growth likely retained 7.0% threshold on front-loading effects

**28th August 2025**

***GDP data for Q1-FY26 due on 29th August, likely clocked 7.0%, an uptick from 6.5% in Q1 FY25 while lower than 7.4% clocked in previous quarter. GVA growth for Q1 FY26 likely improved to 6.7% (6.8% in Q4 FY25) from 6.5% in Q1 FY25. More importantly, we see a convergence between nominal and real GDP growth levels during the qtr with nominal growth likely to ease from 9% threshold to ~8-8.5% range in Q1-FY26. With WPI slipping into deflation and CPI easing sharply, the GDP deflator saw a sharp drop during the qtr. We believe that GDP growth has been frontloaded in this qtr in order to escape the tariff impart apart from favourable base effects as Q1-FY25 was an election qtr which led to delay in government spending.***

*Fig 1: Impact of additional US tariffs @50% on India's GDP outlook*




*Source: CEIC, UBI research*

### Growth appears front loaded in Q1 FY26 with 7% handle likely respected

- As per our projection, the GVA growth in Q1 FY26 clocked 6.7% y/y as against 6.8% in Q4 FY25, led by agriculture (6.0%) and services (7.8%) particularly public admin (10.2%) and financial services (8.8%). Industry growth at 4.9% however, moderated compared to previous quarter (ref Fig.2).
- The US managed to avert a recession largely on the back of strong fiscal spending and ongoing negotiations of trade deals, particularly with China. Exports were frontloaded ahead of the imposition of reciprocal tariffs, while government spending benefited from favourable base effects compared to the election-related fiscal drag in the same period last year. Although first-quarter growth appears robust, subsequent quarters could witness a sharp slowdown as uncertainty rises due to delays in finalising the US-India trade deal and the potential adverse impact on exporters.

### Agri & Services led growth while industry slowed

- Industry likely grew by 4.9% in the quarter as against 6.5% in Q4 FY25 on the back of slowdown in mining and electricity (ref Fig.5). Manufacturing sub-sector likely grew at 4.1% during the quarter as against 4.8% last quarter. RBI data on corporate performance showed that manufacturing sector companies for Q1 FY26 clocked an operating profit growth of 6.9% y/y as against 8.1% in Q4 FY25 (ref. Fig.8). Accordingly, low GDP deflator is also supporting higher real growth numbers in this quarter.
- Construction sector likely maintained double digit growth at 10.1% in Q1 FY26 vis-à-vis 10.8% in Q4 FY25 (ref Fig. 6). Meanwhile, mining and electricity were negative by 2.5% and 2%, respectively.
- Agri GVA likely rose to 6.0% in Q1 FY26 from 5.4% in Q4 FY25 (ref.Fig.5).
- Services GVA growth continued to remain strong at 7.8% during the quarter, led by public administration sub-segment on front loaded government spending in Q1 FY26. Public admin sub-segment likely grew at 10.2% from 8.7% in Q4 FY25 (ref Fig. 7) and financial services also likely maintained strong growth at 8.8%. Trade & transport segment likely recorded a lower growth of 4.5% vs Q4 on moderation in urban demand even as rural demand showed signs of recovery from strong agri growth.

### GDP-GVA wedge likely slipped as subsidies front loaded as well

- The GDP-GVA gap is likely to have narrowed to 0.29% from 0.62% in Q4 FY25. The gap was negative by 0.04% in Q1 FY25. The lowering of gap was probably on account of front loading of subsidies in the quarter even as indirect tax collections were slower.

### We maintain our FY26 growth forecast at 6.3% amid rising downside risks

- We are keeping our FY26 growth forecast unchanged at 6.3%. However, post the frontloading of growth expected in Q1-FY26, we see growth dynamics coming under pressure in the coming qtrs adversely affected by the 50% tariff hike by the US. Apart from direct tariff impact on the economy via trade channel and sentiment /flows channel (via impact on further delay in broad-based private capex recovery).
- Hence in our view, FY26 growth is trailing at sub-6%. While India's direct export exposure to the US is limited to about 2% of GDP (and closer to 1% after accounting for exempted items), the indirect impact through sentiment channels, particularly on capital flows and investment decisions, needs very close watch.

