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Hope in Motion, Reality in Pause: The Dual Speeds of India's Economy

Why India's macro indicators are telling a more nuanced story than headlines suggest.

India's growth story is tethered to multiple pegs with the two primary ones being consumption and capital expenditure. As disposable incomes increase, the demand for goods and services is expected to witness a fillip. As demand increases, suppliers of goods and services with access to cost effective credit, are likely to invest in expansion in order to cater to the increase in demand. This will not only lead to higher economic activity, but also employment generation which in turn, will improve household incomes. In theory, this sounds flawless - a virtuous cycle of increasing income, growing consumption, and improving economic activity.

But how well does theory hold up against the evidence?

At Multi-Act, we have been closely tracking a range of macro indicators—spanning consumption, employment, credit, and manufacturing—to examine whether the cycle is truly turning in unison. What we have found is not a breakdown, but a growing divergence. The signs are subtle, but the implications could be significant.

At the same time, we must acknowledge that while India is creating a space for itself on the global stage, it is not insulated from global currents. Geopolitical strife and trade realignments are beginning to pose subtle yet material risks to this momentum.

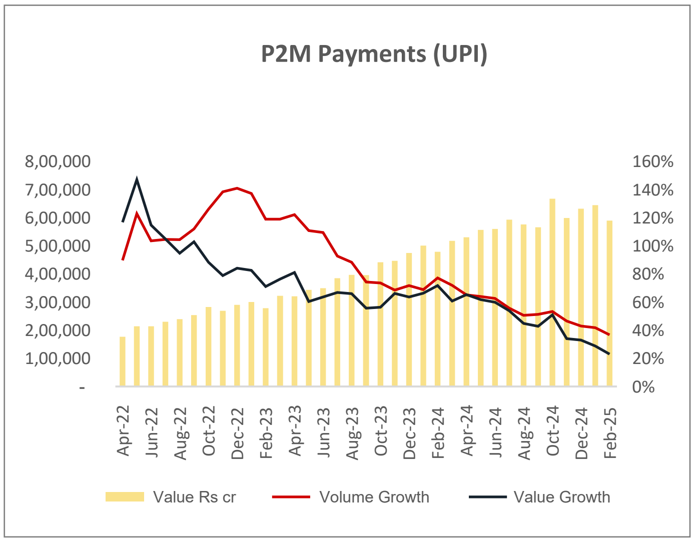
The question now is - which signals matter more, and what are they telling us about the road ahead?

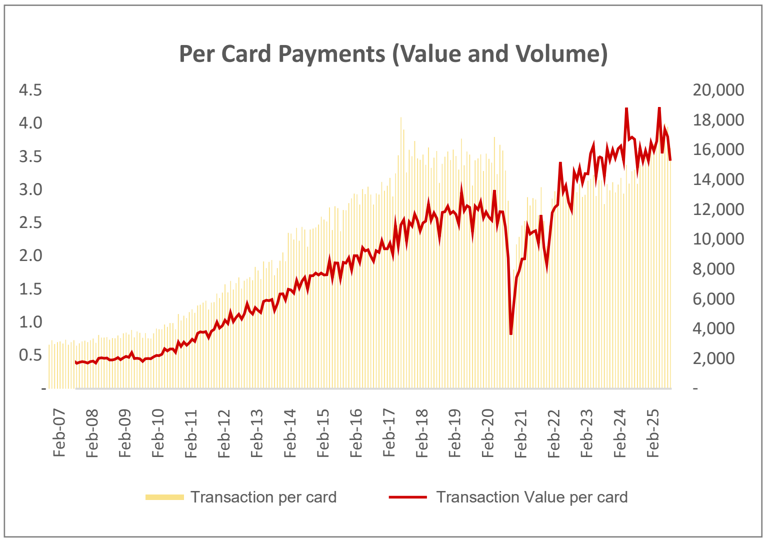
Consumption: A Tale of Two Indias

The most direct lens into economic momentum is personal consumption. Here, the picture is layered. Urban discretionary spending appears to be losing steam. Two-wheeler retail sales dipped by mid-single digits, with urban markets underperforming rural ones. Dealers cite a range of headwinds - inventory mismatches, aggressive price resets, subdued consumer sentiment, fewer enquiries, and tighter financing.

