Core sector output expands to 5-month high at 8.2% in June

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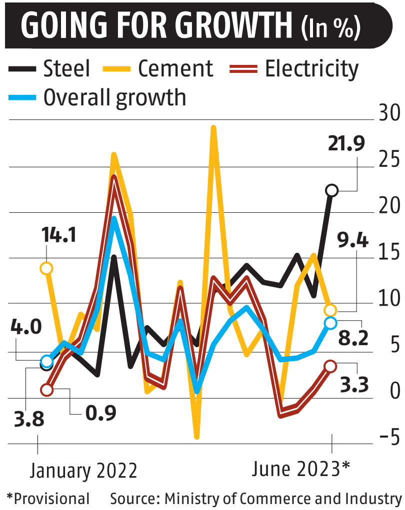

Output of eight key infrastructure sectors — known as the core sector — expanded to a five-month high of 8.2 per cent in June. This is due to a high base effect and positive growth in seven of the eight sectors.

In June last year, the core sector had grown by 13.1 per cent. The print for May 2023 has undergone a significant revision to 5 per cent from 4.3 per cent estimated earlier.

Data released by the Ministry of Commerce and Industry on Monday showed that while growth in the output of fertiliser (3.4 per cent) and cement (9.4 per cent) slowed than the previous month, that of coal (9.8 per cent), refinery products (4.6 per cent), steel (21.9 per cent), and electricity (3.3 per cent) accelerated in June.

Though the contraction continued for the 13th consecutive month in the output of crude oil (-0.6 per cent), natural gas saw positive growth (3. 6 per cent) for the first time in three months.

Madan Sabnavis, chief economist at Bank of Baroda, said the growth of the core sector had been impressive and broad-based, despite a high base effect, reflecting buoyancy in the infrastructure sector this year. “The growth in steel and cement reflects the government’s push into infrastructure, especially roads. Cumulative growth in these two sectors (has been in) double digits in the three months of this financial year, even on a higher base as witnessed in 2022. Coal saw continued growth due to a recovery in electricity growth as well as the steel sector,” he said.

In June 2022, the core sector had grown by 13.1%. The print for May 2023 has undergone a revision to 5% from 4.3% estimated earlier

“Fertiliser production growth has slowed due to the sharp base effect and is expected to remain lower in the coming months as farmers start sowing for the kharif season in June and July, after which demand slows down. Further, due to lower growth in exports, refinery products grew marginally, even though domestic demand has been steady,” Sabnavis said.

The eight core industries account for 40.27 per cent of the weighting of items included in the Index of Industrial Production (IIP) and, thus, have a significant impact on the index.

Aditi Nayar, chief economist at ICRA Ratings, said due to a boost seen in mining and electricity from a dryer-than-normal June, the IIP growth was expected to remain between 4 and 6 per cent in June, in spite of the moderation in the annual performance of several available high frequency indicators.

However, Sabnavis expressed greater optimism, as he expected overall growth in IIP to remain between 5-6 per cent in June.

The positive news from the core sector comes on the back of the International Monetary Fund (IMF) raising the FY24 economic growth forecast for India by 20 basis points to 6.1 per cent last Tuesday, citing the stronger-than-expected growth momentum in the March quarter of FY23. “Growth in India is projected at 6.1 per cent in 2023, a 0.2 percentage point upward revision compared with the April projection, reflecting momentum from stronger-than-expected growth in the fourth quarter of 2022 as a result of stronger domestic investment,” said the IMF in an update to its ‘World Economic Outlook’ released in April.