*Fig 2: GDP likely clocked 6.8% in Q1 FY26 led by industry and services*

| % y/y | Q1'FY24 | Q2'FY24 | Q3'FY24 | Q4'FY24 | FY24 | Q1'FY25 | Q2'FY25 | Q3'FY25 | Q4'FY25 | FY25 (PE) | Q1'FY26 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP | 9.7% | 9.3% | 9.5% | 8.4% | 9.2% | 6.5% | 5.6% | 6.4% | 7.4% | 6.5% | 7.0% |
| GVA | 9.9% | 9.2% | 8.0% | 7.3% | 8.6% | 6.5% | 5.8% | 6.5% | 6.8% | 6.4% | 6.7% |
| Agri | 5.7% | 3.7% | 1.5% | 0.9% | 2.7% | 1.5% | 4.1% | 6.6% | 5.4% | 4.6% | 6.0% |
| Industry | 7.3% | 15.1% | 11.8% | 9.5% | 10.8% | 8.5% | 3.8% | 4.8% | 6.5% | 6.2% | 4.9% |
| Services | 12.5% | 7.5% | 8.3% | 7.8% | 9.0% | 6.8% | 7.2% | 7.4% | 7.3% | 7.2% | 7.8% |

*Source: CEIC, UBI Research*

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*Fig 3: UBI Economic Activity Index signals marginal slowdown in private sector growth in Q1 FY26*

