



MACRO ECONOMICS

The economic cycle

Why output, jobs and prices move in waves, and why the turning points are clear only in hindsight

India figures as on the latest official releases to 16 October 2026

For training and education only. Not investment advice.

Economies grow in waves, not straight lines: expansion, a peak, contraction, a trough, then recovery.

The pattern is clear looking back. Living through it, the turns are hard to call: a slowdown can resume growth, and early signs of recovery can fade.

The four phases



Expansion

Output, jobs and spending grow. This is usually the longest phase of the cycle.



Peak

Growth tops out. Spare capacity is used up and prices often rise faster.



Contraction

Output and demand fall. A deep, broad and lasting fall is called a recession.

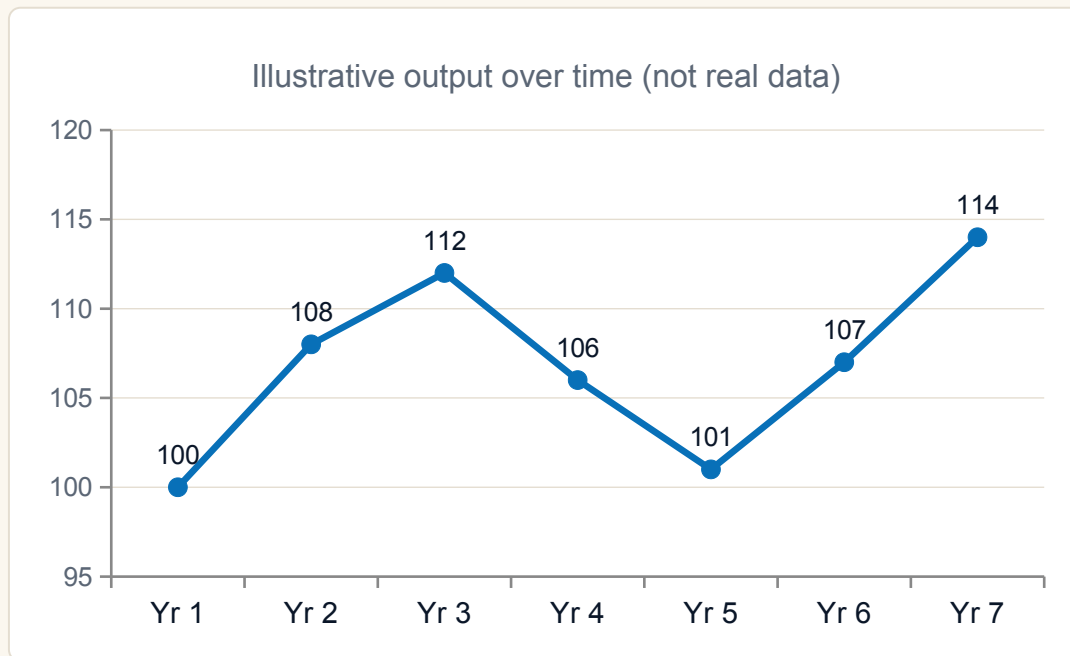


Recovery

The low point (the trough) passes and activity starts to grow again.

The cycle recurs, but cycles differ in length and depth.

One cycle, drawn out



Read the chart

- Expansion: output rises for a stretch (Yr 1-2).
- Peak: growth tops out (Yr 3).
- Contraction: output falls; a deep fall is a recession (Yr 4-5).
- Trough then recovery: the low turns into fresh growth (Yr 5-7).

Illustration with assumed figures. Not real data.

Reading where we are



Growth (GDP)

Real GDP growth shows whether the economy is expanding or shrinking, quarter by quarter.



Inflation (CPI)

Consumer price inflation shows how fast prices rise. It often climbs late in an expansion.



Factory output

The Index of Industrial Production tracks output of factories, mining and power.



Jobs

Employment and wages show how the cycle is felt by households. They tend to turn last.

No single number names the phase. Read several together, and allow for later revisions.

