Q1 FY27 real GDP clocks robust print as expected; FY27 growth now seen at 7%+

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Executive Summary

1. Q1 GDP growth prints as expected at 7.8%

- In line with our expectations (GDP: 7.9%, GVA: 8.1%), real growth numbers were broadly aligned (GDP: 7.8%, GVA: 8.2%). As explained in our GDP preview, the negative gap between GDP and GVA growth is attributed to low growth in net indirect taxes on frontloading of subsidy payments in a quarter adversely affected by West Asia crisis.
- On an expenditure basis, consumption growth has moderated during the quarter yet investment was the key growth driver with GFCF growth clocking a record high 11.9%.
- Sectorally, GVA growth was broad based, with overall GVA repeating the glorious 8% threshold led by services growth in double digits even as industry growth saw a pickup driven by strong manufacturing growth as underlined by robust corporate earnings momentum.
- Interestingly, while consumption GDP growth stated robust and steady, trade GVA growth dropped during the quarter, though other services sub segments viz financing and real estate along with public admin saw a sequential growth pickup. Hence, while geopolitical tensions impact was cushioned by domestically oriented services sectors, some industry sub sectors like mining, construction etc did show some downward pressure.

2. Surprise was primarily in GDP deflator and nominal growth numbers

- The nominal GDP growth numbers at 10.3% with GDP deflator (gap between nominal and real growth) of only 2.5ppt was a key surprise. In the old GDP series, deflator was a combination of WPI and CPI which clocked 9.3% and 4% during the quarter with higher weight of WPI (almost 60-70%) while the actual number came in lower than both. Meanwhile in the new GDP series the use of double deflation method has weighed on the deflator number and provided a surprise.
- ***The biggest surprise was seen in the manufacturing sector with a negative deflator probably due to faster rise in input costs vis-a-vis output prices due to incomplete passthrough of spike in commodity prices to consumers during the quarter.***

Source: CEIC, UBI Research

3. *FY27 GDP growth now seen at 7%+ levels; risks on watch in coming quarters*

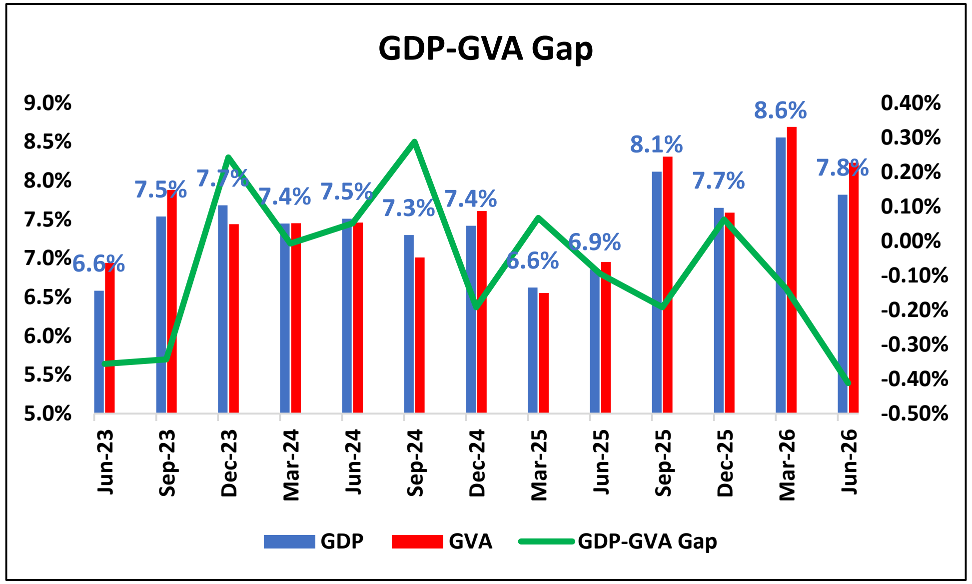
- As stated in our GDP preview report, with a robust Q1 GDP growth numbers, there were rising upside risks to our full year FY27 growth projection of 6.6%. We now revise it to 7% and acknowledge upside risks statistically. High frequency indicators showed a steady momentum in Q1 though some loss of growth seen in indicators in Q2 like manufacturing PMI even as others like auto sales remain steady.
- While statically upside risks remain to this forecast, we remain watchful of following downside risks: i) El Nino impact on agriculture GVA and rural demand, ii) tightening financial conditions globally and rising possibility of rate hikes domestically on growth dynamics, iii) impact on demand from delayed cost passthrough to consumers as we see a switch in manufacturing GVA deflator (i.e output prices start growth at a faster pace than input costs).
- Nominal GDP also gains importance and given the learning from this reading in terms of change in methodology, we now see it for full year FY27 in 10-11% range (in line with budget assumption) from 13-15% previously. This may have an impact on fiscal dynamics as the expected space from higher nominal growth in achieving budgeted deficit of 4.3% of GDP is low now and may require expenditure compression for meeting the targets this year.

