ISSUE NO. 01
Q1 FY2026–27
April–June 2026

India Macro Monitor

QUARTERLY ECONOMIC LETTER

7.0%	**4.4%**	**$86.9bn**	**$675.2bn**	**5.25%**
GDP GROWTH, Q1	HEADLINE CPI	TRADE DEFICIT	FX RESERVES	POLICY REPO RATE
RBI projection, August 2026	Jun-26 · 18-month high	Merchandise · Q1 FY27	10-Jul-26 · 10.3 mo. cover	Unchanged · MPC, Jun-26

THE QUARTER IN BRIEF

India entered Q1 FY27 with strong momentum, supported by broad-based consumption and a capex upcycle carrying activity through the quarter — even as headline inflation crossed the RBI's target for the first time in eighteen months, employment indicators began to cool, and a fresh flare-up in West Asia reset the external risk calculus in early July.

Economic Activity — High Frequency Indicators

Shading is computed within each row: red indicates the weaker end of that indicator's own 12-month range, green the stronger end — it is a relative reference for this window only, not a judgement of what level is desirable.

INDICATOR	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
GLOBAL												
PMI Composite	52.5	52.9	52.5	53	52.7	52	52.5	53.3	51	51.8	51.8	52
PMI Export Orders	48.5	48.9	49.7	48.6	50	49.2	49.7	51.2	49.6	49.6	48.9	49.2
PMI Export Orders: Manufacturing	48.2	48.7	49.5	48.3	49.9	49.1	49.9	51.4	50	50.2	49.6	49.4
PMI Export Orders: Services	49.4	49.3	50.2	49.4	50.2	49.6	49	50.6	48.3	47.6	46.6	48.3
AGGREGATE DEMAND (% YOY GROWTH)												
GST E-way bills (Volume)	25.8	22.4	21	8.2	27.6	23.5	15.8	18.8	12.9	11.8	10.9	14.5
Toll collection (Volume)	14.8	12.7	4.5	4.6	2.9	0.4	-1.8	-8.7	-4	-5.8	-7.2	-6.3
Petroleum consumption (Volume)	-4.4	4.8	7	-1.5	0.6	4.5	0.7	5.5	3.2	-6.5	-5.3	-3.1
GST revenue	8.2	6.9	10	7.6	0.7	6.1	6.2	8.1	8.8	8.7	3.2	13.9
Electricity demand (Volume)	2.6	3.8	3.5	-5.8	-0.6	5.8	3.8	1	0.8	3	10.8	11.5
Digital Payments – Volume	30.9	31.1	28.1	21.5	30.2	26.8	22.3	23.5	21	22.3	21.3	18.9
Digital Payments – Value	16.6	5.3	13.4	8.8	14.7	15.2	11.5	17.9	12.6	14.4	10.8	20.5
AUTOMOBILE SECTOR (% YOY GROWTH)												
Retail passenger vehicle sales	-0.8	0.9	5.8	10.7	20.4	26.6	7.2	26.1	21.5	18.1	23.2	28.6
Retail automobile sales	-4.3	2.8	5.2	40.5	2.1	14.6	17.6	25.6	25.3	17.4	9.5	21.8
Retail tractor sales	11	30.1	3.6	14.2	56.5	15.8	22.9	36.4	10.9	28.7	11.2	25.3
Retail two-wheeler sales	-6.5	2.2	6.5	51.8	-3.1	9.5	20.8	25	28.7	17.2	7.5	21.2
EMPLOYMENT (%)												
Unemployment rate (PLFS: All-India)	5.2	5.1	5.2	5.2	4.7	4.8	5	4.9	5.1	5.2	5.5	5.5
Unemployment rate (PLFS: Rural)	4.4	4.3	4.6	4.4	3.9	3.9	4.2	4.2	4.3	4.6	5.1	5
Unemployment rate (PLFS: Urban)	7.2	6.7	6.8	7	6.5	6.7	7	6.6	6.8	6.6	6.4	6.6
Naukri JobSpeak Index (% YoY Growth)	6.8	3.4	10.1	-9.3	23.5	13.2	3.4	11.9	9.2	5.8	1.0	6.1
PMI Employment: Manufacturing	53.3	53.1	52.1	52.4	50.9	50.5	51.1	51.5	52.6	54.6	53	50.8
PMI Employment: Services	51.4	52.2	51.9	51.4	51.6	49.8	50.8	51.6	52.7	53.4	53.2	50.3
INDUSTRY												
PMI Manufacturing	59.1	59.3	57.7	59.2	56.6	55	55.4	56.9	53.9	54.7	55	54.2
PMI Export order	57.3	56.1	56.5	54.7	54.1	54	54.1	53.2	55	56.3	53.7	52.1
IIP-Headline (% YoY Growth)	5.4	4.7	6.1	-0.9	7	6.7	4.1	4.4	3	4.9	5.1	7.3
IIP capital goods (% YoY Growth)	5.9	6	13.2	5.4	16.6	12.9	12.4	16.5	8.5	12	12.9	14.2
Import of capital goods - Value (% YoY Growth)	13.3	0.2	12.7	8.5	12.8	13	7.1	19.7	13.1	21.6	18	38.7
Index of Eight Core Industries (% YoY Growth)	3.2	6.2	3.1	0.8	3.5	5.6	5.2	3.2	2.9	2.7	3.2	5.0
SERVICES												
PMI Services	60.5	62.9	60.9	58.9	59.8	58	58.5	58.1	57.5	58.8	59.8	57.4
International air passenger traffic (% YoY Growth)	5.5	7.7	7.3	9.7	7.5	6	7.1	3	-18.5	-16.1	-9.1	-5.2
Foreign tourist arrivals (% YoY Growth)	-16.4	-5.1	-9.8	-5.1	-2	2	5.2	6.1	-1.6	-14.7	-	-
Hotel occupancy (% YoY Growth)	-2.4	-3.2	-0.6	0.0	3.8	-1.5	-8.5	1.2	-4.0	-1.0	9.9	-

