

India's growth resilience

Economics
India

Please welcome the star of the season

- ◆ Export-oriented manufacturing and select investment are driving growth resilience in 3Q
- ◆ Informal sector consumption could moderate as inflation erodes purchasing power, fiscal targets slow public capex, and financial conditions tighten – but we are not too worried about growth
- ◆ Export exuberance could be the star of the season, moving from high-tech (led by INR depreciation) to mid-tech (led by FTAs), providing a floor to growth (HSBC: 7.2% in FY27)

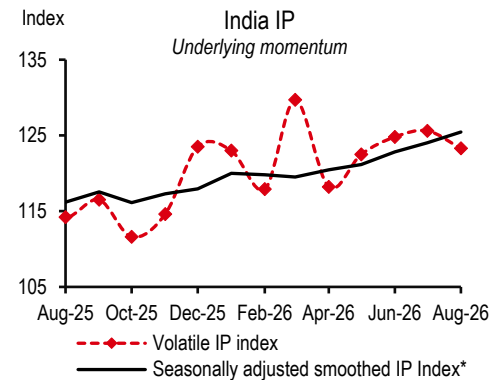
A string of strong readings – IP (8% in Aug), non-oil exports (21% in Aug), public capex (c25% Apr-Aug), credit growth (19% in Sep). Our 100 indicators database shows that c70% of the indicators grew positively in Aug (vs 52% in Mar-Jul). Manufacturing has been particularly robust and is likely to remain so as the Sep flash PMI points to a sharp rise in new orders. Going by these trends, GDP is tracking at c7.5% in 3Q26.

The source of this resilience is broad-based, despite disruptions caused by energy and adverse weather. *Consumption*, shielded from the energy shock via excise duty cuts and incomplete pass-through of higher input costs, remains steady. *Investment* was robust, led by public capex alongside private investment in emerging sectors like data centres, semiconductors and renewables. *Non-oil exports*, particularly high-tech exports like electronics and engineering goods, have risen quickly.

What's the course ahead? As the supportive effects of accommodative monetary policy and GST cuts fade, growth is likely to slow at the margin. The weakness will likely be most visible in the informal sector consumption. El Niño-related disruption and a faster pass-through of higher input costs are likely to push up inflation, eroding the purchasing power of lower-income households disproportionately. Already, the sequential momentum of domestic GST collections, 2W sales, rural and small-firms wages have softened. Public capex, too, will likely moderate in 2HFY27 as fiscal targets become binding. Finally, financial conditions are likely to tighten with interest rate hikes, both globally and domestically. We expect RBI to hike the repo rate by 50bp in 4Q26. But fear not.

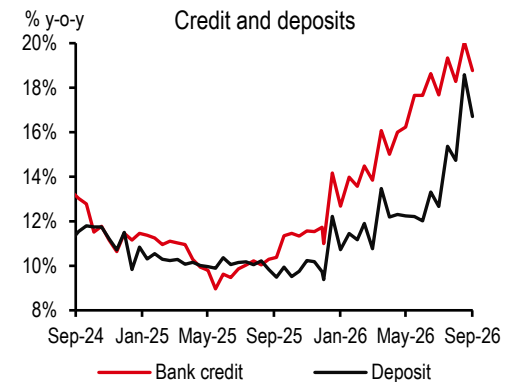
Goods exports – the star of the season. Growing 20% y-o-y in volume and 26% in value in Aug, these are providing a solid floor to growth. High-tech exports remain strong and could strengthen more helped by the c15% REER depreciation since early 2025. However, labour-intensive mid-tech exports like apparel, furniture, leather, gems and jewellery have been sluggish for a decade. The recent trade agreements with consumption-oriented economies such as the EU and UK, if implemented effectively, could reduce India's tariff disadvantage and expand market access for mid-tech exports. Already since the UK FTA was actioned, exports to the UK have risen quickly (up 12% m-o-m sa in Aug).