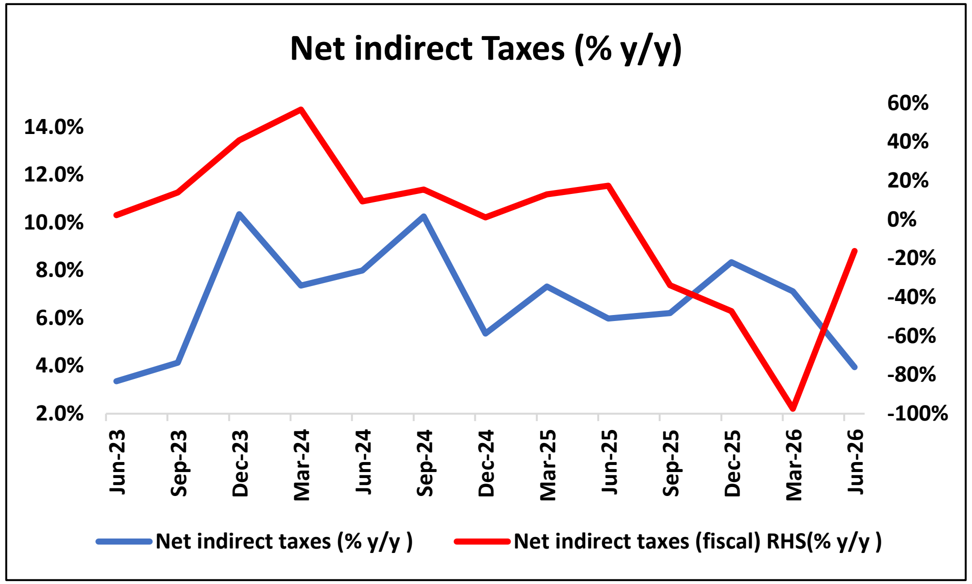
4. *Rate hikes on table now with expectations of a shallow cycle*

- With confirmation of growth resilience in Q1 FY27 and projection of pick up in inflation numbers in coming quarters, we see rate hikes on table in H2 FY27 given the global backdrop of rising probability of rate hikes by US Fed as well. More importantly, we have always maintained that oil prices at 90$/bbl pose a policy tightening risk.
- In terms of timing, December appears more likely with likely announcement of durable liquidity absorption measures expected in October policy.
- That said, in a fragile world economy laden with geopolitical uncertainty, we expect a shallow rate normalisation cycle of 2-3 hikes taking repo rate to 5.75-6.00% levels.

Source: CEIC, UBI Research

GDP growth numbers printed strong as expected defying West Asia conflict pressures