Interestingly, rural markets—often thought of as slower to recover—showed relatively better traction, supported by favourable agricultural sentiment and seasonal drivers like marriage demand. Yet, even in the broader auto space, retail car sales softened despite marginal growth in wholesale volumes. Inventory buildup and hesitancy in the entry-level segment suggest that consumer confidence remains fragile.

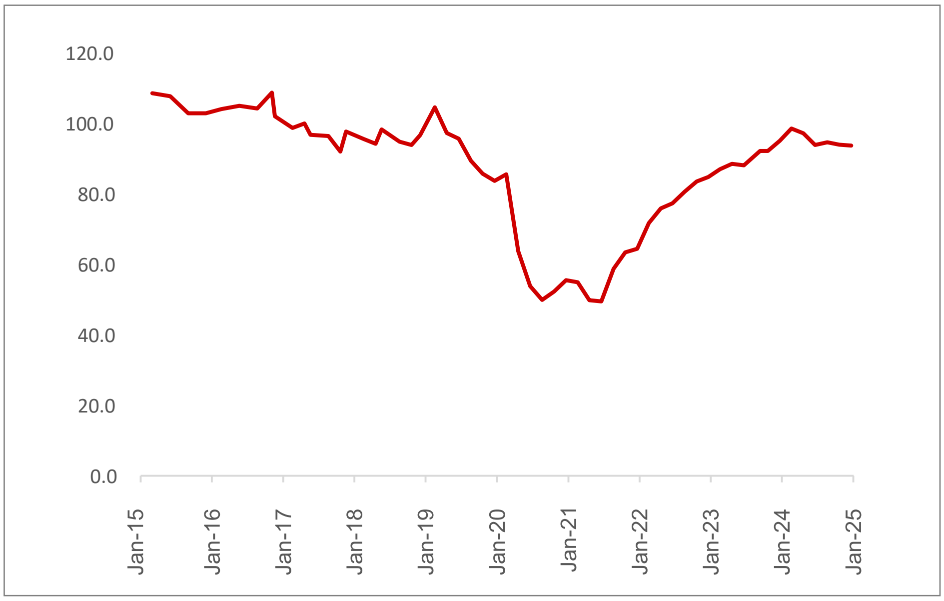
Exhibit: P2M Payments (UPI) and Per Card Payments (Value and Volume)





Credit card spends per card continued to grow at a restrained pace till February 2025, with low single-digit trajectory. UPI merchant transaction growth also moderated, with a noticeable slowdown over the past 3–4 months. While some of this may reflect the natural course of a maturing digital payments ecosystem, the timing and consistency of the slowdown suggest that consumption trends may be entering a more tempered phase.

Exhibit: Consumer Confidence Index



Overall, urban consumption indicators have continued to soften , while rural indicators remain relatively resilient. Consumer confidence surveys provide a revealing lens: sentiment for the current period has dipped marginally—across essentials, non-essentials, and income expectations. Projections for the year ahead have also edged lower. This doesn't suggest a collapse in confidence, but rather a recalibration—pointing to a more cautious, measured consumer behaviour unfolding beneath headline metrics.

Employment and Income: A Mixed Bag of Momentum

Hiring activity in the month of February 2025 continued to show growth, albeit in low single digits, decelerating slightly from the previous month. Inevitably, sectoral trends were disparate. While hiring activity in new-age sectors like AI/ML grew at double digit pace, traditional sectors like hospitality sector, real estate, and FMCG grew at high single digit pace.

Some sectors, including IT and BPO, saw hiring contract, and the preference for experienced professionals over freshers remained pronounced. While not indicative of a downturn, this shift underscores a labour market that is becoming more selective and segmented. Further, income growth is also on a decline. While the recent tax cuts may help offset some pressure on spending, the overall impact remains to be seen.

Employer sentiment, captured through perception surveys, shows a cautious optimism—but with clear eyes on productivity and cost efficiency.