1. IP's underlying momentum has been strong for a while now



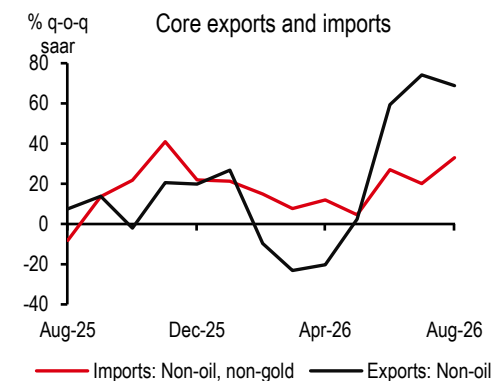
Source: CEIC, HSBC. Note: *The original IP Index is very volatile. To read through the noise, we first seasonally adjust the series and then take a 3-month moving average

2. Credit growth remains impressive



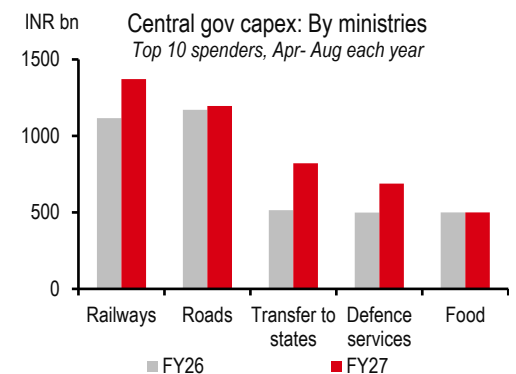
Source: CEIC, HSBC

3. Core export growth has been impressive



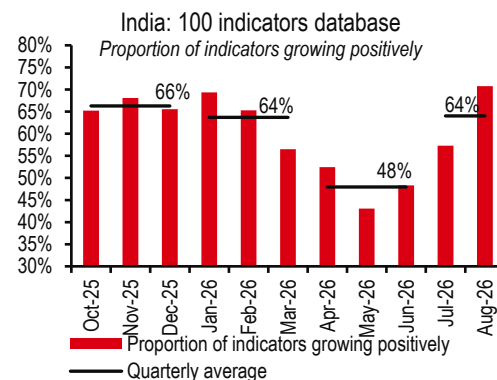
Source: CEIC, HSBC

4. Public capex via railways, roads and transfer to states has picked up quickly



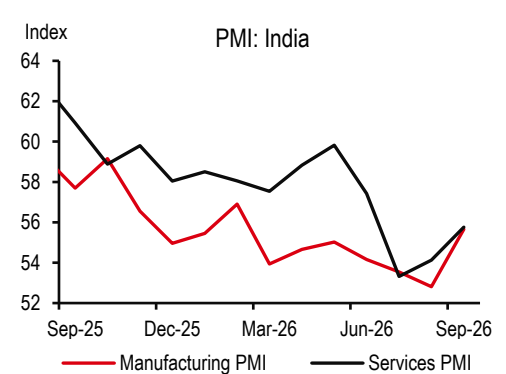
Source: CEIC, HSBC

5. 100 indicators database points to a renewed momentum in activity in August

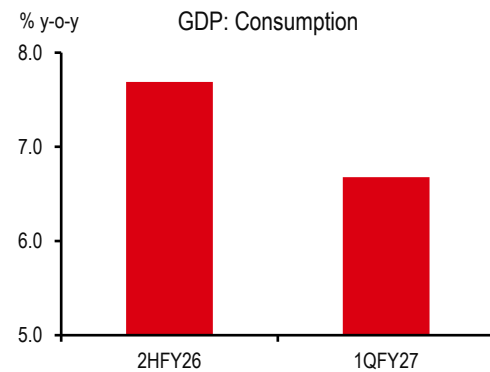


Source: CEIC, S&P Global PMI, HSBC

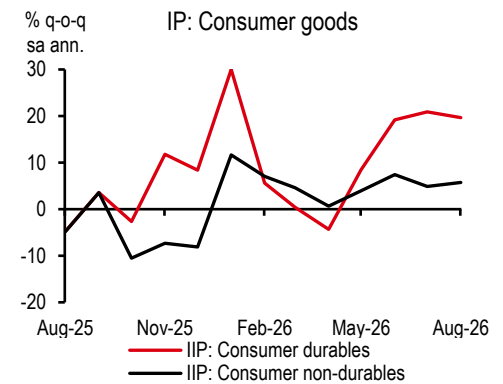
6. Flash PMI indicates that activity momentum remained strong in Sep as well