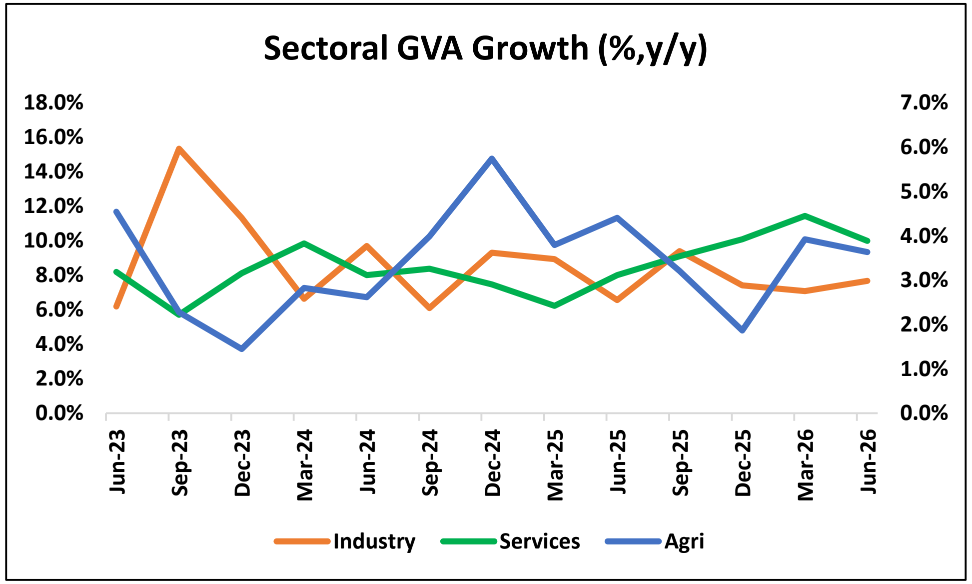


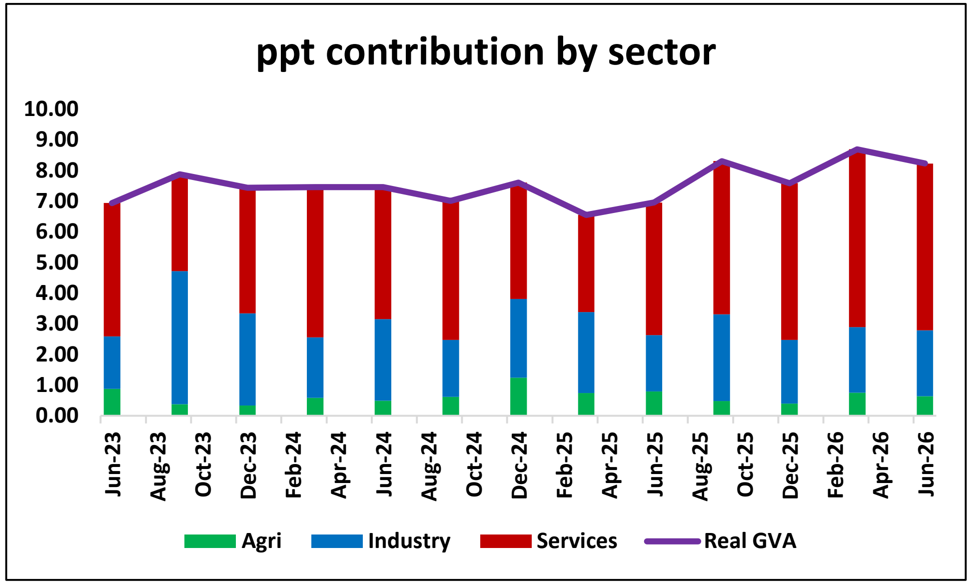


- Q1 FY27 growth numbers stayed robust (GDP: 7.8%, GVA: 8.2%) and broadly in line with our expectations (GDP: 7.9%, GVA: 8.1%).
- As explained in our GDP preview *(please refer our GDP preview report)*. , the widening negative gap between GDP and GVA growth is ~40bps is attributed to low growth in net indirect taxes on frontloading of subsidy payments in a quarter adversely affected by West Asia crisis.