Where India's economy stands

Latest official releases to 16 October 2026. These are statistics, not market prices, so the newest readings are used.

GDP GROWTH, Q1
FY27

7.8%

Real GDP, April-June 2026 (provisional). A year earlier it was 6.9%.

RETAIL INFLATION

5.54%

CPI, September 2026 (provisional). Target 4%, band 2% to 6%.

FACTORY OUTPUT
(IIP)

8.0%

Industrial output, August 2026, year on year. Manufacturing 9.0%.

RBI GDP FORECAST

7.1%

RBI's own projection for the full year 2026-27.

Sources: MoSPI/NSO GDP (31 Aug), CPI (12 Oct), IIP (28 Sep 2026); RBI Monetary Policy Statement (7 Oct 2026); inflation target: RBI Act s.45ZA notification.

Green shoots: a famous phrase



What it means

'Green shoots' are early signs of recovery spotted while the economy is still weak, like new growth after winter.



Where it came from

A UK finance minister used it in October 1991; the US Fed chair used it on television in March 2009. Both became famous.



The catch

Early signs can fade. The 1991 remark proved too early: a clear recovery came only later. A green shoot is not a turn.

Signs that look like a recovery can reverse. The turn is sure only well after it happens.

Sources: Oxford Reference (Lamont, 9 Oct 1991); CBS '60 Minutes' interview, 15 Mar 2009; Wikipedia, 'Green shoots'.

'Bottom fishing': handle with care

What people mean

- Buying after prices have fallen a lot, hoping the fall is over.
- The idea that gloom can push good and weak companies down together.
- A bet that the low, or 'bottom', is near.

Why it is not a rule

- You cannot know the bottom until it is well past.
- A low price can keep falling for a long time.
- It is a description of a behaviour, not advice to act on.

We explain the term. We do not time the market or suggest buying falling shares.

If you learnt this from older material

What older decks say

- 'Green shoots' mean the recovery has arrived.
- 'Bottom fishing' is a chance to buy at the low.
- The phase of the cycle is easy to spot live.

What holds now

- Early signs can fade; a turn is clear only later.
- The bottom is known only in hindsight; we do not time it.
- Phases are named after the fact, and figures get revised.

The ideas are useful history. They are not signals to buy or sell.

Four things people get wrong



'A recession is just slow growth.'

No. A recession is a broad, lasting fall in activity, often two quarters of shrinking GDP, not merely slower growth.



'Green shoots prove the worst is over.'

They are early hints, not proof. Signs of recovery can reverse, as the 1991 'green shoots' remark showed.



'Buy when the market hits the bottom.'

The bottom is known only afterwards. We do not time markets or advise buying falling shares.



'One number tells you the phase.'

No single figure names the phase. Growth, inflation, output and jobs are read together, and are revised.

Check yourself

Q1 Name the four broad phases of an economic cycle, in order.

Q2 What does the phrase 'green shoots' mean, and what is the catch?

Q3 A client says a share has fallen a lot, so it must be the bottom, and now is the time to buy. How do you respond as a mutual fund distributor?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- India real GDP grew 7.8% in Q1 FY2026-27 (Apr-Jun 2026), provisional; 6.9% a year earlier: MoSPI/NSO estimate, 31 August 2026.
- Retail CPI inflation 5.54% (provisional) for September 2026, base 2024=100; food inflation 7.74%: MoSPI/NSO release, 12 October 2026.
- Index of Industrial Production rose 8.0% year on year in August 2026 (manufacturing 9.0%): MoSPI/NSO release, 28 September 2026.
- RBI's real GDP growth projection for 2026-27 of 7.1%: RBI Monetary Policy Statement, 7 October 2026.
- 'Green shoots': credited to the UK Chancellor, 9 Oct 1991, and used by the US Fed chair on 15 Mar 2009: Oxford Reference; Wikipedia.
- The economic-cycle wave on slide 4 uses assumed, illustrative figures. It is not real data.

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