

Core sector growth slows to 6-mth low

Normalisation of base effect partly behind output moderation in July, say experts; there was a contraction sequentially

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Output growth of India's eight infrastructure industries decelerated to a six-month low of 4.5 per cent year-on-year in July this year, according to data released by the Department for Promotion of Industry and Internal Trade (DPIIT) on Wednesday. The July number was sharply less than the double-digit core sector growth figures for the previous two months.

During July last year, core sector growth was 9.9 per cent. Slower YoY growth in July 2022 could partly be attributed to base-effect normalisation, economists said. On a sequential basis, there was a contraction of 2.3 per cent.

These eight sectors in June and May this year witnessed double-digit growth at 19.3 and 13.2 per cent, respectively.

"Normalisation of the base effect has resulted in softening of core sector growth to 4.5 per cent in July against double-digit growth recorded in the previous two months. It is important to note that the core sector output has expanded by 6.1 per cent when compared with July 2019, reflective of continued improvement over the pre-pandemic level," said Rajni Sinha, chief economist, CARE Ratings.

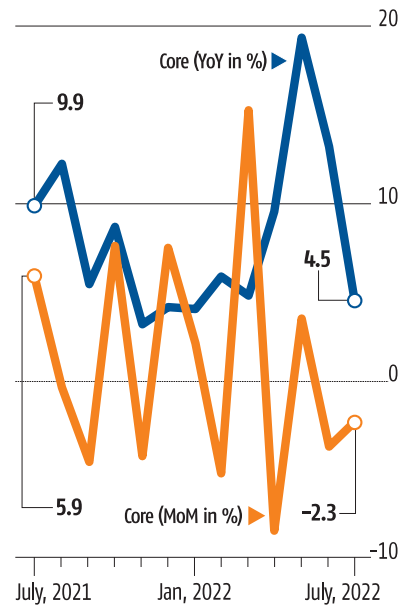
The eight sectors — coal, steel, cement, fertilisers, electricity, natural gas, refinery products, and crude oil — comprise two-fifths of India's total industrial production. The data released by the industry department showed that barring crude oil and natural gas, the remaining six sectors witnessed growth.

Production of coal, steel, refinery products, fertiliser, electricity, and cement witnessed YoY growth of 11.4 per cent, 5.7 per cent, 6.2 per cent, 6.2 per cent, 2.2

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DECELERATION



Source: DPIIT

per cent, and 2.1, per cent, respectively, in July. Sluggish growth in cement and electricity can be attributed to a slowdown in construction activity during the monsoon, economists said.

Crude oil and natural gas output contracted 3.8 per cent and 0.3 per cent, respectively.

"Capital expenditure by the central government and new investment projects' announced data for the current fiscal year have been encouraging," Sinha said, adding that the improving investment scenario in the economy bodes well for the core sector performance in the coming months.

Sunil Kumar Sinha, principal econ-

omist at India Ratings, said the ongoing recovery has still a long way to go because the output of some of the core segments is still lower than the pre-pandemic level.

"The coal output despite registering double-digit growth in July 2022 is still only 77.6 per cent of the pre-Covid production level (February 2020). Even the output of the cement sector is only 98 per cent of the pre-Covid level. Additionally, on a seasonally adjusted month-on-month basis, the core sector output in July 2022 shows a contraction of 1.2 per cent over June 2022. The core sector output has now declined sequentially for three consecutive months. However, Ind-Ra expects the core sector to grow around mid-single digits in August 2022," Sinha said.

Sluggish growth in cement and electricity can be attributed to a slowdown in construction activity in the monsoon season