Source: CEIC, UBI Research

Sectoral momentum was led by industry while services and agri growth moderated

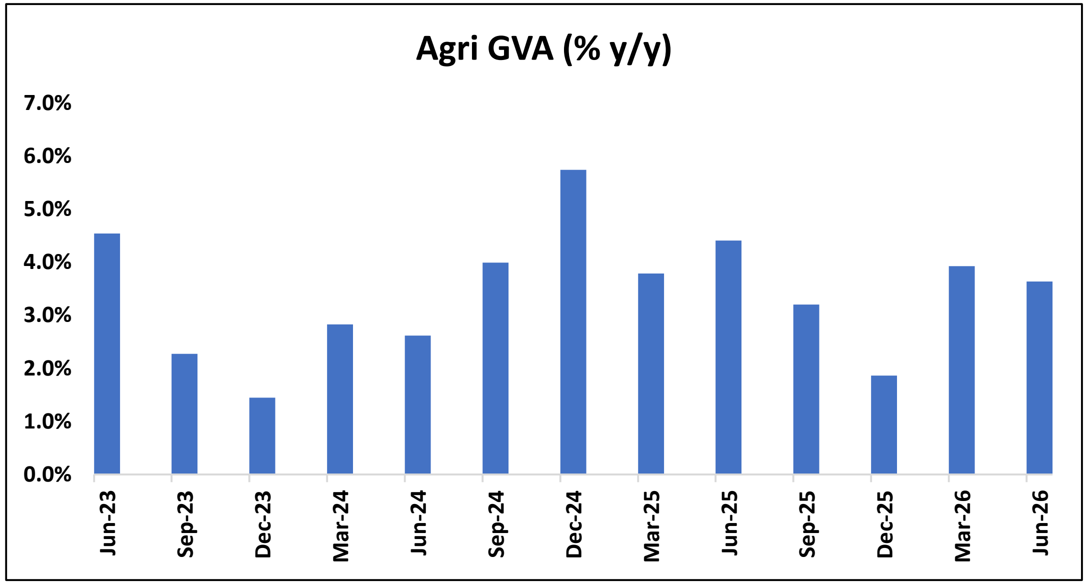


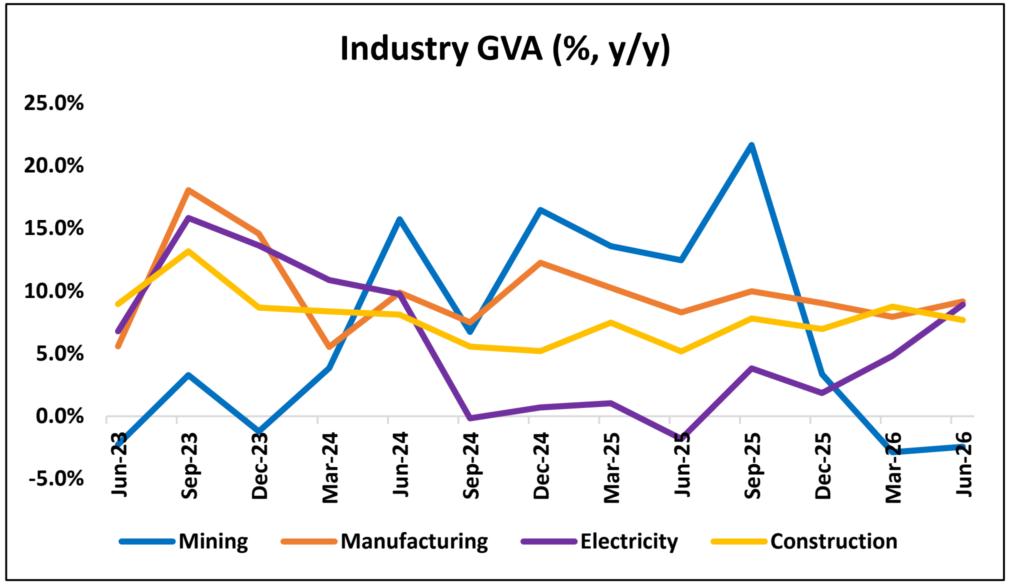


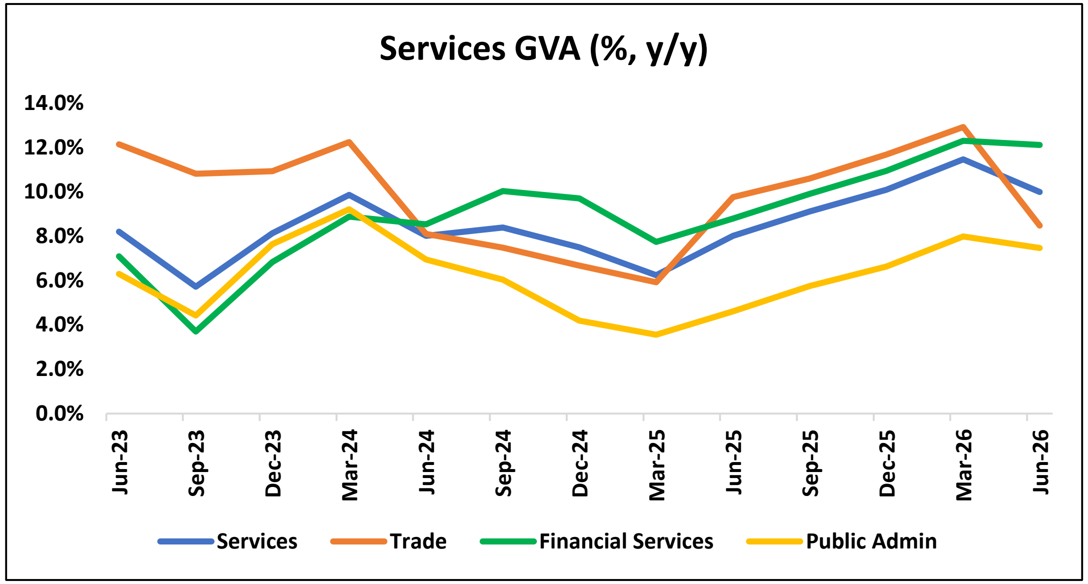
- Sectorally, GVA growth was broad based, with overall GVA repeating the glorious 8% threshold.
- GVA was led by industry growth as it saw a pickup to 7.7% (Q4 FY26: 7.1%) driven by strong manufacturing GVA as underlined by robust corporate earnings momentum. Services GVA growth edged lower yet stayed in double digits while Agri growth moderated to 3.6%.