Exhibit: Naukri Job Speak Index

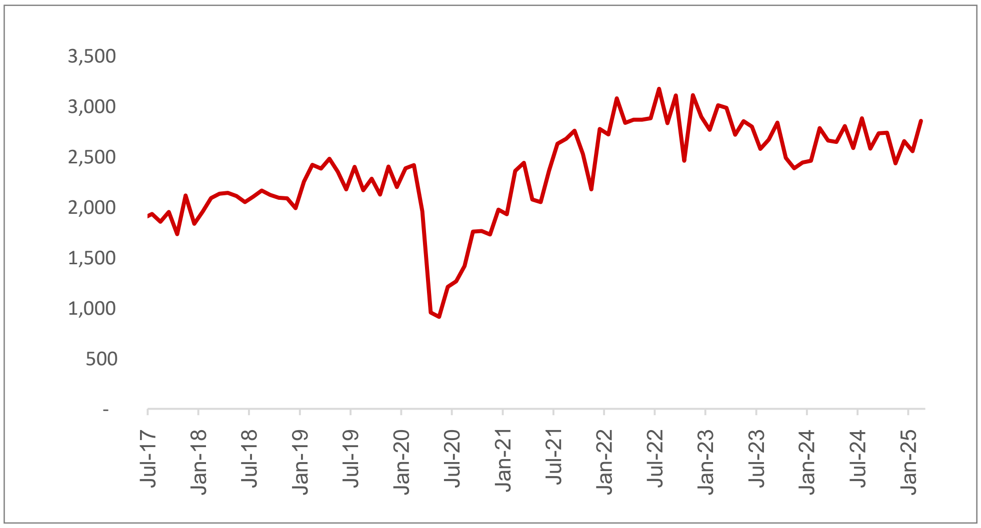


Exhibit: Employer Perception of Employment

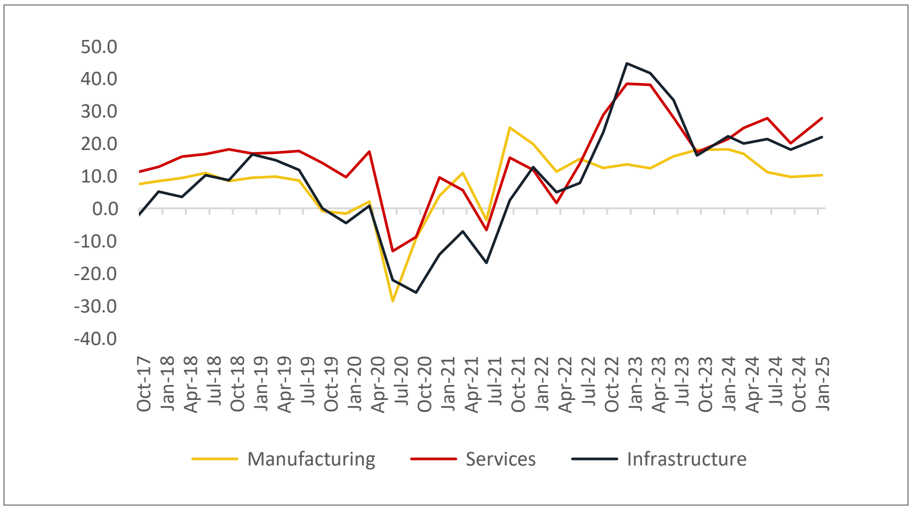
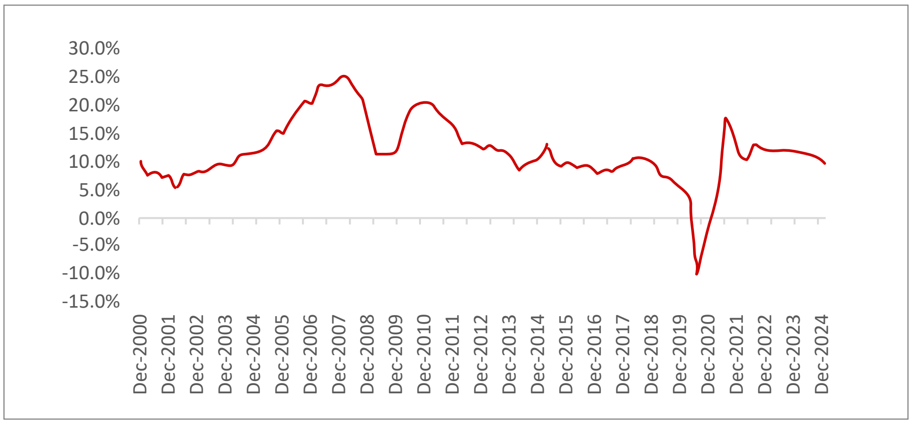