Broad Economic Outlook

Global activity remained resilient, but the trade environment stayed weak. Both manufacturing and services export order PMIs softened during the quarter, with services remaining in contraction throughout. This indicates a continued external demand headwind for India's export-oriented sectors, especially IT and business services.

The e-way bill–toll–diesel triangulation points to softer freight activity. The simultaneous moderation in e-way bill growth, continued contraction in toll collections and weak petroleum consumption suggest that goods movement was less buoyant than GST revenue or IIP alone would indicate.

Automobile sector remained the standout performer during the quarter. Passenger vehicles, two-wheelers, tractors and overall retail automobile sales all recorded robust double-digit growth.

The labour market remained stable but showed signs of losing momentum. Unemployment edged higher to 5.5%, Naukri JobSpeak growth eased, and employment PMIs moderated.

Domestic industrial momentum remained strong despite a softer external environment. Robust manufacturing activity and strengthening capital goods production and imports indicate the investment cycle remains intact, even as manufacturing export orders moderated steadily through the quarter.

Domestic services activity remained resilient with Services PMI remaining comfortably in expansion territory throughout the quarter. However, externally-oriented services are likely to face a weaker environment.

Latest Economic Developments

GLOBAL

The **IMF's July 2026 WEO Update** trimmed global growth for 2026 to 3.0% (from 3.1% in April) on the West Asia conflict, partly offset by AI-led investment, with global headline inflation seen rising to 4.7% in 2026 from 4.1% in 2025.

The **US–Iran ceasefire** that had stabilised markets through June collapsed in early July, reviving supply-chain and energy-market uncertainty and pushing EM financial-market volatility and capital outflows back up.

Commodity prices (crude, gas, fertiliser, industrial metals) largely retraced to pre-conflict levels by early July, before the ceasefire collapse pushed crude back up.

Central bank paths stayed divergent: the ECB and Bank of Japan both raised rates in June (to 2.25% and 1.0% respectively) but held in July; the Fed, Bank of England, SNB and RBA also held; Brazil continued cutting, while Indonesia and the Philippines had already hiked earlier in the cycle.

DOMESTIC

Headline CPI inflation rose to 4.4% in June — an 18-month high and the first print above RBI's 4% target since January 2025 — driven by food and fuel; core inflation held steady at 3.9%.

The **India–UK CETA** and companion Double Contribution Convention took effect on 15 July 2026, giving Indian exporters near-total duty-free access to the UK market from day one.

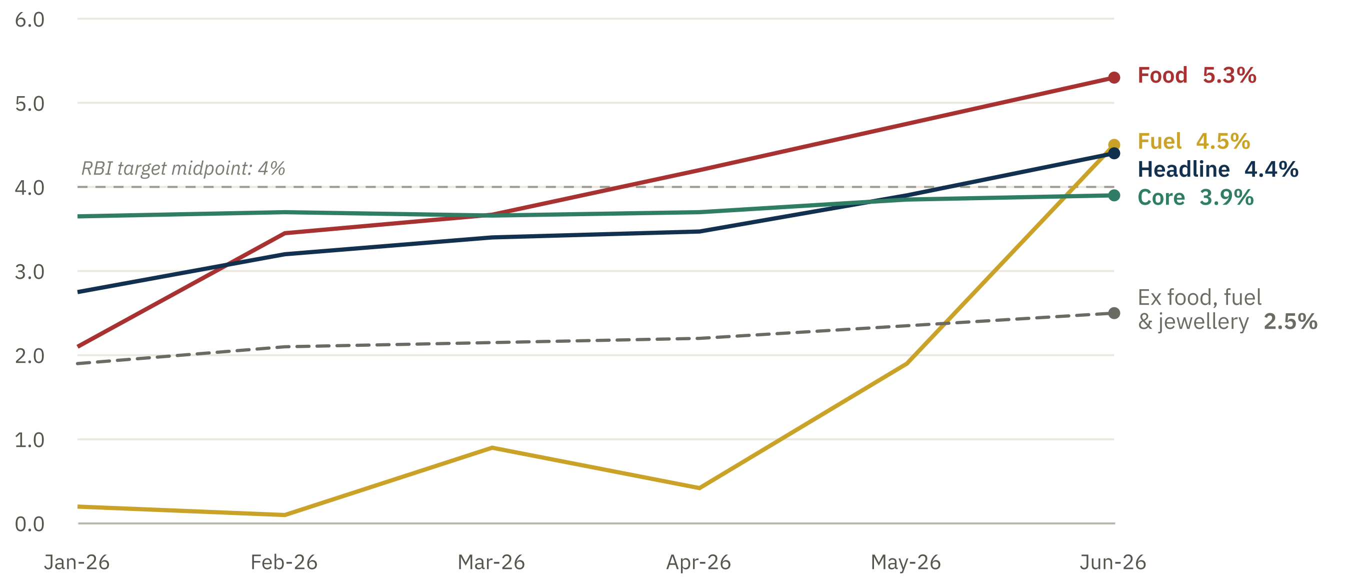
The **Viksit Bharat–Guarantee for Rozgar and Ajeevika Mission Gramin (VB-G RAM G)** replaced MGNREGS from 1 July 2026 — guaranteeing 125 days of annual employment and setting a national floor wage of ₹300/day.