Source: CEIC, UBI Research

Industry growth led by manufacturing while financial services buoyed the services growth



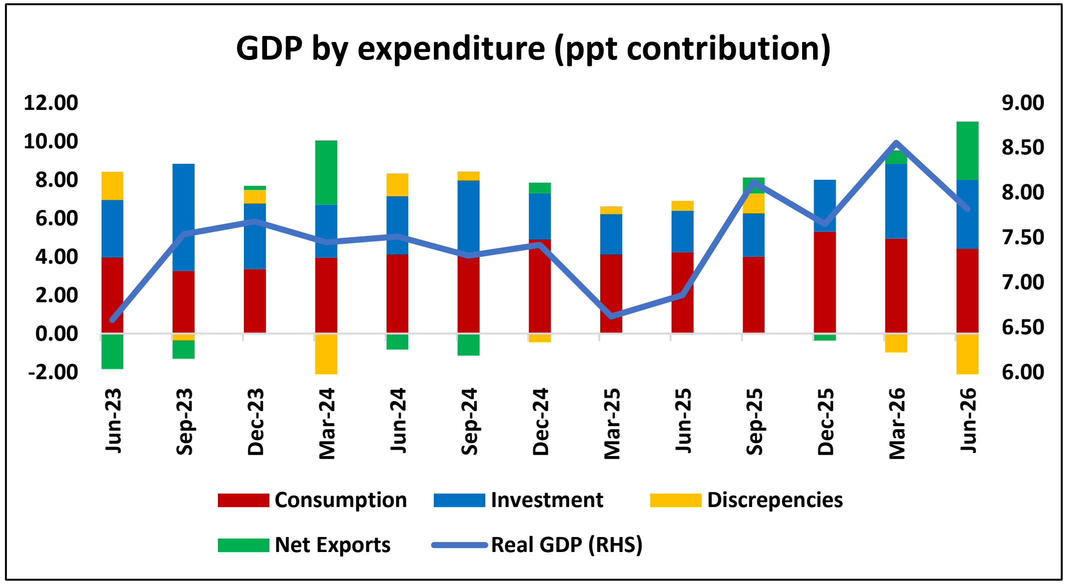


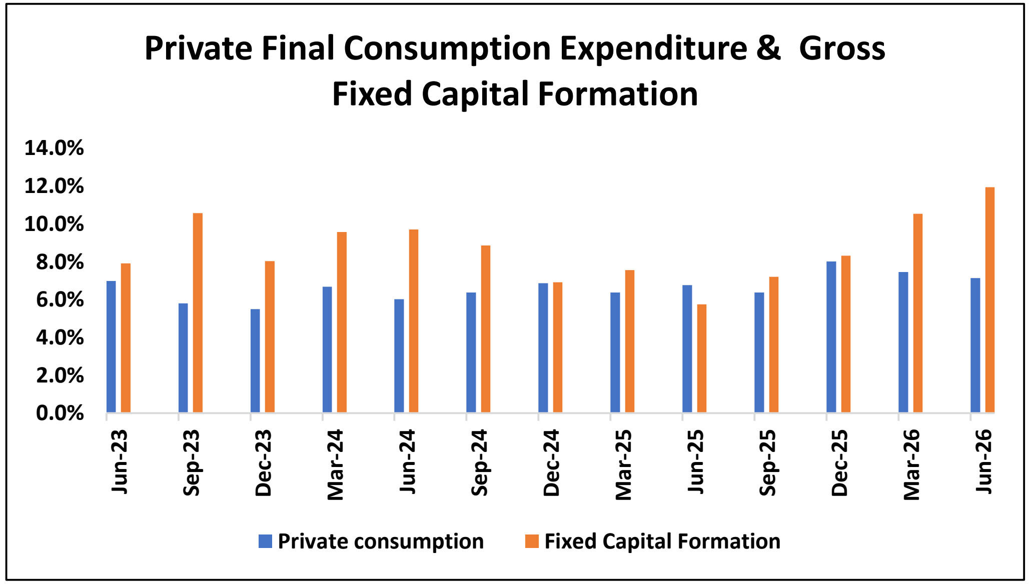


- While geopolitical tensions impact was cushioned by domestically oriented services sectors, some industry sub sectors like mining, construction etc did show some downward pressure.
- Manufacturing GVA showed a robust momentum with 9.2% growth as outlined by our analysis of corporate earnings as well.
- More importantly, private sector activity as explained by GVA ex agri and government spending slipped from 10.1% to 9.5%. Hence, government policy support was a critical growth driver in Q1.

Source: CEIC, UBI Research

Capex was key growth driver while consumption momentum eased





- On an expenditure basis, consumption growth has moderated during the quarter yet investment was the key growth driver with GFCF growth clocking a record high 11.9%.
- Net exports was a +ve contributor to growth yet we may see a switch in the coming quarters with oil prices elevated above the 90$/bbl mark unless we see a resolution to US-Iran conflict in the near term.
- Going forward, given the delayed cost passthrough, as it transmits in the coming quarters in consumer prices, we may see pressure on consumer demand. Overall growth numbers may also come under downward pressure on account of unfavourable base effects.

