

After 41 months, Aug core sector output dips 1.8% on base effect

ALL IN RED. Output of six of the eight core industries was in negative territory

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The eight core industries' output declined 1.8 per cent in August 2024, weighed down by an adverse base effect.

This is the first instance of contraction in output at an aggregate level since February 2021 and after a gap of 41 months.

In July this year, core industries had recorded 6.1 per cent growth and in August last year, the aggregate output growth was 13.4 per cent.

Six of the eight core industries were in the negative territory for the month under review.

The sectors that showed positive growth in August 2024 were fertilizers and steel.

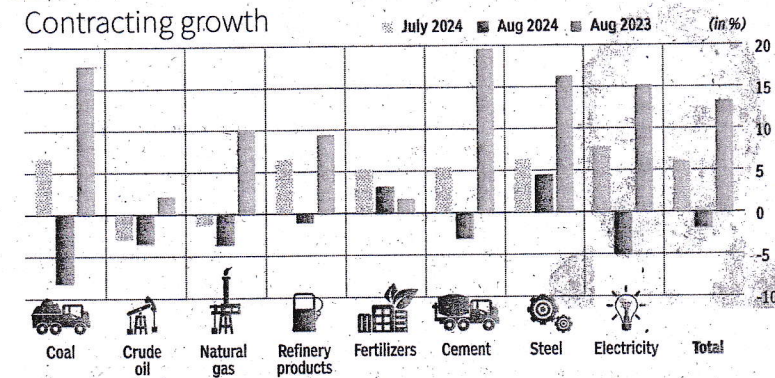
In August 2024, coal sector output contracted 8.1 per cent (17.9 per cent growth in August 2023); crude oil contracted 3.4 per cent (2.2 per cent growth); natural gas contracted 3.6 per cent (10 per cent growth); refinery products contracted 1 per cent (growth of 9.5 per cent); cement contracted 3 per cent (19.7 per cent growth) and electricity contracted 5 per cent (growth of 15.3 per cent).

The eight core industries — coal, natural gas, crude oil, refinery products, fertilizers, cement, steel and electricity — comprise 40.27 percent of the weight of items included in the Index of Industrial Production (IIP).

FALL IN GROWTH RATE

For April-August 2024, the eight core industries' output grew 4.6 per cent, substantially lower than 8 per cent in same period last year, data released by Commerce and

Contracting growth



Industry Ministry on Monday showed. Meanwhile, the government pegged final growth rate for May at 6.9 per cent.

Madan Sabnavis, Chief Economist, Bank of Baroda, said core sector growth for August came in at -1.8 per cent which is over 13.4 per cent last year.

"The entire performance has been skewed due to the base effect of high growth last year," Sabnavis added.

Aditi Nayar, Chief Economist, Head - Research & Outreach, ICRA, said core sector output may remain lacklustre in September 2024 given the late withdrawal of the monsoon, before normalising in Q3 FY2025.

For August 2024, the excess rainfall impacted mining activity, with the output of coal, crude oil, and natural gas declining, while also leading to a contraction in electricity generation in the month, she noted.

"The decline in these sectors was accentuated by an elevated base, with a deficient rainfall in August 2023 supporting the output of these sectors in that month," Nayar added.

The entire performance has been skewed due to the base effect of high growth last year

Excess rainfall and an adverse base are also likely to have weighed on the output of the cement and the steel sectors, with the former reporting a YoY contraction and the latter witnessing the slowest growth in 26 months, she noted.

POOR SHOW

"The performance of these sectors during July-August 2024 suggests that construction activity weakened in the first two months of Q2 FY25.

Given these trends, ICRA expects IIP growth to slow down sharply to -1 per cent in August 2024 from 4.8 per cent in July 2024," Nayar said.

Sabnavis said that coal was down from 17.9 per cent to -8.1 per cent and electricity from 15.3 per cent to -5 per cent.

"This does not reflect the traction seen in the business

sectors as well as power consumption. While the monsoon had subsided this month, the pickup in temperatures did increase demand for power," Sabnavis added.

INFRA ACTIVITY

Sabnavis said that it was clearly the base effect that brought down growth of steel and cement; this is not expected to continue as infrastructure activity has picked up post-elections.

The oil complex also witnessed negative growth for a similar reason. Higher imports accounted partly for slowdown in domestic production of oil, he added.

Paras Jasrai, Senior Analyst, India Ratings & Research (Ind-Ra), said the contraction was the sharpest in coal and electricity sectors in August 2024 due to the swift progress of monsoon rainfall which resulted in lower power demand.

"The contraction in infrastructure sector output is expected to dent the industrial output as well. Ind-Ra expects IIP to witness a mild contraction of lower than 1 per cent YoY in August 2024," Jasrai added.