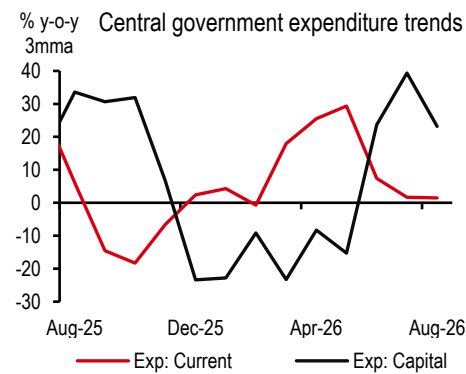
Source: S&P Global PMI, HSBC

7. Consumption slowed a bit, but remained strong at c7% y-o-y


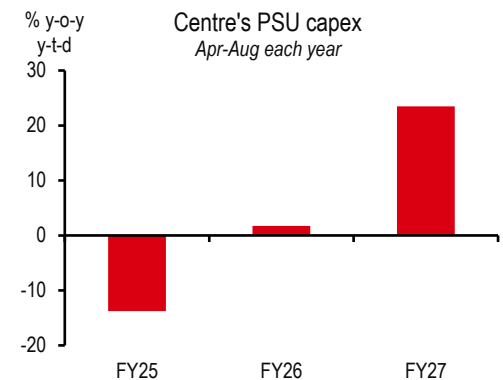
Source: CEIC, HSBC

8. Non-durables output is much slower than durables


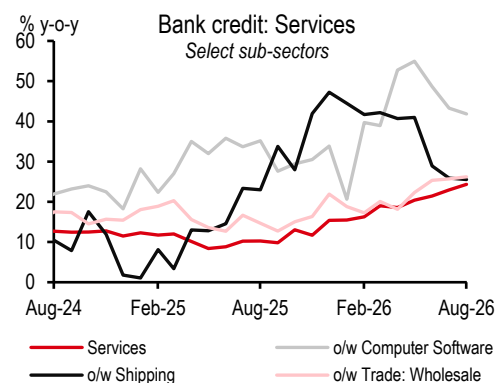
Source: CEIC, HSBC

9. Centre's capex grew much faster than its current expenditure


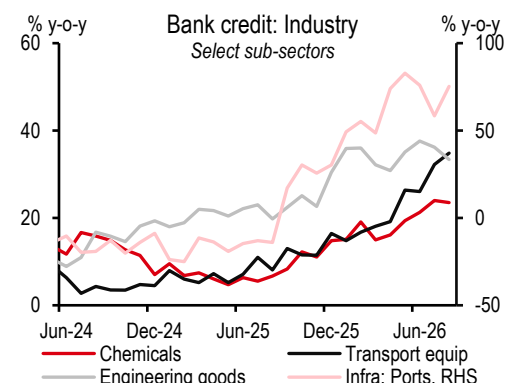
Source: CEIC, HSBC

10. Central PSEs also ramped up capex quickly


Source: Department of public enterprises, CEIC, HSBC

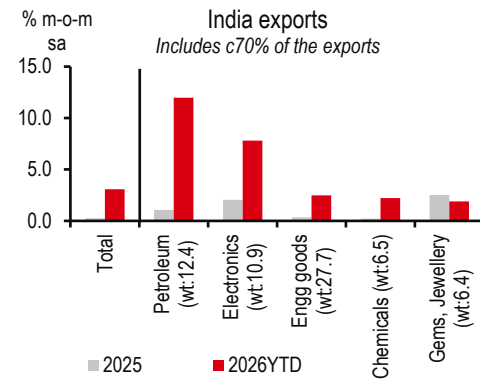
11. Credit in IT-enabled services (including data centres) is rising quickly