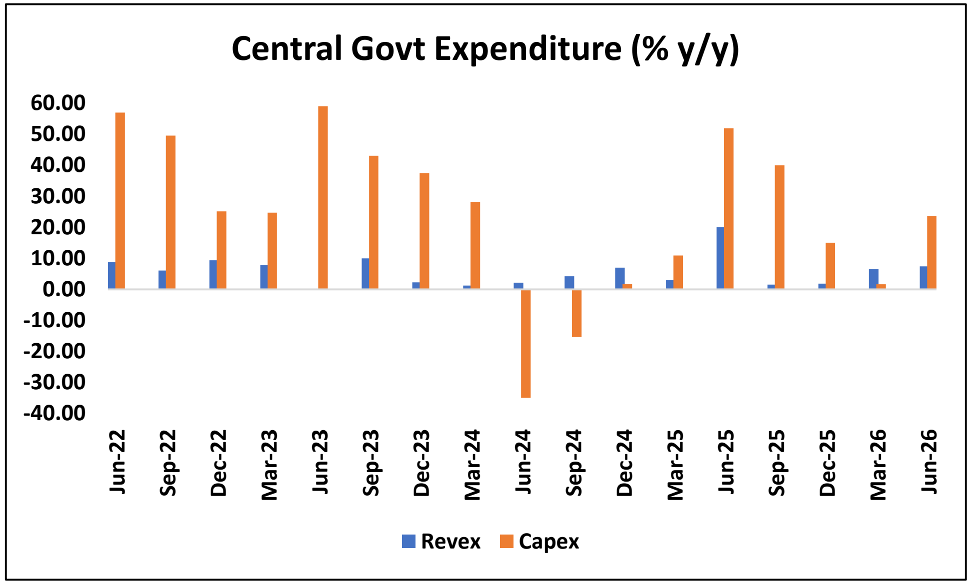
Source: CEIC, UBI Research

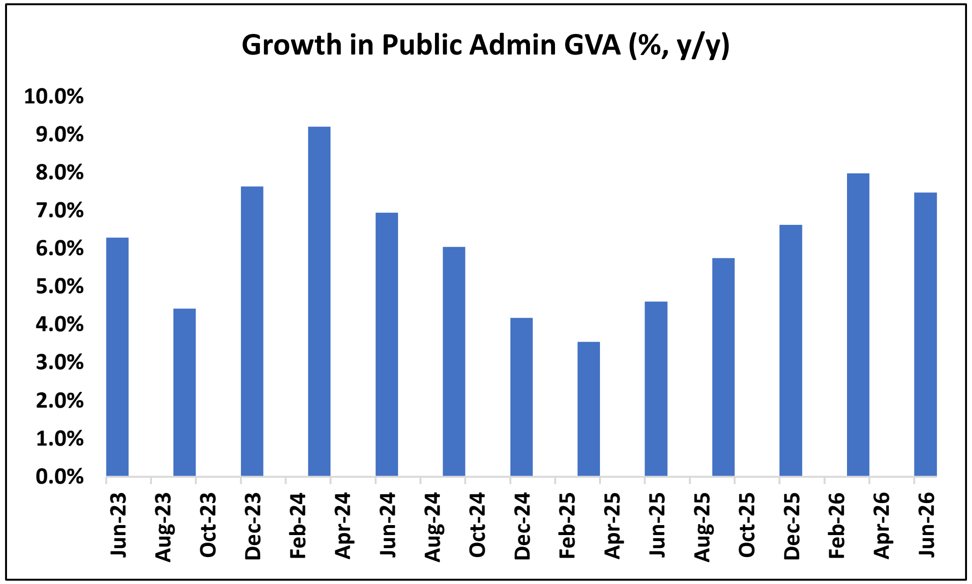
Within consumption dynamics, urban demand momentum was more resilient relative to rural demand