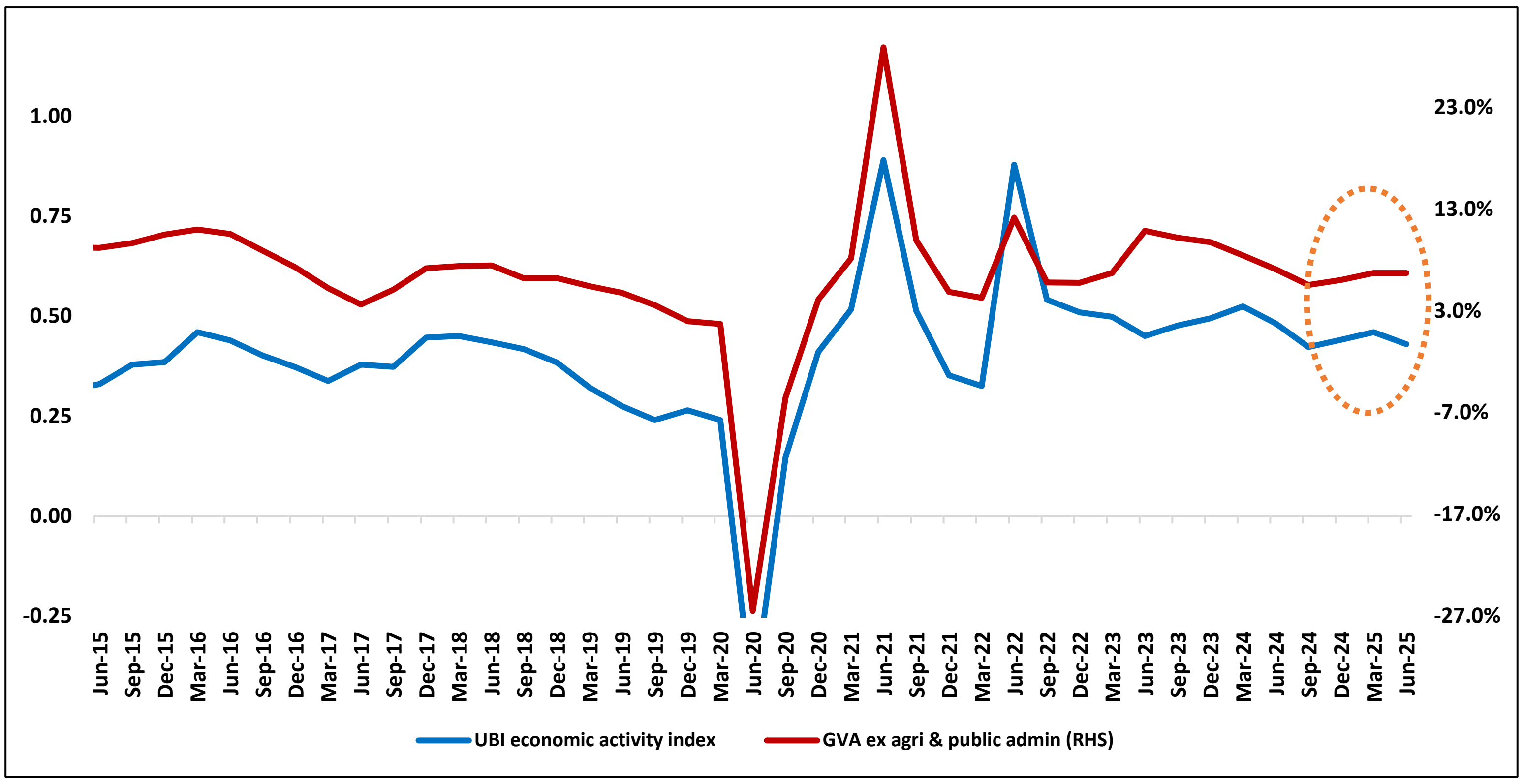



*Fig 4: GDP-GVA wedge narrowed in our view; % y/y*

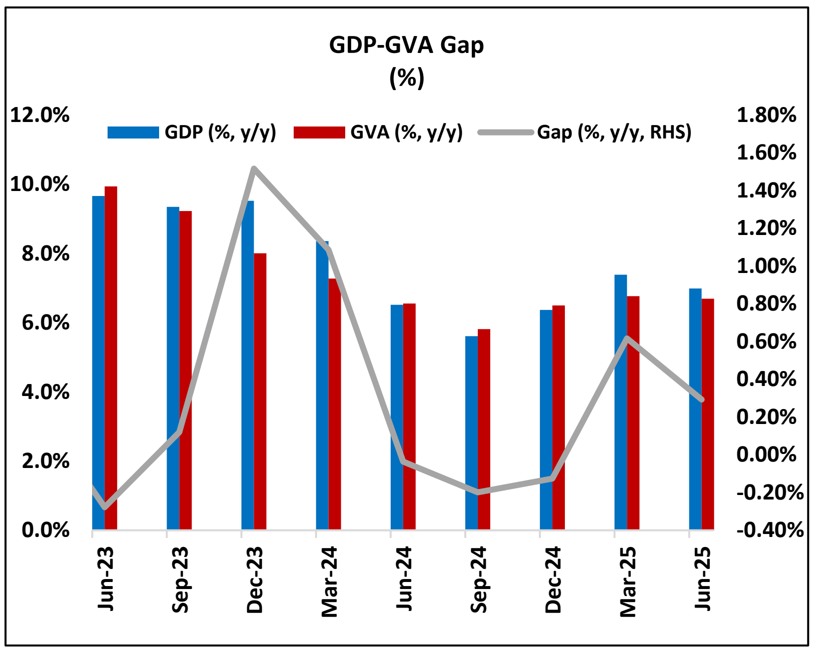



*Fig 5: GVA growth recovery in Q1FY26 led by services and agriculture; % y/y*