MoSPI released a new Index of Services Production (base 2024–25) on a trial basis on 14 July 2026 — the first monthly formal-services-activity measure to complement the IIP; the debut print showed 14 of 19 sub-sectors in double digits, led by accommodation & food.

The **WPI base year was revised to 2022–23** (from 2011–12), aligning it with the revised GDP and IIP series; on the new series, WPI inflation rose to 9.9% in June from 9.7% in May.

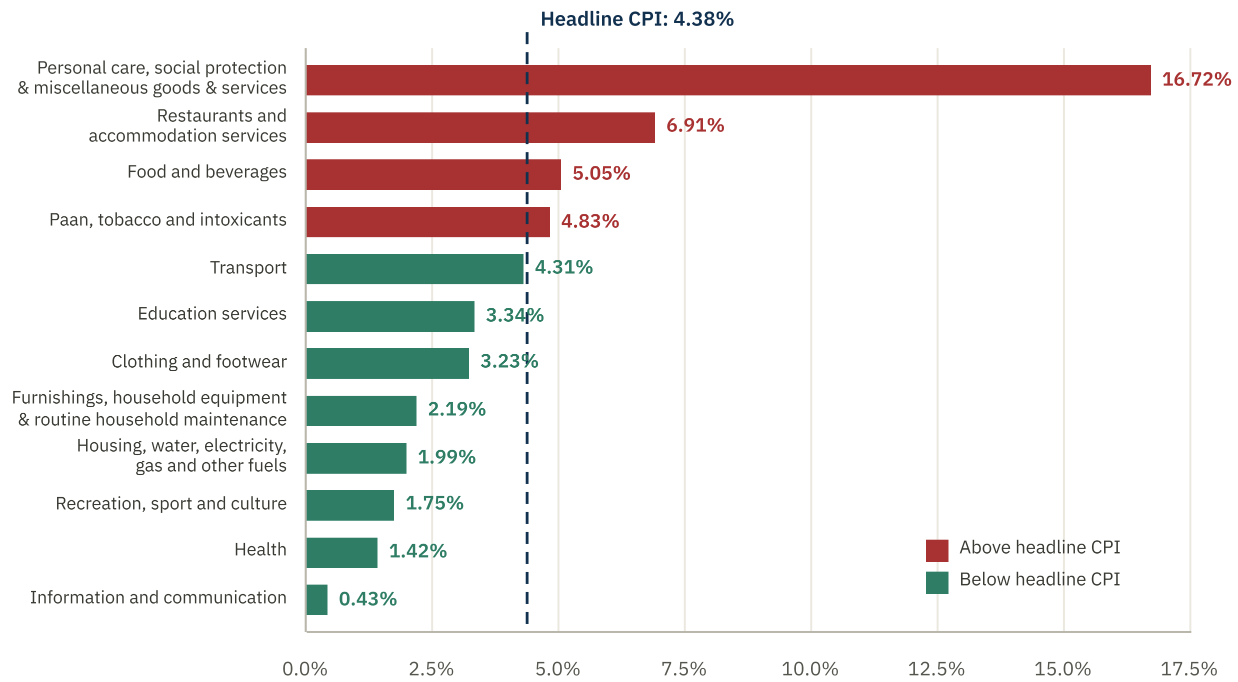
Inflation

Headline inflation crossed the RBI's target for the first time in 18 months, with food and fuel doing the heavy lifting.



Source: MoSPI CPI Release

Fuel inflation accelerated as petrol and diesel inflation increased to **7.5%** and **8.4%** in Jun-26, respectively, from 3.1% and 3.4% in May-26, while LPG inflation rose to 4.6% from 2.2%, reflecting the pass-through of retail fuel price hikes.