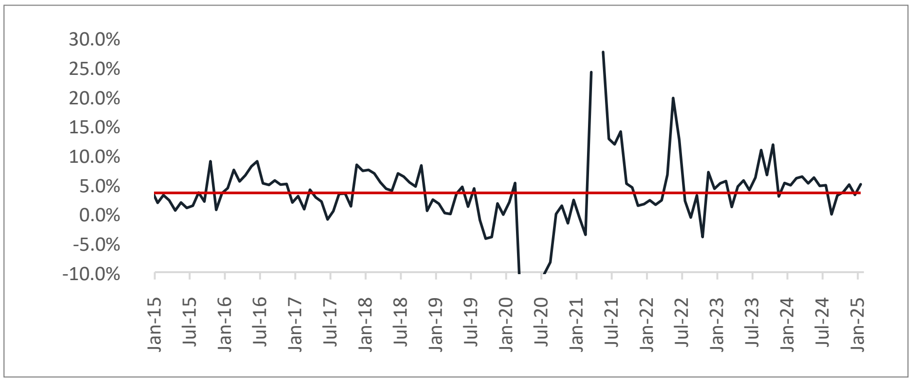
Exhibit: Median Employee Cost Growth



Business Activity: Resilient, But Not Universal

Industrial activity in the country seems to continue on a robust note. The Index of Industrial Production (IIP) growth accelerated to 5% YoY in January 2025 against market expectations of 3.5% growth rate. Capital goods, consumer durables, and construction sectors were the bright spots which grew at 7.8%, 7.2%, and 7% YoY, respectively. Weakness was visible in sectors like leather, printing, paper, pharmaceuticals, and food products-reminding us that the upturn is not evenly spread. Although, there is rise in expectations that IIP growth may gain pace in coming months on continued recovery in rural demand, pick-up in government capex, easing of inflationary pressure, and monetary easing.

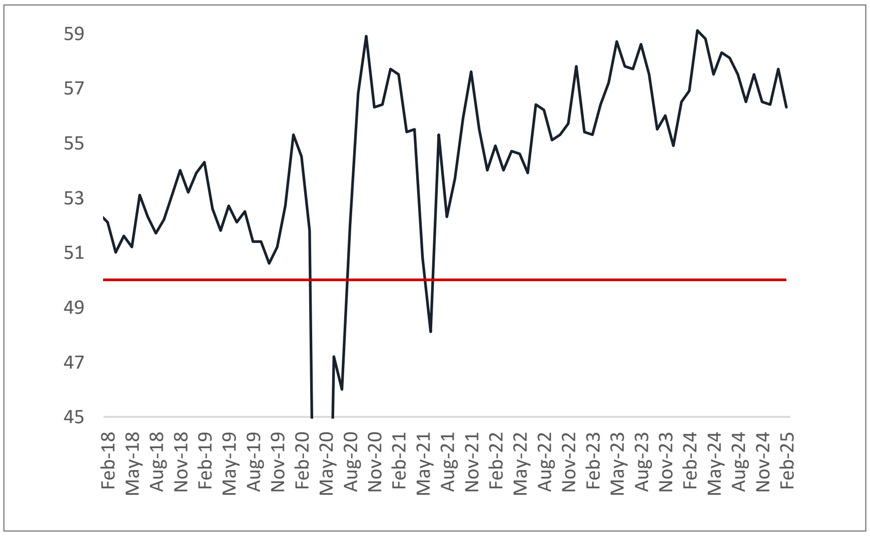
Exhibit: Index of Industrial Production (IIP) - General Index



On the manufacturing front, while the manufacturing Purchasing Managers' Indices (PMI) continues in the expansion zone, the reading moderated to a 14-month low in February 2025. Despite slowing to the weakest since December 2023, rates of expansion in output and sales remained elevated with new business intakes growing for the 44th consecutive month driven by strong client demand.