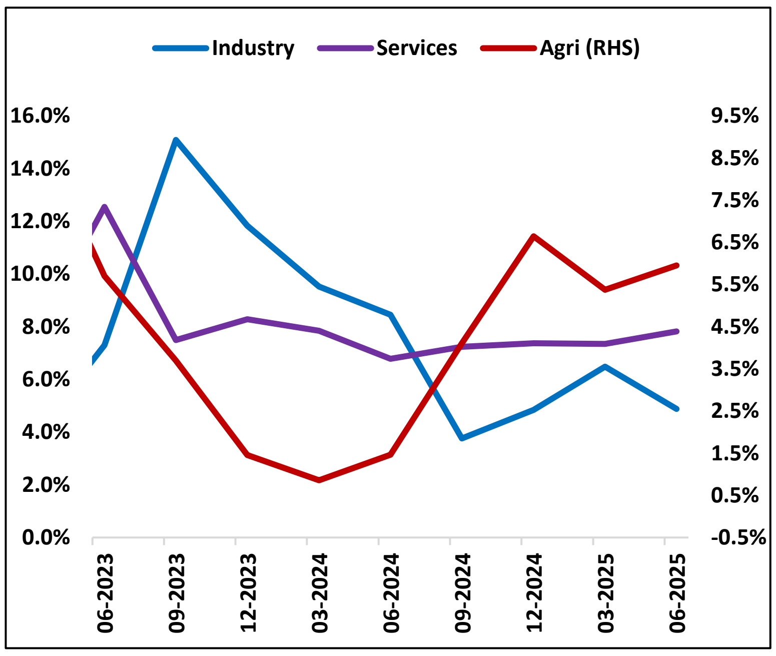



*Fig 6: Industry GVA led by pickup in construction; % y/y*

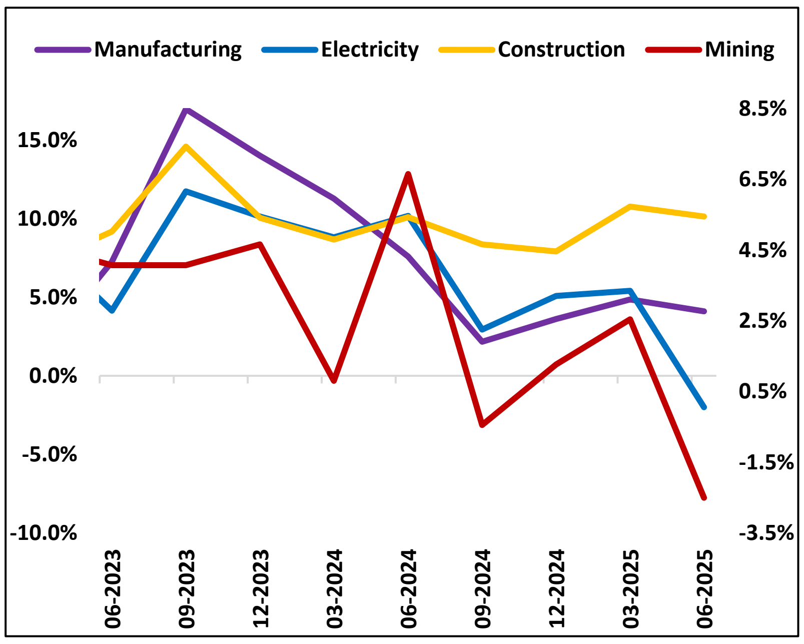
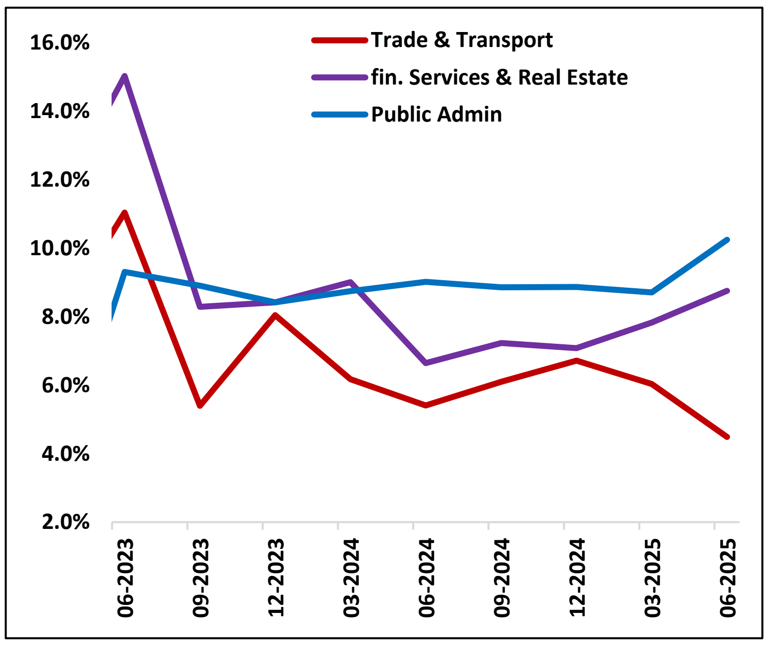
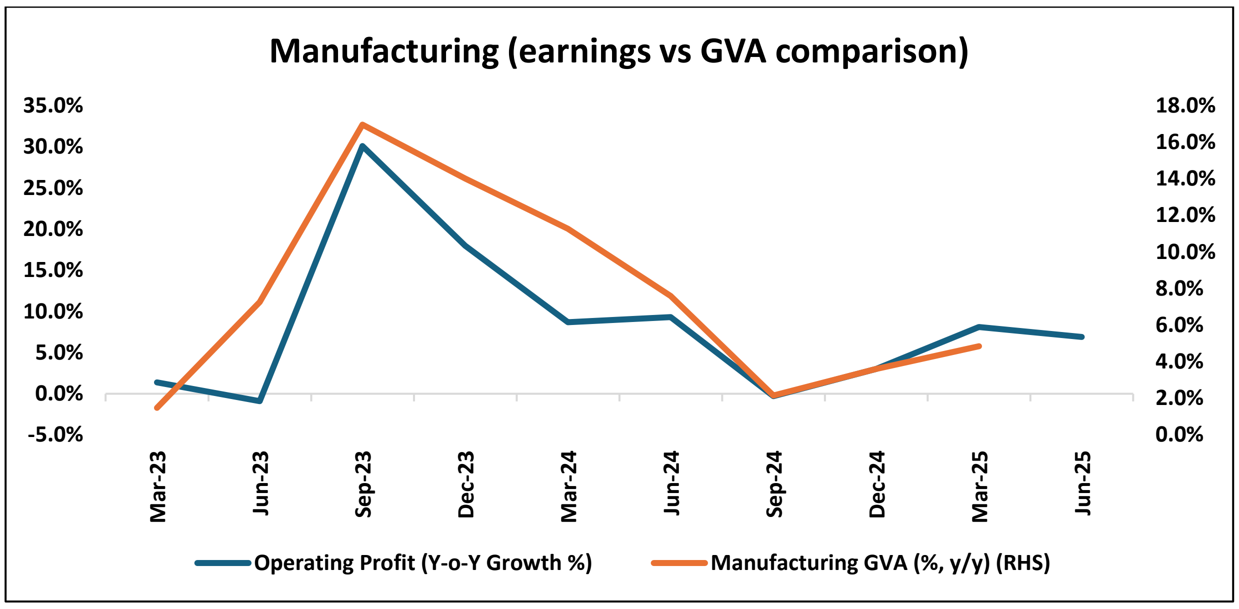