Sector (%, y/y)	Indicator	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Urban Demand	Passenger Vehicle Sales	4.4%	17.2%	18.7%	26.8%	7.2%	26.1%	21.5%	18.1%	23.2%	32.6%	19.1%
Rural Demand	Two Wheeler Sales	6.7%	2.1%	21.2%	39.4%	20.8%	25.0%	28.7%	17.2%	7.5%	22.1%	28.3%
	Tractor Sales	45.4%	14.8%	30.1%	37.1%	43.0%	34.2%	29.1%	26.8%	19.6%	11.9%	20.5%
Trade, Hotels, Transport, Communications	Commercial Vehicle Sales (Qtrly)	2.7%	21.1%	17.0%	24.6%	15.1%	28.9%	15.1%	18.8%	5.3%	16.9%	24.0%
	Railway Freight Traffic	3.9%	2.3%	4.2%	3.2%	2.9%	4.0%	3.1%	-1.0%	1.4%	4.0%	8.9%
	Port cargo Traffic	11.5%	12.0%	14.6%	12.8%	7.6%	3.8%	0.7%	2.4%	6.6%	9.2%	8.8%
	Domestic Air Cargo Traffic	2.8%	-2.3%	20.5%	4.3%	8.7%	18.5%	10.8%	7.0%	10.7%	9.4%	0.0%
	International Air Cargo Traffic	2.3%	-2.3%	12.7%	12.6%	8.4%	17.5%	-6.0%	11.6%	10.4%	19.4%	0.0%
	Domestic Air Passenger Traffic	-2.5%	3.5%	7.0%	-4.9%	3.1%	-0.1%	-1.3%	-2.9%	7.7%	-1.2%	-4.7%
	International Air Passenger Traffic	7.3%	9.7%	7.5%	6.0%	7.1%	3.0%	-18.5%	-16.1%	-9.1%	-4.6%	-4.6%
	GST E-way Bills (Total)	21.0%	8.2%	27.6%	23.5%	15.8%	18.8%	12.9%	11.8%	10.9%	14.5%	6.0%
	Tourist Arrivals	-9.8%	-5.1%	-2.0%	2.0%	5.2%	6.1%	-1.6%	-14.7%	9.0%	6.6%	6.6%
Construction	Steel Consumption	8.9%	2.4%	6.0%	5.4%	4.9%	12.8%	13.7%	8.1%	9.4%	7.4%	5.9%
	Cement Production	5.0%	5.2%	14.6%	13.7%	11.3%	8.9%	4.7%	8.2%	8.4%	9.8%	11.0%
PMI Index#	Services	60.9	58.9	59.8	58	58.5	58.1	57.5	58.8	59.8	57.4	53.3

Source: CEIC, UBI Research

Frontloaded government spending was a critical growth driver



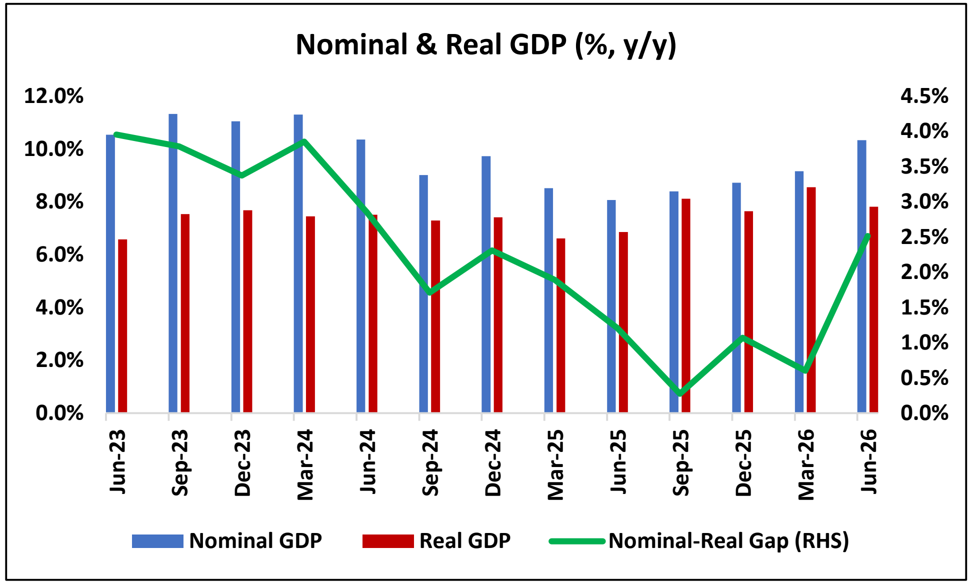


- Frontloaded government spending is led by capex rather than revex, signifying better quality of spending. Capex in Q1-FY27 grew by 23.7% while revex grew by just 7.4%.

- As a consequence of sluggish growth in revex, public admin GVA growth moderated from 8.0% in Q4FY26 to 7.5% in Q1 FY27.

Source: CEIC, UBI Research

Nominal growth picked up yet printed lower than expected



- The nominal GDP growth numbers at 10.3% with GDP deflator (gap between nominal and real growth) of only 2.5ppt was a key surprise.
- Nominal GDP gains importance this year and given the learning from this reading in terms of change in methodology, we now see it for full year FY27 in 10-11% range (in line with budget assumption) from 13-15% previously.
- This may have an impact on fiscal dynamics as the expected space from higher nominal growth in achieving budgeted deficit of 4.3% of GDP is low now and may require expenditure compression for meeting the targets this year.