Separately, the Services PMI also indicated a stronger expansion in service activity and new businesses driven by improving domestic and international demand which resulted in an increase in new orders. Productivity gains, favourable underlying demand, and greater intakes of new business were the key determinants of output growth, as per anecdotal evidence.

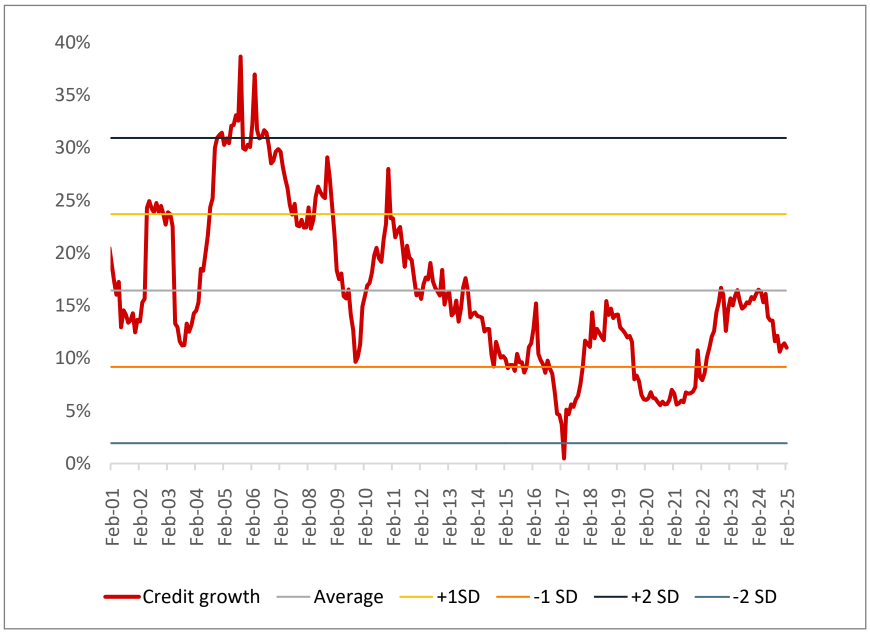
Exhibit: India Manufacturing Purchasing Managers' Index (PMI)



Credit Growth: A Curious Contradiction

Even as parts of the economy show pockets of resilience, overall demand trends remain uneven—and credit growth continues to lag. In February 2025, credit growth hovered around -1SD levels. Indian banks are expected to register loan growth of 12%-14% in FY 26 driven by an increase in deposit inflows. As per a recently released report, the banking sector has started seeing some relief in loan-to-deposit ratios after facing challenges related to liquidity and asset quality. This improvement is mainly due to a gradual rise in deposits and a slower pace of loan disbursements.

Exhibit: Bank Credit Growth YoY (February 2025)



So, Where Are We Headed?

Put together, the indicators tell a story that's not easily boxed into a single narrative. Urban consumption is cooling, but rural demand holds promise. Job creation persists, but with pockets of weakness. Business activity is expanding, but not without signs of fatigue. Credit remains available, but not freely flowing. At the same time, government capex is slowing down, and could have an amplified impact on growth, considering the already waning economic momentum.

In short, India's economy is not stalling—it's evolving. But the pace of evolution varies across its many moving parts. And in a world where capital flows, investment decisions, and policy responses hinge on timely interpretation, these subtleties matter.

The virtuous cycle may not be broken—but it isn't seamless either.

For investors and policymakers alike, the real challenge is this: not just to read the macro signals, but to understand which ones are flashing ahead of the curve—and which may already be in the rear-view mirror.