*Fig 7: Services sector likely remained resilient as public admin saw a spike in growth; % y/y*




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

*Fig 8: Financial performance of manufacturing companies saw some slowdown in Q1 FY26*




*Source: RBI, UBI Research*

*Fig 9: Lead indicators indicate marginal recovery in Q1 FY26*

| Sector (%, y/y) | Indicator | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 | Q1FY26 |
|---|---|---|---|---|---|---|
| Urban Demand | Passenger Vehicle Sales | 2.8% | -1.9% | 5.0% | 2.4% | -1.4% |
| Rural Demand | Two Wheeler Sales | 20.7% | 12.5% | 1.4% | 1.5% | -6.0% |
| | Three Wheeler Sales | 13.8% | 6.8% | 1.2% | 8.4% | 0.4% |
| | Tractor Sales | 0.2% | -0.2% | 11.7% | 24.2% | 9.1% |
| Trade, Hotels, Transport, Communications | Commercial Vehicle Sales (Qtrly | 3.3% | -11.0% | 1.2% | 1.8% | -0.5% |
| | Railway Freight Traffic | 5.2% | 0.4% | 1.5% | -0.6% | 3.6% |
| | Port cargo Traffic | 4.0% | 6.2% | -1.7% | 9.0% | 5.7% |
| | domestic Air Cargo Traffic | 7.0% | 7.8% | 4.5% | 3.1% | 9.4% |
| | International Air Cargo Traffic | 18.3% | 21.9% | 15.0% | 1.4% | 7.7% |
| | Domestic Air Passenger Traffic | 5.6% | 7.2% | 11.4% | 12.0% | 6.1% |
| | International Air Passenger Traff | 14.3% | 10.3% | 10.0% | 8.5% | 9.0% |
| | GST E-way Bills (Total) | 15.9% | 16.9% | 16.9% | 19.4% | 20.5% |
| | Hotel Occupancy | -2.6% | 1.6% | 1.5% | -3.2% | 3.2% |
| | Average Revenue per room | 6.8% | 5.5% | 12.6% | 11.7% | 9.0% |
| | Tourist Arrivals | 2.3% | -1.7% | -2.7% | -7.5% | |
| Construction | Steel Consumption | 15.3% | 11.8% | 7.9% | 11.8% | 7.8% |
| | Cement Production | 0.4% | 3.4% | 8.9% | 12.4% | 8.4% |
| PMI Index* | Services | 60.50 | 59.63 | 58.73 | 58.00 | 59.30 |

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

*Fig 10: Sectoral impact of additional US tariffs @50%*

| Sector (USD bn) | US Imports from India | Imports exempted from tariffs | Net US Imports from India | Assuming 74% value added in India on US imports |
|---|---|---|---|---|
| Textiles | 12.04 | 0 | 12.04 | 8.91 |
| Gems and jewellery | 11.89 | 0.02 | 11.87 | 8.78 |
| Machinery | 8.33 | 0.09 | 8.24 | 6.1 |
| Others | 8.54 | 0.33 | 8.22 | 6.08 |
| Agri | 6.04 | 0 | 6.04 | 4.47 |
| Electronics | 14.4 | 8.98 | 5.41 | 4.01 |
| Metals | 5.41 | 0.43 | 4.97 | 3.68 |
| Chemicals | 5.82 | 2.78 | 3.04 | 2.25 |
| Auto | 2.8 | 0 | 2.8 | 2.08 |
| *Pharma* | 12.73 | 12.71 | 0.01 | 0.01 |
| *Energy* | 3.23 | 3.23 | 0 | 0 |
| Total | 91.23 | 28.58 | 62.66 | 46.37 |

Source: dataweb.usitc.gov, https://federalregister.gov/d/2025-06063 and UBI Research.
i. FY26 Nominal GDP assumed @$4.15 trillion
ii. Energy and pharma products are more or less exempted from tariffs

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