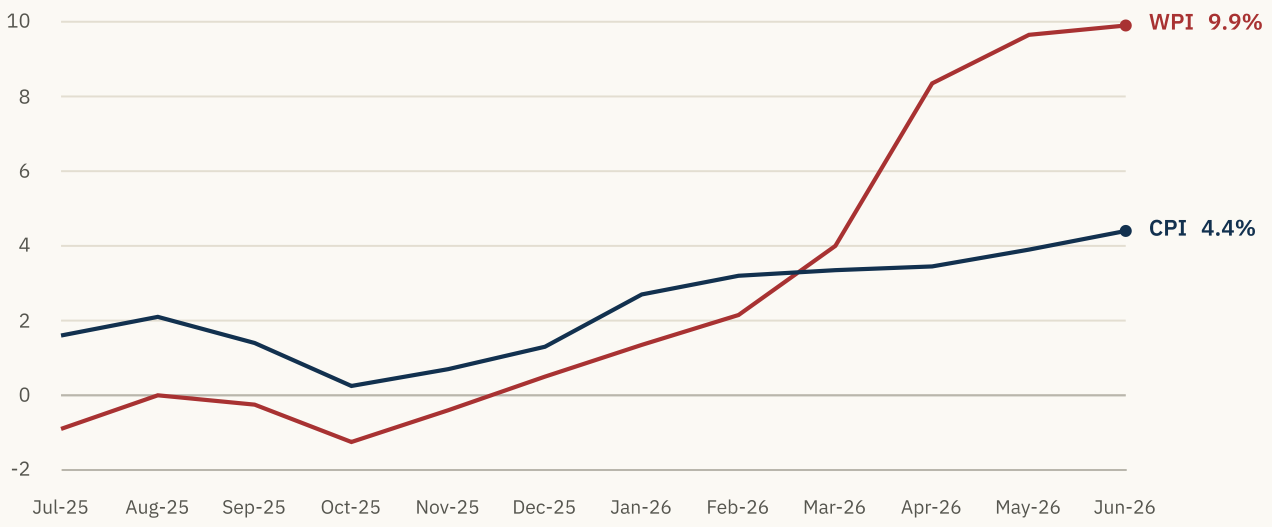
Source: MoSPI, CPI Detailed Report

Inflationary pressures remain **concentrated rather than broad-based**, with only four of the eleven CPI divisions recording inflation above the headline rate. However, the categories exceeding headline inflation are economically significant. Alongside food inflation (5.1%), elevated inflation in restaurants and accommodation (6.9%) and transport (4.3%) suggests that higher food and fuel costs are beginning to feed into downstream services, pointing to the early emergence of second-round effects. At the same time, subdued inflation in housing, health, education and other core categories indicates that these spillovers remain limited for now.

SIGNALS FROM THE DATA

Widening CPI–WPI Gap

The divergence between wholesale and consumer inflation widened sharply, with WPI inflation accelerating to **9.9%** in Jun-26, compared with CPI inflation of **4.4%**. WPI inflation increase further to 9.9% in Jun-26 indicates sustained pipeline price pressures. While consumer inflation has remained significantly below wholesale inflation, the persistence of elevated producer prices raises the likelihood of greater cost pass-through to retail prices, particularly in transport and consumer-facing services. Although broad-based spillovers remain limited, the widening WPI–CPI gap warrants close monitoring for the emergence of broader second-round inflationary effects.

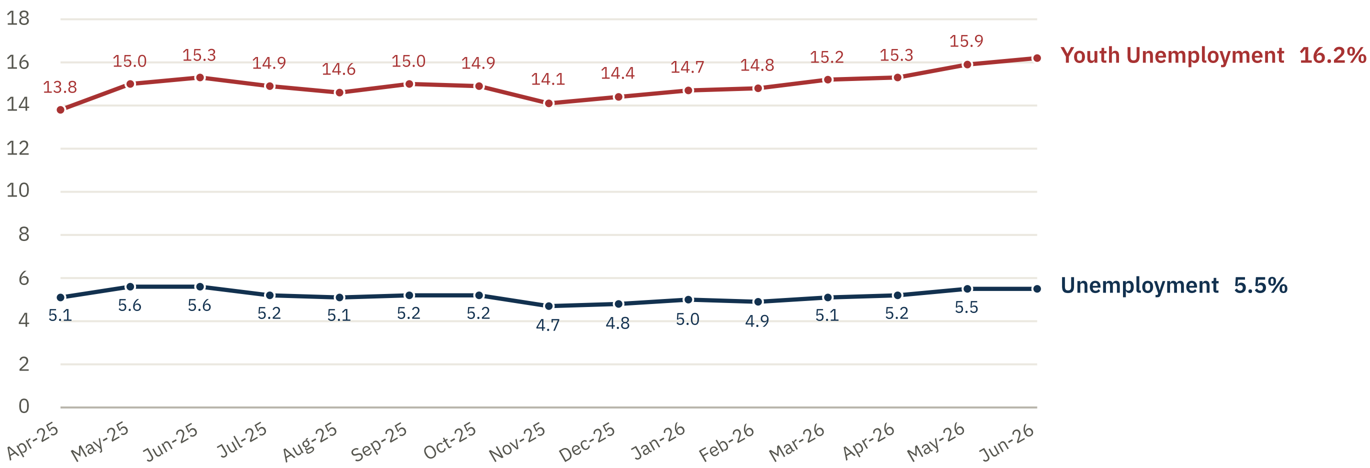


Source: MoSPI (CPI); DPIIT (WPI)

Labour Market

Employment indicators cooled through the quarter even as output held up — a divergence worth watching heading into Q2 FY27.

YOUTH UNEMPLOYMENT SURGED TO A 12-MONTH HIGH



Source: PLFS Monthly Data

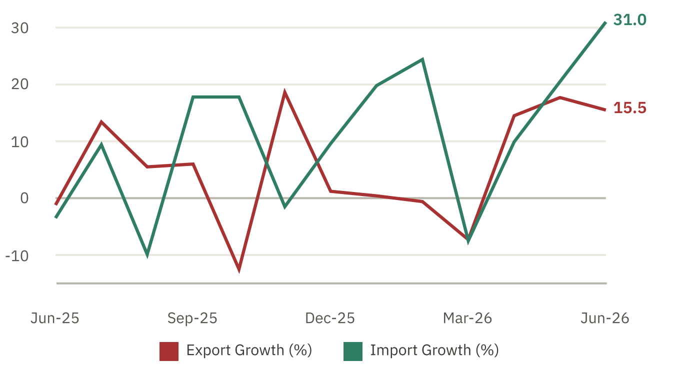
A key concern during Q1 FY2026-27 has been the **continued deterioration in youth labour market conditions**. While the overall unemployment rate increased modestly from 5.0% in January to 5.5% in June 2026, youth unemployment (15-29 years) rose more sharply from 14.7% to 16.2%, reversing the improvement observed towards the end of 2025. The disproportionate increase in youth unemployment suggests that employment generation has not kept pace with the entry of new job seekers into the labour force. This is particularly concerning as younger workers are typically the first to be affected by slowing hiring, reflecting weaker labour demand rather than large-scale job losses. The trend is consistent with signs of moderating hiring momentum in high-frequency indicators, including softer PMI employment readings, and suggests that private sector job creation remains insufficient despite resilient overall economic activity.