Source: CEIC, UBI Research

GDP deflator in Q1 FY27 surprised on downside as it clocked lower than both WPI and CPI

%	Agri	Industry	Mining	Manufacturing	Electricity	Construction	Services	Trade	Financial Services	Public Admin
Jun-23	6.1%	1.1%	-1.6%	2.6%	14.9%	-4.0%	4.9%	1.0%	6.8%	5.2%
Sep-23	6.3%	1.1%	6.2%	0.1%	11.8%	-1.7%	4.7%	3.8%	4.7%	5.5%
Dec-23	4.3%	0.6%	9.0%	-1.6%	9.0%	-0.3%	3.9%	2.6%	3.9%	5.2%
Mar-24	3.8%	0.9%	7.8%	-0.5%	12.7%	-1.7%	3.3%	1.6%	3.6%	4.8%
Jun-24	5.7%	0.8%	5.6%	-2.3%	9.4%	1.5%	2.2%	0.6%	2.2%	4.0%
Sep-24	3.3%	-1.0%	-1.6%	-3.5%	7.9%	0.8%	2.3%	0.0%	3.0%	3.5%
Dec-24	6.0%	-1.1%	-11.7%	-2.2%	8.1%	0.6%	2.7%	1.2%	2.8%	4.1%
Mar-25	4.8%	0.2%	-15.9%	1.4%	3.8%	1.6%	2.0%	0.6%	1.9%	3.8%
Jun-25	0.3%	-0.3%	-15.8%	1.9%	3.2%	-0.6%	2.2%	1.2%	1.9%	4.0%
Sep-25	-0.7%	0.9%	-10.6%	3.2%	0.6%	-0.6%	1.3%	0.5%	0.6%	3.7%
Dec-25	-2.0%	1.6%	-0.8%	4.2%	-3.3%	-0.4%	0.9%	0.4%	-0.1%	3.6%
Mar-26	-0.4%	2.2%	9.2%	2.0%	-1.7%	2.0%	1.6%	2.1%	0.2%	3.8%
Jun-26	3.9%	4.1%	24.7%	-1.5%	0.8%	8.8%	2.6%	5.5%	0.6%	3.5%

- In the old GDP series, deflator was a combination of WPI and CPI which clocked 9.3% and 4% during the quarter with higher weight of WPI (almost 60-70%) while the actual number came in lower than both at 2.5%.
- Meanwhile, in the new GDP series the use of double deflation method has weighed on the deflator number and provided a surprise.
- The biggest surprise was seen in the manufacturing sector with a negative deflator probably due to faster rise in input costs vis-a-vis output prices due to incomplete passthrough of spike in commodity prices to consumers during the quarter.

Source: CEIC, UBI Research

Key Statistics Table

YoY %	FY25	FY26	Q1FY26	Q2FY26	Q3FY26	Q4 FY26	Q1 FY27
GDP	7.2%	7.8%	6.9%	8.1%	7.7%	8.6%	7.8%
GVA	7.1%	7.9%	7.0%	8.3%	7.6%	8.7%	8.2%
Agri	4.1%	3.3%	4.4%	3.2%	1.9%	3.9%	3.6%
Industry	8.5%	7.6%	6.6%	9.4%	7.4%	7.1%	7.7%
o/w Mining	13.5%	7.1%	12.4%	21.6%	3.3%	-2.9%	-2.4%
Manufacturing	10.0%	8.8%	8.3%	10.0%	9.0%	7.9%	9.2%
Electricity	2.8%	2.1%	-1.8%	3.8%	1.9%	4.8%	8.9%
Construction	6.6%	7.2%	5.2%	7.8%	7.0%	8.7%	7.7%
Services	7.5%	9.7%	8.0%	9.1%	10.1%	11.5%	10.0%
o/w Trade	7.0%	11.3%	9.8%	10.6%	11.7%	12.9%	8.5%
Financing and real estate	9.0%	10.5%	8.8%	9.9%	10.9%	12.3%	12.1%
Public administration	5.1%	6.3%	4.6%	5.7%	6.6%	8.0%	7.5%
Pvt consumption expenditure	6.4%	7.2%	6.8%	6.4%	8.0%	7.5%	7.1%
GFCF	8.2%	8.0%	5.8%	7.2%	8.3%	10.5%	11.9%
Nominal GDP	9.4%	8.6%	8.1%	8.4%	8.7%	9.2%	10.3%
Real GVA ex agriculture ex govt	8.4%	9.5%	8.1%	9.8%	9.6%	10.1%	9.5%

Source: CEIC, UBI Research

Thank You !

RESEARCH TEAM

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