A bittersweet Q1 for economy

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The April to June quarter (Q1FY26) has been an uneven period for economic activity, with factory output, exports and private capex hitting a rough patch, even as the farm sector and services like transport and construction have picked up pace along with government capex.

While the spike in global uncertainties as well as unseasonal rains and an early monsoon have hurt industrial output, urban demand continues to face headwinds and though rural demand is accelerating, it is still patchy, reckoned several economists.

They expect Q1 GDP growth to be in the range of 6-7 per cent, roughly in line with the 6.5 per cent uptick recorded in the same quarter of FY25, but slower than the 7.4 per cent growth for the preceding quarter estimated by the National Statistics Office (NSO). The NSO will release national income numbers for the quarter at the end of August.

ILLUSTRATION: BINAY SINHA

Uptick expectations

	Q1FY26 GDP growth projection (In %)
HSBC	6.8-7
Crisil	Over 6.5
India Ratings	6-6.5
IDFC First	6-6.5

Q1FY25* 6.5

Q4FY25* 7.4

* Actuals

Source: BS Research

What's hot
- Rural demand, services like transportation, construction
- Farm output
- Govt capex

What's not
- Industrial output
- Urban demand
- Exports and private capex

Paras Jasrai, associate director, India Ratings says that early monsoon rains, while playing a dampener for industrial activity, particularly electricity and mining, bode well for agriculture. Data shows that kharif sowing has been nearly 10 per cent higher this year, following a good rabi harvest.

"Below normal temperatures during summers this year have crashed electricity demand. This is a direct result of the adverse climatic conditions. Growth in the manufacturing sector remained subdued during Q1 because of tariff wars and exports having fared badly after a good showing in April," said Jasrai.

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"The only positive is that input prices still remain benign. We expect growth to remain between 6-6.5 per cent in Q1," said Jasrai of India Ratings.

Radhika Rao, senior economist, DBS Bank, said that after an early onset and a lull in the first half of June, the southwest monsoon gathered momentum towards the tail end of June, but with regional dispersion. Passenger car sales and consumer goods production have been modest, accompanied by easing credit growth.

"Sentiments are broadly holding up, while wealth effects improved after a rough March-April. GST collections surged at the start of FY26, which can partly be explained by higher import-led transactions, but also indicate a strong demand-led improvement," added Rao.

Echoing similar views, IDFC chief economist Gaura Sengupta said high frequency indicators like two-wheeler and FMCG sales, electronic payments point to a moderation in urban demand, even as growth in rural wages drives rural demand. "The rural demand is still not broadbased, but is gaining momentum. General capital expenditure has picked up pace due to front loading by both the Centre and the states, even as private capex marked a sharp slowdown. Growth in Q1 has more or less been similar (6-6.5 per cent) to what it was in the last year," she posited.

Crisil chief economist Dharmakirti Joshi told *Business Standard* that the services sector, particularly transport services are doing well as evidenced by E-way bills and rail traffic. Growth in the construction sector during the quarter was also good, while infrastructure and capital goods are doing well owing to an uptick in government capex.

"Had it not been for the uncertainty due to the tariff war and unseasonal rainfall that dampened industrial activity, growth during Q1FY26 could have surely outpaced growth in the corresponding quarter of the previous year. There is still a chance that the economy may have performed better this year," he remarked.

HSBC Global Research economists on Wednesday said that 70 per cent of indicators they tracked were growing positively, and if this held up thro-ugh June, which looks likely based on available data for the last month, Q1 could see growth of 6.8-7 per cent, with the informal sector taking the lead. Strong indirect tax collection, MSME credit, and wage growth in small firms highlight the improvement in the informal sector, they noted.

"Two pivots are defining FY26 - from investment to consumption, and within consumption, from formal to informal. A rise in government spending is an added bonus, focused not just on consumption, but also capex. That said, construction and financial services were weaker than a month ago," argued the note whose lead author is Pranjul Bhandari, HSBC's chief economist for India and Indonesia.

The Centre for Monitoring Indian Economy data released on Tuesday showed new investment projects from the private sector slipped to ₹4.1 trillion in Q1, 81.35 per cent less than the ₹21.7 trillion worth of outlays in the previous quarter. On a year-on-year basis, this tally was 42 per cent higher, albeit on a low base — fresh capex plans by India Inc had slipped to a 14-quarter low of ₹2.85 trillion in Q1FY25.