External Sector

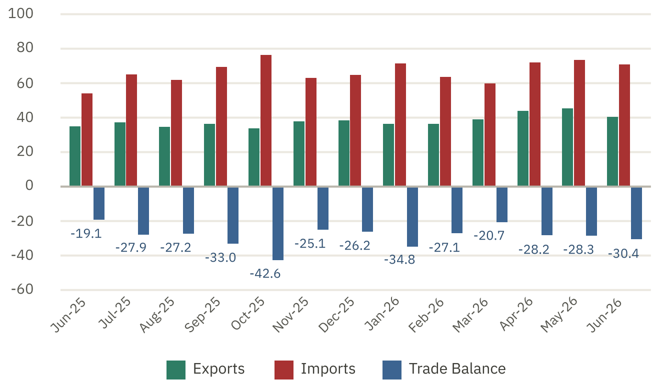
External accounts stayed comfortably buffered, with an export recovery and firmer capital inflows offsetting a widening trade deficit driven by oil and electronics imports — though the July flare-up in West Asia is a live risk to this picture.

KEY EXTERNAL INDICATORS

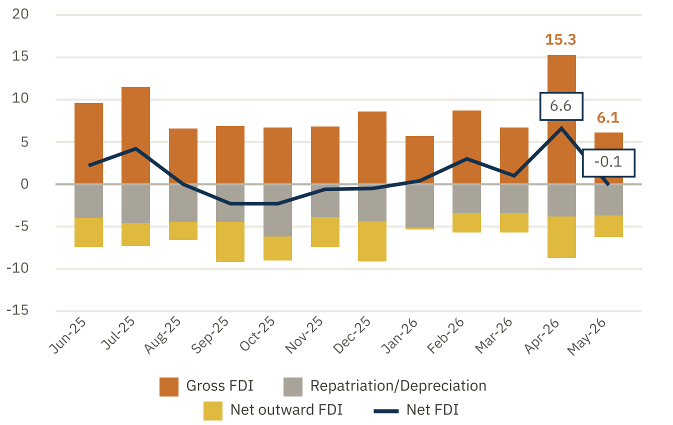
Higher Growth in Imports than in Exports



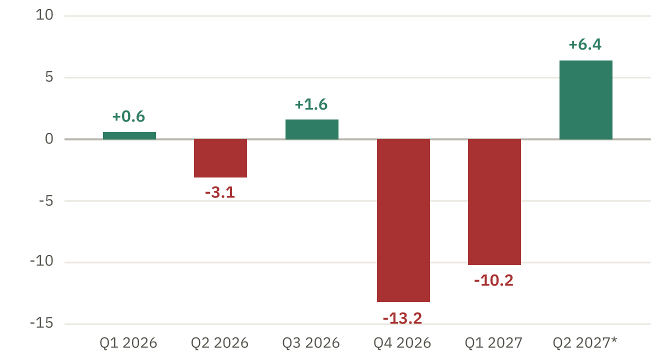
Trade Deficit has been widening (US$ billion)



Foreign Direct Investment (US$ billion)