Source: CEIC, HSBC

12. Credit in engineering goods, ports, transport equipment and chemicals is rising


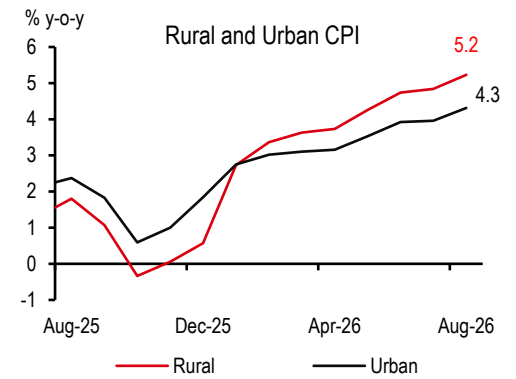
Source: CEIC, HSBC

13. High-tech exports like electronics, engineering goods rose quickly in 2026



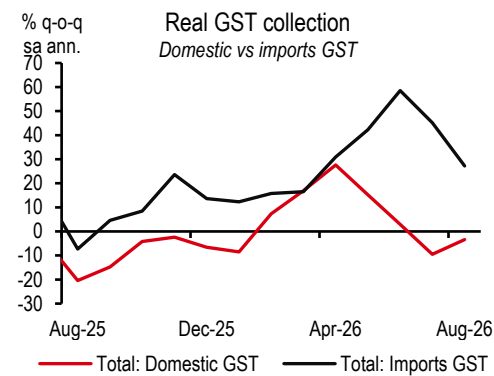
Source: CEIC, HSBC

14. Rural inflation tends to weigh more on the purchasing power of lower-income household



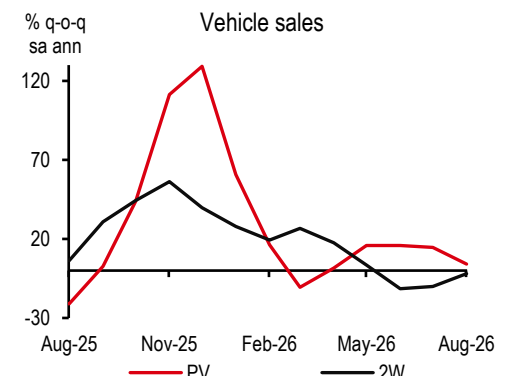
Source: CEIC, HSBC

15. Domestic GST collections have remained lacklustre...



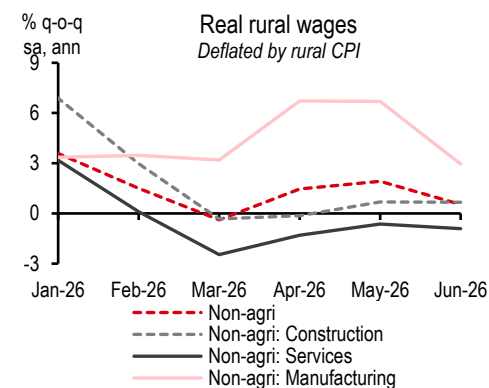
Source: CEIC, HSBC

16. ...while 2W sales slipped into the red on a sequential basis



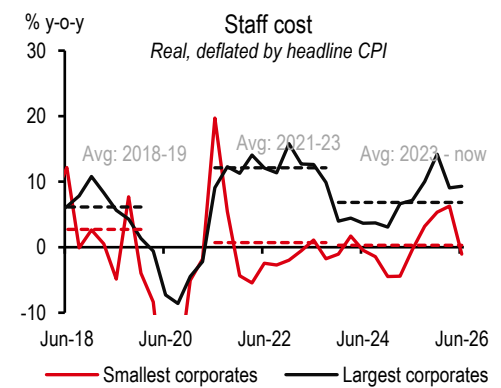
Source: CEIC, HSBC

17. Real rural wage growth has slowed as inflation picks up



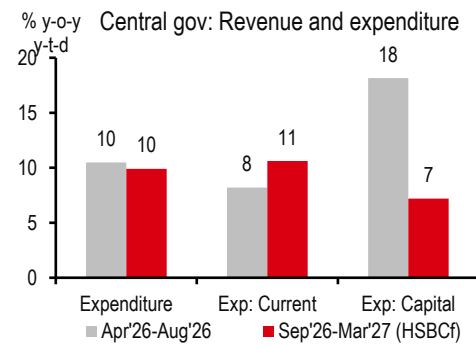
Source: CEIC, HSBC

18. Small-firm workers' real income growth, too, remains near zero



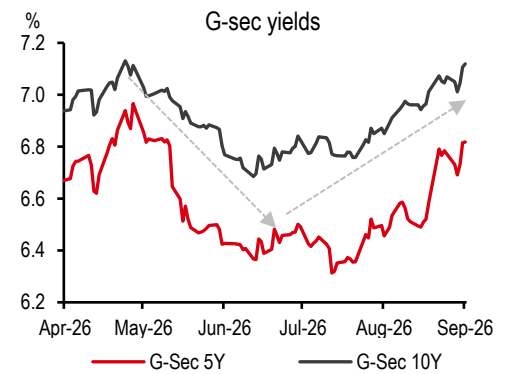
Source: CEIC, HSBC

19. Government capex may slow in 2HFY27 as fiscal targets become binding



Source: CEIC, HSBC

20. Financial conditions have tightened since mid-August



Source: Bloomberg, HSBC

Disclosure appendix

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