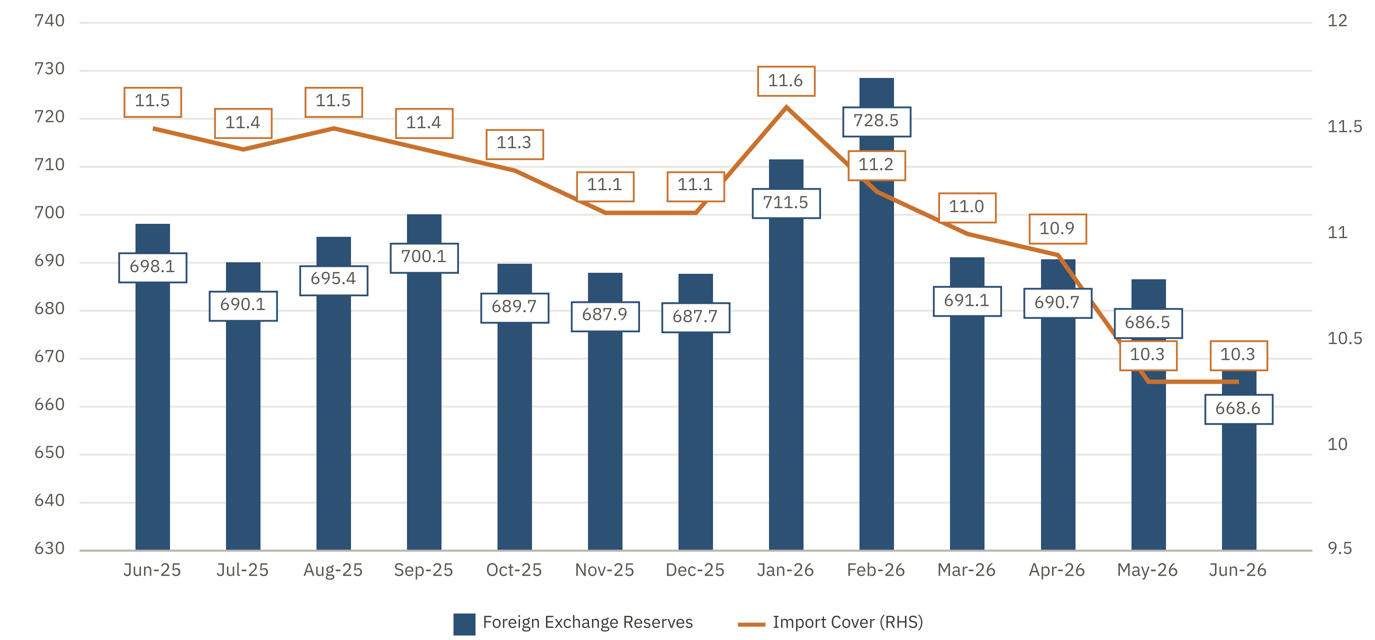


Net FPI Flows (US$ billion)



**Q2 2027 up to 6 August 2026.*

Foreign Exchange Reserves (US$ billion) and Import Cover (months)



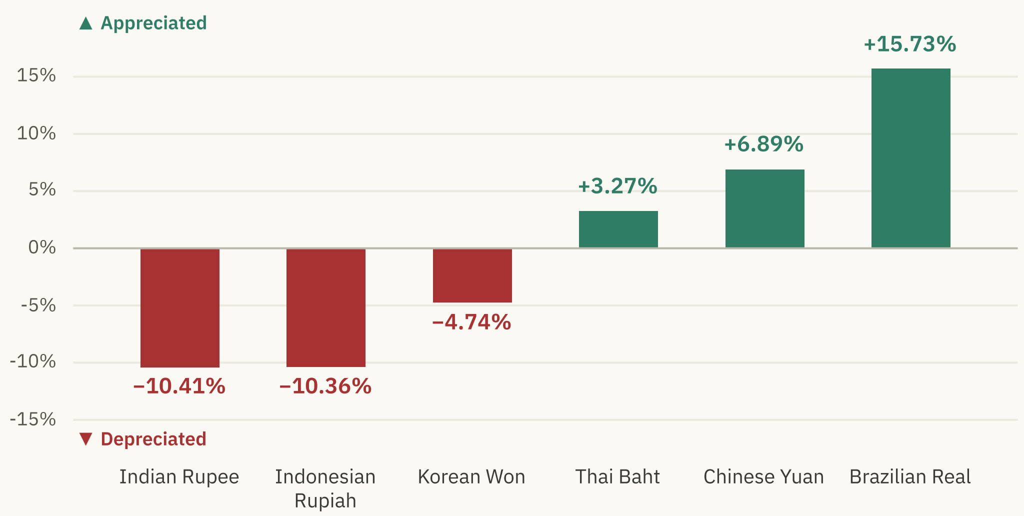
The Rupee's Underperformance: Not Just a Weak Dollar Story

The comforting explanation for the rupee's slide, that the dollar has been broadly weak does not survive contact with the data. Since the start of 2025, the US dollar has steadily lost ground against most major currencies. The Dollar Index (DXY) fell from its Jan-2025 level to a four-year low in Jan-26, roughly 12% below where it started [see figure below].

Source: Investing.com (DXY futures); FBIL Reference Rate via Investing.com (USD/INR). Daily closes to 30 June 2026.
Both series indexed to 100 on 3-Jan-2025; rupee series inverted so a fall = currency weakening, matching DXY's convention.

Instead, the two series diverged significantly. While the DXY weakened steadily through 2025, the rupee also began depreciating from around May 2025. More importantly, the rupee continued to weaken for several months after the DXY had already bottomed out, reaching a record low of **₹96.84 per US dollar on 20 May 2026**, even as the broad dollar had begun to recover. The rupee's own decline, from its May-2025 peak to its May-2026 low, was in fact larger in magnitude than the dollar's — a sharper and longer slide than the "weak dollar" story alone can explain. Whether the rupee can now track the dollar's recovery, or continues to lag it as it did on the way down, is worth watching closely in the coming quarters.

Cross-country comparisons reinforce this conclusion. Between January 2025 and June 2026, the Indian rupee depreciated by **10.4%** against the US dollar, almost identical to the Indonesian rupiah (10.4%) and substantially larger than the Korean won (4.7%). In contrast, several major emerging market currencies appreciated over the same period, including the Thai baht (3.3%), Chinese yuan (6.9%) and Brazilian real (15.7%). Such divergence would be difficult to explain if exchange rate movements were driven solely by broad dollar dynamics. Instead, it suggests that country-specific factors including external financing pressures and capital flow dynamics, have become increasingly important drivers of the rupee's recent weakness.



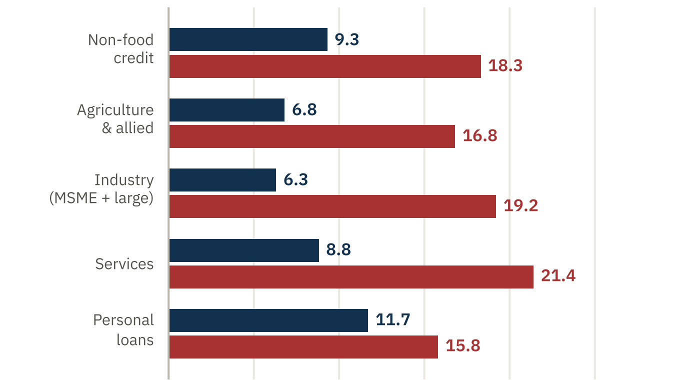
Source: Investing.com; author's calculations. % change in local currency per USD, 3-Jan-2025 to 30-Jun-2026.

Financial Markets

Financial conditions remained supportive during the quarter, with abundant system liquidity, easing bond yields and robust bank credit growth providing favourable financing conditions, although lending continued to be concentrated in services and personal loans.

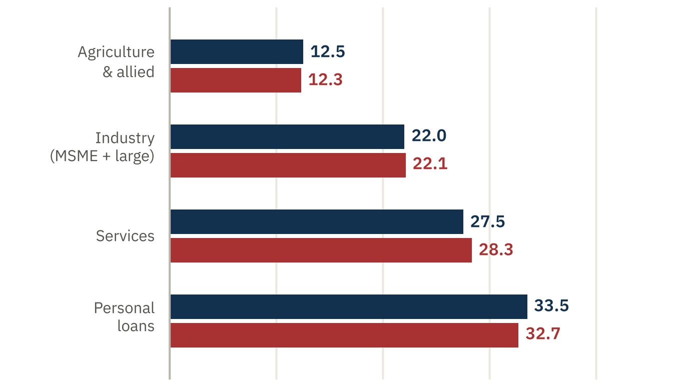
Indicator	Value	Date
WACR, average	5.29%	Jul 20th
System Liquidity, net LAF absorption	₹1.25 lakh cr	Jul
10Y G-sec Yield	6.78%	20-Jul
SCB Credit Growth (% YoY)	18.6%	30-Jun
SCB Deposit Growth (% YoY)	13.3%	30-Jun
Money Supply, M3 (% YoY)	13.0%	30-Jun
AAA Corporate Bond Yield, 3-Yr	7.42%	Jul

Bank Credit YoY Growth (%)



Source: RBI Sectoral Deployment of Credit.

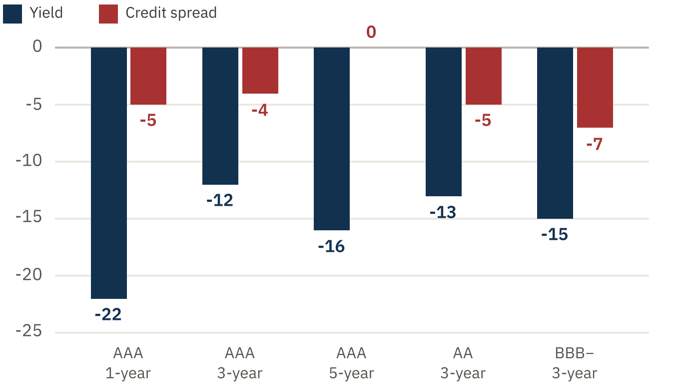
Sectoral Share in Non-Food Credit (%)



Source: RBI Sectoral Deployment of Credit.

Corporate Bond Yields and Spreads

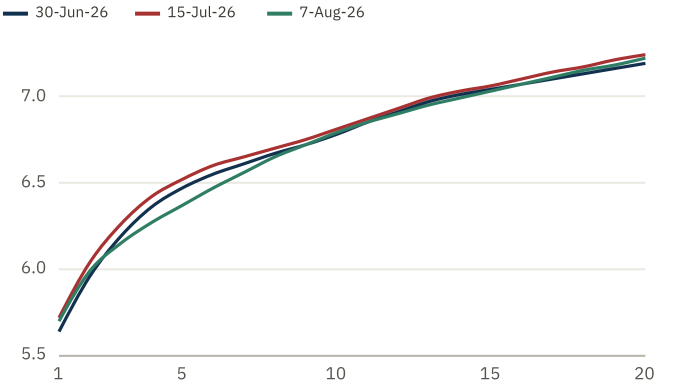
Basis-point change, June 2026 to July 2026 (to 20-Jul)



Source: FIMMDA.

G-Sec Yield Curve

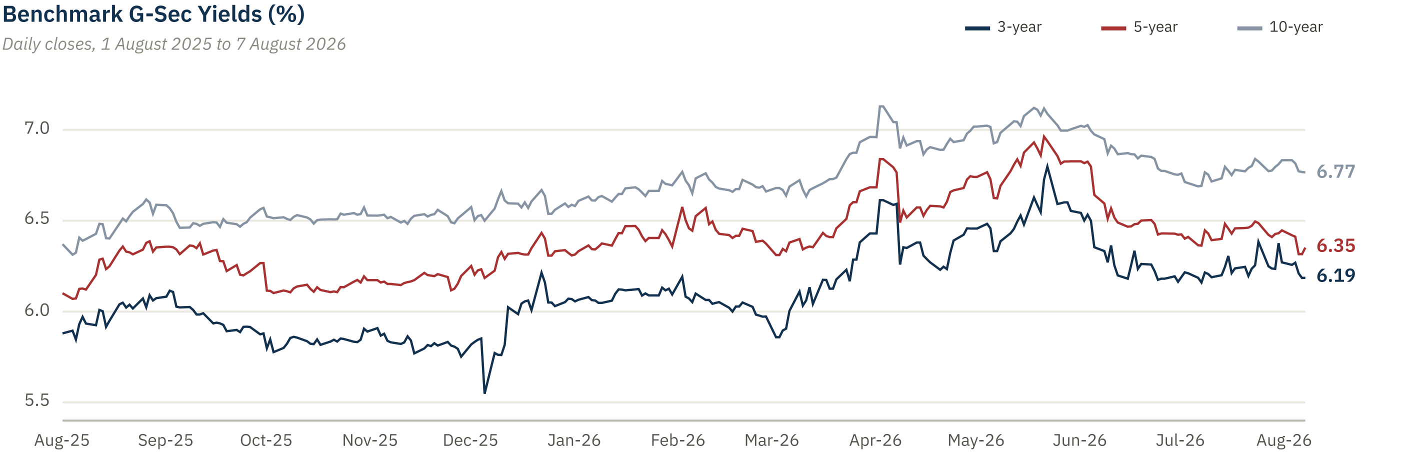
Yield (%) by residual tenor, years



Source: FBIL / CCIL.

Benchmark G-Sec Yields (%)

Daily closes, 1 August 2025 to 7 August 2026



Source: FBIL / CCIL. Daily closes, 266 trading days.

Quarterly Outlook

O U T L O O K

Growth is likely to remain resilient, broadly in line with the IMF's 6.4% FY27 projection, supported by public capital expenditure, resilient domestic demand and the festive season.

The scope for further monetary easing has narrowed as headline inflation has moved above the RBI's 4% target and pipeline price pressures have intensified, although subdued core inflation suggests the shock remains largely supply-driven.

Oil prices remain the key macro swing factor. Following the collapse of the West Asia ceasefire, renewed upward pressure on crude prices poses risks to inflation, the current account and the fiscal deficit. As in previous episodes, fiscal policy is expected to remain the first responder, with the government using calibrated fuel tax adjustments, subsidies and price pass-through to cushion the impact of higher oil prices, while monetary policy focuses on containing any broader second-round inflationary effects.

S U P P O R T I N G   T R E N D S

Consumption remains resilient: Retail automobile sales remained robust, led by passenger vehicles (+28.6% YoY), tractors (+25.3%) and two-wheelers (+21.2%) in June, pointing to broad-based domestic demand.

Investment cycle continues to strengthen: Capital goods imports accelerated to 38.7% YoY in June, while capital goods production remained in double digits, indicating sustained investment momentum.

Industrial activity remains robust: Manufacturing PMI remained firmly in expansion territory throughout the quarter, while capital goods production and the Index of Eight Core Industries strengthened towards quarter-end.

External buffers remain comfortable despite a wider trade deficit: Foreign exchange reserves continue to provide over 10 months of import cover, while FDI and FPI flows improved, helping cushion external vulnerabilities.

Financial conditions remain supportive: Liquidity has improved, bond yields have softened and bank credit growth remains robust, supporting domestic financing conditions.

E M E R G I N G   P R E S S U R E S

Youth unemployment is rising: Youth unemployment (15–29 years) increased from 14.7% in January to 16.2% in June 2026, reversing the improvement seen towards the end of 2025 and signalling that job creation has not kept pace with new labour market entrants.

Inflationary pressures are re-emerging: Headline CPI rose to 4.4% in June, breaching the RBI's 4% target for the first time in 18 months. Food and fuel inflation remain elevated, while the widening WPI-CPI gap points to mounting pipeline inflation pressures.

External demand remains weak: Global export-order PMIs continued to soften, with services export orders remaining in contraction throughout the quarter, signalling a challenging environment for India's export-oriented sectors.

Business sentiment has softened: Manufacturing future output expectations fell sharply during the quarter, while manufacturing and services export order PMIs weakened, pointing to growing caution amid an uncertain global environment.

Persistent rupee underperformance: The rupee continued to weaken beyond the period of broad dollar weakness and underperformed most peer emerging-market currencies, indicating that domestic factors have amplified external pressures.

S O U R C E S   &   N O T E S

- Reserve Bank of India: monetary policy, liquidity, banking and external-sector data releases.
- Monthly indicator series (Global, Demand, Employment, Industry, Services) compiled from official government and market data releases.
- IMF World Economic Outlook Update, July 2026.
- MoSPI, Periodic Labour Force Survey (PLFS) Monthly Bulletin, June 2026.
- Naukri JobSpeak Index, Info Edge.
- S&P Global, Purchasing Managers' Index releases.
- Goods and Services Tax Network (GSTN); Central Electricity Authority.
- Federation of Automobile Dealers Associations (FADA).
- Ministry of Petroleum & Natural Gas; Petroleum Planning & Analysis Cell (PPAC).
- Bloomberg; National Securities Depository Limited (NSDL).
- Controller General of Accounts; Union Budget documents.
- Office of the Economic Adviser, Ministry of Commerce & Industry (WPI base revision).

Note to Readers: *This is the first iteration of the India Macro Monitor and is intended as a foundation for a recurring publication. The framework, indicators and visualisations will continue to evolve as we incorporate new data and feedback. We would greatly appreciate any comments or suggestions to improve future editions.*

O U R   T E A M

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